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

Mid-project report – key messages

The **New Energy and Water Public Interest Network ('New-Pin')** focuses on the long-term public interest for the water and energy sectors. It brings consumer, citizen, environmental and investor representatives together with regulators, Government, energy and water companies to identify long-term public interest outcomes and tackle differences in balancing short- and long-term pressures in energy and water sectors. It was established by the environmental charity and think-tank Sustainability First in 2015.

This **Mid-project report** gives an overview of the New-Pin project to date – its aims, objectives, partners, and approach. It summarises emerging themes, lessons from within and across water & energy sectors, and major findings on five public interest topics: long-run affordability; trust & confidence; long-run resilience; engagement & capacity building; and market-led approaches. It sets out next steps for the New-Pin project and beyond.

Context - energy & water sectors

Essential services	Energy and water sectors under-pin every aspect of UK economic life – providing essential services to all. They are central to physical and environmental well-being.
Future investment	Both sectors require significant future investment to prepare for climate and technological change and to replace aging assets – up to £117bn for energy and £20bn in water and waste by 2020/21.
Intra & inter generational fairness	The needs of present-day and 'future' consumers and citizens, must be balanced. 2/3 investments in energy and nearly all investments in water will be paid for through consumer bills.
Political drivers	Short-term considerations on price, company returns and efficiency play strongly among today's consumers, reflected in government, regulatory and company decisions – perhaps at the expense of longer-term strategy and plans.
Flexibility	Flexibility & an active demand side are increasingly important. Enabled by new technology & greater cost reflection – but consumers and citizens need to trust service providers & see the system as 'fair'.

What we're seeking to achieve

New-Pin aims to create a **strong voice** for the long-term public interest in the energy and water sectors and to:

- **Understand sectoral challenges** – similarities, differences, sharing lessons learned;
- **Build consensus on long-term goals** – understand trade-offs between short- and long-term approaches**;**
- **Develop long term frameworks;**
- **Create practical tools & approaches**; and
- **Put public interest at the centre of long-term decision-making** – for company, regulatory and government thinking – making governance and engagement more transparent and inclusive.

New-Pin has identified three over-arching objectives for consumer, citizen and stakeholder engagement in long-term issues in the energy and water sectors: **1. Cultural** - *Behaviour change;* **2. Legitimacy –** *Acceptability;* **3. Consumer and citizen outcomes –** *Efficiency.*

Who's involved

Senior decision makers from:

Regulators	Ofgem, Ofwat, the Water Industry Commission for Scotland, the Environment Agency and the UK Regulators Network
Government	BEIS, DEFRA, the Scottish Government and the National Infrastructure Commission
Public interest groups	Citizens Advice, Consumer Council for Water, Customer Challenge Group Chairs for water, Which, Green Alliance, the Centre for Sustainable Energy, WWF, Waterwise, the Local Government Association and ShareAction
Water companies	Affinity, Anglian, Southern, South East Water and United Utilities.
Energy companies	Electricity North West, Northern PowerGrid, nPower, Scottish and Southern Electricity Distribution and Western Power Distribution and Energy UK
Universities	I-Gov team, University of Exeter and the Centre for Competition Policy at the University of East Anglia

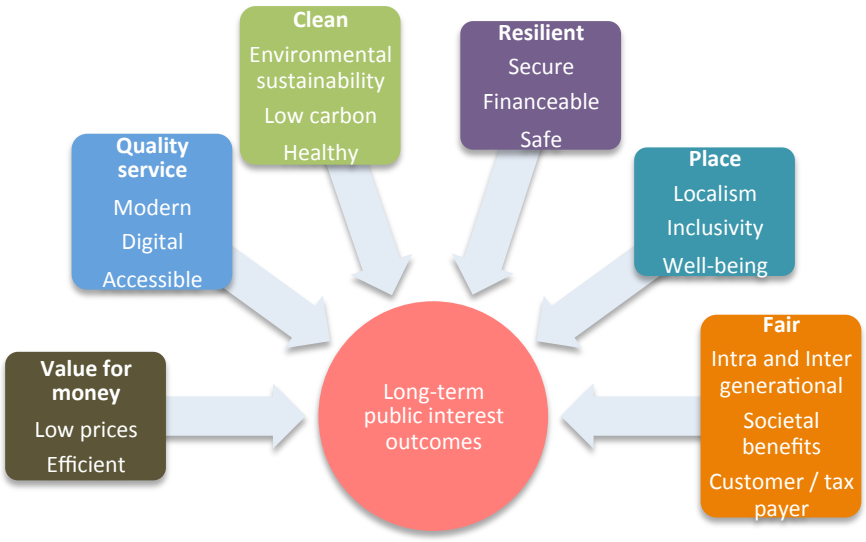
What we've done

Examined what the long-run public interest for the water and energy sectors might look like and established a working definition, which we continuously test and refine:

