Sustainability *First*

New Energy and Water Public Interest Network – New-Pin briefing paper

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

WHY IS ENGAGEMENT IMPORTANT?

Over the last decade there has been an increasing interest in public engagement in the energy and water sectors, in large part driven by the desire to see more customer-centric services and to improve the quality of company, regulatory and policy decision-making.

DEFINITIONS

Engagement covers a wide range of activities. At one end of the spectrum, there is the direct engagement of individuals through customer research. This is the subject of a separate ***'Research approaches overview'*** paper for New-Pin by BritainThinks and London Economics. At the other end of the spectrum, and the focus of this briefing paper, lies **the engagement of consumer, citizen & stakeholder representatives and 'experts'** in consumer panels and forums. In order to build a richer picture of the **long-term public interest**, it is important that this activity builds on other sources of engagement and that there is a **golden thread** linking engagement at the operational and strategic levels.

DIFFERENCES BETWEEN ENERGY AND WATER

Engagement is a complex, fluid and multi-dimensional area. There are clear **differences in engagement in the energy and water sectors**, with both being at different places in their regulatory cycles and facing different competitive pressures.

The **energy** sector's disaggregated value chain can make it difficult to get a single or 'system' 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 need to be co-ordinated.

Purpose and expectation of engagement

There is no single best approach to engaging consumer and citizen representatives in long-term decision-making. Engagement 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 purposes of any specific engagement exercise**. Without clear objectives, they will find it difficult to communicate the rationale for a process to those that they want to engage and to monitor impact – both within their own organisations and more widely. There are three over-arching objectives where public interest representatives or experts are involved:

- **Consumer outcomes:** to address market failures and inform thinking on how to deliver more efficient, innovative and value for money services - including how much consumers are willing to pay for given service levels.
- **Legitimacy:** to give stakeholders a voice in decision-making and to test and ensure that consumers and citizens are willing to accept certain service levels or packages, both for the short and long-term. At one extreme, this could equate to having consumer, citizen or stakeholder representatives on company boards.
- **Cultural:** to alter the behaviour and culture in the energy and water sectors, helping companies in the move from being commodity to service providers that actively engage the demand side & work in partnership with customers.

This briefing note summarises Sustainability First's full ***Discussion paper on 'Engagement'****. The paper is based on an extensive literature review, interviews with 23 New-Pin Network members and others, case studies from the water and energy sectors and more widely and a workshop of New-Pin Network members on 19th October 2016. The* ***full Discussion paper, and the complementary 'Research approaches overview' paper by BritainThinks and London Economics,*** *can be accessed here: http://www.sustainabilityfirst.org.uk/*

Recent and current landscape for engagement in long term issues in energy and water

Much recent focus has been on **company led engagement** – particularly in price controls. In water, the Consumer Challenge Groups in England and Wales and the Customer Forum in Scotland, and in energy, engagement mechanisms in regulated networks, have been widely welcomed. However, companies are on different places on the journey towards using engagement as a tool for the continuous improvement in services. Although progress is being made in embedding engagement, there is still some way to go to ensure that **activity doesn't just happen within pockets of a business and that engagement for price controls and in competitive markets is joined up with that for strategic issues (such as Water Resource Management Plans)**. Company-led engagement can bring many benefits, but when looking longer-term, it is also important to take a wider view of engagement and look **across company, regulatory and policy led engagement activities**.

Gaps in stakeholder engagement for the long-term public interest

Engagement on 'big ticket' issues

For both energy and water, ensuring that engagement is focused on the key outcomes that are of concern to stakeholders and the 'big ticket' issues such as **rates of return / cost of capital** and **strategic investments in the energy and water systems** would seem to be important. More could be done in these areas. In addition, engagement on emerging issues that may upset the status quo is also sometimes limited.

A coherent view of a wider long-term context

To ensure sufficient engagement on the wider context for each sector, the following matters need to be addressed:

- **Across the value chain:** When possible, it is important to focus engagement on the parts of the value chain that have the greatest impact on consumers and citizens and to bring this picture together into one coherent view.
- **Different consumer segments:** Given that energy and water are essential services, ensuring engagement with all consumer groups – including those in vulnerable circumstances - is important. Where there are long-term distributional issues that have implications across company boundaries, regulators and policy makers may also need to engage.
- **Community and local citizen engagement:** The increasing interest in devolved and regional power, decentralised energy and the emergence of the concept of 'smart cities' and, in water, the increasing interest in upstream issues and local catchment management, is leading to debates about the concept of customer and citizenship at the local level. Engagement at this level can forge new collaborative partnerships for service delivery.
- **Issues common to energy and water:** There is a need for more joint or coordinated engagement activity on those issues of public interest common to the energy and water sectors. Ensuring long-term resilience requires understanding the views of stakeholders on 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.

