

## AUSTRALIAN ENERGY REGULATOR

### STAKEHOLDER ENGAGEMENT FRAMEWORK REVIEW: Enhancing engagement between the AER and its stakeholders

#### Workshop pre-reading

The AER's performance in meeting our stakeholders' needs and expectations is key to our success as Australia's energy regulator.

We survey our stakeholders every two years to gather perceptions of our performance across a wide range of measures, including their ability to engage with us in a meaningful way on the issues that matter to them.

Our 2016 survey found that the majority of our stakeholders believe we are performing well overall. Satisfaction increased in most areas and we received strong positive feedback about our increased transparency, improved engagement and communication materials.

The survey also highlighted areas where we can further improve, including by better tailoring our communication and consultation to the needs of our different stakeholders, and providing more transparency about the way in which stakeholder input is considered and how it informs our decisions.

These issues are among those we will be seeking your views about at the workshop on 23 February, when we will be working together to further improve the framework which guides our engagement with you.

In preparation for the workshop, we have put together three brief examples of how other organisations are meeting these challenges. These are intended to provide background to the discussions next week.

During the workshop we will be seeking your views on how these examples may be applicable to the approach taken by the AER for different aspects of our work, both currently and in the future, to help deliver positive long-term outcomes for consumers.

## **Example 1: Tailoring consultation and engagement processes to meet different stakeholder needs**

From <http://www.energynetworks.com.au/case-study-one>

Distribution network businesses are required to engage with their customers and to consider customer impacts in the development of Tariff Structure Statements (TSS). Distributor X noted that these obligations aligned with its core values and this provided an opportunity to test its engagement practices within a meaningful program.

In preparing its TSS, Distributor X developed a detailed engagement plan with key activities for customers, representative groups, regulators, government and others, aligned to relevant International Association of Public Participation (IAP2) levels of engagement.

Stage one of the engagement process aimed to deliver a program that met the 'inform' and 'consult' levels of the IAP2 framework through the publication of a discussion paper and the hosting of four workshops open to all customers to gain customer feedback on the tariff principles and achieve customer consensus on the proposed design.

At the second workshop it became apparent that not all participants shared the same view of the need for tariff reform, causing some participants to disengage in the process.

It was apparent that:

- Engagement had moved too quickly into the 'consult' step without sufficient explanation of a complex concept. As a result, it failed to meet customer needs.
- The feedback collected through the engagement wasn't meeting the needs or expectations of Distributor X.
- The goal of customer consensus was unrealistic and wasn't best practice engagement.
- Running 'all-in' workshops might be easier from an organising perspective as it is less resource intensive, but it wasn't providing an opportunity for divergent views to be appropriately discussed and considered. Therefore, it wasn't appropriate to have all customer types and stakeholders in the same workshop.
- The majority of time at workshops was spent informing customers with little time devoted to consulting or collaborating with customers.

In order to identify a way forward, key stakeholders were approached individually to provide frank feedback on the engagement process, and a commitment was given that the feedback would be used to design the remaining workshops. The feedback included customer views that:

- The workshops wasted customers' time.
- The interests of different stakeholders weren't being discussed and there was a perception that 'whoever shouts the loudest wins'.
- There were concerns that the decision to use demand tariffs was not clearly explained and that any attempt to discuss the design of the tariffs was an attempt to cover up the decision.
- Transparency was becoming an issue as there wasn't trust between stakeholders and Distributor X.

As a result of this feedback, workshop three focused on providing the necessary background information for tariff decisions and a comprehensive yet simple education program on demand tariffs and existing tariffs. The aims of the workshop were communicated to all who had participated in previous workshops so that there were realistic expectations of what the workshop would deliver.

Following workshop three, participants were contacted to discuss the outcomes of the workshop and whether they felt concerns regarding the engagement process were being addressed. In

these informal discussions participants expressed more confidence in the process and an eagerness to continue engaging with Distributor X.

To meet stakeholder expectations around collaboration, workshop four introduced the concept of customer co-design. The facilitation style was changed from previous workshops to a style that promoted collaboration and supported creativity among participants. This resulted in quality customer and stakeholder input into the design of the residential and small business demand tariffs.

### **Key engagement lessons**

Many customers and stakeholders felt that the individual needs of their constituents or groups weren't able to be addressed using what was perceived to be a 'one size fits all' approach to engagement.

