How engagement can maximise public value in the essential services of water and energy

Discussion Paper

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Sustainability *first*

Contents

Sustainability First is a think-tank that promotes practical, sustainable solutions to improve environmental, economic, and social wellbeing. We are a registered charity that primarily works in the public utilities, and have a long, proven track record of delivering impactful projects that help shape policy, regulation, and company behaviour in the energy and water sectors.

About this paper and your views

One of the collective conclusions from Sustainability First's major collaborative research projects over the last six years is that there needs to be more discussion on the outcomes we are trying to achieve in essential services markets and the problems sectors are trying to solve. That we need to be clear who is best placed to lead engagement and to solve issues (government, regulators, companies, consumers or other parties, whether alone or together) alongside 'the how'.

This discussion paper attempts to follow that steer. We start by offering a Sustainability First 'Essential Services Utopia' ('ES Utopia' for short) proffering some key outcomes we should aspire to achieve in the essential services sectors. This builds on Sustainability First's 'New-Pin' and 'Fair for the Future' project findings to date and our experiences with innovative and creative engagement approaches as part of the 'Sustainable Futures' programme that we are running in the lead up to COP26. We then summarize where we are now in reality, the key challenges we need to solve, before highlighting 26 'engagement opportunities' and recommendations.

The paper does not include a comprehensive list of engagement recommendations and of course to deliver the 'ES Utopia' wider non-engagement related policy and cultural change would be required, as set out in Sustainability First's wider work. But it hopefully highlights the important role that engagement can play in maximising public value in essential services and delivering the key outcomes required from essential services.

This paper is not a discussion on the pros and cons of different engagement structures or research methodologies though we make some references to the latter. In Appendix 1 we explain the main engagement terms and why definitions matter and Appendix 2 summarises the key formal engagement approaches used to date.

This paper focuses on the monopoly parts of the water and energy sectors, though there is read across to communications and competitive utility markets more widely.

We welcome your thoughts and views on any part of this paper - the proposed Essential Services Utopia, challenges and recommendations:

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Acknowledgements

Maximising public value:
Our engagement recommendations

Stakeholder engagement is key to maximising public value in essential services such as energy and water. Engagement is part of the solution to many of the problems the sectors face, such as climate change, biodiversity loss, inequality, and resilience. For companies, engagement can maximise opportunities, including for efficiency and linked innovation. It can mitigate risks, build trust and help achieve the shift in cultures and mindsets needed to embed sustainability. For regulators, when used well, engagement can support the shift towards adaptive regulation and also strengthen legitimacy of decision-making. Engagement including partnership-working is central to regional and community-led decision-making that can support a deregulatory, placed-based agenda that better reflects and responds to local needs.

This discussion paper begins by exploring the importance of engagement in terms of delivering public value. It considers the reasons why engagement is important, different types of engagement and the concept of engagement maturity.

It then puts forward Sustainability First's 'Essential Services Utopia' proffering some key outcomes we should aspire to achieve in the water and energy sectors, and which engagement can play a key role in delivering. The paper then highlights 26 recommendations to maximise public value. There is much good work going on in this area but to really seize the 'engagement opportunities' available, we consider that decision makers should stand back and ask some fundamental questions about their approach.

Engagement recommendations

The recommendations in this Discussion Paper are designed to **maximise public value and arguably support the delivery of the key social, environmental and**
economic outcomes wanted from our essential services (our Essential Services Utopia). In the monopoly parts of the energy and water sectors these collectively make-up a flexible approach to engagement with a role identified for government, regulators and companies at a national, regional, company constituency and community level. Our recommendations are designed to assist:

- Policy makers as they develop Strategic Policy Statements for energy, water and cross-sectoral approaches;
- Regulators and other parties as they review their approaches to engagement in regulated markets and on key issues such as net zero, and biodiversity;
- Companies to maximise the value that can be derived from their ongoing engagement and future price control focused engagement activity;
- Investors who want to better understand the social and environmental impacts of their investments;
- Civil society groups so that they can consider where best to focus their actions to maximise impact;
- And all groups to consider how they can use engagement to get the culture change needed to deliver more sustainable and people-centred solutions.

To unlock public value and improve consumer outcomes we propose:

a) **Government leads on national public deliberative discussions** on complex essential services issues including on fairness – who pays for affordability, decarbonisation and resilience in the context of climate change. Transparent and informed debates are needed about the different roles and responsibilities of the state, companies, and individuals, and how decision makers can legitimately make the trade-offs between service quality, rollout/speed of improvements, inclusion and cost, and the needs of current and future generations. These important discussions, which engage people as citizens as well as consumers, can no longer be dodged

(Recommendations 3 and 6). In the absence of Government taking the lead, regulators and companies should plug this engagement gap.

b) **Industry in collaboration with third sector organisations set up a central net zero/sustainability umbrella engagement body to develop national cross-sector 'sustainability' campaigns and whole-systems behaviour change innovations. This is to help consumers and citizens better understand the 'big picture' climate challenges facing utilities, how they will impact them and society, and consumers' role and choices linked to this**. This would complement and support (not be instead of) the fragmented landscape of sector specific, regional and company activity on water and energy efficiency, smart technologies and low carbon heat including more deliberative engagement. It should include building sustainability more effectively into school curriculums. Campaigns need to build not just awareness but true public understanding (Recommendation 4).

c) **All parties improve cross-sector engagement and collaboration.** In particular to develop common social return on investment metrics and to improve understanding of the new challenges, risks and opportunities facing utilities in relation to resilience, safety, consumer and community protection, inclusion and to ensure affordability. This is particularly important in the context of the Covid-19 pandemic, climate change and the need for a 'Just Transition'. Also to help maximise public value and deliver these outcomes more efficiently and cost effectively (Recommendations 1, 2, 8 and 10).

d) **Regulators should explore ceding some decision-making control to (in practice if not legally) nations, regions, elected bodies and communities where additional public value could be created as a result. Effective engagement should be part of the de-regulatory agenda.** Ceding control would in practice allow for more company autonomy in engagement. This may be especially suited to geographic areas where existing governance structures or initiatives are in place, or policy areas where regulators have less expertise or visibility of local needs and where cost impacts are relatively low. **Companies should propose areas where this might be appropriate. Autonomy**

could potentially be earned by high performing companies with a strong track record of good quality engagement and robust independent assurance mechanisms (Recommendations 10 and 22).

e) **Regulators continue a strong formal role for independent in-company expert groups in monopoly regulation. This is particularly the case for within the price control period to help hold companies to account for the promises they have made to stakeholders and ensure they are responding to changing needs and expectations.** When well-delivered, these groups can: help address information asymmetries between the regulator and companies; can accelerate culture change and improvements in service and quality of engagement; provide alternative mechanisms to hold companies to account; improve transparency; support adaptive regulation and help build trust and confidence in the water and energy sectors (Recommendation 23).

Engagement enablers

f) **Further strengthen regulators' engagement culture.** This includes: improving engagement planning and representativeness; updating and sharing of best practice regulatory engagement and systematic training of all policy staff in stakeholder engagement so they have the tools and confidence to engage well. There needs to be more timely sharing of key data and insight; the strengthening of the voice for the longer-term in decision-making and where possible cross-regulator engagement strategies on shared issues. This could be a focus of Strategic Policy Statements and would improve the quality of decision making, help build trust and understanding and minimize risk (Recommendations 12, 15, 16, 19, 20, 21, 24).

g) **A continued focus by industry and regulators on improving the quality of company engagement.** Despite significant improvements in recent years, water and energy companies are at different stages on their journey to 'engagement maturity'.

Regulators should continue to focus on driving improvements in this area in the design of their price control frameworks. In particular:

- Ensure there is a **mechanism in price control frameworks to incentivise engagement** (carrot and/or stick) so as to drive further improvements in company engagement maturity. This is especially important to encourage effective partnership working and cross-sector collaboration which they may be less likely to do as it can be more expensive, complex and time consuming.
- Require water companies **to develop engagement strategies PR24 (as Ofgem has in RIIO2) and ensure mechanisms are in place to monitor progress against this**. This would help to ensure more targeted, coordinated, and effective engagement.

Companies should:

- systematically co-design inclusive services as part of business as usual
- work with their communities to develop and monitor sustainability/responsible business strategies
- continue to improve representativeness of engagement and quality of engagement particularly on longer-term and resilience issues (Recommendations 5, 7, 9, 11, 12, 13, 14, 17 and 18).

h) **All parties support and build the capacity of public interest groups and hard to reach people so their voice can be heard.** Third sector charities, NGOs, and civil society organisations in particular, can be resource constrained, unable to fund travel or take the time to engage including responding to consultations. Local authorities are also heavily resource-constrained and can find it difficult to participate in engagement (Recommendation 25).

A flexible, tiered approach to engagement – Strawman

In our December 2020 response to Ofwat's discussion paper on engagement for PR24 business plans we outlined the importance of a proportional approach to engagement and activity being focussed where it is most needed and can have the biggest impact. Materiality however cannot be judged on financial impacts alone, as many decisions which involve relatively small sums of customers' money are of high importance e.g. in terms of reputation, trust, satisfaction, impact on day to day lives.

We support some centralised engagement by regulators/companies in order to inform common standards across all providers and therefore common minimum service standards for all consumers regardless of their location or provider. However, beyond those minimums, Sustainability First argue that engagement in the monopoly water and energy sectors should be owned and led by companies. Structures should where appropriate recognise the growing role of local decision making, especially in energy, and companies should have the flexibility to respond to community need, deliver cross-sector solutions that can maximise public value where they have appropriate assurance mechanisms in place. We outline a strawman below to clarify which bodies are best placed to engage on what.

