

Strengthening the Consumer Voice in Energy Network Company Price Controls

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Executive Summary

This report was commissioned by Citizens Advice in order to better understand how the voice of consumers can be strengthened in the development and delivery of energy network company business plans, and their ongoing activities, during the next price control period.

In preparing this report Involve: undertook a literature review to establish an overview of current practice within the industry and situate this within wider theories of engagement; conducted a survey of energy network companies engagement activities; carried out interviews with company staff involved in planning and delivering engagement activities; attended the January 2018 Ofgem (the Office of Gas and Electricity Markets) seminar to better understand the regulator's direction of travel; and identified examples of best practice from within the sector, alongside case studies from other sectors, in order to inspire future innovation.

Background and Context

Energy transmission and distribution companies are not subject to the same market pressures as suppliers. Their activities and prices are therefore regulated by Ofgem. This is achieved through the production and agreement of a multi-year business plan for each network company, most recently achieved under the title RIIO-1 (Revenue = Incentives + Innovation + Outputs). RIIO-1 was driven by a change in approach by Ofgem which focussed on a demand for 'enhanced engagement'. This required companies to demonstrate how their plans had been informed by the views of consumers and wider stakeholders, and resulted in unprecedented levels of engagement across the sector.

Ofgem has indicated that they want to see the 'voice of consumers' further strengthened during the next round of business plan development (RIIO-2). This aim is welcomed by Citizens Advice, who have a statutory role to represent the interests of domestic and small business energy consumers in the preparation and delivery of these business plans.

This report presents an analysis of how Ofgem's focus on 'enhanced engagement' achieved impacts for consumers in RIIO-1. It provides evidence to confirm Ofgem's view that engagement resulted in changes to business plans, especially around service delivery by companies. However, Ofgem also identified that the absence of independent assurance, of both the quality of engagement processes and their influence on final plans, was a limitation to the RIIO-1 model and are therefore intending to introduce a 'challenge' function for RIIO-2.

In approaching RIIO-2 it is clear that consideration has been given to learning from different regulatory models used in other sectors. Case studies 1-3 (annexed to this report) highlight key features of three different models in use within the UK (Consumer Challenge, Negotiated Settlement and Constructive Engagement). In proposing to introduce consumer challenge functions into their plans for RIIO-2, Ofgem has selected elements from among these models that will help support their goal of expanding and extending consumer engagement by companies even further.

Consumer Engagement

Consumer engagement is fundamentally about enabling consumers to influence how services are delivered and fostering consumers' trust in the legitimacy of the decisions a company makes. This sense of trust and legitimacy, in turn, contributes to consumers

granting a company the ‘social license to operate’. Companies therefore need to design their end-consumer engagement plans in ways that build a mutually beneficial relationship between consumers and companies.

This report situates energy network companies’ consumer engagement practices within wider engagement theory and defines five levels of engagement: ‘informing’; ‘consulting’; ‘involving’; ‘collaborating’; and ‘empowering’. By concentrating on three distinct ‘spaces’ for consumer engagement this research presents an analysis of existing good practice and identifies opportunities and challenges for strengthening the consumers voice in companies’ business planning and implementation during RIIO-2.

a) **Direct engagement with end-consumers:** An overview of engagement approaches during RIIO-1 shows that all companies mapped their stakeholders early in the process and have a good understanding of the segments of their consumer base. It further demonstrated that companies have learnt from effective engagement approaches in their own, and other, sectors: adopting a suite of tried-and-tested methods to better understand their consumers’ stated and revealed preferences. Most of the engagement undertaken during this price control period, however, was at the levels of ‘informing’ (e.g. through websites, direct mail, exhibitions) and ‘consulting’ (e.g. through surveys, public meetings, focus groups).

Energy network companies have made a significant investment in engaging with consumers during the last 10 years. If, however, in approaching RIIO-2, companies simply replicate the work that proved effective for them previously, or the processes they have seen other companies rewarded for, then the impact of direct consumer engagement will not necessarily be ‘enhanced’. There are further opportunities to deepen and widen the impact of consumer engagement in RIIO-2, by developing approaches at the ‘involving’ and ‘collaborating’ levels.

This is not simply about extending the amount of engagement that companies undertake but, more importantly, expanding the focus of engagement to include some of the complex, and potentially difficult, topics that are emerging in the context of RIIO-2. These topics include, for example, moves towards low carbon heating, managing the electricity grid in the context of increasing small scale generation, or meeting demand from the take-up of electric vehicles. These are subjects that are going to require companies to make trade-offs and explore new solutions and partnerships in their approach to developing and delivering their business plans.

Case studies from other sectors show that there are a range of methods available to companies that will enable them to engage ‘ordinary consumers’ in these types of discussions in ways that provide outputs useful to decision makers, for example, by:

- providing insight into how consumers weigh up and make trade-offs between the needs of different groups within the community;
- helping companies understand how consumers evaluate priorities for infrastructure investment, within the context of wider social values and the needs of future users; and
- demonstrating how consumers can balance their aspirations for services with the realities of limited funding in order to evaluate spending priorities.

b) **Consumer representation in Stakeholder Groups:** Involving consumer representatives in Stakeholder Groups (for example, from Citizens Advice or those representing the interests of a particular sector of society) is a model that was used by all energy network companies through RIIO-1 to create a ‘space’ for the interests of consumers to be put forward in an ongoing way. The general role of a Stakeholder

Group is to act as a 'critical friend' to a company. Together, representatives from consumer, industry and other professional sectors can bring perspectives that will support companies to develop an understanding of what mutually beneficial solutions might be, alongside an appreciation of the consequences of decisions for different stakeholder groups.

The impact of energy network companies developing Stakeholder Groups during RIIO-1, in combination with direct engagement with consumers, is clearly demonstrated in changes made to company business plans at this time. Even more changes were made during implementation: particularly to service standards; support for consumers in vulnerable circumstances; and communications during supply interruptions and infrastructure works.

The establishment of Stakeholder Groups has been a key strength of the structures introduced in RIIO-1 to enhance the breadth and impact of engagement by energy network companies. This research identified a number of interdependent factors that contribute to the success of Stakeholder Groups in practice. These include:

- strong, senior leadership;
- a clear remit with defined parameters for influence;
- actively building the capacity of group members;
- providing timely and effective feedback about how their discussions have been used by the company;
- access to the outputs from consumer research.

Consumer representatives are, however, only one interest among many others involved in Stakeholder Groups. To deliver their role effectively, our research has highlighted that there is a need for these representatives to have access to the outputs of direct engagement with consumers and be supported to identify areas where more research is needed.

We conclude that one way for consumer representatives to be better supported would be for companies to establish 'Consumer Advisory Panels'. These panels would be composed of a representative group of residential consumers from their area. Panel members would be consulted on a regular basis by the company as different issues or questions emerge, particularly when there is not already evidence of an established consumer view. This could be an effective and cost-effective way of engaging with consumers on a range of more complex issues, without the time and expense of recruiting an entirely new group for each consultation. Further, a group like this, could become a specific resource for Stakeholder Groups.

c) **Consumer Challenge:** The final space for strengthening the voice and influence of consumers is via the use of champions fulfilling a 'consumer challenge' function. In this role consumer champions scrutinise a company's engagement practices and evaluate how the outputs have been used to inform business plans and how they are embedded into their implementation.

A consumer challenge function is a very different role than that played by Stakeholder Groups - where a Stakeholder Group is a company's 'critical friend', a challenge group operates as their 'conscience'. As such there are different skills required to successfully undertake the challenge function, for example the ability to effectively evaluate the depth, breadth and quality of a company's engagement and assess how well the outputs from this have been interpreted in their business planning.

Ofgem is proposing different approaches to the delivery of the consumer challenge function for distribution and transmission companies. For distribution companies, Ofgem suggest companies establish Customer Engagement Groups (CEGs), which will deliver both challenge and assessment functions, including a report to Ofgem on engagement processes and changes made to the plan as a result. For transmission companies, Ofgem suggests the establishment of User Groups, which will negotiate the content of plans; the consumer challenge function in the latter case will be provided by a GB-wide group. That group will also review distribution plans.

This research finds that existing Stakeholder Groups are one of the key strengths of the current model. As such, we consider that companies should deliver the new challenge functions required by Ofgem with as little disruption as possible to existing groups. While Ofgem's approach to transmission companies is consistent with this, this report identifies both concerns and ways to address them in delivering additional functions in distribution companies.

Evaluating Engagement and Defining Success

While all companies embraced Ofgem's requirement to enhance their consumer engagement during RIIO-1, there is evidence that companies will need to review and refresh their engagement strategies to meet RIIO-2's greater emphasis on the effectiveness and impact of consumer engagement.

To be most effective, consumer engagement strategies need to be integrated into, and viewed as integral to, a company's overall business plan. This research identifies a number of measures that will help companies ensure that they are designing their engagement strategies for success. Key to this will be articulating during the planning stage:

- clear goals for their engagement activities;
- intended outcomes (for the company and consumers);
- the scope of the engagement i.e. what can, and cannot, be influenced;
- who needs to be involved (i.e. is the topic relevant to all consumers or specific segments of the consumer base?);
- the level and method of engagement needed to achieve these goals;
- the risks of engaging (and of not engaging);
- how the outcomes of the engagement will be shared (within the company, with stakeholders, with participants and with consumers more generally); and
- mechanisms for evaluating the success of engagement (including key performance indicators (KPIs) and metrics for measuring impact).

In 2010 Ofgem published a set of principles against which its own engagement activities would be evaluated, including: responsiveness, inclusiveness, taking views seriously and demonstrating impact. But it did not stipulate that companies adopted the same principles. These principles however could be used as the basis of a standard evaluation framework, across all energy network companies, to evaluate the quality and effectiveness of company engagement.

At the basis of any evaluation framework there also needs to be a clear understanding of the intended outcomes for consumers that is driving the engagement. Citizens Advice have produced a list of 'consumer outcomes' that companies and service providers should be

working towards. These could be adopted across the sector to provide a consistent set of high level outcome indicators against which impacts could be assessed.

Recommendations:

For Ofgem:

- That Ofgem refreshes their engagement principles in light of the evolving regulatory context and introduces them as the basis of a standard evaluation framework for use across all energy network companies to evaluate the quality and effectiveness of company engagement.
- That Ofgem establishes a set of high level evaluation KPIs that companies and CEGs can use to assess their engagement activities and - in particular - the impacts that these are delivering.
- That Ofgem reviews the incentives for companies that were part of RIIO-1. In particular, the engagement incentives should be revised to better reflect delivery of outcomes for consumers, including early replication of good practice, and to encourage and build on existing partnership work across the energy sector, and with other utilities. The RIIO-2 Challenge Group could continue to support these aims during the price control period.
- That Ofgem undertakes research on consumer views of company profit levels. Neither companies themselves nor consumer organisations would be able to carry out such work without accusations of bias. The remit of the RIIO-2 Challenge Group should also be widened explicitly to consider financeability and cost of capital issues.
- That Ofgem considers, as part of wider work on changing charging structures, how best to facilitate the take-up of low carbon technologies by consumers who want to use them, while minimising costs for consumers who will not benefit from them. Ofgem should also seek the views of end-consumers to inform detailed proposals.

For companies:

- That companies continue to build on the good-practice engagement work they have undertaken during RIIO-1, including engagement as part of service delivery, while being mindful that simply repeating their previous approaches will not be enough to deliver further 'enhanced' engagement.
- That companies refresh their engagement strategies to introduce a programme of 'enhanced evaluation' as an integral complement to Ofgem's drive for 'enhanced engagement'. This will help ensure that all company engagement with consumers is purposeful, productive and delivers best value for the company's investment.
- That companies maintain and further develop their existing Stakeholder Groups, which have proved to be one of the strengths of RIIO-1, in line with the factors for success identified in this report. Further that they consider, in conjunction with the groups themselves, how they can contribute to wider aspects of the company's business planning in future.
- That companies seek explicitly to minimise disruption to existing Stakeholder Groups, while meeting Ofgem's requirements for CEGs and User Groups.

- That companies establish standing Consumer Advisory Panels, involving local domestic consumers, that can be used both by the company and by Stakeholder Groups to explore emerging consumer issues throughout the development of their business plans and their implementation.
- That companies explore opportunities to engage consumers using deliberative methods at the 'involve' and 'collaborate' levels of the engagement spectrum to enhance their engagement, particularly in relation to addressing longer term challenges.

For Citizens Advice:

- That Citizens Advice develop a bespoke statement that illustrates what their 'Consumer Outcomes' would look like in the context of energy network companies' business that companies can use as high level indicators against which to evaluate the impact of their engagement.
- That Citizens Advice coordinate opportunities for consumer representatives in Stakeholder Groups (whether there on behalf of Citizens Advice or other organisations) to share their experiences with different companies and learn from good-practice examples from across the sector in relation to delivering impact for consumers.

1. Introduction

This report has been commissioned by Citizens Advice to better understand how the ‘voice’ of energy consumers can be strengthened in the development of, and embedded in the delivery of, energy network company’s business plans and their ongoing activities.

Context for this research

In Great Britain, electricity and gas services are delivered to consumers by companies with different responsibilities. Retail energy suppliers operate in a competitive market¹ and are responsible for a range of services provided directly to consumers, of which choice of tariffs, metering and billing are the most central. However, the electricity and gas consumed by households is delivered by transmission and distribution networks of wires and pipes:

- Transmission companies own and operate the strategic gas pipelines and electricity networks which transfer energy between regions;
- Gas distribution networks, as the name suggests, own and operate networks within different GB regions, and are responsible for reliability of supply to individual consumers;
- Electricity distribution networks own and operate electricity infrastructure at regional level, and are again responsible for reliability of supply to individual consumers.

The maintenance and operation of these physical assets are natural monopolies, and in each case is provided by a single company. For individual consumers, the company providing these services does not change, regardless of whether they switch retail suppliers, unless they move to a different part of Great Britain.

As transmission and distribution companies are therefore not subject to the same market pressures as suppliers, their activities and prices are regulated by Ofgem (Office of Gas and Electricity Markets). This is achieved through the production and agreement of a multi-year business plan for each network company, which sets out, in some detail, their activities and charges in the following years.

The most recent set of business plans were developed under the title RIIO-1 (Revenue = Incentives + Innovation + Outputs)². The extent to which the views of consumers and other stakeholders are considered in the process of planning and delivering electricity and gas network services developed considerably under this process. This was driven by a change in approach by Ofgem, which called on companies to demonstrate how their plans had been informed by consumers and wider stakeholders, and resulted unprecedented levels of engagement.

The business plan timescales are staggered, with transmission and gas network companies now planning for RIIO-2. Their initial business plans are due for submission to Ofgem in 2019, with plans to be finalised and delivery beginning in April 2021. Electricity distribution companies’ business plans under RIIO-1 followed a similar process two years later. Their current plans run until March 2023, with submission of their draft RIIO-2 plans likely due in 2021.

¹ Recent Competition and Markets Authority investigations, however, do identify limits to competition in some consumer sectors in practice.

² Ofgem. 2018 “Network regulation - the RIIO model”. Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/network-regulation-riio-model>

Companies are therefore currently developing their plans. Citizens Advice has a statutory role to represent the interests of energy 'consumers'³, including in the preparation and delivery of these business plans. Citizens Advice believes that consumer engagement in regulation and business planning can have multiple benefits, including:

- making companies and regulators more responsive to consumers' needs;
- achieving better outcomes for consumers;
- increasing the legitimacy of monopolies; and
- enhancing transparency and accountability both of company activities and of the regulatory process itself.

Approximately 26% of the average household dual fuel energy bill relates to the costs of the transmission and distribution networks bringing electricity and gas to homes and businesses. This adds up to around £100bn of consumers' money over an 8 year price control period. It seems obvious therefore that consumers should have the ability to influence how this is spent. This is particularly the case given the significant changes and challenges that the energy system is facing at present: including moves towards decarbonisation of heating, increasingly distributed generation and changes associated with the smart meter roll out. How consumers use their networks, and the needs they expect them to meet, are also changing: as illustrated by the increased uptake of solar panels, heat pumps and electric vehicles. In this context of rapid change, greater and deeper engagement with consumers is vital if companies are to provide products and services that meet their needs.

Ofgem has indicated that the voice of consumers should be further strengthened in the development of network company business plans during RIIO-2⁴, an aim welcomed by Citizens Advice.⁵ As preparations for RIIO-2 continue it is important therefore to consider how mechanisms to widen and deepen consumer engagement can be best built into the price control process and beyond.

Research objectives

As the statutory representative of energy consumers, Citizens Advice will be an active contributor to the RIIO-2 design process to ensure that consumers do not overpay for energy network services, and that network companies deliver the services and products consumers need. The aim of this research therefore is to explore the outcomes and impacts that consumer engagement has had, and can have, on company business plans, practices and thinking (as well as ultimately on outcomes for consumers) in order to provide evidence that Citizens Advice can use to inform their role during this process.

³ We use the term 'consumers' here, and throughout this report, to refer to domestic and small business users, as these are the groups Citizens Advice has a duty to represent. It is an intentionally wider term than 'customers', which implies a purely transactional relationship between a household or business and a network company, which, given energy is an essential service, is not necessary to give someone a stake in network activities.

⁴ Ofgem. 2017. "Network Regulation: the RIIO model". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/open-letter-riio-2-framework>; and Ofgem. 2018. "RIIO-2 Framework Consultation". Accessed 7/3/2018. Available from <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

⁵ Citizens Advice. 2017. "RIIO-2 Open Letter Response". Accessed: 16/02/2018. Available from: <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-consultation-responses/riio-2-open-letter-response/>

In support of this aim, Citizens Advice commissioned this report to:

- Review and comment upon the detail of companies' approaches and activities in relation to engaging consumers, both in preparation of plans and in their delivery during RIIO-1;
- Assess the changes made as a result, again in relation to both plans and ongoing delivery, and how this has delivered better outcomes for consumers;
- Identify future challenges likely to face both companies and consumer representatives during the RIIO-2 period and beyond;
- Identify examples of good practice and articulate the factors that need to be considered in designing successful approaches to engagement;
- Propose a framework for evaluating successful engagement in the context of energy network companies' engagement with consumers;
- Consider what lessons, from both energy and other sectors and from academic analysis, would be relevant to future approaches for energy network companies; and
- Provide tailored recommendations based on the above.

Structure of this report

By assessing how Ofgem's focus on 'enhanced engagement' achieved impacts for consumers in RIIO-1, and exploring the direction of travel apparent for RIIO-2, this report identifies a range of challenges and opportunities relating to how the 'voices' of energy consumers can be given a meaningful and influential role, both in developing network company business plans and their ongoing activities.

As such it is intended to provide Citizens Advice with a compelling case, informed by a robust and considered analysis of both the UK evidence base to date and case studies from elsewhere, to make a strong representation on how best to strengthen the impact of consumer voices within RIIO-2.

After a brief statement of the research methodology (Chapter 2) the report begins by presenting an assessment of what we understand to be Ofgem's views of engagement work done by companies under RIIO-1, and their emerging views on how the approach might be refined during RIIO-2. In this chapter we also present an overview of three different regulatory frameworks recently used in the UK, each designed to enhance company engagement in order to deliver better outcomes for consumers. In each case we identify and compare the distinguishing features of the approach before exploring their application to RIIO-2.

In Chapter 4 we begin by exploring the theory of effective engagement, before presenting an overview of how companies engaged with consumers during the RIIO-1 price control process and have continued to enhance their ongoing engagement during the delivery of their plans. We identify three 'spaces' that can be used to strengthen the influence that the voice of consumers can have on the work of network companies:

- a) companies undertaking direct engagement with end-consumers;
- b) consumer representatives advocating in Stakeholder Groups and other fora; and
- c) champions scrutinising the practice of companies and fulfilling a challenge function.

In each case we discuss how these spaces are being used in practice by energy network companies and identify opportunities and challenges for enhancing their use and impact within RIIO-2.

In Chapter 5 we focus specifically on the types of issues that companies engaged with consumers on during the last price control and highlight some of the topics that it will be important for companies to explore with consumers during RIIO-2 (including some more complex and difficult topics than many companies have previously directly involved consumers in addressing). Drawing on case studies we suggest ways that end-consumers may be able to be effectively engaged on subjects like these.

Given that Ofgem has indicated that it is specifically looking to introduce a consumer challenge function into RIIO-2, in Chapter 6 we examine the implications this may have for companies, Ofgem and other stakeholders. Acknowledging that these will differ between distribution and transmission networks we suggest some of the potential actions that could be taken by Ofgem and others to mitigate problems that could emerge during implementation.

In Chapter 7 we return to the elements necessary for designing successful engagement approaches and propose a framework that could help companies, and those charged with a challenge function, to evaluate the quality and impact of network companies' engagement practice.

In the final chapter we draw out key learning points from this research and present recommendations to Citizens Advice for advocating on behalf of consumers within this evolving regulatory context.

2. Methodology

In December 2017 Citizens Advice commissioned Involve to undertake research into how the consumer voice can best be strengthened in energy network company price control processes, to ensure companies deliver the services that consumers want and need at a price they are willing to pay.

Involve⁶ is an organisation that specialises in the theory and practice of public participation, in settings ranging from citizens' views of Brexit, to changes in delivery of NHS services, to expectations within the water, post and consumer protection sectors. To complement our expertise on participation, we undertook this research together with a Research Associate who specialises in consumer energy issues, and whose experience includes work on the early stages of electricity distribution companies' development of RIIO-1 plans.

This research involved:

- Initial literature review and scoping discussions relating to the industry context;
- Preparation of company survey questions covering: approaches used to engage domestic and small business consumers; involvement of consumer representatives in stakeholder groups; changes made to plans and delivery as a result of these activities; and changes anticipated during the RIIO-2 period. This survey was circulated to energy network contacts identified by Citizens Advice;
- Review of relevant consumer engagement literature, with particular reference to evidencing impact;
- Attendance at Ofgem seminar on January 24th 2018 to better understand Ofgem's current thinking on the regulatory framework;
- Assessment of company responses to the survey (four interviews, eight written submissions);
- Identification of 'good practice' examples from within network company's existing engagement practice;
- Identification and preparation of 8 case studies: selected both to deepen understanding of the regulatory model being suggested by Ofgem and illustrate good practice in other sectors in order to inspire future innovation; and
- A workshop with representatives of both Citizens Advice and advisers from Sustainability First, to focus the analysis within the evolving context of preparations for RIIO-2.

The research was undertaken during a period when Ofgem's thinking, particularly on the structures needed to meet their aims for robust consumer engagement, was moving rapidly. The views of transmission and gas distribution companies and those of many of their stakeholders were strongly influenced by the ongoing debate and by the (then) increasingly pressing timescales facing them in production of their draft business plans⁷. This was particularly the case in consideration of options for changes to organisational structures to support engagement.

As a result, and following the workshop, the research sought to cover both longer term issues, more likely relevant to electricity distribution companies which have much more time

⁶ See <https://www.involve.org.uk/> for a description of Involve and an outline of the organisation's work.

⁷ These timescales were subsequently relaxed as a result of Ofgem's proposals made in the RIIO-2 Framework Consultation, published 7/3/2018, and available at <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

to prepare, as well as more immediate concerns facing transmission and gas distribution companies.

In both cases, we concentrate on three aspects of consumer engagement practice:

- a) Direct engagement with end-consumers – drawing heavily on existing good practice in the energy network sector, together with some specific examples from elsewhere;
- b) Consumer representatives' involvement in planning, decision making and delivery – the role of Stakeholder Groups, again drawing on existing good practice from within the energy networks sector and opportunities to complement this with enhanced engagement; and
- c) Consumer challenge functions – a quality assurance role designed to evaluate companies' consumer engagement and assess how well these results have been used in business plan preparation.

3. Consumer Engagement: energy networks' journey until now

This chapter provides a short review of consumer engagement as carried out by energy network companies. It draws on Maxine Frerk's report *Consumer Engagement in RIIO-1*⁸, published in November 2016, and on the background provided in Ofgem's RIIO-2 Framework Consultation⁹, published in March 2018.

The key points are summarised below, concentrating on Ofgem's approach to regulated network companies. Both reports also provide more detail on Ofgem's work to build its own capacity in relation to consumer involvement, including bringing together a small number of experts in a Consumer Challenge Group to provide advice to Ofgem throughout the process.¹⁰

Changes introduced to energy network regulation as part of RIIO-1

Consumer engagement, as an explicit and formally recognised factor within the development of energy network plans, was expanded considerably by Ofgem as part of the RIIO-1 process in 2010¹¹. Previous price controls had been carried out as more technical exercises, with consumer engagement in the previous price control period limited to advice provided to Ofgem by a central expert group. Given the lack of experience on which to draw, Ofgem took the view that, rather than specifying the detail of what should be done by companies, it would be better to set only the broad requirement that companies would, as one criteria among others, be assessed on the depth and quality of their engagement. This would then encourage companies to develop their own approaches.

Ofgem's overall assessment was that the model adopted for RIIO-1 was very successful in driving a step change in engagement by the companies. This view was based on the range and depth of techniques used to engage both consumers and consumer representatives, as evidenced by companies at the time of plan submission. In addition, annual updates are a requirement of the Stakeholder Engagement Incentive Scheme, and these show that companies have continued to expand their range and quantity of engagement throughout the delivery of RIIO-1 plans.

Frerk's report also explores the experience of other sectors, including the different approaches taken by the water industry in both England and Wales and, separately, in Scotland, as well as the experience of the Civil Aviation Authority (CAA).¹² Specifically, her report looks in detail at the structures put in place by regulators to involve consumer representatives and other stakeholders to help develop their plans.

Frerk highlights both similarities and contrasts in terms of Stakeholder Group¹³ functions and remits, particularly the extent to which groups act as advisers or have a more formal

⁸ Frerk, M. 2016. "Consumer Engagement in the RIIO Price Control Process". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-riio-price-control-process-paper-maxine-frerk>. Frerk was a senior director at Ofgem with responsibility for the development of RIIO-1 plans. However, the report was published after she had left that role.

⁹ Ofgem. 2018. "RIIO-2 Framework Consultation". Accessed 7/3/2018. Available at <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

¹⁰ Ofgem. 2010. "Consumer First Panel: research findings from fourth event (Price Controls)". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/consumer-first-panel-research-findings-fourth-event-price-controls>

¹¹ Ofgem. 2017. "Network regulation - the RIIO model". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/network-regulation-riio-model>

¹² An outline of these different models is presented in [Case Studies 1-3](#), annexed to this report.

¹³ This term is used for consistency in this report to refer to bodies which bring together stakeholders and customers with the intention of using their collective expertise to inform company plans, generally at strategic level; individual companies use different terms.

role: either in overseeing aspects of plan development or moving towards negotiated settlement, and the corresponding roles of the regulators in each case.

Drawing on these comparisons, Frerk identifies a number of outstanding issues relevant to determining the role of different groups in RIIO-2:

- It is important to set expectations about what is, and is not within the scope of any Stakeholder Group; highlighting, for example, that financial aspects, such as cost of capital or efficiency, are likely to require a wider industry view than might be provided by groups working with individual companies.
- The recruitment, remit and payment of remunerated group members needs to be considered. It is critical to avoid the risk - or even the risk appearance of - capture of these groups by companies, if regulators are to have confidence in the plans proposed.
- A related point is that the impact of consumer engagement on business plans should be clearer, demonstrating the changes made as a result of engagement.
- Finally, the remit of groups needs to reflect the interests of all consumers, including Small and Medium Enterprises (SME's), consumers in vulnerable circumstances and future consumers.

Based on this analysis, Frerk identifies specific areas for improvement in RIIO-2:

- The need for companies to gather and use input from consumers earlier in the process to help inform the direction of plans, rather than consulting only to validate existing decisions or on aspects around their delivery. As part of this, clearer ongoing reporting is needed to demonstrate that consumer views are translating through to outcomes.
- As with other sectors, it is important to clarify what aspects of company activity should, or should not, be within scope of influence of consumer views. The report acknowledges a tension here: Ofgem has historically been cautious about the extent to which regulated companies can diverge from set standards, and there is an associated need for the regulator to be clear about this early in RIIO-2.
- A related point is the extent to which Ofgem itself participates in, or engages with Stakeholder Groups; a balance is needed between encouraging companies and groups to own the plans on one hand, while operating within Ofgem's parameters as a regulator on the other. It might also be useful to Ofgem to hear views directly from Stakeholder Groups during the plan development process to better understand the conclusions that they have drawn.
- There is a need to consider a different approach for transmission companies, given their customers are more directly suppliers and generators, rather than end users.

Finally, Frerk's report gives a helpful indication of the direction of travel, emphasising the need to build greater capacity now:

*"While consumers today have limited interest in or understanding of the role of networks, looking to the future there may be more direct impact through smart metering and smart grids. Maintaining a strong focus on consumer engagement in RIIO-2 is therefore vital."*¹⁴

¹⁴ Frerk, M. 2016. "Consumer Engagement in the RIIO Price Control Process" Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-riio-price-control-process-paper-maxine-frerk>

Comparative regulatory frameworks

In examining how Ofgem's goals for 'enhanced engagement' with stakeholders could be further extended in RIIO-2, it is clear that they have sought to learn from other regulatory models currently in use in the UK, and further afield.

There have been a number of detailed reports undertaken that compare the models adopted by other regulated sectors to strengthen the consumer voice within price control processes.¹⁵ Rather than attempt to summarise the findings presented in these reports, our focus here instead is on the key learning that these, and our contemporaneous analysis, brings in relation to the sector's journey towards RIIO-2.

Table 1 below draws from case studies 1-3 to summarise the key characteristics (and differences) of each model. In practice, however, all of these models are still relatively new, and as such they are continuing to evolve within each regulatory environment.¹⁶

Case studies 1-3 (annexed to this report) detail how three different regulatory models were applied in the water and civil aviation sectors in the UK during their last price control period.

1. **Consumer Challenge**, a model mandated by Ofwat (The Water Services Regulation Authority) during their 2014 price control process. This saw each water company in England and Wales establishing a Consumer Challenge Group.
2. **Negotiated Settlement**, exemplified by the Scottish Water Customer Forum established by WICS (Water Industry Commission for Scotland) during the Scottish 2014 Strategic Review of Charges.
3. **Constructive Engagement**, as implemented by the CAA (Civil Aviation Authority) during the 2015 price control process at Heathrow and Gatwick airports.

¹⁵For example: Bush, H. and Earwaker, J. 2015. "The Future Role of Customer and Stakeholder Engagement in the Water Industry" UK Water Industry Research Report. Accessed: 16/02/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>; First Economics. 2015. "A review of recent UK Price Review Innovations" Civil Aviation Authority. Accessed: 16/02/2018 Available from: <https://publicapps.caa.co.uk/docs/33/Regulatory%20innovations.pdf>; Littlechild, S. 2011. "Regulation and Customer Engagement." Economics of Energy and Environmental Policy. Accessed: 16/02/2018 Available from: https://www.eprg.group.cam.ac.uk/wp-content/uploads/2014/02/Regulation-and-customer-engagement-eeep_06_Littlechild.1_15.pdf; Littlechild, S. 2014 "The Customer Forum: Customer Engagement in the Scottish Water Sector." Utilities Policy 31: 206–218 Accessed: 16/02/2018 Available from: <https://www.eprg.group.cam.ac.uk/the-customer-forum-customer-engagement-in-the-scottish-water-sector/>; Research By Design. 2014 "Customer Challenge Group Process: Review of lessons learned" Consumer Council for Water. Accessed: 16/02/2018 Available from: <https://www.ccwater.org.uk/wp-content/uploads/2014/07/Customer-Challenge-Group-process-Review-of-lessons-learned2.pdf>; Consumer Council for Water. 2015. "A Tide of Opinion: the Customer Voice within the Price Setting Process" Accessed: 16/02/2018 Available from: <https://www.ccwater.org.uk/research/a-tide-of-opinion-the-customer-voice-within-the-price-setting-process-3/>

¹⁶ These, therefore, are not fixed models. The case studies, however, outline how they were deployed during the previous price control process in each sector. In each case the regulators have been taken an iterative approach since that time: learning from each other's experience; responding to challenges faced in other sectors which have identified the limitations of the model; and reacting to the changing external context in which each sector operates.

