New Energy and Water Public Interest Network

New-Pin – Workshop 4

Consumer, citizen and stakeholder engagement and capacity building in the energy and water sectors

Is the long-term public interest sufficiently represented?

Discussion paper

FINAL

November 2016

Written by Sharon Darcy with support from Judith Ward. **This paper has been a collaborative effort. Sustainability *First* would like to thank all those New-Pin Network members and others who spoke to us on this topic and contributed to the case studies. Responsibility for the paper sits with Sustainability First.**

About the New Energy and Water Public Interest Network (New-Pin)

Background: New-Pin brings together stakeholders active in the energy & water sectors to help secure greater focus in company, investor, regulatory & policy decisions on **long-run public interest issues.** It aims to:

- **Build understanding between the energy and water sectors and their stakeholders**. New-Pin explores areas of similarity and difference, leverages learning and identifies practical steps all actors can take that could better serve long-term public interest issues;
- **Strengthen stakeholder engagement.** New-Pin seeks to increase public participation in decisions by water & energy companies, investors, regulators and policy makers through developing lasting capacity and thought-leadership among 'public interest' advocates; and
- **Stimulate a more 'inclusive' perspective on governance.** The Network is exploring what governance in the public interest looks like for energy and energy companies.

New-Pin was established by the charity Sustainability First in 2015. The New-Pin Network is made up of consumer, environmental, citizen, academic and investor interests, a small group of energy and water companies, regulators and government departments.

Sustainability First arranges and facilitates carefully structured New-Pin workshops to discuss relevant long- term public interest issues. The process is iterative and is evolving as New-Pin becomes more established. Network members decide which topic to focus on at each workshop. Prior to the workshops, Sustainability First holds bilateral discussions with members and other interested parties to discuss what they think are the key public interest issues in that topic area and to identify appropriate case study material. Following a literature review, this information is then used to draw up a draft paper for consideration at the workshop. After the session, the paper is revised to take on board comments. All final workshop papers are placed in the public domain.

Current and proposed New-Pin papers

- Towards a definition of the long-term public interest, August 2015
- Long-term affordability: who should pay for our infrastructure resilience and renewal and the move to low carbon? October 2015
- Trust and confidence: what does this mean for the different stakeholders in the energy and water sectors and what can be done to build and maintain this? March 2016
- Long-run resilience: Long-run resilience in the energy and water sectors. Are twentieth century approaches for securing resilience relevant for citizens and consumers of the twenty-first? June 2016
- Consumer, citizen and stakeholder engagement and capacity building, October 2016
- Competition policy and the public interest agenda, February 2017
- Innovation and regulation: what's the problem that innovation is trying to solve and how do regulators let go without letting companies off the hook? June 2017
- Investment decisions – communities, devolved approaches & big infrastructure, Nov. 2017
- Governance in the public interest: lessons learnt and next steps, February 2018

The New-Pin Network Current New-Pin public interest advocate members include: Citizens Advice, The Consumer Council for Water, Green Alliance, The Centre for Sustainable Energy, Water Wise, WWF, The Local Government Association, ShareAction and The iGov Programme at Exeter University. Company members include, from the energy sector; Electricity North West, Northern PowerGrid, RWE NPower, Scottish and Southern Electricity Networks and Western Power Distribution; and from the water sector; Affinity Water, Anglian Water, Southern Water and United Utilities. Regulatory members include: The Environment Agency, Ofgem, Ofwat and the Water Industry Commission for Scotland. Government representatives are: DBEIS, DEFRA, the Scottish Government and the National Infrastructure Commission. Other individuals with a relevant interest are invited to specific Network meetings.

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Executive summary

Public engagement in the energy and water sectors is an evolving area. Over the last decade, the increasing interest in engagement, in particular for the monopoly businesses, has largely been driven by the desire to see more 'customer centric' services that deliver the outcomes that consumers value.

Engagement has also, however, been used to give all consumers (current, future), citizens and stakeholders a voice in helping to shape key decisions and so make these more 'legitimate.' This is particularly important given the social and environmental challenges faced by the sectors. Problems with trust in the energy market and a more widely perceived democratic deficit have coincided with major investment pipelines for both sectors, leading to greater focus on the need to improve the quality, breadth and depth of company, regulatory and policy decision-making.

Engagement is also increasingly been used as a vehicle for cultural change in companies, to support a shift from commodity to service provision. This is part of the move from passive to more active consumers and the development of the demand-side role. The potential for engagement to lead to new partnerships and collaboration is being actively explored.

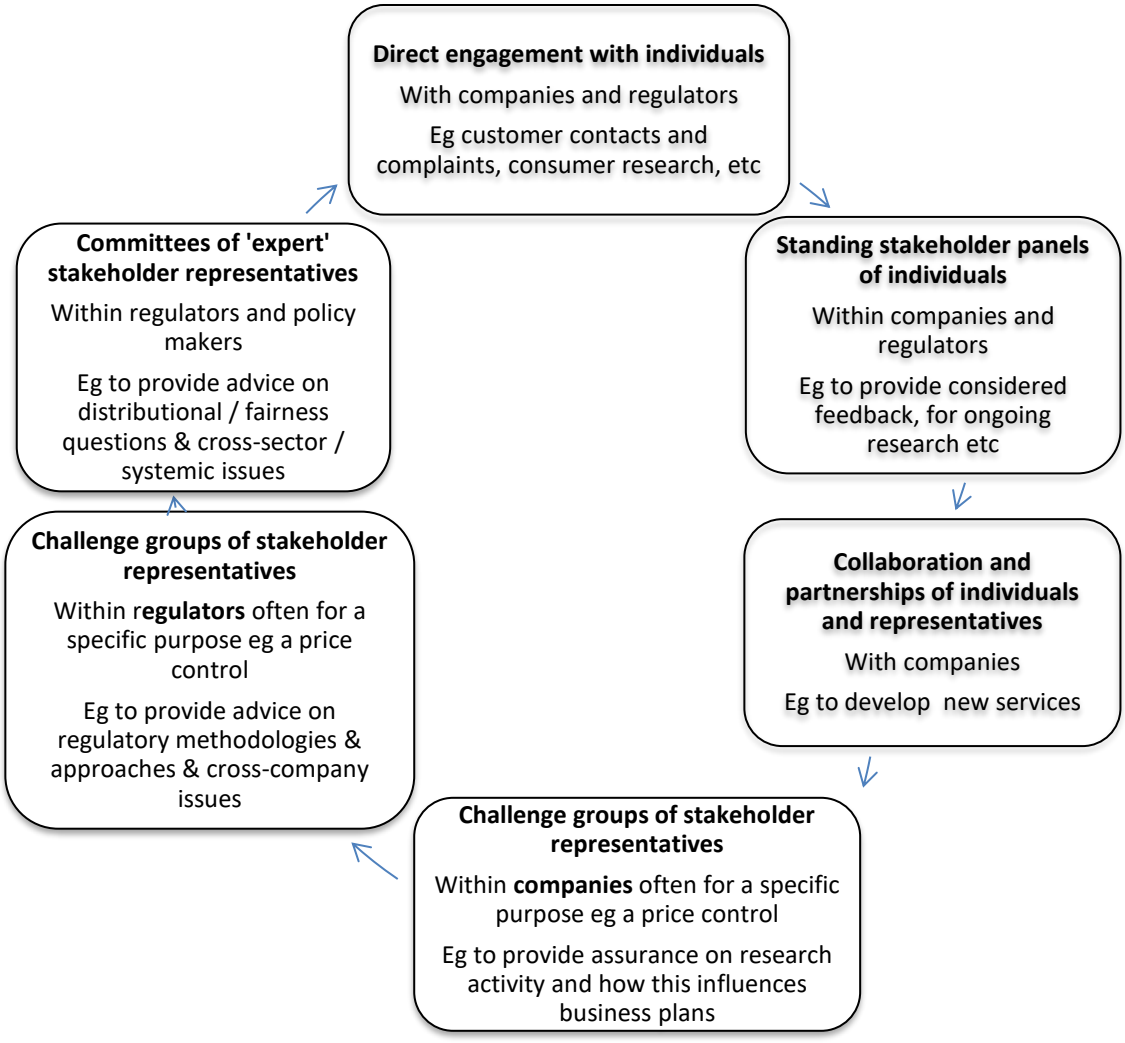
There are differences in engagement practice and opportunity between the two sectors, with both being at different stages in their respective regulatory cycles and facing different competitive pressures. There is no single best approach to engaging the public in long-term decision-making - activities need to be tailored to suit specific arrangements in each sector and nation. What works well in one context won't necessarily work well in another. Decision makers do, however, need to be much clearer about the purpose of any specific engagement exercise and how they 'frame' the engagement activity to ensure that expectations aren't misplaced. Without articulating clear objectives for consumer outcome, legitimacy and cultural goals, decision-makers will find it difficult to communicate the rationale to those that they want to engage and to measure impact.

Much recent focus has been on company-led engagement. There are clearly strong reasons for companies, both regulated and competitive, to conduct direct and on-going engagement activities to help maintain the pressure for continuous improvement in their service. Companies are on different places on this journey. Progress is being made in embedding engagement, but for some companies there may still be some way to go to ensure that engagement activity isn't a 'bolt-on' to normal business and doesn't just happen within pockets of the organisation.

When looking longer-term, company-led engagement alone may not be sufficient to provide a wider public interest perspective that also takes into account distributional and systemic issues. Regulatory or government-led engagement activity may also be needed.

Engagement has many complex strands: the direct engagement with 'real' people in their individual capacities; and the engagement of consumer, citizen and stakeholder representatives and 'experts'. The relationship between these different types of engagement for short-run and long-run issues, which can clearly sometimes blur, is illustrated in Diagram 1. For maximum impact, it is important that these different types of engagement don't take place in silos but build on each other, are integrated into operational and strategic decision-making and are linked by a 'golden thread' within and across organisations.

Diagram 1: The need for a golden thread to link different types of engagement on short-run and long-run issues in the energy and water sectors



Source: Sustainability First

The challenge of providing a coherent view of engagement is particularly acute in the energy sector where the disaggregated value chain can make it difficult to get a single view of consumer and citizen needs and preferences. In water, the environmental context for decision making means that a wider range of stakeholders need to be involved in any long-term engagement activities and, to maximise value, these may need to be co-ordinated. For both energy and water, ensuring that

engagement is focused on key priorities and the 'big ticket' issues such as rates of return / cost of capital and a strategic view of the investments needed in the energy and water systems would seem to be important. More could be done in these areas. In addition, engagement on cross-cutting issues such as resilience and sustainability, and on emerging issues that may upset the status quo, is also limited.

Engaging people in their capacity as citizens in local communities raises some specific issues. The increasing interest in devolved and regional power, the move towards a degree of decentralisation in energy, the emergence of the concept of 'smart cities' and, in water, the increasing interest in upstream issues is leading to debates about the distinction between customer and citizen. In this context, both the energy and water sectors should think carefully about how they engage different groups and communities in decisions.

Ensuring that the interests of 'future' citizens are reflected in decision-making also presents a challenge. Given the difficulties many face in dealing with risk and uncertainty (e.g. 'present' and 'optimism' bias in how we think), it can be difficult to engage people meaningfully on future issues. Trying to understand more about how behaviours and expectations are changing, and the trends and issues we will face in the future (e.g on digital communications, on ageing), can help to start to build a picture of what future consumer and citizen needs in water and energy might be.

'Consensus' at all times is not achievable. There will be times when the views of stakeholders engaged in decision-making processes will differ. For example, there can be conflicting interests within generations and between generations. As the accompanying paper by BritainThinks and London Economics sets out, research techniques are now being used that can help explore these differences directly with consumers and other stakeholders. To maintain the credibility of the engagement process, it is important that when differences in views do exist, to be clear about who owns the decision and ensure that decisions about balancing interests are made in as fair and transparent way as possible.

As a rule of thumb, companies should be responsible for balancing interests that impact on their business plans as they are best able to manage the risks and opportunities around these. If issues arise between companies and they can't agree how to proceed, there may be a case for regulators to take the lead in balancing interests. But differences of interest across sectors, or that lead to significant distributional impacts, may be best left to government and policy makers. Engaging consumers and citizen representatives more deeply on the ethical values and principles applied in arriving at judgements about what is 'fair**'** may be helpful when dealing with contentious issues. There is currently limited public engagement in this particular area.

To maximise the value of stakeholder engagement, it is worth understanding key enablers and barriers. Ensuring a high-level 'vision' - from companies, regulators and policy makers - as to what engagement can and cannot be expected to achieve would seem important to help manage public expectations. Finding effective ways for companies in particular to measure the impact of engagement can help all

interested stakeholders judge what works and what is proportionate. Regulators need to articulate how their own procedures and processes may need to adapt to get the most out of engagement activity: engagement will rarely negate the need for economic or environmental regulation. It is more likely to lead to the need for regulation and for companies to re-assess and to re-focus. Principles-based regulation can be helpful here.

The resources available to public interest groups can be a significant potential barrier to engagement. With the closure of some statutory consumer bodies and funding pressures across the third sector and in local government, there are questions about how best to ensure that consumer, citizen and other stakeholder representatives have adequate capacity to be able to fulfil the breadth of engagement roles envisaged for them in a sustained way over time. If these issues aren't addressed through dedicated funding - plus suitable governance- engagement could be set up to fail or at risk of being exposed to undue pressure from vested interests.

This paper proposes a **'New-Pin Decision Making Framework'** for thinking about how best to engage consumers, citizens and other stakeholders on long-term issues - within companies, regulators and policy makers. Pulling together the findings from our extensive discussions for this paper, this Framework builds on the UK Regulators Network's (UKRN's) Principles for Effective Engagement and recent Ofwat work in this area. The Framework is not intended to be prescriptive but to guide decision-makers in their own thinking about what the right approach to engagement might be for their situation, in terms of the need for clear objectives and for engagement to be inclusive, tailored, transparent and developing.

Consumer, citizen and stakeholder engagement in the energy and water sectors: Is the long-term public interest sufficiently represented?
Top ten conclusions

1. There is no single best approach to engaging consumer and citizen representatives in long-term decision-making.
2. Greater clarity is needed about who owns the decision to engage and what is the purpose of the exercise – i.e. what are the possible consumer outcome, legitimacy and cultural objectives for engagement in that given situation.
3. Company-led engagement can help enable more customer-centric services and potentially lead to innovative collaborations. However, given the significant social and environmental externalities in energy and water - and the associated distributional and systemic impacts - a wider perspective for engagement, including government- and regulatory-led engagement, may also be needed for system-wide and long-term issues.
4. There are some important gaps in how the public can engage on long-term issues. Engagement needs to be appropriately 'framed' and cover what matters to stakeholders including 'big-ticket' issues: rates of return / cost of capital and strategic investments in the development of our energy and water systems.
5. A coherent view of engagement is needed that looks across the disaggregated value chain in energy; and at the wider environmental context in water.
6. To take account of the needs of 'future users' for water and energy, it will help to look at how behaviours and interests are evolving, particularly around local, community and regional interests – plus how digital communications are leading to changed expectation in how we engage as citizens.
7. Consensus at all times is not achievable: there can be differing interests both within and between generations. Engaging consumer and citizen representatives on the ethical values applied in arriving at judgements about what is 'fair**'** – both between and within generations - and articulating these will be helpful on contentious issues.
8. Companies, regulators and policy makers each need to set out their vision and expectation for stakeholder engagement on long-term issues. Engagement will rarely negate the need for regulation. However, it can inform the need for regulation to re-assess and to re-focus.
9. Public interest advocates need resources. Without dedicated funding, and checks and balances in governance arrangements around this, engagement on long-run issues could be set up to fail or unduly influenced by vested interests.
10. New-Pin has produced a '**Decision Making Framework'** to help all actors work out the best approach for them on engagement on long-term issues.

1 Overview

1.1 Objective

Engagement is a complex, fluid and multi-dimensional area. Our objective in this paper is to **facilitate discussion** – not to identify a single solution. This is particularly important given that there are differences in engagement practice and opportunity within the water and energy sectors, with both being at different stages in their respective regulatory cycles and facing different competitive pressures. We hope that by assessing the relative experiences with engagement in both energy and water, some valuable cross-sector lessons may arise.

By providing a practical tool that companies, regulators and policy makers can use (the New-Pin **'Decision Making Framework'**) we hope to assist them in thinking through the right approach to engagement on long-term issues for their situation.

1.2 Outline of paper

Section 2 provides some definitions of what consumer, citizen and stakeholder engagement for the long-term public interest means in the energy and water sectors.

Section 3 explores the objectives for engagement in the sectors and what the purpose and expectation of engagement activity is on consumer outcomes, legitimacy and cultural grounds. The risks to achieving each objective are also highlighted. The different objectives of engagement are explored in more detail in Annex 1.

Section 4 provides a brief summary overview of the recent and current landscape for engagement by consumer, citizen and stakeholder representatives and 'experts' in long-term issues in the energy and water sectors. As well as examining engagement activities that have developed on the back of regulatory initiatives, it also looks briefly at engagement more broadly, including on policy issues and through consumer bodies.

Based on our informal discussions, **Section 5** looks at the gaps we have identified in stakeholder engagement on long-term issues. It highlights the need for a more coherent view on the wider context, particularly on 'big ticket' issues such as rates of return and the cost of capital or system-wide issues such as strategic investment, as well as the need for better approaches on how to address the needs of future consumers and citizens.