> *"The public interest is the aggregate well-being of the general public, both short and long-term. It comprises the combined interests of consumers, citizens, the environment and investors for both today and tomorrow."*

For the long-term public interest to be met Sustainability First has developed a 'dash board' of the outcomes that need to be delivered (see **Figure 1**).

Figure 1: New-Pin 'Dash-board' of desirable long-term public interest outcomes



Source: Sustainability First

We have taken a three-pronged approach:

1. **An in-depth and systematic examination of major long-run public interest topics –** for the water and energy sectors
2. **Capacity-building for customer and other stakeholder groups** – to develop tools and to support better engagement
3. **On governance for the long-run public interest** – how this is currently brought to regulatory and company board tables, how this might be embedded and sustained.

Public interest topics

The New-Pin project, has so far covered 1-5, of the following public interest topics:

1. Long-run affordability
2. Trust and confidence
3. Long-run resilience
4. Consumer, citizen and **s**takeholder engagement and capacity building
5. Market approaches
6. *Tomorrow's world horizon scan: individuals, communities and infrastructure*
7. *Innovation and regulation*

How we've done it

Established New-Pin Network	Created a unique forum. Taken an experienced senior group on a collective journey – using a 'deliberative engagement' approach.
Shared cross-sector experiences	Compared and contrasted experiences within and between water and energy sectors. Shared case studies.
Ran a major workshop series	Continuing to run a series of intensive workshops on major public interest topics. Informed by current literature and active engagement with the New-Pin network. Short summaries plus in-depth discussion papers / slide decks.
Developed new insights & practical outputs	Outputs readily used, communicated, implemented and adapted by stakeholders. Including: • **Research Approaches Guide** on qualitative & quantitative research methods – for regulators, companies, customer reps – to inform decisions & address trade-offs (by BritainThinks); • **Decision Making Framework** for engaging stakeholders on the long-term public interest.
Gathered feedback	Through interviews with stakeholders on key issues. Finding out what New-Pin network members have done differently as a result of New-Pin proposed actions on a topic.

Emerging themes

Companies can take long-term outlook	Companies can take a long-term perspective – to make infrastructure & operational investments and, with clear geographies, as 'place makers' and regional stewards of the resources they manage.
Political interest & short termism	Essential services with the economic, social & environment externalities – mean political interest in both sectors will not abate.

	Politicians look in shorter electoral cycles, leading to short-term pressures and uncertainty.
Strategic decision making frameworks	Needed to set out long-term objectives, clear roles and responsibilities, boundaries and timeframes for transition programmes, to tackle political risk.
Fair distribution of costs & risks	Must address issues of fairness – who pays for what; investments for the future made by today's consumers or taxpayers, or tomorrow's; how to ensure risks are held by those best placed to manage them.
Leadership, including cross-sector	Sustained and senior commitment and leadership is vital. Consciously embedded in regulatory & company cultures and values – cutting across 'silos' and funding streams.
Combination of 'hard' & 'soft' tools	Hard tools, such as market approaches. Soft tools, such as consumer & citizen engagement and strong governance, e.g. Customer Challenge Groups in the water sector.
Clear communications	Including developing common definitions for long-term affordability, resilience and fairness. Also explaining reasons for decisions.

Sharing lessons from within and across water & energy sectors

Lessons are not currently well-shared within or between sectors. Both sectors face profound change and uncertainty with new technology, climate change, and infrastructure requirements. Shared challenges include:

- Digitalisation and data;
- More accurate cost-allocations and greater cost-reflection;
- New ways to organise and to deliver business outcomes upstream and downstream and between sectors (e.g joint services);
- Cross-sector resilience – for the long-run, at an individual, community and national levels.