Table 1: Summary of Regulatory Models

	Consumer Challenge	Negotiated Settlements	Constructive engagement
Exemplified in the UK by:	Consumer Challenge Groups (CCG) operated by water companies in England and Wales during PR14.	The Customer Forum, with a remit to represent consumer interests to the water industry in Scotland during the 2014 Strategic Review of Charges.	Customer Engagement Working Groups mandated by the CAA at Heathrow and Gatwick airports (Q5 2015)
Establishment:	Ofwat directed each water company, as part of the 2014 price control process, to establish a CCG.	The Customer Forum was established in 2011 following an agreement between WICS, Consumer Focus Scotland and Scottish Water.	The CAA established a constructive engagement approach to inform their Q5 price control process.
How consumer interests are represented:	CCGs do not directly represent consumers but are intended to challenge how a company uses its consumer engagement and other sources of information to best deliver outcomes for consumers.	The Customer Forum is a group with a responsibility to represent consumers. Members are selected to bring a wealth of skills and professional experience from many walks of life: including consumer affairs, the water industry, the environment, public policy, business and academia.	Consumers in this case are the airlines operating out of each airport (as they are the airport's customers). This rests on the assumption that they will be mindful to the needs of their passengers.
Process	Despite mandating for the creation of CCGs, Ofwat left the make-up, terms of reference and operating procedures for individual CCGs largely down to the discretion of individual water companies.	The Customer Forum's role is to ensure that the customer voice is part of the regulatory process. As such, they are involved in ongoing negotiations with Scottish Water to agree the key decisions in the company's business plan for the price control period.	Airports and airlines negotiate on relevant sections of an airport business plan before presenting proposals to the CAA.
Scope of influence:	CCGs exist specifically to scrutinise and challenge the quality and depth of a water company's engagement with consumers and how the outcomes of this are translated into their business plans. The CCGs' role is to: <ul style="list-style-type: none"> • review the company's engagement process and the evidence emerging from it; 	The forum has an ongoing role in questioning Scottish Water's assumptions and proposals on all aspects of their business plan by asking: Why is what you are proposing in the interests of customers? The process of negotiated settlement implies that the two parties will continue to engage until they can reach a resolution.	For the Q6 reviews, the CAA widened the scope of the interaction to embrace all elements of the business plan and price review, however in an advisory capacity.

	<ul style="list-style-type: none"> challenge the phasing, scope and scale of work required to deliver outcomes. <p>They do not have a role in agreeing a company's business plan.</p>		
Expected outputs:	The CCGs challenge the company throughout the business plan development process (in order to deliver an improved plan) and report their final assessments to Ofwat.	The Customer Forum was tasked with seeking to agree a Business Plan with Scottish Water that was consistent with Ministerial Objectives, fulfilled WICS's requirements as a regulatory body and delivered the best possible outcomes for consumers.	A report submitted to the CAA that identifies points of agreement and disagreement between the participating bodies in order to inform decisions by the regulator.
Relationship with the regulator:	<p>A CCG's role is to advise Ofwat on the effectiveness of the company's engagement and on the acceptability to customers, or otherwise, of its overall business plan.</p> <p>Ofwat made clear however that, while this assessment would be a valued consideration, deciding whether to accept a company's business plan would be ultimately up to the regulator.</p>	<p>The Customer Forum was established as an independent entity, responsible for identifying and understanding customers' priorities and seeking, as an intermediary body, to get the best outcome for customers from Scottish Water and the regulator.</p> <p>Although legally WICS remained responsible for the decision, it signaled clearly that it would be mindful to accept the outcome of the negotiation.</p>	The CAA committed to consider the reports produced, and was mindful to accept agreed proposals. However the CAA was clear that it could not place 'reliance' on any agreement and reserved the right to make final decisions on the basis of its primary duty towards passengers as established in the 2012 Civil Aviation Act.

Learning from experience within other sectors

The regulatory frameworks considered above represent attempts by different regulators to effect a broader culture change within their sectors, in ways designed to ensure that the interests of consumers are firmly placed at the heart of regulated companies' operations. As such, they all represent attempts to improve price control processes in ways that align with Ofgem's goal of ensuring the process focuses "on items of greatest value to consumers."¹⁷

In RIIO-1 Ofgem sought to bring customers further into companies' consideration during the process of assembling their business plans by establishing a competitive framework. The drive for competition among companies to earn 'fast-tracking' was helpful in this regard because it persuaded companies that it was in their, and their shareholders', best interests to take customer engagement seriously (as evidence of robust customer engagement was one of the criteria that a company needed to score well on if it was to earn this financial incentive).

While this was effective in encouraging companies to take a far more proactive approach to considering the needs of end-consumers in their business plans, it differed substantially from the regulatory approach taken in other sectors, for example the approach to agreeing price control parameters adopted in the Scottish water sector. In this case, by contrast, WICS fundamentally altered its behaviour from being an evaluator of a company's plans to becoming more of a facilitator of discussions between a company and customer representatives negotiating the business plan.

During this process the Customer Forum is widely credited with achieving significant improvements in Scottish Water's understanding of what consumers want and need, and the members tend to agree that they have seen "astonishing" changes in the attitude and approach of the company as a result of this process.¹⁸ Our overall impression in reviewing these negotiations reflects Littlechild's conclusion that, without this negotiated process "the company would not have been willing to concede so much in the way of price, and the regulator would not have been able to make the case for as many customer benefits, as the Customer Forum was able to achieve."¹⁹

There are however widespread reservations expressed about whether this model for engagement with consumers would have been able to deliver the same results in areas of the country where there is not a monopoly supplier that a regulator would need to engage with. For example, it is clear from the case study that WICS played an active, integral and ongoing role in the negotiations and that this significantly contributed to its success. Such intense involvement may not be feasible when, for example, Ofgem would need to engage with 10 distribution companies and 4 transmission companies. However, a key function performed by WICS was the publication of a series of guidance notes and directives that responded to issues being raised within the negotiations. Assuming that, if such a negotiated settlement model was adopted, many companies and their 'fora' would be facing a lot of the same challenges, it might be feasible for Ofgem to play a similarly directive role, preventing negotiations going down a path that Ofgem (within the responsibilities of its regulatory role) would not be able to accept.

The fact that the Customer Forum and Scottish Water were actually able to agree a plan that the regulator was able to endorse as being consistent with its duties to customers, was

¹⁷ Ofgem. 2017. "Open letter on the RIIO-2 Framework". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/open-letter-riio-2-framework>

¹⁸ Involve and Ipsos MORI Scotland. 2017. "Meta-analysis and scoping exercise into public participation in the regulated industries". Pp.134-136. Accessed: 16/02/2018. Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

¹⁹ Littlechild, S. 2014. "The Customer Forum: Customer Engagement in the Scottish Water Sector". Accessed 26/01/2018. Available from: <https://www.eprg.group.cam.ac.uk/the-customer-forum-customer-engagement-in-the-scottish-water-sector/>

in itself surprising to many commentators. A number have further attributed this success to the personal qualities, skills, commitment and willingness of the individuals involved. This was particularly the case for those familiar with the disagreements and tensions that have been evident in the CAA's decision to introduce a process of constructive engagement within airport price controls.

The CAA's demand for a process of 'constructive engagement' between providers and customers in 2005 was one of the first attempts in the UK to have 'customers' (albeit airline companies rather than end-consumers) engaging directly with regulatory bodies as part of creating the evidence to inform a regulatory review. A vital issue identified regarding the effectiveness of this process in championing the needs of consumers however, is the extent to which airline companies can be expected to fairly represent the interests of passengers within the process. As commercial bodies, airlines will necessarily also have commercial interests (and their responsibilities to shareholders) in their field of vision during any negotiation:

*"in the competitive airline market for passengers, fares are set according to what the market will bear. Increases in airport costs cannot necessarily be passed on and this bottom line impact may affect airline preferences as to airport service and investment because of the costs arising for them."*²⁰

There is, therefore, a potential for conflict between the commercial interests of airlines and the needs and priorities of their passengers as the end-users of many airport's services. This suggests that, for the model to be most effective in championing consumer needs, there should also be an opportunity for end-consumers' interests to be explicitly included within the process, if in no other role than providing a check-and-balance function on any agreements. That could take the form of direct passenger input to assess the acceptability of any agreements between airlines and airports in aviation or, in an energy network context, any agreement between generators and energy networks and end-consumers.²¹

A further challenge for adopting a constructive engagement approach more widely within in a commercial context, as identified by Bush and Earwaker, is that there may be considerable motivation for commercial parties within a regulatory engagement process to behave somewhat differently than they would if they were operating in a normal business negotiating environment. The focus of companies:

*"negotiating within constructive engagement may be to press the airport hard, but to stop short of final agreement because they may consider that there is a chance of securing an even better outcome from the regulator's subsequent consideration. Airports for their part may not fully reveal their hand because of a concern that the regulator will squeeze them harder in its final assessment."*²²

This has implications for the model proposed for transmission companies by Ofgem, although in this case the range of stakeholders suggested as needing to be engaged in the negotiations may limit the opportunity for company self-interests to manifest.

²⁰ Bush, H. and Earwaker, J. 2015. "The Future Role of Customer and Stakeholder Engagement in the Water Industry". UK Water Industry Research Report. Accessed: 22/01/2018. Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

²¹ On this note, it is interesting to observe that the CAA have recently decided to introduce a Consumer Challenge Board to their next price control process, in order to provide external challenge to Heathrow airport on its business plan, from an explicitly end-consumer perspective. In a role closely aligned to the CCGs established by Ofwat, this Board is intended to provide the CAA with independent advice on the extent to which an airport's plans are informed by high quality engagement and whether the outcomes and incentives in the plan reflect the findings of that engagement. Civil Aviation Authority. 2016. "Decision on the Terms of Reference for the H7 Consumer Challenge Board (CCB)" Accessed: 22/01/2018 Available from: <http://publicapps.caa.co.uk/modalapplication.aspx?appid=11&mode=detail&id=7545>

²² Bush, H. and Earwaker, J. 2015. "The Future Role of Customer and Stakeholder Engagement in the Water Industry". UK Water Industry Research Report. Accessed: 22/01/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

Consumer Challenge approaches explicitly demand that a company consider consumer views much more directly, and much earlier, in the process of formulating their plans. While the model established by Ofgem for RIIO-1 already worked to ensure that a company's consumer and wider stakeholder engagement could no longer be simply about seeking validation for plans that the company had already drawn up, Consumer Challenge approaches take this one step further. They do this primarily by demanding that, at a company or sector level, the quality, robustness and impacts of an engagement process are scrutinised and questioned throughout the development of the business plan, rather than simply evaluated by the regulator at the point of draft submission.

The Consumer Challenge Groups as instigated by Ofwat, and now revised and consolidated by them for PR19, have been assessed as delivering a significant enhancement of customer input into company plans: for many companies "this was the largest programme of research ever undertaken", involved a "richer range of customer research" and was estimated to have involved over 250,000 customers.²³ The implementation of this innovation however was not without its challenges and problems.

Looking forward to RIIO-2

Ofgem's proposed approach to engagement under RIIO-2 was to some extent refined during the course of this research, more so in relation to the structures to be put in place to deliver a robust consumer challenge function, than in terms of the technical issues to be considered.

Ofgem Open Letter on RIIO-2

Ofgem published an open letter on RIIO-2 in July 2017, which provided an initial summary of the regulator's views in both these areas. It established that Ofgem's overall aim is that:

*"RIIO-2 will ensure regulated network companies deliver the value for money services that consumers want and need."*²⁴

The letter included 5 headings to achieve this:

1. Giving consumers a stronger voice in setting outputs, shaping and assessing business plans;
2. Allowing regulated companies to earn returns that are fair and represent good value for consumers;
3. Incentivising companies to drive consumer value by shaping or proactively responding to changes in how networks are used and services are delivered;
4. Using the regulatory framework to drive innovation and efficiency; and
5. Simplifying the price controls by focusing on items of greatest value to consumers.

Consumer engagement aspects of RIIO-2 were largely carried over from, and remained consistent with, the aspirations for 'enhanced engagement' set out at the start of the RIIO-1 process. The letter specified the required outputs but, as under RIIO-1, companies are given scope to deliver those outputs as they think appropriate. A similar approach was taken to consumer engagement: while stipulating the need for engagement, companies are

²³ Bush, H. and Earwaker, J. 2015. "The Future Role of Customer and Stakeholder Engagement in the Water Industry". UK Water Industry Research Report. Accessed: 22/01/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

²⁴ Ofgem. 2017. "Open letter on the RIIO-2 Framework". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/open-letter-riio-2-framework>

free to determine how best to gather the necessary information. Ofgem did, however, emphasise the overall importance of ongoing consumer engagement in the letter:

“A key priority for RIIO-2 will be to ensure that end-consumers are effectively engaged in the setting of outputs and incentives, and that the cost of the network for an average domestic consumer is genuinely reflective of their willingness to pay for services. For RIIO-2, we would like to explore how the consumer voice could be strengthened further not just in setting the price controls but also throughout the price control period.”²⁵

Ofgem noted also that they are considering lessons from other sectors (particularly those examples considered in case studies 1, 2 and 3). The letter also emphasises that models for engaging end-consumers in the transmission sector may well differ from those used to engage generators, suppliers and other network users.

Discussion Seminar on Structures to Deliver Consumer Challenge

Ofgem held a seminar in early 2018²⁶ at which discussion focussed on possible structures to meet the regulator’s aims for stakeholder engagement. Discussion was based around models presented by Scotia Gas Networks (SGN) and by National Grid, for gas distribution and transmission respectively. The invitation to letter to the workshop raised specific, but not exclusive, questions:

1. *“What should be the role of groups (including which specific areas of the price control could they focus on)? What support would groups need to be effective?”*
2. *“Who are the members? How should the members be recruited, including the Chair? What should be the governance of the group (reporting lines and ToR)?”*
3. *“How could group and Chair ‘capture’ be avoided? How could the panel continue to assess its effectiveness during the course of the programme?”*
4. *“What should the role of Ofgem be at various stages in order to maximise the impact of the process on the outcomes of the price control?”*
5. *“How could the success of the engagement models be evaluated?”*

The invitation also provided a diagram showing Ofgem’s draft structures for distribution and transmission companies respectively (Figure 1 below).

Ofgem’s presentation at the January 2018 accepted that current approaches to both direct consumer engagement, and the involvement of consumers and others in stakeholder processes, are already well established but stated that:

“In the absence of an independent assurance, it was difficult for us to assess the quality (& consistency) of engagement and how it informed business plans. In RIIO-1 this meant that we did not really “trust” bespoke outputs & additional costs for their customers/consumers – to the frustration of many companies.”²⁷

The models proposed in draft above were intended to address this concern by introducing a need for a new and additional consumer challenge function. The additional role proposed is, in Ofgem’s view, needed:

- To validate the quality of engagement undertaken by companies; and
- To report on the changes made during the preparation of the plan as a result of engagement findings.

²⁵ Ofgem. 2017. “Open letter on the RIIO-2 Framework”. Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/open-letter-riio-2-framework>

²⁶ January 24th 2018, central London

²⁷ Ofgem. 2018 “RIIO-2 Framework Review Workshops” Accessed: 30/01/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-review-workshops>

Figure 1: Draft Structures, as presented in January 2018

For Distribution	For Transmission
<p>High Level Structure of the Process</p> <p>Company's have their own ongoing engagement activity</p> <ul style="list-style-type: none"> • Independent 'Customer Challenge Group' sits in parallel challenging companies engagement to provide us assurance in the form of a report accompanying the fast track submission on: <ul style="list-style-type: none"> - The quality of the engagement; and - Insight applied by company to prepare the business plan. <p>How we will use it:</p> <ul style="list-style-type: none"> - A tool to encourage the right type of engagement upfront; - To assist us with fast tracking decisions; - Setting outputs and scale of incentives; - Providing legitimacy to final decisions. 	<p>High Level Structure of the Process</p> <ul style="list-style-type: none"> • STEP 1: Company co-creates business plans with a 'User Challenge Group' consisting of representatives from suppliers, wholesalers, distribution sectors and large energy users. • STEP 2: Company submits plans to consumer representative bodies on the ambition and affordability of the proposals. The company's business plan will be accompanied by a report from both the stakeholder and consumer groups identifying areas of consensus and disagreement, together with reasons why. • STEP 3: Ofgem will make the final decision <p>How we will use it:</p> <ul style="list-style-type: none"> - Challenge tool for transmission companies - Reveal areas of agreement and disagreement - Assist us in setting the overall plan with legitimacy to our final decision.

The process and structures proposed however differed between distribution and transmission companies:

- For distribution companies, both Ofgem's outline and SGN's presentation at the January seminar suggested the creation of an independently chaired Customer Challenge Group for each network company. These groups would have a remit concentrating on an assurance role, while potentially also providing some direct consumer representation during the business planning process. This approach appeared to be, at least partially, based on that used by Ofwat in the water industry in England and Wales.
- For transmission companies, Ofgem's outline and National Grid's presentation, suggested a different model. This approach seems to draw more on the Civil Aviation Authority model, wherein plans would initially be developed by companies and industry stakeholders working together with areas of disagreement identified. Consumer groups, working with Ofgem, would therefore have more of a review role.

RIIO-2 Framework Consultation

In March 2018, Ofgem published a full consultation on all aspects of RIIO-2.²⁸ This document provided full detail on Ofgem's proposals for all aspects of the price control. Chapter 3, titled *Giving consumers a stronger voice*, refined the proposals discussed in the January seminar. Specifically, it confirmed that there would be different models for

²⁸Ofgem. 2018. "RIIO-2 Framework Consultation". Accessed: 7/3/2018. Available at: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

transmission and distribution companies, together with a high level group established and run by Ofgem directly, to provide consumer challenge across all companies:

“Distribution: Companies will be required to establish an independently chaired Customer Engagement Group to challenge the companies. This Group will provide a report to us on how the company has reflected the needs and preferences of local users and consumers, including on outputs, service quality standards, and willingness to pay in their plan.”

“Transmission: Companies will be required to establish an independently chaired User Group to provide input and challenge to their business plan. They will provide a report to us on areas of agreement or disagreement with the companies.”

“We will also set up an independently chaired RIIO-2 Challenge Group that will assess the business plan proposals in both the sectors and will provide a report to us on their findings. We will provide this group with secretariat support and access to any technical and financial assistance they may require.”

The document also clarified the scope of issues to be considered by each group, the expertise needed, and function. For distribution companies:

“We expect the group to consider proposals from the companies for output performance targets and incentives (including local consumer priorities, needs, preferences and willingness to pay); totex budgets (including level of cost efficiency improvements); uncertainty mechanisms; and more strategic issues, such as the future of gas and implications for network services associated with the energy system transition. We do not expect the group to discuss or review finance topics such as the cost of capital or financeability.”

“...recruit members to the group with sufficient skills and knowledge (for example in non-traditional business models, fuel poverty, community energy, innovation, consumer research etc) to provide the right level of challenge to the companies”

“This group should not act as a proxy for engagement or simply as an audit of engagement. This group should scrutinise and challenge the business plan of the company and test whether they have properly explored key issues with relevant parties.”

For transmission companies:

“The focus of the User Group should be on outputs, incentives and expenditure forecasts, company proposals for uncertainty mechanisms and an assessment of whether the capital projects put forward by the companies have/do not have their support. We do not expect the User Group to discuss or review finance topics such as the cost of capital or financeability”

“We expect membership to be drawn from shippers, suppliers, generators, distribution networks, large users and from new business models that challenge and provide an alternative to traditional network functions.”

Ofgem also provided detail on their proposals for a GB-wide RIIO-2 Challenge Group, to be convened directly by Ofgem and which would work across both transmission and distribution sectors:

“The purpose of this group is to look at the business plan from a different perspective to that of users and local stakeholders. This group will assess the plans from the point of view of existing and future end-consumers, with a focus on sustainability, affordability and the protection of vulnerable consumers.”

The group is expected to discuss plans with companies during preparation, as well after submission, and will provide a report on each plan. Membership of this group is likely to include senior level experts in strategic energy issues, consumer advocacy or regulation, and, as proposed by Ofgem, could include “Citizens Advice, ex-regulators, academia, ex private sector and ex-government.”

It is however clear that Ofgem’s views on the detailed operation of these groups are not yet finalised:

“We will publish initial guidance on the role of all of the above groups in March 2018. This will include more detail on the scope and output from each group and how we intend to engage with them throughout the process. We will update the guidance as the process evolves and will keep the stakeholder engagement process under review as it is developed.”

Ofgem also noted that they are considering holding Open Hearings once all reports and plans are available. These hearings:

“might focus on areas of particular contention that have been identified through the process and we could invite both the companies and the Chairs of the various groups to present arguments and evidence; other stakeholders would also be able to participate.”

The framework consultation also revised timescales for submission of business plans, to provide more time for their development:

- For gas distribution companies, draft plans are now due in the 3rd, rather than 2nd, quarter of 2019, with final plans due in the 1st quarter of 2020;
- For transmission companies, plans are due in the last quarter of 2019.

What this means moving forward...

Overall, Ofgem’s publications show that they expect companies to build on the ‘enhanced engagement’ introduced in RIIO-1 to undertake wider and deeper engagement with consumers and consumer representatives on the content of RIIO-2 plans, and also to introduce much clearer assurance processes to fill gaps identified in RIIO-1. Ofgem’s proposals show clearly that they have considered and learned from experience in other industries.

There is, however, no single ‘off-the-shelf’ regulatory model from another sector that could effectively be transferred directly to the energy network sector. Further the models used in other UK sectors are all continually undergoing iteration as companies and regulators seek to extend the impacts engagement with consumers and other stakeholders is having on business plans and operations.

The company level CCG’s introduced by Ofwat have been reportedly valued both by the company and the regulator as an effective way of scrutinising, questioning and quality assuring a company’s engagement practice, and on this basis it seems that groups like this could viably play a similar role for energy network companies.

Constructive engagement models are most effective when negotiations take place between companies and business operators. There therefore appears to be scope to draw on the CAA’s experience in relation to transmission companies in particular, because of their less direct relationship with end-consumers. This could potentially streamline the process of achieving agreement by the regulator for business plans, by providing a clear statement of where agreement has been reached and what aspects remain contested.

The viability of negotiated settlement approaches appears to be particularly context sensitive, and evidence suggests has worked best where there are a limited number of parties involved. It is also a very intensive process, and the experience of the Customer Forum implies that its success may be heavily dependent on the level of motivation all parties have to 'make it work'.

Following from the above, Ofgem's views on the detailed working of various groups are not yet finalised. Chapter 6 of this report considers this issue in detail, against the background of a fuller review of company experience under RIIO-1.

Summary of key points:

- It is clear that Ofgem's approach to the regulation of network companies changed at the advent of RIIO in 2010. In particular:
 - The focus shifted to require companies to deliver a broader range of outputs but with flexibility in how they would do so.
 - Consumer engagement was introduced as an additional criterion against which companies' plans would be assessed: but, in line with the point above, the choice of method to achieve this was made by individual companies.
 - The Stakeholder Engagement Incentive was introduced to provide an additional driver for companies to enhance their approach to engagement on an ongoing basis.
- Ofgem's high level assessment was that the process had been successful and that companies had demonstrably engaged with both end-consumers and consumer representatives as a result of RIIO-1 changes.
- However, Ofgem also identified the absence of independent assurance of both the quality of the engagement processes and their influence on final plans as barriers to acceptance, by the regulator, of bespoke outputs which would create additional costs for consumers. As a result, Ofgem now intends to introduce additional consumer challenge functions to the price control process to address the gaps they have identified.
- In approaching RIIO-2 it is clear that consideration has been given to models used in other regulated industry sectors, particularly in relation to the organisational structures which could meet their aims. There is, however, no single 'off-the-shelf' regulatory model from another sector that could effectively be transferred directly to the energy network sector.
- In addition, Ofgem have identified a need to take different approaches for transmission and distribution companies. Although the challenge and assurance functions are similar, the way these functions will operate for companies, and their relationships with end-consumers, are distinct. In essence, Ofgem is proposing to draw on the Ofwat model of Consumer Challenge Groups (although with some variations) for distribution companies, and on a combination of this challenge model with the CAA's constructive engagement approach for transmission companies.

4. Consumer Engagement

To better understand the drivers and opportunities for enhanced consumer engagement by energy network companies in RII0-2, and beyond, it is important to situate Ofgem's expectations within the context of wider participation and engagement theory and practice.

Participation and engagement theory tends to start from the position that people (as citizens, consumers or representatives of stakeholder groups) have the right to contribute to, and to influence, the decisions that affect their lives, choices and life chances. This is complemented by the growing acceptance of the premise that, involving the people likely to be affected by a decision in the process results in better decision making overall, i.e. decisions that:

- deliver more efficient and effective services;
- meet real consumer needs and reflect community values;
- have a greater likelihood of effective implementation; and
- demonstrate accountability (particularly in relation to the use of public money).²⁹

These principles are equally applicable to the policies and decisions made by governments, where the drive for greater participation can be said to have begun, as they are to the decisions made about how to deliver the services and infrastructure that people rely on in their daily lives.

Drivers for consumer engagement by energy network companies

As noted in the previous chapter, since 2010 energy network companies operating in GB have been increasingly required, and incentivised, to engage with a wider range of stakeholders in the development and implementation of their business plans. As stated by Ofgem, this engagement is required:

“to ensure the ongoing delivery of an efficient network that embraces wider social and environmental objectives... [and therefore] network operators need to engage with a range of stakeholders. Key stakeholders will include parties that are affected by, or represent those affected by, decisions made by the network companies.”³⁰

Ofgem has also been explicit that this includes end-consumers. Within this context, consumer engagement (at its broadest) can be understood as, encompassing the range of planned, and at times unplanned, activities through which a company interacts with its consumers to address and respond to issues affecting their relationship, expectations and interactions with the company.

The purpose of consumer engagement by network companies however, should not simply be to meet the expectations of the regulator. Instead the purpose should rather be to establish a mutually beneficial relationship between a company and consumers. Effective engagement on company-specific issues, therefore, should be focussed on developing a relationship between an energy network business and its consumers (as both customers

²⁹ Andersson, E., McLean, S., Parlak, M., Melvin, G. 2013 “From Fairy Tale to Reality: Dispelling the Myths around Citizen Engagement” Involve. Accessed: 16/02/2018. Available from: <https://www.involve.org.uk/wp-content/uploads/2013/02/From-Fairy-Tale-to-Reality.pdf>

³⁰ Ofgem. 2016. “Electricity Distribution Stakeholder Engagement and Consumer Vulnerability (SECV) Incentive Guidance”. Accessed: 16/02/2018. Available from: https://www.ofgem.gov.uk/system/files/docs/2016/04/electricity_distribution_secv_guidance_document.pdf

and citizens) i.e. a process that should deliver both better outcomes for ‘people’ and support the success of the business, both today and tomorrow.

Effective engagement with consumers therefore, at company-level, should not simply be about evidencing customer satisfaction with an energy network company’s performance, but fundamentally should be about fostering consumers’ trust in the legitimacy of the decisions a company makes. This sense of trust and legitimacy, in turn, contributes to consumers granting a company the ‘social license to operate’³¹ within a given area.

This is particularly relevant and important when companies have a geographical monopoly (as consumers do not have ‘choice’ which is typically an indicator of consumer approval in commercial contexts) and where those companies may be seen as ‘placemakers’ or ‘anchor’ organisations in their communities. Research conducted into what gives a company ‘social license’ has concluded that trust is fundamental to acceptance and that trust, in turn, is influenced by the quantity and quality of contact that customers and communities have with the company, and their perceptions about whether the company treats them ‘fairly’ in these interactions.³² It can also be influenced by whether the regulatory and policy framework in which the company operates in is seen as ‘fair’.

Levels of engagement

Achieving effective engagement with consumers will, necessarily, involve a company employing different approaches at different times, and for different purposes. The International Association for Participatory Practice has developed a framework for considering these different approaches, which has been widely adopted internationally as a typology for presenting the different levels at which engagement can take place.³³

These levels are not intended to suggest a scale of increased value, but rather recognise that each level of engagement is appropriate and useful for different functions. Each level, however, does involve a different ‘promise’ being made to those being engaged and lends itself best to different types of methods. This is outlined in Table 2.

A company’s overall engagement strategy is likely to contain a wider range of different activities at different levels. Being clear about the level at which a specific engagement activity lies is, however, an important component of ensuring that consumers, alongside other stakeholders with an interest in the outcomes delivered by the company, have accurate expectations about how consumer input will be used and responded to.

³¹ This concept refers to the tacit acceptance and approval of customers, citizens, and regulatory agencies, and other stakeholders for a company to operate within a community or a region. CSIRO and Energy Networks Association. 2016. “Electricity Network Transformation Roadmap: Customer Engagement Handbook”. Energy Networks Association. Accessed: 16/02/2018. Available from: http://www.energynetworks.com.au/sites/default/files/customer_engagement_handbook_engagement_draft_april_2016.pdf

³² For example, research into the mining sector’s ‘social license to operate’ in different parts of Australia: Moffat, K. & Zhang. 2014. “The paths to social license to operate: An integrative model explaining community acceptance of mining”. Resources Policy, 39, 61-70. Accessed: 16/02/2018. Available at: <https://www.sciencedirect.com/science/article/pii/S0301420713001141>

³³ International Association for Participatory Practice (IAP2). 2011. “Public Participation Spectrum”. IAP2. <https://www.iap2.org/?page=resources>

Table 2: Levels of Engagement³⁴

	Purpose	Promise to consumers / wider stakeholders	Examples of methods most likely to be effective
INFORM	To provide consumers with balanced and objective information	<ul style="list-style-type: none"> • We will keep you informed • We will not withhold relevant information 	<ul style="list-style-type: none"> • Company website • Direct mail to consumers • Information distributed as part of the billing process • Media campaigns
CONSULT	To obtain consumer feedback on analysis, alternatives and/or decisions	<ul style="list-style-type: none"> • We will keep you informed • We will listen to and acknowledge your concerns and aspirations • We will be open to your influence • We will provide feedback on how your input has influenced the outcome 	<ul style="list-style-type: none"> • Surveys • Formal consultation papers • Focus groups • Randomised control trials
INVOLVE	To work directly with consumers to address a pre-set question and understand their concerns and aspirations.	<ul style="list-style-type: none"> • We will keep you informed • We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed • We will provide feedback on how your input has influenced the outcome 	<ul style="list-style-type: none"> • Focus groups • Deliberative workshops • Citizens Assemblies • Deliberative polling
COLLABORATE	To partner with the consumers in each aspect of the decision, including defining the issue, developing alternatives and identifying preferred solutions.	<ul style="list-style-type: none"> • We will look to you for advice and innovation in formulating solutions • We will incorporate your advice and recommendations into the decision making process to the maximum extent possible 	<ul style="list-style-type: none"> • Stakeholder Groups • Citizens Juries • Action Research
EMPOWER ³⁵	To place final decision-making in the hands of consumers - to delegate	<ul style="list-style-type: none"> • We will implement what you decide. 	<ul style="list-style-type: none"> • Negotiated settlements • Participatory budgeting

³⁴ Adapted from International Association for Participatory Practice (IAP2). 2011. "Public Participation Spectrum", IAP2 <https://www.iap2.org/?page=resources>

³⁵ While models of negotiated settlement are being experimented with within some sectors of the regulated industries, implying a level of consumer empowerment, this is not necessarily a level of consumer engagement that would widely be considered either practical, or desirable, within the energy network sector. This is particularly the case because the regulatory context itself limits the scope for delegated decision making. There do however remain some situations where it may be possible to devolve decision making to consumers and/or their representatives, for example when choosing between two equally plausible sites for development or routes for new powerlines.

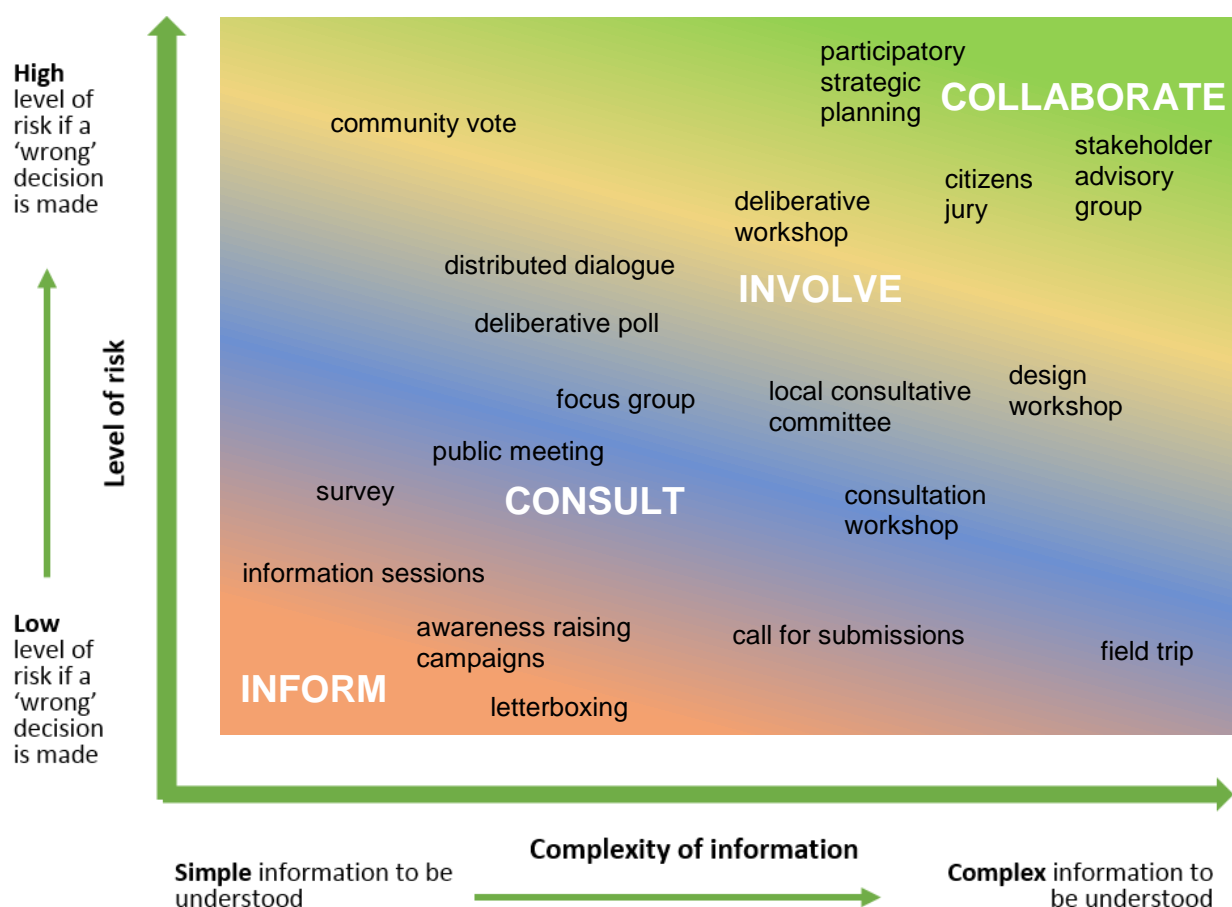
Exploring these levels in the context of energy network companies

Identifying which level of engagement is best in any given circumstance depends on:

- the specific purpose of the engagement;
- the topic needing to be addressed;
- the stage of the business planning process i.e. activities at the consulting level are most appropriate when there is a specific proposal (or choice of proposals) that a company may be seeking feedback on whereas activities at the 'involve' or 'collaborate' levels work best when a company is seeking ideas around which to build a proposal;
- the complexity of the information consumers need to deal with to effectively engage with the issue;
- the role consumers are being asked to play: i.e. whether consumers are being asked to respond as individual 'customers' concerned with impact on themselves or as 'citizens' with wider social concerns; and
- the level of risk inherent in a 'wrong decision' (for example, commercially, environmentally, sustainably or in relation to a company's social license to operate).