A tiered collaborative approach to engagement

Government

Regulator

Company Collaborative

National/ Regional

Company

Community

- Household & business customer priorities – identify differences between segments/regions/between citizens and customers/values/future users
- Common performance outcomes, measures, incentives incl. in Environmental Action Plans
- Minimum protections in case of problems, accessibility, vulnerability & redress/compensation
- Core price control methodology decisions e.g. company incentives and how costs are passed on
- Regional engagement e.g. mini-parliaments (set common approach across all) alongside quantitative approaches
- High-quality deliberative engagement on key trade-offs e.g. Citizens Assembly-type approaches/provide important ethical dimension
- Triangulation framework (co-develop) to ensure transparency on trade-offs and 'discretionary' decisions made.

Advisory Group to regulator and provides assurance to regulator on company activity – 'a power to reject'
Key role critical friend to ensure good end product - incl. sector knowledge, research & engagement experts, industry association rep & statutory watchdogs. Meetings in the open. Group observes regulator-led and collaborative company research.

Nations or regions with different needs/governance/ policy contexts – potentially have direct negotiation/negotiated settlements on all or part of the business plan. Alternatively, partnerships with Local Area Energy Plans, smart cities? Collaborative research on regional challenges e.g. water resources

Assurance : Could vary e.g. partnership type models/stakeholder or expert groups. Regulator/statutory watchdog oversight. **Regional led research** – nominated member from company level groups (like WRSE model in water)

Delivery partnerships e.g. affordability Thriving Communities Partnership, catchment management, heat decarbonization, Local Enterprise partnerships? Regulator cedes control with conditions? Promise to listen to outcomes.

Assurance: Partnership Methodology

National deliberative debates
- Fairness - who pays debates (tax, bills, profits) - affordability support, decarbonization, net zero, distributional impacts
- Explore attitudes towards cost-reflectivity, subsidies
- Resilience – focus on trade-offs, risk, speed investment and cross subsidization
- National common messaging – climate change/resilience/net zero

UKRN – resilience and regulatory engagement best practice sharing?

In sector
- Engagement gap analysis on key areas
- Sharing vulnerability research insights/data sharing need identification
- Joint commissioning of research: horizon scanning e.g. affordability future energy systems, resilience
- WTP/Business Options Testing common approach
- Acceptability testing common approach

Cross-sector
- Resilience interdependencies
- Agree social return on Investment methodology

- Bespoke commitments e.g. to reflect areas of difference identified by central research; where poor performance to drive improvements; to reflect local issues & opportunities; create services that delight
- Engagement Strategy/Purposeful Business Strategy/Digitalisation Plan/ Environmental Action Plans/Resilience strategies
- Resilient community strategy/support customers dealing with change
- Behaviour change & BAU engagement

Assurance: In company groups , reformed or expert groups with skills in relevant areas. CCG/CEGs - Ongoing role – provide viewpoints on activity outside of reporting frameworks e.g. purposeful business strategy/engagement strategy etc.

The importance of engagement in maximising public value in essential services

Stakeholder engagement has a key role to play in tackling the challenges facing essential services markets today and in the future. But engagement frequently continues to be undervalued by key decision makers in government, regulators and some businesses. Too often, debates are focused on existing engagement structures and mechanisms rather than thinking creatively about how engagement can help unlock and address the societal and environmental problems we face. The benefits of engagement, including maximising public value and cost efficiency, will not be realised without a continued shift in attitudes, changes in policy approaches, including greater coordination, and further company and regulatory culture change.

Customer and wider stakeholder engagement is becoming more, not less important in our changing world. It is no longer just about providing products and services that meet individual customers' evolving needs and expectations and carrying out ad-hoc consultations to ensure 'acceptability' of decision-making. It is key to essential services' **cost-efficient operation and the delivery of wider public value**, for today and tomorrow. Ofwat recognizes this in its Time to Act Together Strategy.

Customers, citizens and businesses are increasingly needed to be part of the solution – whether reducing water use, co-developing catchment management schemes, embracing new technology, or shifting usage and changing other behaviours. They are critical for the delivery of public interest goals such as sustainability, reliability of service, security, and lower costs overall.

Partnership working and place-based solutions, including across sectors and at a grassroots level can help **address increasingly complex whole system problems** such as affordability, de-carbonisation and community resilience more effectively. There is also a critical role for all parties in using engagement, particularly on values and

principles, to **help people deal with uncertainty** and change and in making more informed decisions for themselves, their communities and the planet. Place-based solutions when done well can use resources more efficiently than single company or lone sector solutions, which alongside behaviour change, such as reducing and shifting usage, installing or accepting new technologies, preparing for resilience challenges, can enable economic prosperity and be an alternative to expensive investment in new assets.

The importance of purposeful business has risen up the agenda. To demonstrate financial, social and environmental sustainability, companies' **governance structures** must use engagement to enable them to not only understand but also demonstrate stakeholder impacts; and to **help shape future strategy**. Effective engagement can maximise **innovation and mitigate the risk** caused by 'group think' and a lack of diversity in leadership.

When it **works well engagement can build public trust, understanding, and provide legitimacy** for necessary investment and associated price increases. It can help in complex trade-offs in decision-making and be seen as a way of addressing the democratic deficit in the sectors and of giving people back a degree of control over their essential services. This is particularly important when private capital is being used to deliver public value. When it works not so well, as it has done at times during RIIO-2 price control for energy and the PR19 price control for water, it can undermine trust in regulators and companies and be seen as an expensive distraction.

Despite the challenges though (and there have been a few) now is not the time to roll back on engagement, including the formal in-company independent stakeholder/expert engagement or challenge groups including in business plan development and day to day to hold companies to account to their customers and communities. But their role and membership as well as their relationship with regulators needs updating with greater safeguards to

demonstrate independence. **Well-designed independent in-company groups can be a powerful tool in the 'regulatory toolbox'** – helping to address weaknesses in current structures such as regulators' distance from the company and the communities they serve and related information asymmetries. For **companies and policy makers**, as well as building trust, engagement also provides cost-effective advice and early challenge and warning – supporting 'right first-time' decisions, regulatory confidence and the transition to lighter-touch regulation. And it can **be crucial in raising ambition levels and helping to shift cultures and mindsets** so that these truly focus on the needs of service users and communities.

In faster moving areas with less future certainty, **effective engagement will need to be hardwired into more adaptive regulation**, enabling companies' greater flexibility and regulators of monopoly companies more confidence and legitimacy to take timely in-period price control decisions. And in competitive markets, engagement can help ensure people can use their purchasing power to drive more sustainable businesses and ensure the needs of all consumers are met, including those in vulnerable situations and marginalised communities.

Littlechild reminds us that in 1983 the Secretary of State requested "regulation with a light hand", but that "today that is a hollow claim. This is now one of the most heavy-handed regulatory regimes anywhere in the world"[1]. Five-year price controls take up significant time and resource for regulators, companies, and company stakeholders involved in the process. No sooner than one price control finishes, another starts, questioning whether it is a good use of everybody's time, and if there could be a more effective approach.

Strategic well-designed engagement can be a key part of the de-regulatory agenda. In theory, if companies work directly in equal partnership with the public and communities' they serve to identify needs, develop solutions, and forge consensus, regulation's role to act as a 'proxy consumer' could decline and legitimacy, trust and cost effectiveness of programmes increase. But careful consideration is needed around how that could work in practice to ensure the best outcomes in the public interest and to genuinely reduce the resource burden on regulators

and all parties. **With growing focus on the importance of place, monopoly companies and communities should come forward with their ideas as to where regional or community led-decision making, rather than regulator-led, is in the public interest.**

Crucially for this kind of approach to work monopoly **companies would need to have sufficient 'engagement maturity'** (importantly this is not yet consistently demonstrated) and regulators would need to have confidence in company activity and commit to respect the agreements that were made at a devolved level - 'ceding some decision-making control' in practice if not legally to regions or communities. Independent assurance, assessment, accreditation and leadership are critical. Upcoming price controls including PR24 in water and RIIO-3 in energy could be used as **a stepping-stone to lighter-touch regulation in the future and are an opportunity for companies to further demonstrate they can be 'trusted' and have the engagement skills and capability needed for greater price control autonomy**.

There are of course significant differences between utility sectors and their constituencies, and the models of engagement need to reflect that diversity: the impact and pace of technological disruption in electricity for example is far greater than for water; and net zero is a potential threat for gas while a demand increasing opportunity for electricity transmission. Water is devolved to Scotland and in part to Wales while energy is mainly not devolved. The number and size of providers in each sector is also different as is whether they are vertically integrated, and whether they are monopolies or competitive (noting that competitive markets can provide a whole new set of consumer insights and means of engagement but also challenges and issues). However, all sectors face major long-term challenges – be they net zero or, preparing for increased drought frequency and all need to address common questions. Notably, what is the short to medium term response to these issues and how can we maintain the social contract, enfranchising and achieving support from today's public and the next generation.

To date, across essential service sectors, a wide range of 'formal' engagement structures have been employed, especially in monopoly price controls, to ensure the 'consumer' or 'customer' voice is reflected in decision-

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[1] https://assets.publishing.service.gov.uk/media/5eda3e6ce90e071b7bd7a2ed/Stephen_Littlechild_submission.pdf

making and to some extent to enable companies to reflect regional variation. Each has its strengths and weaknesses. Key amongst these are: mandatory/voluntary in-company independent groups such as Customer Challenge Groups in water; statutory, standing or topic-specific scrutiny groups within regulators including the Communications Consumer Panel and the RIIO-2 Challenge Group in energy; direct negotiation and constructive engagement as in the Water Industry Commission for Scotland and between airports and airlines; formal partnership agreements including Yarra Valley Water's Thriving Communities Partnership approach for consumer vulnerability and affordability in Australia; and part customer ownership models such as South West Water's WaterShare+ programme.

These structures sit alongside wider mechanisms including statutory consumer bodies such as the Consumer Council for Water and Citizens Advice (CitA) for energy and post; elected and government voices at a national, regional and local level representing citizens, and non-statutory organisations which vary in terms of size, funding, location, operation, expertise and ability to engage e.g. consumer groups, issues orientated bodies and identity specific interest groups.

