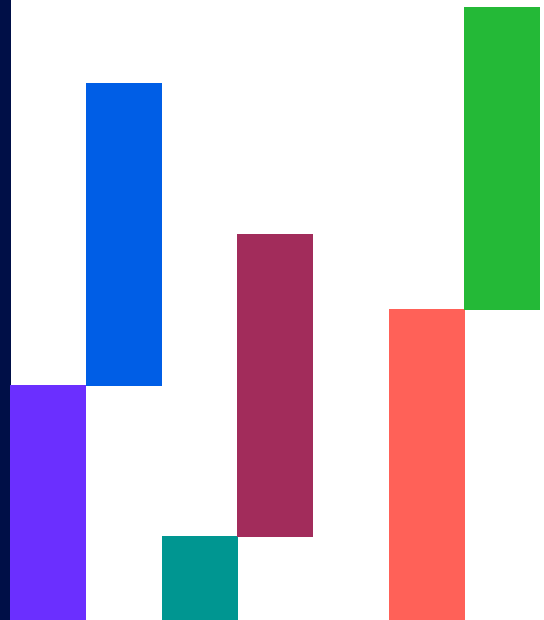
UK UTILITIES RISK REPORT 2026

The environmental, societal, technological and political factors most likely to put water and energy companies' businesses at risk.



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April 2026 | A Utility Week Intelligence Research report in association with Marsh McLennan.

FOREWORD

Welcome to the fifth edition of the Utility Risk Report. First, I would like to extend my sincere thanks to everyone who took the time to complete the survey. Your input is invaluable in identifying the key risks and concerns currently facing the utility sector. We have seen a steady increase in engagement and completion rates year over year, and this year's results clearly reflect the uncertain global environment we are navigating.

It is important to note that the survey was conducted prior to the recent conflict in the Middle East. While concerns about a conflict in the region may have influenced respondents' perspectives, the top risks identified this year already align closely with the evolving risk landscape observed over the past 12 months.[1]

In 2025, the significant impact and severity of cyberattacks on businesses and their supply chains were well documented. It is therefore unsurprising that cyber risk remains the leading concern. Notably, the risk score for cyber threats has increased substantially since last year, underscoring the potentially devastating consequences of such events. As utilities increasingly rely on smart technologies and explore the integration of artificial intelligence into their operations, enhancing resilience and investing in robust cybersecurity measures is more critical than ever.

Regulatory risks appear four times within the top ten concerns, highlighting the sector's anxiety over the rapidly changing regulatory environment and associated uncertainties. Whether it involves appeals related to business plans, comprehensive regulatory overhauls in the water sector, or the accelerated pace of policy decisions limiting investment capacity, these issues have all grown in prominence this year.

Carl Ratcliffe
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Reference:
1: https://www.marsh.com/en/risks/global-risk.html

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Geopolitical tensions and their impacts have decreased slightly since last year; however, since the survey's completion, these tensions have escalated due to the conflict in the Middle East. While the full effects on supply chains, customer bills, and trade will become clearer in the coming months, early indicators point to increasing cost pressures –particularly in energy and key input markets.

This is of particular concern for utilities given the way budgets and regulatory settlements are structured. Business plans are typically built on forward-looking assumptions around operating costs, many of which are now subject to heightened volatility. Unless organisations have secured price stability through mechanisms such as long-term power purchase agreements, there is a growing risk that actual costs will materially exceed projections.

While this risk ranked slightly lower in this year's survey, its real-world significance is likely to increase if geopolitical instability persists, with direct implications for financial resilience, investment planning, and long-term service delivery.

The overarching conclusion, supported by feedback from companies within the sector, is that these risks are not new. Utilities have long been managing and navigating these challenges. The critical issue now is the accelerating pace at which these risks are evolving and the difficulty in keeping up operationally and from an investment standpoint. Despite significant investment across the sector, more must be done to safeguard our critical national infrastructure, ensure safe and reliable service delivery, and meet the rising expectations of consumers, businesses, and government alike.

Additionally, the digital infrastructure sector faces unprecedented demand for data centres in the UK. Utilities must address how to meet the growing requirements of these assets – more grid connections, increased power supply, and greater water usage for cooling – while balancing the challenges of resource sustainability, asset improvement deliverability, and maintaining reliability for consumers.

In summary, utilities are confronting numerous challenges as they strive to deliver essential services while adapting business models and operations to meet the demands of tomorrow.

Carl Ratcliffe, utilities practice leader, Marsh
Ben Brennan, client relationship leader, Marsh

CONTENTS

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INTRODUCTION

In February 2026, Israel and the United States began a series of strikes against Iran, sparking a new conflict across the Middle East. As of March, the length and scale of the conflict remain uncertain. Meanwhile at home, fallout from the conflict has become all too apparent: oil prices have rocketed, and inflation is predicted to hit 5%.[2] The International Energy Agency claimed the conflict in the Middle East was creating the largest supply disruption in the history of the global oil market, with energy bills set to rise significantly.

Geopolitical risks continued to be high on utilities risk register, though had fallen a little this year. Utility leaders were asked to respond to this year's survey between November 2025 and January 2026. Asked the same questions today, some of their answers may well be different. But the conflict serves as a glaring reminder – should one really be needed – not just of the volatile world we live in, but the cascading impact that can follow when risks become realities. So many risks are interconnected, as we hear in this report.

Utility leaders must navigate the uncertainty and potential fall out of these interconnecting risks. If wholesale energy prices rise, could that temper net zero ambitions? Heightened global tension between nations ramps up cyber threats and can limit the supply of essential equipment. And all the while, the warp speed evolution of artificial intelligence brings its own often unforeseeable risks. Utilities also point to the growing risk of misinformation which can sully their reputations and lead to public mistrust, and even potentially threaten staff security.

Other challenges are mounting too, such as extreme weather events and seismic political and social upheaval.

This report provides high-level insights into the very real issues businesses are contending with now, and how these may evolve over the coming few years.

Reference:
2:https://niesr.ac.uk/blog/possible-effects-uk-inflation-2026-us-iran-conflict

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KEY FINDINGS

1 Cybersecurity dominates the 2026 risk table

– a serious breach tops the rankings, with its risk score now 2.5 points higher than the second-placed risk. Utilities warn that global tensions and criminal activity are driving more attacks, from data theft to ransomware, making cyber threats a growing, unavoidable operational concern.

2 Regulatory uncertainty climbs sharply

– policy and governance risks have moved up the agenda as planned reforms reshape the sector. In water, reforms following the Independent Water Commission review aim to abolish Ofwat and create a single integrated regulator. Meanwhile, at the time of writing the government was poised to publish its review of the duties and priorities of Ofgem.

3 Transition period is a key operational risk until reform kicks in

– slow implementation, detail gaps, and misaligned expectations leave water companies exposed until reforms are fully operational.

4 Political and public backlash rises

– concerns over the cost of reaching net zero, previously absent from networks' top 10 risks, now rank second and fifth, highlighting growing political and social sensitivity to the energy transition.

5 Customer debt and affordability pressures mount

– rising household arrears, increasing energy debt (£4.48 billion in Q3 2025), and tighter Ofgem restrictions on recovery have pushed concerns over business sustainability and investor confidence to the top of energy retailers' risk tables.

6 Profit pressures limit net zero investment

– non-existent margins and the end of ECO4 have left retailers struggling to fund wider sustainability initiatives, exposing gaps in delivery and future planning.

7 Supply chains and competition intensify cost pressures

– water and transmission network investment has doubled but contracting challenges and limited bids are pushing costs up, reflecting heightened operational and market risks.

8 Misinformation erodes trust and operations

– nearly eight in 10 water respondents flagged social media and press misconceptions (ranging from pollution responsibility to water supply constraints) as likely, creating reputational, recruitment, and investment challenges across the sector.

9 Consumer behaviour remains stubborn

– seven in ten respondents flagged failure to change water use patterns as likely, with campaigns showing limited effect without stronger financial incentives.

10 Water supply resilience becomes a top environmental risk

– extreme water shortage has entered the top ten, as ageing infrastructure, high demand and extreme weather events in places like Kent and Sussex threaten service delivery.

11 Conflicting regulatory priorities strain water resilience investment

– environmental restrictions, planning hurdles and focus on combined sewer overflows divert capital from essential maintenance and upgrades, creating tension between operational needs and regulatory compliance.