Figure 2 illustrates how some of these different factors interact to influence decisions about the level and method of engagement most appropriate in practice.³⁶

Figure 2: Identifying the appropriate level for engagement



³⁶ Adapted from Robinson, L. 2003. "Consultation: What Works. Skills, tools and Strategies for enabling change". Accessed: 16/02/2018. Available from: http://www.enablingchange.com.au/what_works.pdf

Putting engagement into practice

The foundation of any effective engagement strategy are mechanisms for providing consumers with clear, accessible and relevant information about the company's activities, policies, plans and performance. There are a range of well-established practices and principles for doing this including:

- Using 'plain English' in all communications;
- Pro-active publication of company documents;
- Effectively signposting consumers to sources of information (either within the company or externally);
- Providing information in multiple formats (e.g. printed, online, easy-read) and in different languages;
- Making it easy for consumers to contact the company with requests for information, alongside a commitment to providing a timely responses.

'Information' based approaches tend to be initiated by a company to inform consumers about the role and operations of the company, provide clarification about a topic or challenge the company is addressing, or alert customers about local problems and any action required. Common methods towards the 'inform' end of this spectrum include direct mail, media campaigns, company websites and the use of social media. This can be most appropriate when consumer capacity to understand a particular issue needs to be built, for topics where there is little or no room for negotiation (e.g. legal obligations, safety standards) or when there is an immediate crisis e.g. in relation to service disruption.

Engagement that is focussed on informing is (usually) a one-way process of communication designed to raise awareness of an already determined decision or course of action. However, before initiating a process of information provision (outside of an immediate crisis situations), it is important to be clear not only on the purpose of the information being provided and the target audience, but also the value and implications of this information for them, and their avenues to respond: because, just as the provision of information helps consumers to understand a company's position, it also helps them to decide whether they want to engage more actively around the topic.

'Consulting' is a relatively common approach, widely used to collect and consolidate the range of viewpoints and opinions held by consumers on a given topic, in order to inform decision or policy making. As such it will typically ask consumers to respond, usually as individuals, to questions and proposals posed by the decision maker – and, in this context, would tend to involve a one-way transmission of ideas from the consumer to the company.

'Involvement', by contrast, provides an opportunity to develop two-way relationships between companies and consumers, although this may run in parallel with information and consultation based activities. The goal here would usually be to open up space for a two-way exchange of information and perspectives in order to explore ideas for a solution. This is a particularly appropriate level of engagement for companies when the options under consideration require consumers to understand and engage with complex or unfamiliar concepts.

There are a variety of engagement methods that support this approach, e.g. citizens assemblies, deliberative workshops, participatory strategic planning, citizens juries etc. At the core of each of these is the goal of involving stakeholders in dialogue, in order to

expose all participants to the opinions and reasoning of others and extend their appreciation and understanding of differing priorities.³⁷

Opportunities for engagement at the level of ‘collaborate’ tend to become most viable and constructive when companies are unsure how best to proceed or need to innovate in response to changing external contexts. Collaborative approaches typically work best when there are longer time horizons for decisions to be made and/or when the issues under consideration have multiple possible solutions. They are particularly valuable when the ultimate decision may result in variable consumer impacts, have different implications for some segments of the consumer base, or when there are significant risks involved in making the ‘wrong’ decision. Collaborative approaches are however only useful when the company, other stakeholders and consumers themselves are open to the idea of consumers having this greater degree of power to influence business outcomes.

Spaces for the voice of consumers

As identified in the introduction to this report there are, within the context of the way network companies operate and the anticipated regulatory framework, three fundamental routes whereby the voice of consumers can influence an energy network company’s business planning and implementation:

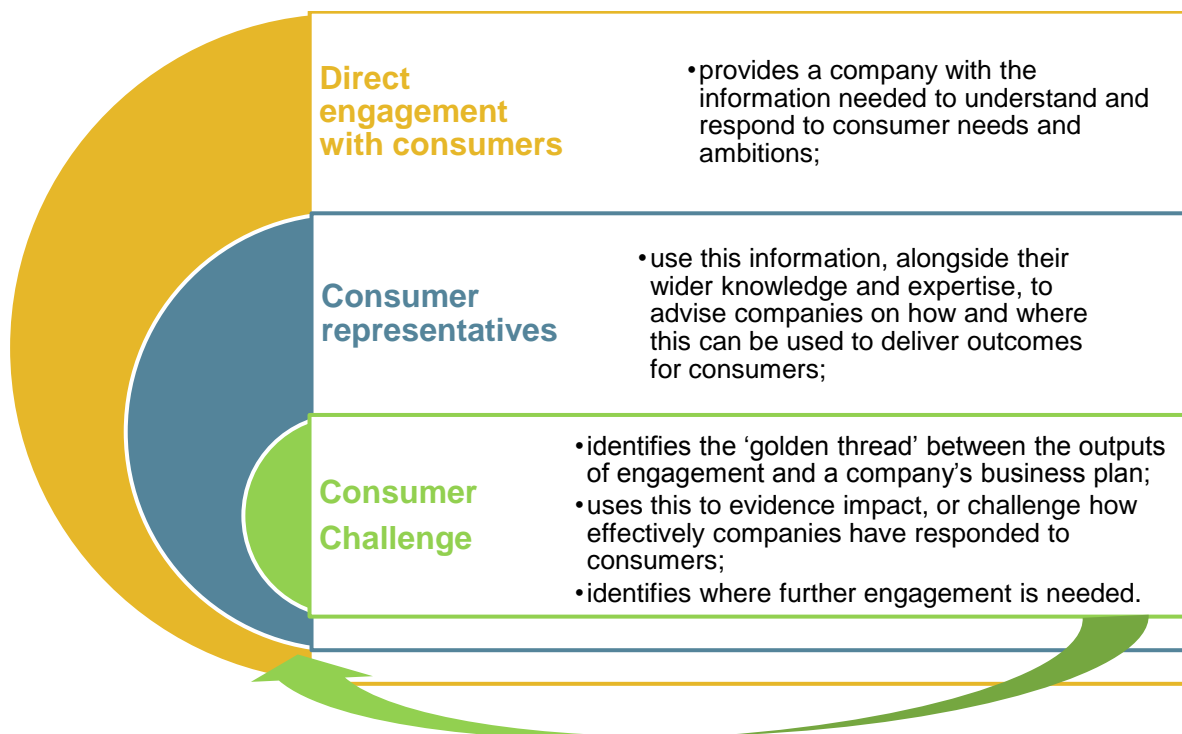
- a) through a company’s **direct engagement with end consumers** to collect evidence of their needs, priorities and preferences;
- b) in **Stakeholder Groups**, where consumer representatives can advocate on behalf of consumers at a strategic and policy level, and monitor performance in order to ensure that a company delivers outcomes for consumers throughout the price control period;
- c) through **champions with a ‘consumer challenge’ function** who can scrutinise a company’s engagement practice and evaluate how the outputs have been used to inform business plans and embedded into their implementation.

Each of these three ‘spaces’ are discussed in turn in the remainder of this chapter, with a particular focus on how they are being used in practice, alongside the opportunities and challenges that they present for enhancing a company’s ability to deliver consumer outcomes.

It is worth noting however that, to be most effective, company consumer engagement strategies will need to find ways to integrate contributions from across all of these spaces in ways that are complementary.

³⁷ This report, prepared by Involve and Ipsos MORI for the Consumer Futures Unit provides an overview of some of these different deliberative methods and an analysis of how they have been used previously across the regulated industries. Involve & Ipsos MORI. 2017. “Meta Analysis and Scoping Exercise into Public Participation in the Regulated Industries”. Consumer Futures Unit. Accessed: 16/02/2018. Available from: <https://www.cas.org.uk/system/files/publications/meta-analysis-and-scoping-exercise-into-public-participation-in-the-regulated-industries-ipsos-mori-involve-2017-10-12.pdf>

Figure 3: Spaces for the 'voice' of consumers



4a. Direct engagement with end-consumers

While it may seem self-evident to say that, the best way to understand what consumers 'need', 'want' and 'will support' from a company's operations is to 'ask them', the reality of delivering effective consumer engagement is more complex than this.

The methods chosen to interact directly with consumers are the most visible aspect of any engagement process, operating as the 'set pieces' through which companies interact with those they want to listen to. In developing their engagement strategies, energy network companies have been able to look at practice from other industries and learn from their example about how different methods have been used. This has resulted in a vast array of surveys, focus groups, public meetings, stakeholder workshops and social media techniques being deployed during the current price control period, to an extent almost unimaginable in the past.

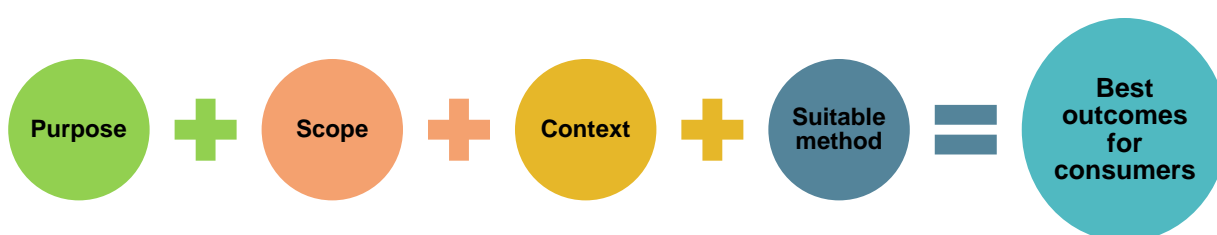
Although methods are the 'front-line' of engagement, choosing and effectively deploying an appropriate method however is not necessarily the most important factor for ensuring the success of an initiative: because "as with all front-lines, their effectiveness is determined almost wholly by the quality of the planning that precedes such action, especially the planning of how to handle the results".³⁸

³⁸ Involve. 2017. "Introduction to planning participation" Knowledge Base. Accessed: 16/02/2018. Available from: <https://www.involve.org.uk/knowledge-base/introduction-planning-participation/>

While the choice of method is vitally important, direct engagement with end-consumers will work best, and have the most impact, when there is a clear and agreed understanding within a company about:

1. what engaging with consumers will add to what the company already knows (i.e. **purpose**: what additional information or insight can consumers provide on a particular topic at this specific time);
2. what is 'open for change' as a result of the engagement (and equally importantly, what is not) i.e. **scope** of the engagement; and
3. how the results of the engagement will be used within the wider **context** of a company's planning and decision making landscape (i.e. recognising that some response will need to be made).

Figure 4: Ingredients for achieving the best outcomes for consumers



Considering these factors in advance of any engagement process, and before selecting a method, helps ensure that each interaction with consumers is purposeful, focussed and useful to a company. Further it allows those delivering the process to explain to participants exactly what will be done with their contributions, how the outputs will be managed by the company and where there is opportunity to achieve impact. This will help to ensure that consumers too have reasonable expectations about what their participation can achieve and are able to make an informed choice about whether to devote their time and energy to a process.

Energy Networks' Direct Engagement with Consumers in Practice

Engagement in Development of RIIO-1 Plans

All network companies mapped their stakeholders early in the RIIO-1 engagement process, and have a clear view of the role of consumers within that setting. Companies provided either a list or a diagram to demonstrate this in our research survey: illustrated over the page by examples provided by National Grid (Figure 5) and Wales and West Utilities (Figure 6).

Having identified stakeholders in this way, companies typically ran initial scoping events to help inform their plans. Different approaches were used at this stage: some ran events open to all stakeholders, including consumer representatives, while others sought views of consumers directly, for example through focus groups.

Companies consistently reported that the range of issues covered in open events meant that few stakeholders were interested in, or able to engage on all aspects of network companies' work. However, these initial steps were helpful in identifying both the interests

and preferred channels for different groups. As a result, engagement was able to be more closely tailored towards both these groups, including consumer representatives.

Subsequently, representative research then explored detailed issues. As an example, the list below was provided by Western Power Distribution (WPD) in their survey response. It shows both the range of techniques used, and the different groups of consumers the company sought to engage.

WPD RIIO-1 Stakeholder Engagement

Stage 1 (Jan 2010-Dec 2011) – to identify the priorities for investment, according to [WPD] stakeholders.

Stage 2 (Jan 2012-Aug 2012) – to identify specific levels of service achievable for each priority area, and understand customers' 'willingness to pay' for improved performance. This included an in-depth stated preference survey for eight business customers, and 'willingness to pay' surveys for 1208 domestic customers and 426 business customers

Stage 3 (Sept 2012-July 2013) – to present stakeholders with different options for network investment, clearly detailing the improvements each would deliver and the actual costs. Stakeholder feedback was then used to influence and then refine the proposals in the Business Plan.

Stage 4 (July 2013-Dec 2014) – to communicate how stakeholder feedback has been incorporated in the Plan, highlight any significant changes from draft proposals and ask stakeholders to identify the measures they would like us to use to monitor our delivery.

In addition, **Stage 5** covers the period of plan delivery (Dec 2014-Mar 2023), providing updates on WPD performance against key output measures and to identify areas of emerging stakeholder interest.

A similar approach was taken by a majority of companies, and most mentioned the use of either external consultants, a quality standard, or both, to provide assurance on the engagement process. It is worth noting that these assurance approaches were demonstrably not seen as sufficiently robust by Ofgem, given their current position.

Engagement during delivery of RIIO-1 Plans

Company responses and interviews also showed that the identification and engagement of different groups of consumers has continued during the delivery phase of RIIO-1 plans. Responses clearly divided this engagement into two distinct work streams.

Firstly, discussions on consumer views on high level issues to inform strategic thinking has continued, and has been further refined by both target group and by subject. For example, most companies have carried out research on views of the types of support which should be made available to consumers in vulnerable circumstances and the partnerships needed to deliver this. More recently, some companies have started to explore consumer, and particularly future consumer, attitudes towards emerging lower carbon technologies.

A number of companies mentioned examples of working with trusted intermediaries, for example:

- Having mapped areas to identify higher concentrations of consumers in vulnerable circumstances, the SP Energy Networks (SPEN) then identified and supported organisations working in those areas to promote their services. SPEN has also used innovative approaches to identifying and engaging consumers, including, for example, advertising on packaging used by pharmacies in target areas.
- Northern Powergrid (NPg) identified working with the National Farmers Union to reach those in the agricultural sector, and with local trade associations to engage

Figure 5: National Grid Stakeholder Mapping



Figure 6: Wales and West Utilities Stakeholder Mapping



with small scale renewable energy generators as examples of how they were attempting to target their engagement towards specific interest groups.

Similarly, companies highlighted work on emerging issues, as demonstrated by the example below.

Black Cab Green

The projected expansion of the electric vehicle fleet has significant implications for electricity networks' service provision. Taxi drivers in London will be affected by the Mayor's decision to phase out diesel taxis; UK Power Networks, which delivers electricity distribution services in the east and south east of England, is working with taxi drivers to seek to understand their views, through the project *Black Cab Green*. The project aim is to ensure that every driver who wants to do so can charge their vehicle at home.

While all companies recognised the challenge of engaging future consumers and the need to do more in this area, most are responding by working with more young people through schools and higher education. Northern Powergrid (NPG) however highlighted that many young people in their area are in the NEET group (Not in Education, Employment or Training) and in response to this they have recently taken a different approach. NPG, together with other utility partners, has sought to engage a more representative spread of future consumers by contracting an independent research company to use non-traditional approaches, such as visits to job centres and events arranged with third sector partners who work with otherwise hard to reach young people, to complement their schools and higher education work. The majority of companies recognised that more needs to be done in this area, and are keen to work with others to consider how best to take this forward.

Secondly, engagement with consumers and other stakeholders affected by both planned and unplanned interruptions to supply has changed dramatically, particularly in terms of transmission and gas distribution companies. This engagement is at a more tactical level, primarily focussed on changes in project delivery to minimise disruption to consumers. The majority of companies gave examples of this, and common elements include:

- the introduction of sub-regional standing panels to advise companies on operational issues;
- consultation with Local Authorities and more locally-based organisations to explain the purpose of works, and to identify changes to working practices (hours of operation, timing of vehicle movements) designed to minimise local impacts;
- the introduction of customer support staff, who help ensure that issues are explained, and that any necessary additional support is provided to consumers affected by works as they take place;
- the introduction of post-completion satisfaction surveys and company learning: Wales and West Utilities (WU), for example, highlighted an app suitable for use by engineers on the doorstep to help gather information of this type. Similarly, Northern Gas Network (NGN) have a regular 10am teleconference, open to all staff, to allow peer to peer discussion of emerging issues and solutions;

Scotia Gas Network (SGN) also highlighted their use of a range of innovative engagement techniques in Oban, as part of a technical project looking at the impact of changes to the composition of the mains gas supply, as described below.

Creative ways of encouraging engagement with new services

Oban was chosen as the pilot area as it is supplied by a stand-alone, local gas network. The technical aspects of the project required visits to consumers' houses to check their appliances. To raise awareness of the project and encourage participation, SGN included but went beyond standard approaches, promoting the project through local cinema advertising and by running a celebrity chef event, and also by offering a free repair or replace service for gas appliances identified as dangerous during the project.

A number of companies also noted that, while it was harder to involve SMEs (Small to Medium Enterprises) in strategic discussions, they were much more likely to engage with companies in the context of local issues which affected them directly. In particular, representatives of local Chambers of Commerce were mentioned as members of sub-regional panels by SPEN and SGN among others.

Although the main driver for these changes has been customer service improvement, some companies noted that the information gathered in these ways can also complement formal consultation processes. For example, consumers who have received high levels of support from companies during a service interruption may have a different view of the impact of future interruptions, compared to consumers who are asked to consider the issue in theory only or who received less support in the past. This is perhaps more relevant to gas networks, as the very high reliability of the network means that, correspondingly, very few consumers have recent direct experience of service interruptions. Despite the relatively small number of consumers involved, the insight gained from engagements like this can offer companies important information regarding consumers' actual, real-life preferences and priorities and as such, should not be dismissed.

Finally, Scottish and Southern Electricity Networks (SSEN) provided an example of engagement triggered by, but going beyond, the energy sector. It illustrates the value of stakeholders working in a collaborative way to deliver outcomes that are beneficial not only to customers, but also to the stakeholders themselves.

Resilience Planning

Historically, it has been difficult to engage communities in developing community and individual emergency plans. However, in recent years areas in both the north of Scotland and south, central England have witnessed a number of extreme weather events. In an effort to ensure communities are resilient and able to cope in the event of a prolonged power cut, SSEN have simplified and promoted educational material developed by Scottish Government.

SSEN are the lead organisation and are supported by resilience partners who have the same objective to safeguard customers. To date, over 40 community emergency plans have been created through bespoke workshops, which can be used in any emergency situation, including but not limited to a power cut. There is clear evidence that where community emergency plans are in place, little or no additional support has been required from either the company or resilience partners during power cuts.

What this means moving forward...

The discussion above shows that energy network companies have made a significant investment in engaging with consumers over the past 10 years. It also demonstrates that they have been keen to learn from effective engagement approaches in other sectors, and from the more proactive companies within their own sectors, to adopt a suite of tried-and-tested methods for better understanding both consumers stated and revealed preferences.

There is clear evidence that engagement activities undertaken as a result of RIIO-1 have added significant insight for companies into the views and priorities of their end-consumers, and also that service standards have improved significantly as a result. Most of the engagement evident from a review of company's current practice however can be identified however as being limited to the 'inform' and 'consult' levels of the engagement spectrum, with a few innovative practices crossing into the levels of 'involving' and 'collaborating'.

In approaching RIIO-2, if companies simply replicate the approaches undertaken in the previous price control period, there is a risk that their engagement activities, while representing a considerable investment from companies, may add little new to a company's knowledge. The reality is that quantity of engagement does not necessarily equate to impact, or impact in the areas that are of most concern to companies and consumers moving forward.

Opportunities for enhancing direct engagement for RIIO-2

As noted at the beginning of this section, it may seem self-evident that asking consumers what they want is key to delivering outcomes for them, but the reality is that (particularly regarding topics that are unfamiliar and/or significantly removed from an individual's day to day reality) consumers often are unable to easily articulate their aspirations: as Henry Ford famously said: "If I had asked people what they wanted, they would have said faster horses."³⁹ Deeper, rather than just wider, engagement appears to be what is most needed now in the context of approaches to engagement in RIIO-2. This is where methods that sit within the 'involve' and 'collaborate' levels are particularly useful (and the ways in which these methods can best be used are explored further in Chapter 5).

Engagement at the 'involve' and 'collaborate' levels can however initially appear quite expensive, because, in reality, it will cost a company significantly more to bring consumers together over a period of time to deliberate on an issue than it would to undertake a survey. The costs of this type of engagement however are usually tiny compared to the overall cost of providing the service, and not doing so on issues that warrant this level of engagement can be a false economy.

While it is true that consumers, if asked, will express a preference for paying for services themselves (rather than the process of deciding them) as the 'pig with the straw house' would be likely to concede, "ultimately it is worth paying a bit more for a service [e.g. bricks] that actually works, than less for a service that fails to deliver."⁴⁰ In a real life context, for example, the Environment Agency found that not engaging around vital flood improvements led to expensive delays and risks, and resulted in communities being exposed to devastating flood damage for longer than necessary.⁴¹ Further, the costs of engagement are also often overstated compared to the benefits that they are able to deliver: e.g. when Bishop looked at the experience of two cities in trying to implement controlled parking schemes he found that not engaging actually resulted in significant costs in the form of delays and conflicts during implementation.⁴²

³⁹ Good Reads. 2018. "Quotable Quotes" Accessed 2/3/2018 Available at: <https://www.goodreads.com/quotes/15297-if-i-had-asked-people-what-they-wanted-they-would>

⁴⁰ Involve. 2018. "Myth 1 - Engagement is too expensive" Knowledge Base. Accessed: 2/3/2018 Available at: https://www.involve.org.uk/knowledge-base/myth-1-engagement-expensive/#_ftn1

⁴¹ Environment Agency. 2011. "Payment for Outcomes" Current Magazine no.14. Accessed: 2/3/2018 Available at: <http://www.environment-agency.gov.uk/static/documents/Research/Current14.pdf>

⁴² Bishop, J. 2006. "A Tale of Two Cities". Cited in Andersson, E., McLean, S., Parlak, M., Melvin, G. 2013 "From Fairy Tale to Reality: Dispelling the Myths around Citizen Engagement" Involve. Accessed: 16/02/2018. Available from: <https://www.involve.org.uk/wp-content/uploads/2013/02/From-Fairy-Tale-to-Reality.pdf>

Summary of key points:

- An effective end-consumer engagement plan will involve a variety of different methods, and ideally cut across all of the levels of engagement to build a mutually beneficial relationship between consumers and companies and enhances their social license to operate.
- There is clear evidence that engagement activities undertaken as a result of RIIO-1 have added significant insight for companies into the views and priorities of their consumers, and also that service standards have improved very significantly as a result.
- Companies are also demonstrating both creativity and systematic learning from the experiences of others within the energy and other regulated sectors, to continually expand the range of methods they use to engage with consumers.
- Companies have also given considerable attention to some segments of their consumer base, particularly consumers in vulnerable circumstances, where significant amounts of engagement have taken place to assess their needs and improve the support offered.
- Evidence gathered in this review, however, suggests that the bulk of companies' current practice is limited to the 'inform' and 'consult' levels of the engagement spectrum, with only a few innovative practices crossing into the levels of 'involving' and 'collaborating'.
- If, in approaching RIIO-2, companies simply replicate the work that proved effective for them last time, or the processes they have seen other companies rewarded for, then overall consumer engagement will not necessarily be 'enhanced'.
- In developing their engagement plans for RIIO-2 it is therefore important that companies think carefully and strategically about what it is that each engagement initiative is designed to deliver, i.e. what can consumers tell us about this question that we don't know already.
- To this end, engagement activities at the 'involve' and 'collaborates end of the spectrum seem to hold the most promise, as they specifically create opportunities for consumers to engage with some of the complex issues companies face in the lead up to RIIO-2 (as discussed in Chapter 5).

4b. Engaging Consumer Representatives - Stakeholder Groups

This section will explore how Stakeholder Groups⁴³ have been used by energy network companies to date, and the opportunities and challenges associated with using this approach to deliver outcomes for consumers within the price control period.

Overview of the role of a 'Stakeholder Group'

Involving consumer representatives in Stakeholder Groups is a model that is used across a wide array of industry and policy sectors. They create a 'space' for the interests of consumers to be represented, and foregrounded, in an ongoing way, rather than limited to the results of a specific engagement process initiated by the company or driven by (usually dissatisfied) consumers using social media to express their views on a company's performance.

In a typical Stakeholder Group members will be selected on the basis that they are able to bring knowledge regarding the issues facing a sector and may, in relation to energy network companies, include people representing environmental interests, those with a regulatory or government background, unions, business customers, academics, those from the education sector and industry experts. When domestic consumers are directly represented on these groups their voices will tend to be mediated through 'consumer voice' organisations (e.g. Citizens Advice), voluntary sector groups formed to represent the interests of a particular sector of society e.g. Age UK, or networks of voluntary sector organisations called upon to represent 'the community'.

The general role of a Stakeholder Groups is to act as 'critical friends' to a company, to help influence and support the delivery of better services for customers and other stakeholders. As such they provide a forum wherein the leadership or decision making team within a company can engage with stakeholders about the strategic issues related to planning and delivery of the business, and improve their understanding of the needs of various stakeholder group through a process of challenge, suggestion, and ideally, negotiation.

The major function of a consumer representative is to bring the consumer perspective to the different aspects of these discussion, primarily by:

- presenting and arguing the consumer's point of view;
- asking the questions that customers would ask;
- advocating for the needs of end-users to be put at the center of discussions on how to develop, deliver and monitor the effectiveness of new products and services;
- prompting companies to look for alternative solutions or compromises which enable consumer needs to be met.

The fundamental idea behind this way of engaging is that, together, representatives from the consumer, industry and professional sectors can bring the knowledge and experience to support officials to develop an understanding of what mutually beneficial solutions might be, alongside an appreciation of the consequences of that decision, and any variations, for the different stakeholder groups represented. In the context of a stakeholder group however the

⁴³ This term is used for consistency in this report to refer to bodies which bring together stakeholders and customers with the intention of using their collective expertise to inform company plans, generally at strategic level; individual companies use different terms.

interests of consumers are only one, among a variety of interests being brought to the table (including economic, corporate, regulatory, environmental, industry, local government) and the outcomes that different stakeholders are seeking, may not always be complementary.

However as the discussions below will explore, the role of and effectiveness of stakeholder groups can vary significantly, depending on their membership, scope of their role, their relationship with formal the decision making and how they (and the individual members) are resourced to fulfil their role.

Table 3: Overview of the strengths and limitations of Stakeholder Groups as a model for consumer engagement ⁴⁴

Strengths	Limitations
<ul style="list-style-type: none"> ● Stakeholder Groups are recognised by, and often directly supported and resourced by, the organisations they are designed to influence; ● The groups establish a direct, two-way relationship between consumer representatives and companies that can be strengthened over time; ● When they operate in a deliberative and engaging manner they can provide a valuable forum for issues to be debated and new positions formed (rather than established positions re-hashed); ● Members have the opportunity to develop considerable knowledge of the sector that can support their role to identify opportunities to improve outcomes for consumers. 	<ul style="list-style-type: none"> ● The role of Stakeholder Groups is typically advisory, thus a company is not bound to accept their recommendations; ● Members generally need to make a long-term, often time-intensive commitment, which can limit the ability of some sectors to be represented in a sustainable way; ● Members charged with representing consumer views may struggle to do this effectively on issues where there is not an established ‘consumer’ position, or where the needs of different consumer groups may be in conflict; ● In a context wherein Group members may have varying levels of expertise regarding the industry’s wider context, advocating from an informed position can be challenging; ● As members of the group develop their capacity and understanding of the sector (and the time to do this is also one of the model’s strengths) that they become industry ‘experts’ themselves and lose touch with the interests of the group they are representing; ● There is a risk that Stakeholder Groups as a whole can, by working closely with a company over time, become co-opted into the mind-set of the company and lose their independence.

Consumer representation in stakeholder groups

During the RIIO-1 process all network energy companies established a Stakeholder Group at a strategic level (or in WPD’s case used their existing group) to engage with the needs of consumers during the development of their business plans. All have subsequently continued to maintain a group (in some form or another). There are a number of similarities, and a smaller number of differences, in how these operate across individual companies.

⁴⁴ Drawing from the analysis presented in: Involve & Ipsos MORI. 2017. “Meta Analysis and Scoping Exercise into Public Participation in the Regulated Industries”. Consumer Futures Unit. Accessed: 16/02/2018. Available from: <https://www.cas.org.uk/system/files/publications/meta-analysis-and-scoping-exercise-into-public-participation-in-the-regulated-industries-ipsos-mori-involve-2017-10-12.pdf>

The majority of companies have structured the membership of their groups to reflect their stakeholders. All involve consumer representatives, either from Citizens Advice or other organisations such as fuel poverty or vulnerability groups. All groups have broadly similar remits and ways of working, and the summary of aims provided by Northern Gas Networks in their survey submission, are a good example.

Role of a Stakeholder Group (Northern Gas Networks)

- Influence our current and future plans;
- Provide feedback on our effectiveness in responding to customer and stakeholder needs;
- Work with us to deliver collaborative solutions and improved services;
- Raise key issues of current and emerging concern;
- Act as a sounding board for new ideas and communications and help to disseminate to wider audiences;
- Debate differing views and help us to find the best solution for all
- Be open and transparent;
- Share knowledge and experience;
- Jointly influence industry reforms and changes to regulatory process.

Despite having similar remits, there is variation in the maturity of some groups. Western Power Distribution's (WPD) group, as they have described it below in their survey submission, offers a useful example of one of the more well developed.

WPD's Customer Panel

The first of its kind in the industry when established in 2008, WPD's Customer Panel continues to drive the company's agenda. The wide range of long-term representatives enables debate and influence on a wide range of in-depth issues, and membership has grown to reflect our customers' priorities. There are currently 40 permanent members, with interests ranging from community energy, to health and fuel poverty, to government policy. They include an NHS trust, Warm Wales, the National Energy Foundation, Forestry Commission, and Welsh Government.

Every session is led by WPD's CEO and, new this year, a Board Director. Acting on our updated strategy, at every meeting the CEO leads a focus on one long-term priority, followed by surgery sessions to develop action plans and deliver specific improvements.

An annual refresh of membership, external benchmarking by the Customer Service Excellence Standard and the scale of outputs the Panel delivers, are all indicators of its effectiveness. In 2016, independent research with members reviewed the Panel's format, function and form. As a result:

- An independent Panel Leader was appointed, although members rejected any change to WPD's CEO as Chair, commending the ownership and accountability this brings.
- Member-only pre-meetings and occasional 'closed' sessions to enhance the Panel's independence were introduced.
- Members will develop a forward-looking Challenge Report annually detailing the areas they expect WPD to focus on.
- WPD now funds Panel-commissioned research topics (to aid the above).
- A member-written Spotlight Report will be added to WPD's annual Business Plan commitments report.
- WPD will hold education sessions to improve members' knowledge on long-term issues (e.g. Energy scenarios and network capacity).

All companies emphasised the close connection between Stakeholder Groups and senior company staff in their response to the survey conducted for this research. The majority of groups are chaired by company directors (SGN's group is independently chaired, by a former Ofgem director) with other senior staff members including the CEO attending depending on the agenda.

