Political and regulatory uncertainty and risk relating to fairness and the environment in the UK energy and water sectors – how is this shaped and mediated by the politics of the 'disrupted' world?

Changes in consumer 'lived experience' in regard to fairness and the environment

Working note – October 2019

Background

Sustainability First's Fair for the Future Project is helping energy and water companies, policy makers and regulators better address the politics of fairness and the environment in the sectors. The Project was kicked off in 2018 and will last until early 2021. It has two workstreams: political and regulatory uncertainty and risk mapping; and developing a 'Sustainable Licence to Operate' for companies in the sectors. This note concerns the first of these two workstreams. A key objective of this part of the project is to develop a more coherent, comprehensive and inclusive view of risk and uncertainty in the sectors.

As we experience technological, climatic and societal disruption, existing mechanisms for dealing with risk and uncertainty are becoming increasingly challenged by changes to the following '**dynamic risk factors'**: consumer lived experience; the environment and climate; civil society, community groups and the public mood; and the media – particularly social media.

This draft working note explores what we mean by the **consumer lived experience** in terms of fairness and the environment; how problems in this area can escalate political and regulatory risk and uncertainty; and how it can better address these problems to reduce these risks.

We will pull a revised version of this working note together with those on the other 'dynamic risk factors' outlined above into a single Discussion Paper that will spell out the common themes between these factors and the implications they have for companies, regulators, policy makers and communities. Taken together, these working notes raise deep questions about the effectiveness of current policy, regulatory and service provision arrangements in delivering public interest outcomes in our disrupted world.

Executive summary and conclusions

1. Sustainability First have developed the following definition of the consumer lived experience:

> *"The consumer 'lived experience' of essential services such as energy and water reflects the fact that we are citizens who live in society and our experiences are shaped not only by our own transactional relationships with energy and water companies but the quantitative and qualitative outcomes that we and others actually receive at a point in time and over time and the socio / political / environmental context in which we interact with the services."*

2. This paper argues that policy makers, regulators and companies need to **redefine the consumer interest** in energy and water. A shift is needed from focusing primarily on transactional activity and short-term results to also considering the wider consumer lived experience. Absent this, **future consumer, mutual / societal and community / local interests** will not get the attention needed.

3. A **narrow framing** of the consumer interest in energy and water can **get in the way of addressing the social and environmental challenges** consumers and the sectors face. It can make it difficult to overcome the **legitimacy** issues that dog the sectors. This can make the task of **getting consumers to act responsibly** – in terms of energy and water saving – more difficult. This is important if we are to **unlock the demand side** to address environmental / climate issues and to keep individual and systems costs down.

4. There is much that **companies can do** to address political and regulatory risk in this area. Knowing and meeting their customers' specific needs and values, doing the day job properly, ensuring deeds match words, and dealing with problems in a sensitive and timely way should be '**no regrets' actions** for all energy and water companies. And these are steps that are largely within their control; that empowered and motivated employees can help them put into action.

5. Being **out of step with public expectations**, however, can also cause risk and uncertainty around fairness and the environment to increase in this area. This is a trickier issue and has various strands, including:
   - unjustified differential treatment between consumers;
   - failing to join-up services in a way that people expect;
   - not recognising the importance of the places/communities where people live;
   - executive pay and, in particular, pay differentials;
   - unjustified excess returns;
   - not being open about the limitations of markets; and
   - not addressing cumulative distributional impacts.

6. In a world where **disruption and plurality are becoming the new normal**, policy makers, regulators and companies need to take a **more people-centred approach** to better understand how public expectations are changing and ensure decisions take account of how consumers and communities see and value outcomes on the ground. **Flexibility** is important here; to enable multi-party and cross-sector solutions to come forward and to help secure the delivery of co-benefits.