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TOP 10 RISKS

A SUMMARY BY OVERALL RISK SCORE

The tables below show how the top risks have changed over the past 12 months based on an overall risk score. This is calculated from the average likelihood score x average likelihood impact score. This is the same for all the risk scores throughout the tables. Cyber has stretched ahead in first place, with policy and regulatory risks increasing their dominance in the top 10 line up.

2026 rankings and overall scores	Area of risk	2025 overall rank/ score	2024 overall rank/ score
↕ 1 A serious cybersecurity breach occurs 17.59	Digital and security	1/ 16.07	1/ 17.15
New entry ↑ 2 Regulatory environment is not agile enough to reflect the evolving demands on utilities 15.16	Policy and regulatory	12/ 13.00	8/ 13.05
↓ 3 Policy does not develop fast enough or lacks the necessary detail to enable utilities to invest appropriately for the future 14.69	Policy and regulatory	2/ 15.88	2/ 16.23
↕ 4 Increasingly extreme and unpredictable weather has a major / recurring impact on service delivery/infrastructure 14.29	Environmental	4/ 15.03	4/ 15.24
New entry ↑ 5 A major overhaul of regulatory structures creates uncertainty in the market 13.04	Policy and regulatory	11/ 13.27	5/ 14.03
↓ 6 Geopolitical volatility and/or international conflict causes major disruption to markets and/ or supply chains 12.96	Policy and regulatory	3/ 15.59	3/ 15.35
↑ 7 Skilled workers and leaders are enticed / driven away from the sector 12.93	People and skills	9/ 13.81	6/ 13.60
↓ 8 Available returns become too low to justify new investment 12.80	Investment and skills	6/ 14.17	13/ 12.60
New entry ↑ 9 Widespread and / or frequent misinformation incidents (e g via traditional and social media) 12.79	Societal	14/ 12.86	16/ 12.20
↑ 10 The industry fails to keep pace with demands for changing skillsets (i.e. digital, behavioural science etc) 12.77	Investment and skills	18/ 11.91	7/ 13.21

New entry = new in the Top 10 in 2026

N/A = question was not asked in survey

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METHODOLOGY

The report is based on an online survey and in-depth interviews. The survey sought to determine what utility companies see as the major risks facing them over the next five years. As in previous surveys, respondents were asked to mark risk factors across six potential areas of risk:

- **Policy and regulatory risks**
- **Investment**
- **Cyber and digital**
- **Societal risks**
- **People and skills risks**
- **Environmental risks**

A total of 75 individuals from at least 40 organisations took part in the online survey. Of these, 95% identified their role as a board director/director or chief/head of department or manager.

Participants were asked to rate the likelihood of a specific risk occurring and what the impact would be on their business. We also asked survey participants how confident they were that risks could be mitigated, and whether successful mitigation relied on building new capabilities in their organisations. This year's survey structure has been modified slightly, with new questions added, so precise year-on-year comparisons are not always possible in some cases.

The online survey was conducted between mid-November 2025 and end of January 2026.

Responses were followed up with in-depth interviews during the first two weeks of March 2026. The interviews were conducted to better understand the factors driving key risks and how companies are responding. These insights were used to build the narrative of this report. Comments have been used without individual attribution so that interviewees could speak more freely.

Survey participants broke down along the following sector lines:

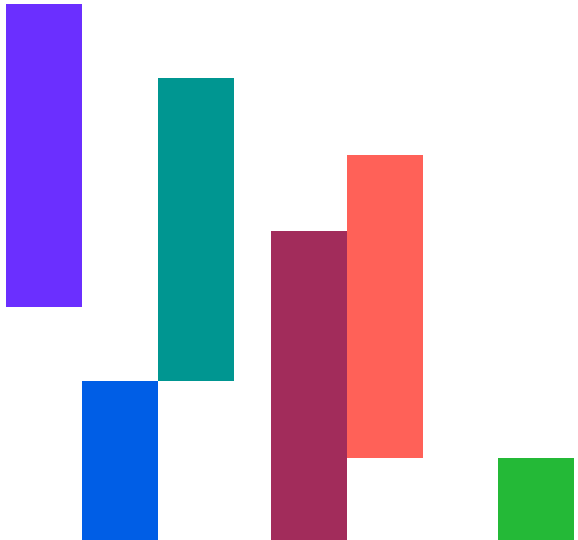
Energy network 37%

Energy retailer 13%

Water 43%

Other 16%

Some respondents worked at organisations that span multiple classifications, hence the sum is more than 100%.



1 POLICY AND REGULATORY RISKS

Worries around government policy not developing fast enough or omitting the necessary detail to enable utilities to invest appropriately for the future is a permanent fixture in the top 10 concerns. This year those issues were ranked at number two and three. A major overhaul of regulatory structures, as well as disruption caused by geopolitical volatility and international conflict, were also ranked highly, at numbers five and six respectively.

Overall satisfaction with the clarity and confidence provided by the policy and regulatory environment has fallen significantly. In 2025, 37.6% were satisfied. In 2026 this figure had fallen to 14.7%.

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Q Please indicate your views on the severity of the below risks on in terms of their likelihood to occur?

Average **risk score** out of 5:	% likely / extremely likely to become a risk	Overall	Energy networks	Energy retailers	Water companies	Other
3.79	Policy does not develop fast enough or lacks the necessary detail to enable utilities to invest appropriately for the future	80%	75%	80%	84.4%	91.7%
3.49	Affordability drives significant government intervention in the market	53.3%	60.7%	60%	46.9%	66.7%
3.69	Re-nationalisation of some/all segments of the utilities sector, or another significant change to market ownership and reward structures, becomes a dominant policy issue	20%	14.3%	10%	28.1%	16.7%
3.41	A political backlash emerges against the cost of reaching net zero (on either a national or local government level)	64%	75%	80%	53.1%	66.7%
3.91	Regulatory environment is not agile enough to reflect the evolving demands on utilities	80%	71.4%	100%	87.5%	75%
3.73	A major overhaul of regulatory structures creates uncertainty in the market	50.7%	32.1%	50%	65.6%	75%
3.63	Geopolitical volatility and/or international conflict causes major disruption to markets and/or supply chains	60%	60.7%	60%	53.1%	75%
3.12	Regulatory environment does not recognise/support innovations or investments designed to enhance sustainability (e.g. nature based solutions, biodiversity etc.)	44%	32.1%	30%	56.3%	58.3%

7/10

Seven out of 10 utilities were confident of being equipped to manage and mitigate the most significant risks they believe they face. This level is slightly higher than last year.

Confidence in regulation is eroding

The concerns about policy and regulation were reinforced in the interviews, where uncertainty remained a dominant concern for both energy networks and water companies, and sheer exasperation was expressed by energy retailers.

Richard Druce, senior managing director at NERA Economic Consulting, an economic consultancy within Marsh, argues that the current regulatory model in the energy sector may struggle to support the investment and innovation required for the transition to net zero. In particular, he questions the sustainability of the retail market framework overseen by Ofgem. The price cap limits suppliers' ability to recover costs or earn adequate returns, restricting their capacity to innovate or develop new services. As he notes, "I don't consider the way in which Ofgem regulates the energy retail market to be very sustainable."

He also points to a broader sense of uncertainty across the sector. Few industry respondents expect the regulatory framework to remain unchanged in five years' time, reflecting concerns that regulation is "not conducive to meeting the long-term challenges the industry faces". While regulators emphasise the need to attract investment to support net zero, he suggests this commitment is conditional. In practice, regulation must balance investment with affordability and political pressures. If consumer resistance to higher bills grows, that balance could shift, creating further uncertainty for companies planning long-term infrastructure investment.

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Energy retailers deeply concerned by squeezed margins

Energy retailers gave a low rating when asked about the 'confidence and clarity that UK policy and regulatory environment provides for their organisations and investors'. Not a single retail respondent said they were satisfied. Investability is proving a major challenge as margins are being effectively wiped out by tight regulation and mounting customer debt.

Tighter regulation, including more stringent capital requirements for those entering the market, has meant that retailers have firmer financial foundations to withstand market shocks. The market is now, once again, dominated by a small group of large suppliers which together held 92% of the market share as of mid-2025 (according to Ofgem's State of the Energy Market report, published January 2026) and there are 22 active domestic suppliers. This is down from a peak of 70 pre-Covid.

However, their profitability has plunged. "There's been a 90% drop in profits over the last two years in energy retail," remarked one interviewee from a retailer. "In 2023, the industry was making £79 a year per customer on average. That dropped to £26 in 2024, and it was estimated to be around £8 in 2025.

"That leaves us no room to work with customers who are unable to pay bills or for further investment and innovation in helping customers on their transition to net zero."