Decision-makers are using an increasingly wide range of quantitative and qualitative engagement methods to reach stakeholders including consumers directly with deliberative citizens assemblies, for example, growing in popularity. But there is still more to do to enable high-quality engagement (and as acknowledged by Ofwat, to achieve agreement as to what high-quality actually is) and representation. Also, to: ensure this is focused on the most appropriate issues and problems for proportionality; to agree when not to engage; and to develop a coherent and comprehensive picture of consumer and citizen needs, priorities and values from this work.

Digital communications and big data, for example, are transforming interactions, extending reach like never before, and this can challenge and enhance engagement approaches. However, important voices continue to be underrepresented in conversations, including young people, those with additional needs and from more diverse backgrounds; regional and community voices (in policy and regulation more than company decisions) and people who already have experience of climate impacts. Inequality is increasing, exacerbated by the Covid-19 pandemic, increasing the need for more inclusive engagement processes. While regulatory engagement has improved significantly with some excellent examples of good practice, industry voices continue to dominate much regulatory decision-making with only a handful of consumer and public interest bodies regularly participating.

The importance of putting 'customers' or 'consumers' at the heart of company and regulatory decision making is well recognized**. Now broader citizen and community value must *also* be routinely reflected in engagement** narratives and structures else opportunities to deliver societal value will be missed. There is an increased urgency and support to protect and enhance the environment, adapt to climate change and support social justice, which are all central to our collective wellbeing and a thriving economy[2]. Digital engagement channels, place based initiatives and mechanisms like climate assemblies are likely to force the pace of change here if companies, regulators and policy makers are slow to respond. **Statutory watchdogs CCW for water and CitA for energy must focus not only on bill payers and consumers but understand and champion whole-system solutions** if they are to maximise bill reductions and tackle the issues faced by those they represent.

Regulators and government must also consider how they can best ensure the 'public interest' – including of citizens and communities - is heard and reflected in their thinking alongside customer interests. This includes supporting engagement across company boundaries and sectors to enable more radical joined up solutions, services and circular approaches that lead to the step change in sustainability that is urgently needed.

[2] 2021 Edelman Trust Barometer.pdf – highlights a shift in public attitudes from 2020 as a result of Covid-19.

Chapter 2

Our Essential Services Utopia ('ES Utopia')

1. Reliable, safe and green

We may not agree on everything in our 'Essential Services Utopia' **but as the sun rises over the horizon on this sunny day**, I think we can agree that this is a place where essential services such as water and energy are **reliable and safe** for customers and businesses regardless of the weather, or where you live. These **are resilient services that enable societal and environmental wellbeing, future green growth** and thriving communities.

2. Affordable and Inclusive

In our Essential Services Utopia everyone can **access** water and energy regardless of their situation or location– these are **universal services**. Those on low incomes don't have to

worry about **affordability** and if they can pay their next bill. Nobody has heard of terms like 'self-rationing', the 'poor pay more', or 'postcode lottery'. These are from a bygone era.

All customers, including those with additional needs and in remote areas can easily and quickly access **inclusive services** no matter what their situation – advice, additional support, paying bills, booking appointments – no problem! Homes can be heated or cooled to customer preferences and buildings, communications and transport can always be powered and connected, whether they are the latest technology or not. In this way our essential **services support individuals' personal wellbeing, lifestyle choices, and the running of our communities and our thriving economy.**

3. Loved service and sustainable communities

Perhaps we have different views on the ownership model for our 'ES Utopia'. But whether these are nationally, locally or privately owned, monopoly or competitive markets, these companies deliver **high-quality, convenient** and **personalized services** that meet all customer and community needs.

Call waiting times? What are those? Ripping off customers –no way! Polluting the rivers or seas – so early 21st century.

Companies are constantly updating their approaches responding to evolving expectations, changing requirements and future societal needs. They don't just anticipate change, they **pleasantly surprise**, developing the essential services equivalent of a car rather than Henry Ford's faster horse.

In our 'ES Utopia' **biodiverse** ponds, lakes, rivers and wetlands are in fabulous health and surfers ride waves in the **cleanest o**f seas. The public use water and energy

wisely. They are rewarded for doing so and supported with well-designed homes and coordinated government policy. Companies protect and improve the environment and flooding is well-managed to **safeguard wildlife and people**. These utilities are carbon negative so **climate positive.**

In this world, when things go wrong (though this happens so rarely, come-on!) **problems are handled quickly and fairly**, and in a way that customers and communities are understanding of the reasons for the problem in the first place. After all mistakes can happen. They are happy with the timely resolution of issues, occasional goodwill payments and compensation, and **complaints are low**. The public take action to help – changing behaviours to save precious resources and reporting leaks for example in a timely way. And companies take action to support people and swoop in to help when emergencies happen.

In our 'ES Utopia' utility staff reflect the diversity of their communities, are fairly paid so they can provide for themselves and their families and are supported and valued as the lifeblood of the company. Companies **understand their regions and customers and know what they want and need**. With every decision made, they take the opportunity to add environmental and societal value. How can we help? they cry! Everyone loves (yes 'loves'!) their utility company. They are at the heart of the community.

4. Efficient and value for money

In our Essential Services Utopia companies are high performing and **efficient** and seen that way by the regulator, government, and public.

Utilities regularly horizon scan, bring in new innovations, not just technology, but in values, ways of working and business models. They have the space to try and 'fail fast' and stakeholders understand not all innovation works. They are confident enough to share learning from their failures as well as successes so all benefit.

They collaborate and share data and insight and have a constant eye on the future, making timely and transparent decisions about the need for investment today, to meet citizen requirements tomorrow. They are able through

flexible and well-coordinated government policy and regulation to work to short and longer-term time horizons - ten, twenty, thirty, fifty years! They work across sectors identifying optimal investments to deliver 'whole system' societal value.

In this world working for an essential services utility is a known-about and a sought-after profession. Think superwoman crossed with David Attenborough. It attracts the brightest and the best talent from a diversity of backgrounds – individuals motivated by enterprise and public service.

The public and businesses understand the challenges their local utility company faces, the government, the regulator and their fellow citizens' interests, and are willing and proactive in playing their part to make things better. They are **engaged citizens and therefore support efficiency and delivering wider societal benefits**. For example, they change their heating systems and are water and energy efficient; they are careful about what they flush down the
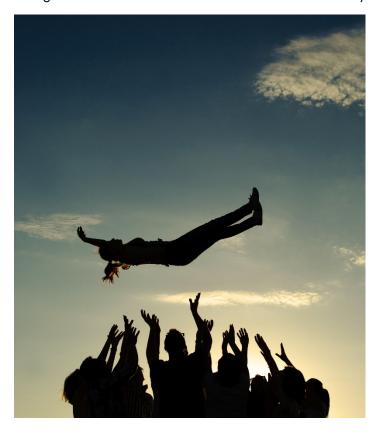
toilet; they shift their usage to help manage demand on the networks; and change their business operating practices to support resilience. All this reduces costs.

Citizens are generally comfortable with and enable change because it is made easy and safe for them to do so with sensitive interaction. They follow advice, offer solutions, and take steps to be more secure and resilient themselves in our changing world.

5. Effective light-touch regulation

Does regulation still exist in our Essential Services Utopia? Yes, but it's different. It's a **backstop for trust and confidence** in the sectors. For those companies that perform well, which is of course most of them in our ES world, regulation is light-touch, open and collaborative. It is enabling, focused on supporting companies to get things right first time and providing **assurance that long-term public interest outcomes, such as delivering net zero, are on track**.

ES regulators use all available **technologies and data** to closely monitor markets and to enable society to capitalize on opportunities. When harm is caused or companies are failing to deliver for the customers and communities they

serve, including preparing for the future, it is identified early and nipped in the bud. Action to intervene is swift, decisive and there is zero tolerance for sharp practice. **Lessons are learned and quickly shared**. The public's expectations of utilities are high – like a parents' hopes for their children - and they trust regulators to be good mentors.

Price controls? In our ES world these are now '**value negotiations'** between companies and the communities they serve with oversight from the regulator and statutory bodies. Regulators work **across sectors**, are diverse, agile, innovative and expert in the face of change. Finger always on the pulse (or psionic powers even? some of you may get the reference) they are aware and respond to not just consumers in need today but citizens of the future - maximizing public value for all.

6. Trusted

In our ES Utopia customers and citizens **trust** their essential services providers to do the right thing and to help them if they need it. Why? Because they always do. Not to mention their much-loved affordable services, and work in the community.

Our ES Utopia is **collaborative**. Customers, citizens and businesses work together to solve shared problems. Everyone is **well-informed, responsible and responsive.** The public have a 'relationship' with their company (whether it's a small community cooperative or a large regional player) – with genuine honest two-way dialogue so they have some control over decisions that impact them. Companies, regulators and government make it easy for people to engage, proactively reaching out so all can have their voice heard (if they want to that is, most trust their companies to get it right and others to represent them).

Customers are proud of their utilities and feel a sense of camaraderie with them. Terms like 'mis-selling', 'cover-ups', 'rip-off prices' are from a bygone era, like children working up chimneys. 'Fat cat bosses'? Not at all. Company returns are seen as fair and proportionate, companies do such a good job after all! The public trust their much loved '**Caring Captains'** of their utilities.

How engagement could maximise public value and support our 'ES Utopia'

3.1 Reliable, safe and green utilities

The challenges we need to solve

Safety is hard-wired into utility culture, with historically good cross-company collaboration within sectors. There is no reason to believe that the industry's good track record in this area won't continue. But mitigating and adapting to climate change including more severe and frequent droughts, storms, intense rainfall and urban heat, and repurposing existing infrastructure and new technologies alongside security threats and increased interdependencies between energy, water, and communications, means ensuring safety and providing reliable affordable supply are becoming increasingly challenging[3].

