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Competition and Markets Authority
By email

22 April 2015

Dear Mr Shah

Energy Price Control Appeals: British Gas Trading and Northern Powergrid

1. Introduction

1.1. Citizens Advice has statutory responsibilities to represent energy consumers in Great Britain and has appeal rights under the *Electricity Act 1989*. We make this submission as an 'interested third party' in accordance with the provisions of this Act and the Energy Licence Modification Appeals Rules and Guide.

1.2. Citizens Advice (and the organisation whose statutory role it assumed, Consumer Futures) participated in the development of RIIO-ED1 (ED1) as a member of the group established by Ofgem to support third party engagement in the process, the Price Control Review Forum, and by making submissions at each major step in the process.

1.3. In this submission we bring this experience to bear on the appeals lodged by British Gas Trading (BGT) and Northern Powergrid (NPG). In advocating for consumers in the development of ED1, we do not seek to step into the shoes of the regulator by conducting a line-by-line assessment of each of the business cases. The sheer volume of documentation means this was not possible. Nor are we privy to exchanges between regulator and network that take place during the course of a price control. This necessarily limits our ability to comment on some of the matters raised by the appellants, and therefore, the extent to which we can provide an un-caveated view about whether the appeals should or should not succeed.

1.4. We nevertheless have an important and unique perspective as a consumer representative on the matters raised by the appeal that are relevant for the Competition and Markets Authority's (CMA) deliberations. In this submission we first set out why we believe the ED1 settlement and the appeals by BGT and NPG will have a material impact on consumers. We then comment on the grounds of appeal raised by both parties.

1.5. Our standing as a third party relies on consumers being 'materially' affected by the relevant decision.[1] The 'decision' in the context of the two appeals is that of the Gas and Electricity Markets Authority (GEMA) to issue its final determination for the slow-track networks under ED1 (Final Determination). As a result of this decision, £28.5 billion will be collected from consumers to fund the slow-track networks in the period 2015-2023, contributing approximately 8 per cent, or a little over £100 per year, to the average dual fuel bills of 21.5 million customers.[2] GEMA's decision also sets the standards of service consumers can expect, including in relation to the reliability of their electricity supply, how they support vulnerable customers during outages, how they deal with complaints, and timelines for processing new connections.

1.6. The appeals brought by BGT and NPG are also the first major test of the new 'RIIO' framework which will see allowed revenues of about £70 billion of consumers' money collected over the ten years 2013-2023.[3] These investments across the three RIIO settlements will take up more than 20 per cent of the average dual fuel bill during this period, the second largest contribution after wholesale costs.[4] The CMA's decisions here will inevitably set precedents for subsequent RIIO settlements. The BGT and NPG appeals also contemplate significant changes to the ED1 settlement that would be material for consumers.

1.7. NPG is seeking relief of £104.3 million which would see it collect approximately £27 more from each of its customers over ED1 than was allowed for in the Final Determination.[5] This would negate almost one quarter of the savings (£112) that its 3.8 million customers have been promised.[6] Being an essential service, even what appear to be small increases in the cost of energy can have significant impacts on consumers. For example, the Department of Energy and Climate Change estimated that the extra costs placed on energy bills to fund the Warm Home Discount (WHD) – about £6 per customer per year – would push 74,000 people into fuel poverty.[7]

1.8. Similarly, the BGT appeal, by seeking to reduce the total amount collected by slow-track networks by £1.369 billion, means the average consumer (excluding those served by

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[1] Paragraph 1.7, Energy Licence Modification Appeals: Competition Guide, http://tinyurl.com/lqwfjys

[2] This number excludes those customers served by Western Power Distribution (WPD) – the network that was fast-tracked. See Infographic, How Ofgem's Network Price Control Proposals (RIIO-ED1) will affect you http://tinyurl.com/mzvmooy

[3] The RIIO T1 (gas and electricity transmission) and GD1 (gas distribution) settlements, have revenues of £32.0 billion over the years 2013-2021 (2012 prices) http://tinyurl.com/od49j8y, and http://tinyurl.com/pm2gxdw. The RIIO ED1 (electricity distribution) settlement accounts for £39.3 billion in revenue over the years 2015-2023, with £28.5 billion going to the slow-tracked companies http://tinyurl.com/lq8wggn and £10.7 billion to Western Power Distribution http://tinyurl.com/keba8hu

[4] http://tinyurl.com/on67bk7

[5] This £27 figure is calculated by dividing £104.3 million by NPG's 3.8 million customers. This customer number figure taken from the infographic that accompanied Ofgem's RIIO-ED1 Final Determination http://tinyurl.com/mzvmooy