According to Ofgem, total profit across suppliers was forecasted to be £270 million for 2025 down from £880 million in 2024. 'Geopolitical volatility and/or international conflicts causes major disruption to markets and/or supply chains' had fallen down the list across utilities from number three in 2025 to number six in 2026 across utilities overall, and number eight for retail, though the score was slightly raised.

As for the spike in energy prices being touted in the wake of the latest Middle East conflict, one retailer remarked: "It is vitally important we do protect customers through whatever lies ahead. It's a fast-changing picture. But it's a little bit of 'wait and see' at the moment."

> **"THERE'S BEEN A 90% DROP IN PROFITS OVER THE LAST TWO YEARS IN ENERGY RETAIL, IN 2023, THE INDUSTRY WAS MAKING £79 A YEAR PER CUSTOMER ON AVERAGE. THAT DROPPED TO £26 IN 2024, AND IT WAS ESTIMATED TO BE AROUND £8 IN 2025."**
>
> Energy retailer

Like networks, 'regulatory development is not agile enough to reflect the evolving demands on utilities' featured in retailers' top ten. One retailer voiced frustration that there was a lack of prioritisation on the items that will have the biggest impact. However, they conceded that "Ofgem has a difficult set of challenges to balance and can often find itself in impossible positions and being dragged in different directions". As an example, they pointed to the on-going development of Ofgem's proposed debt relief scheme, which aims to write off up to £500 million in energy debt for approximately 195,000 households on means-tested benefits. Targeting debt accrued between April 2022 and March 2024, the scheme will be funded by a levy on consumer bills to address the £4.4 billion of total sector arrears. In November Ofgem set a timetable for the first phase of implementation in the first quarter of 2026.

"It's two years since it was sort of first discussed. And we're still not fully there yet," commented the energy retailer. "We're facing a combination of all of those things and wondering how to create an environment that is investable, and then contract investment. And that links to debt, as none of these risks can be fully separated out from each other."

When asked if they expected the current regulatory institutions for utilities to exist in their current form in five years' time, only one in 10 retailers said yes, compared to seven in 10 energy networks.

ECO REMOVAL ADDS TO FINANCIAL WORRIES

The government announced in the November 2025 Autumn Budget that both the Energy Company Obligation (ECO) and a significant portion of the Renewables Obligation (RO) will be removed from energy bills, with the changes taking effect from 1 April 2026. The government is replacing ECO with the Warm Homes Plan, designed to deliver deeper energy efficiency retrofits.

Removing these two levies aims to reduce the average household energy bill by around £150 per year for three years by shifting the costs from consumer bills to general taxation. However, retailers say that removing ECO could also add to their financial concerns. "The schemes cost more to deliver than they should have," said one retailer. "And the amount of money government is paying to make up for the shortfall is far, far less than what we had previously forecast we were going to get under the previous recovery mechanism. So the closure of ECO is going to have a financial impact on the business."

For retailers that also install measures funded through ECO, the change could also affect their wider business model and potentially undermine newer energy transition services.

Networks face uncertainty at scale

The policy and regulatory environment was also prominent in the risks table for energy networks. While 'policy not being agile enough and not developing fast enough' both ranked highly, a political backlash against the cost of reaching net zero climbed the risk table and is now the top risk for networks in this political/regulatory category.

In the top ten risks for networks, this issue scored second only to a cyberattack in terms of overall risk score. In an indication of how much the political dial has moved in the past 12 months, a net zero backlash did not make the top ten in 2025. This is discussed in greater detail in the chapter on societal risks.

The interviews revealed a sense of uncertainty across the sector, reflecting where networks are in the regulatory cycle. Distribution network operators (DNOs) are currently writing their business plans for the RIIO-ED3 price control, which will run from 1 April 2028 to 31 March 2033. The framework is currently in the methodology development and consultation phase.

The proposed ED3 framework represents a shift from its predecessor, largely because the distribution system will need to accommodate rapid electrification from electric vehicles (EVs), heat pumps and distributed generation. One of the biggest changes is a move toward building network capacity ahead of demand to avoid connection queues and reinforcement delays.

Ofgem's final determinations on electricity transmission operators' business plans were announced at the end of 2025 and included £28.1 billion of upfront investment funding across gas and electricity transmission networks, with a potential pipeline of up to £90 billion. The settlement is intended to fund a major expansion of the UK transmission system and attract the investment needed for the energy transition. Ofgem estimated this would add around £108 to annual domestic energy bills by 2031.

£28billion

Upfront investment funding across gas and electricity transmission networks.

Given that the transmission settlement signals increased investment and favourable returns, it might seem surprising that there is so much regulatory uncertainty among networks. However, an interviewee from electricity networks said the sector was experiencing uncertainty largely because of new initiatives and structural changes in the energy system. Developments such as the introduction of Regional Energy System Plans (RESPs) and wider work on integrated energy systems were unfamiliar because they had never been implemented before. RESPs are ten-year, place-based frameworks introduced by Ofgem and led by the National Energy System Operator (NESO) to coordinate electricity, gas and heat infrastructure across 11 areas in Great Britain.

However, the interviewee stressed this should not necessarily be seen as regulatory risk. Instead, they characterised it as a natural consequence of change within the sector and argued the industry needed to adapt. They also pointed to Ofgem consultations on the potential role of DNOs in facilitating the low-carbon transition, which could see network companies take on a broader role.

They added that while some might view this as a risk, the regulator was exploring options such as auction-based solutions, including flexibility, to reach a balanced approach. It was therefore too early to describe these developments as regulatory risk, suggesting instead they represented regulatory creativity.

There is understandable concern within the electricity sector about how networks will mobilise enough people and capability to deliver the scale of infrastructure required for the energy transition.

One senior leader in the net zero transition said the recently completed transitional RESP had effectively set out the scale of work expected during the next electricity distribution price control period. However, the reaction from network companies had been striking. "Their biggest feedback is there's too much work," they said. They noted the irony of that response, given that network companies typically earn returns by building new infrastructure. "This is how you make money. You make money by building assets. Why are they saying there's too much work?"

However, a number of people flagged up supply chain risks as a potential barrier to delivery. And a note of caution was also raised by one network regulation expert, who questioned whether increased investment for DNOs was as certain as many assumed. They cited comments from Ofgem's director general for infrastructure, Akshay Kaul, at a House of Commons Energy Security and Net Zero Committee in March that early calculations did not suggest electricity distribution costs would rise as much as expected, adding only a few pounds to bills. The regulation specialist said this raises questions about whether Ofgem might scale back planned spending allowances to limit pressure on consumer bills.

Again, for networks, geopolitical volatility interrupting supply chains had slipped down their top ten – from topping the list in 2025 to number seven this year. Interviews suggested that although there were still concerns about sourcing equipment there were measures being put in place and new manufacturing capabilities were opening up in Scotland. Contracting risk and people had become their biggest delivery concern.

James Crask, global supply chain practice leader Marsh, pointed out that risks in the utilities sector are often more interconnected than they appear. Many companies assume their direct suppliers manage all upstream risks, but exposure often lies with tier-two and tier-three suppliers providing chemicals, electronics and other critical components.

He also noted that the sector, like many others, has traditionally prioritised efficiency over resilience, avoiding extra inventory or redundant infrastructure to protect low-margin operations. This created a constant trade-off between investing in infrastructure upgrades or resilience measures. Crask advises that utilities need a broader enterprise view and greater visibility into their supply chains. "Don't just assume your direct suppliers have got it all sorted – look into their supply chains and do your own due diligence," he urged.

Gas networks kept in the dark

'Policy does not develop fast enough' and/or 'lacks the necessary detail to enable utilities to invest appropriately for the future' are both high-scoring risks facing gas networks, which are navigating uncertainty as policymakers continue to define the future role of gas in the UK's energy system.

One regulation specialist said there were indications of the direction policymakers would like to take, but the reality on the ground often looked different. "You look at the practical realities of what's happening with customers and it's clear people aren't fitting heat pumps," they said, suggesting household behaviour was still far removed from some policy assumptions.

The specialist added that the debate had broadened beyond hydrogen for domestic heating to the wider role of gas networks in the energy transition. In their view, the scale of decarbonisation required meant that multiple energy sources would be needed. "The scale of change we need to deliver is so big that there needs to be a role for natural gas, biomethane and hydrogen."

Interviewees pointed to regulatory uncertainties affecting other low-carbon gases such as biomethane. Gas network operators were seeing strong demand from producers seeking to connect new facilities. "We've got lots of producers knocking on our door saying, 'please can we connect to the network'," one commented.