When water is in short-supply or energy or broadband is interrupted it can have severe and wide-ranging impacts not only on individual businesses and households, but the wider environment, economy, and society. However, the true cost of interruptions to society including the value to citizens is often not properly understood or factored into investment and innovation decisions or service design, delivery, or performance commitments.

The Covid-19 pandemic has taught us just how dependent we are on our core energy, water and (electrically enabled) communications systems. Companies can have seemingly poor visibility of the indirect risks to their resilience including dependencies on other sectors and stakeholders. According to Dr Emily Cox the impact of interruptions in essential services on other sectors appears to be relatively understudied, particularly regarding shortages of labour and skills, which could be caused by disruption to transport systems, healthcare and education[4].

Attention to **cross-regional interdependencies** (e.g. water sourced from one area may impact service levels in another[5]) needs to be increased. In water for example there have been discussions about whether government should set a 'standard of service' for the whole country or whether consumers should be able to register separate preferences for each company. Company flexibility to respond to local consumers is valuable but not in all areas. There may be opportunities for water companies in the huge growth expected in energy flexibility.

Customers have high expectations of reliability, and alongside safety this is consistently the top consumer priority but approaches that seek to remove all risks would be extortionately expensive and couldn't guarantee against failure. Trade-offs therefore must be made, and customers need to understand these, and through engagement have the opportunity to share their views and priorities. This is essential if they are to be supportive of approaches and to build legitimacy and trust.

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[3] https://www.sustainabilityfirst.org.uk/images/publications/new-pin/New-Pin_Long-run_resilience._Discussion_paper_-_FINAL.pdf

[4] The impacts of energy disruptions on society | UKERC | The UK Energy Research Centre

[5] As Sir John Armitt, the Chair of the National Infrastructure reminds: "To be resilient, we need to move beyond managing individual risks and assets, to thinking about the system as a whole and how the services we all rely on can be sustained and disruptions minimised...To achieve this we need to think more about the interdependencies between different sectors, and do more to manage the cross cutting challenges. We should also consider how to better take into account public expectations of infrastructure services – we are all infrastructure users after all."
https://nic.org.uk/app/uploads/NIC_Resilience_Scoping_Report_September_2019-Final.pdf

Recommendation 1: Companies, regulators and public interest groups should work together to co-develop agreed social return on investment (SROI) metrics for essential services. This would help to support best value decisions and ensure opportunities to deliver wider societal benefits are properly understood and not missed. It would also help provide transparency around the values, assumptions, methodologies, and trade-offs made in decision-making. Public engagement will be key to understanding social impacts/returns. For RIIO-GD2 business plan development a number of companies used SROI in making their business case for investment. In its final determination Ofgem stated that as "GDNs currently do not have a common SROI tool, we are unable to implement this metric for the start of RIIO-GD2" but encouraged companies to work together to develop this. The electricity DNOs have welcomingly developed a common methodology for ED2 but it remains to be seen whether this has Ofgem's full support. The CMA appeals in water also highlighted the need for Ofwat to be more transparent in how it makes its 'discretionary' decisions to have legitimacy and build trust.

[Footnotes for Recommendation 1: [6] and [7]]

Recommendation 2: Companies, government departments and regulators need to further improve how they engage and work together especially across-sectors to better understand new safety challenges and resilience interdependencies and risks. This should be a priority for price reviews and the forthcoming joint regulators Strategic Policy Statement and include joint innovation work. Involving staff, consumers and citizens to better understand the dependencies between the different services that they use in their day to day lives, and during times of crisis, is important. Anecdotally we have heard that during Covid-19 in the energy sector there has been an increase in 'near-miss' safety incidents. This could be for a variety of reasons including as a result of behavioural challenges such as staff only being able to take in one safety message as a time (with Covid front of mind). Lessons must be captured, learned and good practice shared. Companies need to understand potential future safety risks that result from whole system challenges .

It is no longer enough to rely on traditional top-down supply side focussed solutions to resilience – solid/hard brown/grey infrastructure and technically focussed measures. Arguably less controllable and less reliable domestic and business consumers and wider stakeholders need to be part of the solution for more sustainable and reliable services. However, public awareness of the need, and the 'enablers' to help them change behaviours, are not generally well known. Many companies also lack in-house

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[6]Ofgem RIIO-2 Final Determinations – GD Sector Annex (REVISED) (ofgem.gov.uk) p.18 para 2.22]

[7] Sustainability First - Final 24.06.2020.pdf (citizensadvice.org.uk). During the PR19 water company appeals to the CMA concerns were raised about Ofwat substituting its own views for those of customers. In particular how customer views on intergenerational fairness and risk been considered when balancing the affordability and resilience needs of current and future consumers and how regional variations in consumer views had been considered in decision making. SROI approaches could help to improve transparency.

expertise on behavioural approaches. And there has not been sufficient focus on how to build from and effectively link individual behaviour change initiatives to wider societal, cultural and systems change.

There is also a question as to the boundaries of responsibility of utilities e.g. it is without a doubt in the public interest for farmers to adopt more sustainable agricultural practices, but to what extent is it a water company's role to ensure they change their behaviours? And to what extent should this be incentivised and paid for from customers' bills?

The adoption of products, services and home infrastructure required to meet future climate change and adaption challenges will in the words of Matt Vickers, Chief Executive of Ombudsman Services "require widespread behaviour change and disruption to settled patterns of doing things in a way that other changes such as digital switchover or even smart meter rollout have not.[8]" This is not a small challenge. Indeed, the Committee on Climate Change's Sixth Carbon Budget has emphasised the need for significant behaviour change to deliver net zero and estimated that over 40% of the carbon reduction in the scenarios to 2035 is from consumers adopting new low-carbon technologies and a further 15% requires consumer choices; both to reduce demand and improve efficiency.[9] Stakeholder engagement will be crucial to understand what behaviour change is possible, what the barriers may be and what is likely to stick – and to develop approaches that are likely to work in practice and survive the implementation challenge.

Place-based solutions such as catchment management when done well can be more cost-effective in delivering resilience and offer greater public value. But these systemic solutions are arguably not yet sufficiently incentivised by siloed sector based decision-making frameworks. Engagement can help identify common local interests and the co-benefits that could encourage all sides to help deliver such schemes.

Recommendation 3: **Government should lead a public deliberative discussion/s at a national level, that considers cross-sector and whole society implications around resilience in the context of net zero and climate change.** It should discuss approaches to cross-subsidy and cost-reflectivity e.g. should one region that is flood prone be subsidised by another and to what extent – what is considered fair? It should explore what stakeholders think about the trade-offs between different service levels, risk, cost, impacts on different groups, and speed of improvements (e.g. in transition to net zero, to address social exclusion or in full fibre rollout/connectivity). This should involve inter-generational discussions and will be important for trust. It should ask: Who should pay for net zero, climate mitigation and adaption and how? What is the role for Government, regulators and where should the boundaries of company responsibility end?

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[8] Dreams of carbon and trust (sustainabilityfirst.org.uk)

[9] https://www.theccc.org.uk/publication/sixth-carbon-budget/

Recommendation 4: Utilities should set up a central net zero/sustainability umbrella engagement body to develop national cross-sector 'sustainability' campaigns and whole-systems behaviour change innovations to help consumers and citizens better understand the 'big picture' climate challenges facing utilities, how these will impact them and society, and consumers' role (and choices) linked to this. This would sit above and compliment and support sector specific, regional and company activity alongside more deliberative engagement e.g. current water efficiency campaigns, Smart Energy GB communications; and any engagement around low carbon heat and net zero. It could ensure lessons learned (not reinventing the wheel) from campaigns to date; enable common messaging, a recognised pre-requisite for behaviour change; help to coordinate existing fragmented activity to maximise impact and set out the wider climate change challenge. Campaigns need to build not just awareness but true public understanding. Sustainability must also be properly included in school curriculums.

Recommendation 5: All parties to improve the quality of their engagement on resilience including engaging people as citizens and not just customers – Experience from water and energy sectors' business plan development for PR19 and RIIO-2 indicates that while improving, research on resilience and related probability and risk is often poorly framed and understood by participants. Terms such as 1 in 100 risk in flood resilience can be backward looking and may be no more than 1 in 5 years in 50 years-time. Equally 1 in 100 risk will materialise most years in some parts of the country. It is also important to engage not just consumers or customers (as is traditionally done) but also citizens and wider public interest groups. Sydney Water for example, found in their work on water resources that if you engage the same people as both customers, and citizens, on the same issues, you will get different results – the insight from both have value and need to be considered. The public can and does wear many hats and there is significant research on the importance of 'framing' and behavioural biases which is still not effectively applied.

[Footnotes for Recommendation 5: [10] and [11]]

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[10] Improving customer engagement for PR24 | CCW (ccwater.org.uk) Also, this Essential Services Action Network paper provides a summary of the key framing and behavioural challenges and the strengths and weaknesses of a number of different approaches - Microsoft Word - Final ESAN event paper 23 Dec 2016.docx.

[11] Detailed descriptions of the water cycle given low levels of basic knowledge, unfamiliar ideas – such as water transfer, water reuse or desalination – are challenging for some consumers to understand. Probabilities: all market research using probabilities tends to run into difficulties. This is no different in future-facing aspects of the water sector. Engaging-water-customers-for-better-consumer-and-business-outcomes.pdf (ccwater.org.uk)

3.2 Affordable and inclusive services

The challenges we need to solve

Water, energy and communications remain unaffordable for a sizeable minority of households. Related to the latter millions are unable to easily access essential services and related products resulting in a range of impacts from inconvenience to detriment to health and financial wellbeing, social exclusion and inequality of opportunity. This in turn has negative impacts on wider society, such as by increasing costs of delivering social and health services, and risks undermining social cohesion and wider economic prosperity.