[6] Infographic, How Ofgem's Network Price Control Proposals (RIIO-ED1) will affect you http://tinyurl.com/mzvmooy

[7] Impact Assessment for WHD Scheme, Department of Energy and Climate Change http://tinyurl.com/qfpa9af

Western Power Distribution) could save approximately £63 during ED1 – a material but in this case positive change for consumers.[8]

2. British Gas Trading

Ground 1: Inappropriate mechanisms to return double-recovered revenues from the previous price control period

2.1. We agree with BGT that the over-recovered amount, £32 million, should be returned to consumers without further delay. This is consumers' money that was collected in error by the networks and should be remedied in a way that is consistent with consumer redress practice in the broader energy market. That is, rather than applying a principle that has been developed to deal with the problem of spreading the costs of assets that degrade both physically and in value over time, GEMA should have been informed by its *Statement of Policy with respect to financial penalties and consumer redress under the Gas Act 1986 and the Electricity Act 1989* that was developed to deal with, among other things, the very different problem of over-recovery.[9] This document states that "the Authority starts from the principle that redress should be provided to the consumers who have suffered the detriment (paragraph 6.2)." It goes on to say that it would only look to deviate from this where it is not "possible or practicable" for the regulated person to identify the affected customers (paragraph 6.3).

2.2. Neither in the Final Determination nor in the evidence produced by BGT does GEMA set out an argument about difficulties identifying affected customers. Rather it appears to have based its decision on concerns that to return the over-recovered amount more quickly might negatively impact the financeability of the networks.[10] Putting aside the fact that financeability should be a secondary concern given we are talking about money that should never been collected in the first place, GEMA does not explain in the Final Determination how returning the over-recovered amount during ED1 would contribute to regulatory uncertainty and drive up the cost of capital. Without a detailed justification it is difficult if not impossible for consumers to give what might be seen as their 'informed consent' to having the money returned over a longer period. The CMA should also look for evidence that the networks have explored this issue with their customers as a part of the stakeholder engagement process for ED1 – more meaningful discourse between the parties being one of the core objectives of the new RIIO methodology.

Ground 2: Inappropriate targets for IIS and BMCS

2.3. We raised concerns during the development of ED1 with aspects of the methodology for setting targets for some of the incentives. We identified problems in relation to the Broad Measure of Customer Satisfaction (BMCS) that could see networks collect additional revenue for performance that was not exceptional.[11] For example, we expressed concern

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[8] This calculation is based on the savings being shared by the 21,579,393 consumers living in regions covered by the slow-track determination and referred to in the Ofgem infographic that accompanied the Final Determination http://tinyurl.com/mzvmooy.

[9] http://tinyurl.com/mzgf7s4

[10] RIIO-ED1 Final Determination, page 48, paragraph 5.47. http://tinyurl.com/lq8wggn

[11] Citizens Advice submission on Stakeholder Engagement Incentive,7 May 2014, http://tinyurl.com/nys7zp8

that under the rules networks could be rewarded under the Stakeholder Engagement Incentive (SEI) component of the BMCS, at the same time as failing to meet performance targets under the complaints component of the metric. Given consumers do not have a direct relationship with networks (it is with suppliers), making a complaint is one of the rare occasions where the two parties interact: surely therefore firms that are genuinely good at 'stakeholder engagement' would ensure consumers can raise concerns and have them dealt with in a positive and effective way.

2.4. The Alixpartners modelling submitted by BGT presents a good prima facie case that the IIS and BMCS targets might not be sufficiently challenging for the networks, and may not therefore represent value for money for consumers. We are not in a position to critically assess the underlying data or methodology of this work and therefore either endorse or disagree with its findings. However, it would have been very helpful for stakeholders, particularly in relation to the IIS, if the networks and GEMA had presented the relationship between the level of the targets and incentive payments in the same straightforward way as in the Alixpartners Report. For example, as far as we are aware, no chart showing both the networks' historical performance in regards to customer minutes lost (CML) and associated incentive payments like figures 5.2 and 5.3 of the Alixpartners Report was made available to stakeholders during the development of ED1.

