



White Paper

The Rising Value of Stakeholder Engagement in Today's High-Stakes Power Landscape

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Shareables

- Rapid advancements in technology and economics and expanding market participants create higher stakes regulatory decisions—more on the line and greater potential for unintended consequences.
- Robust stakeholder engagement processes augment traditional adjudicated regulation: Done right, they decrease risk and deliver better value.
- Five key success factors differentiate effective stakeholder engagements.

Executive Summary

As shifts in technology, consumer expectations, and policy continue to transform the electric sector, the stakes are high for utilities and the regulatory commissions that oversee them. The issues underlying regulatory decisions are becoming more complex, while the outcomes of those decisions have significant financial consequences for an expanding set of market participants. Industry evolution is mostly through regulatory channels, which places commissions in the role of having to decide increasingly complex, strategic, and potentially precedent-setting issues.

The traditional approach of resolution via adjudicated proceeding is increasingly underequipped to deliver balanced, long-term solutions.

Given this context, a well-designed and implemented stakeholder engagement process provides a number of advantages that enhance the traditional—and more adversarial—adjudicated regulatory process. It can foster constructive working relationships and build a level of trust among parties, thereby supporting the kind of collaboration that is increasingly essential to working through today's complicated and multifaceted energy challenges. Stakeholder processes can also reveal common ground, improve the quality and efficiency of regulatory proceedings, and increase the likelihood of producing more creative and optimal outcomes that appropriately balance a range of interests. All parties, therefore, can benefit through better information, decreased risk, and smarter solutions.

But not all stakeholder processes are equally successful. Five "must-do" factors influence their effectiveness:

1. Establish a clear regulatory relationship. Uncertainty about the role of a stakeholder engagement track vis-à-vis the standard regulatory track reduces buy-in and can limit the influence of the stakeholder process.
2. Set clear objectives and process parameters. Some stakeholder engagements have failed to set clear desired outcomes or have misaligned goals with the process put in place. As a consequence, the process often gets off track and fails to deliver actionable results.
3. Enlist a knowledgeable and objective facilitator, giving the process the highest probability of revealing well-grounded and mutually acceptable solutions.
4. Establish an effective organizational structure—an often-overlooked but nonetheless critical component that leverages best practices of management and group-dynamic professionals.
5. Assemble a diverse and representative group of stakeholders to ensure that potential consensus points are practical, technically robust, and broadly acceptable.

Why Engage?

There are three primary benefits to proactively engaging stakeholders. First, stakeholder processes provide a forum for information sharing and education, which can foster a common baseline understanding of issues and a common vocabulary. With a stronger collective understanding, parties are likely to have more meaningful and practical dialogue that is focused on what matters most. This benefits all parties, but especially regulators who must navigate an increasingly tangled thicket of technical information and business interests.