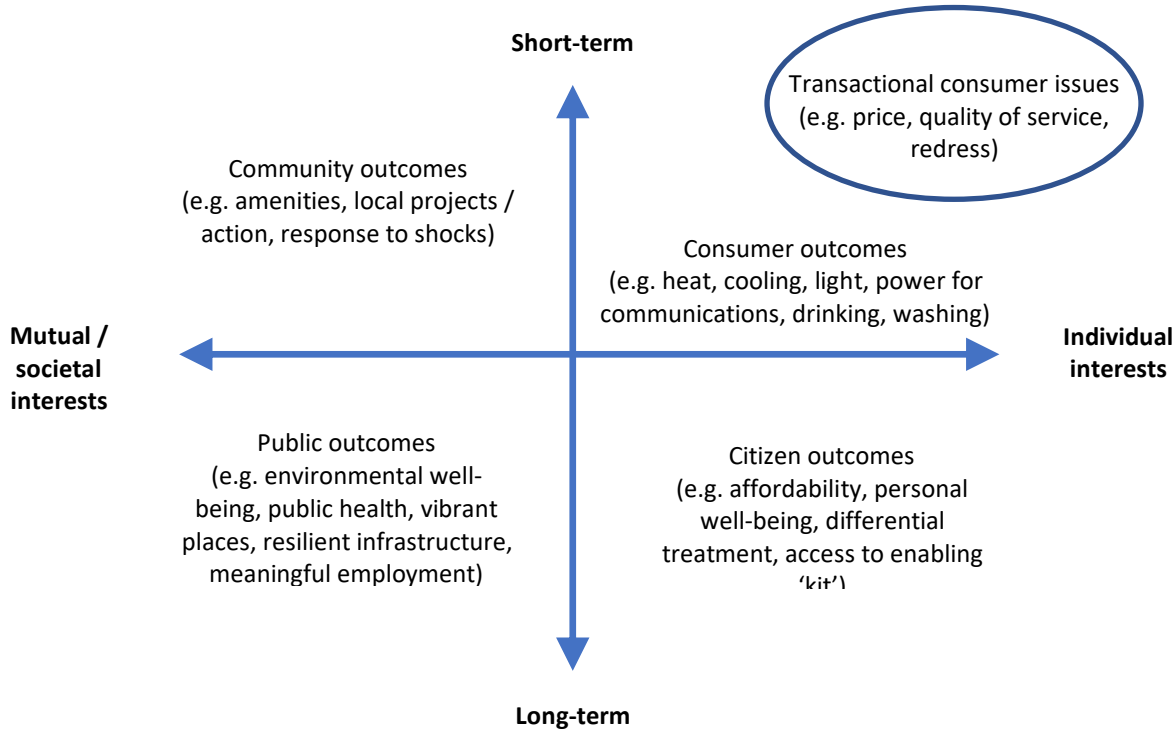
7. Finally, addressing risk in this area is significantly more challenging for companies if there is a **policy or regulatory vacuum on social issues**. As boundaries and markets blur, and politicians are distracted by other things, **difficult distributional decisions can be kicked into the long grass or sub-contracted downwards or outwards**. The risk mitigation here is for companies to step up to the plate and show **leadership in terms of how their roles and responsibilities need to evolve** to meet the challenges faced, using their expertise to '**call-out' when others need to take action** and to act as **advocates for their sectors.**

<u>What</u> is the consumer lived experience in regard to fairness and the environment?

8. Sustainability First has long argued that the consumer interest in essential services such as energy and water needs to be seen as part of a **wider 'public interest'** in the sectors.[1] The public interest goes beyond 'traditional' transactional consumer issues such as price, to include customer service and redress along with a much wider range of factors.

9. The **social, environmental and economic dimensions** of the services mean that there is frequently, and particularly during times of **disruption**, not a clear-cut classification between consumer interests on the one hand and **citizen, community and public issues** on the other. The actual day-to-day **consumer lived experience** is often **shared** (for example in a household, work environment or place), and is shaped **not just by individual but also mutual / societal interests.** The lived experience of many consumers is **framed by this wider context.** As the following diagram illustrates, **timescales** are also important. These different points are on a spectrum and often blur into each other.

Diagram 1: How the consumer lived experience in energy and water is shaped by the context in which the sectors operate, timescales and 'mutual / societal' interests



Source: Sustainability First

10. Analysing the practical '**lived experience'** of consumers **in the round** can help us understand how consumer issues can become citizen, community and public issues – increasing political and regulatory risk and uncertainty in the areas of fairness and the

[1] See, for example, Sustainability First, *Looking to the long-term: hearing the public interest voice in energy and water*, January 2018.

environment. Current departmental remits and regulatory duties, which are often silo-based and can sometimes be inflexible, and the way that some company licence conditions are framed, can make it more challenging to take a wider **people centred** perspective.[2]

11. To develop a more holistic picture requires an **integrated view** of the drivers behind consumer **welfare and well-being**. The **UN's Sustainable Development Goals** (SDGs) can provide a helpful framework to develop this. As can be seen in Diagram 2, the recent 2019 UN SDSN assessment of UK delivery of the goals rates progress on responsible consumption and production and climate action as red, on affordable and clean energy as amber (but improving) and progress on reducing inequalities as amber – and stagnating.[3] Progress on delivering clean water and sanitation is 'light' amber and improving. These points are important as they provide the **'framing'** and context for how people actually experience these services.

Diagram 2: Sustainable Development report 2019, UK Performance against the UN Sustainable Development Goals



Source: SDSN, June 2019

[2] https://www.sustainabilityfirst.org.uk/images/publications/other/SF_Future_of_utilities_regulation_Discussion_Paper_FINAL.pdf

[3] https://s3.amazonaws.com/sustainabledevelopment.report/2019/2019_sustainable_development_report.pdf

12. An **interdisciplinary approach** that looks **beyond quantitative econometric indicators** to also include **qualitative** social, political and environmental indicators, can also be helpful.[4]

13. In developing such an analysis, the following points are also worthy of note:

- **There is no single / average consumer lived experience**: Although energy and water are in many ways homogenous products, the way that people use and perceive these services can be very different. We know that all consumers are different. There is now increased recognition from policy makers, regulators and companies that there is **no such thing as an 'average' consumer** and that '**customer' segmentation** to help deliver more personalised services is important. There is also a recognition that whilst for some consumers problems with services may be a minor annoyance, for a **significant minority** of others (in particular those living in poverty, with additional needs and in places which have been 'left behind'), this can be a persistent problem. With overall poverty rates remaining stubbornly between 21 and 25%, and 7% of the UK population now in 'deep' poverty,[5] this is a fundamental issue for society as well as the individuals concerned. And for some people can even impact on their **physical and mental well-being**. The very different perspectives and life experiences that people have can have a significant impact on what is '**rational'** behaviour in that context.