2.5. This is part of a broader problem we encountered during the development of ED1, where crucial information about the performance of the networks and their earnings during DPCR-5 was not made available to stakeholders until GEMA issued its Final Determination, by which time it was too late to consider it as part of our assessment of the appropriateness of performance targets.[12]

2.6. Correctly calibrating performance incentives such as the IIS and the BMCS is a difficult exercise given it relies on taking a view about the future. One must wait until the end of the price control to objectively assess its success. However, the CMA can look to the outcomes that similar incentives are producing under the RIIO-GD1 (GD1) and RIIO-T1 (T1) price controls that are two years ahead of ED1 – information that was not available to us at the time we were commenting on the draft ED1 proposals but may have been available to GEMA.[13] In the first year of T1 all three networks outperformed their Energy Not Supplied (ENS) targets in 2014.[14] A similar pattern of outperformance is also evident in the BMCS for GD1, where all but one network will receive a reward for customer satisfaction survey performance, all beat their customer complaints targets and all met the minimum criteria and received payments under the stakeholder engagement incentive.[15] We would encourage the CMA to consider whether these results are suggestive of targets that are not sufficiently challenging, and if so, whether this is a reflection of structural issues with the RIIO methodology that has also been applied to ED1 and may be relevant to its consideration of this ground of appeal.

[12] While Ofgem published an annual performance report for the first year of DPCR-5 in 2010-11 (http://tinyurl.com/pznajye), it did not do so for the remaining years of the price control. The relevant information was eventually published at Appendix 10, RIIO-ED1 Final Determination, Ofgem, http://tinyurl.com/lq8wggn.
[13] The IIS incentive rate under RIIO-ED1 is aligned with the 'Energy Not Supplied' incentive under RIIO-T113, while the BMCS incentive is a part of both RIIO-T1 and RIIO-GD1.
[14] Page 19, RIIO Transmission Annual Report 2013-14, Ofgem http://tinyurl.com/l3rhahf
[15] Pages 27-31, RIIO GD1 Annual Report 2013-14, Ofgem http://tinyurl.com/kc38dxm

Ground 3: Unwarranted ex-post change to information quality incentives

2.7. Citizens Advice did not address the calibration of the IQI during the development of ED1. However we agree with BGT's argument at paragraph 4.56 of its notice of appeal that GEMA should not have adjusted the IQI after the networks had already submitted their business plans, given the whole point is to make sure those same plans are as competitive as possible from the start of the process.

2.8. We would suggest the CMA evaluate this change to the IQI against GEMA's policy, *Ofgem Guidance on Code Modification Criteria,* where it states that "[i]t is a general principle that rules ought not to change the character of past transactions, completed on the basis of the then existing rules".[16] GEMA did appear to state the 'existing rule' quite clearly in the ED1 Strategy Decision, that is, that it would "set the break-even point in the IQI so that a DNO that forecasts in line with our view of the upper quartile and achieves the forecast would earn their cost of capital but not receive any additional reward under the IQI" (paragraph 6.22). But if BGT is correct, and networks that did not achieve upper quartile performance are being rewarded under the IQI as a result of the *ex post* adjustment to the benchmark, then it appears to conflict with GEMA's policy and suggests the CMA should allow this ground of appeal to succeed.[17]

Ground 4: Unwarranted transitional arrangements for change in asset life policy

2.9. Citizens Advice supports in principle the move to depreciation arrangements that more closely reflect actual asset lives and the services they provide to consumers over time. In this ground of appeal BGT argues that the phased move from 20 to 45 years is unjustified and will result in current consumers paying higher charges than they might have otherwise done if the change was implemented immediately. This in large part is based on its view that an immediate transition would not undermine the financeability of the networks, and would not expose future consumers to upward pricing pressure, citing modelling in the Alixpartners Report as evidence for these points.[18] The CMA is better placed than Citizens Advice to assess the validity of this modelling and we do not therefore seek to provide a conclusive view on the merits of this ground of appeal – although should BGT's evidence stand up to scrutiny then obviously we would support an immediate shift to 45 year asset lives.

2.10. We would note that GEMA and the networks need to find better ways of communicating changes in network costs from one price control period to the next to consumers.[19] ED1 was substantially sold to consumers on the basis that they would, on average, receive an annual reduction of £12 compared to prices in the final year of the previous period.[20] But even the most informed consumer would be unlikely to appreciate that a substantial chunk of these savings was to be delivered by pushing costs into the future (even if this

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[16] http://tinyurl.com/lsyc32b

[17] We are not in a position to evaluate the modelling by Alixpartners BGT's cites as supporting its view that networks outside the upper quartile were rewarded as a result of the *ex post* adjustment (BGT Notice of Appeal paragraph 4.62(f).

[18] See table 8.2, AlixPartners Report, 2 March 2015.