All companies also highlighted both the need for, and provision of, induction processes for members. These programmes typically involve a mixture of site visits and presentations, over a period of 6 months to a year. National Grid emphasised in their interview that, while individual members brought expertise and understanding about specific aspects of transmission companies' work, effective participation in a stakeholder group required a working knowledge of the operations of the company as a whole. This was particularly seen as necessary where the groups might need to consider views on issues which involve making trade-offs (something the majority of companies emphasised as being one function of their group).

Stakeholder Groups typically meet 3 – 4 times each year, with individual members involved on a case-by-case basis, depending on their expertise. NPg has a more formalised arrangement, having established expert sub groups on social issues, customer service, and technical issues. There is common membership between those and the strategic group.

There also appears to be some variation, in practice if not in theory, in the evolving roles of the groups. Initial discussions, not surprisingly, concentrated on provision of information (by companies) and gathering initial views of company proposals. However, companies reported that is now more common for groups to comment to a greater extent on both the process and content of engagement strategies, with some at least in aspiring to move towards the co-production of plans during RIIO-2.

Electricity North West (ENW), for example, noted that the structure of their group has altered to reflect these changing roles and stakeholder preferences. The company initially established a single Stakeholder Panel, which provided a forum for discussion during the development phase of the plan. Acknowledging that was hard to maintain stakeholder interest and the focus of this group during delivery, this strategic panel was re-purposed to meet annually, focusing on medium and longer term issues. It is now complemented by four themed advisory panels: focusing on customers, affordability, sustainability and vulnerability. ENW is now considering how best to use available expertise during RIIO-2 plan preparation.

All companies interviewed as part of the research touched on the issue of the capacity of stakeholders to dedicate the time implied in seeking greater levels of engagement in this way during RIIO-2. Companies raised the issue of consultation fatigue, and SPEN and SGN in particular noted that there is significantly overlap between stakeholders identified by all network companies operating in Scotland.

The research did not have the resource necessary to include formal discussion of the above issues with consumer representatives involved in Stakeholder Groups. However, informal feedback from a limited number of representatives echoed these points, particularly on staff time.

Designing for Success

There are a number of interdependent factors that appear to contribute to the success of stakeholder groups in practice, including:

- Strong, senior leadership;

- A clear remit with defined parameters for influence - while the breadth of these will depend on the needs of the individual company, having clarity will enable members to stay focussed on those aspects of a company's business that they can have an impact on;
- Taking time to build the capacity of group members to understand the business as a whole, as this will enable them to contribute most effectively;
- Ensuring that members have the opportunity to develop an understanding of the wider sector (not just the specific company) in order to appreciate the cross-cutting issues a companies face and a company's relative performance within this wider context;
- Compensating members (or the organisations who employ them) for their time;
- Seeking input from stakeholders early in the policy / decision making process, rather than expecting them to 'rubber-stamp' decisions;
- Providing timely and effective feedback about how the outputs of their discussions have been used by the company;
- Providing members with evidence from wider consumer research and/or resourcing the group (or individual members) to commission or undertake consumer research on emerging topics to help inform their contributions.

The information provided by companies suggests that the more mature stakeholder groups already reflect most or all of these criteria. We would expect that understanding of these success factors among consumer representatives and other stakeholders would encourage all companies to replicate additional success factors where necessary.

Consumer Advisory Panels

Perhaps the most challenging aspect of the above criteria is the final one, and our findings suggest that companies need to do more to support stakeholder groups to develop a better understanding of consumers' views on complex issues, and perhaps direct their own research. We suggest that one way a company could facilitate this would be to establish some form of 'Consumer Advisory Panel' i.e. a representative group of residential consumers from each region to be consulted on a regular basis as different issues or questions emerge, and when there is not already evidence of an established consumer view. Such a panel could also become a specific resource for Stakeholder Groups and assist them to better understand consumer perspectives on an ongoing basis, particularly as more complex issues are considered.

Establishing an ongoing Consumer Advisory Panel can be an effective and cost-effective way of engaging with consumers on a range of issues without the time and expense of recruiting an entirely new group for each consultation. Further, although each engagement with the group may have a distinct and different focus, participants still have the benefit of the learning and understanding they have acquired in previous consultation

Case studies 4 and 5 (annexed to this report) present different models for establishing a Consumer Advisory Panel and explore how they have been used in within a regulatory context.

4. **Consumer First Panels**, a model first used by Ofgem in 2009 to bring together a representative sample of consumers that they could engage with regularly on different issues.
5. **The Irish Public Water Forum**, established by the Commission for Energy Regulation as a standing group of consumers tasked with continuously representing public and water consumer interests in developing public water policy.

exercises. This means that they are able engage with progressively more complicated topics and issues.

Also, because this approach to consumer consultation involves a consistent group, it can be possible to ask participants to undertake 'homework' activities to inform their input at the next stage. At a very simple level, this could include background reading, however there are examples of more intensive requests being made including interviewing neighbours or completing an energy diary.

Ofgem's Consumer First Panels, running since 2009, are one example of this type of approach. Each Panel consists of around 100 domestic energy consumers from 4 - 6 locations who participate in local workshops 3 - 4 times a year to feed into Ofgem's policy-making. Members are selected to be nationally representative of GB (in terms of gender, age, ethnicity, socio-economic group, housing tenure, fuel poverty, disability, energy supplier, employment status, family status and urban/rural residences) and are rewarded with a cash payment for each workshop they attend. Membership of the Panel is refreshed each year.

The Panel has been used to cover a range of different issues, but most often the workshops tend to be focussed on how consumers engage with the energy market and the types of information they need in order to make informed decisions and to understand different energy-related issues. Over time Ofgem note that they have refined the type of questions they put to the Panels to ensure that they are directly related to influencing a specific decision or policy, so as to maximise the contribution the Panel discussions can make.

As the case study highlights, Ofgem have used the outputs of engagement with the Panel in a wide variety of ways: to inform their campaign messaging; short-term policies; Ofgem publications and their future strategic planning. As noted by staff at Ofgem in the interview carried out to inform this research, due to the often considerable length of time between when an issue is taken to the Consumer First Panel and a policy regarding that issue being finalised, it is however not always easy to demonstrate precisely how the discussions within the panel impacted on the final policy. As a model however, it appears to be one that could be easily replicated by energy companies to provide an ongoing 'sounding board' able to inform companies and their stakeholder groups about consumer perspectives on emerging issues.

In the case of the Consumer First Panels, Ofgem uses an independent consulting company to recruit participants, deliver the workshops and produce reports, but this is only one approach that could be used to develop an effective Consumer Advisory Panel. Many local councils, for example, have developed their own Citizens Panels to consult with residents about different aspects of their work (typically involving between 500 and 2000 residents). Participation is usually voluntary, although in some cases organisations may offer incentives for taking part, for example the opportunity to be entered into a prize draw or collect 'points' that can be turned into gift vouchers.

Citizens Panels are usually consulted through regular online or postal surveys, although sometimes organisations may supplement this with opportunities for Panel members to participate in other activities like focus groups or workshops on a particular subject.⁴⁵ The main benefit this approach brings, over a traditional omnibus survey for example, is that the same group are involved in completing each survey. As is the case when the same group meets repeatedly, Panel members' knowledge relating to a topic can be deepened over time, allowing more complex questions to be put to them, and changes in opinion over time can be more accurately tracked.

⁴⁵ Involve. 2012. "Citizens Panel" Participation Compass. Accessed 5/2/2018 Available at: <http://participationcompass.org/article/show/131>

Members of these types of Citizens Panels are usually initially recruited via random sampling of the electoral roll or postcode address files, and postal recruitment tends to be a popular approach given its wide reach and relatively low cost. Most of the cost will lie at this initial stage as, once a representative group has been established a Panel can continue to operate indefinitely. That said, there is likely to be some drop off participation over time and therefore Panels do need to be systematically reviewed at least annually to ensure they remain representative of the population throughout their lifespan.

Another way to establish a representative Consumer Advisory Panel would be to follow a model similar to that used to form the Public Water Forum in Ireland. The Irish Water Services Act 2014 identified a need to be able to capture the informed and considered views of consumers in an ongoing way and established the Public Water Forum. It set out clear criteria for how the membership of this forum should be constructed, with 20 places identified for unaligned domestic consumers and 12 members drawn from organisations representing specific consumer and sector interests. The approach to the recruitment of members in this case however was via an open call for written applications, supported by significant media coverage and advertising.

As noted in the case study, they received around 250 applications from domestic consumers, and from that group appointed the 20 members who collectively met the following criteria: at least two people from each age category; at least five men and at least five women; at least three people from each location category; at least five people from an urban location and five from a rural location; and at least five registered Irish Water customers and at least five unregistered people.

One thing to note about the Public Water Forum is that participation is entirely voluntary (although expenses are paid) and that members were appointed for an initial period of 3 years. Meeting in person every 2 months, on average, to discuss and debate issues relevant to the public water sector meant that members of the forum were able to build up a considerable depth of knowledge about the industry and the regulatory framework. While this requires a quite significant commitment from members the fact that they responded to an open call for expressions of interest does show that there are consumers willing to engage with a company/industry in this way in the long-term. That said, while the group has been constructed to be demographically representative, it is likely that since the members explicitly chosen to put themselves forward to influence water policy, their views may be less representative of the wider population than a neutrally recruited sample.

Table 4 summarises the key characteristics (and differences) of each model presented for establishing a Consumer Advisory Group.

What this means moving forward...

Overall, we consider that companies' existing Stakeholder Groups represent a clear strength of the current approach to engagement. Such groups are widely used in other sectors and create valuable space for ongoing consideration of issues and implications in combination, going beyond the single issues typically explored with consumers directly.

Stakeholder Groups in the energy network sector typically include representatives from small and large smaller businesses, (including others from the energy industry), the education sector, environmental groups, local and national government and communities, as well as consumers. The range of expertise involved allows consideration of different

Table 4: Models of Consumer Advisory Panels

	Consumer First Panel	Citizens Panels	Public Water Forum
Recruitment	Recruited by a Market Research Company to be a representative sample of the residential population with no pre-existing interest in the topic.	Usually recruited by post with an invitation sent to a random sample of the electoral roll or council tax database.	Recruited through an open call for expressions of interest and then selected to cover a range of demographic criteria.
Scale	100 people recruited each year (although meet in smaller regional groups).	Typically 500 - 2000 people.	20 residential consumers and 12 sector representatives.
Method of consulting	3-4 workshops a year which range in format from consulting to involving depending on the topic.	Usually consulted via regular online or paper surveys, though members could be invited to occasional workshops or focus groups.	Regular (approximately every 2 months) face-to-face committee meetings to explore policy proposals and develop responses.
Incentive	Participants are paid a cash 'thank-you' for each workshop they attend.	Usually voluntary, although some organisations allow Panel members to collect 'reward points' that can be used to claim vouchers or discounts.	Voluntary (although travel expenses are paid).
Key Strengths of the model	<ul style="list-style-type: none"> Participants recruited for the panel tend to have no pre-existing interest in the energy sector and therefore likely to be broadly representative of the range of consumer views. The offer of a financial incentive ensures a wide-cross section is able to take part. 	<ul style="list-style-type: none"> Citizens Panels are relatively easy to establish and do not require a lot of resources to sustain. Participation is generally easy for members as they can complete the surveys at a time that suits them, rather than attend a particular event. 	<ul style="list-style-type: none"> Members build up considerable knowledge of the sector over time, which enables them to contribute from a more informed position.
Limitations	<ul style="list-style-type: none"> It can take time each year (with a new panel) to build up their level of knowledge to be able to tackle more complicated issues. 	<ul style="list-style-type: none"> There are limits to the amount of in-depth information that can be gathered from a survey. 	<ul style="list-style-type: none"> Relatively small numbers involved directly. Voluntary expressions of interest may mean the members are less representative of wider views.

perspectives, but may run the risk of the voice of consumers being less clearly heard as a result.

There are however examples of good practice that show companies' are recognising this and have established specialist sub-groups of domestic consumer representatives, or to focus specifically on the needs of consumers in vulnerable circumstances as a result. Just as there is evidence of network companies learning from each other in relation to their direct engagement with consumers, we would also expect companies increasingly to learn from and replicate success factors in relation to their Stakeholder Groups. Further, we would also expect that support structures for group members, particularly when those representatives are part of national organisations, should encourage replication of good practice through the exchange of experience.

The role of consumer representatives in Stakeholder Groups can, however, be made more difficult when there is not a clear and established 'consumer position' on an issue. This is something that is likely to become more common as groups build their maturity and become involved earlier, and in more aspects, of a company's business planning.

We have therefore suggested that one way of further supporting these representatives would be for companies to establish a Consumer Advisory Panels i.e. standing panels of domestic consumers, along the lines of Ofgem's Consumer First Panel or one of the other approaches outlined above.

Such an approach would be designed to complement, rather than replace, the range of other specific engagement activities a company would continue to undertake as part of their wider engagement strategy (either with specific customer segments or on particular issues). It would however provide a cost effective mechanism that, running alongside Stakeholder Groups, could provide a direct resource to them. Further, in line with the findings of Chapter 4a, these groups could provide an additional deliberative means of gauging consumer views on more complex, longer term issues.

Summary of key points:

- Direct engagement with end-consumers is complemented in all companies by the involvement of groups of stakeholders, including consumer representatives, which act as critical friends for individual companies on strategic issues.
- This has been a key strength of the structures introduced in RIIO-1 to enhance the breadth and impact of stakeholder engagement by energy network companies.
- The impact of Stakeholder Groups, in combination with direct engagement with consumers, is demonstrated to some extent in changes made to plans. However, more significant changes are evident in relation to service standards, support for consumers and communications during supply interruptions or infrastructure works, since the adoption of plans.
- All Stakeholder Groups operated by energy network companies have broadly similar remits in theory, but our survey suggests that the maturity and capacity of groups varies to a greater extent in practice.
- Factors which influence the success of groups in other sectors also seem common to energy networks, and include: leadership; clarity of role; prompt and regular feedback on the impact of decisions taken by the group; and support to inform the work of the group, independently of the company where necessary.
- For consumer representatives to be most effective in groups where consumers are only one interest among many others, our research has highlighted that there

is a need for them to have greater access to the outputs of direct engagement with consumers, and potentially be supported to identify areas where more research is needed.

- One way of supporting this would be for companies to establish a Consumer Advisory Group to run alongside their Stakeholder Group and be a direct resource for them as new issues and considerations emerge. Three different models for establishing such a group are presented above.

4c. Consumer Challenge

The final space for strengthening the voice and influence of consumers is via the use of champions with a consumer challenge role who can scrutinise a company's engagement practice and evaluate how the outputs have been used to inform business plans and embedded into their implementation. While a stakeholder group can be considered as a 'critical friend' to a company in the preparation of its business plan, groups fulfilling a consumer challenge function are probably best described as their 'conscience'.

Drawing on the experience of other sectors where consumer challenge functions have been introduced, particularly that of English and Welsh water companies during PR14 (as described in Case Study 1), the following section presents an overview of this role and its relationship to other aspects of a company's engagement activities.

The role of Consumer Challenge functions

The role of consumer challenge champions complements the direct engagement done by companies and the work of Stakeholder Groups by scrutinising how effectively companies have engaged with consumers, and the degree to which this is reflected in its business plan, in order to provide independent challenge to companies and independent assurance to the regulator.

In order to assess the engagement as effective, members of challenge groups should be able to identify a 'golden thread' between the outputs of direct engagement with consumers and the proposals made within a company business plan. They can then use this as evidence of impact, or as a basis upon which to challenge how effectively companies have responded to their engagement with consumers and their representatives.

These groups should also be able to challenge companies about how they have interpreted the results of their consumer engagement - but it is important that members of these groups should not substitute their views for those of consumers. Unlike a stakeholder group, the challenge function is not to represent consumers directly, but rather to champion the need for their interests to be effectively used within the planning process. Therefore not only are the functions of these two types of groups quite different, but each requires members to have different types of skills and expertise.

To fulfil an effective challenge function a group collectively needs to be able to engage with the complexities of a company's business plan proposals, evaluate the depth, breadth and quality of a company's engagement, assess whether the outcomes from this have been used to propose changes to a 'business as usual' approach and form conclusions on whether these changes go far enough.

Ofwat's guidance for PR19 highlights what is involved in this by presenting a non-exhaustive list of the types of questions they would expect challenge groups in the water sector to be considering. This provides a useful illustration of the nature and scope of a challenge group's role and is reproduced below.

Ofwat's Guidance for Consumer Challenge Groups in the water sector on the issues they should investigate⁴⁶

- Has the company developed a genuine understanding of its customers' priorities, needs and requirements – and where appropriate customer valuations – drawing on a robust, balanced and proportionate evidence base? Has the company engaged with customers on the issues that really matter to them?
- Where appropriate, has the company engaged with its customers on a genuine and realistic range of options? For example, in relation to a need to rebalance supply and demand, this might include increasing its own capacity, purchasing water from another company or demand management options. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?
- Has customer engagement been an on-going, two-way and transparent process, where companies are informing their customers as well as soliciting feedback from them?
- Has the company effectively engaged with and understood the needs and requirements of different customers, including those in circumstances that make them vulnerable? Has the company considered the most effective methods for engaging different customers, including those that are hard to reach?
- Has the company effectively engaged with its customers on longer term issues, including resilience, impacts on future bills and longer-term affordability? Does the business plan adequately consider and appropriately reflect the potential needs and requirements of future customers? Wherever appropriate, has the company engaged with its customers on the long-term resilience of its systems and services to customers?
- Has the company effectively informed and engaged with customers on its current levels of performance and how does this compare to other companies in a way customers could be expected to understand?
- Has the evidence and information obtained from customers (including through the company's day-to-day contacts with customers) genuinely driven and informed the development of the business plan to benefit current and future customers? What trade-offs (for example between different customers) have been identified and how has the company proposed to deal with these?

What this means moving forward...

Ofgem's intention to introduce a consumer challenge function within RIIO-2 represents a clear commitment to continue placing the needs of consumers at the center of companies' business planning. It does, however, have a range of implications for companies, their Stakeholder Groups and the regulator which to date do not appear to have been fully explored including: the integration of this function with existing structures, the capacity of members, independence, and clarity of remit.

As this seems to be the most significant innovation to be introduced by Ofgem for RIIO-2, how this could work within the energy network sector is explored more fully in Chapter 6 of this report.

⁴⁶ Ofwat. 2016 "Ofwat's customer engagement policy statement and expectations for PR19" Accessed 27/1/2018 Available at: https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf

Summary of key points:

- A 'consumer challenge' function is a very different role than that played by Stakeholder Groups. If a Stakeholder Group could be understood as a 'critical friend' to a company then challenge groups operate as their 'conscience'.
- As such there are different skills required to successfully fulfil the consumer challenge function than may be found currently within most Stakeholder Groups, for example the ability to effectively evaluate the depth, breadth and quality of a company's engagement and assess how well the outputs have this have been interpreted to inform the business plan.
- Experience from other sectors suggests that one of key factors in the successful implementation of a challenge function is independence from the company.
- Implications for how the models proposed by Ofgem for introducing a challenge function for RIIO-2 will be explored further in Chapter 6.

5: Enhancing the Focus of Engagement

In Chapter 4 we focussed on the levels and structures of engagement available to energy network companies. In this Chapter we focus now on the scope of engagement i.e. the topics and issues that companies are exploring with consumers and other stakeholders to inform their business plans. We also explore how this has delivered outcomes for consumers and identify where there are opportunities to extend this, particularly as new challenges emerge for the sector.

A survey sent to network companies to help inform this research asked companies to identify the topics on which consumers had been engaged during RIIO-1. The survey also asked companies about any topics they had found challenging to engage consumers on, including likely future topics emerging as part of the RIIO-2 agenda. Their responses underpin this next chapter.

Scope of company engagement in RIIO-1

In planning their engagement in the lead up to RIIO-1 companies tended to focus on identifying topics that were of greatest importance to consumers. Our survey demonstrated near universal agreement across all networks that these issues have consistently been:

- Reliability: consumers expect supplies to be available all of the time, or as close to that as possible;
- High levels of service standards: when things do go wrong, consumers expect supplies to be reconnected quickly, to receive support as necessary during interruptions and for communications to be timely and accurate; and
- Price: energy bills remain a significant cost for most households.

Some companies said that safety was also a critical issue, although it tended not to be one consumers wanted to explore in detail. Instead they were content to emphasise its importance and let companies carry out their work accordingly.

Although not 'headline' issues for networks, local and global environmental issues and social concerns were also of importance to consumers, as drawn out in engagement work. The specific nature of these issues varied during the preparation of RIIO-1 plans between electricity and gas networks.

For electricity networks, global environmental issues that were important to consumers concentrated around implications for the networks of the take up and connection of renewable electricity generation capacity, particularly solar PV and wind turbines. Local environmental concerns within the scope of network operations related to the scale and location of undergrounding wires in protected areas.

Social concerns focussed largely on the extent to which electricity networks could develop a clear role in supporting vulnerable and fuel poor consumers, complementing rather than overlapping with existing services. Another issue raised was the extent to which networks should seek to improve the experience of 'worst served consumers' (defined by Ofgem as those experiencing more than a set number of power interruptions over a three year period). There was also some additional discussion on aspects like compensation payments during power cuts.

For gas networks, the main consumer concern was around the support given to fuel poor consumers by providing connection to mains gas. As above, the level of compensation

payments was also mentioned by some companies as something that interested consumers.

Responding to Consumer Feedback

A key aim of the survey, in line with the research more generally, was to identify changes made which result in better outcomes for consumers during RII0-1, either during preparation or in delivery.

Some, but not all companies identified changes made to plans as result of consumer engagement. Among those which did, examples include:

- National Grid's consultation with consumers identified high consumer willingness to pay for undergrounding of power lines in National Parks and Areas of Outstanding Natural Beauty, and the company increased their proposed spending on this area as a result. Although Ofgem capped the amount National Grid had proposed to spend, the company highlighted the research as a critical factor in the final agreed figure being higher than would otherwise have been the case.
- Scotia Gas Networks (SGN) said that their targets for providing gas connection to fuel poor consumers had increased considerably, partly in response to closer working with a Scottish Government programme. Northern Gas Network (NGN) echoed the increased focus on gas connections for fuel poor consumers, and also said that the emphasis placed on carbon monoxide safety work increased as a result of consumer engagement.
- Electricity North West's (ENW) initial surveys of domestic consumer attitudes identified statistically significant differences in willingness to pay, between their customers and those nationally, in relation support for consumers in vulnerable circumstances. As a result, ENW included a commitment to strengthen its network in areas with higher concentrations of customers in vulnerable circumstances, or where hospitals or other services serving these customers were located. This programme was unique among distribution network companies, and required considerable evidence to allow Ofgem to agree to its inclusion.
- Consistent with the experience of gas network companies, distribution network companies found that consumer engagement, while not raising new issues, did place greater emphasis on particular issues. For example, Western Power Distribution (WPD) noted that their targets for the scale and timing of improvements for 'worst served consumers' were strengthened following consumer feedback, with a higher proportion of those consumers benefiting from improvements at an earlier stage of plan delivery than had originally been proposed.

In contrast, all companies highlighted and described significant changes to service standards in project delivery. These included, for example:

- The creation of, and regular liaison with, specific local forums to consider issues such as the timing of works and associated noise and visual impact mitigation during planned works. National Grid also noted an occasion when the selection of the technology to be used had been influenced by its visual appearance, as a result of community feedback.
- Improved support for consumers during unplanned supply interruptions – ranging from the provision of hotplates and mobile catering vans by NGN and other gas networks.
- Innovative approaches to engaging consumers in infrastructure projects.

More widely, a number of companies highlighted work on the registration of consumers in vulnerable circumstances which involved either other energy networks, or companies in other sectors. In addition, Western Power Distribution (WPD) and SP Energy Networks (SPEN) worked with the Centre for Sustainable Energy to map concentrations of consumers in vulnerable circumstances in their areas; the companies then offer additional support to those consumers during supply interruptions. A similar approach had been taken by Scottish and Southern Energy (SSE), who had used Priority Services Register (PSR) data to allocate greater on-site generation capacity in areas with higher concentrations of consumers in vulnerable circumstances levels during power cuts.

Further, companies help consumers in vulnerable circumstances access support from third parties, covering both energy-related services (for examples WPD supported awareness of energy efficiency measures available from suppliers) and more mainstream social support (SPEN).

Looking ahead to RIIO-2

Company views on key consumer issues approaching RIIO-2

All companies expect consumers' concerns to remain as above during the RIIO-2 period. In addition, all identified likely future challenges around the management of networks to allow take up of low carbon technologies by consumers. National Grid's annual Future Energy Scenarios (FES) exercise has explored these issues in recent years⁴⁷ and, as above, the detailed issues vary between electricity and gas.

Electricity Networks

Electricity network companies are already having to work more flexibly to reflect these changes and the uncertainty around them, and anticipate this approach will continue under RIIO-2. Some companies highlighted the experience of connecting solar photovoltaic (PV) and other small scale distributed electricity generation to illustrate this. Trend data shows⁴⁸ that the take-up by consumers of solar PV capacity in GB considerably exceeded expectations, and also that annual rates of installation were very variable, with numbers each year closely linked to cut-off dates for access to subsidies. There is evidence of some companies restricting or managing new connections as a result.⁴⁹ More recent data shows that the rate of installation of new capacity has slowed markedly⁵⁰, again following change to the subsidy regime made by the UK Government.

In parallel with the growth of local electricity generation, network companies anticipate a move to more active management of their networks. Combined with other technologies, companies anticipate that consumers will be offered a wider range of electricity pricing, including more time of use tariffs. This issue has recently been explored by Citizens Advice⁵¹ and the report highlights concerns about consumers' ability to adapt to effectively use such tariffs.

⁴⁷ National Grid. 2017. "Future Energy Scenarios". Accessed: 16/02/2018. Available from: <http://fes.nationalgrid.com/fes-document/>

⁴⁸ Ofgem. 2016. "Ofgem's Future Insights paper 1 - Overview paper". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-s-future-insights-paper-1-overview-paper>

⁴⁹ Western Power Distribution. "Sunshine Tariff". Accessed: 16/02/2018. Available from: <https://www.westernpower.co.uk/Innovation/Projects/Closed-Projects/Sunshine-Tariff.aspx> . Similar limits have affected projects in Northern Scotland.

⁵⁰ Ofgem. 2017. "Feed-in Tariff (FIT): Annual Report 2016-17". Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/feed-tariff-fit-annual-report-2016-17>

⁵¹ Citizens Advice. 2017. "The Value of Time of Use Tariffs in Great Britain". Accessed: 16/02/2018. Available from: <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/the-value-of-time-of-use-tariffs-in-great-britain/>

This experience illustrates the difficulty, highlighted by network companies, in planning for future trends which can be influenced significantly by external events and policy changes outwith their control. This is most particularly the case in relation to possible future trends on the take-up of electric vehicles (EVs), which was the most widely highlighted issue among electricity transmission and distribution companies.

Absolute numbers of EVs are very limited at present. Companies however highlighted government policy announcements and associated media coverage,⁵² alongside heightened consumer awareness and technological improvements, which suggest that adoption of EVs may be much more rapid over the next few years. National Grid's Future Energy Scenarios suggest that there could be anywhere between 2 and 9 million EVs in GB by 2030, depending on a combination of consumer preferences and government policies - this compares to a baseline figure of 87,000 in 2016. A further concern for companies is that adoption of EVs, like solar PV, is likely to be geographically concentrated and may trigger the need for network upgrades in particular areas, even if take-up nationally is less rapid.

In relation to this point, SPEN also emphasised the important role of, but also varying attitudes among, local authorities with respect to the scale and location of charging stations. SPEN are concerned that some local authorities which are currently less engaged may seek to catch up at a later date by installing charging stations at relatively short notice, with implications for network costs associated with these upgrades.

The variation between low and high scenarios, and the speed of upgrade work, both have implications for consumers' bills. Companies aim to provide capacity to allow consumers to take up new technologies on the one hand, but on the other, investment by networks to meet the higher level scenario would imply additional costs for all consumers. This is a particular concern if such investment may result in unused assets.

Companies also highlighted the need to explore possible tensions between different groups of consumers in relation to this issue. In the short to medium term companies anticipate take-up of EVs to be concentrated among better off, environmentally concerned consumers. There may be linked risks that different levels of take up of these and other smart technologies may exacerbate existing inequalities in the energy sector, and that lower income groups will therefore be less willing to pay for associated investments. Recent research commissioned by National Grid from Populus⁵³ (representative sample of 2000 household consumers) showed that consumers place a high priority on paying more today to ensure sustainable energy supplies in the future. However, willingness to pay was lower among some less well-off groups.

An additional concern among some companies is that consumers who already generate their own power, and who have lower bills as a result, effectively have their access to the grid subsidised by others who do not, given that network charges for consumers are proportional to electricity use. While this impact is limited at present, it may become an increasing concern during RIIO-2. One stakeholder noted that the structure of network charging is currently considered by Ofgem separately from RIIO, and that consumer engagement in that process is limited. Given these structures have a clear influence on consumers' bills, this could be an area for future work.

Gas Network Companies

Circumstances are somewhat different for gas transmission and distribution companies. UK carbon targets imply a policy driven shift away from gas central heating towards electrically-

⁵² For example: Topham, G. 2017. "Treasury backs electric cars but makes limited moves on diesel". The Guardian. Accessed: 16/02/2018. Available from: <https://www.theguardian.com/environment/2017/nov/22/treasury-backs-electric-cars-but-makes-limited-moves-on-diesel>

⁵³ Provided by the company as part of their submission, but not yet available publicly

powered heat pumps.⁵⁴ Gas network companies' views are that such a change is unlikely to be driven by consumers, as consumer awareness and demand for low carbon heating systems among those currently using mains gas is very low at present.

However, companies highlighted indications that consumers may be open to the idea that 'gas' may not continue to equate to natural gas, as long as the service they receive is as good. Rather, heating could be powered to a greater extent by biogas, typically produced from agricultural waste⁵⁵ - all gas distribution companies are increasingly connecting biogas generation. NGN also mentioned the possible expansion of hydrogen. Similarly, National Grid's consumer research showed that there are emerging issues around the type and source of gas, with evidence of consumer preference and willingness to pay for connections to biogas to a much greater extent than for shale gas.

Issues Common to Gas and Electricity Networks

Consumer views of profit levels in energy networks: An area of emerging interest highlighted by companies is the need to consider profit levels and returns to investors. Citizens Advice raised concerns about this issue in the recent publication *Energy Consumers' Missing Billions*⁵⁶ and the subject has also been raised more recently by the UK Government itself in relation to the water industry.⁵⁷ While a number of companies recognise the importance of this conversation taking place, National Grid's submission to this research provided more detail:

"The current debate over the legitimacy of the returns achieved by network companies and of the role of network companies provides the imperative for much more extensive engagement with consumers and other stakeholders. Primarily through consumer representatives, we are looking to extend consumer engagement in the process of agreeing the price controls into risk allocation in the regulatory contract, company outputs, incentives and performance targets and the implications (financial and otherwise) of these."

Almost all companies who raised this issue suggested that any research would need to be carried out by Ofgem or another neutral third party. They recognised that any work commissioned by the companies concerned might be open to challenge. Similarly, companies expressed that they would be concerned about the use of any research carried out by consumer organisations. The only exception to this was NGN who reported that they had discussed this issue with their stakeholder group, which they felt was an appropriate level for consideration.

Expanding the range of network issues on which consumer views are sought: The survey of network companies also explored the extent to which consumers were, or were not, involved in discussions on different aspects of network activities. There was again a high degree of consistency on this point: as above, companies have concentrated engagement on those issues of greatest and most immediate concerns to consumers. All had encountered difficulties in engaging consumers directly on more technical points. However, some companies highlighted innovative practices in this respect: for example, both National Grid and SPEN are looking at the development of interactive tools which would provide

⁵⁴ Also highlighted by National Grid: National Grid. 2017. "Future Energy Scenarios". Accessed: 16/02/2018. Available from: <http://fes.nationalgrid.com/fes-document>

⁵⁵ Background on biogas is available at: <https://www.daera-ni.gov.uk/articles/anaerobic-digestion-%E2%80%93-production-biogas> (Accessed 20/2/2018)

⁵⁶ Citizens Advice. 2017. "Energy Consumers' Missing Billions". Accessed: 16/02/2018. Available from: <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/energy-consumers-missing-billions/>

⁵⁷ See for example Michael Gove's speech to the water industry. Accessed 7/3/2018. Available from: <https://www.gov.uk/government/speeches/a-water-industry-that-works-for-everyone>

instant feedback on the cost implications of consumer's choices which would allow (or perhaps require) those consumers involved in the research to make trade-offs between levels of service and prices.

Research Partnerships on emerging issues: All network companies gave examples of current partnership working, both within the sector and with other organisations. Almost all said that they were open to more collaborative research on a number of issues.

Engagement and registration of consumers in vulnerable circumstances is an issue of concern to all companies, and one on which some cross-sector working already takes place.⁵⁸ Some companies also noted the need for energy network planning on a whole-system approach, given the use of gas as a fuel for generation of electricity, as well as the need to move towards electrification of heat in the medium to longer term. It is not yet clear what changes, beyond those already identified above, might be implied for consumers by this approach.

The majority of network companies would welcome more engagement across the energy sector, and across other sectors, to help consider these issues and to help deepen engagement among harder to reach groups.