Sharing lessons in a relevant way is valuable and can spread good practice. However, due to the number of variables and degree of difference both within and between sectors, it is hard – even when limited just to energy and water. Below are some examples of how the sectors have been sharing lessons via New-Pin:

Public engagement	Energy network operators learn from water Customer Challenge Groups e.g. use of independent auditor, beyond consumers, to citizens. Both sectors share lessons on achieving culture change e.g. with senior leadership and embedding engagement. Need to shift from broadcast to listening mode.
Flexibility services	Technology is enabling new demand side flexibility services that reduce costs and help with uncertainty. Water companies can offer flexibility from onsite generation & water & waste pumping processes. Also potential to develop commercial and flexibility services with water users.
Social networks	Sectors learning from each other on building public trust. Customers expect targeted, responsive information & service providers to partner with local authorities & NGOs. Social networking sites are invaluable for getting messages out quick e.g. on service disruption. But inaccurate messages are difficult to unpick.

Affordability of essential services	Essential services always have affordability issues. Need to proactively manage this. Stakeholders need to agree risk tolerances around what should happen with winners and losers in markets. Water companies are keen to learn from energy experience of rising bills and negative media. Water companies are developing predictive techniques. Both sectors can get better at signposting organisations for support.

Major findings: Long-run affordability

Affordability is an issue today: 21% of the UK population lives in low-income households facing a £490 p.a. poverty premium. Affordability is already an issue for a significant minority of energy and water users. Two-thirds costs of projected investments in energy and nearly all of those in water to be met by bill payers. Taxation can pool risks and spread costs over time. Cost recovery via consumer bills has distributional impacts – especially for those who cannot use energy and water flexibly and / or are in vulnerable. Affordability is likely to be more of an issue in the future for energy than water. Delaying investments could increase the risks and costs that fall on future generations.

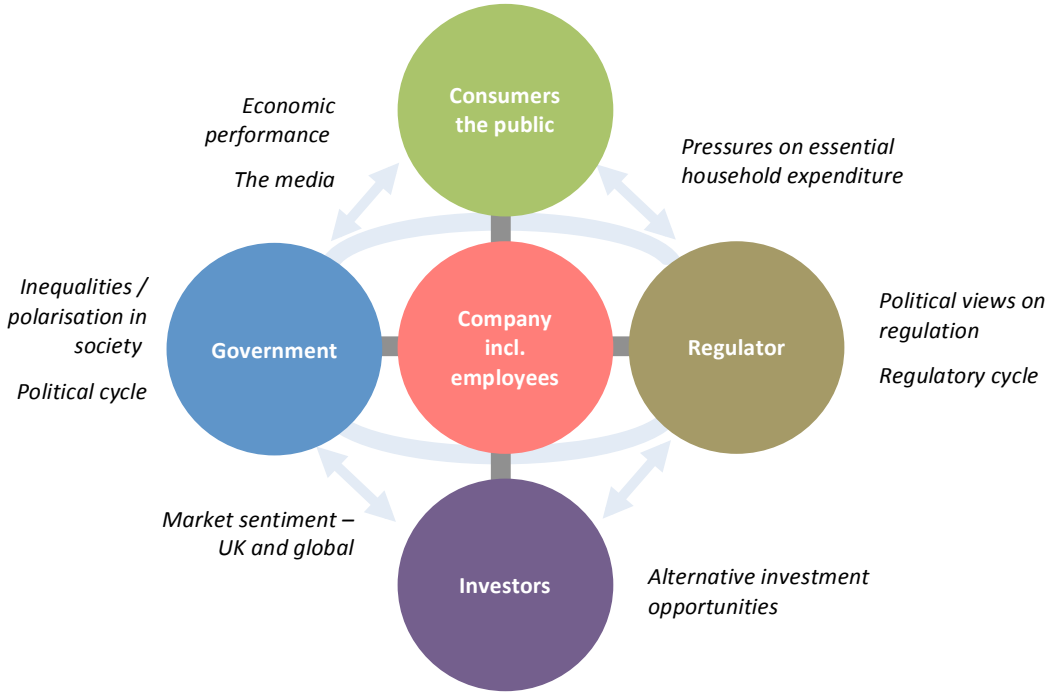
Recommendations for affordability:

Fair allocation of costs & risks	Costs met by those benefiting from services, and those causing associated pollution – and managed by those best able to control them and their associated risks. Costs managed through a more coherent approach to systemic risks and through more predictable policy and regulatory frameworks.
Proactively target those in vulnerability	Companies have a role in addressing the needs of customers in vulnerable circumstances. They can intelligently manage data, proactively identify groups, and partner with trusted intermediaries to deliver targeted advice and support.
Public say in decision-making	As consumers will be paying, they need to have a say in big decisions. Companies, Regulators and the Government need to engage citizens and wider civil society in debates in a meaningful way.