Section 6 explores how the interests of different engaged groups might best be balanced in a fair and ethical way. It addresses the issue of who should be responsible for making decisions around trade-offs when there are significant conflicts of interests.

Section 7 assesses the enablers and barriers for engagement on long-term issues for companies, regulators, policy makers along with public interest groups and asks how best to judge impact in this area.

Section 8 concludes by exploring some of the principles for engagement that the UKRN and Ofwat have previously identified and, building on these, proposes a '**New-Pin Decision Making Framework'** for thinking about engagement on the long-term public interest in the energy and water sectors. This Framework pulls together many of the points that have been made about good practice in this paper. Section 8 also puts forward a 'next step' for New-Pin in terms of developing a possible **future tool that could help build capacity amongst public interest groups** active in or interested in this area.

1.3 Methodology

New-Pin's approach to each of our workshop topics and papers is itself a type of 'deliberative' engagement. A scoping note proposing the main issues to address on the topic of engagement was circulated to all New-Pin Network members for comment in the early summer. A brief literature review then took place, including, but not limited to, the report by Harry Bush for UKWIR in 2015 on *The Future Role Of Customer And Stakeholder Engagement In The Water Industry* and the submissions to the December 2015 LSE seminar on consumer engagement in regulated sectors and the Policy Exchange 2015 report *The Customer is Always Right*. Bilateral interviews with 23 Network members and others with an interest in engagement were then carried out. The paper draws heavily on these conversations and on case studies that have been shared with us or taken from published material.

The draft paper was discussed at the New-Pin workshop on Engagement on 19th October 2016 and has been revised to take on board comments made on the day and subsequently.

1.4 Scope

This paper is firmly focused on consumer, citizen and stakeholder engagement on **long-term** public interest issues in energy and water. As explained in Section 2, it is primarily concerned with engagement of consumer, citizen and stakeholder representatives and 'experts.' The paper explores whether there are any 'gaps' in engagement **from a long-term perspective** and proposes a possible New-Pin 'Decision Making Framework' to help address these. To make the discussion manageable, in this paper we do **not** focus on:

- Engagement approaches that are used primarily to uncover **short-term** consumer issues; and
- The variety of research techniques that may be used to help uncover the long-term public interest through direct public engagement. This issue is covered in the separate '**Research Approaches Overview'** paper that has been produced for Sustainability First and New-Pin by **BritainThinks and London Economics**. A final version of this paper is published on the Sustainability First website.

2. Definitions

Consumer, citizen and stakeholder engagement covers a wide range of activities, from minimal 'listening exercises' to full collaboration between different parties. As illustrated in Diagram 2, these initiatives move from the direct engagement of 'real' people in their *individual* capacities as consumers, citizens and stakeholders through consumer research to the engagement of consumer, citizen and stakeholder *representatives* and finally to consumer, citizen and stakeholder '*experts*.'

This paper primarily focuses on the engagement of consumer, citizen and stakeholder representatives and 'experts'– i.e. the middle and right hand side of Diagram 2. This can be through consumer challenge groups, panels or forums, for example, or as members of expert groups.

Diagram 2: A high level overview of different types of engagement



Source: Sustainability First

As noted in Section 1.4, the different research methods for directly engaging individual consumers, citizens and stakeholders is the subject of a separate paper for Sustainability First for the New-Pin project, written by BritainThinks and London Economics.

In considering approaches to stakeholder engagement, Diagram 2 raises questions regarding the 'boundaries' of these definitions. The BritainThinks and London Economics paper provides an overview of what the boundaries of direct engagement through different research approaches may look like. To obtain a fuller picture of what the long-term public interest is in these sectors, there is clearly value in the different engagement approaches building on each other, being integrated into operational and strategic decision making and being linked by a 'golden thread' across the organisation, as illustrated in Diagram 1 in the Executive Summary.

In this paper, the long-term public interest is defined as the combination of consumer, citizen and wider stakeholder views (including those of environmental groups and investors).[1]

[1] See: *Towards a definition of the long-term public interest,* Sustainability First, August 2015

3. What is the purpose and expectation of consumer, citizen and stakeholder engagement in energy and water?

There are many reasons why consumer, citizen and stakeholder engagement takes place in the energy and water sectors. Through listening to views and understanding needs, engagement can help lead to more customer-centric services that are responsive to peoples' preferences and the outcomes that they want to see. There is also general agreement that engagement can lead to better quality decision-making amongst companies, regulators and policy makers.

Each actor has different reasons for engaging on a specific issue. In discussion for this paper it was also felt that **decision-makers** (at every level) often **need greater clarity on the objectives of any specific engagement exercise,** not least so that they can communicate this clearly to those they want to involve and so that they can monitor the impact of the activity within their organisation. Without such clarity, there is a risk of much wasted and contradictory effort. This can leave stakeholders confused and sceptical about the value of the activity. Clarity on 'ownership' and purpose of the engagement is therefore important to frame the ensuing exercise and for participants to be confident that the outputs will be used to good effect.

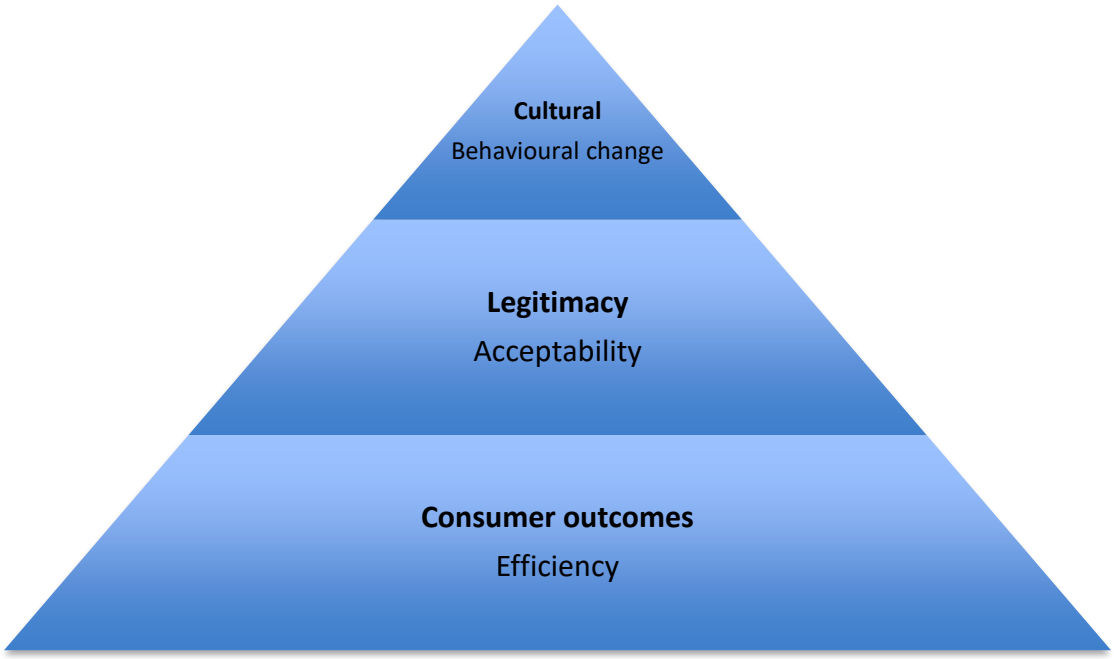
In considering the views shared with us on long-run stakeholder engagement, for **this paper** we have identified three over-arching objectives where public interest representatives or experts are involved:

- **Consumer outcomes -** To date, much debate has focused on the use of engagement to inform thinking on how to help deliver **more efficient value for money services**, and, whether and how much consumers are willing to pay for given service levels. At the workshop, some participants expressed the view that an undue focus on willingness to pay was a 'backwards way' of looking at engagement.
- **Legitimacy** – Engagement can also be used to give consumers and citizens a voice in decisions and to test and ensure that they are willing to **accept** certain service levels or packages, both for the short and long-term.
- **Cultural -** A further and growing reason for engagement in energy and water is the need to **alter the behaviour and culture in the sectors**, and to ensure that where appropriate, all stakeholders are willing to change. At the workshop it was pointed out that for this objective to be achieved, it was necessary to 'engage hearts as well as minds' through more clearly communicating to those involved what the purpose of the engagement activity was.

Our primary drivers for engagement are illustrated in Diagram 3. This section explores each of these objectives for engagement in turn and seeks to identify the resulting risks and challenges – particularly from a long-term perspective. Unless these risks are recognised and managed, a 'mismatch' of expectations may result. Table 1 then 'unpacks' the different objectives and possible outcomes from engagement in the sectors.

Our objectives and risks, and what can be done to manage them, are discussed in more detail in Annex 1.

Diagram 3: Three over-arching objectives for consumer, citizen and stakeholder engagement in long-term issues in the energy and water sectors



Source: Sustainability First

3.1 Consumer outcomes objective of engagement

Consumer, citizen and stakeholder engagement in energy and water can help inform some of the monopoly characteristics, market failures and information asymmetries that can exist in the sectors. It can help achieve leaner, more efficient and innovative services that more closely reflect desired consumer outcomes. By shifting the focus of companies away from regulators to their customers and stakeholders, engagement can help companies get performance 'right first time,' reduce regulatory gaming and avoid regulatory capture.

Companies should be interested in this objective if increased efficiency enables them to retain benefits of out-performance within a regulatory period or, where relevant, to grow market share. Engagement can also be used by businesses to help them innovate and prepare for the needs of future consumers. Policy makers, regulators and consumer groups may be particularly interested in this objective given monopoly characteristics in the sectors.

Risks to achieving the consumer outcomes objective of engagement:

1. **'Present' bias** – engaged representatives may focus on short-term outcomes at the expense of issues such as long-term resilience or sustainability;
2. **Boundary issues and 'framing'** – what is efficient will depend on where the boundaries are drawn and how problems are framed. Engagement that is

company-focused may find it difficult to address distributional or system issues, where it may make sense to 'pool' risks (see Section 5.3.1);
3. **Changes to the status quo -** engagement led by incumbent companies may find it challenging to deal with dynamic issues and long-term efficiencies; and
4. **Transparency** - engagement will only increase efficiency if information is shared and the resulting in-puts and outcomes are transparent.

3.2 The 'legitimacy' objectives of engagement

Engagement can help ensure that decisions are seen as more accountable by the public. In this way, it can be helped to build trust in the sectors. This is particularly important in the energy and water sectors given that they have social and environmental externalities, provide essential services and are facing significant investment programmes that the public will eventually pay for. In some ways, engagement can be seen as a part of the de-regulatory agenda; by giving the public a say in what they want through iterative and continuing engagement, the need for regulation to act as a 'proxy consumer' could eventually diminish - as both regulators and companies start to obtain a better grasp of what long-run 'acceptability' looks like. From another perspective, engagement can be seen as a way of addressing the democratic deficit in the sectors and of giving people back a degree of control over their essential services. At one extreme, this could equate to having consumer, citizen or stakeholder representatives on company boards. This issue will be covered in the New-Pin 'Governance' work stream.

Companies may be motivated by this objective if engagement enables them to be subject to reduced regulatory intervention and to have a clearer social licence to operate. Policy-makers, citizen, environmental and wider public interest groups are likely to be particularly interested in this objective. Regulators may also consider it relevant as it can help ensure that regulation itself is viewed as effective.

Risks to achieving the 'legitimacy' objectives of engagement:

1. **Targeted and proportionate** - engagement is not always targeted at the key issues that matter to the public;
2. **Regulatory back-stops** – these will still be needed in case of problems but resources and expertise may have been withdrawn in the interim;
3. **'Ownership' of engagement** – companies and regulators will still need to own engagement and be clear as to its purpose;
4. **Consumer capture** – mechanisms will be needed to ensure regulatory capture is not replaced with consumer capture; and
5. **Stakeholder disillusionment and fatigue** – this needs to be addressed if engagement is to be sustained.

3.3 The cultural objectives of engagement

There is an increasing interest in using engagement to help energy and water companies on the journey from being engineering-based commodity companies to service companies that are able to work with their customers to enable an active demand-side. This cultural objective sees engagement as being a key tool in helping to get companies to behave differently towards their customers and stakeholders. It is hoped that this shift from paternalism (where the company 'knows best' what customers want) to being more collaborative and flexible may help deal with future uncertainties and address changing customer expectations (particularly in the digital world – see Section 5.3.3).

In discussions for this paper, it became clear that the recognition of the need for engagement to deliver cultural objectives varies both between, and also within, companies. The level of interest in this objective may to some extent depend on the risks a company is managing (eg do they have limited water resources or face energy network constraints), their decisions around future strategic positioning and whether they seek to lead – or respond – to change. This rationale for engagement may be more pronounced in energy companies, given the pressures of the low carbon transition. However, water companies seeking to manage upstream and resource risks may be similarly interested. This objective is likely to be of considerable interest to regulators as they take a wider perspective of the changes that may be needed in the sectors. It can play a key role in the shift from prescriptive to principles based regulation.

Risks to achieving the cultural objectives of engagement:

1. **Iterative engagement** – in interviews for this paper, some thought that if regulators concede that they may not have all the answers about how best to engage on a given issue, it may be perceived as regulatory weakness. Others, however, have pointed to the fact that regulators are increasingly interested in innovative practices (for example, Ofwat's 'Marketplace for ideas', Ofgem's stress on 'test and learn' through Network Innovation Competitions and its new Innovation Hub);
2. **Implementation** – there is a need to be clear about the scope of engagement and how it will be acted on if this is going to help achieve cultural change;
3. **Building trusted relationships** – regulators and companies need to send the right signals to each other, and public interest representatives, if they are going to build sector-wide long-term trusted relationships.

Table 1 'unpacks' these three over-arching objectives for engagement and links them to possible outcomes to set these in a wider 'frame'. The activities listed at the beginning of the Table are primarily concerned with economic objectives for consumer outcomes. As the Table progresses, they also include legitimacy and lastly cultural objectives. However, the different rationales, objectives and outcomes for engagement listed in the table are **not** mutually exclusive. They are likely to be **cumulative**; those at the end of the table may well also include the points that have been listed at the beginning. The activities at the start of the Table are more likely

to involve the direct engagement of individual consumers and citizens. Activities towards the end are more likely to involve consumer and citizen representatives and experts.

Table 1: Rationale and possible outcomes from engagement by consumer, citizen and wider stakeholders in the energy and water sectors

Rationale for engagement	Objectives for engagement	Possible outcomes from engagement?
Compliance	• To get companies to meet minimum legal or regulatory requirements (eg to protect consumers in vulnerable circumstances)	• Services meet basic 'hygiene' standards as set down by legislation / regulation • Companies receive financial benefits (eg penalties avoided and financial incentives, if available, maximised) or reputational benefits
Information 'broadcast'	• For companies to inform individual consumers / citizens / stakeholders about services	• Can address some information asymmetries (eg through information on comparison sites) • More efficient service usage
Information 'listening'	• For companies to gather information on individual consumer / citizen / stakeholder views on existing performance (eg customer satisfaction, Net Promoter Scores) and desired consumer outcomes	• Improved performance management and VFM • More responsive / tailored services
Involvement	• For decision makers to engage consumers / citizens / stakeholders directly to help develop specific ideas / approaches	• Innovation • Increased returns / market share
Consultation	• To assist policy makers and regulators in getting companies and other stakeholders to disclose information that may not otherwise be available given the monopoly, market failure, information asymmetries and social and environmental externalities that can characterise the sectors	• More evidence based policy and regulatory frameworks and decisions • Improved understanding of uncertainty (particularly around long-term and systemic risk)
Advisory	• To get consumer, citizen and stakeholder representatives to act as internal 'critical friends' and provide expert guidance to decision makers on a specific issue	• More effective policy and regulatory frameworks and approaches and company decisions that take account of stakeholder needs (including people in vulnerable circumstances), cross sector impacts and the long-term nature of the sectors (eg interests of future users and the ecosystem) • Decision makers better able to navigate trade-offs
Assurance / certification	• To provide external independent challenge (eg on business plans and strategic investments) that decision making process takes account of	• Companies 'own' plans and focus on consumers / citizens / stakeholders rather than regulator / policy makers

	consumer, citizen and stakeholder views • To increase transparency	• Reputational benefits (eg fast tracked / enhanced plans in price controls) • Regulatory approach becomes more risk based
Negotiation / endorsement	• To give consumer, citizen and stakeholder representatives a say in how different interests are balanced (eg through a negotiated settlement for specific business plan) • To enable communities to have a voice in decisions that impact on their localities	• Business planning process takes into account a range of views • Community has a sense of ownership of services • Decision making process is seen as legitimate and accountable • Regulatory approach becomes more facilitative
Collaboration	• To involve consumer, citizen and stakeholder representatives in setting agendas and making judgements on long-term strategic issues • To develop strategy in partnership including on long-term vision, values, behaviour and culture	• Development of trusted relationships that can flex and adapt to changing circumstances • Social licence to operate is strengthened (possibly with consumer and stakeholder representatives sitting on boards) • Long-term stewardship of the organisation potentially clearer • Regulatory approach focuses on corporate governance
Bottom up / democratic experimental	• To enable consumer, citizen and stakeholder representatives and other third parties to run the engagement process itself	• A more inclusive and diverse approach to engagement but with less clarity on how any out-puts are adopted • Consumers, citizens and stakeholders empowered, potentially with representatives sitting on company boards

Source: Sustainability First

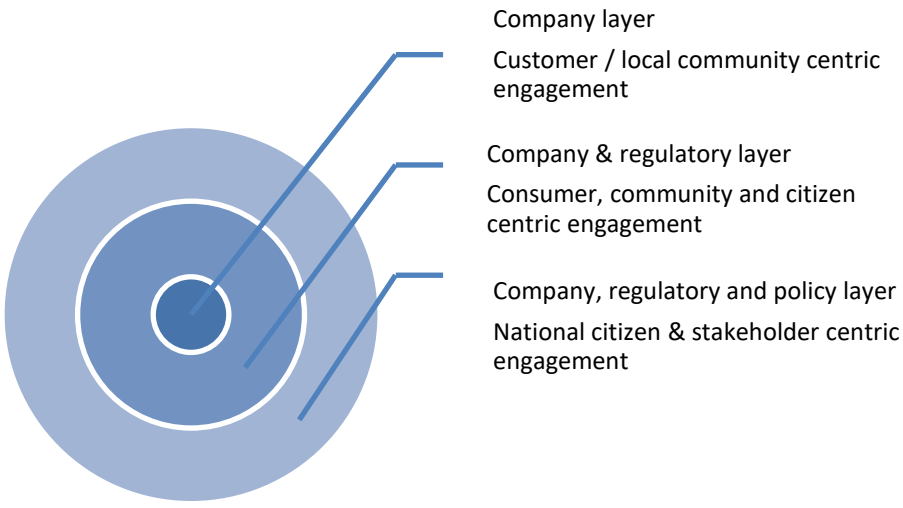
4. Recent and current arrangements for engagement in long-term issues in energy & water

This Section provides a brief overview of recent and current arrangements for engaging consumer, citizen and stakeholder representatives and experts in specific issues relating to long-term issues in the energy and water sectors (such as regulatory price controls). **It is not an overview of on-going direct consumer research in these areas** (e.g. mechanisms such as Ofgem's Consumer First Panel) [2] or standing groups that give on-going advice on short-run consumer and stakeholder issues. However, it is important to note that the boundaries between these different arrangements sometimes blur.

