Caught in the headlights?

The war in Ukraine and the impacts on UK utilities

Navigating risk and uncertainty and supporting strategic decision making during the crisis

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Sustainability first

Overview

Aims and content

- The invasion of Ukraine is a humanitarian tragedy. Without detracting from this, this pack focuses on the implications of the crisis for the UK energy, water and comms sectors
- Our aim is to support senior decision makers in companies, but also regulators, to be bold and make the best decisions for sustainability and the public interest during the crisis
- Boards and executive teams will already be tackling the direct pressures of the crisis on their organisation. These will vary between sectors and companies
- This pack is intended to help you avoid being 'caught in the headlights' and to
  - **Stand back:** so you can assess how far your own risk processes are likely to stand up as you take action to navigate the complex challenges faced
  - **Lift your gaze**: to see the big picture so you have a more complete view of the wider spectrum of impacts and the social, environmental and economic operational context, including indirect and spill-over impacts, that may alter your risk universe and the materiality of the risks you face
  - **Build resilience**: the pack can be used as a tool to develop your own scenario plans and stress-tests so you are better placed to deal with dynamic risks playing out across decision making silos and time periods; enabling you to maintain the bifocal perspective necessary for lasting resilience
- This pack contains three practical tools

1. A short check-list for boards and executive teams to help you assess the possible wider impacts of the crisis for risk and uncertainty in your organisation
2. A note on possible scenarios
3. A Political, Economic, Social, Technological, Legal and Environmental ('PESTLE') analysis of the possible wider impacts of the crisis for UK utilities

Checklist to support strategic-thinking in boards and executive teams during the crisis - introduction

- Decision makers in companies and regulators are already engaged in their immediate operational responses to the crisis and will be reviewing and updating risk registers
- Having recently been through similar exercises at the start of covid, many will be more agile in their responses this time round
- However, given the complex and multiple challenges faced, and the particular implications of this crisis for utilities (as essential services, energy businesses/high energy users and key parts of critical national infrastructure), some may feel caught in the headlights and paralysed by the enormity of the situation
- The following short checklist builds on the research on risk and political uncertainty undertaken as part of our major three-year Fair for the Future project and our work in these areas at the start of the pandemic
- This experience highlighted that at times of radical uncertainty, a 'back to first principles' approach may be the best compass

Reference: https://www.sustainabilityfirst.org.uk/images/publications/presentations/Balancing_Act_BIEE_Paper.pdf

Checklist to support strategic-thinking in boards and executive teams during the crisis - summary

1. Roles and responsibilities
2. Partnerships
3. Purpose, values, culture & leadership
4. Strategic prioritisation
5. Risk interactions
6. Assumptions
7. Metrics and learnings
8. Opportunities

Checklist to support strategic-thinking in boards and executive teams during the crisis

1. **Roles and responsibilities:** are there the right channels of communication and mechanisms to share information in a timely way to help make decisions as roles and responsibilities shift (eg with government, regulators, regional government, customers, wider stakeholders etc)? Do you know who is best placed to lead on what? Do you understand where you need to lead, where you need to work with others, where you can help (expertise, resource etc) and where you need to get out of the way?
2. **Partnerships:** have you got the right strategic partnerships in place to help you to continue to fulfil your role and have you got the right governance arrangements around these? Are you sharing this information with other key actors in the system? Do your staff understand what this means for them?
3. **Purpose, values, culture and leadership**: do these cut-through and inform your organisation's operational and strategic responses to the crisis – across both teams and customers? How do you know? Is the flow of information from those at the sharp end to the executive as effective as the flow of information from the executive down – and is this sufficiently open and timely? Are you being sensitive to staff, customers and communities impacted and are you supporting the desire to help?
4. **Strategic prioritisation**: immediate operational challenges notwithstanding, do you still have effective ways to look at the totality of risks and continue to consider longer-term priorities – so that you are not leaving time critical issues to be dealt with sequentially but are addressing them in parallel? Are you making full use of your insights from government, staff, customer and wider stakeholder engagement to help you prioritise and do you have the mechanisms in place to ensure that this flows through to those charged with governance?