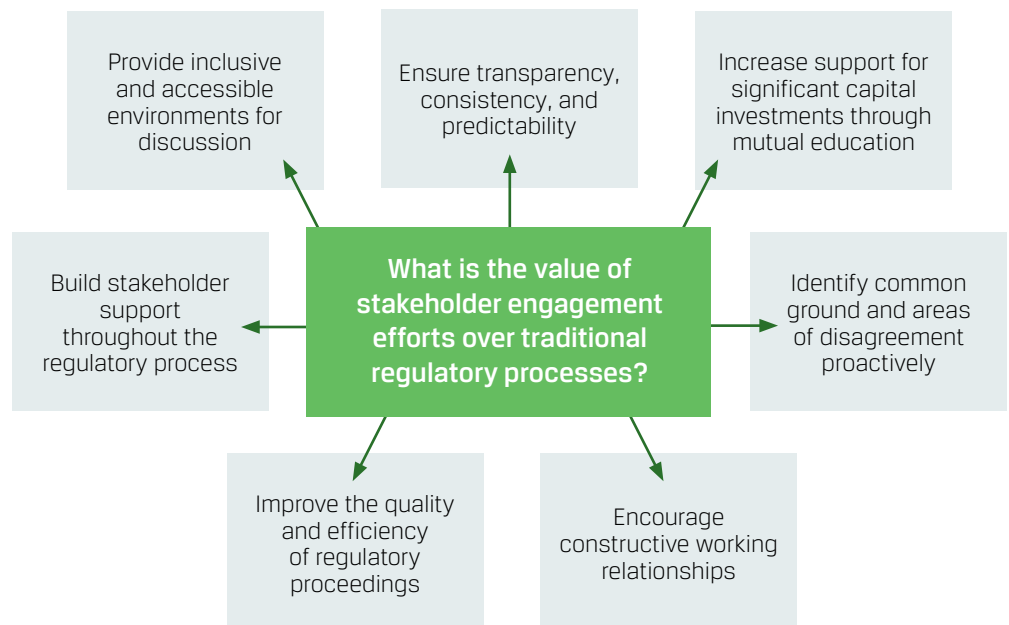
Second, stakeholder engagement can result in a narrowing of differences and building of support before engaging in the typical back and forth of regulatory proceedings. This back and forth, largely between regulatory lawyers and policy advocates, can result in entrenchment of positions and ultimately win/lose outcomes, as opposed to the development of new and potentially innovative alternatives derived from discussions among subject matter experts that might better balance utilities' and stakeholders' objectives. Successful stakeholder

engagement enables the resolution of some issues and clarifies areas of genuine disagreement, providing regulators with more complete and concise information about where parties stand on the questions at hand.

Finally, stakeholder processes can produce long-term relationship benefits. These processes typically are more inclusive and accessible than regulatory proceedings. They also provide greater opportunity to get to know people, as opposed to positions and posturing. In facilitating such processes, ICF has seen how a properly designed and well-facilitated process will open the lines of communication and help to bridge opposing viewpoints.

What do these benefits mean for the various parties involved? For regulators, the result is a better flow of actionable information upon which to base their rulings, a narrower scope of issues that they must rule on, and greater buy-in from the parties. In a time of rapid change and greater uncertainty, this creates a sense of collective action and shared risk around unforeseen consequences. For the regulated utilities, a stakeholder engagement process is an opportunity to enhance their relationships with regulators and stakeholders and create a regulatory environment with greater transparency and predictability. This may decrease business risk and contribute to favorable financial assessments.¹ For stakeholders, the opportunity to educate utilities and regulators about their needs and capabilities as well as learn about current utility practices and future plans is enhanced through a stakeholder process and can ultimately lead to more informed and effective participation in regulatory processes.

FIGURE 1: POTENTIAL BENEFITS OF SUCCESSFUL STAKEHOLDER ENGAGEMENT



Source: ICF

¹ Todd A. Shipman, "Assessing U.S. investor-owned utility regulatory environments," S&P Global Ratings, August 10, 2016.



Stakeholder Engagement Checklist

- Clarify the regulatory relationship
- Set clear objectives and process parameters
- Enlist a knowledgeable, skilled, and objective facilitator
- Establish an effective organizational structure
- Assemble diverse/representative stakeholders

Despite these potential benefits, stakeholder processes are not without challenges. By their nature, stakeholder engagement demands that parties accept some degree of vulnerability by sharing information, participating in authentic dialogue, and being open to new perspectives. A poorly designed and executed stakeholder process may create barriers to such openness. For example, an unrepresentative or lopsided mix of stakeholders can skew outcomes and misrepresent the level of real agreement, leaving some parties disadvantaged and regulators unsure of the input they have received. On the other hand, a carefully designed and well-run stakeholder engagement process can greatly increase the chances of realizing the benefits of openness. The five factors discussed below are critical to positioning a process for success.

Five Factors for Success

Five factors are critical for a successful stakeholder engagement process.