Using the IAP2 public participation spectrum and the AER's Consumer Engagement Guideline for Network Service Providers as a framework/guide, the engagement practice was modified to a more tailored approach to engagement that emphasised partnerships. This allowed flexibility in approach rather than adherence at any given point in time to the discrete steps within the IAP2 framework.

Another limitation of the initial process was the ability to reach all customers. For previous engagement processes, surveys were used to reach the mass market of residential and business customers and insights were used to inform key decisions. Feedback was received from customer advocacy groups that surveys were being relied on too heavily for engagement and that good practice engagement required distributors to work more with advocacy groups and to rely on advocate networks for broader engagement.

Considerable time was spent analysing the results of the workshops and the feedback on tariffs received as part of the process to redesign the tariffs. The Customer Engagement Team focused on understanding what worked and what didn't work from stage one to ensure improvement in engagement practice.

### **Tailored engagement**

Ongoing engagement focused on understanding and meeting the needs and expectations of stakeholders. One-on-one meetings with customer advocacy groups were organised, with the engagement team calling a few days ahead to clarify the purpose of the meeting and to ascertain if any specific information was required.

This meant that subject matter experts were able to tailor the information to the needs of the stakeholders, leading to informed discussions.

There were other key elements of this engagement that enabled a tailored approach:

- Meetings were offered at the stakeholders' location.
- Subject matter experts were included in the meetings to hear and discuss first-hand the issues raised.
- Presentations were provided before meetings wherever possible.
- Meetings were followed up with phone calls and emails to ascertain if further information/clarification was required.
- These meetings provided stakeholders with opportunities to ask questions specific to their representative group and constituents, and also allowed the testing of ideas with specific groups before broadly consulting on those ideas.

## **Results from engagement process**

The changes to the engagement process resulted in widespread understanding among customer advocacy groups of why tariff reform was required, support for the majority of tariff elements and a mutual acceptance that there was agreement to disagree.

The benefits for Distributor X were:

- The development of tariffs that addressed the needs of customers.
- Greater understanding of the remaining concerns of customer advocacy groups.
- Confidence from key decision makers and regulators that tariff decisions had been informed by customers.
- A better product that considered market factors not just tariffs.

A clear benefit for the organisation was the establishment of relationships with customer groups based on trust which benefited both Distributor X and the customer groups. These relationships have continued beyond the tariff development program and are being utilised to develop joint work in community benefit programs for vulnerable customers and to devise strategic initiatives.

## **Example 2: Building trust and fostering productive relationships with stakeholders**

From <http://www.sustainabilityfirst.org.uk/index.php/new-pin-publications>.

Sustainability First is a small UK environmental think-tank. The charity's New-Energy and Water Public Interest Network (New-Pin) project brings together public interest advocates, companies, regulators and government departments with an interest in energy and water to build understanding, strengthen stakeholder engagement and stimulate a more 'inclusive' perspective on governance.

In November 2016, New-Pin released a discussion paper on current approaches to stakeholder engagement - *Consumer, citizen and stakeholder engagement and capacity building in the energy and water sectors. Is the long-term public interest sufficiently represented?* The paper explores gaps, barriers and enablers to engagement on long-term public interest issues.

The paper is based on literature review, interviews with 23 New-Pin Network members and others, case studies from the water and energy sectors and more widely, and a workshop of New-Pin Network members held on 19 October 2016.

### **Key findings**

The discussion paper finds that while there is no single best approach to engagement, and that activities need to be tailored to suit each circumstance, decision-makers need to be clear about the purpose of any specific engagement exercise.

*"Without clear objectives, they will find it difficult to communicate the rationale for a process to those that they want to engage and to monitor impact – both within their own organisations and more widely."*

The paper suggests three over-arching objectives for engagement in the energy sector:

- **Consumer outcomes:** to address market failures and inform thinking on how to deliver more efficient, innovative and value for money services – including how much consumers are willing to pay for given service levels.
- **Legitimacy:** to give stakeholders a voice in decision-making and to test and ensure that consumers and citizens are willing to accept certain service levels or packages, both for the short and long-term.
- **Cultural:** to alter the behaviour and culture in the energy sector, helping companies move from being commodity to service providers that actively engage the demand side & work in partnership with customers.