The pandemic has increased the number of households in financial difficulty and the depth of poverty for those who were already struggling pre-Covid. Existing geographical variations in deprivation and inequalities between different social groups have also grown. While there is uncertainty as to the future affordability challenge, what is clear is that the level of support is not sufficient to meet current, let alone likely future need[12].

Looking ahead, the increased need for investment is likely to increase bills[13]. The move to decarbonization, climate adaptation, greater use of smart technologies, and pricing that more accurately tracks demand will result in winners and losers. There is currently wide inequality of support provided by companies and communities and received by customers. While affordability is a cross-sector issue with inter-related impacts, despite some good specific initiatives, solutions still tend to be piecemeal company by company or sector by sector sticking plaster approaches. Engagement can play a key role in identifying the needs of all service users so that 'no one is left behind' and in ensuring that service delivery is as effective and joined-up as possible.

There is also the question as to who is best placed and has the legitimacy to make decisions on utility companies' role in relation to consumer vulnerability. During the recent gas distribution price control process for example, the country's largest gas distribution network, Cadent, recognizing the need, encouraged by stakeholders and backed by consumer willingness to pay research, proposed a relatively ambitious vulnerability program. While following representations during draft determination this was adjusted, it was initially largely rejected by Ofgem, despite the regulators' absence of a robust evidence base to the contrary as it took the view that it was not an appropriate use of customer funds.

Monopoly companies already have a wide range of engagement approaches and stakeholder partnerships in place to understand the experiences of customers in vulnerable circumstances, raise awareness of support available and to identify those with additional needs, and these need to continue to evolve in response to need. Covid-19 for example has resulted in new kinds of vulnerability e.g. shielding; greater prevalence of others e.g. customers suffering from mental health issues; and increased harm from existing vulnerabilities due for example to local support services being closed down. Looking to the future – social, environmental, political, technological and economic change will offer new opportunities to improve access in essential services markets which decision makers should capitalize on, but there will also be new risks which need to be understood in a timely way and responded to if consumers are to be protected[14].

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[12] https://www.sustainabilityfirst.org.uk/images/publications/expert_viewpoints/Consumer_Vulnerability_Ensuring_Affordability_Final_150520.pdf. In addition, Sustainability First is currently conducting research on the impact of Covid-19 pandemic on consumer vulnerability and affordability for UKPN and South East Water.

[13] https://www.sustainabilityfirst.org.uk/images/publications/new-pin/Sustainability_First_Tomorrows_World_briefing_paper_-_FINAL.compressed.pdf

[14] Sustainability First has carried out extensive work in this area including: Energy for All - Innovate for All (sustainabilityfirst.org.uk); Microsoft Word - Social impacts FINAL REPORT 8.6.20.docx (sustainabilityfirst.org.uk), For our relevant publications see: Affordability, Vulnerability & Fairness (sustainabilityfirst.org.uk)

Recommendation 6: **Government and regulators should hold strategic national 'conversations' on affordability including in a post-Covid/living with Covid net zero world about who should pay for affordability support and how it should be delivered as part of a wider debate on social welfare and health.** An honest conversation is needed about a longer-term solution to tackle essential service affordability including the boundaries of utility company responsibility and the role of the state. As cross-subsidies are stretched to their limits, the issue of who pays; bill payers, business or taxpayers; and who delivers it cannot be ducked any longer. In setting price controls, regulators need to ensure their decisions are informed by stakeholder views – whether their own research, others or a combination. This is critical for trust, legitimacy and will deliver better outcomes.

Recommendation 7: **Regulators and government should routinely engage with customers in vulnerable situations and those that work with and represent them when making policy decisions.** Insight from engagement should inform regulators price control methodologies and the setting of *minimum* consumer vulnerability common standards and related performance commitments for all companies so that customers have a common baseline service regardless of where they live or which company they are served by. This would support advice agencies in explaining what help is available. This has historically not been systematically done by regulators leading to missed opportunities, unintended consequences, and damage to trust and legitimacy. This does not remove the need for company engagement. Companies' must continue to engage with their own customers and constituencies to develop tailored services that go beyond these minimums that respond to different vulnerability drivers and needs in their communities.

Recommendation 8: **Companies should improve their affordability and vulnerability evidence base through joint commissioning of research and timely sharing of engagement and research insight. Regulators should incentivize and enable this as needed.** Some challenges are common to all companies or groups of companies in a given region and in some instances companies have the same customers. Vulnerability research is expensive, but currently not well shared, with much duplication of effort. Competition between companies (arguably a healthy 'desire to be the best') can discourage in-sector sharing and cooperation even in monopoly sectors, as can: regulatory business plan incentives with a company comparative competitive element, resource constraints, lack of will, or misaligned timetables and priorities. 'Higher performing', companies who share research can become frustrated by one-way sharing relationships with utilities who don't foot the bill, nor share the burden of research project management, but reap the benefits of the outputs. Regulators should ensure that they do not unintentionally discourage collaboration and consider actively rewarding those companies that show leadership. For PR19 in water, the then CEO of Ofwat verbally indicated that companies that showed leadership in sharing engagement learning and insight would be viewed positively by the regulator. This kind of important regulatory signal should be made at the beginning of the business planning process and apply equally to BAU.

[Footnotes for Recommendation 6: [15] and for Recommendation 7: [16]]

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[15] In our Sustainability First Virtual Book 'Building from the Corona Crisis Toward a Sustainable Future' (2020) we recommended a fully representative Citizens' Assembly be established to tackle the 'Who Pays' issue and local 'listening circles' to consider Covid recovery plans. There are a range of possible approaches for this kind of deliberative democracy - mini-publics (community-level discussions); online parliaments or a blend of approaches for example. A Citizens' Assembly type approach could help deliver a fair and acceptable outcome, considering proposals and advising

Recommendation 9: **As part of business as usual, essential services companies must co-create inclusively designed services and products with customers in vulnerable situations. If companies don't mainstream this within a given timeframe, regulators/government should set standards to make them.** Ensuring usability or user's ability to use new products and services is an important factor in minimizing the digital divide and inequality and ensuring the benefits of innovation are delivered for all. It is widely recognized that designing services to meet the needs of the broadest range of consumers leads to reduced costs and improved customer service. Yet company progress on inclusive design has been unacceptably slow and this is still not standard practice despite company rhetoric.

Recommendation 10: **Cross-sector utilities and relevant third sector organisations should collaborate with interested and impacted stakeholders to set up place-based vulnerability community partnerships, equivalent to the Australian Thriving Communities Partnership (TCP), in their areas of highest deprivation and greatest vulnerability need**. These should go beyond bi-lateral collaborative approaches. Formal partnerships can enable a more flexible customer-centric approach to vulnerability and can be relatively cost-efficient in meeting consumer and community affordability, inclusion and resilience needs. This would be especially valuable given resource constraints and support the 'levelling up' agenda. **Regulators** should consider how they can 'encourage' more strategic cross-sector partnership working and reward those who show leadership in this area when designing the price control methodologies. For these kinds of place-based approaches to work regulators have to agree to accept the decisions of the community when making their final determination. This would also appear to be in line with UK Government's Civil Society Strategy 'where people are empowered to take responsibility for their neighbourhoods'.

[For more information about TCP see Footnote: [17]]

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policymakers on the implications and unintended consequences of different approaches.

[16] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732765/Civil_Society_Strategy_-_building_a_future_that_works_for_everyone.pdf

[17] Microsoft_Word_-_SF_The_Thriving_Communities_Partnership_Case_Study_26.3.19_FINAL.docx (sustainabilityfirst.org.uk)

3.3 Loved services supporting sustainable communities

The challenges we need to solve

The UK Regulators Networks' (UKRN) scorecards (2021) indicate that satisfaction across the essential services of water and sewerage, energy, telecoms, and banking and building societies, is "generally high"[18]. However, they also flag, that there are gaps between the stronger performers and those in need of improvement[19]. For a 'high-performing' company, with great overall performance scores there can also be a minority of customers who get a consistently or repeatedly poor service e.g. certain communities may be regularly impacted by poor water pressure or reception/reliability for example. These groups are often not picked up in performance commitments that deal with averages. Poor service can have significant detriment, not just to consumers but to wider society. Citizens Advice estimated in 2016[20], for example, that consumer detriment cost the UK a staggering £24bn.

There is also question as to who sets the bar as to what 'good' or 'reasonable quality' service and performance is. As the CMA energy market investigation highlighted, it has particular legitimacy implications for regulators and government should their expectations be out of touch with consumers. For example, the conclusion of regulators in the mentioned UKRN scorecards is that, as the Customer

Satisfaction Index results are in the seventies out of a hundred, that satisfaction is "generally high". However, these sectors are in practice overall, still at the bottom of the league table for this Index- below leisure, retail (non-food), retail (food), banks and building societies, insurance, tourism, automotive, public services and other services. In fact, the only sector they beat is transport.

Looking to the future, while the pace of change varies across sectors it is likely to be an increasingly complex world for consumers with new technologies, products and services which cross regulatory boundaries. Empowered customers need to understand their rights, and any new complaint handling and redress processes. All of which involves effective communication. There will be new risks which need to be mitigated and new opportunities which will need to be maximised. This accentuates the need for ongoing cross-sector engagement by companies and regulators and better use of available data to monitor company practices.

> **Recommendation 11:** **Decision-makers must carry out research and engagement to get behind average performance and understand the lived experience of any consumer segments/communities getting consistently poorer service. Bespoke performance commitments should be set to target improvements in service for worst hit groups. Companies also need to put particular focus on explaining to impacted customers and communities the reasons for repeated service failures especially where these can't be immediately solved and work with them to mitigate impacts as much as possible**. Failure to do so is not a small issue. It impacts millions of people, and seemingly disproportionately negatively influences public perceptions of utilities.