However, the regulatory and commercial arrangements governing those connections are still evolving. This includes the issue of how connection costs should be shared between project developers and the wider system and how these rules align with government support schemes such as the Green Gas Support Scheme.

The interviewee said these regulatory questions were part of a broader policy debate about how the UK's future energy system would ultimately be structured.

Regulatory reset leaves water sector in limbo

Proposed reforms to the regulation of the UK water sector are creating significant uncertainty for companies, a trend reflected in this year's survey results. In the water sector's top ten risks, 'lack of agility in the policy' and 'regulatory environment' ranked second and third, while 'potential overhaul of regulatory structures' – expected following the 2025 Independent Water Commission review of the water sector – came in at number five.

The review, led by Sir Jon Cunliffe, argued that the water industry in England and Wales was failing primarily because its regulatory framework was fragmented, short-term and weak at holding companies to account. Its central recommendation was a structural "reset" of governance and regulation, moving away from the current model of periodic price controls toward a more integrated and supervisory system.

At present, responsibilities are divided between bodies including Ofwat and the Environment Agency. The review argues this creates overlapping roles, slow decision-making and blurred accountability. In response it proposes the creation of a single integrated regulator, alongside regional planning authorities to coordinate infrastructure and environmental strategy. It also calls for stronger financial oversight of water companies, continuous regulatory supervision rather than five-year cycles, and tougher monitoring and enforcement on pollution.

The government has broadly accepted this diagnosis and is beginning to move in the same direction through planned reforms. The government's January 2026 water white paper sets out a programme of structural changes. Central to the proposals is the abolition of Ofwat and the creation of a new integrated water regulator bringing together functions currently spread across several agencies. The reforms also include stronger oversight of water company finances and governance, tighter scrutiny of ownership structures, and enhanced consumer protection, including the creation of a water ombudsman.

Ministers also plan to strengthen environmental monitoring and enforcement, including moving away from self-monitoring by water companies towards a more proactive regulatory approach. The reforms also point towards more coordinated regional planning structures intended to align infrastructure investment, environmental protection and local development.

The sector's survey responses suggest that while reform may ultimately bring clarity, the transition period is likely to remain a significant source of risk for water companies. Despite this clearer direction of travel, interviewees said many details remain unresolved. One water regulation specialist said the sector still faced significant uncertainty.

"We know a lot more now than we did a year ago in terms of wider reform of the water industry and the direction of travel," they said.

"But we've got just as many questions now as we had before… there's still an awful lot of detail that needs to be worked through to really understand what that's going to mean in practice."

Others fear that reforms may move too slowly to influence the next regulatory settlement. One water chief executive warned: "We're going to have a single regulator, but there is a huge amount to do to put that in place and that causes uncertainty." They added that companies were particularly keen to see progress on new approaches to asset health funding and the introduction of asset resilience standards – changes which many fear could be delayed until the next price review cycle if reforms slip.

At the same time, companies must continue operating under the existing system. As one interviewee noted, regulators are in the difficult position of "carrying on doing the job they would have been doing anyway, whilst also being given a strong signal that they need to begin thinking about how they're going to be reformed".

Industry figures say this tension reflects a deeper misalignment between policy ambition, regulation and operational reality. One regulatory head at a water company argued that shifting expectations had left companies exposed.

"No sooner do you put in a plan to the regulator for approval of the price review, than the requirements have moved, and you're not funded for that. You're immediately exposed to targets and penalties if you don't achieve them, and yet you were never funded to deliver that stuff."

Interviewees also pointed to areas where regulation was struggling to keep pace with innovation. Water companies say they are investing heavily in new technologies and monitoring tools, but regulatory approval processes can make it difficult to deploy them quickly. One example cited was certification requirements for materials used in drinking water systems, which companies say can be slow and complex. In practice, this can delay the introduction of new sensors and other technologies, illustrating how regulatory processes can sometimes lag behind the pace of innovation.

Which single policy or regulatory factors are of greatest concern to your organisation when thinking about the next five years?

"Financing determinations" "Price regulation" **"The extent to which NESO is empowered to deliver"** "Demand headroom vs. resilience vs. funding" **"Net Zero"** "Transition to single regulator and accompanying reforms" **"Health and safety regulations"** "Merger of EA, DWI, Ofwat etc" **"Long term investment environment"** "Restrictions on debt collection" **"Price cap"** "Five-year AMPs" **"Innovation"** "Cunliffe review & regulatory overhaul" **"Future of gas - stranded asset risk"** "Retail market reform and consumer protection" **"Ofgem lack of strategic focus and credibility"** "Regulatory scrutiny on environmental, social, and governance (ESG) disclosures and performance" **"Decarbonisation of domestic heat"** "Too much complication with RESPs and other changes gumming up decision making and creating blurred accountabilities" **"Establishment of a sensible regulator with a long term outlook"** "Interruptions to supply" **"Water abstraction licence reductions"**

THE TOP 10 RISKS FOR ENERGY NETWORKS

This table highlights the top 10 risks identified by energy network operators, based on combined likelihood and impact scores. It provides a snapshot of how priorities are evolving as networks adapt to an increasingly complex operating environment. Cybersecurity remains the leading concern, while policy and regulatory uncertainty continues to feature prominently. The rise of political and public backlash against the cost of net zero also marks a notable shift in sentiment.

2026 rankings and overall scores	Area of risk	2025 overall rank/ score	2024 overall rank/ score
↑ 1 — A serious cybersecurity breach (or major cyber outage) — 17.66	Digital and security	3/ 15.19	1/ 16.92
New entry ↑ 2 — A political backlash emerges against the cost of reaching net zero (on either a national or local government level) — 14.70	Policy and regulatory	19/ 10.88	5/ 14.36
↑ 3 — Regulatory environment is not agile enough to reflect the evolving demands on utilities — 14.30	Policy and regulatory	7/ 13.29	13/ 12.25
↓ 4 — Policy does not develop fast enough or lacks the necessary detail to enable utilities to invest appropriately for the future — 14.06	Policy and regulatory	2/ 15.33	3/ 15.37
New entry ↑ 5 — A major public backlash develops against the cost of transitioning to net zero — 14.06	Societal	25/ 10.24	20/ 12.25
New entry ↑ 6 — A terrorist attack successfully impacts operations / infrastructure / people — 13.81	Policy and regulatory	27/ 9.99	15/ 12.12
↓ 7 — Geopolitical volatility and/or international conflict causes major disruption to markets and/ or supply chains — 13.80	Policy and regulatory	1/ 16.00	2/ 15.58
↓ 8 — Increasingly extreme and unpredictable weather has a major / recurring impact on service delivery/infrastructure — 13.53	Environmental	5/ 14.06	4/ 15.16
New entry ↑ 9 — Affordability drives significant government intervention in the market — 12.88	Policy and regulatory	12/ 12.47	18/ 11.52
↓ 10 — Increasing scarcity of essential resources/ materials causes price escalation and/or operational impacts — 12.84	Environmental	4/ 14.44	N/A

New entry = new in the Top 10 in 2026

N/A = question was not asked in survey

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INVESTMENT RISKS

As highly regulated businesses, risk around investment, both in terms of attracting investors, and investing in the business themselves, is invariably linked to the policy and regulatory regime.

'Available returns become too low to justify new investment' received a lower score in terms of overall risk than in 2025. But investment risks are prevalent for water and energy retail. For energy retail, 'perceived high risks around the sector cause investors to withdraw' is the fourth highest scoring risk; and 'available returns become too low to justify new investment' sits at number six.

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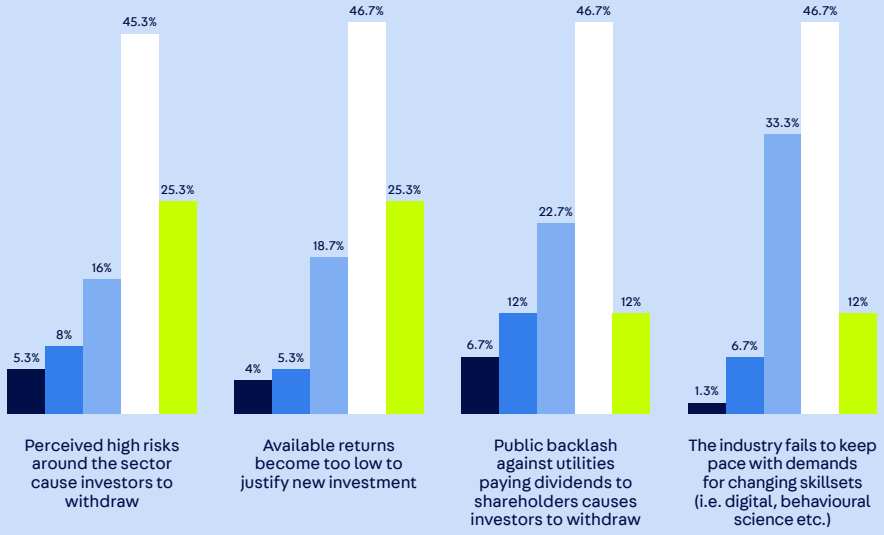
Q Please indicate your views on the severity of the impact these risks would have on your organisation if they occur.