Getting monopoly companies to focus on end-customers and be responsive to their needs is clearly very important. However when looking long term, it is also important to take a wider view of engagement and look across company, regulatory and policy led engagement activities.

Diagram 4 illustrates in a very basic way how these different engagement 'layers' can potentially sit together. It is important to recognise that some issues that the public may want to engage on, such as vulnerability, or the potential role of the sectors in creating employment or growth, can clearly straddle these different layers. The different 'layers' of engagement can also blur into each other and overlap – depending on the issue in question. Although companies and regulators have clear licence conditions and statutory duties that indicate where their specific responsibilities in terms of engagement may sit, in practice these boundaries may not always be clear-cut. In the workshop, companies were encouraged to challenge where the boundaries should sit between company and regulatory engagement. Others encouraged regulators to share their 'opinions' with policy makers about who should lead on engagement on certain distributional and system-wide issues.

Diagram 4: How different engagement initiatives could stack up



Source: Sustainability First

[2] See, for example, https://www.ofgem.gov.uk/about-us/how-we-engage/engaging-consumer-issues

Much has been written about engagement in the last regulated price review process: in energy, the 'RIIO' (Revenue = Incentives + Innovation + Outputs) price controls; and in water the 2014 price review (PR14) in England and Wales and the 2015 Strategic Review of Charges for Scottish Water. There has been a significant amount of interest in engagement in these processes and in initiatives focused at the company level.

It is important to note at the outset, given five-year regulatory periods in water in England and Wales (and six in Scotland) compared to energy (eight years) and the fact that both sectors are at different points in the regulatory cycle, that arrangements for future engagement in water in England and Wales for the next regulatory period have already been subject to thorough review.[3] Engagement in the water sector is therefore currently very much a 'live' topic and the dialogue is already moving forward. Consumer panels, forums etc have been a part of this process.

The landscape for engagement in the water sector is also influenced by the fact that unlike energy, water 'comes from the environment and goes back to the environment.' There is therefore a much wider range of stakeholders in water than perhaps in energy that will want to have a voice in decision-making. **Engagement in the water sector also needs to interface not only with economic regulators but also environmental and quality regulators.** At the workshop a point was made that water has a significant impact on issues such as food security, and that engagement in the sector may need to recognise this wider context.

A summary of recent and current arrangements for engagement in the energy and water sectors is contained in Table 2 and is explored in more detail in the rest of the Section. Other papers (Harry Bush etc) are good reference documents on the general consumer engagement landscape. However, it is hoped that by pulling together here some of the high level wider experience in the water and energy sectors, helpful comparisons can be made both within and between sectors.

[3] See, for example, *Reflections on the price review, learning from PR14,* Ofwat, July 2015

Table 2: Overview of some of the *recent and current initiatives* shaping the landscape for long-term consumer, citizen and stakeholder engagement in energy and water

Type	Energy	Water – England & Wales	Water - Scotland
Policy led	Eg: BEIS Committee on Fuel Poverty *Advisory*	Eg: DEFRA Abstraction Reform Advisory Group *Guides and advises*	Eg: Quality and Standards process *Consultation / advisory*
Regulator led	**Networks** - Ofgem Consumer Challenge Group (CCG) for RIIO price controls *Advisory / critical friend / consultee on process* - Ofgem RIIO Price Control Review Forum *Listening / consultation* -Ofgem Stakeholder Engagement (and Consumer Vulnerability) Incentive Panel for network price controls *Advisory* **Retail** - Ofgem Standards of Conduct Challenge Panel *Listening*	**Ofwat** For 2014 price review, Ofwat Customer Advisory Panel *Advisory* **The Environment Agency** Eg: River Basin Management Plan work for the Water Framework Directive *Consultation / advisory*	Customer Forum *Quasi negotiation / endorsement of settlement*
Company led	Networks and retailers have a range of customer panels and stakeholder forums that have been set up specifically for price reviews (for the former) or in response to regulatory interventions (such as Fairness Committees for the latter) *Advisory*	- Company specific Consumer Challenge Groups (CCGs) *Certification / assurance of process* - Company specific Water Resource Management Planning activity *Consultation*	
Stakeholder led	**Statutory** Citizens Advice and Citizens Advice Scotland* *Advisory* and consultee **Other** - Eg: Smart cities initiatives *Bottom up engagement?* – Eg: New-Pin *Democratic experimentalism?*	**Statutory** Consumer Council for Water* *Advisory and consultee* **Other** - Eg: Catchment Partnerships *Bottom up engagement response to national initiative?* - Eg: Blueprint for Water Coalition or New-Pin *Democratic experimentalism?*	**Statutory** Citizens Advice Scotland * *Advisory and consultee* **Other** – Eg: New-Pin *Democratic experimentalism?*

Notes:
General – The comments in italics under each engagement initiative refer to the likely in-put and objective from that activity (as assessed in Table 1)
** Who in turn draw on case / complaints experience, commission customer research etc*
Source: Sustainability First

4.1 Energy and water – engagement in policy & through consumer bodies

Policy framework: The policy framework for energy and water has a significant and material impact on what regulators and companies must deliver. Given this, it is perhaps surprising that consumer, citizen and stakeholder engagement on long-term policy issues in energy and water (in England and Wales) is in many ways confined to one-off consultations or other ad hoc initiatives, such as Defra's Abstraction Reform Advisory Group for water. At the same time, more generic engagement opportunities, for example on issues such as fuel poverty, have somewhat reduced in recent years.[4]

In Scotland by contrast, public engagement in long-term water policy issues is relatively strategic and systematic. Since 2000, the Scottish Government has chaired the 'Quality and Standards' process that brings together key actors to identify the priorities for the sector for the next twelve years, providing a context for the next price review period that has already been informed by significant stakeholder engagement. The devolution of consumer advocacy, advice and competition powers with the Scotland Act 2016 is likely to lead to further changes in engagement in policy issues north of the border – in both energy and water.

In the workshop, it was highlighted that in other sectors (such as food and health), consumer representatives are sometimes included as members of wider expert scientific, technical and policy groups to ensure that the public interest voice is heard. This could be a helpful model for certain aspects of policy development in energy and water.

Consumer bodies: The importance of engaging the public in policy and other long-term issues in energy and water is not new. As part of the privatisation settlement, sector-specific consumer groups were set-up to allow service users to engage in wider policy and regulatory debates and to have a say in company behaviour (particularly in terms of complaints). Over time however, partly to rationalise the consumer landscape and bring a wider group of consumer representation and policy arrangements together and partly to save resources, separate funding for these sector-specific groups was withdrawn and all except the Consumer Council for Water have closed or merged with other consumer bodies with a wider focus.

There are points to be made from all sides about the changes in the consumer landscape for energy and water. For example, giving the Citizens Advice service responsibilities for energy consumer issues should enable a more joined-up view of the consumer and citizen interest in this area – plus - a 'one-stop' approach to engagement. However, what is clear is that without sustained dedicated funding to represent the interests of future users, the effectiveness of engagement on long-term issues may go down. This issue is explored in more detail in Section 7.4.

[4] Although there is a BEIS Committee on Fuel Poverty, the number of public interest representatives on this, compared to the previous Fuel Poverty Advisory Group, has gone down

4.2 Engagement in energy networks

Engagement forums which feed into long-run regulatory thinking about the regulated monopoly networks are as follows:

Ofgem Consumer Challenge Group (CCG): This group of consumer and sustainability representatives was first established in 2009 to help ensure that the business plans drawn up for the electricity and gas distribution and transmission network price controls delivered outputs that met stakeholder needs both now and in the face of the low carbon transition. It has thus played a key role in Ofgem's 'RIIO' price review process. The CCG was not a decision making body but acted in an advisory capacity to help inform the Authority's decision making.

Although the Ofgem CCG initially focused mainly on company business plans, over time it shifted its attention to become more focused on being a critical friend to the regulator, advising on the methodology and approach of the price control processes. However, the group continued to scrutinise company business plans, assessing these in areas such as stakeholder engagement but also in terms of issues such as innovation and risk management. Whilst the CCG discussed the cost of capital, it was not involved in final discussions in this area.

RIIO Price Control Review Forum: To recognise the wider stakeholder interests in the regulated price controls, Ofgem also established this Forum to bring together and engage groups including networks, suppliers, large users, consumer bodies and those with specific interests (such as the undergrounding of transmission cables) in the price review process.

Although through the CCG and the Forum consumer and citizen representatives were able to play a significant role in the RIIO price review process, the work that the groups did was not well publicised.

Ofgem Stakeholder Engagement (and Consumer Vulnerability) Panel: This Panel of consumer representatives was set up to assess how regulated companies are performing against the RIIO Stakeholder Engagement (and Consumer Vulnerability) incentive arrangements.

4.3 Engagement in energy retail

Engagement forums which feed into long-run regulatory thinking for the competitive energy retail sector are as follows:

Ofgem Challenge Panel: In 2014 Ofgem established a Challenge Panel including consumer representatives to help them understand how suppliers were embedding the Standards of Conduct that had been introduced the previous year as binding licence conditions for energy retailers to help make the energy market fairer. The Panel process was not a compliance monitoring exercise but served more to assess progress and identify good practice. The Panel has been reconvened but with reduced consumer representative engagement. New arrangements are also in the

process of being established to engage consumer representatives in reviewing the implementation of the energy market CMA recommendations.

4.4 Engagement in water delivery – England and Wales

Engagement forums which have fed into long-run regulatory thinking about regulated water companies are as follows:

Company Consumer Challenge Groups (CCGs): Ofwat requested that each company establish a CCG, containing representatives from CCW, the Environment Agency and the Drinking Water Inspectorate, as well as from other consumer and stakeholder groups, as a key part of PR14. Some of those we talked to for this paper thought that the role of the CCGs in the last price review was somewhat unclear as regulatory expectations of what they were there to do to some extent changed during the PR14 process. As time went on, however, it became apparent that the main purpose of the CCGs was to give Ofwat independent assurance that the company in question had carried out a sufficiently robust stakeholder engagement process, particularly around the use of willingness to pay techniques.

Some of those that we talked to for this paper thought that much of this work focused perhaps too heavily on operating expenditure ('opex') rather than big capital projects and strategic investments and thus had a possible bias in favour of the short-term. Some CCGs did get more involved in examining financial issues but this was often seen as extending into areas that they were not resourced to deal with.

The CCGs were viewed by many as a positive development for PR14. However, Ofwat subsequently questioned the strength of evidence on satisfactory customer engagement in 9 of 18 of the initial risk-based reviews of business plans and CCG reports. There has since been a recognition that the process needs to evolve further and Ofwat has sought to learn the lessons from this, and other relevant experience.

In May 2016, Ofwat set out its revised thinking on engagement and clarified that for the PR19 price control, the focus of CCGs should remain on providing independent challenge and assurance on: the quality of a company's customer engagement plan (ensuring that this drew on a richer evidence base than previously, including the needs of vulnerable and future customers – such as on resilience); and the extent to which the results of this engagement drive decision making and are reflected in the company's plan.[5] As well as engaging customers for the price controls, water companies also engage them in the Water Resource Management Planning process, along with wider stakeholders. For PR19, many companies and CCGs are now recognizing the value of pulling together these different sources of evidence of customer views in order to build a richer picture of the needs of future users.

[5] *Water 2020: Our regulatory approach for water and wastewater services for England and Wales,* Ofwat, May 2016

Ofwat Customer Advisory Panel (CAP): Ofwat established this Panel of consumer and public interest representatives to give it as regulator advice for PR14. The CAP covered cross-cutting issues such as pensions and environmental issues and towards the end of the control process, finance and the cost of capital at a very high level. It was also consulted on the regulatory approach to some aspects of the price control. With only limited contact with CCGs, the CAP acted in somewhat of a vacuum and some, but not all, have questioned how much value it added to the price review process. No decision has been made to establish an equivalent panel for PR19 although a W2020 Advisory Panel has been established with strengthened consumer expertise.

Case study: Third party led engagement in water – a possible blueprint for others?

In 2006 a group of environmental NGOs came together to form the Blueprint for Water coalition to 'revolutionise the way that water is managed in England for the benefit of people and wildlife'. Membership includes organisations such as WWF, WaterWise, The Rivers Trust, The National Trust and the RSPB.

Blueprint was highly active in PR14, producing a 'scorecard' assessing water companies in England and Wales against ten outcomes that their members thought were important for the price review. Many members of the coalition were also involved in CCGs and they met together as a group to discuss progress. A conference was held and examples of collaborative working and additional outcomes were showcased.

Source: Sustainability First discussions with WWF, September 2016

4.5 Engagement in water delivery – Scotland

Customer Forum: The Forum, made up of consumer representatives, was established in 2011 at the instigation of WICS for the 2015 Strategic Review of Charges, with an initial remit focused on the conduct of customer research and the translation of the customer priorities revealed into the Charges review. The role of the Forum evolved over time, from a focus primarily on discretionary investment to covering the overall business plan. It ended by being one where the Forum addressed in a comprehensive way the trade-offs in the business plan and negotiated and endorsed the final charges settlement. WICS set out clear parameters for the Forum on key issues, including establishing 'tramlines' of what would be acceptable on issues such as financing. The Customer Forum has widely been viewed as a successful engagement initiative. It helped ensure that: the language and framing of the business plan was more readily understandable to a lay audience; and the agreed price cap was seen as being tougher than WICS had regarded as feasible at the outset of the process.

5. Gaps in stakeholder engagement for the long-term public interest

Section 4 showed how a great deal of useful engagement activity already takes place in both the energy and water sectors to help ensure that services meet customer needs.
Our work and discussion for this paper has therefore largely focused on trying to identify key gaps in stakeholder engagement for the long-term public interest. The importance and size of these gaps will clearly vary from actor to actor.

This Section of the paper explores the need for companies, regulators and policy makers to **obtain a long-term public interest view** in the areas where possible gaps exist, including:

- **Engagement on 'big ticket' issues**: rates of return and the cost of capital; and strategic investments in the energy and water systems;
- **A coherent view of the wider long-term context**: different consumer segments; matters across the value chain; community and local citizen engagement; and issues common in both energy and water; and
- **The views and needs of future consumers and citizens:** risk and uncertainty; how to understand the views and needs of future stakeholders; and digital engagement.

5.1 Engagement on 'big ticket issues' – obtaining a public interest view

5.1.1 Rates of return and the cost of capital

Discussions for this paper questioned the extent to which consumer and citizen representatives were engaged in discussions on the 'acceptability' of the rates of return and cost of capital in the sectors – items which clearly have a significant impact on the overall level of bills to result from a price control decision.[6] Reports from organisations such as the National Audit Office have concluded that the price-cap regime has not yet achieved the value for money and customer savings that it could.[7] In turn, this has led some to ask whether more engagement and inputs from consumer and citizen representatives in the decision-making process relating to rates of return would be beneficial.

Most of those that we talked to thought that individual company-based engagement mechanisms could not offer the skills-base or wider expertise needed to fulfil this role. Some however did consider that groups such as the national consumer bodies could play a more active role in engaging in discussion about core financial decisions for the price controls. Stephen Littlechild has suggested that decisions in this area

[6] For PR14 CCW carried out 'acceptability tests' of likely bills with consumers in each company area

[7] For example, *The economic regulation of the water sector,* The National Audit Office, October 2015

shouldn't necessarily be left to regulators alone and that in water, for example, CCW also has the scale to deal with this - and added legitimacy.[8]

Others expressed some scepticism about the extent to which consumer groups could or should engage on this topic, pointing out that with third-party appeal rights in energy, certain groups could appeal if they disliked cost of capital decisions. As these rights don't extend to consumer groups in the water sector, there was a feeling from some that Ofwat should therefore be under greater pressure to make cost of capital decisions that lean towards the consumer side – or that such a right could perhaps be extended to CCW.