Major findings: Trust and confidence

Energy sector has experienced problems with public confidence. Trust in existing wider systems and processes is imploding: in the UK, barely 1 in 10 people believe 'the system' is working for them; 73% agree that businesses are expected to lead (Edelman trust Barometer). Trust cannot easily be reset as it is built on maintaining a complex web of relationships between consumers, citizens, companies, regulators, government and investors (see **Figure 2**). Trust in the sectors is shaped by: unplanned service disruptions; ownership, long-run stewardship and returns; competition, choice and price in retail markets; and the media.

Figure 2: New-Pin diagram of the key relationships that trust is built on in water & energy sectors



Source: Sustainability First

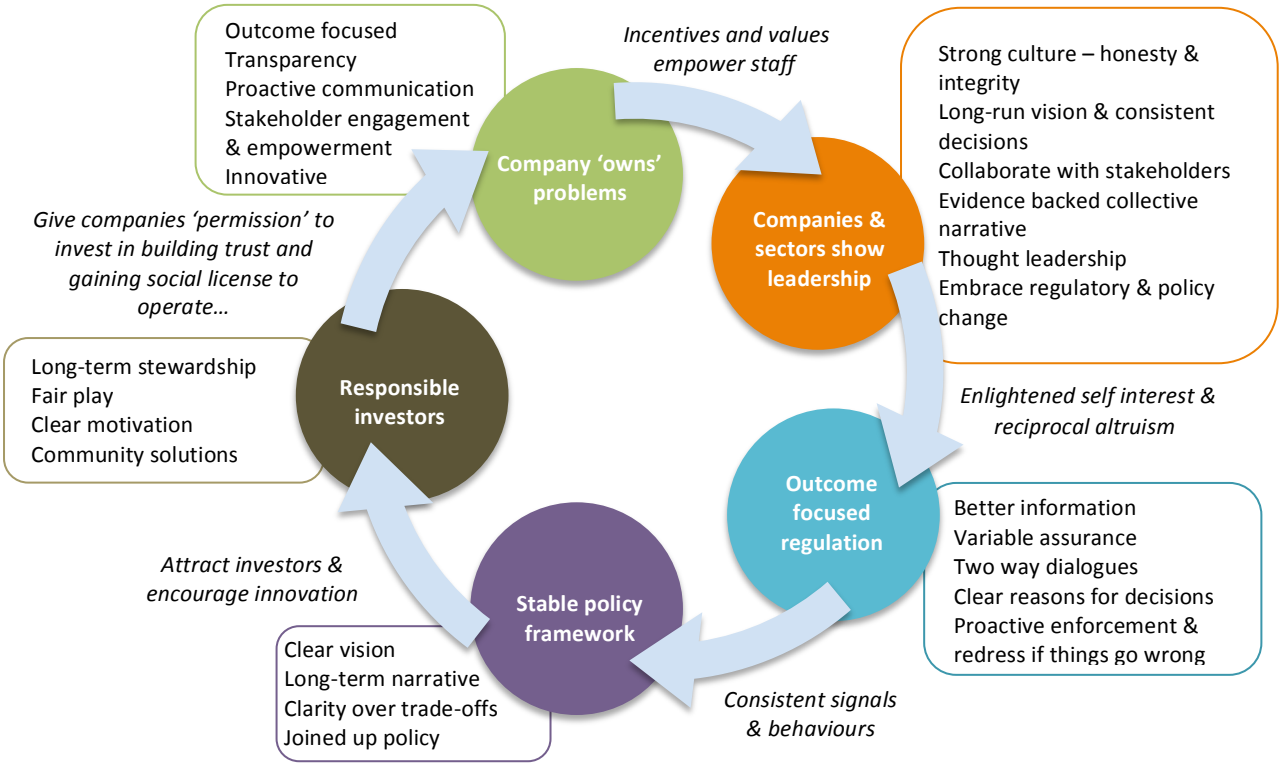
If the 'primary' drivers of trust aren't right (e.g. value for money & quality of service), consumers and the public are more likely to pay attention to 'aggravator' factors (e.g. profit levels, lack of choice). Leads to: increasing regulatory & political risk; reducing investor confidence; and a negative downward spiral in trust in the sectors.