Average **risk score** out of 5:	% likely / extremely likely to become a risk	Overall	Energy networks	Energy retailers	Water companies	Others
3.77	Perceived high risks around the sector cause investors to withdraw	70.7%	71.4%	90%	75%	58.3%
3.84	Available returns become too low to justify new investment	72.0%	82.1%	90%	71.9%	50%
3.45	Public backlash against utilities paying dividends to shareholders causes investors to withdraw	58.7%	67.9%	30%	30%	33.3%
3.61	The industry fails to keep pace with demands for changing skillsets (i.e. digital, behavioural science etc.)	58.7%	57.1%	70%	46.9%	83.3%



1: Extremely low impact 2 3 4 5: Extremely high

Investment depends on regulation

The scores for retailers in this regard are also much higher around investment risks, for reasons discussed in the Policy and Regulation section. For networks, investment risks do not register in their top 10 – a stark departure from the previous year.

One interviewee explained that the regulatory framework for electricity networks was now designed to provide long-term certainty for investors, which in turn should help keep financing costs lower. The interviewee noted that the current planning framework effectively provided a decade-long outlook for investment. "It's not just a five-year cycle, it's a ten-year view," he said, adding that investors could see both the immediate investment period and the pipeline of work likely to follow.

Different outlooks across sectors

The interviewee added that this longer-term visibility should make network companies attractive to investors, particularly in uncertain global markets. While geopolitical factors and wider economic conditions could influence where capital flows, regulated utilities still offered relatively stable returns. In difficult economic conditions, they suggested, electricity networks could be viewed as "a safe haven for your money" because their income was largely determined through regulation. The announcement in February that the French utility Engie had struck a deal to buy UK Power Networks (UKPN) for £10.5 billon is perhaps the best testament to the enduring appeal of electricity networks.

However, the interviewee emphasised that the sector was best suited to investors seeking steady, long-term returns rather than quick profits. Network investment was unlikely to deliver rapid gains, but over time it could provide reliable returns as companies expanded their asset base and increased infrastructure spending.

An interviewee from a UK network company said the biggest risk for electricity networks in terms of investment was uncertainty over how quickly they could recover the costs of major investments. Changes to the regulatory framework that delayed or spread-out cost recovery could slow cash flow and make financing more challenging. They explained that regulators were currently trying to balance "stable cash flows for investment, but at the same time protect consumers today from unnecessary price increases." They added that such uncertainty could drive up investors' return expectations: "If you're going to have more uncertainty, and therefore more risk, you need a higher return to attract the capital".

Water sector struggles to attract investment

Water companies face an unprecedented, multi-billion-pound need for infrastructure upgrades – to tackle sewage pollution and boost supply – at a time when investor confidence is at a record low owing to regulatory, environmental and financial pressures. The results of the survey continued to highlight water companies' nervousness, both in terms of 'available returns becoming too low to justify new investment' (ranked number 7) and 'perceived high risks around the sector cause investors to withdraw'.

The sector needs to raise debt and equity to fund these improvements, but a combination of rising debts, strict regulatory price controls, and poor performance has made the sector look un-investable to many. Ongoing press negativity towards the sector may also put off investors, say interviewees. Nearly six in ten water respondents thought it likely or very likely that 'a public backlash against utilities paying dividends to shareholders causes investors to withdraw'.

Are there any specific factors that you are concerned may lead to a loss of investor interest / confidence over the next five years?

"Regulatory uncertainty"
"Lack of return on new investments"
"Prolonged and repeated negative media coverage" **"Regulatory inconsistency or failure to deliver investable price controls"**
"Non-payment of bills"
"Failure to perform in line with current price controls"
"Lack of positive incentivisation opportunities"
"Change in policies with a new government. Criminal prosecutions"
"Lack of delivery due to supply chain / skills"
"Lack of speed to action innovation"
"Future of gas, stranded assets, lack of regulatory clarity."
"Reputational damage - activists not understanding the workings of a water and sewerage company"

THE TOP 10 RISKS FOR ENERGY RETAILERS

This table sets out the top 10 risks facing energy retailers, based on combined likelihood and impact scores, and highlights a distinct risk profile within the utilities sector. Financial and customer-related risks are most prominent, with customer debt and affordability challenges ranking highly. Investment concerns also feature strongly, reflecting ongoing pressure on margins and returns.

2026 rankings and overall scores	Area of risk	2025 overall rank/ score	2024 overall rank/ score
↑ 1 20.16 A serious cybersecurity breach (or major cyber outage) occurs	Digital and Security	2/ 14.62	1/ 18.41
New entry ↑ 2 18.40 A collapse in customers' ability or willingness to pay their utility bills	Societal	19/ 9.67	12/ 13.67
New entry ↑ 3 18.04 Customer debt pressures reach an unsustainable level	Societal	N/A	N/A
New entry ↑ 4 16.80 Perceived high risks around the sector cause investors to withdraw	Investment and skills	21/ 8.99	16/ 12.38
↑ 5 16.77 Regulatory environment is not agile enough to reflect the evolving demands on utilities	Policy and regulatory	9/ 13.01	5/ 15.99
↓ 6 15.60 Available returns become too low to justify new investment	Investment and skills	5/ 13.04	8/ 15.31
↑ 7 14.43 Policy does not develop fast enough or lacks the necessary detail to enable utilities to invest appropriately for the future	Policy and regulatory	8/ 13.01	4/ 16.44
↓ 8 14.40 Geopolitical volatility and/or international conflict causes major disruption to markets and/ or supply chains	Policy and regulatory	3/ 13.85	2/ 18.27
New entry ↑ 9 13.32 Affordability drives significant government intervention in the market	Policy and regulatory	15/ 11.00	14/ 13.01
New entry ↑ 10 12.95 The industry fails to keep pace with demands for changing skillsets (i.e. digital, behavioural science etc.)	Investment and skills	18/ 9.95	9/ 15.00

New entry = new in the Top 10 in 2026

N/A = question was not asked in survey

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3 DIGITAL AND SECURITY RISKS

Cyber and security issues continue to dominate the overall risk table, with the likelihood of cyberattack rising from 16.07 in 2025 to 17.59, stretching its lead in the number one position. Interviews with leaders from networks, retail and water underscored this trend.

One energy sector executive said cybersecurity is "one of the biggest risks" facing networks, driven by geopolitical tension, high-profile attacks, and regulatory requirements – which had bought the issue more to the fore. "It's not like a big risk that is looming... It is being managed, but it's probably only a matter of time before some large organisation gets hit," they added.

Events like the April 2025 ransomware attack on one of the top UK retailers, which cost around £324 million in lost profits, highlighted potential economic impacts. Another executive cited Ukraine and Poland, where attacks disabled solar farms: "Cybersecurity is a massive risk."

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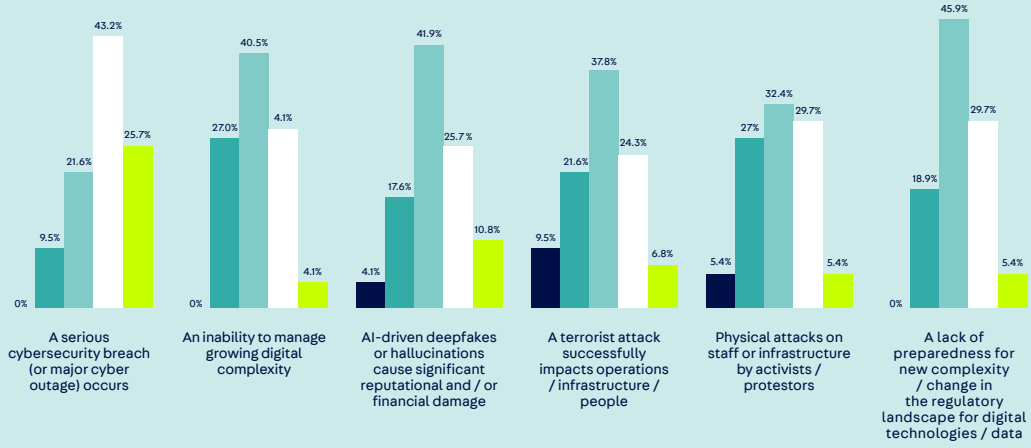
Q Please indicate your views on the severity of the below risks in terms of their likelihood to occur.