Despite different views on the desired extent of customer and citizen engagement on cost of capital issues, there was general agreement that public interest groups could be more actively engaged by regulators in the **communication of price control decisions**. It was also felt to be in no one's interest if decisions on cost of capital were felt to made entirely behind 'closed doors' - or doors open only to investors.

Ensuring that decisions on the cost of capital are contextualised (for example, comparisons with the purchase price of assets or cost of borrowing for other major schemes) was seen as important by public interest groups. There was also thought to be a benefit in regulators doing more to explain how the whole package of incentives on offer to companies sits together (cost of capital plus returns from incentives). For PR19, Ofwat is already giving more thought as to how it communicates with CCGs on cost of capital issues and explain why it takes the approach that it does.

Given a perceived history of unduly generous price control settlements, likely future inflationary impacts, and a divided nation as revealed by Brexit, basic questions on whether and how best to obtain more direct stakeholder input into reaching core financial decisions in a price control process are unlikely to go away.

5.1.2 Strategic investments in the energy and water systems

Another area where consumer and citizen interests may not always be captured is on strategic investment in the energy and water systems and associated infrastructure projects. Retail prices in the energy and water sectors are driven in a large part by new capex investments. Beyond a public inquiry or a hybrid bill, it is not always clear, particularly since the changes that were made to the planning system in the last five years, how public interest advocates are being engaged in a sufficiently timely way by promoters in questioning not just the location of mega projects such as Hinkley Point C but their cost, overall system desirability and financing approaches. This makes it difficult for public interest groups to influence key questions such as whether schemes should be paid for by bill payers or by taxpayers. The time-lag between when decisions are made and when and how people start paying for them can make focused engagement difficult. The complexity of the deals and who bears which risks and who will gain which rewards, along with

[8] Stephen Littlechild, *Customer engagement in regulation*, LSE, February 2016

the absence of any over-riding engagement mechanisms, has made it difficult for consumer and citizen representatives to challenge such plans.

In discussions for this paper, the need to develop engagement approaches for major infrastructure projects so that public interest groups could genuinely question and shape plans was raised. The National Infrastructure Commission's proposals to take a more comprehensive approach to infrastructure requirements and to support wider engagement in the process should start to lead the way on this.[9] There is good practice from overseas that could also be helpful here. For example, after a public backlash against planned expansion, the Alders Table was founded with public involvement to steward the future of the Netherlands' Schiphol airport.[10] New-Pin will return to the theme of strategic investment and long-run stakeholder engagement in a separate workshop in 2017.

5.2 A coherent view of the wider context – obtaining a public interest view

Many of the engagement processes in the energy and water sectors are fragmented and reactive to regulatory or policy stimuli. A 'silo' approach to engagement, at the policy, regulatory and company level, can reduce its impact. Engagement that is focused wholly on regulatory cycles is unlikely to fit easily with the interests, needs and resources of consumer and citizen representatives. To ensure sufficient engagement on the **wider context for each sector**, we identified the following as key matters to address:

5.2.1 Different consumer segments

Company engagement clearly needs to take into account the views of different consumer segments, including domestic and non-domestic users. In competitive markets, there is an incentive to ensure that there is continual engagement and feedback from customers. If choice is only available to certain groups of customers, it is important that engagement focused on their needs doesn't detract from other customer segments. Given the essential nature of the services in question, ensuring engagement with customers in vulnerable circumstances, who may find it difficult to get their voices heard, is also key and can otherwise lead to long-term distributional questions. As Professor Catherine Waddams has asked:

'*Should customer involvement focus on average or vulnerable customers? Will the loudest voices (squeakiest wheels) get the oil and the results they would like?*'[11]

Trusted third party intermediaries may provide a route in to ensuring these groups have their voices heard. For example, local-authorities may be able to represent the views of the intermediary networks, such as those already operating in health, that they work with. Looking longer-term, digital technologies will enable the increasing

[9] *The National Infrastructure Assessment Consultation*, National Infrastructure Commission, May 2016

[10] *Smarter engagement, the Institute for Government, 2016*

[11] *Customer involvement: frontier or smokescreen?* Catherine Waddams, Network Industry Quarterly, 2014

segmentation of users and the development of more targeted and personalised services. This will pose increasing challenges to those involved with engagement as to how to balance these different interests (see Section 6).

Lastly, some groups may find it very difficult to engage. For example, those whose home heating arrangements fall outside the regulated utility sector, perhaps due to where they live (e.g off the gas-grid, reliance on fuel-oil, bottled gas or LPG). Specific efforts may be needed by regulators to include the views of such consumers in engagement activity that seeks to look at wider issues such as resilience.

5.2.2 Across the value chain

It would appear sensible to focus engagement on the parts of the value chain that have the greatest impact on consumers and citizens and to then bring this picture together into one coherent view.

Where there are licence obligations, companies clearly need to play a leading role in engagement. However, if the value chain is disaggregated, the regulator may also have a part to play in ensuring a co-ordinated end-to-end picture is developed of consumer and stakeholder views. In doing so they may need to address the question of whether retailers should be able to act as 'proxy consumers' for upstream, wholesale and network engagement.[12] Although retailers may be able to reflect the views of some consumers, they are unlikely to be able to represent the full breadth of consumer, citizen and stakeholder interests via an engagement process.

Water: Given the integrated nature of water companies, to date most haven't had to co-ordinate engagement activity on particular parts of the value chain as this has all been via the same company. As previously noted, many water companies in England and Wales are now recognising the value of linking their engagement on the Water Resource Management Planning process to their engagement on the price review process. This can help ensure that price review discussions are informed by wider views on upstream issues such as abstraction.

One slightly difficult area in this sector has been how to engage consumers in **waste-water** issues, given that this service is in some ways more intangible than the water service. Although Welsh Water are leading a national review which involves extensive engagement, there is not a company focused waste-water equivalent to the Water Resource Management Planning processes to provide a strategic context for price review discussions. These points aside, CCG and Customer Forum engagement has by and large tended to cover the full range of company activities. If plans for household retail competition go ahead in England, the focus of CCG activity in price reviews after PR19 may, however, at that point need to change.

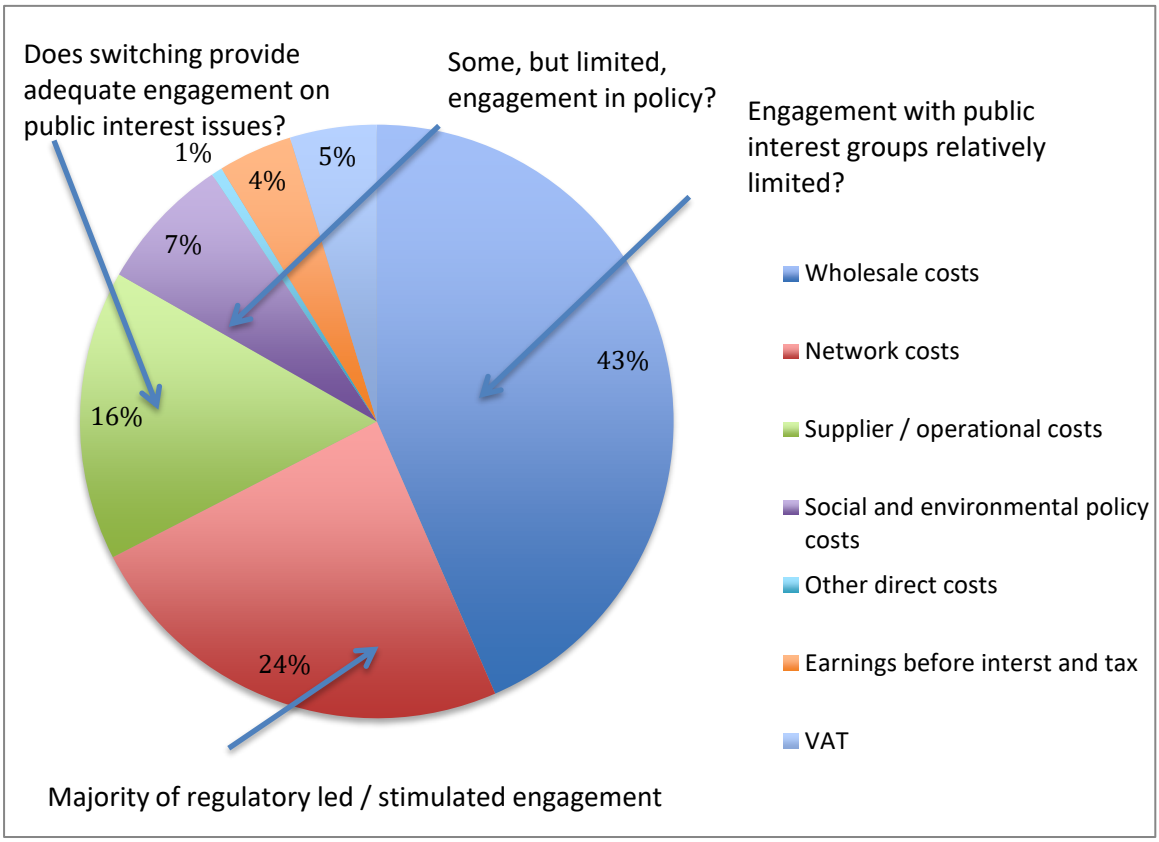
Energy: The disaggregated value chain in the energy sector has meant that engagement activities have to some extent become fragmented, making it more difficult to build a coherent picture of current consumer and citizen views on, for example, issues such as affordability. In addition, there has been something of a

[12] The ED1 appeal by Centrica is an example of where this has happened.

mismatch between where engagement activity of consumer, citizen and stakeholder representatives and experts is focused, the main costs which drive bills and the touch points that most consumers have with the sector. This is illustrated in Diagram 5.

- **Networks:** Due to the need for regulators to hold monopoly businesses to account, most of the regulatory effort to encourage engagement (via representatives on consumer challenge groups etc) in energy has been focused on the network businesses, even though transmission and distribution costs account for only around a quarter of average bills.
- **Wholesale:** Although these costs currently make up just under half of combined electricity and gas bills, there has been relatively limited engagement of consumer and citizen representatives in a discussion about this part of the value chain. The complex nature of wholesale markets and the fact that the 'rules of the game' (the Electricity Market Reform programme, the complex statutory codes that underpin the markets etc) were drafted long-before they are put into practice, has meant that it has been relatively difficult for public interest groups to engage in future thinking in this area.
- **Retail:** Consumers and citizens are clearly interested in retail energy services as these are often the only direct touch-point that they may have with the sector. Retail-specific costs make-up around one-fifth of the 'average' domestic dual fuel bill. To date there has been an unwritten understanding, given the competitive nature of the energy retail markets that the primary focus for engagement of consumer, citizen and stakeholder representatives in this area is on retail prices, price comparison and switching activity. Given the 'weak customer response' in the energy retail markets identified in the recent CMA Energy Market Investigation, the extent to which switching activity can be seen as a sufficient form of engagement to ensure that services are truly customer-centric remains an important question.

Diagram 5: A possible mismatch between the make-up of electricity and gas bills and where engagement of consumer representatives and experts is focused?



Source: Sustainability First, using cost data from 'Large suppliers domestic dual fuel bill break down over time, Ofgem, 2015'

5.2.3 Community and local citizen engagement

Historically, public engagement in the energy and water sectors has taken place either regionally (water and energy networks) or nationally (energy system and retail). Until recent years, there has been relatively limited engagement at the local or community level. This is now starting to change: in energy with the move towards **decentralised energy** and the interest in **smart cities**; and in water through the interest in **local catchment management**. In both sectors, the increasing importance of demand management and the need to be able to respond to the local impacts of climate change (such as storms and flash flooding) has highlighted that more could be done to engage the public at a very local level. As Arup have commented in terms of energy:

'*As the energy transition gathers pace, cities must support the roll out of evolving technical solutions with governance strategies that favour integration of assets and services and engagement of stakeholders at multiple levels*.'[13]

[13] *Energy in cities,* Arup, 2015

Case study: integrating local, regional and national views in Southern Water

Southern Water has a multi-layered engagement programme. At a cross company level, Southern's Customer Advisory Panel is helping to ensure the delivery of the customer priorities and promises that were identified in the last price review and will play the challenge group role for PR19. The group is closely following the developments in both customer and stakeholder engagement since the last business plan and providing advice and challenge.

At the county level, small county focused stakeholder panels (including representatives from chambers of commerce, local authorities, environmental groups and urban development groups) help identify local issues and opportunities for collaboration. These groups will be an important touch-point throughout the PR19 process.

In addition to this, the company also has a Strategic Environment Panel that looks at wider regional and national issues such as catchment management and developing the company's policies around water resource management and growth. This Panel tests ideas and helps ensure the company takes a view on issues that go beyond business cycles.

To measure whether the company is on track, audits have been conducted amongst stakeholders to track perceptions and priorities. The company is also looking to build internal capacity in this area by working with colleagues to help identify barriers to engagement and the support they may need in this area. Whereas in PR14 the engagement plan for the business plan was in many ways separate to Southern's engagement activity for the Water Resource Management Plan, for the coming price review the two will be integrated and part of a wider engagement strategy.

Source: Discussions with Southern Water, August 2016

If at least some approaches to engagement can focus on a sense of place and belonging, and the need to be responsible users and stewards of *local* resources, community-level engagement can help people see the 'bridge' between themselves as 'consumers' to themselves as 'citizens'. It can also provide a bridge between the interests of this generation and the next. The increasing interest in **mayoral power** and greater **devolution** of decision-making is contributing to this shift in focus. At the workshop, a view was expressed that some of the value of community engagement derived from the fact that in smaller communities it was harder to let 'let people down' as you were more likely to see them again soon.

Companies that have carried out local community engagement exercises have, perhaps not surprisingly, found that people in different localities will often have different priorities. For example, the views of water consumers can vary depending on whether they are in an urban or rural area and whether they have had recent experience of use restrictions. Deciding how to balance the interests of different

communities within a company area and between companies (for example in terms of water trading) is explored in Section 6.

5.2.4 Issues common to the energy and water sectors

In discussions for this paper, it was clear that there is currently only very limited joint or coordinated engagement activity on those issues of public interest common to the energy and water sectors such as affordability and resilience. The need for a **coherent view of affordability** was raised by the National Audit Office in 2013.[14] Sustainability First's July 2016 New-Pin paper on **long-term resilience** highlighted the importance of understanding the interdependencies between the sectors for security of supply (including the impact of electricity dependency), some of the system risks they share and the need for a co-ordinated response to shocks.

Companies can play a role in engaging on cross sector issues, developing new innovative partnerships and collaborative working arrangements with a broad range of stakeholders. This can help them better manage their wider risks and opportunities. However, for some issues, a more strategic cross-sector approach may be needed.

As discussed in Section 4.1, at the policy level, engagement is often fragmented, not just within sectors but also between them. For example, rather than public interest groups being engaged on the overall aggregate long-term affordability of essential services, this issue is to some extent left to sector- specific engagement activity (e.g the Committee on Fuel Poverty). In terms of resilience, the National Infrastructure Commission cross-sector approach to engagement is keenly awaited.

At the regulatory level, as consultations currently tend to be issue specific, it can be difficult to co-ordinate engagement between regulators (eg on how to deal with customers in vulnerable circumstances). The UKRN's previous work on affordability, and current work on data sharing for consumers in vulnerable circumstances and on engagement are very welcome steps that are starting to address this issue.

5.3 The needs of future consumers & citizens – obtaining a public interest view

As companies, regulators and policy makers develop a better grasp of the views of **current** customers, attention is able to turn to how to get a better understanding of the **views of future consumers and citizens**. The length of asset lives in the sectors and the social and environmental externalities make it important for a longer-term perspective. Engagement can help companies be active stewards of their businesses and anticipate where there could be problems in the future (eg through Water Resource Management Plans). It can also help them develop a 'vision' for the sectors that **takes into account questions of fairness over time**. Given that the Brexit vote has shown that different generational cohorts can have very different

[14] *Infrastructure Investment: the impact on consumer bills*, National Audit Office, 2013

views about the future, it would seem important to try and understand more on inter-generational perspectives. Assessing the views of future users can, however, be difficult.

5.3.1 Risk, uncertainty and engagement

When thinking about the long-term, none of us know with any certainty what the future will be and what future users will think. When people are asked about long-term issues we are therefore asking them to make judgements about probabilities. Many people have a poor understanding of risk and companies and regulators can find it difficult to convey levels of risk in an accessible way to consumers. Numerous behavioural economic biases influence our thinking in this area: a dislike of loss; a tendency to be overconfident and optimistic; a desire for jam today not tomorrow; a tendency towards inertia and to stick with defaults; and the fact that judgements tend to be framed by current 'anchors' and recent events, not evidence of probability.[15] As Professor Catherine Waddams has pointed out, this poses particular challenges for engagement:

'Individuals have particular difficulty in evaluating low-probability high-cost events such as natural disasters, but these are precisely the type of incident for which robustness (and cost) decisions about networks need to be made. Individuals are also notoriously inconsistent in evaluating the positive value of additional security against the negative implications of lower security, exhibiting strong framing biases. ***It is even more difficult to aggregate such preferences into consistent group valuations; a customer body will have no more tools to do so than others, but may be expected to speak with a single 'customer voice'****.'*[16]

If questions of risk are framed appropriately and in an accessible way, it can be possible to get people to engage on such issues. However, as noted in the quote above in bold, pulling these view-points together can also be challenging.