There were a number of topics identified in this research where it appears that there is a need for research and engagement with consumers. These are summarised in Table 5 over the page.

Opportunities to enhance direct engagement with consumers

As highlighted above, there are a number of complex issues that appear to be coming up in the lead in to RIIO-2 that are going to require companies to make trade-offs and explore new solutions and partnerships in their approach to developing and delivering their business plans. Central to being able to do this in a consumer centered way will be gaining greater insight into what different groups of consumers expect, and may be willing to accept, from companies, and where their priorities lie for delivering a high quality services at an affordable price.

Effectively engaging directly with consumers on some of these complex, and at times very technical issues, will require companies to move beyond traditional engagement approaches. In the survey and interviews undertaken for this research, several companies acknowledged that they had struggled to find ways of meaningfully engaging with 'ordinary consumers' on complex issues like this. For these types of topics, however, there is considerable value to be achieved by approaching engagement at the 'involving' and 'collaborating' levels of the spectrum of engagement and focusing on opportunities to develop dialogue and deliberation among consumers.

⁵⁸ The UK Regulators Network is currently working in this area: Richings, S. 2017. "Making better use of data: identifying customers in vulnerable situations". UK Regulators Network. Accessed: 16/02/2018. Available from: <http://www.ukrn.org.uk/news/making-better-use-of-data-identifying-customers-in-vulnerable-situations/>

Table 5: Summary of areas identified for further research

	Topics where more might be done
<p>1. Drawing on the experience of consumers affected by supply interruptions to identify risk attitudes and service priorities</p>	<p>A limited number of companies noted the increasing use of data gathered from consumers on the doorstep following supply interruptions.</p> <p>Given networks, especially gas networks, are generally very reliable, this data has potential to add depth to responses about attitudes to reliability and risk, complementing answers given by those who do not have direct experience of supply interruption.</p>
<p>2. Identification and consideration of future issues for consumers</p>	<p>A number of companies raised the need to better integrate energy planning across the electricity and gas sectors; it is also notable that one of the main drivers for change in energy networks is the potential development of EVs (and to a lesser extent, gas powered vehicles) highlighting the need for planning increasingly to integrate transport into these discussions.</p> <p>The need to consider this wider picture suggests that longer-term, more in-depth consumer consultation is needed: Ofgem Consumer First Panel (as presented in case study 7) could perhaps be a model for enabling this type of longer term discussion.</p>
<p>3. Consumer view of future investment costs</p>	<p>Depending on the speed and depth of moves towards a low carbon economy, there is potential for division of opinion between different groups of consumers. This could become a significant issue as some consumers are likely to demand different network services, requiring upgrading works which will raise bills for all, but for which others may see lesser benefit.</p> <p>Two possible areas of research might follow from this:</p> <ul style="list-style-type: none"> • Firstly, learning from other circumstances in which differing opinions have been reflected in a single outcome; and • Secondly, whether different approaches to paying for network upgrades might be needed in future
<p>4. Consumer views of network profits</p>	<p>While some companies recognise this issue, all but one of those who did so believe that any consideration of this area must be led by Ofgem. Companies suggested that any work they commissioned would be open to challenge, and also noted that they would, equally, challenge any work which might have a perceived bias from the consumer side.</p>

Deliberative engagement in practice

Deliberative engagement is a distinct approach that focuses on giving participants time to learn about an issue, consider and discuss it in depth and then come to a considered view.

To be deliberative, a process needs to involve:

1. **discussion between participants at interactive events** (including through online technologies). These events are designed to give sufficient time and space to enable participants to gain new information and to discuss in depth its implications for their existing attitudes, values and experience. These discussions result in a considered view, which may (or may not) be different from participants' original view, and which has been arrived at through careful exploration of the issues at hand.
2. **the opportunity to work with a range of people and information sources**, including evidence and views from people with different perspectives, backgrounds or interests. This may include evidence requested or commissioned by participants themselves. Discussions are managed to ensure that a diversity of views from people with different perspectives are included, that minority or disadvantaged groups are not excluded, and that discussions are not dominated by any particular faction or individual.
3. **a clear task or purpose**, related to influencing a specific decision, policy, service, project or programme.

Deliberative engagement is therefore most suitable in circumstances when:

- policy or decision-makers are keen to listen to and take account of public views, as a contribution to more robust decisions based on a deeper understanding of public values and attitudes;
- the decision, policy or service in question involves complex issues, uncertainty or conflicting beliefs, values, understanding, experience and behaviours; or where one viewpoint might otherwise dominate;
- the decision will require trade-offs between differing policy options, and participants working together can explore in detail the implications of alternatives to result in a better-informed decision; or
- the decision-maker cannot make and implement a decision alone; there needs to be buy-in from others.⁵⁹

There is already clear evidence across the sector of deliberative approaches being undertaken within Stakeholder Groups to solve challenging issues: with the dialogue in this case taking place between consumer representatives, other interest groups and companies.

Sustainability First's New Energy and Water Public Interest Network (New-Pin) initiative took this one step further by bringing together stakeholders from across the differing infrastructure sectors to deliberate together, as described in the box below.

While the New-Pin project described above illustrates how deliberative approaches can be effective between representatives and stakeholders, the three Case Studies outlined in this section have been selected to highlight how deliberative engagement approaches have successfully been used with 'ordinary' consumers. Each illustrates a situation in which companies and policy makers have faced similarly challenging and complicated decisions. In each case the outputs from the deliberative processes were able to provide the

⁵⁹ Involve 2017. "When to use deliberative public engagement" Knowledge Base Accessed 4/3/2108 Available at: <https://www.involve.org.uk/knowledge-base/deliberative-public-engagement/#when-to-use-deliberative-public-engagement>

New Energy and Water Public Interest Network (New-Pin)⁶⁰

This was a three year deliberative engagement project initiated by Sustainability First. It brought together public interest advocates, including consumer / environmental / citizen representatives, companies, regulators, academics and representatives from government with an interest energy and water, to assess the way forward on 'difficult' public interest issues such as long-term resilience.

New-Pin was set up to help tackle the tension that can exist between short and long-term interests in the energy and water sectors and to develop a more democratic, inclusive and coherent approach to change. The goal was, through a deliberative engagement process, to:

- develop clearer alignment between different stakeholders as to what the long-term public interest looks like in these sectors;
- increase understanding of any differences in views between stakeholders;
- develop capacity and expertise amongst public interest advocates to ensure a more level playing field in long-term company and regulatory decisions; and,
- improve understanding amongst company and regulatory boards of the value of public engagement in these sectors and what successful engagement looks like.

Members of the New-Pin network had the opportunity to shape the work plan, scope discussion papers and shape the agenda of the network over its three year life-span. Feedback from New-Pin members has been that the Network has:

- built contacts across sectors, and for companies, to also grow their networks with public interest groups, sharing experience and learning more widely;
- created a positive environment to share challenges and opportunities;
- changed approaches to stakeholder engagement on affordability;
- increased focus on cross-sector approaches to vulnerability;
- developed the approach to identifying/creating outcomes in partnership; and
- reinforced thinking on innovation.

The final New-Pin report *Looking to the long-term: hearing the public interest voice in energy and water - Eight Agendas for Change* is now available.⁶¹

commissioning organisation with clear guidance from citizens and consumers to inform their subsequent strategic choices. They also produced much more detailed, considered and implementable recommendations than a company would be able to generate from consumer engagement using more traditional consultation methods.

One of the concerns sometimes raised about the legitimacy of using deliberative events to inform decision making, however, is the limited number of people that can be directly involved (usually only 30 – 100 at a single event). In each of the case studies below participants were selected to be a 'mini-public', demographically representative of the population likely to be affected by the decisions made (i.e. a microcosm of the public wherein each citizen, in principle, has an equal chance of being selected).⁶² The rationale is that, if the group recruited are a representative sample of the population and the process is well run, then the outputs of their deliberations can be extrapolated to be indicative of the views of the wider population, if they had had the chance to engage in a similarly deliberative process: i.e. to learn about the issues; consider their own views in light of others; debate and discuss priorities and reasoning and then form conclusions.

⁶⁰ Sustainability First. 2018. "About New-Pin" Accessed 4/3/2108 Available at: <http://www.sustainabilityfirst.org.uk/index.php/new-pin/about-new-pin>

⁶¹ Sustainability First. 2018. "Looking to the long-term: hearing the public interest voice in energy and water - Eight Agendas for Change" Accessed: 02/03/2018. Available from: <http://www.sustainabilityfirst.org.uk/index.php/new-pin-publications>

⁶² Escobar, O. and Elstub, S. 2017. "Forms of Mini-Publics: An Introduction to Deliberative Innovations in Democratic Practice". newDemocracy. Accessed: 02/02/2018. Available from: <https://www.newdemocracy.com.au/research/research-notes/399-forms-of-mini-publics>

Case Study 6 presents how a Citizens Jury process was used by the NSW Parliament's Public Accounts Committee to understand the public's views on the potential for, and barriers to, the development of alternative forms of energy generation in the state. A Citizens Jury is an established deliberative method, first trialed in the USA in 1971 by the Jefferson Centre. Similar to a judicial jury, a Citizens Jury brings a small group of people together to hear evidence presented by experts in order to learn about the issue at hand, deliberate among themselves as informed citizens, and then reach a conclusion, or verdict.⁶³

Although the following assessment was written about a different Citizens Jury process, the observations made within it seem to hold true for this case as well:

*"The diverse Jury can bring more knowledge and lived experience to the issue than a typical elite group such as a council, government or bureaucracy. This is especially true for complex policy issues. A Citizens Jury may also bring a more accurate picture of the values and aspirations of the wider community — their recommendations are likely to better reflect what ordinary people want. This is particularly relevant to planning and development issues."*⁶⁴

The preferred courses of action determined through the Citizens Jury process were used by the Public Accounts Committee in NSW to inform its report to Parliament, and a number of the specific proposals made were incorporated directly into the Committee's own final proposals. Reviewing the process Wright and Holland observed that the outputs produced by this process "surprised some Members of Parliament as they assumed everyday citizens would be disinterested in complex policy issues and would be primarily concerned with keeping energy prices low."⁶⁵

In this case, however, the recommendations that the Citizens Jury process delivered to the Public Accounts Committee were assessed as showing considerable balance and maturity: including that the NSW Government should "prioritise development of a Smart Grid, that there be legislative change to support and enable decentralised energy productions and that long term legislative certainty for investment in renewables is needed."⁶⁶ This can be

Case studies 6-8 (annexed to this report) highlight three different examples of where deliberative engagement methods have been used with customers/citizens to explore complex issues that policy makers had reached a 'block', in order to break the stalemate on the basis of consumer input.

6. **Citizens Juries**, convened to explore public opinion about the relative economic value of alternative forms of energy generation and make recommendations to parliament.
7. **Melbourne Metropolitan Sewerage Strategy**, initiated by Melbourne Water when they recognised that their approach to investment and management of the sewerage system for the city would need to change and that they needed to involve customers in planning for these changes.
8. **Melbourne People's Panel**, initiated by Melbourne City Council to engage residents in the development of the city's 10 Year Financial Plan (\$5 Bn AUS) and tasked with identifying priorities and how they should be funded.

⁶³ Jefferson Centre. 2018. "What is a Citizens Jury". Accessed 12/02/2018. Available from: <https://jefferson-center.org/citizens-jury/>

⁶⁴ Russell, W. 2016. "Citizens Juries: How Do They Fit into Democracy?". The Mandarin, October 12, 2016 Accessed 12/02/2018. Available from: <http://www.themandarin.com.au/71362-citizens-Juries-fit-democracy/>

⁶⁵ Howard, P. G. and Fletcher, S. (2016) "New South Wales Public Deliberation on Electricity Generation" Participedia. Accessed 12/02/2018. Available from: <https://www.participedia.net/en/cases/new-south-wales-public-deliberation-electricitygeneration>.

⁶⁶ Howard, P. G. and Fletcher, S. (2016) "New South Wales Public Deliberation on Electricity Generation" Participedia. Accessed 12/02/2018. Available from: <https://www.participedia.net/en/cases/new-south-wales-public-deliberation-electricitygeneration>.

seen as evidence that, when given access to the information and arguments that situate an issue within a wider context, and the time to process and debate the issues, ‘ordinary consumers’ are able to make useful suggestions on complex policy issues that move beyond individual self-interest.

Case Study 7 presents an example of when a bespoke deliberative workshop was used to present different scenarios for the future of sewage management within a city to consumers, in order to ask them to consider the implications of these choices from different perspectives. Overall, the aim of this project was to inform the development of the 2009 Melbourne Metropolitan Sewerage Strategy by providing insights into consumer’s satisfaction with the current sewerage system in Melbourne alongside, insight into what consumers wished to do about sewage management into the future in the context of rapid population growth.

One thing that is particularly interesting in this case study is that the project explicitly focussed on trying to understand the implications of different company approaches to sewage management for existing customer willingness to pay for sewerage services currently and in the future, and how this may vary within different segments of their customer base: considering a range of variables including behavioural, attitudinal, socio-economic, ethnic, demographic, and geographic. To enable this participants in the workshop were asked to play an ‘invisible observer role’ and describe what they thought consumers within a given scenario (including different groups within the community) would be thinking and doing in relation to the water and sewerage cycle: including consideration of expectations of the sewerage system, water sources and uses, household appliances and products that are disposed of via the sewer. This encouraged participants to consider the issues from different viewpoints and identified a range of issues that were particularly pertinent to specific sectors of the community, and which needed to be balanced against wider community concerns in determining preferred options.

Using Role Play to Explore People’s Perspectives on the Role of Government

The Accenture Global Cities Forum was a multi-city, worldwide study into how members of the public define “public value” and what they expect of government. Co-ordinated by The Institute for Health & Public Service Value the project involved the delivery of a series of workshops in cities across the world in order to explore these issues further.⁶⁷

A central part of the workshop was, after participants had considered general questions about their specific city and the social issues facing it, to approach considerations of the future with only one perspective in mind. To facilitate this each table within the workshop was assigned one of three perspectives - public service user, citizen or taxpayer (and distinctively coloured t-shirts were given to those taking on each of the three perspectives). Within their designated role each group was asked to discuss their expectations of government and develop 4-5 principles that they believed should guide government action.

Participants were then divided into new groups, using the coloured t-shirts to ensure a mix of perspectives in each group, to discuss the principles that they had developed in the previous session. Participants shared and debated their views on the principles of public value. Through this process, they identified any tensions among different expectations.

⁶⁷ Accenture. 2010. “Accenture Global Cities Forum - Exploring People’s Perspectives on the Role of Government - Report from the Johannesburg Forum”. Accenture. (Unpublished) While this was a worldwide process the report from the Johannesburg forum has been used to provide an example of how the process worked. Cited in Involve & Ipsos MORI. 2017. “Meta Analysis and Scoping Exercise into Public Participation in the Regulated Industries”. Consumer Futures Unit. Accessed: 16/02/2018. Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

This approach shared features with another example of deliberative engagement which explicitly asked participants to adopt specific standpoint for their deliberations, although they were much more directive about it, as described in the box above.

In both of these cases the quality of the outputs produced by the deliberative processes were heightened by the time given by consumers to explicitly considering the perspectives of others, including minority interests, and factoring these into the conclusions drawn and the trade-offs they were willing to make.

The final case study (Case Study 8) illustrates how a panel of 'ordinary citizens' were able to advise the City of Melbourne Council on priorities for infrastructure spending, and how these priorities should be funded, during the preparation of the Council's 10 Year Financial Plan (covering expenditure of \$5bn AUD). The project used a Citizens Assembly type approach⁶⁸ to bring together a representative sample of citizens to learn about an issue and develop recommendations for the city's elected officials. The scope of influence for citizens, however, was clearly framed from the outset: i.e. that while the Council sought their input into the process that this did not necessarily mean that the Council would automatically adopt every recommendation which the Panel offered, but rather that they were open to listening to and responding to recommendations with a view to how they might be included in policy.⁶⁹

The recommendations presented to the Council as a result of this deliberative process were described in media reports at the time as being "a clear, sensible verdict about priority projects, services, revenue and spending"⁷⁰ and were evaluated as being "highly implementable".⁷¹ In fact 10 of the 11 recommendations presented by the Panel were ultimately adopted within the 10 Year Financial Plan. Reports in The Age Newspaper at the time noted that:

*"beyond the specific recommendations, the Melbourne People's Panel proves the public is very smart if given the time and information necessary to work through an issue. The panel proved itself to be unencumbered by the entrenched positions of political parties and the powerful lobbying efforts of vested interests."*⁷²

Related to this, the New Democracy Foundation, who were involved in delivering the project, suggested that this approach was also particularly valuable for delivering outcomes that were important to citizens because, very often one of the largest challenges in public sector budgeting is:

"the dominance of interest groups coupled with the capacity to present any and all decisions as an electoral negative: cutting services or raising rates are both equally

⁶⁸ The key feature of this type of approach is that it will include a substantive learning phase wherein participants are able to develop an understanding of the issues under consideration based on unbiased information. Experts attend to give information and advise, but usually do not participate in the deliberations. Because of the time given to learning about an issue, Citizens Assemblies are able to address quite complicated and technical issues. They can also be good for debating value-laden and controversial questions. Involve & Ipsos MORI. 2017. "Meta Analysis and Scoping Exercise into Public Participation in the Regulated Industries". Consumer Futures Unit. Accessed: 16/02/2018. Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

⁶⁹ Molony, L. 2015. "Evaluation of the community engagement process for the 10 Year Financial Plan". Clear Horizon Consulting. Accessed: 3/3/2018 Available from: https://www.newdemocracy.com.au/docs/activeprojects/Evaluation_of_community_engagement_for_the_10_Year_Financial_Plan.pdf

⁷⁰ Reece, N. 2015 "Melbourne People's Panel makes bold decisions where politicians fear to tread" The Age Accessed: 3/3/2018 Available from: <http://www.theage.com.au/comment/melbourne-peoples-panel-makes-bold-decisions-where-politicians-fear-to-tread-20150401-1mchjp.html>

⁷¹ Molony, L. 2015. "Evaluation of the community engagement process for the 10 Year Financial Plan". Clear Horizon Consulting. Accessed: 3/3/2018 Available from: https://www.newdemocracy.com.au/docs/activeprojects/Evaluation_of_community_engagement_for_the_10_Year_Financial_Plan.pdf

⁷² Reece, N. 2015 "Melbourne People's Panel makes bold decisions where politicians fear to tread" The Age Newspaper. Accessed: 3/3/2018 Available from: <http://www.theage.com.au/comment/melbourne-peoples-panel-makes-bold-decisions-where-politicians-fear-to-tread-20150401-1mchjp.html>

tricky paths to navigate. Moreover, the challenge facing all elected officials is the need to take a long-term view beyond the current electoral cycle – a challenge which is counter to any representative's interest in survival.”⁷³

This perspective could help account for one of the most notable things about this case study. In their recommendations the citizens involved in the panel actually proposed rates increases (the equivalent of council tax) at a level above what the council was initially proposing. In arriving at this recommendation they clearly were able to consider ‘willingness to pay’ issues alongside their wider aspirations for a livable city and make the difficult trade-off about what was most important to them and what would be best in the long term. This seems to have direct relevance to the challenge faced by network companies in involving consumers more directly in engagement about willingness to pay issues, the differences between stated and revealed preferences, and how moves towards delivering more sustainable energy networks should be funded.

Together these case studies focusing on deliberative engagement methods demonstrate that there are established mechanisms for engaging consumers in complex and controversial discussions, in ways that are useful to inform policy and decision making across diverse sectors. It seems that, while energy network companies have made significant progress in relation to the amount of engagement they undertake with consumers since the beginning of the RIIO-1 process, there remains opportunity for them to learn from the experiences of others and experiment with some of these more creative, but also demonstrably productive, methods to involve consumers in considering the challenges that lie ahead.

That said however, there are also many aspects of a network companies business, and many complex and difficult decisions needing to be made, where it would neither be necessary, or constructive, to seek to involve consumers at this level. Just as, for example, it would not be advisable for an NHS Board to consult the public on what type of strategic clinical management decisions it needed to make to ensure patients are provided with safe and effective clinical care, there will remain business decisions that are best made by experts with specialist knowledge. In these cases an effective strategy for providing information about the decision, and its potential impact on consumers, alongside an offer to engage with them on how any negative impacts can be best mitigated if necessary, remains the most appropriate approach.

Enhancing engagement with Small and Medium Enterprises (SMEs)

As highlighted in the previous chapter, companies have tended to identify SMEs as a group of end-consumers that they struggle to engage with in systematic and strategic ways. In 2015/16 Involve was one of a number of partners⁷⁴ who undertook research into the way SMEs in a number of settings (urban and rural, and in different locations in Europe) could be actively engaged by companies and governments in addressing difficult, ‘wicked’, long-term business sustainability issues such as those associated with climate change.⁷⁵

The SME-DE project (Small and Medium Enterprise - Deliberative Engagement) focussed on the potential for using deliberative and collaborative engagement approaches with SMEs, and one of the pilot projects undertaken during the research was with Northern Gas

⁷³ New Democracy Foundation. 2014. “City of Melbourne People’s Panel” Accessed: 3/3/2018 Available from: <https://www.newdemocracy.com.au/our-work/183-city-of-melbourne-people-s-panel>

⁷⁴ Other partners were Leeds Beckett University UK (Project Lead), University of Udine Italy, Aarhus University Denmark, Varna Economic Development Agency Bulgaria, Global Alliance for Public Relations and Communication Management Switzerland, University of Dubrovnik Croatia, The Foundation for European initiatives UK.

⁷⁵ Atanasov, D. 2016. “Small/Medium Enterprise – Deliberative Engagement Pilot Case Studies Synthesis Report” SME Leaders and Sustainability: Deliberative Engagement Accessed: 3/3/2018 Available from: <http://smedenet.eu/library/read?articleid=20>

Networks (as described in the box below). While this research was primarily focussed on engaging with SMEs as partners looking to identify, and then address, common problems (rather than engaging them as end-users per se) many of its findings are transferable to this purpose.

Northern Gas Network (NGN) - Integrating approaches to addressing fuel poverty

As part of its social obligation commitments NGN supports a range of social programmes, including providing direct and indirect support to low income and vulnerable households. In line with these social responsibilities NGN has an explicit aim which is to use its presence in local communities to improve the quality of life for its customers, especially vulnerable households in its region. One of its corporate goals is to help “lift them out of fuel poverty...by making their homes warmer and cheaper to run”. At the time of the project NGNs operating region had one of the highest levels of fuel poverty in England and the company was attempt to address this by working in partnership with a wide range of stakeholders, many of who were SMEs.

The purpose of the project, undertaken with the support of Leeds Beckett University, was to help ensure a coordinated approach to addressing fuel poverty across partner stakeholders, and aimed to answer the following question: how do you get relevant organisations to work together to reduce fuel poverty in the north of England?

To explore this question a deliberative workshop was held with 24 SME organisations from across the private sector, social enterprises, local development agencies, charities and housing associations. This 2 ½ hour workshop aimed to generate learning around the subject amongst the participants, including drawing on good practice and highlighting productive areas of collaboration, while also identifying where resources are being used inefficiently through a duplication of effort.

Following a short welcome by NGNs head of social strategy the workshop used an Open Space Technology approach.⁷⁶ Six issues were identified and participants chose which small groups discussion they wished to be part of. After 40 minutes the whole group reconvened and each participant were asked to reflect on what had been discussed so far. Six new issues were then identified and the cycle began again.

The SME:DE research report noted that NGN was pleased with the range of stakeholders and the outcomes of the workshop overall, indicating at the time that the process had confirmed for them the potential of using a deliberative approach like this with stakeholders to address complex issues. Further, evaluations conducted by the research team at the event show that 83% of participants were satisfied with the event, with 25% saying they were extremely satisfied. All attendees reported that they believed the event made a difference and 79% had a positive perception of the proceedings and the outcome.

The report also noted that part of the success of the engagement event was that the topic of inquiry was of direct relevance to the SMEs that were invited to attend and focussed on something that was practical, timely and bounded – “you have to hit SMEs when they are looking for a solution to a particular problem that they are facing.” NGN’s Head of Social Strategy and Stakeholder Support Officers were also quoted at the time as highlighting the importance of having a strategic question which “resonates” with the target audience: “it was a clear topic but broad enough” and “sometimes you can give people too many choices.”

NGN’s positive experience of the pilot was also credited at the time with having provided the organisation with the reassurance (and will) to develop and extend engagement using this format. Framed by their team as an “outside-in approach” it was evaluated as one that

⁷⁶ This is a method that allows an unlimited number of participants to form their own discussions around a central theme by first considering the overarching theme and then identify specific issues they wanted to discuss with others at the event. Engage 2020. 2015. “Open Space Technologies” Accessed: 3/3/2018 Available from: <http://actioncatalogue.eu/method/7401>

would enable them to use the insights and intelligence generated by conversations with external stakeholders to shape the organisation's strategy.

In total there were nine deliberative engagement projects undertaken with SMEs across Europe to inform the SME:DE research report. It concluded that given the right sort of circumstances, SMEs are willing and able to come together to deliberate on issues, and this includes more challenging issues associated with company business planning and sustainability. As can be reasonably expected however, the projects were most successful when the issues were framed in ways that are business-relevant to SMEs as well, such as energy saving opportunities, sustainability or delivering regulatory requirements.

Designing successful engagement approaches for SMEs

Knowing what levers and drivers will attract SMEs is vital to planning strategic engagement events for these consumers. Some of the key lessons drawn out for engaging with SMEs most effectively are that:

- Frame the event in terms of things that will matter to the SMEs, ideally something that has a real, everyday relevance to them, and where they can see a tangible benefit could be achieved from their participation. For example, NGN had identified that there were numerous organisations that had a direct interest in reaching the fuel poor and used this insight to shape the topic of inquiry, thereby ensuring the relevance of the event to the SMEs it invited.
- The invitation to attend should articulate clear objectives or a clear strategic question to be addressed at the event. Keeping this purpose focussed, practical and bounded, even if it is a 'wicked' or complex problem, will generally make SMEs more likely to attend.
- Using case studies to demonstrate where previous engagement has produced beneficial outcomes for the company and SMEs can be useful for attracting participation.
- The purpose of an event needs to be communicated in ways that will make sense to SMEs, and point out what they will miss out on if they don't take part. For example, in the NGN pilot project, many of the SMEs cited a desire to develop a better relationship with NGN as a reason for having attended the workshop.
- Events need to be short enough to attract SMEs (given the demands on SMEs staff time and the resulting assumption that SME representatives would be unlikely to commit to a whole-day event) but also long enough to make them informative and, most importantly, productive.
- SMEs satisfaction in the workshop depended to a significant degree on whether the company was able to clearly articulate, on the day, how and when they would use the information gathered. Being able to do this was seen as evidence that the SMEs participation was useful and valued.
- The attendance and participation of senior figures from a company was also an incentive to attend, as it suggested to SMEs that a company valued their input.
- The opportunity to network with other businesses and organisations was cited as an important factor by SMEs in choosing to attend in a number of the pilot projects. Time should be built into engagement events to allow for this, for example in some of the pilot projects, the workshops were accompanied by drinks receptions to enable just this.

What this means moving forward...

Both companies and stakeholders anticipate that new issues, particularly around low carbon technologies and the associated move towards more active management of electricity networks, will arise in the period covered by RIIO-2. As the scale of these changes will be influenced by decisions made by consumers levels of uncertainty are likely to be higher than in the past, and companies will be required to make trade-offs and explore new solutions and partnerships in their approach to developing and delivering their business plans as a result. While the list of issues highlighted above suggests this is more likely to be the case in for electricity than gas networks, there is also growing interest in discussing energy network services as part of a single system.

Central to being able to undertake engagement on these types of issues in a consumer centered way will be gaining greater insight into what different groups of consumers expect, and may be willing to accept (both from individual companies and from the system as a whole) and where their priorities lie for delivering a high quality services at an affordable price.

For companies, this is further complicated by the fact that, effectively delivering consumer outcomes is not simply about delivering what consumers say they want. For example, the statutory framework defines consumer interest as including the wider social imperative of greenhouse gas reduction and also explicitly calls for the consideration of the needs of future consumers. Therefore engagement with consumers will at times need to ask them to play different roles, as customers, taxpayers, citizens and/or members of specific segments of the consumer base (including SMEs). This seems to be where innovations at the levels of 'involving' and 'collaborating', i.e. engagement approaches that create opportunities for meaningful dialogue and deliberation between companies and their consumers (and among consumers themselves), hold most promise.

Consumers have expertise in aspects of an issue that professionals often do not, including first-hand knowledge about the impact of services and decisions on users. When experts are unsure what is going to be the 'best' decision, and what will lead to the 'best' outcomes for consumers, then consumers themselves are often best placed to provide insight.

The case studies presented above were selected to highlight examples of innovative deliberative processes being used in complex situations to involve consumers and the wider public, and provide outputs that are useful to inform private and public sector decision making. Engagement of this type, however, is fundamentally intended to be complementary to the expertise that is provided by policy and industry specialists within a company and their Stakeholder Groups.

The case studies do however show that processes like this can be effectively used to gain insight into: how consumers weigh up and make trade-offs between the needs of different sectors of the community; how they evaluate priorities for infrastructure investment development within the context of wider social values and the needs of future users; and how they can balance their aspirations with the realities of limited funding to prioritise spending decisions. Further, this type of direct engagement with consumers can also be valuably used to test assumptions.

Advocating for the greater use of more innovative methods like these is not simply a matter of promoting innovation for innovation's sake, and there are limits to when they are appropriate. However, when used in the right context, and delivered well by a company that is open to genuinely working with their consumers to solve some of the 'wicked' issues they both face, they can be very effective.

Summary of key points:

- 'Front-of-mind' concerns for consumers in relation to energy networks in RIIO-1 were reliability, service standards, and costs. However, secondary issues, notably social and local/global environmental issues were also raised by consumers.
- While these consumer concerns remain key, a wider range of issues is emerging in the lead up to RIIO-2 around which companies acknowledge they face challenges engaging end-consumers. Many of these issues, notably take-up of electric vehicles, involve high degrees of uncertainty, and potentially significant costs to networks and consumers.
- Engaging consumers effectively and productively on some of these issues will require companies to take a more creative and innovative approaches to engagement, particularly at the level of 'involve' and 'collaborate'. These levels of engagement focus on creating opportunities for deliberation among consumers, therefore emphasis is given to ensuring participants have time to learn about an issue, consider and discuss it in depth and then come to a considered view.
- Deliberative methods like the Citizens Juries and People's Panels highlighted in this chapter are designed to complement the expertise found in companies and their stakeholder groups, rather than hand-over decision making to consumers. In each case illustrated here, however, the commissioning bodies found the recommendations that emerged from the engagement processes to be considered, realistic and ultimately implementable.
- Deepening engagement with SMEs on a strategic, rather than reactive, basis will require: framing engagement events in terms of things that will matter to them; keeping this purpose focussed, practical and bounded; demonstrating the value of their input by having senior company members present; and emphasising the opportunity to network and build relationships as part of the engagement process.

6. Introducing a ‘Consumer Challenge’ role to the Regulatory Model for Energy Network Companies

As set out in Chapter 3, Ofgem’s view of energy network companies’ approaches to direct consultation with consumers, and of involvement of consumer representatives in Stakeholder Groups, is that both have largely been successful in improving engagement. However, it is clear from their approach to RIIO-2 that they have concluded that this could be enhanced by the introduction of a ‘consumer challenge’ function to the regulatory framework.

Ofgem’s Stakeholder Engagement Incentive added weight to this area in RIIO-1. The incentive provided both a financial driver and, arguably more importantly, a means for companies to compete with each other in this area given the public nature of reporting. Submissions made to our research survey of companies suggest engagement processes are now embedded in company practice; companies emphasised the business benefits of partnership working and, while many provided supporting material from their stakeholder incentive documents, none suggested that the incentive itself was the main reason for the structures they now use.

Overall, our survey findings support Ofgem’s view and also collate evidence of the significant improvements made by companies, particularly in relation to service standards, as a result of this engagement. It is also clear that companies have started to learn from each other and work collaboratively, both within the energy sector and outside it, to develop their engagement strategies. It is, however, also naturally expected that the approach companies take to this will evolve and improve throughout RIIO-2 as mechanisms become embedded into company operations.

In Ofgem’s view, the main aspects of the process which needs to be strengthened in RIIO-2 are consumer challenge functions:

- assurance that the process of consulting consumers has been robust; and
- evidence that the results of that process have clearly informed the final plan and, by implication, will be continued through delivery.

However, both the issues discussed in Chapter 3 and this research suggest that a wider range of issues remain outstanding before the implications of this new challenge function can be embraced:

- The need for companies to gather and use input from consumers earlier in the process to help inform the direction of plans, rather than concentrating only on aspects of service delivery. As above, clearer ongoing reporting is needed to demonstrate that consumer views are translating through to outcomes.
- It is important to clarify how far the range of company activity should, or should not, be within scope of influence of consumer views. There is a potential tension here: Ofgem has historically been cautious about the extent to which regulated companies can diverge from set standards, and there is an associated need for the regulator to be clear about this early in RIIO-2.
- A related point is the extent to which Ofgem itself participates in, or engages with stakeholder groups; a balance is needed between encouraging companies and groups to own the plans on one hand, while operating within Ofgem’s parameters as a regulator on the other.