Practical steps to build trust:

- Open, clear and proactive communications;
- Stakeholder engagement;
- Clarity of motivation and long-term outcomes; and
- Leadership, culture and values – companies own problems and show individual and collective leadership

Outcome focused regulation and stable policy frameworks can help. A holistic approach is needed. New-Pin's 'Positive spirals of trust' diagram guides decision-makers through the steps that they can take together (see **Figure 3**).

Figure 3: New-Pin's 'Positive Spiral of Trust' diagram



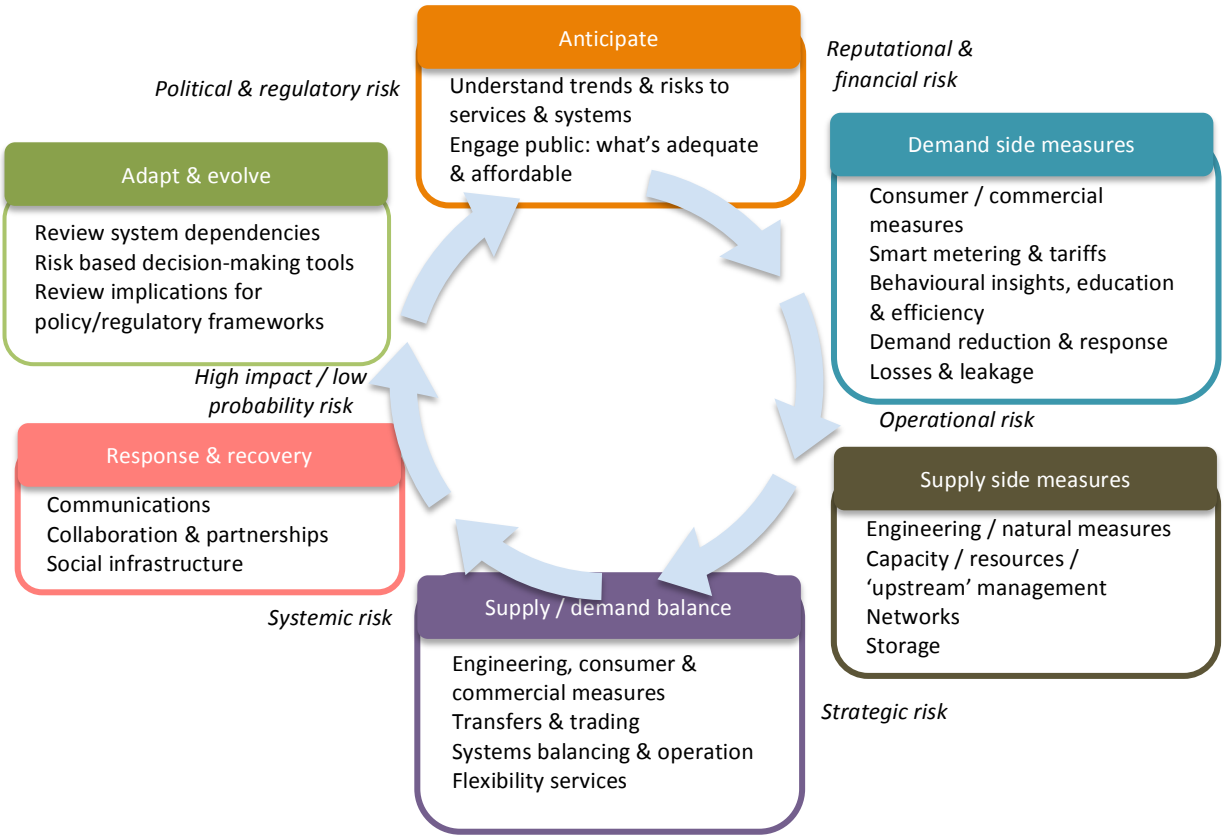
Source: Sustainability First

Major findings: Long-run resilience

> ***"Resilience** in energy & water is the ability to: anticipate trends in resources and other factors impacting on services & systems; withstand problems and retain services & systems for people; and protect the natural environment, now and in the future."*

Existing approaches to resilience tend to be top-down & supply side focused. This is changing with increasing focus on demand side approaches e.g. flexibility services. Climate and technological change is leading to resilience challenges: electricity dependency; complex inter-dependencies; the emergence of new actors; new types of extreme risks; changing customer & citizen expectations. It is not possible to achieve 100% security (at an acceptable cost), so certain changes in approach are needed.