It is often assumed that the **insurance industry** is at the forefront of communicating with people about uncertainty as it is for many people their only contact with thinking about risk. Discussions with senior figures from the insurance world about how to communicate with people on the risks around resilience, indicates that this is an issue with which that sector is also grappling. **There would appear to be strong grounds for the energy and water sectors to collaborate with the insurance sector to develop a better understanding of good practice for engagement in this area.**

[15] See for example, *Applying behavioral insights to regulated markets,* The Behavioral Insights Team for Citizens Advice, May 2016

[16] *Customer involvement: frontier or smokescreen?* Professor Catherine Waddams, Network Industry Quarterly, 2014

Example from another sector: the insurance industry, risk & the 'protection gap'

Recent research carried out for ClimateWise has found that those benefitting from resilience often place little financial value on it, largely due to the behavioural biases around risk mentioned above and the fact that resilience often goes unnoticed: the absence of a problem that has never been encountered is not usually noteworthy. Added to these points, competitive markets make it difficult for firms themselves to take a longer-term view. Most property insurance is therefore misaligned with long-term climate risks. It is sold on 12 month contracts and current policies are on a 'reinstatement basis' even after flooding events (eg no requirement that power sockets are located off the floor or that floors are tiled). These factors have led an increasingly recognised 'protection gap' in the global insurance industry where it is now accepted that climate risks are not being adequately covered. As Dr Tom Herbstein has noted '*It's a classic case of the tragedy of the commons*.'

Source: Dr Tom Herbstein, ClimateWise, Cambridge Institute for Sustainability Leadership, speaking to Sustainability First, August 2016

Given the challenges that people have in thinking about risk, significant efforts are being made by energy and water companies, research agencies and others to find ways of identifying customer priorities and hierarchies of requirements without getting stuck in complex and potentially obfuscating conversations about uncertainty.

The accompanying paper from **BritainThinks and London Economics** for Sustainability First provides an overview of some of these consumer research approaches. At the workshop, it was pointed out that the engagement and research skills base in some energy and water companies may mean that they were at risk of commissioning research approaches that may not always be appropriate for the topic they wish to explore. It is hoped that the '**Research approaches'** overview paper will enable consumer, citizen and stakeholder representatives – as well as energy and water companies that may require further assistance – to become better informed purchasers of research services.

Although such thinking is welcome, the challenge of engaging people in questions of **systemic risk** – when uncertainty spreads beyond the impact on a given service company or indeed sector – is likely to remain. Most of us when we think about how we would respond to disruptive events will often assume that we will use alternative services or rely on family, social networks, the wider community or other organisations. As people in Lancaster discovered in the floods of December 2015, this is not always possible.[17]

Engaging stakeholders in how such risks should be addressed for the future, and what risks should be dealt with separately and what risks should be 'pooled' (a fundamental concept from pensions provision, for example, for managing

[17] *Living without electricity,* Professor Roger Kemp, RAE, IET and University of Lancaster, May 2016

uncertainty) is perhaps not best addressed by engagement at the individual or even company level as these issues may have profound social and environmental impacts. **Engagement of public interest representatives or experts at a national level, perhaps facilitated by government or the National Infrastructure Commission, would seem more appropriate to address such difficult questions that have wider distributional and systemic impacts and raise fundamental issues of fairness.**

Case study: Scottish Water's 'coping curves'

Scottish Water is developing a new way of understanding customer attitudes to risk. Following focus groups with different customer segments, the company carried out an extensive survey with a thousand customers to try and identify the trade-offs that people may make when thinking about supply interruptions. The survey sought to reveal how people would prefer to trade-off the length of an interruption with the size of the distance (radius) of the interruption. Using conjoint analysis, the results have been plotted on 'coping curves' with duration on one axis and distance on the other, demonstrating what percentage of the population can't cope at different points of the curve (what their 'risk appetite' is at various points). To keep the trade-off exercise user friendly, customers were not asked about the frequency or cost of interruptions. Scottish Water is now thinking about developing a whole suite of 'curves' to deal with other service issues.

Source: Sustainability First discussion with Scottish Water, July 2016

5.3.2 How to understand the views and needs of future users?

Ask young people: To try and build a picture of the views and needs of future users, some companies have tried to engage school children. Involving pupils in primary school can be a good way to raise awareness of issues such as water and energy efficiency. Affinity Water, for example, runs an in-reach and outreach educational service or primary and secondary students to help young people value and protect their water resources. Engaging secondary school pupils enables a wider range of issues to be explored. For example, the New Economics Foundation has developed 'Democs' kits on issues like climate change to use with children in Key Stage 3 to debate the resulting political and ethical questions. Tuition fees may mean that university students may now be better able to engage on topics such as future perceptions of value for money – including perhaps with respect to energy and water.

In the workshop, BritainThinks said that some of their work had indicated that older people may be more willing to engage in future issues as young people can find it difficult to 'see' their future. London Economics pointed to the work that pensions providers have done to help people place themselves in their futures.[18]

[18] See, for example, *Retirement realities: Tomorrow's worth saving for*, Nest, 2014

Whilst these approaches may help engage those that are 'about to be customers,' it can be difficult to assess how best to understand the likely views of those that will be using services 50 years hence. Given this point, and the difficulties in directly engaging people about risk and uncertainty, there may be value in groups like the National Infrastructure Commission in exploring how wider factors that shape customer and citizen behaviours and interests may evolve into the future.

Understand behavioural trends: We already know that consumer and citizen attitudes, expectations and behaviours are changing. For example, the Environment Agency's 'Science Wise' programme has identified differences between generational cohorts, including different nuances in language between generations and a desire amongst older people to see regulators having responsibility for dealing with difficult issues.

In conversations for this paper, some of the companies and indeed regulators that we spoke to thought that there was still some way to go before behavioural economic insights moved from being focused primarily on 'bread-and-butter' issues (e.g. bill formatting), to understanding how behaviours may genuinely adapt in the future. A first step could be to have better grasp of the **trends** in the behaviours of different generational cohorts – from Traditionalists through Baby Boomers, Generation X and on to Millenials.[19] Companies in both sectors are starting to explore these issues.[20]

Understand the factors that may impact on future interests: Analysing the **demographic, technological and climate factors** that may shape the views and needs of 'future-users' can help start to form a picture of what these could be. **Annex 2 explores some of the trends and factors that may impact on future energy and water-users and on which engagement activity could start to build a richer picture.** For example, engagement activity that involves representatives from NGOs and other groups with expertise in future areas of demographic change, such as working with older people or urban planning, could be helpful. In taking this broader approach to engagement, the process itself can actually start to shape future needs if companies and customers collaborate together to try and turn these challenges into opportunities (e.g on the demand-side versus Capex). Insights can also potentially be gained from other actors that face similar challenges, such as architects, designers, housing companies, or from other countries where they may already have greater experience of this issue.

Given the difficulties in identifying what the views of future users may be, some of those interviewed for this paper thought that there could be value in **regulators getting companies to carry out some consistent research on long-term issues** (for example, a standard set of questions added to those which the company asks for its own purpose). This could provide a baseline and highlight in these complex and somewhat 'unknowable' areas whether there are in fact strong differences between

[19] See, for example, *Business ethics across generations*, The Institute of Business Ethics, 2016

[20] See, for example, http://www.battleofideas.org.uk/2016/speaker/12015

Case study – Pensions and intergenerational fairness

With the introduction of RIIO for price control periods starting after 2013, Ofgem required network operators to determine their business plans following thorough consultation with consumers. Ofgem have been explicit that pension costs (especially due to their complex nature and significant cost/risk to consumers) must now be included in consultation and the strategies adopted by Network Operators (NWOs) for running their pension schemes need to be in line with their consumer's definition of efficiency. In their recent consultation document on NWO pension scheme deficit funding Ofgem stated that they required a 'new approach that looks instead to NWOs to demonstrate how they are participating in the governance of pension schemes on behalf of the consumers (who are underwriting the risks involved)' and 'we would look to employers to inform investment, benefit and funding strategies with objective and where possible evidence-based insights into the interests of consumers, recognising that tomorrow's consumers are as relevant as today's.'

In 2016 WPD have therefore been developing their approach to consulting with their consumers to determine the most efficient way to fund their pension schemes. The scope of the engagement included designing and implementing a methodology to seek consumers' views on how WPD should fund its pension schemes, using a combination of quantitative, qualitative and academic research based techniques. Following a quantitative stage with over a thousand domestic and business electricity consumers, a second qualitative stage followed to validate the results from the first stage. While the purpose of the study is to determine the appropriate consumer-efficient pensions strategy for WPD's pension arrangements, customers were engaged to identify and understand preferences on a range of topics including billing transparency and variability (relating to the DNO element of electricity bills), social responsibility and consideration of future generations. A key part of the work was to understand the degree to which consumers are happy to pay a higher electricity bill now in order to reduce electricity bill variability for future generations.

Source: WPD

geographic company areas. This could help in development of a nationally consistent approach to long-term citizen and inter-generational issues.

5.3.3 Digital engagement and approaches to obtaining stakeholder views

Digital engagement has the potential to transform customer and stakeholder interactions - and indeed the very conception of citizenship. With agile and / or decentralised technologies, consumers and citizens can move from being passive to active participants in a decision making process. This enables the move from ad hoc and periodic conversations to more agile or continuous forms of engagement. For example, in the legal profession the Solicitors Regulation Authority has used a range of techniques from twitter polls to virtual reference groups to engage with as wide a range of stakeholders as possible (e.g to discuss changes to professional

qualifications). Digital tools have the potential for engagement to become a '*constant conversation with an engaged and knowledgeable public*' [21]across multiple channels at the same time.

Digital technologies support 'bottom up' and community-led engagement approaches to develop. The Internet enables virtual communities and real networks (such as the various smart cities initiatives, catchment partnerships, the Blue Print for Water coalition or New-Pin) to emerge as platforms for sharing and contributing ideas. Third-parties may be more trusted than companies or indeed regulators and may be better placed, at times, to engage on some subjects. On certain issues they can fulfil a valuable role in providing a 'safe' space to facilitate debate and enable change.

Such developments in engagement pose numerous challenges for policy makers and regulators. It can be culturally hard for decision makers to concede that they do not have all of the answers and to overcome the legal and institutional barriers that assume citizens won't be able to participate effectively. **New 'expert' networks are needed to make the most of new opportunities.** Systems of 'credentials' will be needed to recognise those that can make a valuable in-put into decisions.[22] There is also a major question – especially on complex long-term issues - as to how much weight can or should be placed upon stakeholder inputs facilitated in this more 'immediate' or possibly self-selecting way. As discussed in the New-Pin workshop on trust and confidence in Spring 2016, there can be a need to take a 'Trust and verify' approach to such engagement.

In conversations for this paper, various companies told us that in order to maximise the benefits of new digital engagement approaches, **where and how social media sits within the business in key**. Several said that there was a strong case for it being integrated within the customer services function. To get a better understanding of the impact of digital on future views, and the needs of future generations, the National Infrastructure Commission is setting up a young people's panel.

[21] *Smart citizens, smarter state,* Professor Beth Noveck, The Institute for Government, February 2016

[22] Professor Beth Noveck, op cit

Case study: Digital communications and direct democracy in France

Innovation body Nesta has been working on an international three-year project to explore different ways of using digital communications to engage citizens in democratic activities and in so doing, improve trust in the political process.

In France, the D-CENT project has found that the government now uses digital technologies to enable collaborative policy making. Parliament drafts bills and then invites deliberative comments over a multi-stage process. Local government is also actively experimenting with new techniques. In Paris, participatory budgeting exercises are carried out to help determine how money should be spent on local projects. Citizens are invited to write proposals for practical concrete project ideas that are then voted on.

Nesta is keen to emphasise that digital engagement can't be carried out alone and that it needs to complement other types of engagement activity. It is also not cost free. Those running the exercises need to spend money on outreach to drive involvement and the in-puts into the process need to be heavily curated.

Source: Sustainability First discussion with Nesta, August 2016

6. Balancing & 'framing' stakeholder interests in a fair way

Engagement can lead to a richer evidence base for decision-makers. This can be highly beneficial and lead to more informed decisions. However, it cannot address or resolve every question. **How the issue for engagement is 'framed', will** have a strong influence on views expressed – and therefore on the outcomes.

Engagement - however successful – cannot remove the fact that there will sometimes be conflicting views and interests regarding the provision of future energy and water services. As noted, there can be differences of views and interests within the same generation and also between generations.

In discussions for this paper, it was put to us that there is a benefit in explicitly recognising these differences and then transparently seeking to explore how best to address them. Some New-Pin members have noted that whilst we are often clear about what's *not* fair in terms of balancing interests, we're often less certain about what *is* fair. There was also a view expressed that engagement in this sort of area doesn't need to approve the status quo - but focus instead on endorsing major changes to it. Although certain aspects of service provision in the sectors may already be 'unfair,' such as existing cross-subsidies, the general public does not greatly care unless, or until, the status quo changes. An example of this could be the debate about a possible move to national levels of service for disruptions in water in England and Wales. Strategic stakeholder engagement that looks at the **balance of interests** could be beneficial in helping to shape this type of significant policy shift. The theme that engagement needs to evolve from a focus on what individuals may require to an understanding of what **collectively** individuals need or may wish for *as* **a society** was echoed at the workshop.

In this Section we therefore examine a need to address the following questions: **who actually 'owns' the decision and the stakeholder engagement that will inform the decision; and how can decision makers be confident that they are balancing different interests in ways which are 'fair'**.

6.1 Who 'owns' the decision and the stakeholder engagement?

The over-riding purpose of engagement is to **inform** decision-making, not replace it. Despite the many benefits that can flow from public engagement, there is a risk that it can lead to an 'echo chamber' of views if it is not clear who owns the decision and the engagement process and who is responsible for framing the question being asked. In the absence of clarity on these points it can sometimes be difficult to arrive at the judgements necessary to balance competing interests. Who 'owns' the decision and therefore the stakeholder engagement may sometimes be set out in statute or in licence conditions. If there is uncertainty, the decision is often best owned by the actor(s) best able to bring the relevant stakeholder representatives together and then best placed to *do* something with the outputs from the engagement process, either themselves – or, because they have the authority to get others to act.

Companies: In discussions for this paper all agreed that companies were clearly responsible for pulling together engagement outputs to feed into their business plans / operational and investment strategies. Companies clearly have licence obligations to fulfil and are best-placed to know the business and manage the risks and opportunities of engagement. At the workshop, the need was stressed for companies to have a structured approach right through the business to ensuring that engagement activity was linked by a golden thread and therefore greater than the sum of its parts. There was a strong view from some that if challenge panels / scrutiny groups get directly involved in any key 'balancing decisions' there is then a risk that they have a direct stake in the outcomes of the plan, and lose their independence.

Others thought that although **companies should own the final decisions**, there was a role for challenge groups to help draw up the **principles** that the company should follow when making difficult judgements about trade-offs between competing interests. These people thought that **by using principles designed to help balance competing priorities** - which stakeholders have been engaged in formulating / agreeing - it could help the company navigate between the interests of different communities and localities 'within their patch'.

Others suggested that challenge groups could help the company understand the diverse **values** in the community in which they work and that this could be a helpful reference point for making difficult decisions that involve trade-offs. Interestingly, few companies in the energy and water sectors appear to have **ethics committees**. If they do, these tend to cover operational issues such as approaches to procurement or health and safety. This point, and whether public interest representatives are able to feed their views into any such arrangements, will be explored further in the future New-Pin work on governance.

Whatever the structural / committee arrangements for dealing with ethical issues within a company, **leadership** on **ethical approaches** is clearly important. Discussions for this paper illustrated that where a senior management team showed an active interest in 'doing the right thing' for engagement consistently across the business, their efforts were seen as more authentic, and hence credible, by stakeholders. It would appear from these conversations that visible ethical leadership of this kind may be just as important as the type of engagement approaches set up to capture customer views.

Regulators: When public engagement highlights differences between stakeholder groups that have significant and sector-wide implications, and particularly if efforts by the sectors to resolve these differences themselves have failed, there could be a strong case for regulators to become involved in navigating the associated trade-offs. The same points that have been made above about companies needing to base these decisions on engagement with the public on principles and ethics / values, also apply to regulators.

The fact that regulators are accountable to their respective Secretary of State and can also be held to account by the parliamentary select committee system can help

ensure that any judgements that they make in these areas are perhaps seen as more legitimate than the judgements of unelected companies.

In the energy sector, mechanisms such as third party appeals to the CMA are also available for public interest groups or others to challenge regulators when there is a significant difference of view on issues on specific elements of a price control determination. In water, only companies can appeal and then only a full price control decision. Whilst such mechanisms may offer important 'backstop' safeguards, they are by their very nature formal, potentially adversarial and 'after the event.' Clearly there is much to be said for ensuring that engagement to reconcile different stakeholder viewpoints takes place before such backstop interventions are necessary.