- There is a need to consider a different approach for transmission companies, given their direct customers are generally suppliers and generators, rather than end users.
- All companies indicated a willingness, and in some cases active enthusiasm, to engage consumers earlier and more deeply in the business planning process. However, given the relatively limited timescales for initial submission of both Transmission and Gas Distribution plans under RIIO-2, a great deal of work has already been needed to be undertaken: as such there may be a challenge in demonstrating that this process has been sufficiently robust to meet Ofgem's expanded requirements. Similarly, the limited time available is likely to have an impact on the depth of influence which can be exerted by consumers or consumer representatives in the development of these plans.
- Most companies – although not all – were concerned about the range of their activities which could be in scope for consumer influence. While there is evidence from some companies of innovative approaches which seek to frame technical choices in ways which facilitate engagement, almost all companies reported that this remains a challenge. Again, pressing timescales are in tension with approaches that allow for deeper, and more collaborative, approaches.
- Companies also raised concerns about stakeholders' capacity to participate in groups which are likely to require more significant time commitments as a result of changes, or additions, to their existing functions. Resourcing therefore becomes an important consideration in discussing the most appropriate form of engagement.

A final point is that energy networks are starting from a different position than was the case in the water sector when Consumer Challenge Groups (CCGs) were first developed. As detailed in chapter 4b, network companies already have stakeholder groups in place. Both companies and the individual members of those groups have invested time and effort in building individual and collective capacity, and the more mature groups operate in ways highly consistent with wider good practice. We would therefore strongly suggest that, in addition to the issues above, new structures should be considered in terms of how they build on, and avoid duplication or overlap with, existing groups.

Distribution Companies

Ofgem has proposed a structure for each distribution company based around a Customer Engagement Group (CEG). Here it sets out what it expects from each company:⁷⁷

- *We require each company to establish an independent Customer Engagement Group to provide challenge to the company and assurance to us.*
- *We expect the group to consider proposals from the companies for output performance targets and incentives (including local consumer priorities, needs, preferences and willingness to pay); totex budgets (including level of cost efficiency improvements); uncertainty mechanisms; and more strategic issues, such as the future of gas and implications for network services associated with the energy system transition.*
- *We do not expect the group to discuss or review finance topics such as the cost of capital or financeability.*
- *An independent Chair will head this group, and the group will provide a report that we will receive alongside each business plan.*

⁷⁷Ofgem. 2018. "RIIO-2 Framework Consultation". Accessed: 07/03/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

- *The company will recruit the Chair for the group. We will ratify the appointment. The Chair will then work with the company to recruit members to the group with sufficient skills and knowledge (for example in non-traditional business models, fuel poverty, community energy, innovation, consumer research etc) to provide the right level of challenge to the companies.*
- *This group should not act as a proxy for engagement or simply as an audit of engagement. This group should scrutinise and challenge the business plan of the company and test whether they have properly explored key issues with relevant parties.*

This suggestion seems to be based closely on the Consumer Challenge Group approach used by Ofwat in the water sector in England and Wales, and illustrated by case study 3 in this report. However, a critical difference between the industries, as emphasised above, is the existence of stakeholder groups in the energy sector, many of which have built up considerable expertise. It is not clear from Ofgem's outline whether the CEG is anticipated to be an adaptation of the existing group, or a new addition.

At the Ofgem consultation event in January 2018, Scotia Gas Network (SGN) set out a proposal for how their company could deliver this which involved the creation of such a group based (at least in part) on their existing stakeholder group, with additions as necessary to meet Ofgem's requirements. This approach has the advantage of involving stakeholders who already have experience of the company and its operations, which is a clear strength. However, we would suggest that there are a number of potential risks and disadvantages to this approach, particularly in the gas distribution sector where the time available to establish a new group to influence RIIO-2 plans is relatively limited:

- As discussed in chapter 4c, the function of the stakeholder group would need to change, moving (at least to some extent) from acting as a critical friend to the company concerned, to developing a more removed, ongoing assessor role in order to meet Ofgem's requirements of an independent perspective. It is worth noting that Ofwat expected CCGs to take a view on trade-offs between consumers and other stakeholders, and between different groups of stakeholders. As current stakeholder group members have been selected explicitly to represent the views of different groups of stakeholders, it is difficult to see how those members could demonstrate the separation of the two roles. This would especially be the case where time to adjust to the new arrangements is limited, as for development of gas distribution plans.
- Not all members of the existing stakeholder group would be willing, or able, to participate in a CEG. Further, the creation of a CEG involving only some members of the current group could, in addition to disrupting of a structure which is already seen to work well, inherently produce two areas of additional concern:
 - firstly, other stakeholders might see stakeholders given dual involvement as gaining a higher degree of influence over business plans; and
 - secondly, Ofgem (or other stakeholders) could see involvement in both groups as a chance for consumer representatives to 'mark their own homework': both lobbying for particular actions and then assessing the success of the overall engagement approach on the extent of inclusion of those actions.

This potential conflict of interest is made explicit when consideration is given to the types of questions and demands that an effective CEG would have to present to a company. It is possible to adapt on the questions Ofwat has suggested a CCG needs to answer, presented in chapter 4c, to illustrate this.

Building on those questions - some of which read directly across industries (with our variations included below in italics) - we suggest that an effective CEG in the energy network sector would need to assess a company's performance on a range of issues including:

- Has the company developed a genuine understanding of its consumers' priorities, needs and requirements – and where appropriate consumer valuations – drawing on a robust, balanced and proportionate evidence base? Has the company engaged with consumers on the issues that really matter to them?
- Where appropriate, has the company engaged with consumers on a genuine and realistic range of options? *This might include investment in networks, work with consumers to change the timing of consumption of electricity or other demand management options, including energy efficiency.*
- Where appropriate, has the company considered how consumers could help co-create and co-deliver solutions to underlying challenges?
- Has consumer engagement been an on-going, two-way and transparent process, where companies are informing their consumers as well as soliciting feedback from them?
- Has the company effectively engaged with and understood the needs and requirements of different consumers, including those in circumstances that make them vulnerable? Has the company considered the most effective methods for engaging different consumers, including those that are hard to reach?
- *Has the company effectively engaged with a full range of different groups of consumers on longer term issues, including resilience, impacts on future bills and longer-term affordability? Does the business plan adequately consider and appropriately reflect the potential needs and requirements of the range of future consumers? Where appropriate, has the company engaged with its consumers on the long-term resilience of its systems and services to consumers? What trade-offs (for example between different consumers) have been identified and how has the company proposed to deal with these?*
- *Has the company effectively informed and engaged with consumers on its current levels of performance and charges, and compared these to other companies in a way consumers could be expected to understand?*
- Has the evidence and information obtained from consumers (including through the company's day-to-day contacts with customers) genuinely driven and informed the development of the business plan to benefit current and future consumers? What trade-offs (for example between different groups of consumers, or between customers and other stakeholder interests) have been identified and how has the company proposed to deal with these?

Our research shows that there is not, as yet, a successful model which delivers on this dual function of providing insight and challenge in its entirety. The review of CCGs' experience in the water sector in England and Wales in Price Review PR14⁷⁸ identifies a number of suggested improvements around governance and reporting of CCGs to Ofwat. Ofgem has clearly adopted at least some of these suggestions; and while they are soundly based on

⁷⁸ Bush, H. and Earwaker, J. 2015. "The Future Role of Customer and Stakeholder Engagement in the Water Industry" UK Water Industry Research Report Accessed: 16/02/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

research⁷⁹, their use has not yet been successfully demonstrated in practice. The same study notes that Ofwat did not agree in advance that it would be minded to accept CCG assurances and adopt the results, as is proposed by Ofgem.

In addition, although the Scottish Water Customer Forum does have a dual role in theory, in practice it is very closely supported by the regulator, Water Industry Commission for Scotland (WICS) and does not have to deliver a formal, parallel report as required by Ofgem as the task of achieving a negotiated settlement supersedes this.

Delivering a Consumer Challenge Function in Distribution Companies

Following from the above, and taking account of timescales, we would suggest that different options might, more productively, be available to gas and electricity distribution companies.

Gas Distribution companies were, at the time of our survey, anticipating a requirement to submit their business plans in the 2nd quarter of 2019, and, as a result, that time pressure was clearly and strongly emphasised by all company responses to our survey. Although Ofgem has now relaxed the timescale until the 3rd quarter of 2019, timescales are likely to remain an issue.

Further, all companies already have well-developed stakeholder groups. This combination of circumstances suggests that the most effective model is more likely to be one which maximises existing strengths, while adding on the consumer challenge functions required by Ofgem. Another advantage of this approach is that it requires less time of individual stakeholder group participants - important as the time needed is likely to be greater during plan preparation in any case, even before the addition of a new function is considered.

In such a model, the existing stakeholder groups would continue without disruption and would continue to advise companies on their direct engagement with consumers, in terms of both form and content and how the outputs from that can best be translated into positive outcomes for consumers. The additional functions needed could be delivered either by a small bespoke team recruited as individuals (as, for example was the case in the Scottish Water Customer Forum) or through a conventional contract arrangement. In either case, the skills and experience needed would follow from the functions identified by Ofgem, and part of their role would be to evaluate the quality and impact of the work of existing stakeholder groups.

Transmission Companies

All stakeholders recognise that there are differences between transmission and distribution companies which influence the options available. These include:

- The lack of direct relationship between transmission companies and end consumers (and the small proportion of consumers' bills which relate to transmission services);
- Transmission company customers are more generally seen as other energy companies, as opposed to domestic or small business consumers;
- The industry structure, with National Grid, SP Energy Networks (SPEN) and Scottish and Southern Electricity Network (SSEN) being the only 3 companies involved;
- The – often – more technical nature of issue relevant to transmission companies, meaning that the number of consumer representatives able to take part in detailed conversations is more limited than for distribution companies.

⁷⁹ Bush, H. and Earwaker, J. 2015. "The Future Role of Customer and Stakeholder Engagement in the Water Industry" UK Water Industry Research Report Accessed: 16/02/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

Accordingly, Ofgem has in its March 2018 Framework Consultation proposed a unique structure for consumer challenge and stakeholder engagement in relation to transmission companies:⁸⁰

- *We require each company to establish a User Group to provide independent input and challenge to the transmission company's business plan and independent assurance to us*
- *The focus of the User Group should be on outputs, incentives and expenditure forecasts, company proposals for uncertainty mechanisms and an assessment of whether the capital projects put forward by the companies have/do not have their support. We do not expect the User Group to discuss or review finance topics such as the cost of capital or financeability*
- *An independent Chair will head this group, and the group will provide a report that we will receive alongside each business plan*
- *The company will recruit the Chair for the group. We will ratify the appointment. The Chair will work with the company to recruit members to the group. We expect membership to be drawn from shippers, suppliers, generators, distribution networks, large users and from new business models that challenge and provide an alternative to traditional network functions.*

In this proposal, the plan will in effect be co-produced by the company and user group, and the consumer challenge function delivered by the single, high level GB-wide group convened by Ofgem.

The advantage of this approach is that it clearly maps onto existing structures - the 'user group' could easily be based on existing stakeholder groups, with new members added as necessary to reflect any under-represented sectors for each company. As transmission timescales are similar to gas distribution, this seems sensible. However, network companies in Scotland all noted that the stakeholders involved are the same, and there may be potential for some cross-company working to make best use of available stakeholder time in that case.

There are more options around the role and means of working of consumer representatives in the above process. While it would be possible to set up a consumer group at the level of each company, it seems likely that it would be difficult to identify people with suitable experience and capacity to sit on each group – again, this would particularly be the case in Scotland. In addition, each group would again need an independent chair, and a method of allowing chairs and (preferably) group members to exchange experience during the planning process would also be needed.

The alternative, as proposed by Ofgem and outlined in Chapter 3 of this report, is to set up a single, GB-wide RII0-2 Challenge Group. Such a group could compare and contrast plans during their development, and would also make best use of the capacity of the limited number of individuals able to contribute. Under this proposal, Ofgem themselves will provide the secretariat for the group, allowing the regulator to meet its requirements around both assurance of the individual engagement processes and of the influence of final results on the plans.

An outstanding question might remain over the involvement of consumer representatives in individual company user groups. Such representatives are already involved in all transmission stakeholder groups, and it would be entirely reasonable for companies to seek to engage consumer expertise at that level; however, involvement of representatives of the

⁸⁰ Ofgem. 2018. "RIIO-2 Framework Consultation" Accessed 7/3/2018. Available from <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

same organisation (such as Citizens Advice) in both company and national groups could be challenged on grounds of lack of independence. The selection of the best way to participate would, of course, be open to each organisation involved.

Implications for implementation

A number of implementation issues are common for both distribution and transmission companies.

Remits of the Groups

Ofgem's proposals include a list of issues that should and should not be considered by User Groups, CEGs, and the RIIO-2 Challenge Group. However, it is not clear how the consumer perspective on industry-wide financeability and cost of capital will be addressed. Ofgem specifically excludes company-level groups from these issues, which seems reasonable, but does not specifically include them within the scope of the GB-wide RIIO-2 Challenge Group. Given the recognised importance of cost to consumers, it is essential that a consumer view is included in this part of the debate. The RIIO-2 Challenge Group is the most appropriate level to consider this issue.

Independent Chairs

Again following the Ofwat and WICS models, Ofgem has proposed that each CEG and user group would have an independent, remunerated chair. In our view, there are two reasons to endorse the appointment of an independent chair:

- the time likely to be required of the chair would mean that few stakeholder organisations would be likely to have the capacity to provide a suitable person; and
- it would in any case be difficult to argue that a chair with very strong links to an individual organisation could be seen as independent.

Ofgem propose that these individuals are recruited by companies and that Ofgem will 'ratify' the appointment. We would suggest that, given the central importance of these roles and the need for a consistent approach, Ofgem should set out common elements of the job description which should be included by all companies during recruitment.

Governance and Payment

Ofgem raised the question in the January 2018 seminar of how governance arrangements for those groups delivering the additional challenge functions could avoid the risk of capture, and there was some debate about this at table groups during the event. There seemed to be an overall consensus that, while compensation was necessary and appropriate given the time commitment, direct payment by companies to those delivering scrutiny functions would not be appropriate. Two approaches were suggested:

- Delivery of consumer challenge functions could be paid for directly by Ofgem; or
- Delivery could be paid for by companies, but through an intermediary, such as the Energy Networks Association.

Our assessment is that either of these arrangements would be acceptable; Ofgem's proposed approach of companies recruiting the chairs could, we consider, however reduce the perceived independence of those appointed.

As we highlight above for recruitment of Chairs, a detailed specification for the function of CEGs is needed and should ideally be established by Ofgem, as the remit will need to be consistent across all companies to ensure objective reporting to the regulator.

Enabling Exchange of Experience between Consumer Representatives

More widely, there would be advantages to consumer representatives in different areas exchanging experience during the plan preparation period, both with each other and with Ofgem. The suggestion for this function was incorporated into the SGN presentation, and Ofgem's proposals include the commitment that they:

"...will meet periodically with the Chairs of all of these groups. This will allow us to receive updates on progress, to provide direction and support, where necessary, to assess the consistency of approach taken by different companies and encourage best practice."⁸¹

These meetings would also provide an opportunity for the regulator both to learn about different approaches being taken in individual companies, and to respond to emerging common concerns. We would suggest that the meetings should also be - explicitly - designed to encourage exchange of good practice and cross-company working where appropriate. While there will inevitably be an element of competition between companies in engagement, as in other areas, it is not in consumers' interests for companies to constantly seek new approaches at the expense of replicating proven successful approaches.

Depth and form of engagement

While Ofgem has set out the minimum functions required from CEGs and User Groups, the regulator has, as in other aspects of RIIO, maintained a position of not prescribing how their requirements are delivered in practice. The final judgement on the most appropriate structure to deliver Ofgem's requirements therefore lies with the companies and their stakeholders. This approach would be consistent with, but would go further than, the approach taken early in development of RIIO-1. In that case, the majority of companies asked stakeholders about their preferred means (and focuses) of engagement which best suited their ability and interest in contributing on an individual basis, and this approach would require a collective discussion by stakeholder groups.

SGN's presentation at the Ofgem seminar in January 2018 highlighted that, in considering their response to Ofgem's direction of travel, the company had discussed this issue with their stakeholder group, illustrated here by an extract from their presentation.

Figure 5: Extract from SGN's presentation at the January 2018 Ofgem seminar

- 1. We identified a spectrum of enhanced engagement models**

Negotiated settlement	WICS and Scottish Water
Constructive engagement	CAA, airports and airlines
Customer challenge groups	Ofwat and water sector
- 2. We took advice from our Stakeholder Advisory Panel about which model was likely to work best for network stakeholders**

Almost all members recommended a Customer Challenge Group

We would suggest that this process should be replicated by other companies, where timescales allow. We also consider that a critical element of this process is that both companies and consumer representatives acknowledge in these discussions that the resources needed to participate in different models will vary.

Our survey shows that, typically, stakeholder groups currently meet quarterly. Even including occasional days for preparation or sub-group meetings, the total time required is

⁸¹ Ofgem. 2018. "RIIO-2 Framework Consultation" Accessed 7/3/2018. Available from <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

unlikely to exceed 12 days per year per member. However, participation in the Scottish Water Customer Forum requires four times that level of commitment for ordinary members. The intermediate approach proposed above, under which existing stakeholder groups advise and support companies as now but are not responsible for the quality assurance aspects required by Ofgem, might be expected to lie somewhere at the mid-point between these ranges. This presents a significant challenge for either extending their role or convening another group to fulfil the challenge role.

Electricity Distribution Companies benefited from the experience of transmission and gas companies in RII0-1, and Ofgem’s assessment was that their engagement processes were more robust as a result. These companies again have the advantage of extended timescales to consider how best to deliver anticipated additional consumer challenge functions under RII0-2. Following from the SGN approach above, discussion with stakeholders of the most appropriate structure to deliver changing requirements is likely to be more practical in these circumstances.

While we find it difficult to identify ways in which stakeholder group roles could be combined with the consumer challenge functions required by Ofgem, we recognise that this may be possible, particularly if electricity distribution companies also have the opportunity to consider how this could be delivered in practice. In addition, longer lead in time creates the potential for debate on how far companies and stakeholders want to move from consultation towards a more negotiated settlement of plans, drawing on the lessons learnt from the Scottish Water Consumer Forum approach which was designed to introduce elements of challenge and collaboration.

Figure 6: Extract from National Grid’s presentation at the January 2018 Ofgem seminar

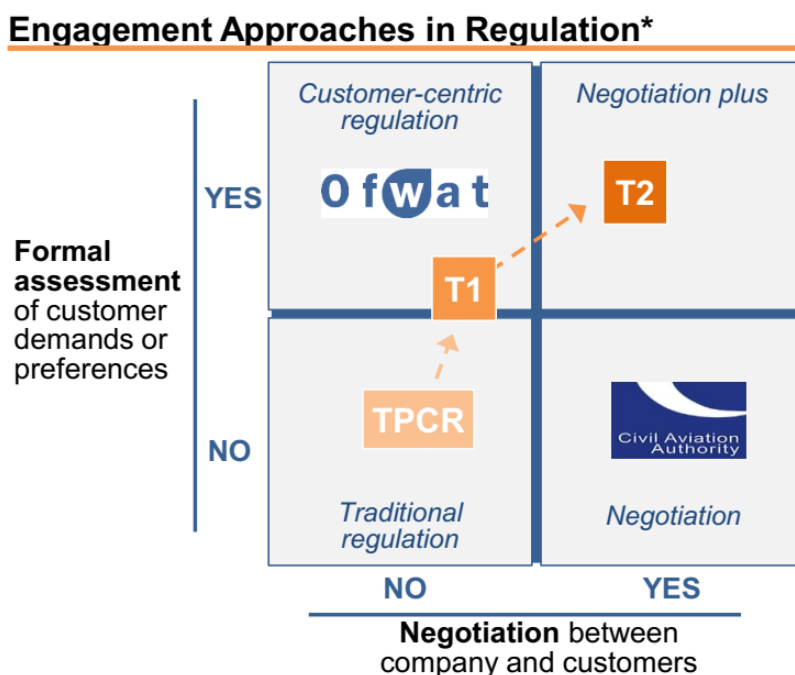


Figure 6, above, reproduces the diagram used by National Grid in their presentation at the Ofgem seminar.⁸² It is useful for illustrating the way the company views the different engagement options available. In addition, the diagram shows that engagement approaches will change over time, based on evolving experience.

⁸² Ofgem. 2018. “RIIO-2 Framework Review Workshops” Accessed 07/03/2018. Available from: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-review-workshops>

Our survey suggests that there is some variation between companies (and quite probably also among stakeholders) on the extent to which they are willing and have the capacity to move from the RIIO-1 experience of consultation towards more negotiated settlements on the overall content and direction of plans (in effect, moving towards the right along the horizontal axis). This suggests that focus needs to be placed on opportunities to extend the impacts of engagement on the horizontal axis, and that the role of challenge groups may be to require companies to better make use of the information they are gathering here, and involve consumer representatives in challenge functions to ensure that this information is best used.

Open Hearings

Ofgem's proposals introduce the possibility of GB-wide open hearings, open to all stakeholders, with the intention that this "*might focus on areas of particular contention that have been identified through the process*".⁸³ The spirit of this proposal is welcome as it would allow consumer representatives to discuss issues and solutions common to all companies at a GB-wide level.

However, as proposed, these hearings would take place once all plans and reports were submitted. As such, the opportunity for significant change would by that stage be very limited. In addition, any changes which were made at that time would potentially undermine company-level decisions, were these to differ from a national perspective.

We would therefore suggest that, if such hearings are to be conducted, they should take place earlier in the process, and should be more closely linked to the work of the RIIO-2 Challenge Group, to embed the results more formally.

Options for delivery of consumer challenge functions during delivery of RIIO-2 plans

The survey results reported in Chapter 4b show clearly that companies' engagement work evolved considerably during delivery of RIIO-1 plans. Given the more complex and evolving issues and decisions that companies have to tackle during RIIO-2, and the greater focus on consumer engagement, it is appropriate to consider how consumer challenge functions might be delivered beyond plan preparation.

We identify 3 options, with the possibility of combination between them:

- a. For the CEG arrangements for distribution companies and User Groups for transmission companies to continue;
- b. For challenge functions to be adopted as part of the work of Stakeholder Groups;
- c. For challenge functions to be provided by a central, GB-wide group to continue.

a. Continuation of existing CEGs and User Groups

Our view is that this approach would be difficult, particularly for CEGs in distribution companies. CEGs and especially independent chairs will necessarily work intensively during preparation of RIIO-2 plans, whereas the challenge function during plan delivery will be required only on an occasional basis. This would mean that capacity would need to be maintained without a clear function for much of the time.

Proposals for User Groups in transmission companies are close to the existing stakeholder group arrangements with the challenge function provided centrally at GB level. User Groups could therefore be merged into, or run in parallel with, Stakeholder Groups during the plan

⁸³ Ofgem. 2018. "RIIO-2 Framework Consultation" Accessed 7/3/2018. Available from <https://www.ofgem.gov.uk/publications-and-updates/riio-2-framework-consultation>

delivery phase. This approach would require delivery of that function either through a continuation of the RIIO-2 Challenge Group or through a successor with a similar role.

In practice, a merger, perhaps with some change of membership to reflect members' interests and capacity, would seem more practical both in terms of administration and members' participation as there is likely to be overlap between User Group and Stakeholder Group membership.

b. Challenge functions adopted by Stakeholder Groups

As set out above, we believe that the stakeholder and formal challenge functions are sufficiently distinct that they should not be combined. While we would expect Stakeholder Groups - as was the case in RIIO-1 - to work with companies on engagement and changes to service delivery as a result, we would not support that they formally assess engagement processes, as they would be, at least in part, assessing their own work in that case.

c. Challenge functions provided by a central GB-wide group

In this model, Ofgem could convene a GB-wide Consumer Engagement Group, once plans are finalised, to oversee engagement during delivery of RIIO-2. It could potentially draw members from the gas distribution CEGs, the RIIO-2 Challenge Group and new interested and skilled individuals. The group would review and comment on company consumer engagement plans and implementation reports.

In addition, as this group will have sight of all company activity, it would be possible to extend its work to encourage both replication of good practice across network companies and to support joint working where appropriate. Finally, it could also feed into the annual assessment rounds of any continuing or revised engagement incentive.

We would suggest this third model offers the greatest potential gains for consumers as a whole, at GB level.

What this means moving forward...

Ofgem has set out the consumer challenge function it sees as necessary under RIIO-2. While Ofgem has also provided detail on the structures needed to deliver these functions, there is more flexibility for distribution companies than for transmission companies in how these are implemented. As companies reported consistently that around a year is needed to establish any new group, there is a significant incentive for transmission and gas distribution companies to build on and add expertise to existing groups rather than develop new ones.

Ofgem's proposals also provide flexibility on the depth of engagement between stakeholders and individual companies, as they set a minimum, rather than a prescriptive approach. Stakeholders themselves should have a role in determining the detail of this approach, taking account of the capacity of those involved.

There remain, however, open questions on the detail of implementation and structures which could most effectively deliver Ofgem's aims. Our analysis has sought to identify and draw out the advantages and disadvantages of different approaches, and to make recommendations accordingly.

Summary of key points:

- Ofgem has clearly set out its requirements for additional consumer challenge functions, and to some extent structures, needed under RII0-2. This research shows that existing Stakeholder Groups are a key strength of the current arrangements, and that changes should build on, or at least minimise disruption to, those groups.
- Different stakeholder group models currently in use have been reviewed extensively, but have not identified any circumstances under which all aspects of Ofgem's proposed Consumer Engagement Group (CEG) functions for distribution companies have been brought together: in particular, the assurance function implies a different and additional role to that performed by existing groups.
- We identify a number of risks of setting up new CEGs which could potentially disrupt existing structures. Not all stakeholders will be able or willing to participate in CEGs, and there are risks associated both with some stakeholders being seen as closer to companies than others, while at the same time, being involved both in influencing company plans and in providing assurance that those plans are robust.
- In addition, the timescales for transmission and gas distribution plans are such that the opportunity to develop and embed new structures is limited.
- For all of these reasons, we recommend that additional challenge and assurance function for gas distribution companies is provided either by a small bespoke group distinct from their stakeholder groups, with an independent chair group, as is proposed by Ofgem, or through a conventional commercial contract.
- For electricity distribution companies, timescales allow for greater discussion among groups themselves of what might work, and it may be possible for companies and stakeholders to identify a successful blend of both engagement and challenge functions.
- Ofgem proposes a different approach for transmission companies under which plans are created by companies with the close involvement and 'constructive engagement' of user groups. Elements of the plan that could not be agreed in this manner would then be reported to Ofgem as points of disagreement. It is likely that there would be consumer representation on those user groups. Such a model seems appropriate, builds clearly on existing structures, and is well founded on wider experience.
- Ofgem proposes that a GB-wide, high level group will be convened and supported directly by the regulator. This group will provide the consumer challenge function for transmission companies, as well as having a role in the assessment of distribution company plans. This structure is robust and, although not suggested by Ofgem, would provide a setting for reviewing whether proposals on the financeability of plans, including the cost of capital, are in the best interest of consumers.
- Regardless of the final structures which are put in place, it is important that: any new groups have a clear remit which is consistent across all companies; that they have an independent chair; that the method remuneration does not call into question the independence of those involved; and that GB-wide structures should facilitate exchange of good practice and allow for the development of common solutions to shared issues.

- Consideration of the way in which the consumer challenge function is delivered during the price control period, once RIIO-2 plans are finalised. We offer options in this area, but suggest that GB-wide Consumer Engagement Group is likely to work most effectively.

7. Evaluating Engagement and Defining Success

This chapter seeks to provide advice for strengthening companies' engagement strategies, as well as tools to assist companies, consumer representatives in Stakeholder Groups, and consumer champions with a 'challenge function' to evaluate the effectiveness and impact of their consumer engagement.

It is clear from the evidence above that all of the energy network companies have been pursuing greater amounts, and more effective, consumer engagement throughout the last regulatory cycle. Each company has established an engagement strategy, many of which have been externally quality assured, and each of which has been evaluated by the regulator according to the requirements established by Ofgem in RIIO-1 which stated that:

“Network companies are expected to have a stakeholder engagement process in place which meets the following minimum requirements -

- *The network company has a comprehensive and up to date stakeholder engagement strategy, which sets out:*
 - *how the network company keeps stakeholders informed about relevant issues, business activities, decision-making and other developments, and*
 - *how the network company enables timely input and feedback from stakeholders via appropriate mechanisms to inform decision-making.*
- *A broad and inclusive range of stakeholders have been engaged.*
- *The network company has used a variety of appropriate mechanisms to inform and engage their stakeholders – these have been tailored to meet the needs of various stakeholder groups, and are fit-for-purpose in allowing a detailed analysis of a breadth of stakeholder perspectives.*
- *The network company can demonstrate it is acting on input / feedback from stakeholders.”⁸⁴*

While all companies have embraced the challenge introduced by Ofgem to enhance their engagement practices, it is clear that approaches and quality have varied.

Company Engagement Strategies - designing for success

To be most effective, a company's overall consumer engagement strategy needs to be embedded at the heart of the company's overall business plan – and not seen as something that is an add on to meet regulatory requirements.

“An effective customer engagement [strategy should be considered as] a vital component of an energy network business' relationship with its customers, its reputation, the ease with which it operates in a community and, overall, the confidence the community can have in network decision making processes.”⁸⁵

⁸⁴ Ofgem. 2014. “Gas Distribution Stakeholder Engagement Incentive Scheme - Guidance Notes”. Accessed: 16/02/2018. Available from: https://www.ofgem.gov.uk/sites/default/files/docs/2012/11/guidancestakeholderengagement2012-13_0.pdf It should be noted that the content of the guidance provided was the same for all network energy company types.

⁸⁵ CSIRO and Energy Networks Association. 2016. “Electricity Network Transformation Roadmap: Customer Engagement Handbook”. Energy Networks Association. Accessed: 16/02/2018. Available from: http://www.energynetworks.com.au/sites/default/files/customer_engagement_handbook_engagement_draft_april_2016.pdf

Further, a company's consumer engagement strategy will need to give consideration to the way that contributions from all of the three 'spaces' for engagement identified earlier in this report are integrated, so that:

- direct engagement provides a company with the information needed to understand and respond to consumer needs and ambitions;
- consumer representatives can use this information, alongside their wider knowledge and expertise, to advise companies on how and where this can be used to deliver outcomes for consumers; and
- consumer champions performing a challenge function are able to identify a 'golden thread' between the outputs of direct and engagement and a company's business plan proposals and use this either as evidence of impact, or as a basis upon which to challenge how effectively companies have responded to consumers and their representatives.

Engagement planning in practice

In order to develop an effective engagement strategy there are, in practice, a number of factors that a company will need to consider. These are equally important considerations in terms of an overall strategy as they are in relation to the specific engagement activities planned.

a. Purpose: Purposeful consumer engagement will demonstrate clear links to the company's broader strategic and/or operation objectives (both long-term and short-term) and why these require consumer engagement for success.

There are many possible purposes for undertaking consumer engagement, including to:

- Increase consumer awareness on an issue;
- Improve transparency of decision making;
- Understand consumer preferences and priorities;
- Explore issues and come up with new ideas;
- Establish new partnerships;
- Defuse conflict to enable progress to be made;
- Make a decision;
- Enhance a company's social license to operate by building relationships of trust and mutual respect.

These purposes are not mutually exclusive but, being clear on the overall purpose of any engagement planned, will increase its likelihood of achieving mutually beneficial impacts. Identifying purpose should also ideally involve:

- Liaising internally to clarify what can be changed as a result of the process and what outputs and outcomes are sought i.e. what information is going to be most useful to decision makers;
- Liaising externally with those affected by a process to identify other stakeholders interests and concerns.

b. **Intended outcomes:** These are the specific goals desired from consumer engagement. They might include the degree of participation desired (e.g. information sharing, consultation, involvement, collaboration or devolving power), or the desired results (e.g. a measure of consumer satisfaction with an aspect of a company's service or the incorporation of consumer concerns into a specific proposal).⁸⁶

Key questions that will help a company clarify their intended outcomes will be:

- What does a company want to have achieved at the end of this process (i.e. outcomes)?
- What tangible products do you want to have produced during and after the process (i.e. outputs)?
- What will the company have to do with the outputs to ensure the desired outcomes are achieved?

c. **Scope of engagement i.e. what is open to change:** Fundamentally this is about being transparent about the elements of a company's operations and planning that are negotiable.

Specifying what the business is able to adjust in response to the involvement of consumers, and what the business is not able to adjust, is important for both internal and external stakeholders' understanding of where and to what extent engagement can influence the company. It is also vital for ensuring that consumers participating in engagement exercises have an accurate understanding about how their contributions will be used and responded to by a company, so as to not build unrealistic expectations of influence.

d. **Who needs to be involved:** This involves consideration of whether the issue is pertinent to consumers in general, or whether specific segments of the consumer base e.g. customers likely to move to EVs, urban or rural residents, consumers in vulnerable circumstances or future customers are going to be best able to contribute insight relevant to the goal and purpose of the engagement.