Checklist

Checklist to support strategic-thinking in boards and executive teams during the crisis (continued)

5. **Risk interaction**: do you and your team understand the dependencies of the risks you face, including those arising from the crisis, and how these may impact your resilience short, medium and long-term? What further combinations of risk (eg supply chain risks due to latest covid outbreaks in China coupled with supply chain risks from invasion) could cause added business shock or lead your business to be knocked over (e.g. financially, operationally etc)?
6. **Assumptions:** which of your core assumptions on risk need urgent review (e.g. viability of supply-chain / contractors, cash flow, customer default, economic / growth impacts, etc)? What mitigations fall within / out-with your control? Have you changed your funding and budgetary allocations to align with revised assumptions? Have you got sufficient flexibility to cope with ongoing uncertainty?
7. **Metrics and learning**: Do you have sufficient information, leading indicators and the right metrics to understand the most material impacts the crisis is likely to present to your business and to assess your performance on delivering in this evolving context? Are you sharing this knowledge with others to deliver wider systems benefits? Do your teams understand that no decision is perfect, how much information is 'enough' and the importance of evaluating/monitoring your actions so you can pick up on any unintended consequences? Are you acting on your covid lessons learned exercise in this new emergency? What lessons does this new crisis provide for your other challenges (e.g. climate)?
8. **Opportunities**: the crisis is a major discontinuity and a chance to go down another pathway. How are you using it to help achieve wider goals and outcomes such as decarbonisation or levelling up? Do you have the capacity and agility to capitalise on this and innovate – with your teams, your customers and across your sector? Can the crisis be used as a chance to rethink / ditch practices and procedures that don't deliver public value (eg poor national co-ordination)?

Scenarios for decision making under deep uncertainty

- It may still be relatively early days in the crisis in the Ukraine and the situation is deeply uncertain and fast moving
- The impacts of the crisis will clearly vary between the energy, water and communications **sectors**, with the energy sector being impacted the most and the water sector the least
- Sustainability First has produced a separate position statement on the implications of the crisis for **energy security**
- The impacts of the crisis also vary depending on the **actor** in question; i.e. whether you are a government department, regulator, incumbent monopoly company, disruptive new entrant, investor etc.
- Impacts that reinforce **underlying trends and changes**, such as issues with long global supply chains that had already been exposed by the pandemic, are likely to be greater and last longer
- This crisis comes on top of Brexit and Covid. Decision makers will want to understand **what is different** about the impacts of this crisis on UK utilities and what is compounding other crises
- This may also be one in a series of crisis; decision makers may want to stress test their approaches against **multiple and ongoing shocks**

Scenarios for decision making under deep uncertainty

- Given the differences that are likely to exist between different sectors and actors, and their respective exposures, each organisation will clearly be carrying out their own scenario analysis for the crisis
- This will need to supplement, or potentially reframe, their existing scenario work (eg Ofwat's long-term common reference scenarios or the National Grid ESO's Future Energy Scenarios)
- Scenarios for this crisis could include those which consider:
  - Key factors / dependencies – eg if Russia turns off gas to Europe
  - Length of conflict. It is worth noting, that even if the military situation is resolved quickly, the deterioration in relationships and lack of trust that this will have created is likely to last for far longer
  - Geographical reach (whether China, the Baltic States or the Balkans, for example, get pulled in, along with associated Western responses, a possible coup in Russia etc)
  - Whether changes are reversible / irreversible
  - Nature of the conflict (military, cyber, chemical etc)
  - Wider impacts (humanitarian, migration, financial, food security)
- The following Political, Economic, Social, Technological, Legal and Environmental (PESTLE) analysis provides a tool to use to consider the spectrum of wider impacts from the crisis and to help you develop more specific scenarios and stress tests to reflect your own situation

PESTLE analysis

Political, Economic, Social, Technological, Legal and Environmental analysis – overview

Political

- Government focus
- Roles & responsib-ilities
- Globalisation

Economic

- Stagflation
- Energy & oil crisis
- Trade & supply chains
- Regulation, planning & standards
- Workforce
- Investors

Social

- Cost of living crisis
- Increasing & new vulnerabilities
- Mental & physical health
- Community
- Communications

Technological

- Innovation
- Cyber security

Legal

- New legislation & legal implications of separation from Russia
- Insurance
- Increased security
- Governance & reporting

Environmental

- Net zero & climate resilience
- Wider environmental impacts

Possible POLITICAL Impacts – 1

Government focus:

- Short-term energy security, affordability and resilience
- Reversals and U turns - what was seen as 'fixed' is now re-opened (eg onshore wind, fracking?)
- Fragility in existing approaches exposed along with gaps in delivery plans
- Arrangements for working together, communicating, and sharing time critical information in a crisis (Eg COBRA, Local Resilience Forums etc) tested. Will National Resilience Strategy help?
- Shift in focus from consumer satisfaction to resilience for citizens and communities but war footing puts long-term on back-burner. Limited bandwidth for other issues

Roles and responsibilities:

- State intervention in energy more likely to get change at scale and pace needed to cope with short-term crises. Pressure to 'go big' reconsider role of state and create new national institutions
- Regulators and companies (at least in energy) pushed to the side. Existing arms-length approaches not sufficiently flexible to cope with changes needed. Basic assumptions on who does what and roles and responsibilities questioned
- Pressure for government controlling shares and/or renationalisation of energy companies – and other critical infrastructure / utilities?