Clarify the regulatory relationship

Stakeholder processes vary in their relationship to the regulatory process and the regulatory requirements that govern them. The following are three different models in place for processes around the country:

- Processes that are voluntary and outside of the regulatory process allow for considerable flexibility on topics and pace. However, they tend to lead to a less structured discussion and may have less influence on relevant regulatory direction and outcomes. Phases I and II of Minnesota's e21 Initiative have followed this model.
- Processes that are ordered and often overseen by regulatory staff, including the scoping of specific deliverables and participating in the discussions, result in a more direct path to shape regulatory direction and outcomes. New York's Reforming the Energy Vision (REV) Distributed System Implementation Plan stakeholder engagement process is an example.
- Processes that have tacit state policy and/or regulatory sponsorship (not ordered) can provide more structure to the scope and pace of the discussions while allowing for greater flexibility than a regulatory ordered engagement. The ability of this type of process to influence regulatory direction and outcomes is dependent on the level of sponsorship and effectiveness of the process to yield consensus among stakeholders. California's 2014–2015 More Than Smart process is an example.

Each of these models has its advantages and disadvantages, with the preferred model depending on the overall objectives and the nature of the topics to be discussed. Also, it is possible to start with one process and transition to another. This happened in California with More Than Smart, which started with the regulatory sponsorship model and transitioned in spring 2016 to a regulatory-ordered model to reflect the need for definitive and detailed implementation recommendations to the California commission. Regardless of the model chosen, it is important to have clarity around the role of regulators and if and how the

process will intersect with related regulatory proceedings. Without it, participants likely will not commit their full attention and resources to the process, which risks rendering the process irrelevant.

Set clear objectives and process parameters

Clear policy and business objectives, along with carefully considered rules of the road, are foundational to any stakeholder process. It is important to define the purpose and desired outcomes of a process and reach a common understanding of what a process is and is not intended to achieve. A stakeholder process that has as its goal a package of consensus recommendations will be operated and structured differently than a process designed primarily to educate stakeholders or seek input without reaching consensus. Similarly, processes designed to facilitate "blue sky" innovation are not appropriate for addressing near-term implementation issues, which need far more focus and facilitated direction.

Particularly for the more intensive and interactive stakeholder processes, establishing ground rules and expectations for participation helps create a level playing field and fosters open dialogue. The ground rules should be designed to support the integrity of the process and clarify roles and responsibilities (i.e., Chatham House Rules). Some processes also establish rules around substitutes in order to promote consistent participation, create a shared learning tempo, and build group cohesiveness. Stakeholder engagement in New York and California adopted effective ground rules to promote early and open sharing of views. Finally, stakeholder processes should be sufficiently flexible to adapt to changing circumstances and benefit from lessons learned.

Enlist a knowledgeable, skilled, and objective facilitator

Just as an orchestra is lost without a conductor, stakeholder processes must have an experienced, knowledgeable facilitator who is trusted and objective. The facilitator's primary responsibility is to guide and encourage balanced and productive discussions that incorporate a diversity of viewpoints. If a facilitator is perceived to be driving a process to a predetermined outcome regardless of the participants' interests or otherwise biasing the results, the requisite trust and level of participation will be compromised and the stakeholder process may do more harm than good.

Energy issues are often complex and technical in nature; potential solutions must be rooted in the physics of electricity and the understanding of system impacts. In some cases, as in the California More Than Smart and New York REV examples, an individual or organization can fulfill both the facilitator and technical expert roles, as ICF has done for both efforts. In others, the facilitator may also be supported by impartial outside technical experts based on the specific needs of the process. ICF, Electric Power Research Institute, and the National Labs, for example, have provided such input into several states' technical working group discussions on engineering methods, market designs, and grid modernization. While utilities and some stakeholders bring this expertise to the discussion, it is advisable to also have neutral technical experts support the process, as



these experts will help promote achievement of common ground by focusing on credible technical facts.

Establish an effective organizational structure

Effective stakeholder engagement requires the governance and quality assurance of a thoughtfully designed organizational structure. The challenge of effective structure is balancing a manageable group size with the interest in engaging a wide range of stakeholders. Seminal research by C.N. Parkinson² showed that the decision-making effectiveness of groups diminishes as group size increases, with a group size of 20 being the critical threshold, beyond which genuine consensus is not likely. This is largely because of the potential for factions to form that divide the group into rival subgroups.