Best practice engagement, however, also involves making specific and repeated efforts to ensure that all parties with an interest in the outcome, including those that are hard to reach or hard to engage, are included within an engagement process. Some of the case studies discussed in Chapters 4 and 5 give specific ideas about how to ensure that engagement with consumers does not just involve those who are most willing, or most able to participate.

e. **Appropriate methods:** The primary consideration in choosing a method should be that the method chosen is 'fit for purpose': for example, information sharing methods would be a poor choice if the issue engaged upon is complex and requires substantial input from end-users to resolve. Likewise methods focussed on collaboration and empowerment would be inappropriate when the company is not reasonably able to adjust its behaviour or decisions in response to feedback.

There are a wide variety of methods available for engaging consumers, as discussed elsewhere in this report, and each is more, or less, useful in different circumstance. The fundamental principle however when choosing a method is that 'form follows function'.⁸⁷

⁸⁶ Involve. 2018. "Purpose" Knowledge Base Accessed: 15/01/2018. Available from: <https://www.involve.org.uk/knowledge-base/purpose/>

⁸⁷ Involve. 2018. "Introduction to planning participation". Knowledge Base. Accessed: 15/01/2018. Available from: <https://www.involve.org.uk/knowledge-base/introduction-planning-participation/>

f: **The risks of engaging (and of not engaging):** In some cases actively engaging with consumers and other stakeholders will be vital to insuring a company against perceptions, and the actuality, of ‘wrong’ decisions being made. As discussed in the introduction to Chapter 2 ‘wrong’ decisions could include those that:

- have negative commercial consequences;
- are difficult to implement because of stakeholder opposition;
- are unsustainable because of unforeseen or unconsidered factors;
- compromise environmental sustainability; or
- damage a company’s social license to operate.

There are however also valid reasons why a company may choose not to engage more widely with consumers on a specific issue. These include, for example, that decisions are being driven by essential safety concerns, are vital to the continued operation of the business or there are regulatory imperatives to deliver specific policies.

Having considered and openly articulated the reasons for choosing when to engage, and at what level engagement will take place, is an important part of formalising risk mitigation strategies within an company’s engagement strategy. Whilst these decisions are still open to challenge by those entrusted with this function, having openly and thoughtfully articulated the reasons for them should place companies in a defensible position should challenge occur.

g. **How the outcomes of engagement will be shared:** (with those who participated, all consumers, company staff, other stakeholders, challenge groups, the regulator and perhaps, other companies). Establishing effective feedback mechanisms from the outset is an important feature of an effective engagement strategy - particularly if it is to develop local trust that the company has the interests of its consumer at its heart in the long term and is committed to treating them fairly.

Sharing the outcomes of engagement with other stakeholders (within and outside the network) strengthens and supports developments within the sector more broadly, by enabling shared learning and collective improvement. The direct participants in an engagement process, however, are generally most interested in receiving information

The difference between ‘Key Performance Indicators’ and ‘metrics’

- A measure should be considered a **KPI** when it can be used to evidence how successful an energy network company has been in achieving a particular engagement outcome.
- Alternatively, something is a **metric** when it can be used as a quantifiable measure for tracking, monitoring or assessing the success of engagement against a KPI.

For example: *“If an energy network business’ engagement goal [or intended outcome] was to increase levels of customer awareness of the Energy Supply Chain:*

- *A KPI might be the extent of knowledge of the supply chain technology in a target customer group, or the accuracy of this knowledge.*
- *A metric might be the number of people within a specified customer group that has heard of the term “Energy Supply Chain”, or the number that can accurately define what is meant by the term.”⁸⁸*

⁸⁸ CSIRO and Energy Networks Association. 2016. “Electricity Network Transformation Roadmap: Customer Engagement Handbook”. Energy Networks Association. Accessed: 16/02/2018. Available from: http://www.energynetworks.com.au/sites/default/files/customer_engagement_handbook_engagement_draft_april_2016.pdf

regarding how the range of information generated via the process is being used (rather than simply a summary of their own ideas).

h. Mechanisms for evaluating the success of engagement: Effective evaluation is vital to evidencing effective consumer engagement. Consumer engagement activities therefore must be documented, and their outcomes and impacts evaluated, in both qualitative and quantitative ways. This requires identifying at an early stage the Key Performance Indicators (KPIs) and metrics that will be used to evaluate engagement activities and outcomes. Qualities for planning for effective engagement will be discussed in the next section of this report.

Table 6: Key qualities of ‘best practice’ engagement strategies

To demonstrate best practice a company engagement strategy should:
<ul style="list-style-type: none"> ● be planned with clear reference to the company's overall business planning, and informed by clearly articulated principles for engagement. ● be able to demonstrate strong, senior leadership from within a company and effective resourcing. While the role of implementing the strategy will lie with the company's engagement team, the senior management, the CEO (and ideally the Board and owners) should all be core sponsors of the engagement process. Active championing of engagement at this level will signal the importance that the business places on engagement with their consumers, and demonstrates that it is integral to the business's strategy and operations, rather than “bolted on”.⁸⁹ ● include activities at all levels of the engagement spectrum, as different engagement contexts, topics, purposes and audiences will require different approaches in order to deliver the most impact for consumers. Engaging consumers at different levels, in different contexts, is also likely to mean that the engagement activities undertaken deliver the most value to the company as well (as highlighted in Chapter 4). ● be developed in consultation with wider stakeholders, including those representing consumers, to ensure that their concerns and interests are reflected in the activities proposed. ● demonstrate a clear understanding about how the contributions made within each ‘space’ for consumer input (i.e. direct consumer engagement, stakeholder groups and challenge groups) are integrated into their business planning and operations, recognising the distinctive role of each: <ul style="list-style-type: none"> ○ End-consumers providing the ‘raw-data’ about consumer opinions, preferences and priorities and potentially contributing in a range of roles from consultees to involved or collaborating partners depending on the methods chosen; ○ Consumer representatives in Stakeholder Groups advising a company (or potentially collaborating with them) to establish how the needs and aspirations of consumers, as evidenced by this ‘raw-data’ and the representatives wider expertise, can best be met within a company's plans and operations; and ○ Members of Challenge Groups who have been empowered to scrutinise and assess companies’ engagement providing constructive evaluation and challenge to enhance how engagement is used to improve outcomes for consumers. ● be flexible enough to respond and evolve as more is learned, in response to challenge and as the context changes over time.

⁸⁹ CSIRO and Energy Networks Association. 2016. “Electricity Network Transformation Roadmap: Customer Engagement Handbook”. Energy Networks Association. Accessed: 16/02/2018. Available from: http://www.energynetworks.com.au/sites/default/files/customer_engagement_handbook_engagement_draft_april_2016.pdf

Evaluating Engagement

In 2010 Ofgem published a set of principles against which its own engagement activities would be evaluated, but did not stipulate that companies adopted the same principles. Since that time individual companies have established their own principles of engagement based, more or less, on the principles established by Ofgem.

Ofgem's principles for effective enhanced engagement⁹⁰

1. **Inclusiveness:** we will seek to ensure that the views of all interested parties are sought during the process, using a wide range of methods;
2. **Transparency:** we will provide transparency on the process we are adopting to raise awareness of the opportunities to engage;
3. **Accessibility:** we will make available accessible and targeted information to facilitate discussions at meetings/workshops and during primary research;
4. **Control:** stakeholders will be able to indicate to us the specific issues that they are particularly keen to discuss;
5. **Responsiveness:** we will seek to adopt a flexible process to our engagement, responding to the information revealed as the review progresses;
6. **Accountability:** we will be transparent about the way that we will use the information collated over the course of the price control process to highlight to stakeholders the impact that their engagement could have;
7. **Taking views seriously:** we will seek to govern the process effectively to ensure that all the views expressed are appropriately considered;
8. **Demonstrating impact:** we will demonstrate the impact of engagement on the outcome of the price control throughout the price control review; and §
9. **Evaluation:** we will evaluate the success of our approach to engagement to enable us to adapt future approaches.

Within the regulatory framework emerging for RIIO-2 each company will now need to review and refresh their consumer engagement strategies in a way that sets out clear goals for their engagement activities, the methods proposed for achieving these goals, and – importantly - ways of evaluating and evidencing the impact consumer engagement has had on company business plans and their implementation.

This section of the report sets out to identify areas for consideration by companies, and those given a challenge function, to evaluate the quality and effectiveness of engagement, based on Ofgem's principles for effective enhanced engagement.⁹¹

⁹⁰ Ofgem .2010. "Principles for effective enhanced engagement". Accessed: 11/02/2018. Available from: <https://www.ofgem.gov.uk/ofgem-publications/51871/riiohandbookpdf>

⁹¹ There are a number of statements of principles for effective engagement in use across different industry, consumer and public participation sectors. Looking across these however it appears that Ofgem's statement of principles broadly track with the key themes identified in each case and therefore have been chosen as the basis for this discussion. Other examples include: The principles for engagement in the electrical utility domain established by the World Business Council on Sustainable Development cited in CSIRO and Energy Networks Association. 2016. "Electricity Network Transformation Roadmap: Customer Engagement Handbook". Accessed: 16/02/2018. Available from: http://www.energynetworks.com.au/sites/default/files/customer_engagement_handbook_engagement_draft_april_2016.pdf Ofwat. 2015. "Principles for customer engagement". Accessed: 16/02/2018. Available from: https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf; International Association for Participatory Practice. 2108. 'Core Values for the Practice of Public Participation' IAP2 Accessed: 16/02/2018. Available from: <http://www.iap2.org/?page=A4>; the Australian Energy Regulator's Australian Energy Regulator. 2013. "Better regulation: Consumer engagement guideline for network service providers - Principles for Engagement:". Commonwealth of Australia.

1. **“Inclusiveness”**: i.e. ensuring that the views of all interested parties are sought during the process, using a wide range of methods to enable different people to engage in ways that suit them best.

As discussed previously, a key factor in the assessment of consumer engagement must be its reach into a company’s consumer base. Whether the principle of ‘inclusiveness’ can be best achieved through representative sampling, engagement with specific consumer segments, or via direct outreach to groups that are historically less likely to engage, is something that must be determined by the requirements of the issue under discussion. ‘Who’ has had the opportunity to contribute, however, needs to be a central consideration in any evaluation of effectiveness.

2. **“Transparency”**: to be genuinely transparent an engagement process must not only promote awareness of the opportunities to engage (as included in Ofgem’s principles) but must also be clear on the scope of influence that consumers have. Being clear on how the outputs from any engagement are intended to be used by the company will assist them in ensuring impacts can be tracked, and give challenge champions a basis from which to assess effectiveness.

3. **“Accessibility”**: It is important when assessing accessibility that considerations do not stop at the point of ‘who is able /invited to be involved’ but also consider the needs of different individuals during the engagement. This means not only ensuring that information is presented in accessible formats but also that that meetings etc. are run in ways that both respect and encourages the expression of differing views. The qualities of the processes of engagement, alongside the nominal ‘opportunities’ for consumers to engage, therefore also need to be subject to evaluation.

4. **“Control”**: Ofgem’s principles state that stakeholders, including end-consumers should have the opportunity to identify the issues that they are particularly keen to discuss with a company.

To date this is something that there is very little evidence of within network company engagement approaches - beyond establishing complaints mechanisms and the endeavours by some companies to collate issues raised with staff informally. Best practice in engagement however does demand opportunities for consumers, rather than just companies, to set the agenda regarding the topics that are open for input. The transparency requirement, outlined above, reinforces this expectation.

5. **“Responsiveness”**: this principle calls for a flexible approach to engagement, able to respond to changing circumstances and new information. A key question for evaluation, therefore, is determining how companies, and stakeholder groups, have used the outputs from direct engagement. Additionally, it will be important to monitor how responsive they have been in pursuing new and emerging issues with consumers or reacting to areas of unforeseen consumer interest or concern.

6. **“Accountability”**: in this context accountability, is taken by Ofgem, to mean being clear about the way that the information collected from consumers will be used and the impact that their engagement could have. While the essence of this principle relates strongly to their first principle ‘transparency’, there is also the implication that any engagement undertaken will be both purposeful (i.e. designed to answer a specific question) and meaningful (i.e. undertaken with a genuine desire to use the outputs).

Accountability in this sense also encompasses the need to feedback to participants, and the wider consumer body, on how the outputs of their participation have been used by a company, and ideally, what change this has (or has not) led to.

7. “Taking views seriously”: here Ofgem note that engagement processes should be planned and governed in a way that ensures all the views expressed are appropriately considered. Within a context where increased engagement is being actively encouraged this appears to be something that challenge groups will particularly have to monitor, in order to avoid unnecessary exercises of engagement being delivered by habit.

8. “Demonstrating impact”: any evaluation of engagement must fundamentally rest on its effectiveness in delivering meaningful and demonstrable impacts for consumers. As highlighted previously in this report this is something that most companies have admitted is difficult to evidence, although they instinctively all claim that there has been significant impacts on the company’s operations from the engagement undertaken during RIIO-1 (and examples are presented in Chapter 5).

Citizens Advice has identified a range of consumer outcomes that they believe cut across industries and sectors, to illustrate how the interests of consumers are made manifest in policy and service delivery.

Consumer Outcomes:

- A. **Value** – that consumers receive services at a price they are willing to pay - this is particularly relevant for network energy companies as consumers do not have the ability to exercise ‘choice’ as they would with most other services they are interacting with as ‘customers’;
- B. **Inclusion** – that all types of consumers are served well, including the vulnerable, future consumer and those with specific (or additional) requirements;
- C. **Quality** – that the quality of services meets consumer expectation, and this is really only something that can be assessed by asking consumer directly;
- D. **Redress** – that if things do go wrong consumers have easy access to information about the situation, what the company is doing, and a legitimate route through which to complain and seek redress;
- E. **Protection** – products and services consumers use are safe and secure;
- F. **Sustainable** – products, services and market structures are socially, economically and environmentally sustainable in ways that consider the needs of future users without jeopardizing the satisfaction of current consumers

If these were adopted by Ofgem, and in turn by energy network companies, as high level outcome KPIs they could provide a consistent framework against which impacts could be measured and compared, both during the business planning process and implementation.

9. “Evaluation”: Finally, although most companies have previously undertaken a process of external quality assurance to evaluate their approach to engagement, this is where there is the most significant role for challenge groups. Through a process of independent scrutiny, as the ‘conscience’ of companies, champions with a challenge function should be in a position to thoroughly interrogate the results of a company’s consumer engagement and how it has been applied.

Establishing tighter monitoring and evaluation structures, with focussed metrics directly associated with the purpose of engagement and the intended outcomes for consumers, will assist in providing evidence both for challengers, and for companies to use to respond to challenges.

There are three different types of performance indicators that need to be considered collectively to effectively evidence the success, and impact, of a company's engagement activities:

1. **Input indicators:** these are indicators of the activity which will measure the extent of the things a company has done to deliver customer engagement. For example, a company might track the number of people engaged with over a year as a broad indicator of the extent of their engagement activity.
2. **Outcome indicators:** these are designed to measure the result (impacts and outcomes) of engagement activity. For example, if an energy network company produced a range of customer information materials, with the goal of increasing customers' awareness of the energy network, an outcome indicator for this might be the levels of awareness in the target audience.
3. **Process indicators:** Process indicators are those that evaluate the quality of the engagement process i.e. the processes by which activities are converted into outputs and outcomes, (on the assumption) that the higher the quality of the process the more likely it is to deliver better outcomes for consumers.

Indicators and Metrics for evaluating Consumer Engagement⁹²

Input indicators: Input indicators are measures that reflect something that an energy network business has done that can reasonably be expected to have an influence on consumer outcomes i.e. their activity.

- Positives: As input indicators would typically involve recording and monitoring the level of activity that a company undertook, rather than the outcomes of their engagement, data on these types of indicators would likely be easy to collect.
- Limitations: Although this may be easy to measure, the difficulty with relying on input indicators lies in being able to draw conclusive links between the input and the intended outcome of engagement. For example, it is not a certainty that the number of surveys distributed or the number of events held will necessarily equate with better, more productive engagement.

Outcome indicators: Outcome indicators are measures of the results of a specific engagement action.

- Positives: Outcome indicators provide the most direct measure for whether or not the intended goal of consumer engagement is being achieved.
- Limitations: It can be difficult to identify outcome indicators that can be clearly shown to be a "pure" or "direct" result of particular engagement activities. For example, increased levels of awareness regarding some aspect of an energy network may be the result of an awareness raising activity by the company, but also may be the result of an increased profile of the industry in the media following a disruption to service. There are however options for removing the uncertainty in explanations (or at least reducing them) by bench-marking, employing pre- and post-engagement measurements, or other experimental designs.

Process indicators: Process indicators are measures that evaluate the quality of engagement process themselves.

- Positives: Because process indicators have "cleaner" links to the engagement strategy, they can sometimes be easier to identify than input or outcome indicators.
- Limitations: Metrics that measure process indicators are generally more difficult to identify and develop, and as a result are less commonly measured in most cases.

⁹² This draws heavily on the analysis presented in the CSIRO and Energy Networks Association. 2016. "Electricity Network Transformation Roadmap: Customer Engagement Handbook". Energy Networks Association. Accessed: 16/02/2018. Available from: http://www.energynetworks.com.au/sites/default/files/customer_engagement_handbook_engagement_draft_april_2016.pdf

For each type of indicator different metrics will also need to be defined in order to effectively evaluate a company's engagement activity. No single metric however is likely to be able to provide a comprehensive measure of engagement will usually be necessary to 'triangulate' by gathering multiple metrics in order to evidence each aspect of an engagement process.

General considerations when developing metrics, however, are:

- that there should be a clear, transparent and logical argument linking each metric to a company's KPIs, and their goals for customer engagement;
- that they are consistent over time, in order to allow for comparison;
- that they have a defined scale - The most obvious examples of these types of metrics are numerical methods used to record levels e.g. 'numbers of customers', rates e.g. 'number of complaints per year', proportions e.g. 'percentage of customers who have been engaged' or an evaluative score e.g. 'score out of 5'.
- that they allow for validation i.e. that there is a process for collecting other evidence to ensure that the metric accurately reflects what it is intended to measure.

What this means moving forward

A programme of enhanced evaluation, both by companies themselves and as part of any new challenge function, should also be considered as an integral complement to Ofgem's drive for enhanced engagement. This will help ensure that all company engagement with consumers is purposeful, productive and delivers best value for the company's investment.

Assuming that a consumer challenge function is to be introduced to the energy network sector for RIIO-2, it appears vital that Ofgem (or another partner) establishes a consistent set of principles for 'good practice' in consumer engagement for energy network companies that companies, and challenge groups, can use as a framework to evaluate activity.

Summary of key points:

- While all companies have embraced Ofgem's challenge to enhance their consumer engagement during RIIO-1 the impacts have been mixed and there is evidence that companies need to develop their engagement strategies further to meet RIIO-2's greater emphasis on the effectiveness and impact of consumer engagement.
- The measures outlined at the beginning of this chapter are designed to help companies ensure that they are designing their engagement strategies for success, including articulating from the outset:
 - Purpose;
 - Intended outcomes (for the company and consumers);
 - Scope of the engagement;
 - Who needs to be involved;
 - Most suitable method;
 - The risks of engaging (and not engaging);
 - How the outcomes of the engagement will be shared;
 - Mechanisms for evaluating the success of engagement (including KPIs and metrics for measuring impact).

- To demonstrate best practice, a company's engagement strategy needs to: have clear links to the company's overall business plan; have strong senior company buy-in and leadership; include activities at all levels of the engagement spectrum and have an integrated evaluation plan developed at the same time.
- Ofgem's principles for effective enhanced engagement (or an evolved set) could be used as the basis of a standard evaluation framework for use across all energy network companies to evaluate the quality and effectiveness of company engagement.
- At the basis of any evaluation framework there needs to be a clear understanding of the intended outcomes for consumers that is driving the engagement. Citizens Advice have produced a set of consumer outcomes that network companies should be working towards and these could be adopted to provide a consistent set of high level outcome indicators that impacts could be assessed against.

8. Conclusion: Challenges and Opportunities to Strengthen the Impact of Consumer Voices in Network Company activities during RIIO-2

This research demonstrates that, since Ofgem introduced the requirement for 'enhanced engagement' in RIIO-1, energy network companies have invested significantly in engaging directly with consumers, and in working with consumer representatives in Stakeholder Groups.

The report also illustrates that companies have been keen to learn from effective engagement approaches in other sectors, and from the more proactive companies within their own sectors. Companies therefore adopted a suite of tried-and-tested methods for better understanding the needs and preferences of consumers. While evidence of changes to RIIO-1 plans as a result of engagement was limited, there is clear evidence that engagement activities during delivery have provided companies with considerable insight into the views and priorities of consumers, resulting in significant improvements in service standards.

Most of the engagement evident from a review of company's current practice, however, can be identified as being limited to the 'inform' and 'consult' levels of the engagement spectrum, with a few innovative practices crossing into the levels of 'involving' and 'collaborating'.

There is universal agreement that the range of issues faced by companies and consumers is set to widen. Under RIIO-1, headline consumer issues were reliability, cost and service standards, with secondary but still important interest in social and both local and global environmental issues. There is a similarly high level of agreement among stakeholders that, while these concerns will remain, companies will also need to respond to a range of new issues in the future, including: decarbonisation of heat; new time of use tariffs associated with smart meters; further increases in renewable electricity generation and associated grid balancing; and - in particular - the take-up of electric vehicles. All of these changes are likely to have impacts on the costs consumers pay for energy, both individually and collectively. A number of companies highlighted a concern that changing patterns of costs and benefits - as lower income consumers might be less likely to take up new technologies - could lead to tension between different groups of consumers.

In approaching the RIIO-2 period, as some of these challenging issues become more pressing, simply replicating the engagement approaches that were effective during RIIO-1 may add little new to a company's knowledge.

Effective consumer engagement needs to be focussed on, and planned around, the outcomes it can deliver for consumers and integrated within the company's overall business planning. When this is the case there will also be benefits to the company including improved customer satisfaction; greater efficiency; potential cost savings and increased social license to operate.

As the report demonstrates there are still many opportunities to enhance and deepen companies' engagement with consumers, and companies across the sector have expressed their interest in taking new approaches forward.

Recommendations:

For Ofgem:

- That Ofgem refreshes their engagement principles in light of the evolving regulatory context and introduces them as the basis of a standard evaluation framework for use across all energy network companies to evaluate the quality and effectiveness of company engagement.
- That Ofgem establishes a set of high level evaluation KPIs that companies and CEGs can use to assess their engagement activities and - in particular - the impacts that these are delivering.
- That Ofgem reviews the incentives for companies that were part of RIIO-1. In particular, the engagement incentives should be revised to better reflect delivery of outcomes for consumers, including early replication of good practice, and to encourage and build on existing partnership work across the energy sector, and with other utilities. The RIIO-2 Challenge Group could continue to support these aims during the price control period.
- That Ofgem undertakes research on consumer views of company profit levels. Neither companies themselves nor consumer organisations would be able to carry out such work without accusations of bias. The remit of the RIIO-2 Challenge Group should also be widened explicitly to consider financeability and cost of capital issues.
- That Ofgem considers, as part of wider work on changing charging structures, how best to facilitate the take-up of low carbon technologies by consumers who want to use them, while minimising costs for consumers who will not benefit from them. Ofgem should also seek the views of end-consumers to inform detailed proposals.

For companies:

- That companies continue to build on the good-practice engagement work they have undertaken during RIIO-1, including engagement as part of service delivery, while being mindful that simply repeating their previous approaches will not be enough to deliver further 'enhanced' engagement.
- That companies refresh their engagement strategies to introduce a programme of 'enhanced evaluation' as an integral complement to Ofgem's drive for 'enhanced engagement'. This will help ensure that all company engagement with consumers is purposeful, productive and delivers best value for the company's investment.
- That companies maintain and further develop their existing Stakeholder Groups, which have proved to be one of the strengths of RIIO-1, in line with the factors for success identified in this report. Further that they consider, in conjunction with the groups themselves, how they can contribute to wider aspects of the company's business planning in future.
- That companies seek explicitly to minimise disruption to existing Stakeholder Groups, while meeting Ofgem's requirements for CEGs and User Groups.
- That companies establish standing Consumer Advisory Panels, involving local domestic consumers, that can be used both by the company and by Stakeholder Groups to explore emerging consumer issues throughout the development of their business plans and their implementation.

- That companies explore opportunities to engage consumers using deliberative methods at the 'involve' and 'collaborate' levels of the engagement spectrum to enhance their engagement, particularly in relation to addressing longer term challenges.

For Citizens Advice:

- That Citizens Advice develop a bespoke statement that illustrates what their 'Consumer Outcomes' would look like in the context of energy network companies' business that companies can use as high level indicators against which to evaluate the impact of their engagement.
- That Citizens Advice coordinate opportunities for consumer representatives in Stakeholder Groups (whether there on behalf of Citizens Advice or other organisations) to share their experiences with different companies and learn from good-practice examples from across the sector in relation to delivering impact for consumers.

Annexes

CASE STUDY 1: Ofwat's model of Consumer Challenge Groups

Initiating Body	Ofwat
Date	2014 ongoing
Location	England and Wales

The challenge faced

The foundations of Ofwat's approach to developing Consumer Challenge Groups was laid down in a 'customer engagement policy statement' published in August 2011.⁹³ Here Ofwat called for a three-tiered approach to enable customers to engage with and influence all parts of the companies' business plans:

- direct local engagement, typically on local priorities and issues that could have a significant impact on the services customers receive;
- a company Customer Challenge Group (CCG);
- a sector wide customer advisory panel which Ofwat would set up and run.

The requirement for companies to establish a CCG was a new direction for Ofwat designed to ensure that water companies' engagement was robust and influential that they set their business plans for PR14 with clear reference to the needs and priorities of customers, the public and other key stakeholders.

What was done

Ofwat provided guidance to companies about the role the CCG was to play:

- to review the company's engagement process and the evidence emerging from it - challenge the phasing, scope and scale of work required to deliver outcomes; and
- advise Ofwat on the effectiveness of the company's engagement and on the acceptability to customers or otherwise of its overall business plan and bill impacts.

It is clear from the remit above that Consumer Challenge Groups (CCG) were not designed as consumer engagement tools per se, but rather to scrutinise the public engagement and policy planning activities which a company undertakes on the back of this engagement

Ofwat left the terms of reference for individual CCGs down to the discretion of the water companies. Given this, there is some level of variation in the means by which CCGs are used to inform and scrutinise policy. As Bush and Earwaker note "CCGs appear to have approached their task in PR14 somewhat differently. Some stuck very closely to the research and evidence emerging from their company's engagement process and derived their challenge to the company's plan from this. Others roamed more widely, embracing topics such as the cost of capital and the efficiency of the company's operations."⁹⁴

CCGs were required to contribute to the formulation of a company's plans, through challenge and scrutiny, but would not be expected to agree the plans or prices with the companies. Instead its role was to report to Ofwat their assessment of how well the company had engaged, and used the results to inform their plan.

Who was involved

Water companies were expected to tailor CCG membership to reflect their customer bases and the demographics of the populations that they serve. Where there are issues that are of particular relevance to a specific water company, the membership of its CCG is expected to have members able to scrutinise this.

Ofwat did however stipulate that the membership should include customer representatives, customer and community stakeholders and groups that represent particular segments of customers, and that CCGs should have chairs that were independent of companies.

Impact for Consumers

The role played by CCGs in the 2014 price review process have generally been evaluated favourably, with evidence to suggest that Ofwat, water companies and the Consumer

⁹³ Ofwat. 2011. "Involving customers in price setting – Ofwat's customer engagement policy statement". Accessed: 10/02/2018. Available from: https://www.ofwat.gov.uk/wp-content/uploads/2015/11/pap_pos20110811custengage.pdf

⁹⁴ Bush, H. and Earwaker, J. 2015. The Future Role of Customer and Stakeholder Engagement in the Water Industry. UK Water Industry Research Report. Accessed: 10/02/2018. Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

Council for Water regard them as adding value to consumer engagement in ways that were able to deliver better outcomes for consumers.⁹⁵

- **Value to water companies:** Between the 2014 price review and now, Ofwat has not mandated that water companies have CCGs in place, however they note that all companies have retained their groups, and that most of these are currently providing assurance on delivery of the PR14 business plans. The fact that all water companies have chosen to hold onto their CCGs, indicates that their input and scrutiny was valued by companies in trying to improve their relationship with their customers by better understanding their priorities, however this blending of roles could prove problematic for PR19.⁹⁶
- **Value to Ofwat:** in a previous research interview⁹⁷ Ofwat employees stated that they would definitely evaluate CCGs as a successful initiative, and reiterated how CCGs are now considered by Ofwat to be an integral part its overall regulation strategy. Ofwat staff interviewed also highlighted the improvements to

companies' approaches to customer engagement that have taken place as a consequence of CCG scrutiny, along with the cultural changes to policy-setting that CCGs have brought about.

- **Value to the Consumer Council for Water (CCW):** In its assessment of the 2014 Price Review⁹⁸, the Consumer Council for Water concluded that CCGs had been a step forward in giving stakeholders a platform for challenging company business plans, and that they were generally very effective in doing this. The establishment of CCGs has also led to the CCW considering its own role and how this can best complement company specific engagement.

Due to Ofwat giving companies significant license to decide for themselves how to use their CCGs, there were, however, varying impacts across the sector. The ambiguity of remit given by Ofwat was identified by the companies as an area for improvement. In response Ofwat has since published more detailed guidance for PR19 on how CCG's should be best utilised.

⁹⁵ Consumer Council for Water. 2016. "CC Water's Assessment of PR14" Consumer Council for Water." Accessed: 25/10/2016 Available from: <http://www.ccwater.org.uk/waterissues/pr14/consumer-council-for-waters-assessment-of-the-2014-price-review/>.

⁹⁶ Ofwat. 2016. "Ofwat's customer engagement policy statement and expectations for PR19" Accessed: 25/2/2018 Available from: https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf

⁹⁷ Involve and Ipsos MORI Scotland. 2017. "Meta-analysis and scoping exercise into public participation in the

regulated industries" Pp.140-142. Accessed: 25/2/2018 Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

⁹⁸ Consumer Council for Water. 2015. "The Consumer Council for Water's assessment of the 2014 Price Review: A Step In The Right Direction" Accessed: 14/02/2018. Available from: <https://www.ccwater.org.uk/wp-content/uploads/2015/08/A-Step-In-The-Right-Direction-CCWaters-assessment-of-the-2014-Price-Review.pdf>

CASE STUDY 2: Scottish Water Customer Forum

Initiating Body	Water Industry Commission for Scotland (WICS)
Date	2011 ongoing
Location	Scotland

The challenge faced

In the lead up to the Scottish 2014 Strategic Review of Charges WICS (the regulator) felt the need for a new way of challenging Scottish Water and also the need for more customer input into the decision-making process. It was therefore looking for a new approach that met these two needs.

It is evident that WICS held the view that a regulatory body was not necessarily best placed to determine what customers wanted and felt the need for a new body that would be more clearly tasked with interpreting the customer interest and ensuring that the company took account of it. On this basis the Customer Forum was created through an agreement between the WICS, Consumer Focus Scotland and Scottish Water.

What was done

The Customer Forum was set up in 2011 with three aims:

1. to work with Scottish Water on a programme of customer research⁹⁹;
2. to understand and represent customer priorities to Scottish Water and to the Water Industry Commission for Scotland (WICS);
3. and to seek to secure the most appropriate outcome for customers in the Strategic Review of Charges.¹⁰⁰

In addition to this, in 2012, the Forum was given the additional task of agreeing a Business Plan with Scottish Water which was consistent with Ministerial Objectives, reflected customers view on water services,

and ensured Scottish Water's future spending priorities were aligned with customer expectations. WICS indicated at this time that, if agreement could be reached, they would be "minded" to accept that agreement as the basis for the final determination of charges.

Throughout the negotiation process WICS played an active facilitatory role, providing significant guidance and published notes that covered the full range of regulatory issues, effectively setting out regulatory views on key aspects of Scottish Water's performance and plans and clearly identifying parameters within which the Forum should work. WICS' guidance notes covered a range of matters where the regulator was likely to have better information or a better technical grasp of the issues than the Customer Forum. They could therefore assist the Customer Forum and Scottish Water by effectively narrowing the field for discussion, so ensuring that the Customer Forum and company focussed on those areas of customer interest where their interaction was likely to be most productive.¹⁰¹

In January 2014, the Customer Forum and Scottish Water did reach agreement on a Business Plan, and the process of achieving this is described in detail by Littlechild.¹⁰² In March 2014 WICS made a Draft Determination consistent with that Business Plan. In its Final Determination in November 2014, WICS updated its determination with some detailed changes, including three new service performance measures agreed between the Customer Forum and Scottish Water. Otherwise, the 8-page Final Determination document reflected the Draft Determination and the agreement upon which it had been based.

Who was involved?

The Forum was made up of eight members from relevant professional backgrounds who were selected to represent a variety of different professional opinions including the water industry, consumer affairs, public policy, environment and academia (with most of the members being proposed by Consumer Focus).

⁹⁹ Due to delays in establishing the forum its role in this regard during the initial price control period was largely confined to assessing the quality and scope of the research conducted by Scottish Water, rather than conducting research itself.