- **The consumer lived experience is often fluid and dynamic**: People often move in and out of **vulnerability** (e.g. during illness or unemployment) and a consumer's interest in their services can be influenced by **service disruptions** and how these are handled (e.g. the 'beast from the east').

- **Services are becoming increasingly 'bundled'**: When retail offers package together different services, it can be hard to define the market and assess whether consumer interests are being protected (e.g. energy supply cross subsidising electric vehicle charging – or vice versa). From the consumer point of view, working out whether you are getting a good deal, are free to shop around for some of the services in the bundle and to work out who is responsible if anything goes wrong – can all become potential issues.

- **The lines between consumer and citizen issues are becoming increasingly blurred**: Traditional divisions between consumer and citizen issues are being eroded as we go through a period of significant upheaval and disruption on multiple fronts. The privatisation 'settlement' in the sectors focused regulatory and company attention on the very top of the right-hand quadrant in Diagram 1, assuming that wider policy initiatives would address the other three quadrants. This has not always been the case and looks increasingly out of touch with the challenges that we now face as a society.

[4] A good example of an approach which also examines political, institutional and lived experience factors can be found in the Centre for Competition Policy's *Fairness in Retail Energy Markets*, October 2018.
[5] The Social Metrics Commission, *Measuring Poverty 2019*, July 2019.

The **vacuum** that is created **when government fails to take strategic social and environmental decisions** can exacerbate this problem. This can most notably be seen with the impacts of austerity and **reductions in benefits for the most vulnerable** (e.g. universal credit) which can clearly impact on both the affordability of essential services and perceptions of social justice. This is amplified by the **knock-on impacts** of **financial pressures on local authorities, housing associations and third sector organisations**[6] that may have previously provided support to groups in vulnerable situations and may no longer be able to do so.

Other areas where the lines between consumer and citizen issues are perhaps blurring include: the increased understanding of the **environmental impacts** of energy and water use, particularly in the context of climate change, and what this means in terms of changing the behaviour of millions of people in their day to day lives;[7] growing **public interest in climate / nature** (most obviously in the rise of Extinction Rebellion);[8] and the **technological change** which is disrupting existing services, business models and regulatory frameworks (particularly in energy) which is in turn impacting how consumers use and experience them (e.g. the move to energy as a 'service' and new sharing / renting / leasing arrangements for things like heat pumps).

- **Outcomes are key**: For essential services such as energy and water, the lived consumer experience is heavily influenced by the outcomes they receive – not just their transactional experience. Many of the outcomes in the sectors are often **outside the direct control of energy and water companies**, and indeed the regulators in these sectors (e.g. income levels, quality of housing stock, security of tenure, etc.). It is also important to remember that energy and water are often **enablers or barriers to achieving other outcomes** (e.g. health and well-being and digital communications and connectivity). As mentioned previously, 'siloed' policy making and regulation can deter joined-up initiatives to deliver such outcomes.[9]

- **Cumulative impacts are important**: As energy and water are used on an ongoing basis, any **distributional impacts** that may occur can be **amplified over time**. This can be seen within generations ('persistent' poverty) but also between generations (e.g. inequalities in wealth, failure to internalise environmental costs leading to natural capital being degraded over time, etc.). In addition, an understanding of the consumer lived experience also requires an appreciation of how distributional impacts can accrue between sectors and across essential services (e.g. if you haven't

[6] https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/SF_-_F4TF_-_Political__Regulatory_Uncertainty__Risk_-_Discussion_Paper_FINAL_8.10.pdf

[7] Over half the emission cuts to reach net zero require people to do things differently (Committee on Climate Change, *UK credibility on climate change rests on government action in the next 18 months*, 10th July 2019).

[8] According to YouGov, a quarter of Britons cite the environment in the top three issues facing the country (YouGov, *Concern for the environment at record high*, 5th June 2019).

[9] https://www.sustainabilityfirst.org.uk/images/publications/other/SF_Future_of_utilities_regulation_Discussion_Paper_FINAL.pdf

got broadband it is more difficult to identify cheaper energy providers, if the cost of rail fares goes up for a commuter they will have less money to spend on their water bill, etc.) and relative and changing debt collection practices (e.g. for collection of Council Tax).

- **Energy and water are in many ways not like other consumer markets**: In the energy and water sectors, markets, on their own, struggle to deliver fairness, place-based / community well-being, resilience and clean services / environmental well-being.[10] Regulation and government interventions are often needed to deliver these outcomes. This means that the consumer lived experience in the sectors is also heavily influenced by regulatory and policy incentives and frameworks.