Average **risk score** out of 5:	% likely / extremely likely to become a risk	Overall	Energy networks	Energy retailers	Water companies	Other
3.85	A serious cybersecurity breach (or major cyber outage) occurs	68.9%	71.4%	90%	67.7%	66.7%
3.09	An inability to manage growing digital complexity	32.4%	35.7%	30%	25.8%	25%
3.22	AI-driven deepfakes or hallucinations cause significant reputational and / or financial damage	36.5%	35.7%	30%	35.5%	50%
2.97	A terrorist attack successfully impacts operations / infrastructure / people	31.1%	35.7%	20%	25.8%	33.3%
3.03	Physical attacks on staff or infrastructure by activists / protestors	35.1%	17.9%	20%	54.8%	16.7%
3.22	A lack of preparedness for new complexity / change in the regulatory landscape for digital technologies / data	35.1%	39.3%	30%	29%	41.7%



Attacks can be made by financially motivated ransomware agents or launched by hostile states bent on disrupting essential services. "If you turn the power or the water or the gas off for a week, then I think you'd pretty quickly get into civil disorder," said the interviewee, stressing the societal implications. Regulatory pressure, such as the Network and Information Systems (NIS) regulations, was ensuring boards and technology teams prioritise compliance, they said.

Measures include system hardening, heightened monitoring and staff education. Some companies have implemented practical precautions, like recommending their staff remove ID lanyards when they are out of the office to reduce password risk.

Water companies also reported cyber threats increasing due to higher digitalisation and also, as one company boss speculated, from heightened sector visibility. "Cyber is definitely at the top of the list so if you do not address it, you are incredibly vulnerable," said a senior executive. Boardroom conversations are also shifting from prevention to resilience. Said another executive: "It's not about building the walls higher; it's about being resilient. Should a cyber-attack occur, can we face into that? Can we recover quickly enough? At the moment we are running fast just to stay still."

Threats are expanding beyond cyber

Physical risks have risen too; 54.8% of water respondents flagged the likelihood of attacks on staff.

Artificial intelligence (AI) risks are also emerging. 'AI driven deepfakes or hallucinations cause significant reputational and or financial

damage' was rated the second highest risk in terms of likelihood to occur in this category. But with a score of 36.5%, this was practically half that of a serious cyberbreach (68.9%).

In terms of using AI, utility leaders generally expected AI to help boost staff productivity, and potentially reduce the need for hiring new members of staff. However, they cautioned that AI introduced its own risks. One water company explained that a dedicated team at the organisation ensures AI is implemented responsibly, with strict controls on how it can access data and what staff can do externally with AI tools. "We've got walls in place to make sure our information isn't getting sucked into a proprietary external AI tool," they said, reflecting wider concerns about data protection and operational security.

Edyta Prazuch, AI and digital HR lead Marsh, pointed out that AI is triggering an unprecedented shift in how organisations operate and how careers evolve. She said the pace of change is accelerating rapidly as digital maturity increases, meaning every employee – not just engineers – will need core digital skills. "Whilst AI is unlikely to replace all human jobs, it's expected to transform every job," she says, with technology replacing routine tasks, augmenting human creativity, and transforming the required skill across all industries.

Mercer's 2026 Global Talent Trends show 98% of executives plan organisational design changes in the next two years to boost performance and sustainability, with 99% expecting AI to lead to at least some headcount reductions in the same timeframe. However, Prazuch stresses that organisations must rethink jobs rather than simply automate them. "It's no longer about doing the same work with AI. It's about asking, "What is the most optimal combination of human and machine to get to the outcome?" and rethinking the value humans deliver" She warns that companies must be careful not to focus on taking the costs out, and try to automate everything, particularly when considering entry-level work that is seen as the most effort heavy and repetitive, and therefore prone to automation. And yet that work is critical for organisations to develop future experts and ensure future careers. "Just because we can automate, doesn't always mean we should."

Mark McGowan, UK workforce reward lead Marsh, observed how utilities faced the challenge of adapting skills while managing costs and retaining talent. With ageing workforces, legacy infrastructure and rising competition for digital skills, organisations must map skills to new career pathways while preserving critical operational knowledge. The challenge, he says, is evolving workforce capabilities while ensuring utilities can still deliver essential infrastructure and maintain system reliability.

Digital and security risks highlighted in the survey and interviews will be discussed in greater depth in a separate report from Marsh and Utility Week.

Are there any other important digital risks to your organisation/the utilities industry that you think should be noted in this study?

"Lack of coherence and wasted/duplicative effort because of fragmentation...there is no architecture." **"Cyber phishing, generally outdated legacy infrastructure that is vulnerable."** "Large customer data leaks" **"Availability and loss of critical data"** "AI and automation risks" **"Regulation lags behind tech advances"** "Supply chain cybersecurity risks" **"Digital exclusion of vulnerable customers"** "Abuse of AI" **"Instances where scammers pretend to be suppliers and provide false invoices (phishing)"** "Security of IOT." **"Outages from AWS/ Microsoft etc."** "Maintaining resilience whilst introducing new technology, skills, change management"

THE TOP 10 RISKS FOR WATER COMPANIES

This table outlines the top 10 risks identified by water companies, reflecting both operational pressures and longer-term structural challenges. Policy and regulatory uncertainty is a dominant theme, alongside environmental risks such as extreme weather and water shortages. Societal and investment-related risks also feature, highlighting growing public scrutiny and funding pressures.

2026 rankings and overall scores	Area of risk	2025 overall rank/ score	2024 overall rank/ score
↑ 1 17.44 A serious cybersecurity breach (or major cyber outage) occurs	Digital and security	2/ 17.56	4/ 16.43
New entry ↑ 2 16.11 Regulatory environment is not agile enough to reflect the evolving demands on utilities	Policy and regulatory	17/ 12.62	13/ 13.08
↕ 3 15.87 Policy does not develop fast enough or lacks the necessary detail to enable utilities to invest appropriately for the future	Policy and regulatory	3/ 17.31	3/ 16.71
↓ 4 15.75 Increasingly extreme and unpredictable weather has a major / recurring impact on service delivery/infrastructure	Environmental	1/ 17.61	2/ 16.95
↑ 5 14.89 A major overhaul of regulatory structures creates uncertainty in the market	Policy and regulatory	9/ 15.72	1/ 17.43
↓ 6 14.40 A failure to achieve necessary change in consumer behaviour and consumption patterns	Societal	5/ 16.28	5/ 14.39
New entry ↑ 7 13.90 Available returns become too low to justify new investment	Investment and skills	11/ 15.20	17/ 11.91
↑ 8 13.61 Extreme water shortage jeopardises service delivery / security of supply	Environmental	16/ 14.47	7/ 14.05
New entry ↑ 9 13.09 Perceived high risks around the sector cause investors to withdraw	Investment and skills	15/ 14.57	14/ 12.67
New entry ↑ 10 12.97 A terrorist attack successfully impacts operations / infrastructure / people	Digital and security	31/ 9.68	20/ 11.38

New entry = new in the Top 10 in 2026

N/A = question was not asked in survey

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SOCIETAL RISKS

Risks related to societal behaviour – from a collapse in consumers' ability to pay their bills to the impacts of widespread misinformation – have reached their highest likelihood score since the survey began five years ago. As one interviewee explained, these issues have increasingly become day-to-day operational challenges. 'Widespread or frequent misinformation incidents' was the highest-scoring risk in this category overall, ranking ninth in the top ten risk table.