¹⁰⁰ Littlechild, S. 2014. "The Customer Forum: Customer Engagement in the Scottish Water Sector". *Utilities Policy*, 31, pp.206–218. Accessed: 25/2/2018 Available from: <https://www.eprg.group.cam.ac.uk/the-customer-forum-customer-engagement-in-the-scottish-water-sector/>

¹⁰¹ Bush, H. and Earwaker, J. 2015. "The Future Role of Customer and Stakeholder Engagement in the Water Industry". UK Water Industry Research Report. Accessed: 25/2/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

¹⁰² Littlechild, S. 2014. "The Customer Forum: Customer Engagement in the Scottish Water Sector". *Utilities Policy*, 31, pp.206–218. Accessed: 25/2/2018 Available from: <https://www.eprg.group.cam.ac.uk/the-customer-forum-customer-engagement-in-the-scottish-water-sector/>

Appointment was in all cases a joint matter but with “no ability for any Party to veto the appointment of any person” subject to certain minimum requirements. Members held office in their individual capacities and not as representatives of those who nominated them.

Impact for Consumers

It is clear from a range of published reports and assessments that there is also little doubt on the part of participants, WICS and independent commentators that the Customer Forum process contributed to a better outcome for customers than would have been likely under a more traditional regulatory process.¹⁰³

This was seen, in particular, in:

- a pricing result that was articulated much more clearly in terms (i.e. fixed nominal prices, CPI-indexed prices) that customers can relate to;

- simultaneous consideration of price and its acceptability alongside service rather than as a consequence of it, with a resultant greater focus on value for money;
- real opportunities to feed in points of detail that actually matter to customers day to day, for instance for business customers a greater rate of water meter replacement on account of the inaccuracy of ageing meters; and
- a focus on improved service for customers.¹⁰⁴

In his evaluation report Littlechild noted that, the sense at a working level is that, in a different process, “the company would not have been willing to concede so much in the way of price, and the regulator would not have been able to make the case for as many customer benefits, as the Customer Forum was able to achieve.”¹⁰⁵

¹⁰³ Involve and Ipsos MORI Scotland. 2017. “Meta-analysis and scoping exercise into public participation in the regulated industries” Pp.134-136. Accessed: 25/2/2018 Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

¹⁰⁴ Bush, H. and Earwaker, J. 2015. “The Future Role of Customer and Stakeholder Engagement in the Water

Industry”. UK Water Industry Research Report. Accessed: 25/2/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

¹⁰⁵ Littlechild, S. 2014. “The Customer Forum: Customer Engagement in the Scottish Water Sector”. *Utilities Policy*. 31, pp.206–218. Accessed: 25/2/2018 Available from: <https://www.eprg.group.cam.ac.uk/the-customer-forum-customer-engagement-in-the-scottish-water-sector/>

CASE STUDY 3: Constructive engagement in airport price control reviews

Initiating Body	UK Civil Aviation Authority (CAA)
Date	2005 - 2013
Location	Heathrow and Gatwick airport

The challenge faced:

The CAA has a statutory responsibility under the Airports Act 1986 to set price caps for airports that are designated by the Secretary of State. After a particularly fraught and contentious 2003 Q4 airport price control review the CAA proposed for the Q5 price reviews a process whereby “some of the work usually carried out by the regulator will instead be taken forward by the airports and their airline customers through a process of ‘constructive engagement’”.¹⁰⁶

This established that airports should first seek to agree relevant sections of their business plans with airlines before submitting them to the CAA focussed on those areas “which most directly affected the cost and quality of the services [airlines] received” and where airlines “should be better placed than the regulator in terms of their knowledge, operational experience and commercial focus”.¹⁰⁷

The intention was that the output of the constructive engagement - i.e. a clear statement of agreement and disagreement between the airport and its airlines - would be a key input into to the CAA's regulatory determination.

What was done

The CAA initiated a programme of customer engagement to inform the development of the

Q5 price control business plan that was designed to ensure airlines and airports could best meet both present and future customers’ needs with regards to service, capacity, resilience and cost efficiency.

In an effort to regulate with a ‘light reign’¹⁰⁸, the CAA initially just provided a structure which companies had to conduct their public engagement within with the intention of not prescribing an overbearing structure of demands on the companies which might inhibit productive engagement. Their intention was to affect a “cultural change” whereby airlines and airports would seek first to resolve their differences rather, than resort to parading them before the regulator. However antagonistic behaviours were entrenched between airlines and airports and trust had yet to be built.¹⁰⁹

For the Q6 review however the CAA set out a much clearer structure for how the process of constructive engagement was to be run, including a timeline for feedback, scope for engagement activities, and the minimum topics which must be discussed.¹¹⁰ The areas designated for constructive engagement specifically included volume and capacity requirements, the nature and level of service inputs and the associated incentive arrangements, opportunities for opex efficiencies and the nature and level of capital expenditure.¹¹¹

It was also mandated by the CAA that airports would establish Customer Engagement Working Groups (CEWG) to oversee the constructive engagement and ensure it adhered to the six operating principles established by the CAA: accountability; transparency; collaboration; ‘no surprises’ (sharing of all relevant information in a timely manner); agreed dispute resolution mechanisms; and, that the CAA's role must be clearly understood as having the final determination.

¹⁰⁶ Civil Aviation Authority. 2005. “Airport Regulation the process for constructive engagement” Accessed: 25/2/2018 Available from: <http://webarchive.nationalarchives.gov.uk/20140605063754/https://www.caa.co.uk/default.aspx?catid=78&pageid=11827>

¹⁰⁷ Civil Aviation Authority. 2004. “Airport regulation: Looking to the future – learning from the past, Review of responses” Accessed: 25/2/2018 Available from: http://webarchive.nationalarchives.gov.uk/20140605063754/https://www.caa.co.uk/docs/5/ergdocs/erg_ercp_airpor_regulationdec04.pdf

¹⁰⁸ Littlechild, S. 2011. “Regulation and Customer Engagement”. *Economics of Energy and Environmental Policy*. Pp.1-15. Accessed: 25/2/2018 Available from: https://www.eprg.group.cam.ac.uk/wp-content/uploads/2014/02/Regulation-and-customer-engagement-eeep_06_Littlechild.1_15.pdf

¹⁰⁹ Bush, H. and Earwaker, J. 2015. “The Future Role of Customer and Stakeholder Engagement in the Water Industry”. UK Water Industry Research Report. Accessed: 25/2/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

¹¹⁰ Civil Aviation Authority 2012 “Airports’ economic regulation review for Q6: CAA Mandate for Constructive Engagement at Heathrow” Accessed: 25/2/2018 Available from: <https://www.caa.co.uk/WorkArea/DownloadAsset.aspx?id=4294975110>

¹¹¹ Bush, H. and Earwaker, J. 2015. “The Future Role of Customer and Stakeholder Engagement in the Water Industry”. UK Water Industry Research Report. Accessed: 25/2/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

The outputs expected by the CAA were a report “setting out both areas of agreement and disagreement for each main element of the price control, the impact or contribution to the priorities of the passenger, and incentive mechanisms such as triggers, SQR etc. to deliver these priorities. The report should also draw out the range of airlines’ respective views on:

- the airlines’ strategic priorities for the Q6 period and beyond; and
- airports’ proposed plan for meeting users and customers’ needs over this period, in terms of service, service quality, capex, opex and price control. Users in this context are passengers and cargo.”¹¹²

Who was involved

The engagement takes place primarily between airlines (as customers) and airports (as providers).

The CAA established that for Q6 the CEWG “should consist of senior commercial, financial, operational and regulatory airline and airline trade body representatives, who would have the ability to commit their respective organisations to conclusions derived through the process” ¹¹³ The members of the group are intended to act as stakeholders representing broader customer interests, both present and future, rather than as individuals. These CEWG’s could be comprised of existing bodies if they were deemed by CAA to be a fair representation of its customer base.

Impact for Consumers

In this context consumers are primarily defined as airlines, with the expectation that

they will represent they will be responsive to the needs of their passengers, and as such the focus of regulatory price setting is directed at the price paid for aviation services by commercial intermediaries rather than end users.

The extent to which agreed outcomes from Constructive Engagement are adopted into price control plans is therefore “subject to the CAA’s consideration of the extent to which the results from any Constructive Engagement reflected the interests of passengers”¹¹⁴ The CAA however did encourage the parties to set out in their reports how agreements met the interests of passengers, so as to maximise the chances of the CAA signing up to any agreement they had reached.

While the CAA recognised that agreement on airports’ plans through constructive engagement might not be possible, it hoped that better definition of areas of agreement and disagreement would enable the regulatory review to be more focussed on issues of contention. Where airports and airlines agreed however the CAA tended to adopt the proposition.

Bush and Earwaker however noted that although the constructive engagement did not produce definitive agreements of the sort that the CAA might have hoped for, it did provide a better forum for discussion than had existed before. It enabled significant consensus on many strategic developments (probably more so at Heathrow than at Gatwick) – and even where consensus was not achieved the reports presented to the regulator yielded valuable information that informed the CAA’s decision-making.¹¹⁵

¹¹² Civil Aviation Authority 2012 “Airports’ economic regulation review for Q6: CAA Mandate for Constructive Engagement at Heathrow” Accessed: 25/2/2018 Available from: <https://www.caa.co.uk/WorkArea/DownloadAsset.aspx?id=4294975110>

¹¹³ *ibid*

¹¹⁴ *ibid*

¹¹⁵ Bush, H. and Earwaker, J. 2015. “The Future Role of Customer and Stakeholder Engagement in the Water Industry”. UK Water Industry Research Report. Accessed: 25/2/2018 Available from: <https://www.ukwir.org/new-report-on-the-future-role-of-customer-and-stakeholder-engagement-in-the-water-industry>

CASE STUDY 4: Ofgem’s Consumer First Panel

Initiating Body	Ofgem
Date	2009 ongoing
Location	Great Britain

The challenge faced:

In 2009 Ofgem commissioned their first Consumer First Panels to enable them to better understand the wide range of consumer experiences. This public engagement was specifically focussed on exploring what information consumers need, want, and understand, in addition to their opinions on relevant privacy issues, in the context of the role Ofgem was playing at that time in enabling consumers to switch energy providers to get the best deal.

Since then Ofgem have continued to convene a Consumer First Panel each year.

What was done?

The Consumer First Panels are a recruited group of domestic energy consumers who meet three or four times a year “to discuss key issues impacting on their participation in the energy market, as well as other topics related to energy.”¹¹⁶ The workshops usually last 3 hours and are facilitated by two or three moderators.

The first session operates as a general ‘temperature check’ on the panel’s general thoughts on the energy sector. This is then followed by presentation of balanced information based on stimulus materials provided by Ofgem to prompt further discussion. These are designed to be deliberative sessions to provide more in-depth insight from consumers, going beyond ‘top of mind’ responses.

It was recognised that some of the information which Panel members were being asked to consider, was quite complex so in more recent years panel discussions were sometimes split over time to allow panel members to digest the information. Despite this, it was suggested by the evaluators that more time for the public to digest complex, industry specific information would sometimes still have been

beneficial in offering well considered feedback¹¹⁷.

The way in which the panel is operated has continued to evolve, with a key focus being to make them as accessible as possible. For example online panels were trialed at one stage but, were found to risk excluding groups not regularly connected to the internet.

The Consumer First Panels are designed to feed into policy, and do not necessarily ask panelists to make a final decision. This recognises the high level of technical complexity of many aspects of the energy regulation sector, which it was not appropriate to assume panelists would have an understanding of. Ofgem found Panels were most successful when discussing issues which were more accessible to Panelists because they were particularly relevant to consumers’ experiences. An Ofgem Senior Consumer Insight Practitioner stated that the criteria for making this decision as “what’s interesting [for the Panelists], what’s relevant [for consumers], what can we definitely discuss (what’s tangible for consumers), what is useful for Ofgem ... and what will definitely have an impact on the direction of travel for consumers.”¹¹⁸

Who was involved?

Each year the panel is made up of between 60-100 consumers drawn from locations across Great Britain. They are recruited to be reflective of energy consumers in terms of a variety of categories. These include age, ethnicity, socio-economic group, tenure, fuel poverty, energy supplier, employment and family status, residence (rural/urban) and also those who face different problems in the energy market e.g. those who have power cuts and those who don’t.

In striving towards a representative sample, they decided to ‘up-weight’ representation of Black and Minority Ethnic groups, rural groups and those living in social and private rented accommodation to ensure the voices of those who are traditionally less likely to participate in an open process (attend a public meeting, make an individual response to a consultation or survey etc.) were effectively heard.

Additionally, Ofgem’s typology of consumers was also used as a framework to identify and broadly proportionally represent different

¹¹⁶ Ofgem. 2018. “The Consumer First Panel” Accessed: 16/02/2018. Available from: <https://www.ofgem.gov.uk/about-us/how-we-engage/engaging-consumer-issues>

¹¹⁷ Involve and Ipsos MORI Scotland. 2017. “Meta-analysis and scoping exercise into public participation in the

regulated industries” Pp.134-136. Accessed: 25/2/2018 Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

¹¹⁸ Involve research interview. February 20, 2018.

types of consumers, such as ‘Savvy Searchers’ and ‘Hassle Haters’¹¹⁹. Membership of these panels is refreshed every year. This is to ensure the panel is made up, as much as it can be, of more typical consumers rather than those who have had the chance to build up atypical levels of literacy in the energy sector.

Whilst a representative sample is strived towards, the panel members are only there to participate as individuals and are not expected to ‘represent’ any particular social group or interest during the workshops. To incentivise their attendance, they are paid a monetary ‘thank you’ for each session they attend.

Impact for Consumers

The panel has been used to raise awareness of Ofgem’s role and deliberate on a wide variety of topics in order to provide the regulator with insight into the various ways policy decisions or proposals would impact consumers. They have been regularly evaluated by the regulator, and external assessors, as offering highly useful feedback, which is evidenced by Ofgem continuing them since 2009.

Examples of Ofgem’s policies that the Consumer First Panels have helped to inform include:

- Identifying the information needed to equip customers to make informed consumer decisions;
- Ofgem’s work on any protections that may be needed for early movers prior to the Government’s mandated smart meter roll-out;
- Ofgem’s review of the Priority Services Register, which was published alongside their Consumer Vulnerability Strategy extending their

understanding of consumers’ expectations of the non-financial support provided by suppliers and distribution companies to consumers in vulnerable circumstances;

- Ofgem’s work with suppliers in terms of communicating with consumers, tariff structures and the process of switching suppliers;
- Ofgem’s consultations with the energy industry, suppliers, environmental groups, and government to help represent the views of, and protect, consumers in the energy market.¹²⁰

Due to often considerable length of time between when an issue is taken to the Consumer First Panel and a policy regarding that issue being finalised, it is not always easy to demonstrate precisely how the discussions within the panel impacted on the final policy.

They key value that Ofgem has found from using Consumer First Panels therefore is their ability to feed into the policy process overall, while not necessarily writing the final version. However it is important to note that this is not always the case; staff identified panel discussion on ‘Value of Lost Load’ (VOLL)¹²¹ as being an instance where the Panel had a direct and major impact on Ofgem policy, because in this case consumers were able to offer the regulator insight from their lived-experience of gas shortages and emergencies which was of immediate use.

Overall Consumer First Panels are considered by Ofgem to be a successful and useful tool for achieving impact for consumers because they establish a positive feedback loop where regulator and consumer were communicating regularly, in detail, about their insights, questions and issues.

¹¹⁹ Williams, B., Silk, A., and Waring, G. 2017. “Consumer Engagement in the Energy Market 2017”. GfK UK Social Research. Accessed: 20/02/2018. Available from: https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf

¹²⁰ Involve and Ipsos MORI Scotland. 2017. “Meta-analysis and scoping exercise into public participation in the regulated industries” Pp.134-136. Accessed: 25/2/2018 Available from: [https://www.cas.org.uk/system/files/publications/meta-](https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf)

[analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf](https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf)

¹²¹ London Economics. 2013. “The Value of Lost Load (VoLL) for Electricity in Great Britain: Final Report for Ofgem and DECC”. Accessed: 20/02/2018. Available from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224028/value_lost_load_electricity_gb.pdf

CASE STUDY 5: Public Water Forum

Initiating Body	Irish Water and Commission for Energy Regulation (CER)
Date	2015 - 2017
Location	Republic of Ireland

The Challenge

The 2014 Water Services Act (Ireland) called for an independent consumer consultative forum to be set up. In response the Public Water Forum was established and is administered by the CER.

What was done

The Public Water Forum was designed to represent public and water consumer interests in developing public water policy in Ireland. Whilst providing a voice for the consumer which communicated with Irish Water and the CER, it also commented on any specific policy which it deemed relevant such as drinking water, affordability, sustainable financing of the water infrastructure with particular reference to the issues of cost recovery, and the 'polluter pays' principle.

The Forum meets every two months to discuss public water policy and how these impact upon different domestic customers. When consultations are held by Irish Water, the CER, or other relevant bodies the Forum's role is to scrutinise them and provide formal responses.

Who was involved

The forum is made up of thirty-two members and a Chairperson who all volunteer (although have their expenses paid).

Under legislation, the CER was given the job of recruiting the members of the Forum. In September 2015 the recruitment campaign began, supported by significant media interest and advertising.

Domestic consumers were invited to submit a written application to become a member of the Public Water Forum. The application form included basic demographic information but

did not ask about their qualifications or motivations. Approximately 250 applications were received.

The domestic members were to be selected to be representative of Irish society – balanced in terms of gender, age and region, and reflective of the urban and rural population.

A total of 20 domestic members were appointed for a period of 3 years from the applications received (and a 100-person reserve panel to allow for drop-out.) The selection of members was carried out randomly (literally drawn from a box) but was carried out in a way that would ensure that they were representative of Irish society generally. The selection process was independently verified and the 20 domestic members met the following criteria:

- At least two people from each age category;
- At least five men and five women;
- At least three people from each location category;
- At least five people from an urban location and five from a rural location;
- At least five registered Irish Water customers and at least five unregistered people.¹²²

There were twelve other members of the panel who were chosen to represent various customer interests such as people with disabilities, environmental groups, people occupying social housing, trade unions and consumer groups.

Impact for consumers

The work of the Forum was impeded by the political upheaval in Ireland after the February 2016 elections which led to the suspension of water charges and an expert committee being appointed to review the situation. As a result of this review the National Water Forum was launched in April 2017 as an expert Stakeholder Group with a much wider remit for water management issues. The Public Water Forum has been incorporated into the National Water Forum as a sub-committee.¹²³

¹²² As the independent website for the Public Water Forum, where this information was originally drawn from, no longer exists the primary source is: Involve and Ipsos MORI Scotland. 2017. "Meta-analysis and scoping exercise into public participation in the regulated industries". Pp.145-148. Accessed 03/03/2018. Available from:

https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

¹²³ National Water Forum. 2017. "About the Forum" Department of Housing, Planning, Community and Local Government. Accessed: 3/03/2018. Available from: http://nationalwaterforum.ie/?page_id=64

CASE STUDY 6: The Economics of Energy Generation

Initiating Body	The Public Accounts Committee of the New South Wales Parliament
Date	2012
Location	New South Wales, Australia

The challenge faced

In 2012 the Public Accounts Committee of the New South Wales Parliament sought the input of citizens from across the state to help them understand the public's views on the potential for, and barriers to, development of alternative forms of energy generation in New South Wales. This deliberative process was run to better inform the Committee's submission to parliament on this issue, and so occurred early on in the policy process, allowing it to help shape the debate.

What was done

The Public Accounts Committee convened two Citizens' Juries, one in urban Sydney and one in rural Tamworth, to ensure potential differences of opinion caused by location were taken into account. Participants were asked to deliberate and agree on "an order of preference, barriers to adoption (including financial aspects and public perception issues), and recommended courses of action with regard to alternative forms of energy generation in NSW."¹²⁴

Each Jury met 4-5 times over a 10 week period to discuss different possibilities and trade-offs. In a deliberative process such as a citizens' jury, it is not expected that the jurors come to the process as 'experts' on the topic. Rather an essential part of the process is providing participants with the information needed to develop informed opinions. It is also important that the information presented to the jurors is balanced and reflects all of the different sides of a debate.

In this case this was achieved primarily by sending jurors a background document that

¹²⁴ Involve and Ipsos MORI Scotland. 2017. "Meta-analysis and scoping exercise into public participation in the regulated industries". Pp.117-118. Accessed 29/2/2018. Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

¹²⁵ Howard, P. G. and Fletcher, S. 2016. "New South Wales Public Deliberation on Electricity Generation".

summarised the submissions that had been made to the Committee's inquiry from relevant and interested parties, including companies, public interest groups and academics. Additionally, stakeholders were invited to submit arguments directly to the juries and the juries were also able to request information or an appearance from experts of their choosing.

At the conclusion of their deliberation the Jurors produced a Citizens Report (i.e. their verdict) which outlined their recommendations, and their reasoning.

Who was involved

8,000 invitations were sent out to randomly selected addresses in each region calling for expressions of interest in participating in the process. From the positive responses received to this invitation a small group was selected in each area to broadly match the population demographics of the community. Each jury was convened with 30 members (although in the end only 54 jurors took part) and their participation throughout the process was entirely voluntary.

Impacts for Consumers

The Jury process was assessed as having a meaningful impact on the development of parliament's policy in this area.¹²⁵ Several of the recommendations the Jury made to the committee were incorporated into the 24 recommendations the committee presented to the New South Wales Parliament, including:

- that there should be a targeted framework to achieve a 100% sustainable energy mix by 2050;
- that parliament should regulate to allow decentralised generation;
- that consumers should be rewarded for the energy efficiency measures that they undertake.

It was also noted that this process enabled the Committee to understand a broader set of perspectives than they would normally receive in the course of an inquiry and as, as such, was welcomed by the members of the Committee and the Parliament overall.¹²⁶

Participedia. Accessed 29/2/2018. Available from: <https://www.participedia.net/en/cases/new-south-wales-public-deliberation-electricitygeneration>.

¹²⁶ Wright, K. and Holland, I. A. 2014. "Deliberative Approach to Consumer Engagement in the Energy Sector". Uniting Care Australia. Accessed 29/2/2018. Available from: <https://www.aph.gov.au/DocumentStore.ashx?id=f3101de6-b552-4966-9635-5ef8b39a4e83&subId=303039>

CASE STUDY 7: Metropolitan Melbourne Sewerage Strategy

Initiating Body	Melbourne Water
Date	2009
Location	Melbourne, Australia

The challenge faced

In the context of rapid population growth within parts of the city Melbourne Water recognised that their approach to investment and management of the sewerage system for the city would have to change and recognised that they needed to involve customers in planning for these changes. Specific issues they wanted to explore included customers' expectations of sewerage services and the economic, social and environmental impact they may have; what customers water usage habits currently were; their willingness to pay for sewerage services; and the variations of views and needs between different segments of the customer population.

What was done

In 2009 Melbourne Water commissioned Ipsos-Eureka¹²⁷ to plan and deliver a series of workshop to engage customers on their sewerage strategy and get their opinions on wider policy objectives. This was intended to help them better understand their customers' awareness, knowledge, attitudes, values and behaviours in relation to sewerage.

The project was undertaken in two stages. Before engaging directly with consumers workshops were conducted firstly with experts from the water sector to share insights into customers, the Melbourne community more broadly and identify key current, and potential future, for Melbourne Water, and secondly with a wider stakeholder group containing officials from across government, water retailers and private organisations. The purpose of these workshops was to develop and test the 'future scenarios' which would be used in the customer workshops to explore and understand expectations and potential behaviours regarding the possible impacts of the features of each of these scenarios on economic, social and environmental aspects of sewerage and sewage management,

production, infrastructure and associated services.

After these, deliberative events with customers were conducted in both the east and the west of the city. The first half of the workshop was designed to identify customers' existing knowledge, attitudes and behaviours through interactive polling and small group, facilitated discussions, provide participants with information on the sewerage system and associated issues and opportunities, and rank initial priorities for the system.

In the second half of the workshop participants used the 'future scenarios' to explore expectations for the future. Each small table group spent an hour discussing in detail what one particular scenario for the future of sewerage services in Melbourne would look like. In these sessions participants were asked to play an 'invisible observer role' and describe what they thought the people there (including different groups within the community) would be thinking and doing in relation to the water and sewerage cycle. This was undertaken by way of working through a series of worksheets in relation to generally living in Melbourne and expectations of the sewerage system, water sources and uses.

Following their deliberations each table presented their conclusions to the other group before the whole group voted on a series of questions about the scenarios. An important distinction is that at this stage participants were asked to imagine that they had awoken to find themselves actually living in that world/scenario, at their current age, rather than just being observers. The workshops concluded with each participant individually writing their own message to Melbourne Water containing their aspirations for the Strategy.

Who was involved

40 participants were recruited for each of the customer workshops (with 77 attending) by a specialist research recruitment agency, according to strict specifications to ensure representation from an appropriate mix of the community took part in the research.

They were incentivised to attend the 5 ½ hour workshop through payment of \$220 (Aus.) which was credited with having contributed to the diversity of the participants who took part.

¹²⁷ This case study is based on an unpublished report by Ipsos-Eureka that was accessed during the preparation of a previous report for the Consumer Futures Unit. Involve and Ipsos MORI Scotland. 2017. "Meta-analysis and scoping exercise into public participation in the regulated

industries". Pp.165-167. Accessed 6/2/2018. Available from: https://www.cas.org.uk/system/files/publications/meta-analysis_and_scoping_exercise_into_public_participation_in_the_regulated_industries_ipsos_mori_involve_-_2017-10-12.pdf

Impact for Consumers

The insight into what the community's expectations and aspirations for sewage management gained from these workshops was used by the company to inform Melbourne's water and sewerage future infrastructure strategy, although direct evidence of specific impacts is not available.

It is also important to note that evaluation of the process showed that customers who

participated enjoyed the workshops, and took their deliberations very seriously. Feedback from participants at the time indicated that they found the sessions interesting and informative, despite having no previous motivation to engage directly with the subject or the company, and that they sincerely appreciated having been asked for their opinions. This means that they are likely to be more aware and engaged with these issues in the future and also have greater trust that the company has their best interests at heart.

CASE STUDY 8: City of Melbourne People's Panel

Initiating Body	City of Melbourne Council
Date	2014
Location	Melbourne, Australia

The challenge faced

The City of Melbourne Council faced the challenge of balancing its budget, within a context of a growing need for infrastructure investment and a changing population. This task was made more challenging by the \$1.2bn (AUD) gap between what council had promised to deliver over the 10 year period and its capacity to fund it on current budget settings. In preparing for its 10 Year Financial Plan (covering expenditure of \$5bn AUD) it sought advice from the public to help determine how projects should be funded and which ones were prioritised.

What was done

In 2014 the City of Melbourne commissioned a People's Panel to engage with the citizens throughout the process of developing the city's 10 Year Plan. Its remit, as presented by the Council was to reach conclusions about how the city could ensure "we remain one of the world's most livable cities, while maintaining our strong financial position."¹²⁸

The Panel process was designed to operate in 4 stages (with a few weeks break between meetings):

1. **learning:** It was recognised from the outset that, to be most effective the public involved would have to learn quite a lot about the topic and issues faced by the Council. To help achieve this information packs were provided, time given within the learning phase for participants to discuss and digest the information with experts, and there was also a continued opportunity throughout the process for Panelists to request information on a specific topic and/or the attendance of different speakers.¹²⁹ The learning stage also served to help members understand the role of the Panel and

set out principles for how it could achieve its goals.

2. **understanding:** this stage focussed on getting to grips with what challenges the city faced and what information they were lacking to begin to answer these challenges.
3. **focus:** the focus stage saw the Panel agree a structure and outline for their report to be delivered to the City of Melbourne.
4. **reflect, discuss, deliberate:** here Panelists agreed a long list of ideas and pulled together collective priorities before working towards building consensus, and fleshing out the recommendations they would make based on their agreed goals.

In the end 11 recommendations reached the required supermajority of 80% approval within the Panel to then be taken to the City of Melbourne.

Who was involved

There were 7,500 invites sent out to citizens randomly who were given a three week period in which to respond. Around 2,000 responses were received and from this sample 45 panelists were chosen (stratified for age, gender, ratepayer status and location). They also ensured to involve both small and large business representatives and a mix of homeowners and renters.

They met for a series of full day Saturday sittings between August and October 2014. In an effort to address any bias in the recruitment process, each Panelist was paid \$500 (AUD) for their participation to ensure those from all socioeconomic backgrounds could take part.

Impact for Consumers

This success of this process is attributed, by Chwalisz, as being primarily down to the fact that the problem it sought to address was clearly defined and that "the council was open to hearing the panel's proposals".¹³⁰

The proposals presented by the panel included a wide range of recommendations about priority projects, services, revenue and spending, including:

- increasing funding to address climate change (focusing on measures

¹²⁸ City of Melbourne. 2014. "10 Year Financial Plan" Participate Melbourne. Accessed 6/2/2018. Available from: <https://participate.melbourne.vic.gov.au/10yearplan>

¹²⁹ Chwalisz, C. 2017. "The People's Verdict: Adding Informed Citizen Voices to Public Decision-Making". 1st ed. London: Rowman and Littlefield.

¹³⁰ *ibid*

including vertical gardens, solar panels and improved recycling processes);

- a 5 year plan for introducing more bicycle lanes in the city;
- supporting the sales of non-core assets to reduce the council's property portfolio but recommending against the privatisation of Citywide, the council-owned infrastructure and environmental services business;
- decreasing expenditure on new capital works by 10% over the next 10 years;
- raising rates (the equivalent of Council tax) by inflation plus up to 2.5% per annum for 10 years

The final 10 Year Financial Plan produced by the City of Melbourne Council was heavily influenced by the People's Panel: 10 of the 11 recommendations made by the Panel made

were broadly accepted by the Council, and all were acknowledged with specific responses to them published explaining why they were either picked up, edited or rejected. It also enabled them to close an \$800-900m (AUD) budget hole. Further this process had the ability to place the long term interests of citizens at the heart of the decision making process by taking considerations outside of the electoral cycle.¹³¹

This deliberative process was not just a success in producing suitable policy, but also had the knock on effect of increasing panel members' sense of efficacy and satisfaction with city's direction: 96% of them highly rated their experience as part of the People's Panel.¹³² At the end of the process the same survey also concluded that participants had "higher levels of confidence in the City of Melbourne" indicating that the process achieved dual goals of both producing quality policy and improving people's relationship with decision-making.

¹³¹ New Democracy Foundation. 2014. "City of Melbourne People's Panel" Accessed 6/2/2018. Available from: <https://www.newdemocracy.com.au/our-work/183-city-of-melbourne-people-s-panel>

¹³² Molony, L. 2015. "Evaluation of the community engagement process for the 10 Year Financial Plan".

Prepared for City of Melbourne by Clear Horizon Consulting. Accessed 6/2/2018. Available from: https://www.newdemocracy.com.au/docs/activeprojects/Evaluation_of_community_engagement_for_the_10_Year_Financial_Plan.pdf .

Survey sent to energy network companies to inform this research

Engaging and seeking the views of consumers

1. What were the main issues on which you sought consumer views a) during preparation of your business plan under RIIO-1, and b) during the price control period?
2. Please outline the methods through which you sought the views of different groups of consumers, including the use of different techniques (representative surveys, focus groups, open invitation events) at different stages (scoping, detailed proposals, final version, ongoing during delivery) of a) business plan development, and b) service delivery during the price control period.
3. How did you ensure those participating through different means and stages were representative of your consumer base – for example, were there any particular groups (such as vulnerable, low income, or future consumers) that were harder to engage? If so, are there aspects of successful engagement of these groups you would like to highlight?

Consumer representatives in stakeholder groups

4. Please outline the extent to which consumers (or their representatives) were involved in stakeholder panels, expert groups or other structures that you set up, and the remit of different groups. How did you decide which stakeholders should be involved?
5. Was it necessary to build the capacity of stakeholders to ensure they were sufficiently knowledgeable to offer informed insight into both plan preparation and delivery, and if so, what steps did you take to achieve that aim?
6. Please describe how these structures have evolved since the agreement of RIIO-1 business plans.

Results of consumer engagement

7. Did any of the consumer engagement processes above raise any new issues, or unexpected (high or low) emphasis on different aspects of your a) business plan, and b) of your ongoing activities?
8. Were there aspects of your business plan and ongoing activities on which you found it particularly difficult to engage consumers? If you successfully used innovative approaches to overcome this barrier, please describe them.
9. Were there aspects of your business plan and ongoing activities on which you did not seek consumers' views? If so, what were these, and what do you see as the barriers / solutions to widening engagement in the future?
10. How did you integrate the views of consumers alongside those of other stakeholders?
11. Please identify aspects of your RIIO-1 business plan and ongoing activities which changed as a result of the engagement process with consumers. If possible, describe what difference these changes made to consumers.

Looking ahead to RIIO-2

12. What do you see as likely key network issues affecting consumers for RIIO-2 (or in the longer term)?
13. Do you intend to engage consumers differently in the development of future business plans, and if so, in what ways?
14. What guidance or support would help you take this forward, and from what sources?
15. Finally, we would welcome any further information you think is relevant but which is not covered by the questions above.