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[18] Performance Scorecards | UKRN: the UK Regulators Network
[19] Based on Net Promoter Scores, value for money surveys, complaints and the UK Customer Satisfaction Index. For example, with overall Service Quality in water and sewerage, an average of 44% of customers say they would be very likely to recommend their supplier (represented by a score of 9 or 10 on

a 1-10 scale). This increases to 71% of customers for the highest performer. https://www.ukrn.org.uk/wp-content/uploads/2020/01/UKRN-Moving-forward-together.pdf
[20] Final_ConsumerDetriment_OE.pdf (citizensadvice.org.uk)

Recommendation 12: All parties should enable better use of consumer experience and company performance data, including publishing more granular data and insight in a timely way so others can use it. There are three main sources of engagement insight: an organisation's ongoing business as usual data from day-to-day contacts; its bespoke research for a particular purpose; and third-party learning (i.e. others data). Up to date data can be used by innovators to develop new products and services; by government to target interventions and support, by civil society and consumer groups to hold companies and regulators to account, and by companies to improve service design and to plan and tailor their own support. Companies have undertaken a wrath of research, ultimately funded by customers. Regulators' have access to a range of data. For example, their own customer contact information, ombudsman services data and the power to facilitate the sharing of company insight. Statutory watchdogs have a wealth of detailed case studies from customer contacts alongside their own research. Sustainability First's Public Interest Access Group (PIAG) research identified that smart energy meter data is frequently under-used resulting in missed opportunities to deliver public value. Regulators in particular, given their responsibilities, should more frequently and systematically review and proactively share up to date data. This is especially important in faster changing markets where early intervention/company improvements will be needed to nip any problems in the bud in order to build trust and gain public buy-in. This will be key for new markets, products and services in the transition to net-zero.

The Environment Agency reminds us that utility environmental performance still needs improving. For example, in its 2020 report it flagged that while there have been improvements in the water environment, flood protections and biodiversity, and reductions in pollution[21] that overall it found "shocking water classification results" and "unacceptably poor environmental performance across the [nine water and sewerage companies] sector" - in short, the need for "radical improvements"[22]. This is reflected in recent public criticism[23].

More fundamentally however, it is not an over-estimation to say that increased pressure on natural resources alongside the impacts of climate change threatens both companies' long-term financial sustainability and, clearly more crucially, human and natural existence as we know it. People need to be supported to make informed decisions that best serve them as individuals, their communities and planet.

It is important for engagement to work with the voluntary sector in key areas such as biodiversity. In the water sector for example, this includes the rivers, angling and wildlife trusts, who have vigorous community schemes to improve aquatic biodiversity. Engagement also needs to reflect the fact that people value biodiversity even when they derive no direct benefit from it ('the existence value' of nature), the fact that 'natural capital' reflects indirect benefits from biodiversity such as potential medicines, and the need for interconnected habitats with critical mass. All of this suggests that engagement on biodiversity, like resilience and net zero, may require a fair degree of education – through deliberative fora for example **Recommendation 1** on SROI approaches is also clearly relevant here.

Sustainability First's research highlights that there will be widespread social and distributional impacts of responding to decarbonisation and adaptation with some consumers and communities less likely to access the

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[21] EA Annual report 2020 highlights that the water environment is better, with reduced pollution incidents from water companies (a decline from 63-55) and (127 to 97) from other regulated companies; continued improvements in flood protections and increasing biodiversity.

[22] https://www.gov.uk/government/publications/water-and-sewerage-companies-in-england-environmental-performance-report-2019/water-and-sewerage-companies-in-england-environmental-performance-report-for-2019
[23] e.g. https://www.bbc.co.uk/news/uk-56721660

benefits and more likely to be impacted by increasing costs[24]. There are significant fairness issues to be addressed – for individuals, but also spatially and between generations - and companies need to have the flexibility to be able to respond to regional differences in need and views.

Alongside greater cross-sector collaboration on environmental issues, this reiterates the need for **Recommendations 3, 4 and 5** and place-based partnership schemes to tackle pollution[27]. In addition, we propose:

Recommendation 13: **Companies co-develop with their communities and publish a purposeful business/responsible business/sustainability strategy which can be assured by independent in-company challenge groups or other mechanisms.** The 2020 Edelman Trust Barometer found 75% UK customers polled believe that companies can be a force for good. In practice, companies are at different stages on their journey to be meaningful purposeful businesses. Utilities should be encouraged to develop strategies with their local communities and to publish those along with regular progress updates. This would also ensure approaches were not just top down. It would prevent a tick box approach that might result from prescribing an approach. To support genuine culture change, these strategies could be scrutinised by independent challenge groups at a company level or other independent mechanisms, which could provide views/assurance on the approach and the degree to which purpose is genuinely embedded in the company to the regulator or wider stakeholders.

[Footnote for Recommendation 13: [25] and Recommendation 14: [26]]

Recommendation 14: **Market research companies should ensure they properly represent the full range of consumer and community views in their approaches and use emerging best practice.** South East Water's Customer Challenge Group for example identified that historic standards applied to willingness to pay and other quantitative research that weights data based on the census head of household can lead to the under-representation of women's views**.** This is particularly important given the difference in opinions between genders on key issues such as environment and climate change. SGN's Customer Engagement Group has raised concerns about recruitment techniques used by some providers. Companies should check the approaches used by research agencies they commission. The willingness to pay research sector in particular has historically been dominated by a small number of providers who have arguably not been subjected to strong competitive pressures.

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[24]Microsoft Word - Social impacts FINAL REPORT 8.6.20.docx (sustainabilityfirst.org.uk)

[25] 2020 Trust Barometer UK Results | Edelman (pre-Covid survey). 2021 survey also found a strong desire for companies to take the lead.
[26]E.g. Oxford University's The People's Climate Vote (2021) highlights gender variations on attitudes towards the climate emergency. p.49
UNDP-Oxford-Peoples-Climate-Vote-Results.pdf

[27] Four climate policies emerged as the most popular of the 18 proposed to respondents in the Oxford University Peoples' Climate Vote. These were to conserve forests and land (54%) and use solar, wind and renewable power (53%), climate friendly farming techniques (52%), and investing more money in green businesses and jobs (50%). Many of these may be best locally led. UNDP-Oxford-Peoples-Climate-Vote-Results.pdf

3.4 Efficient and value for money

The challenges we need to solve

There has been condemnation of high monopoly company returns[28] and in the competitive sector overcharging. Concerns have also been raised that monopoly regulators have historically been overly focussed on short-term customer bill reductions, rather than best value or future consumer costs, resulting in consumers potentially paying more than needed especially in the long-term[29]. The current structures and fixed five-year price control cycle arguably have an inherent bias to short-term priorities. Regulators have also tended to rely on 'objective' tools, such as econometric models which are inherently backward looking. This focus on what can be accurately monetised, compared and audited arguably stifles innovation and leads to too tight a focus on what can be measured over what is the best outcome for consumers and citizens.

It can also lead to a focus on historical problems and precedent and underplay the fact that with climate change, the past may not always be a good guide to what will happen in the future. **Recommendations 1, 2, 3 and 4** are critical to ensuring the transition to net zero is as cost efficient as possible including ensuring buy-in, and optimal decision-making as to what investment is made when and who pays.

Current price control processes can be costly, especially when decisions are referred to the CMA[30]. **Recommendation 22** proposes that some price control decisions are taken outside of existing processes. The statutory watchdog for water consumers, CCW, and a number of the independent customer challenge groups have also criticised Ofwat's lack of transparency in decision making and use of reward-based incentives in price controls especially in areas of service that customers consider to be service failures e.g. sewer flooding, or that customers consider to be part of a company's 'day job'. Though this is not a view shared by all consumers[31].

Recommendation 15: **Continue to strengthen and embed the voice for the long-term in decision-making.** Positive steps have been taken to strengthen the voice of future consumers in decision making. For example, Ofgem has set up the Net Zero Advisory Group in energy. Companies have employed a range of innovative engagement approaches and behavioural biases when engaging the public on future issues are now well recognised (e.g. mental short-cuts such as 'representativeness' – where people make decisions based on what has happened before, rather than weighing up all of the possibilities; availability/simulation – how easily people can recall or imagine something happening and how likely they are to believe it will happen; present bias – where people give disproportionate emphasis to the present and heavily discount the future; and loss aversion – most people tend to put more effort into avoiding loss than ensuring gain). Further improvements are still needed. In addition to SROI approaches that consider the longer-term, this includes a role for Strategic Policy Statements for regulators to include the creation of a formal role in price reviews to ensure that the long-term issues are not deferred unnecessarily (perhaps through the NIC and/or CCC/adaption subcommittee). In addition, there needs to be systematic input into regulators from bodies which have a longer-term focus and more transparent, proactive and meaningful reporting and engagement by bodies such as the Ofgem Net Zero Advisory Group.

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[28] EnergyConsumersMissingBillions.pdf (citizensadvice.org.uk)

[29] https://www.citizensadvice.org.uk/Global/CitizensAdvice/Sustainability%20First%20-%20Final%2024.06.2020.pdf

[30] Purposeful_Regulation_and_CMA_Appeals.pdf (sustainabilityfirst.org.uk)

[31] https://www.citizensadvice.org.uk/Global/CitizensAdvice/Sustainability%20First%20-%20Final%2024.06.2020.pdf

The benefits of workforce diversity to company innovation, profitability and cost efficiency are now recognised but despite positive government and regulator initiatives further focus is still needed to ensure culture change in these areas. Pilot or 'trophy' projects are also not good value for money when innovation does not translate into BAU practices.

Regulators' focus on competition in monopoly price can be effective at driving improvements but as highlighted by **Recommendation 8** competition in engagement and related areas can sometimes be counter-productive to delivering cost efficiencies and improved consumer and citizen outcomes where the best solution is greater collaboration and cross-company working**.**

Recommendation 16: **Regulators should carry out transparent centrally-led engagement with customers on**: **use of incentives and how costs are passed on to current and future consumers; attitudes towards profit levels and fair returns**. This would support trust and legitimacy in decisions made.