In discussions for this paper, concern was expressed that should regulators also become directly involved with stakeholders in balancing different interests, it could potentially lead to some companies 'stepping back' and 'taking their eye off the ball' of the centrality of engagement. Some were worried that the customer / company link could be undermined. Companies with current performance issues clearly do need to retain focus on customers 'here and now', rather than look to regulators to sort these out. However, it would seem important to strike the right balance.. Complex issues about trade-offs clearly shouldn't be left until all companies are at the same stage in the customer journey (as this point is never likely to be reached). Regulators should be able to 'move key debates on' by addressing or opening up to a wider debate some of the differences revealed by engagement. These points are explored further in Section 7.3.

Government and policy makers: When public engagement reveals differences in views that have significant distributional impacts (both within and between generations) or that raise system-wide issues that cut across existing decision-making boundaries (whether this is at a company, regulator or wider level), there is a strong case for government and policy makers to take the lead in assessing how to balance the interests of different groups, given that they answer to democratically elected representatives.

6.2 How can decision makers be confident that they are balancing interests in a 'fair' way?

In its August 2015 paper *Towards a definition of the long-term public interest*, Sustainability First identified various approaches decision makers can take when engaging in areas where there are a difference of views to try and arrive at a 'fair' outcome. These included: **identifying a balance of common interests** (utilitarianism); **an innovative or creative approach** (rather than focusing on existing differences in opinion, this approach seeks to identify new ways of reframing questions and solutions. This could involve the triangulation of hierarchies of interests, or exploring alternative options for change); **a focus on process** (transparency, good governance etc); and a **values-based approach** (identifying the core **values** that might be shared between different interest-groups to help smooth the process for making contentious decisions)

There is increasing interest in regulatory circles as to how ethical values on issues such as inter-generational fairness and justice can shape decision making in companies and in regulators. As Professor Chris Hodges has noted:

> '*Corporate behaviours need to be aligned with social values and expectations of what is shared ethical behaviour…..It seems rational that important decisions, such as those that involve balancing conflicting principles or goals (including staying in business), should be taken on the basis of senior responsible managers with, ideally if time permits, the benefit of consultation with people whose ethical judgment is trusted. Arrangements for consultation may, therefore, be needed with an ethics committee, the ombudsman, all stakeholders (investors, commentators, consumers, customers, suppliers, staff), and with a regulator.*'[23]

There is clearly no single best way to balance different interests. A mixture of the above approaches is probably needed, depending on the issue in question. The proposed Sustainability First New-Pin Decision Making Framework in Section 8.2 is an attempt to put some of these approaches into a practical and usable format.

[23] Professor Hodges, op cit

7. Barriers & enablers to engagement on long-term public interest issues

Engagement doesn't take place in isolation. The company, policy and regulatory context in which it occurs can either help or hinder engagement activity. This Section explores the main barriers and enablers to engagement we have identified on long-term public interest issues: the company, regulatory and policy vision for engagement; how best companies, regulators and public interest groups can judge and assess the impact of engagement; regulatory frameworks and approaches to engagement; and the resources and capacity of public interest groups and companies.

7.1 Company, regulatory and policy vision for engagement

Greater clarity on **the long-term company, regulatory and policy vision for engagement** - particularly on wider systems and distributional issues – would be helpful.

For example, for **companies:**

- Is the golden thread linking customer research, engagement of stakeholder representatives and experts and strategic long-term plans in the company clear and understood by stakeholders?
- How will company plans for engagement need to adapt if there is a desire to move away from engagement designed chiefly to comply with regulatory requirements which inform the cyclical price review process?
- What more can companies do to challenge themselves on engagement rather than waiting for regulators to initiate change?
- How can the company assure itself that it is providing sufficient resources and structures to stakeholders to get them to commit to engage on long-term issues?
- Will the engagement tools that companies are using today still be appropriate for assessing the needs of tomorrow – ie will they have a long or a short shelf life? Have all the 'low hanging fruit' from engagement already been addressed and will a different approach be needed to address more complex issues?

For example, for **regulators and policy makers:**

- How does collaborative engagement sit in the context of competition policy?
- If there is value in engaging the public in long-term issues, how is this best done when markets are dynamic and engagement through existing incumbent companies might not identify all the potential options / solutions?
- What role should engagement play when different groups may not agree about the future shape of the system (such as with the low carbon transition)?

Without such forward thinking, it can be difficult for the public to know: whether public interest groups should expend their limited resources on participating; how much store to place on engagement activities (eg are they a **fig leaf or smoke screen** for contentious decisions?); or indeed whether to call for more radical changes and interventions (taken to an extreme, this could be calls for alternative business structures or ownership models).

There is a need for companies, regulators and policy makers to set out and articulate their vision for stakeholder engagement on long-term issues for both the water and energy sectors to help deliver better engagement in a sustained way: greater clarity is needed on (1) the frameworks that they will work within and (2) the resources they will commit.

This vision needs to be championed from the top so that it percolates throughout the organisation and is understood, and resonates, with both internal and external stakeholders. At the workshop, the benefit of CEO's attending company engagement sessions was discussed. Although it was felt that this could send a strong signal as to the value attached by the board to the engagement activity, there was concern from some that it would be important to ensure that the chief executive didn't dominate discussion.

7.2 Judging and assessing impact within companies and regulators

Given the increasing amount of time and resource that is being spent on engagement activity, assessing the impact is important. Expectations are clearly increasing in this area. In Ofgem's fifth distribution price control, Ofwat's PR14 in England and Wales and the last Strategic Review of Charges in Scotland, it was recognised that engagement processes were somewhat experimental. **Now there is a clearer idea of what engagement can potentially deliver, it will be important for companies in particular to be able to demonstrate what has changed as a result.** In doing so, it will be important to **be honest about the benefits but also about the limitations** of engagement. With engagement currently 'in vogue' there is a risk that it is seen as the solution to all problems, potentially leading to engagement overload. It's important to ask: is engagement needed; what is proportionate; and what is the right approach? If this doesn't happen, the legitimacy of long-run decision-making processes informed by engagement could be undermined.

In discussions for this paper, there was agreement that for companies, keeping the measurement of engagement activities simple could be crucial if it was going to have an on-going impact not only across businesses but also with the public. Adopting the '**you said: we did'** approach was seen as a good way of demonstrating what had happened as a result of engagement. Systematically recording challenges and responses in a 'log' is now an established part of CCG activity in the water sector. Incorporating a summary of these, along with an assessment of any resulting key themes and outstanding issues, in published challenge group annual reports also demonstrates and provides evidence that the company is being held to account by its stakeholders. In the process, it is also important to say what did not change as a result of engagement and to explain the reasons. Another simple test of whether

engagement is effective is whether stakeholders continue to attend on-going engagement activities. If people 'stop coming' there may well be a problem with the process.

Others thought that developing a basic engagement '**balanced scorecard'** could also be helpful – particularly for those with a closer involvement in this type of activity. This could help capture the impact of the exercise not only on relatively discrete performance metrics and outcomes but also on broader changes to processes, culture, communications and relationships.

Many of the companies that we spoke to for the paper thought that this latter point was crucial when assessing impact. Being able to track how perceptions of the company had changed as a result of engagement, and the extent to which it had built credibility so that when there were problems it was better able to cope, was seen as one of they key desired outcomes of the involvement processes. Successfully being '**fast tracked'** and having an enhanced or well-justified business plan in a price control, with no mid-term review or further regulatory intervention, was seen as another way of measuring the success of engagement.

Many, but not all, energy and water companies are now getting their stakeholder engagement processes independently accredited to demonstrate to their boards and stakeholders the robustness and quality of what they are doing in this area. For example, some of them use AccountAbility's AA1000SES accreditation process. Such accreditations can help raise standards, track progress and aid comparisons.

Several of the public interest representatives that we spoke to thought that the real measure of success was to see companies rethinking what they were doing and adjusting their behaviours to take the **themes** emerging from engagement activity into account in a pro-active way. This could lead to a situation where the challenge group / panel could change its focus from raising issues and putting forward suggested answers to just asking questions. Some thought a good measure of success could be when company boards moved beyond anecdote and snapshots of customer engagement to recognition of the value of wider engagement activity by asking for **routine and integrated governance reporting** in this area.

Measuring the impact of engagement can help companies, and regulators, compare activity within and between sectors. Whilst the purpose of such comparisons may sometimes be to measure performance against commitments, such as Ofgem's Stakeholder Engagement (and Consumer Vulnerability) Incentive Panel, it can also be to act as a check and balance in the process to help retain independence and objectivity.

Case study: A test of effectiveness – are stakeholders willing to stay involved?

Each year WPD hold a 'flagship' workshop for around 250 -300 people to identify long–term priorities. It's an opportunity for local managers to meet stakeholders and build relationships. The company were able to judge the success of this engagement initiative in part as 40% of attendees were willing to come back the following year. Independent monitoring of the workshops and the publication of the resulting action plans helped demonstrate to attendees that their in-put was making a difference.

The mix of attendees helps to deal with difficult issues. For example, a representative from an Area of Outstanding Natural Beauty had to justify extra spend to others in the room with an interest in affordability and realised that their proposals weren't doable.

Other DNOs are also carrying out such annual prioritisation processes and have commented that such groups are normally self-regulating, coming up with reasonable and sensible conclusions. The challenge for companies is to not be complacent and say that engagement has been carried out and 'done' but to look for continuous improvements from the process and resulting outcomes.

Source: Sustainability First discussions with WPD and NPG

7.3 Regulatory frameworks and approaches to engagement

If the value of engagement is to be maximised - **both within companies and within the regulators** - **regulatory approaches also need to continue to adapt and refocus**. The regulatory wish to avoid micro-management and a 'command and control' approach with regulated businesses is understood, but may also result in undue caution on what regulators might action themselves on long-run engagement. There is undoubtedly a middle ground here on approaches to engagement - whereby the rules of the game may benefit from greater clarity, while not being unduly prescriptive.

Regulators are already taking important steps to promote engagement and many of these issues are also being explored by the UKRN. For PR 19, Ofwat have also set out their views on how they will walk the balance between clear rules and principles and being overly prescriptive.[24] However, in discussion the questions noted below repeatedly cropped-up regarding the 'intersect' between the regulators, the companies and stakeholder groups on engagement. We believe that these questions can usefully assist further thinking on regulatory approaches to stakeholder engagement on long-run issues. They also offer a possible 'check-list' on how far regulators' approaches on engagement are being communicated to wider stakeholders.

[24] *Water 2020: Our regulatory approach,* Ofwat, May 2016

- **Framing issues, red-lines in engagement, and managing expectations**: Has the regulator clarified those areas on which it expects stakeholder engagement to inform long-run decision-making – and those which it does not? Has the regulator sought assurance that those involved in the engagement understand these boundaries and know what is potentially at stake? What has been done to ensure that engagement is not undermined by other regulatory interventions or communications?

- **Proportionate engagement**: How has the regulator ensured and communicated that engagement is focused on high impact areas and issues / companies with the greatest risks – both short and long-term?

- **Stimulating engagement and encouraging innovation**: Has the regulator taken a view as to what is a 'sufficient scope' for engagement? If companies do not adequately engage public interest groups, should the regulator scrutinise company plans and identify gaps in representation? How far should regulators go to 'push' engagement, particularly to widen engagement activity beyond the 'usual suspects'? Should regulators speak out about the resourcing of public interest advocates (see Section 7.4)? Has the regulator encouraged innovative approaches to engagement? Should they consider setting up prizes to stimulate novel ways of engaging with the public? How should regulators view companies that actively seek out new engagement partnerships?

- **Facilitating engagement:** Has the regulator communicated clearly how far it will itself facilitate engagement? Should regulators do any more than providing clear processes and access to staff / information in a timely way? Should regulators provide contextual information for stakeholders / advocates about the sector and comparative performance data – or can this be left to trade bodies or third parties such as consumer groups? Can regulators do more to ensure that their own processes reflect the external timelines and constraints that key stakeholders may also be working to? What role should regulators play in stimulating / supporting networks of engaged representatives (for example, arrangements in water to hold systematic quarterly meetings between CCG Chairs to discuss issues of mutual interest)?

- **Timing of engagement approaches:** Are regulatory approaches sufficiently timely and flexible to enable the outcomes of engagement activity to influence decision making? How does 'principles-based' regulation encourage this?

- **Mediation when things go wrong**: What should regulators do if engagement is inconclusive / ineffective? Are the 'ground rules' around possible regulator interventions clear from the start and understood? What would successful mediation look like?

- **Internal procedures:** How do regulators judge that their internal processes around engagement are coherent? Do regulators leverage their existing customer data into internal knowledge management systems to maximise the impact of engagement? Is there a coherent view of the long-term public interest built up from different engagement activity over time, both internally and externally? Do regulators routinely and systematically review what knowledge they have available across their engagement activity? Do they identify gaps to better target the information that they may need in the future? What more could they do to collaborate on engagement with actors from other sectors?

- **Evidence on and impact of engagement**: How best should regulators (or others) gather evidence about engagement to assess what works and what doesn't and whether engagement objectives are met and value demonstrated? Are 'lessons-learnt' exercises carried out in a timely manner and results shared internally with appropriate actions?

To obtain maximum value from the stakeholder engagement process, **greater clarity is needed as to who challenges regulators about their own approaches to engagement.** This may be non-executives on the regulatory board, parliamentary select committees or indeed, potentially, engaged stakeholders themselves.

Engagement is a key tool in the move away from prescriptive towards principles-based regulation and many of the points noted above of course apply to companies too. We have therefore incorporated many of these points into the Sustainability First **Decision Making Framework for Engagement** in section 8.2.

7.4 Resources & capacity of public interest groups & companies for engagement

Engagement can pose significant capacity and capability challenges for consumer, citizen and environment groups. For some this may be *the* critical barrier to engagement. Given the complexity of many of the long-term issues that the sectors face, and the length of time over which policies and regulations tend to be formulated and take effect, it can be **difficult for third parties to afford an informed and sustained in-put.** Where the value chain is disaggregated, as in energy, or where services are more invisible, as in wastewater, the challenges of resourcing engagement can be significantly more acute.

As discussed in Section 4.1, **changes to the consumer landscape** have meant that the number of consumer bodies has been gradually squeezed over several decades. The **resources of many third-sector bodies are also under strain.** Cut backs in government funding mean that many NGOs now rely almost completely on ad hoc grants and membership subscriptions, making it difficult to commit to getting involved in engagement activities that may not show or demonstrate any obvious outcome or impact. Local authorities are also heavily resource-constrained and can find it difficult to participate. The resulting ebbs and flows of in-put from third parties make it hard for companies and others to build a coherent picture of

consumer and citizen views from engagement, particularly on long-term issues. It can also lead to engagement processes being 'hijacked' by single-issue pressure groups or derailed by protest groups that may be able to afford to turn up.[25]

Engagement activity **funded by companies** can help to address this issue. However, unless carefully managed it can pose significant challenges around potential conflicts of interest. If resources of engaged public interest groups are stretched, there is a risk that they may in the process be more susceptible to lobbying. As Professor Catherine Waddams has asked:

'*How might suppliers in this market, probably already highly politicised, try to influence the customer involvement group and/or the major players within it?*'[26]

In the water sector in England and Wales, many water CCGs have a small secretariat and a budget to pay members expenses and **remunerate chairs funded by their company**. There has been some discussion about this latter point. For example, whether chairs should be paid directly by the company, or, through a central 'CCG chairs fund' (perhaps administered by Ofwat or CCW) to avoid any actual or perceived bias and conflict of interest. A number of those we spoke with for this paper thought that this shouldn't necessarily be an issue, subject to other **checks and balances** to address potential conflicts (such as ensuring the appointment process for a chair is transparent with an independent on the recruitment panel)..

Resourcing can become particularly problematic if there is '**mission creep'** in engagement arrangements. In discussion for this paper, it was felt that in the water sector, this may occur where CCG chairs were being asked to comment on a wider set of issues than just the company business plans (e.g. the introduction of competition for householders or the abstraction incentive mechanism). Whilst the CCG chairs we spoke to were interested in these areas, they noted the significant time commitment required to keep pace with a range of live issues and the fact that their contributions on these sorts of topics were not remunerated or covered by CCG governance arrangements. This is a generic challenge in engagement as many of the groups companies and regulators may want to engage with are likely to be 'time poor.' This accentuates the need for engagement to be properly targeted and proportionate, where possible 'piggy backing' on other initiatives, so good-will isn't wasted on minor issues. Ensuring that the breadth and depth of engagement activity is clearly scoped up front can also help address this issue. Ensuring that public interest groups have the necessary **'tools' to do the job** is also clearly important. Such tools – whether this is standalone activities or on-going training – clearly require resourcing. This is explored in Section 8.3.

Lastly, at the workshop the view was put forward that some **companies** do not have adequate capacity to sufficiently engage and need to do more to get the right skills

[25] Institute for Government, op cit

[26] *Customer involvement: frontier or smokescreen?* Catherine Waddams, Network Industry Quarterly, 2014

in place to enable engagement of the appropriate quality that is embedded within their organisation.

8 Conclusions

Stakeholder engagement on long-run public interest issues has implications for government, policy makers, regulators and companies. It is not a 'free' option. It needs resourcing if it is to be done effectively and if conflicts of interest are to be avoided.

This Section explores (1) some '**Principles for Engagement on Long-term Public Interest Issues'** and (2) a proposed '**New-Pin Decision Making Framework'** for thinking about engagement on the long-term public interest. This Framework pulls together many of the points explored in this discussion paper. It is not intended to be prescriptive but to help organisations identify what the 'right' approach for them might be.