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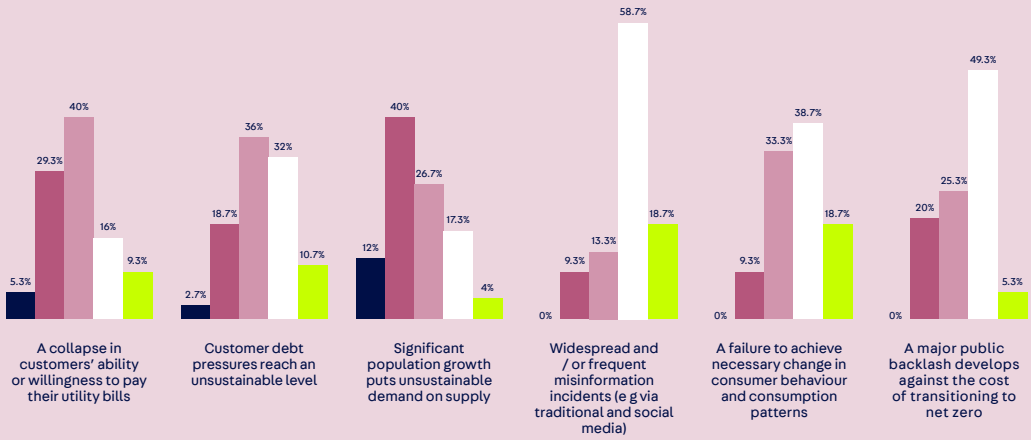
Q Please indicate your views on the severity of the below risks in terms of their likelihood to occur.

Average risk score out of 5:	% likely / extremely likely to become a risk	Overall	Energy networks	Energy retailers	Water companies	Others
2.95	A collapse in customers' ability or willingness to pay their utility bills	25.3%	21.4%	70%	15.6%	50%
3.29	Customer debt pressures reach an unsustainable level	42.7%	60.7%	90%	15.6%	41.7%
2.61	Significant population growth puts unsustainable demand on supply	21.3%	7.1%	20%	40.6%	0%
3.87	Widespread and / or frequent misinformation incidents (e.g. via traditional and social media)	77.3%	78.6%	80%	71.9%	91.7%
3.67	A failure to achieve necessary change in consumer behaviour and consumption patterns	57.3%	46.4%	40%	68.8%	66.7%
3.40	A major public backlash develops against the cost of transitioning to net zero	54.7%	71.4%	60%	43.8%	50%



Societal risks are now operational

Energy suppliers say the question of whether customers can pay bills is increasingly complex, as debt levels rise and there are fewer tools to address non-payment. 'A collapse in customers' ability or willingness to pay their utility bills' and 'customers' debt pressures reach an unsustainable level' ranked second and third in retailers' top ten risks. 'Money owed to energy suppliers' reached a record £4.48 billon in Q3 2025, rising for 12 consecutive quarters and by 71% since 2023, driven mainly by increasing arrears per household.

One retailer noted that two households could appear identical on paper yet behave very differently in paying bills. "One might be convinced that they just don't have the money to pay, and then the other is just a bit more savvy and has figured it out or has made sacrifices that the other wouldn't consider."

While bills have fallen from the peak of the energy crisis, the sector is still dealing with its legacy. A cohort of customers stopped paying during the crisis and never resumed.

Historically, such cases often resulted in prepayment meter installation under warrant, but stricter rules now limit such measures. "That is a challenge for the industry," one retailer said, adding that total sector debt continues to rise. At the same time, tighter regulatory rules have reduced suppliers' ability to engage proactively with households in arrears, and many customers carry multiple debts.

When multiple debts are involved, suppliers often have fewer enforcement mechanisms than other lenders, which can affect how customers prioritise which bills to pay.

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Affordability pressures are rising

This concern was echoed by water companies interviewed for this report. However, 'a collapse in customers' ability to pay bills' or 'unsustainable debt pressures' were rated likely or extremely likely by only 15.6% of water respondents.

Large customer debt and insolvency have nonetheless emerged as a concern for water retailers. One interviewee pointed out that retailers supplying large manufacturers and process industries can be left exposed to substantial unpaid bills, sometimes running into hundreds of thousands of pounds. Protecting against this risk can be difficult when warning signs are limited. "Even on the day they went into insolvency, they still had a great credit score," the retailer said of one company that collapsed with large water debts.

Net zero faces growing resistance

For energy networks, a potential backlash against the cost of the net zero transition has become a major concern. "The biggest risk to the energy transition is the loss of public and political support for the infrastructure needed to deliver it, particularly new electricity networks," said one interviewee.

In the societal risk category, both 'a major public backlash against the cost of net zero' and 'widespread misinformation' – often related to the perceived cost of the transition – were rated by around 70% of network respondents as likely or extremely likely risks.

It is not surprising that the issue has risen up the agenda as the politics of net zero has become increasingly contested in the UK. Reform UK has taken a strongly critical stance on climate policy, pledging to scrap the UK's net zero target and expand domestic fossil-fuel production, while the Conservative Party continues to support the 2050 target but argues for a more "pragmatic and proportionate" approach focused on limiting costs to households.

One network leader warned that the politicisation of climate policy was creating uncertainty for long-term energy investment. As political consensus weakens, they said, it becomes harder for companies to plan major infrastructure programmes. "As that consensus breaks down, it raises uncertainty in terms of what future we're planning for," they said, warning prolonged uncertainty could undermine investment.

They also warned that delays to grid infrastructure risk damaging public confidence in the transition. Renewable projects can be paid not to generate electricity when the system lacks capacity to transport the power. Without adequate grid investment, they warned, it risks creating "a downward spiral of, why are we doing all this?"

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Misinformation is eroding trust

'The spread of misinformation', through both social and traditional media, was rated likely to occur by almost eight out of ten utility respondents and ranked ninth in the overall top ten risks. Interviewees reported encountering misinformation constantly, from misconceptions about net zero costs to criticism of executive pay. While all sectors flagged it as a concern, water companies were particularly vocal, noting that public misunderstanding was creating reputational damage and an operational challenge that could ultimately affect investment, recruitment and public trust in the sector.

One water executive explained the challenge: "Most people think the water industry is almost exclusively responsible for [river pollution]. But it's actually a really small part of the problem. There's a real risk that we spend more money on bills and storm overflows, and the rivers don't improve, which fuels public frustration."

The Office of Environmental Protection has highlighted that while significant investment has been made in storm overflows, other contributing factors – agriculture, highways, wildlife – remain unaddressed. This misalignment, combined with highly visible work such as pipe upgrades, has contributed to public scepticism about how funds are spent.

Another risk comes from the speed and accessibility of data, often described as 'citizen journalism'. Companies can struggle to respond effectively when information – accurate or not – is rapidly circulated and misinterpreted.

As one interviewee said, "the issue could be the correct information, which an organisation is unable to respond to effectively. Or it could be misinformation positioned in an incorrect context, and then you're on the back foot".

The sector warned that persistent negative publicity could deter new talent and investors, and demoralise staff committed to delivering essential services. "There is nobody in the water industry who doesn't care about the environment but most of the media can't see that," said another executive.

Seven out of ten water respondents also flagged up 'a failure to achieve necessary change in consumer behaviour and consumptions patterns' as likely/extremely likely to occur. They pointed out that campaigns had proved unsuccessful and would remain so without greater financial incentives to conserve water, such as increasing unit costs over a certain usage threshold.

"Vulnerable customers being left behind in the energy transition" **"Cost of achieving net zero"** "Failure to be honest about what drives bills beyond price of gas (network and policy costs)" **"A Reform government"** "Sewage discharges" **"Failure to meet demand reduction targets"** "Pollution, leakage, PFAS, micro-plastics" **"Misinformation regarding renewables and network infrastructure costs of net zero"** "Inadequate response to major events - such as, significant network outages with long recovery duration, or delays to grid connections" **"Executive salaries"** "Pollution incidents and drought"

PEOPLE AND SKILLS RISKS

Across sectors, 59% of HR leaders worldwide report difficulty attracting talent with vital digital skills as their top workforce challenge.[3] That is certainly a concern pertinent to the utilities industry, with risks related to skills remaining a fixture of the top ten risks. Technical and digital skills are repeatedly cited as areas of vulnerability, as utilities struggle to keep pace with the changing demands of a modern workforce. That said, recent redundancies in the tech sector have created a silver lining for utilities looking to recruit talent in areas such as IT, cybersecurity and data analytics.[4]

Reference:
3: https://www.mercer.com/insights/people-strategy/future-of-work/global-talent-trends/
4: https://www.goodman-masson.com/the-insights-hub/cybersecurity-hiring-in-the-utilities-sector

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Q Please indicate your views on the severity of the below risks in terms of their likelihood to occur.