Figure 4: New-Pin diagram on approach to securing long-run resilience in energy and water for public interest



Source: Sustainability First

Practical steps for resilience:

- Adapt to the new local / regional landscape (e.g. growth in distributed electricity generation);
- Take a more cross-sector approach;
- Better understand when markets may encourage, or reduce, resilience;
- Stakeholder engagement, information sharing, rethinking standards; and
- Strong leadership, guided by a set of clear principles.

The approach in **Figure 4** may help. Also need to develop and refine new metrics to measure resilience e.g. 'Discover water' dashboard. The issues will not go away – energy and water companies have to think long-term. E.g. Water UK's Water Resource Long Term Planning Framework goes out to 2065.

Major findings: Public engagement & capacity building

There are differences in engagement practices between energy and water sectors:

- Energy has much to learn from water on stakeholder engagement – including Customer Challenge Groups.
- The disaggregated energy value chain makes it difficult to get a single or system over-view of public needs and preferences.
- For water the environmental context means that a wider range of stakeholders need to be involved and engagement on short- and long-term issues needs to be co-ordinated.

Engagement recommendations:

Linked up	Need a long-term vision for linking direct engagement of individuals via consumer research with engagement of consumer, citizen, stakeholder reps and 'experts' in panels.
Tailored	No single best approach to engagement. Should be tailored. Objectives vary, e.g. improve consumer outcomes; increase legitimacy of decision-making; facilitate cultural change.
Clear purpose	Clarity about the purpose of engagement, and measuring its impact, are important if expectations are to be managed.
Sectoral	Company engagement with current customers and the communities, may need to be supplemented by engagement led by the wider sectors, regulators or government.
Careful framing	Thought is needed on how questions for engagement are 'framed' and conflicting views are transparently resolved.

Major findings: Market approaches

There are different 'tools in the box' for decision makers:

- ***Competition in the market*** – individual consumers make choices between service providers.
- ***Competition for the market*** – competitive tendering & auctions; co-operation, collaboration & information sharing; and interventions (to create market rules and provide regulatory incentives). Need a mix of approaches.

It is more straightforward for market approaches to deliver against some outcomes (e.g. value for money & quality of service) rather than others (e.g. place & fairness). Markets can inject dynamism – innovation, creative packaging of activities & products, and a step-change service delivery. But this can challenge legacy businesses.

Design of new markets and development of initial rule-sets need thorough testing from a wider consumer, citizen and public interest perspective – and not just from a more limited market actor view-point.

Market 'rules of thumb':

1. Build a case for change. Decide and define long-term public interest goals. Understand how different goals and outcomes may impact on each other.
2. Focus market-led approaches on areas most likely to yield the greatest net benefits and choose the right mix of tools to create the market.
3. Plan what you will do about winners and losers. Agree with other stakeholders whether you will put protections in place in advance or only once problems emerge.
4. Design of new markets and development of rule sets need testing from a wide public interest perspective. Need to agree red lines and risk tolerance.
5. Measurements of market health need to focus on leading indicators and outcomes. Proactively enforce breaches.

Upcoming activities

Over the next 15 months:

- **Tomorrow's world' horizon scan** on the likely needs of future energy and water consumers and what this means for individuals, communities and the national infrastructure. July 2017
- **Innovation and regulation**. November 2017
- **Regulatory and company governance** for the long-term public interest**.** Interviewing a range of chairs, non-executive directors, chief executives and directors of energy and water companies and the regulators to consider how they expect to bring the long-term public interest to the Board table. Identifying good practice. Link work to wider changes in Corporate Governance. Interim paper: summer 2017; final paper: spring 2018.
- **New-Pin project close-down:** conference, regional events and concluding paper. Spring 2018

Where next – beyond New-Pin?

Sustainability First is planning a follow on project '**Energy and water: a fair deal for society and long-run sustainability?'** Building on the findings from New-Pin, this project will explore what a '**social licence to operate'** might look like for regulators and for companies in the energy and water sectors.

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