[19] See summary of 23 April 2014 meeting of Price Control Review Forum http://tinyurl.com/o7a26tx. Richard Hall, Director of Strategic Infrastructure, Citizens Advice, also raised this issue in evidence to the Energy and Climate Change Committee (response to question 16), http://tinyurl.com/ndnxf4w.

[20] See infographic that accompanied the Final Determination http://tinyurl.com/lq8wggn.

is a sensible measure) rather than, as they might have supposed, through the networks operating more efficiently.[21] We saw no evidence that the networks were presenting the depreciation issue to their stakeholders (excluding Ofgem) in a simple and accessible way to elucidate their views on how this intergenerational trade-off might be made. The point here is that the CMA, in assessing this ground of appeal, should look beyond simple statements from GEMA and the networks about how they make the trade-off between current and future consumers, for evidence that – consistent with the RIIO philosophy of engagement – the decisions sought and took consumers' preferences into account.

Ground 5: Unwarranted change in cost of debt indexation

2.11. We welcome that Ofgem has embraced the concept of indexation given the fixed cost of debt settings that UK regulators have baked into settlements across regulated sectors in the past 15 years consistently over-estimated debt costs – particularly in the more recent period following the collapse of Lehman Brothers in 2008 and the subsequent financial crisis.[22] The use of very long-term indexes (up to 20 years under the trombone[23]) undermines the cost reflectivity of the mechanism (and in the current economic environment dulls the benefits for consumers) so as matter of general principle we would support the original proposal for it to operate over ten years. We therefore expect the CMA to closely examine the rationale put forward by the networks and GEMA for the trombone to ensure it is properly justified on financeability and other grounds.

2.12. We would also note our general concern that the trombone may only be preserved so long as it operates in companies' favour (that is, by keeping high interest rates in the index at a time of falling rates and effectively allowing them windfall profits). In the event of a sharp increase in interest rates, GEMA would no doubt come under pressure to adjust the trombone to preserve the networks' returns. It seems to us that a simpler index, one that is more clearly linked to prevailing conditions, would be less susceptible to this sort of influence.

Ground 6: Procedural flaws

2.13. Citizens Advice is not in a position to comment on the specific interactions between GEMA and BGT during the course of the development of ED1. Citizens Advice can comment on BGT's general observations about the extent to which GEMA and the networks conducted a transparent process.

2.14. The level of stakeholder engagement we saw during the development of ED1 was better than in previous price controls. Although approaches differed, networks did attempt to explain and seek feedback on aspects of the settlement in clearer, simpler terms and the final decisions should be the better for it. A number of the networks also made contact with us to brief us on particular issues and answer our questions. As a consumer representative we were also pleased to be able to contribute as a member of the Price

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[21] The first reference to the change in depreciation arrangements in the Final Determination is at page 68 http://tinyurl.com/lq8wggn

[22] See for example analysis by Oxera, *What WACC For a Crisis?*, February 2013, http://tinyurl.com/kag2zln

[23] Ofgem uses the image of a 'trombone' to explain the index, whose time period incrementally increases from a starting point of ten years, to a maximum of 20. See paragraph 5.6 of the RIIO-ED1 Final Determination http://tinyurl.com/lq8wggn.

Control Review Forum and submit comments in response to the various consultations throughout the process.

2.15. But as we have described at paragraphs 2.4-2.6 of this submission, our ability to make informed judgements about the value for money for consumers of the settlement was hampered by a lack of key information about what the networks earned and the level of services they delivered during DPCR-5 – information that did not become available until GEMA had already made its final determination.[24] Without a clear view of past performance one cannot make judgements about current levels of efficiency and therefore set performance targets for the future. The sheer volume of documentation, and its technical complexity, also continues to be a major barrier to third party involvement in the development of price control settlements.[25] We believe a direction from the CMA that GEMA and the networks must do more to present key information (including financial metrics) about the settlement in a clear and accessible way would set a precedent that would not only improve the process for future price controls, but also make networks more accountable to consumers for their performance during ED1.

3. Northern Powergrid

Consequences for consumers

3.1. NPG claims in section 2F of its notice of appeal, 'Consequences for consumers', that the effect of the Final Determination is to create a shortfall between their costs and the allowances set by GEMA, the implication being that it might not be able to deliver its outputs (to the detriment of its customers) or provide a reasonable rate of return for its investors. We find this difficult to accept given electricity distribution networks, and indeed regulated utilities generally, have not only persistently outperformed their baseline rate of return but have also frequently exceeded the ten per cent rate that is (at least notionally) only meant to be available to those networks that have performed exceptionally.[26] NPG itself did very well financially under DPCR-5, making 10.5 per cent and 11.5 per cent in its two regions.[27] This for a monopoly business that is low risk, faces no competitive pressure on its core business, and whose security of market share is guaranteed by regulation. It is also striking that in this section there is no mention of the fact that if upheld this appeal would lead to higher bills in NPG's region.