8.1 Principles for engagement in the long-term public interest

Several of those interviewed for this paper thought that having an agreed set of principles for engagement could be an important reference point when trying to link what comes out of company led, local and national engagement initiatives and to navigate other differences in views. It was thought that such principles should help ensure that engagement becomes part of 'routine good business' and integrated into on-going decision-making.

At our workshop on 19 October 2016, it was thought that having a separate set of principles of engagement on long-term issues was probably not necessary. The principles listed below take the UKRN's principles for effective consumer engagement[27] and those used by Ofwat in its recent work as a starting point. They have been adapted to make them relevant to companies and policy makers as well as regulators in the water and energy sectors and to cover citizen and wider stakeholder groups as well as consumers. Where necessary, we have also highlighted where it may be important to capture an additional long-term perspective.

Tailored Engagement

- **Timing:** Give clear and realistic timeframes for input and be prepared to be flexible.
- **Embrace the big picture**: Bring stakeholders into decisions about the long-term early, focusing engagement on strategic issues rather than, for example, the detail of survey methodologies.
- **Proportionate:** Do not overburden public interest organisations with undue demands on what are often limited resources. Be clear with public interest groups up front about the likely duration and scale of the exercise.
- **Focused and prioritised:** Focus on the most significant issues that you are best placed to act on and have control over (eg for a company, customer outcomes, for a regulator wider social and environmental issues).

[27] *Involving consumers in the development of regulatory policy,* UKRN, July 2014

- **Accessibility:** Avoid lengthy and convoluted consultation and briefing documents that use technical jargon and are not written in plain and clear language appropriate for the audience.
- **Research approaches:** Investigate and use a range of research approaches. For complex long-term issues, consider whether there are any research techniques that you can use to try and balance different views.[28]

Inclusive Engagement

- **Relevance:** Identify all consumer cohorts and stakeholder segments (e.g. older consumers, consumers in vulnerable circumstances, stakeholders in different geographical regions and future users) that are relevant to the decision.
- **Representativeness and diversity:** Reject assumptions about 'average' or 'mainstream' consumers, which can lead to inappropriate one-size-fits-all policies and decisions. Encourage cognitive diversity to avoid 'group think.'
- **Resources:** Work to build public interest group capacity to engage productively with the engagement process. This is particularly important for long-term issues where a sustained in-put and wider experience may be needed.
- **Independence:** Arrangements need to be put in place, such as adequate resourcing and reporting lines, to prevent 'consumer capture.'

Transparent Engagement

- **Clear objectives:** Identify and communicate the objectives of the engagement process and the role of consumers and stakeholders within this. To help ensure accountability, be clear about the terms of engagement and subsequent reporting arrangements.
- **Informed:** Engagement based on sufficient accessible information and the use of appropriate expertise. Comparative information, and the need for consistent definitions, is important for context. Research needs to reveal a robust and balanced evidence base.
- **Managing expectations:** Be clear on how input will be used to influence decisions in order to manage expectations
- **Visible feedback:** Credibly and openly report input from engagement, including positive and negative experiences/outcomes and tensions in stakeholder views and show how this input has been reconciled and reflected in decisions.
- **Timely reporting:** Publish findings from engagement in a timely manner and create further opportunities to share expertise and information, for example by making raw data from engagement processes available for scrutiny by consumer groups and the public, where possible. For long-term and complex

[28] See the paper commissioned by Sustainability First from Britain Thinks and London Economics: **'Overview of Research Approaches for Uncovering the Long-term Public Interest in the Water and Energy Sectors,'** November 2016.

issues, it is likely to be helpful to report on engagement activity at regular intervals to build confidence in the final decision.

Developing Engagement

- **Impact:** Establish indicators to measure the success of engagement strategies and activities, with a view to seeking on-going improvement.
- **Iterative:** Periodically both those doing the engaging and those engaged need to review and reflect on engagement strategies and processes. Regularly consult on effectiveness of engagement strategies with consumer bodies and other stakeholders. Need to be flexible given difficulties in getting it right and fact that landscape is changing (due to both changes in the sectors, particularly energy, but also digital and social media).
- **Comparisons:** Benchmark against other companies and regulators, and learn from them, by sharing experiences (good and bad) and research findings through forums like the UKRN and trade bodies.
- **Identify opportunities to take engagement further**: Involve interested consumers, citizens and stakeholders in future service delivery (whether this is individually or through collaboration or partnerships).

8.2 A possible Decision Making Framework

There is clearly no one best way of engaging consumers, citizens and stakeholders on long-run public interest issues. Attempts by regulators and others to be prescriptive about engagement arrangements may well lead to unintended consequences and are unlikely to lead to cultural change. Engagement needs to be tailored to suit individual circumstances. However, in discussions for this paper it was felt that a Framework which captured approaches to stakeholder engagement could be a potentially useful way to assess performance and make comparisons.

The proposed New-Pin Decision Making Framework in Table 3 outlines the questions for companies, regulators and policy makers to address when thinking about the most appropriate approach to engagement on long-run issues within an organisation. It is not intended as a 'tick box exercise' but as a guide for all those involved in the process to get the most out of it.

The Framework begins with early questions about the purpose of the engagement exercise to ensure all those involved understand the context. , Thereafter, the Framework is structured around the UKRN's high level principles discussed in Section 8.1 above.

Table 3: A suggested New-Pin Decision Making Framework for companies, regulators, public interest groups and policy makers involved in engagement in long-run decision-making in the energy and water sectors

Objectives	1. Why do you want to engage? What is the objective of the engagement that you want to carry out? • What's the problem or weakness that you hope engagement can help you address? • Why do you think that the people that you intend to engage with will be able to help you address this issue? • What other ways may there be to address this issue (Eg could in-put be gained from other sources such as complaints data, talking to staff elsewhere within the organisation or from learning from other sectors)? 2. Who owns the decision and the engagement process? • Who will be responsible for setting the agenda for the engagement activity? Will this be regulators, companies or those engaged? • Is the issue that you want to engage on within your control / sphere of influence? 3. What are the policy, regulatory and company 'red lines' as to what you should / shouldn't engage in and are these clear? • Why has the engagement exercise been 'framed'as it has? • Where have the social and environmental policy lines been drawn? • Should you assume that what is currently 'reserved' for policy makers, regulators and companies is fixed? Is there any flexibility?
Inclusive	4. How will you ensure that the people that you want to engage are sufficiently diverse / representative? • What balance do you want to strike between engaging *individual* consumers / citizens / stakeholders directly and engaging consumer / citizen / stakeholder *representatives or experts*? • How will you bridge the gap between consumer and citizen in-put and, where appropriate, local, regional and national views? 5. What barriers to engagement do those you seek to involve face and what measures have you put in place to help overcome these? • How will you 'nurture' and build capacity amongst your stakeholders over time? • How will you enage with those that may not have 'a voice' – eg people in vulnerable circumstances, young people / future generations, the wider environment? • What steps have you taken to address the technical language and processes that can act as a barrier to engagement for many stakeholders?

Tailored	6. When is the right time to engage? • How will you ensure early engagement for strategic, long-term and upstream issues so that people can understand and shape the future decision making process? • How will you co-ordinate your engagement activity to prioritise the big issues, avoid consultation fatigue and link in with any cross-sector decisions that may need to be made (possibly at different geographical levels)? 7. What are the most appropriate and proportionate engagement approaches for the circumstances? • How have your engagement approaches taken into account the insights from behavioural economics? • How will the out-puts from engagement be used by decision makers? • How will different stakholder in-puts be weighted / triangulated? *Who* will be responsible for balancing these? • How will you deal with trade-offs between short and long-term interests, resilience and affordability, the needs of one community over another? • On what basis will you make your judgements? What ethical values / principles (eg fairness) will you refer to? Will you engage others on these? • Who is best placed to carry out the engagement? Policy makers / regulators / companies / third parties? Depending on who asks 'the question' there may be different results.
Transparent	8. What are the various roles, responsibilities and reporting arrangements for the engagement process? • How are these set out in governance arrangements and what checks and balances are in place to ensure independence? How will you arrange recruitment, payment, appraisals, terms of office etc to avoid 'consumer capture'? • How is the board demonstrating support for the engagement process? • What has been done to ensure that those that will be engaged understand what impact their involvement may have and what could change as a result? 9. How are you ensuring that those you seek to engage have adequate and timely access to information and is it clear how this is best provided to them? • Is it clear what the 'vision' for the organisation is, the behaviours that are being encouraged and how engagement can feed into these? • Should comparative or contextual information (eg on the long-term issues and challenges faced by the sectors) best be provided by policy makers, regulators, trade bodies, companies or third parties? • What is an 'adequate' amount of information? • How will you ensure that information is robust, objective, sufficiently comprehensive (including on long-term issues) and impartial so that it is trusted by those engaged? • Do those engaged have full access to the necessary staff and resources (eg admin support or a discretionary research budget) to be able to make an informed contribution? 10. What feedback arrangements are place between those engaged and those doing the engaging, and between those engaged and wider stakeholders (in both cases both ways), to build understanding and legitimacy? • Is it clear to those that you have engaged what the 'golden thread' linking their in-put into key decisions is? • When you have not taken account of the views of stakeholders, have you made the reasons for your decisions clear? • How will you maintain feedback over a longer period (given that the energy and water sectors have long-term planning horizons)?

Developing	11. How will the impact of engagement be assessed, who will do this and is there agreement on this point? • What outcomes will the engagement deliver? • What mechanisms are in place to assess the pros and cons of the exercise in a timely manner? Is there a balanced scorecard to measure the total impact of the activity? • How will the engagement be benchmarked against similar activity? 12. What arrangements are in place to embed and refresh engagement as appropriate following this exercise? • What will be done to ensure that there is sufficient turn-over of those engaged to ensure continued challenge and prevent capture? • How will engagement be 'future proofed'? 13. What have those undertaking the engagement done to take any wider findings from this exercise into the organisation's policies and procedures? • What knowledge management systems are in place to improve ongoing business intelligence and develop a more holistic picture of the end-to-end customer experience and views? • What wider lessons from the engagement process are being fed back into the future decision-making processes?

Source: Sustainability First

8.3 Building capacity: possible next steps for Sustainability First / New-Pin

As part of the New-Pin project, Sustainability First undertook to develop future tools to help build the capacity to carry out engagement activity in public interest groups. As a small organisation, our aim was to collaborate with others working in this area to propose or produce practical tools in a realistic but manageable way that could help public interest representatives, such as members of challenge groups, to more effectively fulfil their roles.

For the October 2016 New-Pin workshop we have delivered the first two of these tools: the **'Decision Making Framework' for thinking about long-term engagement** set out in this paper; and a stand-alone guide **'Overview of Research Approaches for Uncovering the Long-term Public Interest in the Water and Energy Sectors,'** commissioned from BritainThinks and London Economics.

We have a limited amount of resource to use during the remainder of the New-Pin project to develop or preferably to co-produce additional tools that New-Pin Network members consider would be of help. This activity could potentially be carried out with existing members of the Network or in conjunction with other groups with an interest in engagement such as the National Infrastructure Commission, the Essential Services Access Network (ESAN) or the UK Regulators Network (UKRN), who are also carrying out work on this subject and may be interested in collaborating in the future. This might enable the wider sharing of best practice, particularly from outside the energy and water sectors that New-Pin Network members have highlighted as being important.

Following discussions for this paper, we identified four options for consideration.

At the workshop on the 19th October 2016 we carried out a poll to assess which **one** of these options the Network would like us to consider developing to the next stage. **The poll revealed overwhelming support for Option C – a 'Tomorrow's world' workshop for energy and water users.**

In the coming months we will therefore be exploring Option C further. If this is something that your organisation would like to get involved in helping to deliver, we would be delighted to hear from you.

Option A: Basic 'How to Guide' for public interest representatives in the energy and water sectors

This guide would build on New-Pin's 'Decision Making Framework on Stakeholder Engagement' for thinking about the long-term public interest but would be aimed specifically at public interest representatives. It would set out issues such as: what to expect from the challenge process; key questions to ask as a public interest representative on core areas (eg when looking at a business plan); jargon busting; and how to ensure the process is as transparent and legitimate as possible.

Some of those we spoke to thought it was important such a guide wasn't prescriptive. Variety was felt to be important. Others thought it was important to set the right tone, not to 'patronise' existing experts on committees but also to recognise that many public interest advocates could be new to the sectors and may welcome more basic information.

In discussions for this paper, it was suggested that there would be more value in a bespoke approach for each sector. Given that the water sector is at a more advanced stage of its price control than the energy networks, it was felt that having an initial version for public interest groups working on water issues would be sensible. If this proved useful, the guide could then potentially be adapated to meet the needs of public interest groups working on energy issues, including future price controls.

Given the activities already planned by various consumer and environmental groups to work with public interest advocates in the run-up to PR19, it would be important that any guide produced complemented that existing work. If produced, there would clearly be significant value in distributing this through third party networks (such as the Citizens Advice Service or the National Council for Voluntary Organisations).

As well as producing a hard copy version of the guide, it was also proposed by some that digital material could be helpful. This could include You-tube clips with interviews from existing members of CCGs, for example, that have expertise in specific areas.

At the workshop, it was noted that several New-Pin members are already planning carrying out training activity for consumers and environmental representatives in

this area. It was felt that this activity, along with the New-Pin Decision Making Framework, should be adequate guidance in this area.

Option B: 'How to guide' for energy and water companies working with public interest representatives

Such a guide would be aimed at energy and water company colleagues who may not have direct expertise in customer and stakeholder engagement. The aim would be to help them to understand the value of engagement, the skill set they may need within the business to make this work and how to get the best out of the engagement process in their organisations. It could include sections on how to: provide the right context for engagement activities; have an open mind-set and field questions in a productive rather than defensive way; the ground rules for being a good partner; pitfalls to look out for; giving feedback; and involve the board.

This option would clearly be of less value in building capacity within public interest groups themselves. Initial feedback on this proposal has also highlighted the fact that many companies have their own internal approaches for dealing with engagement, and may therefore be reluctant to use a common 'template'. Some public interest groups thought that companies should be doing this anyway but the fact that some had raised it could mean that it may actually be of help.

Option C: 'Tomorrow's world' for energy and water users - PREFERRED OPTION

A one-off workshop to bring public interest groups together with those engaged in the sectors and more widely on horizon scanning and scenario planning work to provide a cross-sector learning opportunity to exchange ideas and knowledge **about likely future consumer and citizen needs and trends**. This could be based upon issues raised in this paper and build on the trends and issues identified in Annex 2.

At the workshop, it was felt that much horizon scanning was in hand from an energy or water industry perspective, but less so from the consumer / citizen perspective in the energy and water context. Seeing the future from the public interest perspective was thought to be valuable. Asking groups such as techUK or Age UK to share their views with other public interest representatives seemed important.

Option D: 'Fairness barometer' – crowd-sourced social media polls on long-term public interest issues

Designing basic polling questions on long run public interest issues that companies, stakeholder groups and others could explore on their own electronic platforms. For example, questions around 'fairness' in energy and water – both within and between generations. These questions could then be used by different actors on their own electronic platforms to obtain 'crowd-sourced' answers.

ANNEXES

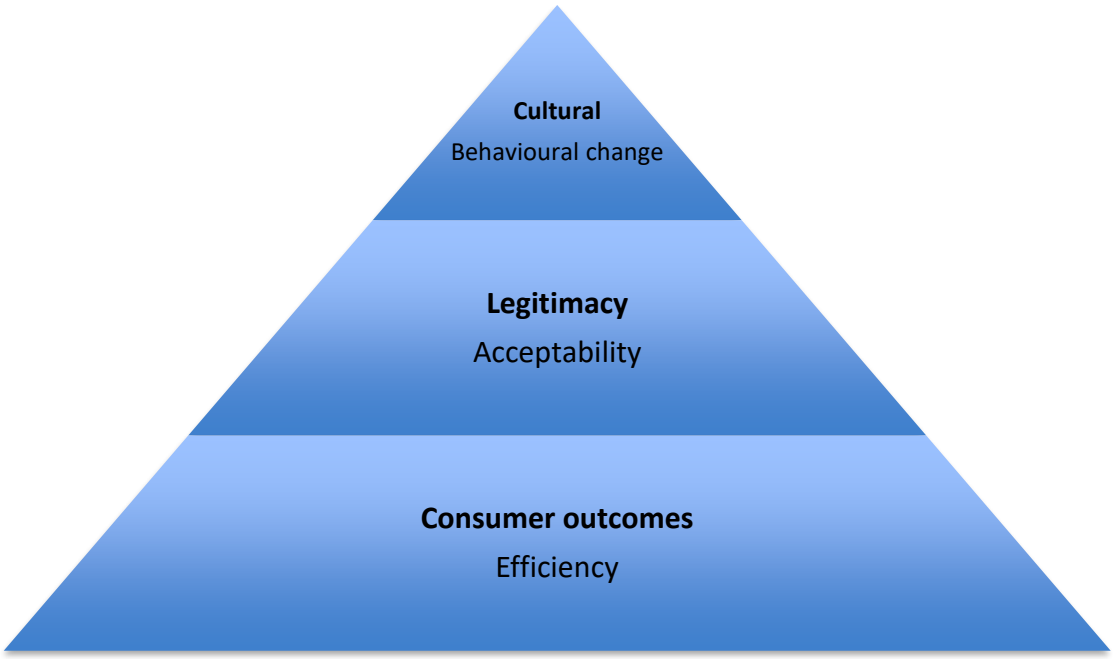
Annex 1 Over-arching objectives for engagement

Annex 2 Understanding the needs of future users

Annex 1 Over-arching objectives for engagement

In this paper we have identified three over-arching objectives for engagement. These are illustrated in Diagram 6 below and explored in depth in this Annex.