[Footnote for Recommendation 16: [32]]

Recommendation 17: **In-company independent expert and or stakeholder groups' role should include holding companies to account on key issues that shape company culture (eg the development and delivery of their innovation and workforce diversity strategies and approaches).** CCGs in water and CEGs/User Groups in energy have demonstrated that they can play a useful role in supporting culture change in monopoly companies and could help to accelerate improvements and mainstream innovation.

Recommendation 18: **Engagement for business planning process should be proportionate and value for money.** Proportionality is subjective and what is 'proportionate' should be agreed up front. It is important that sample sizes and engagement reach is large enough to be representative and capture minority voices in a statistically significant way. It also needs to be proportionate in the context of the importance of the essential service being provided and the billions of pounds involved in business plan decisions. Regulators should also consider 'whole picture' value – i.e. the costs and risks involved in not engaging well and the potential benefits of effective engagement in terms of improved decision-making, building trust and risk mitigation for example.

[32] https://www.sustainabilityfirst.org.uk/publications-consultation-submissions/245-pr24-and-beyond

3.5 Effective light-touch regulation

The challenges we need to solve

In recent years the legitimacy of regulators has been called into question alongside the market philosophies that underpin them. Regulators have sometimes been accused of being 'out of touch' with public views and failing to protect customers and respond in a timely way to changing need[33].

Regulators face the challenge of keeping pace with rapidly shifting societal expectations, technological **change and innovation**, and environmental challenges with resultant risks for trust, consumer protections and missed opportunities to deliver benefits if they fail to do so. The challenges facing essential services and society more widely, including tackling the climate crisis and ensuring affordability, require **more collaborative cross-sector** company and regulatory working. However, despite positive initiatives such as the Regulators' Alliance for Progressing Infrastructure Development (RAPID) and the UK Regulators' Networks (UKRN), regulators can still be too **siloed i**n their strategic approaches to key issues.

There have been very positive steps taken in recent years to improve how regulators engage with stakeholders and some positive engagement innovation from some quarters. Nonetheless, beyond specialist centralized insight units, and bespoke initiatives staff across regulators are not generally trained in how to undertake effective stakeholder engagement and the quality of engagement can be largely dependent on the motivation and skills of individual policy leads. Time to engage properly (beyond statutory consultations) is not always factored into project management nor minimum standards set for representative engagement. Where regulators engage well, they do not always tell their positive stories as effectively as they could do. This risks outcomes which do not meet consumer needs, missing opportunities, late challenge and undermines regulatory legitimacy and trust in decision-making. Openness, engagement, accountability, and transparency are also important good practice principles for regulators. Engagement is critical yet often not consistently properly valued and understood.

> **Recommendation 19:** **The cross-regulator Strategic Policy Statement should highlight the importance of regulators having joint research and engagement strategies on whole-systems issues such as affordability, resilience, tackling climate change and common issues e.g. data sharing, culture and governance**. There should be a requirement to work strategically together to jointly consider place and the levelling up agenda and to work together to maximise public value. Such an approach would arguably be more joined-up, cost effective, put less pressure on resource constrained stakeholders and lead to a better understanding of consumer and citizen lived experience.

> **Recommendation 20:** **Further strengthen regulators' engagement culture**. This could be achieved by the updating and sharing of best practice regulatory engagement and systematic training of all policy staff in 'stakeholder engagement' so they have the tools and confidence to more effectively carry out their role. . This would improve the quality of decision-making, helping to build trust and understanding and minimize risk.

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[33]E.g. The Government's Penrose Review, for example, calls for 'better regulation', 'Making Markets Work for People, Not the Other Way Around'.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/961665/penrose-report-final.pdf

As we outline in our major Sustainability First [Regulation for the Future: The implications of public purpose for policy and regulation in utilities](#) [34] report, monopoly price controls take up a significant amount of **time and resource** of regulators, company management teams and consumer bodies. The relationship between companies and regulators can become distrustful, antagonistic and confrontational which does not support best outcomes consumers.

Recommendation 21: Create safe spaces for regulators and companies to discuss 'wicked issues' to help end the adversarial culture, and support in-period engagement and decision-making. A comprehensive and coherent package of measures is urgently needed to create 'an infrastructure of trust' and a fundamentally different culture between business and the regulator. Mature conversations are needed across boundaries to build understanding, identify common interests, share good practice and provide constructive support and challenge. This is not advocating a return to 'smoke-filled rooms' but a clear need for more considered and consensual decision-making. Adopting a new set of 'Sustainability Principles' for economic policy and regulation can help create the appropriate values and norms for purposeful business and align the interests of Government and regulators with investors, companies and wider stakeholders. There is a risk that such an approach would be deemed untransparent. To get it right it needs to be supported by effective wider engagement, a broader culture of trust and regulators and companies need to be careful about how they report back publicly on progress made.

Recommendation 22: Monopoly regulators should explore ceding some decision-making control to nation-level (in practice if not legally), to regions, elected bodies and communities where additional public value could be created as a result. Effective engagement should be part of the de-regulatory agenda. Ceding control may be especially suited to geographic areas where existing governance structures or initiatives are in place, or policy areas where regulators have less expertise or visibility of local needs, and where cost impacts are relatively low. Companies would have to demonstrate that they have effective stakeholder engagement and assurance processes in place. This could take a range of forms e.g. formal partnership agreements, negotiated agreements, creation of Community Interest Groups on specific issues. Companies and communities should come forward with their ideas as to where regional or community led-decision making, rather than regulator-led, is in the public interest.

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[34]https://www.sustainabilityfirst.org.uk/publications-project-research-reports/242-regulation-for-the-future

Recommendation 23: Continue a strong formal role for independent in-company groups expert and stakeholder groups in monopoly regulation. When well-designed and delivered, independent expert or stakeholder challenge groups can be a powerful tool in the regulatory toolbox. In the words of Ofgem, they "bring new expertise, insights, skills and challenge" and have a role in supporting regulator's "business plan assessment" by 'being close to the company, but at arms-length'. These groups can help address information asymmetries between the regulator and companies. Ofgem's 2021 review of the effectiveness of the Groups during RIIO-2 for gas and energy transmission concluded that "the groups worked well to constructively challenge the companies in the interests of consumers and customers" and improved the business plans by "highlighting issues faced by consumers, challenging assumptions, broadening thinking and probing companies' structures". Also that "all gas distribution and transmission companies believe they got good value from the process – challenge was helpful and improved business plans, plus delivered wider benefits on corporate culture ". In addition, importantly the Groups can provide 'in-period' challenge and transparency, on key areas that matter to stakeholders, including those that sit outside of current regulatory reporting arrangements. E.g. purposeful business/sustainability, culture, innovation, engagement, consumer vulnerability strategies. They can help ensure companies adapt and are accountable to changing consumer/community needs ongoingly.

In making decisions, large companies in particular tend to benefit from an **information advantage or 'asymmetries'** in negotiations relative to customers and regulators. This has arguably contributed to excessive profits. Regulators are also relatively far from the customers and communities they impact, risking a disconnect in policy and need. Their decision-making structures are also not well designed to respond to different **regional and community requirements.**

A lesson learned from price controls in water and energy is that regulators don't always have sufficient confidence in the quality of engagement undertaken by monopoly companies which informs their business plan proposals to be able to accept the findings. This risks money being wasted on research which is not valued and undermining stakeholder trust where approaches which have been co-developed by the company and its constituents are subsequently rejected by the regulator. Alongside keeping a formal role for independent company groups and ceding more control to companies in key areas we also propose some central engagement. This sits alongside robust

company led engagement, whether bespoke to its own needs or collaborative.

In practice there is a mixed picture on public trust in utilities, especially post Covid. In addition, relatively low confidence in politicians and government decision-makers. The 2020 Edelman Trust Barometer for example found that 72% of people think that government does not understand emerging technologies enough to regulate them effectively[35] with alongside this declining faith in capitalism. Bristol Water is not alone in raising the question 'Why should stakeholders trust regulators?'[36]. Conversely, some policy makers are also sceptical about the public's ability to have informed views on complex issues that impact them, risking a disconnect. Arguably as reflected in resourcing, not all decision makers fully understand the value of engagement. They can see it as a requirement to be complied with or a bolt-on to the core business of economic regulation.

Lack of trust is in part caused by inequalities of power and lack of effective engagement and communication. As noted, not all stakeholder voices are heard equally in

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[35] 2020 Trust Barometer UK Results | Edelman (pre-Covid survey)

[36] https://f.hubspotusercontent30.net/hubfs/7850638/Regulating%20for%20consensus%20and%20trust.pdf

company and regulatory decision-making. Third sector organisations in particular can be resource constrained, unable to fund travel or take the time to engage including responding to consultations.

Recommendation 24: Monopoly regulators lead/or have a lead role in core centralized engagement to inform their price control methodologies and final determinations. This should include household and business customer/citizen priorities; common performance outcomes, measures, incentives and targets; minimum protections in case of problems e.g. accessibility, vulnerability and redress/compensation for complaints; cross cutting core price control methodology decisions e.g. attitudes towards incentives and how costs are passed on; the agreed triangulation framework informed by customer and citizen engagement to support how decisions are made on trade-offs; values/ethics – to support transparent regulatory decision making. This is to ensure consistency and comparability where appropriate; enable more cost-effective engagement; ensure cross-regional and cross-sectoral dependencies are appropriately considered. Importantly, if well-designed the regulator should have greater confidence in findings of the research. In particular, to identify genuine differences in values, attitudes and needs including towards solutions, cost, impact and risk. This should result in final business plans that more appropriately reflect the balance of different customer, citizen, regional and wider public benefit interests. If well-delivered it could provide greater transparency and legitimacy. If poorly designed or the regulator puts insufficient resource into managing engagement, it could have the opposite impact.