3.2. The NPG's case rests partly on the accuracy and availability of information – on both smart grid benefits and labour costs – which it should itself be best placed to provide, but in which it clearly has a vested interest. While not material to the facts of the appeal, this is indicative of the inherent risk of selectivity and bias. In considering this appeal, it should be noted that the playing field is uneven as far as insight and information are concerned, with consumers at a disadvantage.

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[24] See footnote 12.
[25] See for example, section on 'Accountability and Transparency' in Citizens Advice's 23 September 2014 submission to Ofgem on draft determination for RIIO-ED1 slow-track networks http://tinyurl.com/pdcal5g
[26] The networks' financial performance under DPCR-5 is detailed at figure A10.6 of the RIIO-ED1 Final Determination http://tinyurl.com/lq8wggn. Networks are also forecast to outperform under RIIO-T1 and RIIO-GD1: see their respective annual performance reports at table 11 of this document http://tinyurl.com/l3rhahf and tables 6.2 of this document http://tinyurl.com/kc38dxm.
[27] Page 110, RIIO-ED1 Final Determination, Ofgem, http://tinyurl.com/lq8wggn

Ground 1: Smart Grid Benefits

3.3. Having been closely involved for some years in the preparation for smart grids there are a number of points we would make in relation to Ground 1.

Ground 1A: Unjustified, disproportionate and discriminatory approach in Final Determination

3.4. One element of Ground 1A is that the new smart grid savings required at the final determination were inconsistent with the indication that NPG's smart grid plans at the fast-track stage were already close to acceptable. Even if this was the case, this argument suggests that the smart savings NPG offered were based more on its perception of what would satisfy GEMA than on an effort to realise the savings available. If NPG had based their submission at each stage on a full assessment of the opportunities for savings rather than trying to second-guess the regulator, the alleged inconsistency of communication on GEMA's part may have had less impact.

3.5. Ground 1A goes on to claim that GEMA wrongly used upper-quartile and frontier benchmarking to justify further smart grid savings. These forms of benchmarking, the appeal points out, will always produce a benchmark higher than the mean, so it would be circular to take this as evidence of poor performance. However, there is no reason to believe that GEMA actually made this mistake. The appeal's claim is based on GEMA's statement that "we have seen evidence that a number of networks have not embedded sufficient savings from smart grids, innovation and smart metering in their business plans. We consider it appropriate to adjust networks' allowances accordingly."[28] The interpretation of this paragraph in the appeal is that it is possible to "infer from the use of the word 'accordingly' that the evidence justifying GEMA's benchmarking exercise was the results of that exercise",[29] on the basis that no other evidence is specified here. But this interpretation appears to be groundless, since the word 'accordingly' is clearly intended to refer to the evidence GEMA had seen and not to the benchmarking process.

3.6. We disagree with the claim that GEMA failed to provide the evidence for its final determination benchmarking. The Business Plan Expenditure Assessment includes a detailed section on 'Reasons for our decision', based on further information submitted by the networks and new expert assessment. Notably, in the table of 'claims of smart solutions with insufficient evidence', one of the ten solutions listed is universal, four are from another network, and the remaining five are all solutions proposed by NPG.[30] These solutions were judged to be either already widely in use, insufficiently innovative, or incapable of delivering benefits. Taken at face value, it appears that NPG is arguing that evidence is lacking when in fact it may just disagree with it.

3.7. A more general concern raised by Ground 1A is that smart grid innovations cannot be expected to improve efficiency at a rate any faster than non-smart measures. This is a very disappointing claim for consumers. Unlike other innovation, network smart grid innovation has been supported by the availability of £500m of consumers' money through

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[28] RIIO-ED1 Business Plan Expenditure Assessment, page 143, paragraph 11.36. http://tinyurl.com/lo52h8yhttp://tinyurl.com/lo52h8y
[29] NPG Notice of Appeal, page 49, paragraph 1.161. http://tinyurl.com/nworxt7
[30] RIIO-ED1 Business Plan Expenditure Assessment, page 144, table 11.5. http://tinyurl.com/lo52h8y

the Low Carbon Networks Fund.[31] One of NPG's projects, the Customer-Led Network Revolution, has received the most funding of any of the projects involved. It is surprising for NPG now to claim the rate of innovation and improvement will not be increased.

