



RIIO T1 Business Plan Update

Workforce Renewal

December 2011

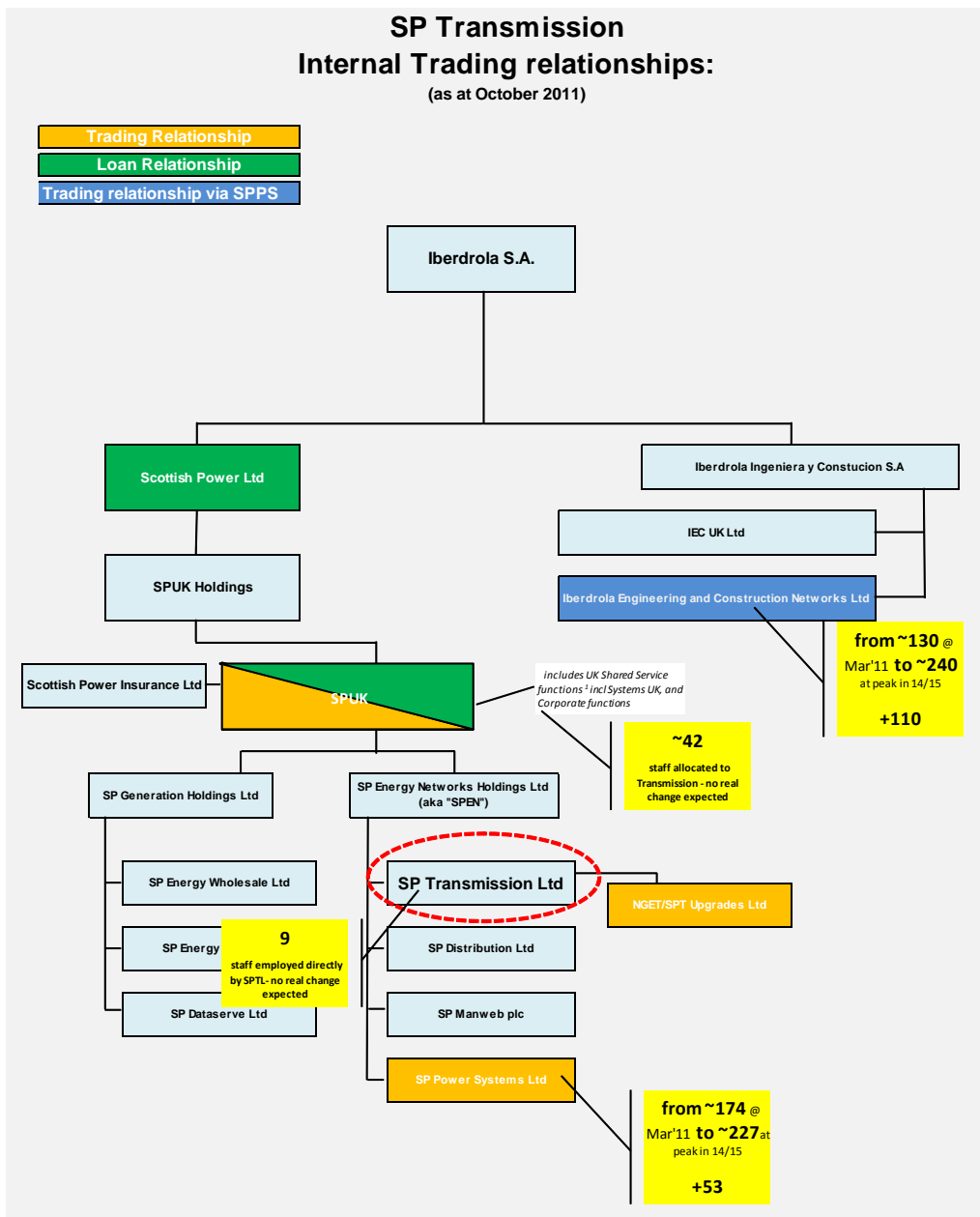
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Workforce Renewal

We refer to resourcing strategy on pages 27-28 of our Executive summary and additionally in Section 7 - Delivering the Plan; specifically Appendix 2 (Iberdrola, Engineering and Construction) where the resourcing strategy for IEC is comprehensively set out in pages 16-22; and more generally in Appendix 5 (Resourcing Plan).