<u>Why</u> is the consumer lived experience an important lens through which to study risk and uncertainty?

14. Understanding the consumer lived experience is important as the energy and water sectors provide **essential services** that are **critical parts of the national infrastructure** and key to our **social, environmental and economic well-being**. **Continuity of service and stability** in terms of service delivery and price are important for wider well-being and to enable consumers to plan and budget and for our complex inter-dependent society to function. But this must be **short and long term** if political and regulatory risk and uncertainty around fairness and the environment are to be avoided.

15. A lack of willingness, or ability, to deal with this wider lived experience in the round can lead to increasing frustration that services are not being delivered in a fair way that meets the needs of all members of society – and our environment. If left unchecked, frustrations can boil over until even traditional consumer issues become ethical and political issues around which citizens coalesce, leading to **calls for more radical – and ideological – change**.

16. These points can be aggravated when people do not consider that the **checks and balances in wider policy and regulatory frameworks that should protect them do not recognise their plight or needs**. This issue was flagged at a national scale for the whole of the UK and across the economy in a recent UN report: '*British compassion for those who are suffering has been replaced by a punitive, mean-spirited, and often callous approach apparently designed to instil discipline where it is least useful, to impose a rigid order on the lives of those least capable of coping with today's world, and elevating the goal of enforcing blind compliance over a genuine concern to improve the well-being of those at the lowest levels of British society*.'[11] Although this report was contested by the government, the concern expressed in it is clear and resonated with many.

17. Once this **tipping point** is reached, it can become far more challenging for energy and water companies – and regulators and policy makers – to close down or 'box up' *their*

[10] Sustainability First, *Looking to the long-term*, op cit.

[11] Statement on Visit to the United Kingdom, by Professor Philip Alston, United Nations Special Rapporteur on extreme poverty and human rights, 16 November 2018.

own issues. This then creates challenges to **reputation** and retaining **goodwill or brand**. '**Contagion'** can often follow, where problems across the sector, or even between sectors, can get conflated.

18. In such situations, the **legitimacy and licence to operate** of **market actors, regulators and policy makers** can be called into question. It could be argued that we are at this point now, with calls for nationalisation in water, energy networks and rail, and following cases such as the collapse of Carillion, also in much of the wider business world.

19. This challenging picture for managing political and regulatory risk in this area is further complicated by the fact that the lived experience of energy and water consumers is also key if they are going to play an active role in **reducing and managing demand – and pollution** – in the future. If the practical experience they receive from energy and water providers is not positive, and they see the owners as 'greedy' or 'uncaring', they are less likely to **value** our **precious resources** and **use them responsibly** themselves. 'Informed' stakeholders, such as community renewable schemes and metro-mayors, can play an important role in shaping and managing perceptions here.

How the consumer lived experience in regard to fairness and the environment can <u>escalate</u> political and regulatory risk and uncertainty

20. The different points below are in a rough order of the extent to which they are likely to be within a **company's control**. Those towards the bottom of the list may be outside the company's control but they may still be able to exert **influence** on them. For those at the end, all that the company may be able to do is **inform** the overall environment in which it works.

<u>Not doing the core day job properly</u>

21. Companies that do not get the basics right and are not seen to be doing this can increase political and regulatory risk. Reports of poor customer service in energy suppliers[12] and low environmental standards in local water sources clearly erode trust – not just in the individual companies concerned but across the sectors and in the regulatory / policy framework itself (e.g. Feargal Sharkey's reports on river pollution[13]). A focus by companies on regulatory compliance rather than outcomes delivered and consumer / citizen / community experience on the ground can exacerbate this issue, particularly when regulation and policy itself is seen as outdated and / or weak.

<u>Mismatch of words and deeds</u>

22. The rhetoric of putting customers at the heart of decision making and being customer focused is not always matched by corporate behaviour on the ground. High profile

[12] The latest Ombudsman annual review available found that energy sector complaints had increased in 2017. See Ombudsman Services, *Annual Review 2017 - Making a difference together*, 2018.
[13] https://twitter.com/feargal_sharkey

cases, such as Southern Water's misreporting of data and 'co-ordinated efforts to hide and deceive customers of the fact' over seven years[14] erodes trust and increases political and regulatory risk. Concerns can be exacerbated when there are problems and redress is not forthcoming, such as Cadent's not paying customer compensation as required over six years.[15] When poor performance is coupled with high levels of executive pay, and particularly bonuses, it can lead to 'cognitive dissonance' and the integrity of the management team can be called into question (see page 9), and employee loyalty can be undermined.

'The computer / call centre says "no"'

23. Not **understanding consumer needs** and **how these differ** so that support can be targeted, or being able to **adapt services** to meet additional or changing needs, can increase political and regulatory risk. At one end of the spectrum, this may just be an annoyance (e.g. around call waiting times). However, even this can escalate as a problem and '**wasted individual time'** is a big issue when many people are **time-poor**.