Possible POLITICAL Impacts - 2

Globalisation:

- Geo-politics threaten globalisation
- International agreements that shape sectors such as energy and communications are challenged and potential new arrangements (eg global carbon tax) put on ice
- Isolated UK – but also an opportunity for UK to build some of the relationships that Brexit may have damaged?
- Focus on national / sovereign approaches and self-sufficiency – in multiple sectors
- Cities and other place based actors (metro mayors, local authorities etc) given greater powers and responsibilities and roles in key areas such as decarbonisation

Possible ECONOMIC Impacts – 1

Stagflation:

- Inflation was baked in before the crisis but the invasion could lead to stagflation.
- Weak consumer and investor confidence holds back post pandemic recovery. European recession?

Energy and oil crisis:

- Sends shock waves through economy – including cashflow impacts. Cash is king
- Remaining self employed, SMEs, firms and sectors dependent on energy or oil (eg care workers, companies who haven't decarbonised their fleets) or those that have not fully recovered from pandemic (eg aviation, agriculture and food manufacturing) etc suffer the most
- Potential shortages? Industrial plants mothballed / reduced operating times?
- Windfall taxes on oil majors to pay for cost of living crisis

Trade and supply chains:

- Disruption of major world economy and sanctions lead to significant impacts
- Global supply chains in all sectors threatened, including in energy, food, steel etc. Complexity means models struggle to identify where single point failures etc are
- Bottlenecks - with exposure to critical minerals for net zero: eg nickel (Russia is main source of high grade nickel for EV batteries) and graphite, manganese, cobalt, lithium etc, many sourced from China
- Move from just in time global approaches to domestic supplies, self-sufficiency, focus on inventories (particularly if China locks down due to covid), strategic stockpiling (eg of chemicals for water) etc.
- Opportunity for this to open door for more circular approaches with a greater focus on co-benefits? And local production with a lower carbon footprint?

Possible ECONOMIC Impacts – 2

Regulation, planning and standards:

- Planning and standards systems changed and regulations simplified to reduce exposure to global risks (eg reversal on onshore wind, energy saving and low carbon production by default)
- UK post Brexit as lone actor maybe less able to influence any emergent new arrangements

Workforce:

- Value of pay eroded by inflation. Increased pay disputes
- Increased labour availability (for infrastructure projects etc) short term due to immigration but potentially reduced availability medium to long-term with reconstruction
- Greater diversification of the UK economy as more activities are brought onshore
- Changes in processes and procedures increase need for adaptability
- Reskilling UK workforce – increased push for good green jobs
- Second crisis of the decade leads to many millennials looking for ways to make life meaningful

Investors:

- Crisis leads to flight to quality and more certain returns – but what does this look like?
- Pressure to issue war bonds. Investment in renewables/associated decarbonised energy infrastructure more attractive
- Use of investment allowances and tax deductions to rebuild investor confidence
- Some of the risks around nuclear now highlighted
- Can't ignore the politics – ESG is redefined? Pressures to fairly share risk and reward increases with cost of living
- Markets outside UK/Europe potentially seen as more secure growth opportunities

Possible SOCIAL Impacts – 1

Cost of living crisis:

- Turbo charged as energy, food (war likely to impact wheat, sunflower production and availability of fertilisers) etc see prices soar – comes on top of existing energy price cap rises, and wider financial pressures for significant minority of population who have seen any savings eroded by pandemic
- Squeeze in incomes across the board – but particularly those with fixed incomes. Increases in energy and food prices hit poor the hardest
- A higher inflation / higher interest rate world may change relative poverty between groups with savers (older people) likely to benefit compared to those with mortgages (younger people)
- Existing social support is insufficient. Urgent need for widespread **and** deeper social support for energy (particularly in October when price cap due to rise again potentially leading to bills of ~£3,000)
- Rise in customer debt in all essential services (knock-on impacts in water where can't disconnect)
- Massive up-tick in need for debt advice
- Those in private rented sector who pay utility bills via landlord, in shared housing etc, may struggle to install energy efficiency and other means of reducing bills

Increased / new vulnerabilities:

- This is a people crisis. Suffering. Mass migration. Increased immigration
- New needs eg services to address needs of transient / dynamic vulnerability and need for Ukrainian translation services

Possible SOCIAL Impacts – 2

Mental and physical health and anxiety levels:

- Already high post covid, mental health problems rise further. Particularly for those staff and customers with friends and family directly impacted. Impact on younger people?
- Flexible working and other support for staff with family and friends in the Ukraine/impacted areas, including Russians based here who may not support the war
- Migration, particularly of large numbers of unvaccinated people and into surrounding states with low vaccination levels, could risk more rapid spread of covid

Community:

- Reliable communications become more important in crisis
- Communities coming together (eg 100k UK families volunteer to host refugees in 24 hours)
- Targeted community initiatives needed
- Closure of many social support organisations and charities as they struggle to pay increased costs

Communications:

- World social media / information war
- Authentic real time messaging can cut through
- Can the language of national security help make the case for climate change in a way that environmental arguments haven't been able to?