Setting the context

The following organisational diagram illustrates where our internal resources reside within our Transmission business. It has been overlaid with headcount:



As the diagram shows staff are located in 4 different business units. A small regulation team is employed by SPTL directly with the majority of staff providing services to SPTL from either its principal service provider SP Power Systems (SPPS) or from Iberdrola Engineering & Construction (IEC). Shared Services¹ and Corporate functions² are provided through SP UK.

Incremental Resource Demand

As one can see the incremental growth in staff due to the increase in capital investment requirements is within IEC (around 110) and in SPPS (around 53). These represent the net increases in staff over the period.

We do not envisage a need for big incremental increase in resource demand however within our industrial staff population. Our industrial staff, a mix of linesmen and fitters, are employed on Inspection and Maintenance activities and supported by external contracts for specialist work (eg DGA analysis, vegetation management) that are not within our core competencies.

Workforce Renewal

Within the main organisation of 225 staff (ie 174 + 9 +42) we do need to consider the additional challenge of renewing our workforce to sustain key competence due to the number of retirements we forecast during the period and underlying attrition rates.

During DPCR5 DNO's argued for additional funding to address the emerging engineering skills shortage caused by the step increase in investment levels and the spike in retirements of key engineering resources, as those staff who joined the industry during the boom period of the late 60's/ early 70's reached retirement age.

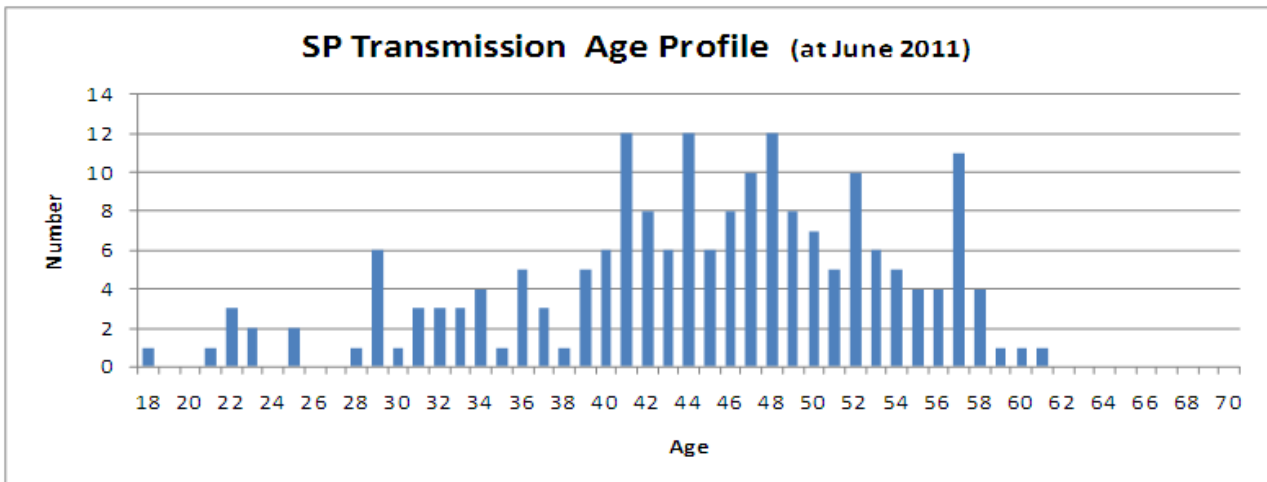
Ofgem provided over £200m (07/08) to the DNOs in its Final Proposals for DPCR5 on a "use it or lose it" basis.

Workforce Renewal in a Transmission Context

We reviewed the age profile of our Transmission engineering and industrial staff (we excluded 60 non-engineering roles) to determine if we had a similar issue to that found in Distribution.

¹ Shared Services provided by SPUK include IT & Telecoms (through Systems UK); Finance (through Control & Administration); Legal; Procurement; Health & Safety; HR & Training; Property Management (through Estates & Facilities)

² Corporate Functions include Internal Audit; Treasury; Risk Management; Corporate Communications; Investor Relations; Pensions; CEO



Our analysis showed that of our existing population of 164 staff, around 50 staff could leave by 2020 (between 2 and 4% each year). This suggests that it is critical this issue is recognised and reflected in our resourcing plans.