24. At the other extreme, this can lead to significant impacts on stress, anxiety, health and well-being. In August 2019, Citizens Advice found that people with poor mental health, for example, are paying up to £1,550 each year as a result of inaccessible essential services, inadequate regulatory protections and lack of tailored support. The charity has seen an 11% increase in consumer and utilities issues, including debts, among clients with mental health problems in 2018–19.[16] The quality of company interactions with consumers, the behaviour of staff and degree of care and compassion shown are all clearly important. As electricity, in particular, is now an enabler to much of modern life, problems in this sector can have a negative impact on consumers which can extend far beyond the size of the bill and service received in that particular market.

25. Risks can also build up over time when companies do not take **consumer values** into account when designing their services and shaping their offerings in the first place. The Citizens Advice loyalty super complaint is a case in point. Although this was focused on certain financial service and communications markets, the points raised could equally be relevant to energy. The CMA noted, '*Customers rightly feel ripped off, let down and frustrated. They should not have to be constantly 'on guard' or spend hours negotiating to get a good deal. This erodes people's trust in markets and the system as a whole. Not enough has been done in the past by the CMA and regulators; there needs to be a step-change to tackle these problems more effectively.*'[17] Absent a strategic grasp by companies, regulators and policy makers of what values are important to customers in the delivery of essential services, risks in this area may well continue to escalate.[18]

[14] The Financial Times, *Southern Water hit by £126m penalty for serious failures*, 25th June 2019.
[15] The Financial Times, *UK's top gas distributor Cadent fined £44m by Ofgem*, 22nd May 2019.
[16] Citizens Advice, *Counting on it - Cross sector minimum standards of support for people with mental health problems,* 14th August 2019.
[17] CMA, Tackling the loyalty penalty, 19th December 2018.
[18] For a discussion on values in the energy and water sectors, see https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/24071_F4TF_Fair_STRAWMAN_v8a_WEB_MID-SIZE1.pdf, page 25, and Appendix 1.

Poorly handled complaints and redress

26. When companies do not deal with complaints and do not offer redress in a **timely and sensitive manner**, this can exacerbate problems. If coupled with **sharp practices**, this can rapidly increase political and regulatory risks.

27. With increased **bundling of services, long and complex supply chains and often unregulated third-party intermediaries**, **untangling liabilities** and working out who should put things right when they go wrong can further erode the consumer lived experience and escalate political and regulatory risk.

Being on the back foot when there are problems

28. It is largely accepted that it would be cost prohibitive to make energy and water services 100% resilient in all possible circumstances. However, when companies have not got the basics of service delivery in place, and are on the back foot in terms of responding to consumer needs during **shocks and service disruption**, political and regulatory risk can very quickly escalate (e.g. the response of some water companies to the 'beast from the east').

Out of step with public expectations

29. The **context in which energy and water companies operate is changing very rapidly**. It can be organisationally challenging to stay in tune with – and to meet – public expectations, particularly when licence requirements, regulatory and policy frameworks, and social and consumer support mechanisms were in some respects designed for a different era (e.g. siloed government treatment of health, social care, and benefits alongside energy and water being dealt with in different departments). There are several dimensions to this point.

    - **Unjustified differential treatment**: Public expectations are changing with digitisation and the desire for tailored services by all consumers. Whilst most people want services that are personalised to meet their needs, many are less comfortable about increasing differentials in price and service provision for essential services – particularly when these are not justified, without explanation or are not transparent. Ofgem has recognised this, as did Greg Clark.

    - **Failure to join-up services**: Most people do not see themselves as an energy or a water consumer. When a life event such as illness or a death in the family leads them to have a problem with one essential service, they may well experience problems from other service providers at the same time. At times of stress, navigating fractured, siloed markets can be particularly stressful and have a significant negative impact on the consumer lived experience. Companies that do not proactively seek to work with their peers in other essential service markets to develop joined up and seamless one-stop shops and packages of support run the risk, at least in the medium term, of being as seen as out of touch with the consumer expectations. Moves by

energy and water companies in the last few years to share priority needs codes etc. and to provide more joined up services for people with mental health issues for example, whilst welcome, are only the beginning of what is possible in this area.[19]

- **Not recognising the importance of community / locality / place**: Technological, political and environmental changes are making local and community approaches (such as community renewables and catchment management schemes) increasingly important in the sectors. The Government's Industrial Strategy has a major focus on regional growth. And the desire for 'equitable decentralisation' is a significant part of the Labour Party's thinking on the nationalisation of energy networks.[20] Energy network and water company services that fail to recognise that the consumer lived experience can be shaped by the places where people live, and regulatory frameworks for energy retail that struggle to deal with and facilitate plurality of provision, can clearly give rise to political pressures for change. For energy networks and water providers, smaller or 'locally-led' companies that are rooted in their communities are likely to be at an advantage here with this risk perhaps being most material for those businesses that have a large geographical footprint coupled with centralised systems delivery.