Diagram 6: Three over-arching objectives for consumer, citizen and stakeholder engagement in long-term issues in the energy and water sectors



Source: Sustainability First

1 Consumer outcomes objective for engagement

Consumers and citizens generally want efficient and responsive services. Judging success on this, given the complex market characteristics of the energy and water sectors, can be difficult. The networks continue to have a high degree of monopoly. In energy, there are six electricity, four gas distribution and three transmission network privately owned and regionally based monopoly businesses. Although there are some independent distributors, they are relatively minor players. The 18 privatised water companies in England and Wales currently remain integrated regional monopoly suppliers for householders. In Scotland one integrated and publicly owned water company provides services to all householders (but not I&C customers).

Regulation was introduced to the sectors as part of the privatisation settlement to address monopoly behaviour plus wider failures in the market, and the information asymmetries that can result. Through statute, regulators were cast in the role of 'proxy consumers.' As the 'easy wins' from regulation have gradually been achieved and firms have moved closer to the existing efficiency frontier, there has been increasing interest in finding new ways to improve sector and company performance. Concerns that firms may 'game the system' or that regulators may be

'captured' have also led to calls for new approaches. These concerns coincide with a strong focus on 'weak consumer response' in the competitive retail energy markets and questions about how far switching should be relied upon as a main mechanism to drive efficiency, fairness and good service for customers.

Consumer, citizen and stakeholder engagement has increasingly been put forward as a technique to help address these challenges for regulation and for companies to help make these difficult markets work better. By asking customers and their representatives about their experiences, engagement can help identify problems early and assist in performance management. In this way, it can disclose new information and insights. Involving people in the design of processes, procedures and services can help achieve leaner and more efficient systems that more closely meet user needs and be tailored to the outcomes that customers consider are important.

Giving the customer voice a greater prominence in this way, particularly if it is delivered through engagement embedded within the company can also shift company focus away from regulators and towards end users. This should help companies move away from a 'compliance' mind-set to one of getting performance 'right first time.' By bringing independent challenge into the system, it is thought that engagement may potentially help reduce the potential for regulatory gaming and capture.

Potential risks for stakeholder engagement in meeting this consumer outcome objective

- **'Present' bias**: Given the well documented 'present bias' that most of us have (preferring jam today rather than jam tomorrow), using engagement to drive efficiency can potentially lead to a focus on short-term consumer outcomes (such as low prices and good current service standards) and a 'race to the bottom' at the expense of the longer-term efficiency gains from added investment that may benefit future users but require a more transformative approach.

- **Boundary issues**: What will be efficient will clearly depend on where the boundaries are drawn. Company led engagement may find it challenging to take account of distributional and systemic issues that cut across organisational boundaries and raise questions of risk pooling.

- **Short vs long-term issues (e.g. resilience and sustainability)**: Efficient services are just one of many outcomes that consumers, citizens and stakeholders view as important in the sectors. Resilience / security of supply and sustainability are also fundamental, particularly if the interests of future generations are to be recognised. Whilst engagement can help inform discussion of short-run issues (especially on market failure), it can be more difficult to ensure that engagement initiatives sufficiently reflect stakeholder opinion on these long-run outcomes and the fact that market drivers

(including on prices and profits) can undermine such wider long-run policy objectives.

- **Changes to the status quo -** engagement led by incumbent companies may find it challenging to deal with dynamic issues and long-term efficiencies. If engagement is wholly led by existing incumbents, those involved may not be best placed or empowered to look more widely and understand the potential – and possible need for - more strategic, system-wide or dynamic developments or efficiencies. In the energy sector, this is important in the context of the low carbon transition where new ways of doing business will be needed. In the water sector, it is important if systemic risks are to be taken into account.

- **Information provision** – to maximise the benefit of any newly 'discovered thinking', findings, or conclusions obtained via engagement, it will clearly be important that engagement in-puts and outcomes are put to good use, published and actively shared with relevant actors and retained for future reference.

2 Legitimacy objectives for engagement

Different actors have different drivers for engagement – but a major objective is a need to demonstrate 'legitimacy' and 'acceptability'. Some of these objectives may be contradictory, and some may be politically deep-seated. But most actors share a common desire to help ensure that the outcomes of major decisions in the sectors are largely 'acceptable' to key stakeholders. This is particularly important given the scale of the forthcoming investment needed in the sectors (to replace ageing assets, weather-proof services and to enable the low carbon transition) and the recognition that it will ultimately be the public (mostly as consumers but also as tax payers) who will pay. This issue is more acute in energy where high bills relative to income plus a poor reputation on the retail side mean that the sector is never far from the political spotlight. As Policy Exchange have noted:

'*The literature would seem to suggest that consumer acceptance of policy is extremely important, particularly given the scale of transformation of the energy system required… Whilst consumer perspectives may not always be entirely clear, coherent and self-consistent, they often point to the boundaries of acceptable policymaking.'*[29]

However, establishing acceptability is not just about price. It also has wider political connotations. Engagement activity doesn't happen in isolation. It is shaped by both policy and regulatory frameworks and by politics. From an economically liberal perspective, engagement can be seen as a part of the de-regulatory agenda: namely, a belief that the state, and by extension regulatory bodies, are not best placed to judge what consumers want or will accept; that interventionist regulation may not necessarily maximise consumer outcomes or deliver what consumers or the wider

[29] *The customer is always right. Putting consumers back at the heart of UK energy policy*, Policy Exchange, Richard Howard, 2015

public want. Giving stakeholders a greater and more direct voice in decisions can, it is thought, help address these major information shortcomings. According to this view, over time, effective consumer engagement could see policy frameworks scaled back and regulation reduced or even wither away through better, iterative and continuing engagement starting to offer both regulators and companies a better grasp of what long-run 'acceptability' looks like[30].

From a slightly different stance, there is an argument that private ownership of essential services lacks direct public accountability and creates a 'democratic deficit'. 'Remote' decision makers, answerable chiefly to shareholders, make decisions with significant impacts for delivery of long-run social and environmental policy goals. According to this view, which aligns in some ways with the anti-globalisation sentiment that came to the fore in the European referendum, engagement can help people to 'take back control' of their energy and water services. This wish for greater control as a counter weight to the power of 'big energy,' also reflects in the increasing interest in local and community approaches to service provision, and which technological advances will help facilitate (digital control, data, storage, demand-side, solar panels). This view could see greater engagement as a meaningful step towards more radical futures: for example, far more de-centralisation or perhaps more diverse approaches to ownership (social, public). Thus, engagement becomes a first step in tackling a perceived democratic deficit.

In terms of politics with a small 'p', on all sides of the ideological spectrum, there is a clear understanding that erosion of public trust in the energy and water sectors serves nobody well. The knock-on negative impact on investor confidence can also push up the cost of borrowing and make the issue of acceptability more acute. **This has led to an increasing recognition of the need for greater focus on the legitimacy and accountability of the decision-making process in the sectors.** By opening up key decisions to consumer and citizen scrutiny and engagement, an opportunity may exist to help ensure that decisions are 'fairer' and more in step – and seen to be in step - with public views. Engagement is thus a key part in moves towards more ethical regulation and a desire for firms to have a recognised 'social licence to operate.' In some ways, this resonates with the post-Brexit challenge of the need for an inclusive agenda and to create a society that works for everyone. New-Pin will be investigating what this means in practice in our forthcoming governance work-stream.

Lastly, the legitimacy objectives for engagement are also influenced by the recognition that in an era of digital communication, boundaries between decision makers are increasingly blurred. It is likely to become increasingly difficult for all layers of decision-makers – policy, regulatory and company – to 'control' the process and to turn a deaf ear to those who want to make their views heard. Clearly rather than resisting digital engagement overtures, there is significant opportunity in addressing how best to work with the grain of advances in communications. This issue is explored in more detail in Section 5.2.

[30] Regulatory Policy Institute Conference. Oxford, 12-13 September 2016. Presentations from Harry Bush, Stephen Litttlechild and Steve Smith.

Potential risks for stakeholder engagement in meeting this legitimacy objective

- **Targeted and proportionate engagement:** Unless focused on the key issues that matter to the public, engagement initiatives may be seen as a side-show or distraction to the big issues of the day (see Section 5.1.3).

- **Regulatory backstops if there are problems**: If in the future regulation reduces as a result of engagement initiatives, there is a risk that if problems in the sector subsequently emerge, it may be difficult for regulators later to intervene. This risk is likely to crystallise if engagement has led to the reduction of resources and expertise in the regulatory body and information asymmetries have again begun to develop.

- **Ownership of the engagement and democratic accountability:** The perceived 'outsourcing' of decisions from policy-makers or regulators to less accountable engagement mechanisms can potentially lead to an increase in the democratic deficit. As a recent LSE report noted:

  '*While it may be seen to increase the legitimacy of regulated public services in the short run, whether such processes are effective in areas of entrenched conflict or where there are trade-offs between short and long term objectives, remains questionable*.' [31]

- **Consumer capture**: Just as 'regulatory capture' has been a recognised issue for some time, so too can consumer capture be potentially problematic, particularly if in the future more will ride on the outcomes of engagement initiatives. The complexity of the structure of the sectors, particularly in energy, can often mean that firms need to spend much time informing stakeholders about what they do before they are able to fully engage them. Unless this is done in a robust and transparent way, this could be seen as 'leading the witness' or 'turning the audience' once dialogue commences. The risk of capture may increase if challenge groups etc are encouraged into areas where they don't have the expertise. Similarly, if engaged representatives lack diversity or do not change on a periodic basis, it can become increasingly difficult for them to challenge companies and regulators and overcome 'group-think'.

- **Stakeholder disillusionment and fatigue:** The complex and sometimes contradictory legitimacy and political objectives driving and shaping engagement can make it hard for stakeholders to know exactly what their role is and what outcomes they can reasonably expect to see. Apathy can result when some engaged stakeholders realise the size of what is at stake in the area that they are being consulted on. For example, in energy networks,

[31] *Innovation through customer engagement and negotiated settlements in water regulation: Towards a transformed regulatory state?* LSE, Eva Heims and Martin Lodge, April 2016

the fact that DNO costs 'only' account for a quarter of the bill could put some off. Similarly, some may be unwilling to engage in the detail on water retail competition after / if a decision is taken that this should go ahead, if the projected savings are only £8 p.a per household. Changes in the regulatory 'ask' of engaged groups during a process, so they potentially see their previous work questioned, undermined or wasted, can lead to disillusionment. Engagement fatigue can also result from 'mission creep' from those seeking in-put, or, if representative groups are bombarded by multiple yet uncoordinated requests for their views from different actors. Clearly stakeholder fatigue is compounded if resources or timescales are not also adjusted accordingly.

3 Cultural objectives for engagement

There is strong regulatory, company and stakeholder interest in the need for culture change in the energy and water sectors. Both are on a journey (albeit at different stages) from engineering-focused commodity companies to commercially focused service companies – which put customers at their heart and understand the social and environmental context in which they operate. This has led to a growing focus on how to encourage the most appropriate behaviours within businesses. If the full potential of the demand side in energy and water is to be realised, the need for both regulators and sector companies to send the right signals to each other - and to the end customer – will only increase.

In preparation of this paper, we undertook ~25 informal discussions. It was evident that consumer, citizen and stakeholder engagement can help inform regulators and companies on their cultural approach to this transition.

Companies: Stakeholder engagement can increase the focus of the business on its customers and help ensure that its services are more responsive to their needs. Even so, we found clear feedback that stakeholder engagement may not yet be taken very seriously in some parts of some companies. However, this was by no means universal. Other companies noted that direct CEO-level engagement with stakeholders was judged highly important, including chairmanship of the customer panel. There would appear to be a need in some firms at least for continued pressure to change behaviour so that the value of input from relevant consumers, citizens and stakeholders becomes better recognised.

Engagement can also help ensure a more dynamic and adaptive approach to service provision, in tune with changing consumer requirements. It can assist businesses in thinking about *how* they communicate and interact with their customers to achieve desired consumer outcomes both short and long-term, whilst proactively managing company reputations.

For regulators: stakeholder engagement has in part been developed as a key tool in their transition from a 'command and control' approach to regulation[32] to a more iterative approach that focuses on desired regulatory outcomes. **Engagement is thus a key tool in the move away from prescriptive towards principles-based regulation**.

Given the long-term uncertainties faced by the sectors, particularly in regards to how to address the challenges of climate change, there is also an acceptance that regulatory tools, such as engagement, that encourage collaboration and flexibility can potentially be beneficial. Professor Christopher Hodges most notably has called for a collaborative approach between businesses, their stakeholders and public officials, based on a shared ethical approach:

'…compliant behaviour cannot be guaranteed by regulation alone…ethical culture in business is an essential component that should be promoted and not undermined….regulatory and other systems need to be designed to provide evidence of business commitment to ethical behaviour, on which trust can be based…. regulation will be most effective where it is based on the collaborative involvement of all parties...' [33]

Potential risks for stakeholder engagement in meeting this cultural objective

- **Iterative engagement and perceived regulatory weakness**: There is no single right way to engage stakeholders and an iterative approach is likely to be needed to identify the most appropriate way forward for a given set of circumstances. This lack of prescription on the part of regulators in terms of what they expect to see from engagement in their sectors can run the risk of being seen as a sign of weakness. Getting regulators to a place where they feel comfortable admitting that they do not have all the answers in this area and are willing to experiment themselves may take time. However, this is important if both regulators and companies are going to move to a new 'non-blame' culture where both sides are willing to learn the lessons from past problems.

- **Implementation**: How engagement is implemented is likely to be crucial to its success. Without a clear scoping of the engagement activity in question, there is a risk that it does not achieve its objectives. Similarly, unless steps are put in place to ensure that the outcomes of engagement are acted on, the public may become disillusioned.

- **Building trusted relationships**: The 'softer' signals that engagement activity sends out are important if the process is to be trusted. This applies not just

[32] that ran the risk of micro-management, picking winners and over-complexity leading to a risk of gaming

[33] *Ethical Business Regulation: Understanding the Evidence*, Professor Hodges, The Better Regulation Delivery Office, February 2016. Report commissioned by BIS.

from regulators to companies, but also from all those initiating engagement activity to those that they seek to involve. For example, if it is not clear to public interest groups why engagement is taking place, or that it will be on-going, they may view their interaction as a 'one-off' chance to influence change. This could lead to behaviours and 'asks' (eg campaigning and grandstanding) that good communication and management of the process could avoid.

Annex 2 Understanding the needs of future users

Table 4 could potentially be used as an aid to help shape engagement strategies that wish to uncover the needs of future users. It could form the basis for scoping the 'Tomorrow's world for energy and water users' capacity building session outlined in Section 8.3.

By asking those with existing expertise in areas likely to change how they think future user needs and views will evolve in the energy and water sectors, it can help build a richer and potentially more accurate picture of long-term interests.

Table 4 Understanding more about trends likely to impact the needs and wants of future energy and water users

Future trend	**Potential impacts on future energy and water consumers and citizens**
Demographic	
Aging population	• Patterns of service use may change (eg greater need to keep warm in the day). • End to 'cliff edge' retirement may mean service usage may be different to current cohorts of pensioners • Communication, budgeting and payment arrangements may need to change to reflect growing access issues / cognitive impairment
Diverse population	• Wider range of communications channels / approaches needed • Greater cultural diversity and multiple and shifting digital 'identities' could potentially lead to wider range of values and different approaches to ethics
Generation rent	• Reduced incentive / ability to invest in and install efficiency devices – particularly if these involve making any changes to the property
World of work	• Home workers will need reliable electricity enabled communications • Rise in multiple, short term and temporary contracts may make it more difficult for people to budget or afford up front replacement costs for new high price equipment (eg boilers)
Urbanisation	• Increased housing density will offer new opportunities in terms of heat • Drainage issues likely to be exacerbated • Smaller homes may have less space for smart storage / appliances • Urban communities may be more resilient*
Technological	
Transport	• Electric vehicle owners will want secure supplies
Distributed	• Domestic solar PV and small scale batteries will increase

generation	desire for more tailor made approaches and tariffs
Digital technologies and communications	• Increased personalisation of price and service packages – cross-subsidies likely to be questioned with associated distributional impacts • Easier to offer multi-utility packages • Impact on billing and customer communications – expect speedy and tailored responses • Data security – increasing concerns around cyber risks and raised expectations around resilience • People analytics (matching demands for help and expertise) and crowd sourcing ideas for change
Appliances	• The development of smarter and more efficient appliances may increase interest and uptake of smart tariffs
Climate	
Unpredictable weather	• Changing expectations about comfort and resilience • Extreme temperatures – growing interest in affordable heating and cooling • Issues such as charging for discretionary use (eg garden watering and private swimming pools) likely to become more acute • Flash floods – more experience of disruptions and greater focus on need for swift response and recovery. • Increasing interests in products and services that are secure by design

Note: * Research for Scottish Water on resilience found that in urban areas, people were able to help each other out when there were disruptions (eg could go to friends for showers) whereas in rural communities people felt isolated and found it difficult to get access to alternative supplies when there were problems. However, others have put to us that urban communities may be less likely to have access to the 'back-up' arrangements (eg small reservoirs or generators for heating) that may be available to farmers, for example.
Source: Sustainability First