

**Unite the Union response to the Office of Gas and Electricity
Markets Consultation on Proposed Modifications to DNO
Common Network Asset Indices Methodology for use during
RIIO-ED2**



1. Introduction

- 1.1. This submission is made by Unite, the UK's largest trade union with over one million members across all sectors of the economy, including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, information technology, service industries, health, local government and the not for profit sector. Unite also organises in the community, enabling those who are not in employment to be part of our union.
- 1.2. Of particular relevance to this submission, Unite represents over 35,000 energy and utility workers.

2. Background summary

- 2.1. The next electricity distribution price control (RIIO-ED2) will start in April 2023 and will cover the costs of operating and developing the electricity distribution networks as well as the financing costs that will be incurred. These include the financial returns that Ofgem allows for debt repayment and the return on equity investors' payments.
- 2.2. Incentives are used to encourage companies to supposedly drive down costs and improve service quality. In reality, however, Unite would argue that these incentives create an environment for a race to the bottom. These incentives mean that a company's actual return can be higher or lower than the allowable return. Unite believes that the outcome may come at a cost to the workforce and customers' pockets.

3. Questions

Question 1: Do you agree that the overall changes now proposed constitute an appropriate modification to the CNAIM v1.1 Methodology for the RIIO-ED2 period?

- 3.1. Unite believes that the deep cuts in operational expenditure will cause major issues in maintaining a highly skilled workforce and in their natural wastage in diverse replacements. The over-stressed and pressured working atmosphere cannot be maintained without serious health implications. These worries were echoed by the Health and Safety Laboratory into human and organisational factors who found that understaffing and excessive workload pressures run the risk of safety standards being undermined.
- 3.2. The workforce at these sites carrying out this work, like most workplaces in the UK, are typically in their fifties and early sixties meaning that they will be considering ending

their career and entering a time when they can enjoy a well-earned rest. The number of individuals entering the jobs market is therefore, going to be in high demand, suggesting the need to strike early on new recruits of the required standard for this environment. Moving forward, there are huge challenges ahead to first recruit and then create, the skilled and diverse workforce that is needed. It is for this reason that Unite calls on this work to be accelerated.

- 3.3. The challenge to create a zero carbon economy by 2050 and then enter a world where we capture more carbon than we generate in the second half of the 21st century, is going to be a major challenge. Without the skilled workforce needed, this will prove to be impossible.

Question 2: Is the approach to the creation of Long Term Risk values logical and understandable, and do you agree with the proposal?

- 3.4. Unite would not agree that the understanding of long term risks are understood. The industry knowledge of the automotive industry and the speed of transformation of transport options to batteries, is not even known well by the manufacturers of vehicles themselves, let alone the projections of demand from in-homes, in-bus garage, in-taxi rank charging stations, etc. Similarly, there is very little knowledge available on the possibilities created by individuals who could be plugging in hydrogen fuel cell vehicles to power homes and commercial properties, etc. The Government is banning new petrol and diesel engines in only a few years' time and the clock is ticking. Nonetheless, the Networks decision to delay investments into this much needed infrastructure over the years, could put thousands of jobs at risk across the economy.
- 3.5. Secondly, at a time when the signs indicate that we are spiralling toward exceeding the 1.5°C increase in global temperatures, the public and private sector should be investing more into reductions in the carbon footprint in UK plc's. Instead, we see from RIIO2 that Network investments are slowing. Ofgem's Net Zero at the lowest price mantra will equate to 'Net Zero at the slowest pace'. This is in direct contrast to the impact of the ambitions and decisions of UK and Scottish Governments to accelerate training and job opportunities and to make progress towards Net Zero. It would therefore, appear that there is a worrying incompatibility between Ministers and Regulators on how we deliver Net Zero.
- 3.6. Unite believes that this draft determination will lead to a slowing of investment into: the necessary network infrastructure; support for additional wind and solar farms; and the electrification of transport, including an expanded electrified rail network. Transport is now the sector that has the greatest contribution to the UK's carbon footprint¹ and efforts to reduce the impact need to centre on encouraging a greater take-up of electricity as the main fuel, opposed to fossil fuelled alternatives.