While engagement in regulated networks has been widely welcomed in the UK, the paper also identifies a number of gaps and barriers to engagement on long-term public interest issues, including:

1. Engagement on 'big ticket' issues such as rates of return and strategic investments in the energy sector is not always sufficient for longer-term or emerging issues.
2. Engagement should focus whenever possible on the parts of the value chain that have the greatest impact on consumers and citizens and to bring this picture together into one coherent view.
3. Given that energy is an essential service, ensuring engagement with all consumer groups – including those in vulnerable circumstances – is important. Where there are long-term distributional issues that have implications across company boundaries, regulators and policy makers may also need to engage.
4. Increasing interest in local generation is leading to debates about the concept of customer and citizenship at the local level. There are opportunities for engagement at this level to forge new collaborative partnerships for service delivery.

5. There is a need for more joint or coordinated engagement activity on those issues of public interest common across the energy sector and, more broadly, to include the water sector.
6. Ensuring that the interests of future citizens are reflected in decision-making presents a challenge. Assessing the views of future users can be difficult given risks and uncertainties, present and optimism bias, and inertia. Engagement needs to take account of changing behaviours and expectations of different generations and the impact of demographic, technological and climate issues on future users.

### Building trust

The paper identifies key factors required to achieve meaningful engagement in the energy sector, including managing public expectations in the context of competition policy. The findings include the need to:

- Being clear about who ‘owns’ the decision to engage and how different interests are weighted or triangulated.
- Adapt regulatory frameworks to maximise the benefits of engagement.
- Provide greater clarity about the breadth of engagement so stakeholders can judge the commitment and resources required.
- Provide resources to enable the participation of public interest groups, while maintaining appropriate checks and balances to avoid conflicts of interest.
- Explicitly recognising conflicting views and interests and partnering with stakeholders to explore how they may be addressed.
- Demonstrate what has changed as a result of the engagement, including both the benefits and limitations of engagement.
- Measure the impact of engagement, both immediately and over time using devices such as ‘challenge logs’ (“you said; we did”).

### Decision making framework

Drawing on the key findings, New-Pin developed a Decision Making Framework to guide companies, regulators, policy makers and public interest advocates when they are thinking about what the right approach to engagement is in their situation.

<b>PRINCIPLE</b>	<b>SUGGESTED QUESTIONS TO GUIDE DECISION-MAKING ON ENGAGEMENT IN THE LONG-TERM PUBLIC INTEREST</b>
<b>CLEAR OBJECTIVES</b>	<ol style="list-style-type: none"> <li>1. Why do you want to engage? What is the objective of the engagement that you want to carry out? <ul style="list-style-type: none"> <li>• What’s the problem or weakness that you hope engagement can help you address?</li> </ul> </li> <li>2. Who owns the decision and the engagement process? <ul style="list-style-type: none"> <li>• Who will be responsible for setting the agenda for the engagement activity?</li> </ul> </li> <li>3. What are the policy, regulatory and company ‘red lines’ as to what you should / shouldn’t engage in? <ul style="list-style-type: none"> <li>• Why has the engagement exercise been ‘framed’ as it has?</li> </ul> </li> </ol>
<b>INCLUSIVE</b>	<ol style="list-style-type: none"> <li>4. How will you ensure that the people that you want to engage are sufficiently representative? <ul style="list-style-type: none"> <li>• How will you bridge the gap between consumer and citizen input and, where appropriate, local, regional and national views?</li> </ul> </li> <li>5. What barriers to engagement do those you seek to involve face and what measures have you put in place to help overcome these? <ul style="list-style-type: none"> <li>• How will you ‘nurture’ and build capacity amongst your stakeholders over time?</li> </ul> </li> </ol>
<b>TAILORED</b>	<ol style="list-style-type: none"> <li>6. When is the right time to engage?</li> </ol>

<p><b>TRANSPARENT</b></p>	<ul style="list-style-type: none"> <li>• How will you ensure early engagement for strategic, long-term and upstream issues so that people can understand and shape the future decision making process?</li> </ul> <p>7. What are the most appropriate and proportionate engagement approaches for the circumstances?</p> <ul style="list-style-type: none"> <li>• How will the outputs from engagement be used by decision makers?</li> </ul> <p>8. What are the various roles, responsibilities &amp; reporting arrangements for the engagement process?</p> <ul style="list-style-type: none"> <li>• How are these set out in governance arrangements and what checks and balances are in place to ensure independence?</li> </ul> <p>9. How are you ensuring that those you seek to engage have adequate and timely access to information and is it clear how this is best provided to them?</p> <ul style="list-style-type: none"> <li>• Is it clear what the 'vision' for the organisation is, the behaviours that are being encouraged and how engagement can feed into these?</li> </ul> <p>10. What feedback arrangements are in place between those engaged and those doing the engaging, and with wider stakeholders (in both cases both ways), to build understanding and legitimacy?</p> <ul style="list-style-type: none"> <li>• Is it clear what the 'golden thread' linking the input from engagement into key decisions is?</li> </ul>
<p><b>DEVELOPING</b></p>	<p>11. How will the impact of engagement be assessed, who will do this &amp; is there agreement on this point?</p> <ul style="list-style-type: none"> <li>• What outcomes will the engagement deliver?</li> </ul> <p>12. What arrangements are in place to embed and refresh engagement following this exercise?</p> <ul style="list-style-type: none"> <li>• How will engagement be 'future proofed'?</li> </ul> <p>13. What have those undertaking the engagement done to take any wider findings from this exercise into the organisation's policies and procedures?</p> <ul style="list-style-type: none"> <li>• What knowledge management systems are in place to improve ongoing business intelligence and develop a more holistic picture of the end-to-end customer experience and views?</li> </ul>