3.8. When considering the rate of smart grid improvement, it should be remembered that there is a two-way relationship between this and the spending targets set in ED1. That is to say, while ED1 targets for smart grid savings should of course reflect the possible rate of improvement, it is also essential that they are sufficiently stretching to push networks to be ambitious. Only a suitably high hurdle in the price control can ensure that smart grids make the transition from research to business-as-usual.

<u>Ground 1B: Final Determination methodology inappropriate</u>

3.9. In Ground 1B NPG suggests that GEMA failed to consider prevailing levels of efficiency, using the analogy of Mo Farah and an amateur runner being required to improve their race time by the same amount.[32] However, even if NPG sees itself as the Mo Farah of efficiency overall, smart grids are a new and untested area, where it is certain that all the networks have plenty of room for improvement. In the running analogy, all the networks are only just getting into training.

3.10. Ground 1B claims there is now a distorted incentive of smart grid savings over other solutions. Firstly, if true, this may be beneficial, since smart grid solutions are likely to foster greater benefits in the long term than traditional alternatives. These benefits, that would accrue in future price controls, would otherwise not be taken into account in ED1. Secondly, GEMA made it clear that this strategy accords with the views expressed by DNOs at the Draft Determination stage: "A number of DNOs argued that […] totex is not a good driver for opportunity for smart grid savings. They proposed allocating on the basis of expenditure in each cost category."[33]

<u>Ground 1D: Failure to consult</u>

3.11. In relation to Ground 1D, concerning 'failure to consult', we would only observe that the adjustments to which NPG is objecting were all made in response to consultation at the draft determination stage.

<u>Ground 2: Real Price Effects</u>

3.12. NPG asserts here that GEMA selected the wrong proxies for its labour costs, both in relation to 'general' and 'specialist' labour real price effects (RPE), by selecting external benchmarks (e.g. ONS Average Weekly Earnings) rather than an index of the networks' own pay settlements.[34] As a matter of principle we would disagree with NPG: indexing the networks' costs against appropriate proxies in the broader economy makes for more competitive and fairer settlements.[35]

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[31] Low Carbon Network Fund, Ofgem http://tinyurl.com/kfyjgfo
[32] NPG Notice of Appeal, paragraph 6.63 http://tinyurl.com/nworxt7
[33] RIIO-ED1 Business Plan Expenditure Assessment, page 142, paragraph 11.32. http://tinyurl.com/lo52h8y
[34] NPG Notice of Appeal, paragraphs 7.17-18.
[35] See Citizens Advice's 14 May 2014 submission to Ofgem regarding revised RIIO-ED1 business plans http://tinyurl.com/pv3q9zq.

3.13. NPG's proposition that networks' costs should be indexed to those same networks' costs is also circular and logically flawed. It is an argument that could only hold if the work done by its employees (including non-specialist labour) was unique so as to render any comparison to work done elsewhere impossible. But this is clearly not the case. We cannot, for example, believe that networks do not benefit from people moving into their organisations from other sectors. A visit to the jobs page of any of the networks' websites will find jobs advertised that do not identify prior network experience as a mandatory requirement.[36] A weakening in the labour market in the broader economy should therefore have consequential impacts for the wage settlements people are willing to accept from networks. Moreover where this linkage might not be as clear – where specialist skills are required – GEMA has provided for this through the selection of appropriate external proxies; the British Electrotechnical and Allied Manufacturers Association (BEAMA) Labour and Building Cost Information Service (BCIS) Civil Labour indexes.

Ground 3: Regional Labour Cost Adjustments

3.14. We are not in a position to assess the statistical evidence NPG submits in support of this ground of appeal. We ask the CMA to consider any consequential effects that any adjustment to this allowance for NPG might have on the other networks. Presumably a move to increase NPG's allowance should imply a reduction in the allowance for the networks operating in London and the South East. If the CMA did find that the allowance should be adjusted, it would need to ensure that the amount of money recovered from consumers across all networks does not increase as a result.

Thank you for the opportunity to provide a consumer perspective on the appeals raised by BGT and NPG. Please do not hesitate to contact me if you would like to discuss this matter further.

Yours sincerely

Chris Alexander
Head of Energy Regulation

[36] For example, NPG is currently advertising for a 'risk and control analyst' – a role which does not specify prior network experience as a mandatory requirements http://www.northernpowergrid.com/careers