- **Pay packages and pay differentials:** History shows that when the basics are not right, **totemic issues** such as executive pay can escalate political and regulatory risks around fairness. When senior remuneration, and bonuses in particular, are not a good reflection of the services delivered, are significantly out of step with much of the lived experience of many customers and utility frontline employees who may be experiencing stagnant or minimal pay growth,[21] working multiple jobs to make ends meet (e.g. in the gig economy), or are at a level that is in significant excess of what other 'public service' leaders are paid (e.g. in the NHS), these risks will go up.

- **Excessive company returns:** Concerns around excessive returns for monopoly providers of essential services,[22] particularly if these are 'double digit' when interest rates are low, are also heightened at times of stagnant or minimal pay growth – and when small businesses and the self-employed are struggling. 'Unjustified' high returns, particularly if delivered through complex and opaque company structures with high levels of gearing, make companies appear 'greedy' and regulators 'weak'. This issue has clearly received particular attention from Defra and Ofwat in the water sector in recent years. However, it can also lead to 'contagion' not just within but also between sectors. These concerns often play out over time; concerns around excess returns and dividends that were made / taken by previous investors or management teams can lead to **retrospective calls for 'clawback' or harsher**

[19] See this case study note on cross sector collaboration on vulnerability from the Thriving Communities Partnership in Australia for an indication of what is possible: https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/SF_The_Thriving_Communities_Partnership_Case_Study_26.3.19_FINAL_1.pdf

[20] The Labour Party, *Bringing energy home*, March 2019.

[21] See BEIS Select Committee, *Executive rewards: paying for success*, 26th March 2019.

[22] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/consumer-policy-research/consumer-policy-research/monopoly-money-how-consumers-overpaid-by-billions/

regimes, even though the actors who benefited from previous gains may now have taken their money and left the system.

- **The limitations of markets**: Markets and **yardstick / comparative competition**, by their very nature, create **winners and losers** and on their own struggle to deliver 'fair' outcomes. **Government and regulatory interventions** to try and address high prices, concerns around affordability (such as the energy price cap and social tariffs in water) and poor services tend to be **ad hoc and 'behind the curve,'** only introduced once sufficient evidence has built up that these are issues. In the meantime, the lived experience of many consumers may result in real hardship which for essential services in a developed country may be seen by many as politically and ethically unacceptable.

These problems can further be exacerbated by a number of factors including: reductions in **benefits and social support** provided by the state; personalisation leading to the **unwinding of social cross-subsidies** between different groups of consumers; the **barriers** faced by some consumers, compared to prosumers and 'early adopters', in accessing and taking advantage of new **'smart' markets** (broadband access, poor credit records, electric vehicles, smart kit, batteries, water saving devices etc.). Taken together, these things can combine to escalate political and regulatory risk and lead to questions around a company's and regulator's licence to operate. These issues can be contested as some people think that non-payers are 'scroungers' and should not get extra support. The issue has a particular complexion in water where disconnections for non-payment are banned.

- **Cumulative distributional impacts**: There is now an increased recognition of the cumulative impact that **persistent poverty and wealth inequality** can have on the consumer lived experience over time. There is an evolving **public debate on how growth, well-being and poverty frame public policy**, with groups such as the Social Metrics Commission developing new measurement frameworks for poverty that do '*not just look at people's income, but also the wider financial resources that they can rely on and the impact that inescapable costs such as childcare and the impact that disability have on their ability to make ends meet. [The report] strikes a balance between traditionally divisive relative and absolute poverty measures and in doing so, better reflects how our understanding of poverty should respond to changes in societal expectations*.'[23] Whilst there are clearly significant issues for those in persistent poverty, there are also very large numbers of people who are only 'just about managing' and who may fall outside various safety nets for support.

30. There are particular concerns in energy that those most able to actively engage in markets are able to reap the highest rewards, and that **new technologies and switching algorithms** etc. may **widen existing disparities**. If these concerns are not addressed by both sectors, these issues and debates can become partisan.

[23] The Social Metrics Commission, *Measuring Poverty 2019*, July 2019.

31. **Politicians** who want to be seen to keep prices low in the short-term for electoral advantage may in the process delay much needed investment which can create problems for future consumers in terms of higher costs, and with climate change, reduced optionality. Decision-making frameworks which require politicians, regulators and service providers to consider longer-term impacts, including the **Climate Change Act and the Welsh Future Generations Act, along with local approaches such as Manchester City Council's intergenerational work,** can help counter this tendency and ensure solutions which are mutually beneficial for different generational cohorts. This can help ensure that the consumer lived experience in the future does not exacerbate political and regulatory risks further and may be increasingly important if we are entering a period of prolonged political instability.

'Slopey shoulders' on boundary issues

32. Reluctance to show leadership on the significant issues of the day, particularly on boundary issues where roles and responsibilities may be unclear (e.g. the implications of persistent inequality and insecurity and on environmental issues) can lead to consumer issues blurring into citizen issues. Although this is now starting to change (e.g. Water UK's Public Interest Commitment to make bills affordable by 2030 and to develop a strategy to end water poverty[24]), perceptions can take a long time to shift and the proof of the pudding will be in the eating.