### **Example 3: Communicating how stakeholder input informs decisions**

*This example comes from the UK retail sector and is an example of how to increase transparency, how stakeholder feedback has been used to inform new approaches across the business, and how the priorities set as a result of this consultation are being measured and reported.*

*While it has nothing to do with energy, and there are vast differences between delivering an essential service and discretionary retailing, there are clear similarities in the focus on stakeholders and consumers.*

*Stakeholders have told us that we could better explain how stakeholder input is considered in our decision-making and this case study offers some interesting ideas that we can explore.*

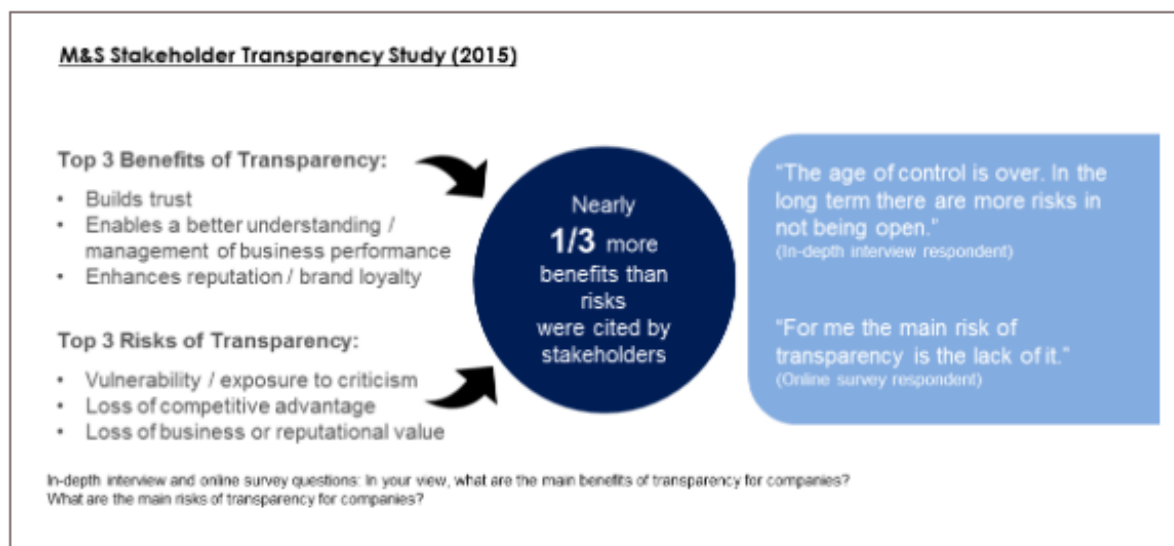
Founded in 1884 in the UK, Marks & Spencer (M&S) has gone from a single market stall to an international, multi-channel retailer with over 32 million customers through 914 UK stores and an international e-commerce platform. The company is also recognised as a world leader in corporate governance and sustainability.<sup>1</sup>

The company's key corporate social responsibility initiative, Plan A, was launched 10 years ago setting out 100 commitments focused on sourcing responsibly, reducing waste and helping communities to make M&S the world's most sustainable major retailer. A revised Plan A was released in 2014 with 100 new, revised and existing commitments and a focus on building trust through increased transparency.

#### **Why transparency?**

The 2015 M&S Stakeholder Transparency Study<sup>2</sup>, undertaken by GlobeScan, found a strong case for organisational transparency, with the benefits of transparency clearly outweighing the risks.