A multitier or concentric circle approach can expand access to a wider range of people without compromising the integrity and effectiveness of the process. First, an advisory board is needed to provide guidance on the objectives, scope, schedule, and deliverables for working-level stakeholder engagement. The advisory group is comprised of a representative set of participants (utilities, regulator, and stakeholders), ideally of no more than 12 people. Advisory groups that do not include a full representative set of stakeholders may steer the process in a direction that disenfranchises certain stakeholders.

Stakeholder working groups provide a forum for subject matter experts to more fully address technical issues. These groups, which should be comprised of approximately 20 stakeholders, need clear charters to guide discussions and deliver useful outcomes. Beyond an advisory board and working groups, open stakeholder sessions to educate a broader audience of 30+ people and gain additional input on a refined set of topical aspects may be desirable.

In New York, with more than 300 organizations and individuals on the REV proceeding service list, engaging stakeholders in an effective and meaningful way presents a significant challenge. The multitier approach was used to enable productive discussions as well as to meet the commission's goals of transparency and accessibility to all interested parties. A small advisory group of representative stakeholders formed to provide guidance and governance. For each working group meeting, about 25 representative subject matter experts were invited to participate in person, while allowing an unlimited number of stakeholders (including multiple people from same organization) to participate via webinar. Additionally, broad stakeholder engagement conferences were held in-person and via webinar to allow participation of an even wider range of stakeholders, including those with less technical orientation. More Than Smart in California also successfully uses a similar multitier approach.

Assemble diverse and representative stakeholders

Fundamental to any stakeholder process is the consistent and constructive participation of a diverse and representative group of stakeholders. Stakeholder



² Klimek et. al, "Parkinson's Law Quantified: Three Investigations on Bureaucratic Inefficiency," Cornell University Library, August 2008, pl <http://arxiv.org/pdf/0808.1684v1.pdf>

engagement should be inclusive and avoid a "pay-to-play" structure. These processes should actively seek to include those most affected by an issue, including customers and subject matter experts who are knowledgeable on the issues and can help ground discussions in facts. This is particularly relevant for electric power issues—even those more policy oriented—as there are often underlying technical implications that must be considered in order to produce practical and actionable outcomes. Regulatory and policy professionals, including advocates and attorneys, can provide a valuable perspective and should be included, but should be encouraged to defer on technical discussions outside their expertise to other stakeholders and subject matter experts.

In assembling the stakeholder group, it is also useful to enlist stakeholders with decision-making authority or a clear line to decision makers to increase organizational support for stakeholder process outcomes and streamline the consensus-building process, as applicable. Absent this authority, groups may find themselves having to revisit consensus items or risk losing the buy-in of key constituencies.

Conclusion

As the challenge of navigating the rapidly changing landscape of the power sector intensifies, stakeholder processes are rightly becoming more common as a tool to understand the spectrum of perspectives and identify potential areas of common ground. They are best viewed as a complement to, and enhancement of, the traditional regulatory proceeding: a way to help ensure that those with an interest in future policy and regulation can inform regulators and each other in order to find common ground, improve decision making, and decrease the risk of unintentionally adverse or ill-informed outcomes.

Stakeholder processes, however, are not a panacea, nor are they effective under all circumstances. To maximize the chances of success, parties should carefully consider ICF's five key factors with a close eye on design and implementation.

About the Authors



Paul De Martini has more than 35 years of experience in the power industry. He plays a foundational role in developing ICF's global strategy in the evolving electricity sector. He is a thought leader and expert in the global electricity industry, providing guidance to utilities, policy makers, and new entrants.

Prior to joining ICF, Mr. De Martini held several executive positions focused on strategy, policy, and technology development, including chief technology and strategy officer for Cisco's Energy Networks Business Unit, vice president of advanced technology at Southern California Edison (SCE), and managing director for Newport Consulting Group, where he led engagements with several U.S. and non-U.S. utilities on customer-centric business transformations.

About ICF

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