How the consumer lived experience in regard to fairness and the environment can better address and mitigate political and regulatory risk and uncertainty

33. Again, these issues are listed in the rough order in which companies are likely to have it within their control to address them.

Get the service basics right

34. Delivering on the basic services which are covered by a company's licence is essential to reduce risks in this area. As recent experience has shown with both water and energy companies, this is far from 'in the bag.'

'Know your customers' and the wider third-party stakeholders on which they may rely

35. Developing a better understanding of your customers' actual lived experience and their various needs can help ensure you get the basics right and understand how people want to be treated and what their priorities are. **Customer segmentation and customer journey mapping – along with the opportunities of big data** – are key. For some, particularly those that are **difficult to reach,** better understanding who their **networks of support are and the third-party intermediaries** that act on their behalf, and what the needs of those groups are, is also likely to be important. For example, if certain groups rely on a particular NGO for support and that organisation does not have the resources

[24] Water UK, *Public Interest Commitment*, 25th April 2019.

to deliver this, it cannot be assumed that this will happen without appropriate **capacity-building support**.

36. **Frontline staff** see and hear the consumer lived experience daily. They also know many of the potential answers. Getting the board to hear first-hand what the lived experience of the consumers that they serve is (through customer immersion sessions, listening in on calls, etc.) can be a powerful way to ensure that their **voices are reflected in board room conversations and decision making.** Absent this, customer issues can be pigeonholed as just for the customer service director (or even the regulation director) and, in the absence of any incidents, confined to periodic reporting on board agendas. To address this risk, executive teams, board members and investors need to be regularly prompted that their **core purpose is to serve their customers and that it is they who pay their wages and provide returns.** Systematic mechanisms to listen to frontline staff, and those who can be the 'eyes and ears' of the organisation and 'tell its temperature' (e.g. people working at reception), can help do this.

Engage your customers and relevant stakeholder representatives

37. Getting better data on your customers is only the start of the process of addressing political and regulatory risk in this area. **Proactively engaging** with your customers and other stakeholder representatives so that you really listen to what they want to say (not just what you want to hear) can help companies see **consumers as part of the solution rather than as part of the problem**, and help them develop better services and navigate future problems. It can help shift the dial from transactional relationships to trusted relationships as long-term stewards of precious resources and custodians of monopoly infrastructure assets where wider community, public, and citizen outcomes are just as important as consumer outcomes. Nearly all energy networks and water companies now do this on a routine basis as part of the price control process.

38. **Embedding this activity** into ongoing business activity, rather than seeing it as an ad hoc regulatory compliance exercise, **engaging customers to better understand their values** (e.g. how they view fairness, loyalty, compassion, respect, integrity and honesty in the sectors) so that companies have a reference point when they need to make judgement calls, and engaging consumers and communities in the **co-design and co-delivery** of new services are the next steps that many are now taking. There is **much that energy retailers can do to learn from energy networks and water companies in this space**.

Providing meaningful choice where possible

39. Although as previously noted energy and water are in some ways homogenous services, giving consumers a meaningful choice where appropriate can help make the consumer lived experience as frictionless and positive as possible (e.g. around **methods of payment, means of communication**, etc.). Small changes in processes and procedures can sometimes have a big impact on the quality of customer interactions. The move towards delivery of **energy or water as a 'service'** – where the goal may be to **reduce consumption** – raises a whole new range of possibilities in this area.

Empower frontline staff to do the right thing

40. Billing estimates / errors, missed appointments, failure to answer calls, etc. are all the frustrations that can erode the consumer lived experience. Given the fluid nature of this experience, and the fact that in disrupted markets such as energy this is likely to continue to change, empowering frontline staff to do the right thing by their customers whatever the circumstances is important to minimise risk. This clearly needs to take account of the need to also ensure that **IT systems** are fit for purpose – which can be costly and take time to change.

41. This also requires an **understanding of customer values and ensuring that these are aligned as far as possible with the values in the business and staff culture and behaviour**. This theme was touched on in our 'Sustainable Licence to Operate' workshop on 'Purpose and values' in December 2018. In our follow-up research with companies afterwards, we noted that in many companies regulation directors were still the interface with external stakeholders and in some cases they did not immediately know what their organisational values were. This would appear to indicate that there is some way to go before purpose and values are embedded in some companies to a degree which will help them address political and regulatory risks around fairness and the environment. Employees need formal channels and '**speak up' / 'don't walk by'** mechanisms to ensure feedback from the frontline is captured and appropriately dealt with (at the extreme, including through **whistleblowing measures).**

Flex your forward antennae

42. As **big data** provides new insights about consumer experiences, the goal posts are continually shifting in this area – as are the opportunities for companies, and regulators, to use **predictive analytics** to head off problems at the pass.[25] However, anticipating issues with the consumer lived experience requires looking over the horizon not just in terms of immediate customer concerns but also at the **cumulative changes** in the economic, social and environmental context in which people live.