Overall SPPS Transmission Resource Capacity Plan (including incremental growth)

The table below sets out the retirement profiles for both categories of staff if they all retired at 60 years of age and a forecast of attrition (2% based on current experience).

FTE	2010/11	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Engineering Staff (start)	133	132	143	166	176	186	188	189	186	183	184
- less Retirements	-1	-5	-7	-4	-4	-3	-3	-7	-7	-3	-3
- less Attrition		-3	-4	-4	-4	-4	-4	-4	-4	-4	-4
- Intake from Market		9	18	18	18	9	8	8	8	8	8
- Graduate Intake		10	16								
Engineering Staff Net (close of year)	132	143	166	176	186	188	189	186	183	184	185
Non-Engineering Staff	60	60	60	60	60	60	60	60	60	60	60
Industrial Staff (start)	32	32	32	36	41	46	45	42	40	36	33
- less Retirements			-2	-1			-2	-1	-3	-2	
- less Attrition		-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
- Intake from Market											
- Apprentice Program Intake		1	7	7	6						
Industrial Staff (close)	32	32	36	41	46	45	42	40	36	33	32
Total	224	235	262	277	292	293	291	286	279	277	277

SP Energy Networks Resourcing Strategy

Our SPEN Resourcing Strategy is founded on a number of approaches for resourcing. Key talent pipelines to grow our own talent are our Graduate, Apprenticeship and Upskilling programmes where we develop and grow our own engineering and technical capability to meet our resourcing needs. Additionally we use some direct recruitment although this can be challenging due to skills shortages. Appendix 1 is an illustration of the SPEN key talent pipelines.

Our recruitment approach for RIOT1 (as detailed in Appendix 5 of Section 7 of our business plan, pages 5-6) uses these key talent pipelines. Our Resourcing Plan is predominantly based on increasing our Graduate and Apprentice intake supplemented by some direct recruitment activity. Additionally we will continue to use other approaches as appropriate such as upskilling to address any challenges arising from skills shortages in the recruitment market. This can include supporting new recruits to upskill for example we are currently in discussion with 'at risk' forces employees at RAF Kinloss about opportunities with SPPS and how we could support them to transfer to roles in our industry and to get the skills to become fully competent.

Further information about incremental Resource Requirements for RIIO T1

For key engineering resources (and for these purposes we include specialist wayleave and environmental planners) we assessed the parts of the business critical to the delivery of our plans for RIOT1 and assessed where we required additional resources:-

- Environmental Planning & Wayleaves – An increase from 7 at March 2011 – up to 17
- Transmission Operational Engineers – An increase from 47 at March 2011 – up to 77
- System & Engineering Design – An increase from 10 at March 2011 - up to 16
- Asset Management & Investment Planning – An increase from 12 at March 2011 – up to 17
- Major Projects Delivery (SPTL, ie excl IEC) – An increase from 9 at March 2011 - up to 11

We plan to commence recruitment for the additional 53 staff early to reflect time to recruit and induct to support delivery. An external recruitment campaign has already begun to support delivery of this plan.

Modelling

To assist our assessment of needs we utilised the EU Skills model, which we first made use of during DPCR5, populating it with those Transmission staff possessing key engineering skills, and an attrition rate. The model calculated a replacement profile based on a retirement age of 60, which we compared against our own calculations.

However, so far as we could see, the EU Skills model did not model requirements for growth, so we were unable to test our own managerial assessment which was based on our delivery model. Since our submission, along with SSE and NGET, we have actively engaged with NSAP and EU Skills during October to support an industry wide gas and electricity view of resourcing requirements. We shall continue to assist in their work in whatever way we can.

Conclusion

We have put forward a credible balance of internal growth and resourcing activity critical to deal with workforce renewals arising from our ageing workforce. We have a variety of key talent pipelines and approaches we can use to mitigate risks arising from increasing skills shortages in our industry.

Our resource capacity plan is based on our best assumptions around when employees are likely to retire and also based on current attrition levels. We recognise that these factors are dynamic and we will continue to review these factors to ensure that our resourcing plans are appropriate. In addition we have offered a number of funding options to Ofgem to reflect this.