Removing the substation hub for connecting offshore windfarms in Scottish Power Energy Network's area, for example, will risk delays to connecting and supporting 2.3GW of renewables generation.

¹ According to the latest information from the Department for Business, Energy & Industrial Strategy https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/862887/2018_Final_greenhouse_gas_emissions_statistical_release.pdf

Without significant improvements and investment into the network to deliver sustainable energy generation to sustainable transport options, could prove impossible in the window of opportunity we have to avoid the worst climate change could throw at us.

- 3.7. Unite further believe that without investment into people as highlighted in paragraph 3.4 above, the goals to decarbonise may prove to be far more difficult. After the last two years of constructive engagement with trade unions and staff on the challenges we face, despite the voices of other stakeholders and Ofgem's own Consumer Challenge Group, the concerns raised in these discussions appear to have been totally ignored. A billing increase of less than 10 pence per annum to each domestic customer, could provide an additional £100 million of additional total expenditure (Totex), making it possible to double the number of training and apprenticeship opportunities over the 2021-2026 period. Reducing Totex in contrast will threaten existing jobs.

Question 3: Do the changes to the methodology made to support the Ofgem requirements and detailed in sections 5 to 11 of the Explanatory document (including the proposed consequential changes) provide better clarity to our stakeholders?

- 3.8. Unite the Union like every other industry trade union, are stakeholders and are concerned over new strict limits on investor returns which may cause companies to raid staffing budgets in order to pay back dividends if operational spending falls even further than today. The trade unions put forward concrete proposals to maintain and enhance workforce resilience which were received with what were perceived as a warm welcome by other stakeholders and the Consumer Challenge Group. It is, therefore, perplexing and deeply disappointing that despite some long and constructive discussions at working group level, there is no sign of such practical measures in the Framework Decision.

Question 4: Do you agree that the changes proposed by the DNOs improve the ability to accurately present the Long Term Risk to Stakeholders?

- 3.9. Unite does not feel that the changes to the projections of long term risk do not take into account the inherent value of the collective knowledge, skill set and dedication provided by the current workforce. As stated, time does not stand still for anybody and the need to replace this workforce over time and train them is not something that can be achieved by recruitment of off-the-shelf, pre-trained workers. It will take several years to fill vacated shoes; years where the worker who is leaving can impart their knowledge to their eventual replacement. Unite believes that the gravity of this problem has yet to be understood and it most defiantly has not been acted upon, despite repeated warnings from the unions that working in the current environment will only speed up the desire of the current workers to retire.

Question 5: With the exception of calibration values to permit the financial values to be updated, do you agree that the additions and revisions to the manner in which the Methodology derives values of Probability of Failure, Consequence of Failure and therefore risk are appropriate? e.g. the adoption of

more collars as proposed in Appendix B.5 Observed Condition Factors and B.6 Measured Condition Factors.

3.10. Unite does not wish to comment on these changes other than to reiterate the potential risks associated with not providing for the longevity of the skills knowledge and application amongst the workforce. The companies need to safeguard the long term future by providing skills training.

4. Conclusion

4.1. Unite agrees with the UK's Committee on Climate Change (CCC) that the challenges we face now are an opportunity to make faster progress towards meeting the Net Zero challenge. Unite strongly believes that future-proofing the network is one of the top five priorities we should be accelerating now, not at some point nearer the UK's Net Zero target date of 2050. Any additional funding should be regarded as a 'low regrets' investment. Unite believes that Ofgem's view puts the UK at a strategic competitive disadvantage.

4.2. Unite believes that with an aging workforce, so many out of work as a result of COVID-19, displacement from highly polluting industrial practices and the need for swift adaptation to combat the worst that the environment can throw at us, there could not be a better time than now to invest more in training and investments for the future. Instead, Ofgem is suggesting a tightening of financial outgoings which could risk delays in the battle toward an economic and environmentally sustainable recovery.

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