43. Building a richer picture of how the consumer lived experience is changing in areas such as the following can all help address political and regulatory risks: **changes in the benefit system** with policies like universal credit; **trends in bills for other essential services and council tax**; **changing patterns of tenure** (e.g. the growth of the private rented sector where energy and water efficiency improvements may be difficult); **how people will access and enjoy the natural world in reservoirs and rivers to help benefit their physical, mental and spiritual health** at times of environmental stress; and knowing your community demographics (e.g. deprivation indices, age profiles, care home locations, etc.).

44. Taking a wider forward look can also pinpoint where energy and water services may be **enablers or barriers to consumers accessing other services**, and in a way which may

[25] For example, insights from organisations like Resolver can tell companies when cases are likely to be escalated to an Ombudsman or, indeed, when companies are likely to go out of business.

make consumers see their affordability and resilience in a different light than if viewed on a siloed basis.

45. As this type of research can be expensive, and as many essential service providers are in a similar boat, it makes sense **to work closely with local government, social housing providers, etc., and pool some of this research or to carry it out jointly**.

Getting on the front foot with communications

46. Providing **proactive explanations** about what you are and are not doing to improve the consumer lived experience – rather than waiting for regulatory or other requests for information – can help address political and regulatory risk and uncertainty around fairness and the environment. It can also **help ensure that the consumer experience is more predictable**; something which is particularly important for those in vulnerable situations who may not have the '**flexibility capital**'[26] to cope with sudden and unexpected change. Being able to **evidence / demonstrate what you are doing** and why in a way that **resonates with your customers and stakeholders** is important and will help you get the **third-party support and endorsements** that may be needed when things go wrong.

Innovate for all

47. There is a significant amount of change taking place in the energy, and to a lesser extent, water, sectors. It is vital that the innovations currently being tried and tested are able to **benefit all consumers and not just early adopters or the more affluent**. Sustainability First's Project Inspire[27] found that while mechanisms to incentivise and support companies to innovate for all their users, including those in vulnerable situations, were in place for energy network consumers, competitive markets had not really succeeded in stimulating innovation for all in the energy retail space. To stop this becoming a future issue, where the 'have-nots' are excluded from the smart world and future services leading to increased political risk, **mechanisms need to be put in place to support innovation for all consumers and embed innovation by design in all relevant parts of the value chain.** Regulators setting out their expectations that this is what they expect responsible business to do in this area can also be important.

48. There may, of course, be some areas where energy and water companies recognise there is scope for innovation to deliver better services for all and for the environment, but where it may not be possible, or appropriate, for them to lead (e.g. when wider social and environmental issues are in play that straddle consumer and citizen outcomes). In such cases, to help address political and regulatory risks around fairness and the environment, **companies can perform more of a facilitative role**: **signalling where opportunities to improve services may exist, sharing data and expertise (respecting data protection etc.), and brokering partnerships.**

[26] Powells and Fell, *Flexibility Capital and Flexibility Justice in Smart Energy Systems*, 2019.
[27] https://www.sustainabilityfirst.org.uk/images/publications/inspire/Energy%20for%20All-%20Innovate%20for%20All%20(summary).pdf

Clarifying future roles and responsibilities on boundary issues

49. Once companies, and regulators, have a richer picture of the consumer lived experience in their business and sector and how this is changing, they will be in a better position to be able to **look 'outside of the box'** at the wider context in which they operate and consider **how their roles and responsibilities may need to evolve** for the future if they are to maintain a licence to operate. As previously noted, the UN's Sustainable Development Goals can provide a helpful framework to do this. Reviewing their relationships with other utilities, devolved government, metro-mayors, local authorities, transport providers / agencies, etc. in areas such as vulnerability, resilience, and the environment (particularly in water but also for air quality in energy networks) is a start.

50. Companies clearly cannot provide a 'blank cheque' in terms of meeting social and environmental needs. However, they are often **experts in their areas of operation and should use this expertise, and any monopoly privilege that they may have, to 'call out' when others may need to take action**. For example, this may entail being much clearer about how the cost implications of proposed new subsidies and levies may impact on the consumer lived experience and jointly exploring the alternative options for meeting social and environmental policy goals (e.g. taxation). Being **more proactive 'advocates' for their sectors** can help ensure wider policy, regulatory and consumer protection frameworks and accountabilities are fit for purpose for the future.

51. On some issues, however, they may be able to go further and to actively form **partnerships with others to share expertise and skills to jointly improve the consumer lived experience**. In such cases, careful thought is needed as to what **governance arrangements** may be needed to ensure that risks and rewards are shared in a fair way – for current and future generations and for nature as a stakeholder in its own right.

52. **Regulators** can also play a role here in terms of looking beyond their narrow statutory duties to **collaborate together across silos** to produce more joined-up and effective solutions for consumers that recognise the consumer lived experience 'in the round' and the cumulative distributional impacts of their decisions over time, thus taking into account relative as well as optimal efficiency.