The views and needs of future consumers and citizens

Ensuring that the **interests of future citizens** are engaged and reflected in decision-making presents a challenge. Assessing the views of future users can be difficult:

- **Risks and uncertainties**: Given present and optimism bias, and inertia, it can be challenging for people to think about the risks and probabilities of long-term issues.
- **Changing behaviours and needs**: Engagement needs to take account of changing behaviours and expectations of different generational cohorts and the impact of demographic, technological and climate issues on future users.
- **Digital communications**: These enable the move to more agile, continuous and 'bottom up' forms of engagement.

Barriers and enablers to engagement on long-term public interest issues

Long-term company, regulatory and policy vision for engagement

- 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.

- This vision needs to assess how collaborative engagement sits in the context of competition policy.

Judging and assessing the impact of engagement within companies and regulators

- Recent experience has given a clearer idea of what engagement can potentially deliver. It is now important to be able to demonstrate what has changed as a result, in the process being honest about the benefits but also about the limitations of engagement.
- Measuring the impact of engagement can help make comparisons of activity within and between sectors.
- Using 'challenge logs' and adopting the 'you said: we did' approach is a good way of demonstrating what has happened as a result of engagement. Independent accreditation of engagement processes can also help.
- Developing a basic engagement 'balanced scorecard' can help judge progress over time.

Regulatory frameworks and approaches to engagement

- Regulators need to articulate how their 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 companies to reassess and to re-focus. Principles-based regulation can be helpful here.

Resources and capacity of public interest groups and companies for engagement

- The resources available to public interest groups can be a significant potential barrier to engagement.
- Engagement activity funded by companies can help to address this issue. However, unless carefully managed with appropriate checks and balances, it can pose significant challenges around potential conflicts of interest.
- Being clearer about the breadth of engagement activity can help all interested stakeholders judge what is proportionate and the commitment and resources needed.

'Framing' and balancing different 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. There can be differences of views and interests within the same generation and also between generations. There is a benefit in explicitly recognising these differences and then, in partnership with stakeholders, transparently seeking to explore how best to address them. Being clear about who owns the decision to engage and how different interests are **weighted or 'triangulated'** is important.

Companies have a lead role to play here. Consulting their customers and stakeholders on the **ethical principles** they should follow and **values** they should adopt in their decision-making should help them manage conflicts and reach more robust and acceptable judgements. Regulators may need to engage if there are differences between companies that have sector wide implications and Government and policy makers may also have to play a role if the issue poses significant distributional or system wide problems.

Leadership by all actors is needed: to ensure that the 'red-lines' of decision-making are clear; and that the ethical values identified through engagement are applied consistently and visibly across each organisation.

New-Pin Decision Making Framework for engaging on the long-term public interest

The summary New-Pin Decision Making Framework on the next page is intended to guide companies, regulators, policy makers and public interest advocates when they are thinking about what the right approach to engagement is in their situation. The Framework builds on the UK Regulator's Network's principles for effective consumer engagement and recent Ofwat work in this area. A longer version of the Framework is available in the full New-Pin discussion paper on this topic.

Principle	Suggested questions to *guide* decision-making on engagement in the long-term public interest
Clear 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? 2. Who owns the decision and the engagement process? • Who will be responsible for setting the agenda for the engagement activity? 3. What are the policy, regulatory and company 'red lines' as to what you should / shouldn't engage in? • Why has the engagement exercise been 'framed'as it has?
Inclusive	4. How will you ensure that the people that you want to engage are sufficiently representative? • 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?
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? 7. What are the most appropriate and proportionate engagement approaches for the circumstances? • How will the out-puts from engagement be used by decision makers?
Transparent	8. What are the various roles, responsibilities & 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? 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? 10. What feedback arrangements are in place between those engaged and those doing the engaging, and with wider stakeholders (in both cases both ways), to build understanding and legitimacy? • Is it clear what the 'golden thread' linking the in-put from engagement into key decisions is?
Developing	11. How will the impact of engagement be assessed, who will do this & is there agreement on this point? • What outcomes will the engagement deliver? 12. What arrangements are in place to embed and refresh engagement following this exercise? • 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?

ABOUT SUSTAINABILITY FIRST AND NEW-PIN

Sustainability First is a small environmental think-tank. The charity's New-Energy and Water Public Interest Network (New-Pin) project brings together public interest advocates, companies, regulators and government departments with an interest in energy and water to: develop clearer alignment between different stakeholders as to what the long-term public interest looks like in these sectors; increase understanding of any differences in views between stakeholders; develop capacity and expertise amongst public interest advocates to ensure a more level playing field in long-term company and regulatory decisions; and improve understanding amongst company and regulatory boards of the value of public engagement in these sectors and what successful engagement looks like.