*"In today's wired world, failing to be transparent is considered to be riskier than being transparent."*



<sup>1</sup> See <https://corporate.marksandspencer.com/plan-a/our-approach/delivering-plan-a/sustainability-benchmarks-indices> and <https://corporate.marksandspencer.com/plan-a/our-approach/delivering-plan-a/plan-a-awards2/awards-2010-2014> accessed 31 January 2017. For further background see <https://corporate.marksandspencer.com/plan-a/our-approach/delivering-plan-a/listening-and-taking-action>.

<sup>2</sup> <http://www.globescan.com/component/edocman/?view=document&id=181&Itemid=591> accessed 1 February 2017.



Source: GlobeScan 2015

The research found that, beyond data and targets, stakeholders expect organisations to provide context around their decisions, to talk more broadly about their issues (risks and opportunities), the strategies and plans put in place to address these issues, the governance and decision-making systems used to support the implementation of these strategies, and ultimately, how all of this relates to the bigger purpose and vision.

It also found that “how” organisations share information matters as much to stakeholders as “what” is shared. When asked to define transparency, stakeholders focus as much on the type of data they expect organisations to share as on the way in which they expect organisations to make it available to them. To stakeholders, it is important that organisations be open and honest, make their data easily accessible, and engage in two-way dialogue.

Despite the benefits, the research found that large companies’ performance is lagging expectations. More than half of online survey respondents (54%) believed companies are not transparent today, and over 75% said that little improvement has been made over the past five years.

Stakeholders perceived that large organisations make limited (selective) disclosure across their areas of business risks and have an internal mind-set incompatible with transparency when it comes to explaining how they make their decisions on a day-to-day basis.

## **The M&S approach**

Taking this feedback into account, a number of changes were made to improve transparency, addressing both the types of information available and how it is communicated. The approach is largely guided by stakeholder preferences on ways to listen to their views and respond.

### Improving information transparency

In response to stakeholder feedback, M&S improved the structure of the Plan A Report and started refreshing the Plan A website to make information more easily accessible and added new content.

Other initiatives included:

- Launching a Plan A Challenges website.
- Publishing details of how Plan A product attributes are identified and measured.
- Starting to review the business to identify opportunities for improved transparency.
- Launching a quarterly Plan A newsletter .
- Publishing the first M&S Human Rights Report.
- Publishing for the first time an interactive map featuring the locations of all active clothing and food manufacturers.
- Beginning to disclose additional information on the approach to auditing and audit results.
- Launching a new section of its website to make it easier for customers to see how it is building Plan A into products.

### How engagement occurs

M&S engagement with stakeholders reflects the relative importance of their concerns and their preferences, and occurs in three different ways:

1. Reactively: responding to information requests, questions and enquiries, including those relevant to Plan A and specific sustainability issues.
2. Passively: providing information to ensure stakeholders are better informed about programs and can access information that interests them.

3. Proactively: facilitating dialogue and engagement with key stakeholders to actively involve them in the delivery of Plan A by finding innovative solutions to sustainability challenges, and to share emerging and best practice.

The table below lists the main M&S stakeholder groups and provides examples of the ways engagement occurs

<b>Stakeholder group</b>	<b>How M&amp;S listens and engages</b>
Customers	Monitoring sales of products Participation in Plan A activities and campaigns Contact with Retail Customer Services Feedback through Plan A email service Research and surveys Social media
Employees	Plan A Champions Business Involvement Groups Feedback through Plan A email Annual 'Your Say' survey Independent internal hotlines Participation in Plan A activities and campaigns
Investors	Annual General Meeting Meetings with institutional investors Survey of institutional investors SRI indexes and information requests
Suppliers	Supplier conferences Tendering processes Supplier Exchange website and network Visits and meetings Agricultural shows
Media	News releases Social media Interviews Visits and meetings Feedback through Plan A email service
Government and regulators	Meetings Dialogue with trade bodies Responses to consultations Plan A stakeholder conferences
Wider society (NGOs, industry organisations, multi-stakeholder initiatives, community groups and sustainability experts)	Visits and meetings Participation in benchmarking and surveys Industry working groups Multi-stakeholder initiatives Joint projects Plan A 2020 Challenges website Plan A stakeholder conference Sustainable Retail Advisory Board

The Plan A 2020 commitments have been developed in a 'Listening and Taking Action Matrix', taking into account their importance to stakeholders and importance to M&S.

Around 40 commitments were ranked as being of high importance to stakeholders and of either high or medium importance to M&S. These commitments are now all independently assured. All our other commitments are assured by the M&S Internal Audit team.