Recommendation 25: Companies, regulators and government review how they can better support public interest groups so more diverse voices are heard in decision making. For example, proactively reach out to impacted and likely interested groups to explain policy issues and how they are relevant to their constituencies. Also to discuss how they can make it easy for them to engage; and build and maintain third sector social capital. For example, through direct financial support, skills exchange or changing procurement practices to ensure smaller civil society organisations can participate. Companies and regulators should consider paying some third sector organisations to engage e.g. travel expenses, and/or an attendance allowance to compensate for time lost. This will support groups to engage and acknowledge the value they bring to the table.

In **Recommendations 10 and 22** we highlight how place-based solutions can help maximise value, build trust, understanding and consensus and encourage regulators to cede more control to a regional and national level, but only with safeguards. There is a need for greater visibility as to the local, regional, and national structures in place to which regulators might cede control. Common infrastructure is needed at a local level to support increasing de-centralisation of decision making e.g. with heat and the transition net zero in energy.

Well-designed research can ensure hard to reach customers are involved, but this engagement tends to be expensive to do well as is good quality deliberative research generally. Many young people in particular are feeling increasingly alienated, exacerbated by government decisions on Covid-19 [37]. But the quality of engagement with this segment in essential services decision making appears to be particularly variable. This highlights again the need for a continued focus on the quality of engagement conducted by government, regulators and essential service companies.

Recommendation 26: **Require water companies to develop Engagement Strategies and related route maps for PR24 with mechanisms in place to monitor progress against them as has in part been done in energy.** This would help to support the continued embedding of engagement culture in water companies and address known common company engagement weaknesses. E.g. It would encourage companies to think strategically about how engagement can support the *delivery* of their business plan. It would encourage a more proportionate, targeted approach including mechanisms to capture and respond to insight on an ongoing basis beyond customer service teams. It could encourage companies to identify opportunities for in-sector and cross-sector partnership working, and mechanisms, thus maximising public value and require them to demonstrate how they will feedback to customers and wider stakeholders how and why their views have and haven't influenced decisions, helping to build trust.

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[37] Young people's trust in government damaged long-term by COVID-19 (lse.ac.uk)

Annex 1

Definitions and why they matter

Definitions are not semantics, they are important. They impact the vires of key organisations operating in the utility sector, how they interpret their responsibilities and the activity they then undertake. They impact what research is undertaken by companies and policy makers, with whom, how and on what issues, and how that is weighted and interpreted. This leads to potentially very different policy outcomes and company decisions on the same issues.

For this discussion paper we use the following definitions:

- **Public interest** - the aggregate well-being of the general public, both short and long-term. It comprises the combined interests of customers, consumers, citizens, the environment and investors for both today and tomorrow.
- **Customers** – are those who pay for using the utility company. They may be businesses, third sector organisations, or individuals that use the service. They may have a direct financial relationship with the company i.e. pay bills to them, or indirectly pay as part of another bill or service e.g. energy network or line rental costs.
- **Consumers** – include people who pay the bill but also those that do not pay for the service but benefit from it e.g. non-bill payers within a household.
- **Citizens** – are members of society who are directly or indirectly impacted by a company's activity. We use this as a short-cut for societal interests at times.
- **Communities** – citizens with a shared or collective interest, particularly in a specific region or place but could also be identify based communities.
- **Stakeholders** – include all of the above plus any other parties or communities that are interested in or impacted by a company's activity. Stakeholder groups can be wide ranging including for example charities, NGOs, businesses, local councils and politicians among many others.
- **Societal or public value** – refers to the economic, social and environmental benefits resulting from the actions of the utility company.
- **Company purpose** – the distinctive contribution that a utility company makes to society and the environment in which it operates. It is what the company is there to do in terms of the impacts it has on its customers, citizens, its communities and the environment and how these impacts create societal value.
- **Engagement** – includes an organisation's contact with all its stakeholders. This may be through business as usual activity with customers, third sector organisations and businesses or through bespoke ad-hoc research or activity to deliver particular outcomes.
- **Triangulation** – is the process by which data from multiple sources, e.g. from business as usual activity, bespoke research, and wider intelligence such as third party research and data are brought together, weighted and interpreted in a way to minimize bias to ultimately form a conclusion on what 'the evidence' means. There is not yet agreement on what constitutes best practice triangulation.

Annex 2

Key 'formal' models of engagement

Approach	
'Stand-alone' consumer/citizen voices	**Statutory consumer watchdogs** e.g. dedicated national/GB consumer watchdogs such as CCW, Transport Focus, Citizens Advice (in the case of post, gas, electricity) **Elected voices** – representing citizens and their constituents at a national, regional and local level e.g. MPs, City Mayors, local Cllrs, and their collective bodies e.g. All Party Parliamentary Groups and select committees. **Non-statutory organisations** – which can vary in terms of size, funding, location, operation, expertise and ability to engage:- Consumer groups e.g. Money Saving Expert, Which?, CitA (in its non-statutory sectors); Identity-specific voices e.g. Scope, AgeUK, ACRE; Issue-orientated bodies e.g. environmental, privacy, poverty groups
Consumer bodies within regulator	**Statutory consumer panels** - within the regulator that they must under statute establish and maintain to represent the interests of consumers e.g. The Financial Services Consumer Panel, the Legal Services Consumer Panel, the Communications Consumer Panel (CPP) **Standing consumer/stakeholder bodies** - that regulators voluntarily set up e.g. Civil Aviation Authority (CAA) Consumer Panel; Ofcom's Consumer Forum for Communications; Office of Rail and Road Consumer expert Panel **'Topic' specific groups** - to support and challenge decision-making in particular areas, which may or may not include consumers or stakeholders. Usually time-limited. e.g. Ofwat's Water 2020 Expert Advisory Group, Ofgem's RIIO-2 Challenge Group It is not uncommon for regulators to have a number of these groups in operation at one time. They sit alongside regulators' formal consultation processes; insight from company monitoring and direct engagement with customers and stakeholders to inform policy making.

Consumer' voice within the company or companies	**Mandatory independent in-company challenge groups** – required or expected by the regulator to be set up by the company and provide assurance to the regulator during business plan development e.g. Customer Engagement Groups (energy distribution); User groups (energy transmission); Customer Challenge Groups (water). These have different scopes. Some providing assurance on the quality of engagement, others scrutinising the majority of the business plans. **Voluntary challenge groups –** e.g. outside of business plan development, current Customer Challenge Groups in water, Customer Engagement Groups and Independent User Groups in energy acting as critical friends; holding companies to account for business plan promises; prior to EE's acquisition by BT, EE'S External Advisory Board provided feedback on its performance. These groups vary in terms of their scope, role, and membership**.**
Direct negotiation between companies and consumers	Direct negotiation is a method where the company negotiates directly with consumers on all or part of the business plan/company approach. In a monopoly price control, the role of the regulator is to facilitate the negotiation and to approve the final agreement. Regulators need to cede some control in practice if not legally. **Negotiated settlement** - on majority of the business plan. More common where large customers exist but there are exceptions to this. Examples include: water sector in Scotland; Florida where consumers represented by Office of Public Counsel which is elected to negotiate on behalf of customers. Regulator tends to set out clear process, responsibilities, timelines and monitor progress. **Direct negotiation/constructive engagement** - allows for part of the price control to be largely driven by consumers e.g. direct negotiations between airports and airlines. In the case of the latter the CAA took the lead on cost of capital and regulatory financial decisions. Legally final decisions sat with the CAA but committed to respecting the agreements made; US energy sector negotiate proposed price increases; Ofcom established OTA2 to oversee the cooperation between Openreach and its customers to deal with strategic issues affecting rollout and performance of Open reach's products. **Formal partnership agreements** e.g. Thriving Communities Partnership Approach – a member funded cross-sector collaboration hosted by Yarra Valley Water to ensure everybody has access to the modern essential services including utilities, financial services, telecommunications and transport.

Regional/ community	Regional and place-based engagement are becoming increasingly important e.g. with **local and regional governments, partnerships, forums.** Some mechanisms already in place such as regional flood defence committees. In energy many non-strategic networks are effectively regionally based.' Decentralized heat. **Place based initiatives** e.g. One City in Bristol or Resource West. **Regional challenge/scrutiny groups –** e.g. Water Resources regional engagement comprising experts/ stakeholders
Other	**Public contest method** – decisions made by users rather than the transmission company or regulator. **Quadripartite regional level working groups made up of statutory players** e.g. in past for each water company including EA, DWI, CCW and some cases NE – to refine each company's business plans, and in particular, to bring the views of local customers to bear on the price control. This alongside more localized research into consumer attitudes to help companies draft their strategic statements. **Mutual/customer ownership model** - characterised by the extent to which members have democratic control of the business and share in its profits and contrasted with 'investor controlled' companies. e.g. South West Water Sharewise; Community Interest Company.

Research and engagement methods

These 'formal' models exist alongside utility companies', regulators' and governments' wider BAU and bespoke quantitative and qualitative/ deliberative engagement and horizon scanning and trends analysis. Extensive literature exists on the pros and cons of different stakeholder engagement and research methodologies. There is no agreement as to what constitutes high-quality engagement and the bar of what 'good looks like' is constantly moving e.g. with increased digitalization providing more opportunities. However, it is generally recognized that a spectrum of engagement approaches exists ranging from informing and consulting stakeholders through to more participatory approaches including citizens assemblies, collaboration, co-creation and co-delivery e.g. catchment management approaches in water and partnerships to support customers in vulnerable situations. Decision makers in particular need to focus on improving how they engage on future issues/horizon scanning for adaptive planning, resilience issues and can maximize the effectiveness of community engagement.

Sustainability First is a think tank and charity that promotes practical, sustainable solutions to improve environmental, economic and social well-being. We are a trusted convenor on public utility issues and have a strong track record of bringing stakeholders together in multiparty projects in the public interest.

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