Possible TECHNOLOGICAL Impacts

Innovation:

- Necessity mother of invention – disruption leads to new solutions and approaches
- Innovation programmes accelerated – particularly those that deliver low carbon solutions and decarbonised approaches – in energy and all sectors of the economy
- Changing perceptions of risk in terms of new technologies / approaches
- Mass scale roll out of new low carbon and energy efficient technologies such as heat pumps – teething problems ironed out in real world test environment

Cyber-security: risks increase – leading to

- Review of Cobra and Resilience Forum procedures – what can be done to improve communications channels, sharing of info etc. Does new National Resilience Strategy help?
- Mass incident and BCDR testing – this may help tighten approaches to how deal with other threats
- Parallel and paper-based systems? Eg postal service given a life-line as seen as more secure in a cyber warfare world?
- For critical infrastructure, increased monitoring and vetting of staff and new joiners

Possible LEGAL Impacts

New legislation and legal implications of separation from Russia

- New legislation (eg Water 2022 Security and Emergency Measures Direction – relating to civil emergencies and national security – also recognition need to plan for the worst)
- Sanctions lead to untangling supply chains and distribution networks
- Potential stranded assets – particularly in energy
- Closure of Russian comms networks and platforms in UK

Insurance:

- Premiums rise, some things uninsurable?

Increased security:

- Legal and commercial arrangements for use of interconnectors and other arrangements to increase resilience
- Security of sites and assets – and any associated liabilities?

Governance and reporting:

- Tightening of governance and financial reporting requirements and new compliance work around sanctions
- Employee, customer and wider stakeholder engagement increasingly important to maintain legitimacy as cost of living bites

Possible ENVIRONMENTAL Impacts

Net zero:

- Real and immediate political pressure to roll-back net zero commitments ***if*** they get in way of short-term solutions
- BUT - focus on decarbonisation as pathway to reduce gas dependency and volatility and to take back control of energy policy
- Narrow and rapidly closing window to reach net zero may be missed, particularly if different countries start taking different courses of action in response to the crisis

Wider environmental impacts:

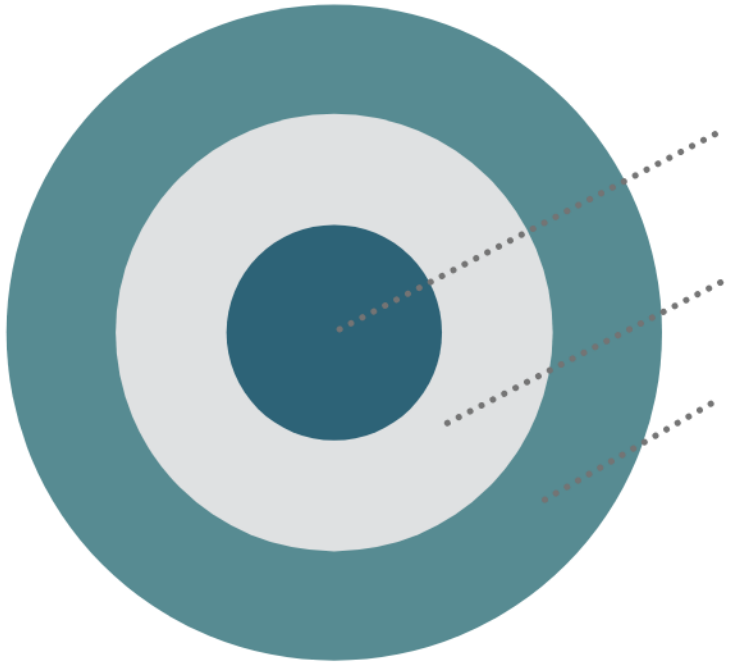
- Limited government bandwidth prevents strategic, long-term response in other areas (eg biodiversity)
- Environmental impacts of war – nuclear? Particulates from munitions? Ruined infrastructure and materials?
- For example, pressure from some in US to return to the 'drill baby drill' approach. Calstrs, the California State Teachers' Retirement System, one of the biggest pension schemes in the world, has rejected calls to end fossil fuel investments

Who we are

Sustainability First

We are a think-tank and charity that works in essential services to promote practical solutions to improve environmental, social and economic well-being

Our aims



Shape agendas - bring stakeholders together to drive strategic thinking on key topics

Embed sustainability - push thinking in new directions through informed engagement

Connect, inspire, engage - use creative, collaborative and inclusive approaches to engage broader groups in society on difficult choices and to identify innovative solutions

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