Average **risk score** out of 5:	% likely / extremely likely to become a risk	Overall	Energy networks	Energy retailers	Water companies	Others
2.97	The industry fails to attract people from underrepresented groups	29.3%	21.4%	20%	34.4%	33.3%
3.17	Young people do not see the sector as an attractive career path	42.7%	35.7%	30%	50%	33.3%
3.41	Skilled workers and leaders are enticed / driven away from the sector	54.7%	42.9%	40%	62.5%	66.7%
3.45	The industry fails to keep pace with demands for changing skillsets (i.e. digital, behavioural science etc.)	53.3%	53.6%	40%	46.9%	50%
2.93	Workforce mental health and wellbeing issues lead to significant business challenges (e.g. operational, productivity related and/or reputational issues)	24%	21.4%	10%	25%	25%
3.09	Public backlash against performance-related pay hampers recruitment / retention of senior staff	37.3%	35.7%	20%	43.8%	25%
3.20	Incidents of abuse of utilities staff become more frequent	38.7%	21.4%	50%	46.9%	25%
3.03	The industry fails to adapt its total rewards offering to maintain relevance against emerging/future workforce needs	30.7%	21.4%	20%	40.6%	33.3%

46.9%

Almost half of water company respondents believe abuse of staff is likely to increase.

Skills shortages remain a key challenge

However, growing hostility toward water companies also fuels concern, with over two-thirds of respondents worried that staff may be enticed away, while almost half of water respondents reported that abuse of utilities staff was likely to increase.

Gina Perlet, senior associate Marsh specialising in employee benefit propositions, says utilities need a proactive approach to staff retention. Survey findings highlighting greater risks of abuse towards frontline staff mean strong employee support systems are essential, particularly around mental health. "Workers facing hostility from the public are likely to experience higher stress levels, which can affect wellbeing, engagement and ultimately whether they want to stay in the company."

With latest statistics showing mental health as now the second largest risk factor for medical costs, companies should consider a focus on early intervention and prevention rather than waiting for problems to escalate, including "making sure employees have the coping mechanisms and support in place so those experiences don't lead to long-term issues or time off work".[5]

Reference:
5: https://www.mercer.com/insights/total-rewards/employee-benefits-optimization/mmb-health-trends/

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More broadly, Perlet said the sector also needs to rethink its employee value proposition, especially in the face of growing anxiety and concern as to how artificial intelligence might replace human labour.[6] Flexible benefits, family-inclusive policies and preventive wellbeing support are increasingly important, particularly for younger workers. "The shift we're seeing is towards preventive measures rather than reactive ones that will nip issues in the bud and make sure employees are healthy, happy and engaged," she added.

Workforce and supply chain pressures combine

UK energy networks and water companies face delivery and workforce pressures amid an unprecedented infrastructure boom. One interviewee noted that while traditional asset risks – storms, cascade failures, security breaches – remain important, the biggest shift over the past year has been around delivery and workforce capacity. "That's what's changed in terms of risk," they said, pointing to headwinds from Brexit, COVID, and post-Ukraine energy volatility, alongside the growing scale of energy infrastructure programmes.

Supply chains are under enormous strain, with specialist equipment such as transformers and poles sourced globally. This is highlighted by the fact that 'geopolitical volatility and/or international conflict causes major disruption to markets and supply chains' is at number six in the overall top 10, albeit down from number three in 2025.

Securing suitably trained staff to install, commission, and maintain infrastructure is proving challenging. "Even if you can get hold of the equipment, there are often not enough suitably trained people to actually install it and commission it and make sure it's all safe," said one respondent.

Competition across sectors drives premiums for skilled contractors. "The market is completely captured," another respondent said, highlighting the impact of overlapping demand from transmission, distribution and water utilities.

Are there any specific skills sets you are concerned about being able to recruit on a five-year basis?

"Engineering, particularly commissioning engineers, senior authorised people, IT and cyber roles"
"System integration"
"Electrical and mechanical engineers with specific renewable technology skills"
"AI specialists"
"Experienced data scientists" **"Regulatory & policy expertise"** "Agility and creativity" **"Project management"** "Front line operator capability"
"Civil engineering design and application expertise, poor spread of knowledge and experience. Compartmentalisation of skills"
"Operational technicians and engineers"
"Low-carbon installation and retrofit skill"

Reference:
6: https://www.mercer.com/insights/people-strategy/future-of-work/global-talent-trends

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How companies are responding

Supply chain risks are likely to be one of the factors why 'confidence in the ability to resource appropriately' has declined this year. In 2025, seven in ten respondents said they were confident or very confident in their organisation's ability to resource appropriately for its commitments and ambitions over the next five years. In 2026, this figure had dropped to just below half (45.3%).

Innovative approaches are being deployed to mitigate these constraints. One UK network, part of a larger international group, is leveraging group-wide purchasing power to access a broader contractor base. "One of our mitigations is to leverage the buying power of being part of a bigger group, which means you fish in slightly deeper waters in terms of which type of contractor or partner you're contracting with," the interviewee said.

The scale of the UK infrastructure pipeline underscores workforce requirements. NISTA, the government's infrastructure advisor, estimates that the country will need between 621,000 and 697,000 workers annually over the next two years, rising to as many as 706,000 over five years, with construction roles making up over two-thirds of this demand. Specialist skills in electrification and renewable integration are increasingly portable internationally, further intensifying domestic scarcity. Combined with the surge in infrastructure demand, this could slow delivery, increase costs, and add risk to an already complex investment environment.

"It's not necessarily that supply chain and skills is top of my worry list, but it's probably the area that's changed the most," one interviewee said, underlining the need for coordinated planning, strategic investment, and innovative workforce solutions.

45.3%

Less than half of respondents are confident they will be able to resource their businesses properly in the next five years.

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6 ENVIRONMENTAL RISKS

'Increasingly extreme and unpredictable weather has a major impact on services delivery and infrastructure' remains the highest-ranking environmental risk, sitting at number four in the overall top ten risks. This is the same position it held in 2025, although its score has fallen slightly from 15.03 to 14.29. The risk scores strongly in the water and energy sectors for obvious reasons.

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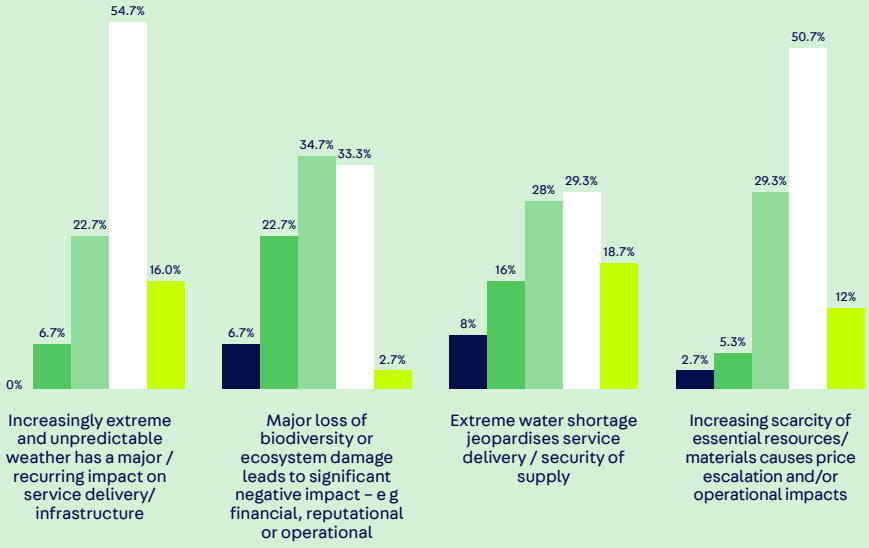
Q Please indicate your views on the severity of the impact these risks would have on your organisation if they occur.

Average **risk score** out of 5:	% likely / extremely likely to become a risk	Overall	Energy networks	Energy retailers	Water companies	Others
3.80	Increasingly extreme and unpredictable weather has a major / recurring impact on service delivery/infrastructure	70.7%	71.4%	60%	81.3%	41.7%
3.03	Major loss of biodiversity or ecosystem damage leads to significant negative impact – e g financial, reputational or operational	36%	21.4%	10%	56.3%	25%
3.35	Extreme water shortage jeopardises service delivery / security of supply	48%	21.4%	0%	87.5%	25%
3.64	Increasing scarcity of essential resources/ materials causes price escalation and/or operational impacts	62.7%	67.9%	50%	59.4%	50%



1: Extremely low impact 2 3 4 5: Extremely high

Extreme weather remains a major risk

While networks have learned from past storms and adapted working practices, severe weather can still overwhelm infrastructure. "There has been a lot of learning. We've changed working practices and the ways in which we communicate with ourselves and partners to be much better at restoration," the interviewee said. Even so, electricity networks are typically designed to withstand a defined level of stress. When conditions exceed that threshold, failures can escalate rapidly.

Using winter 21/22's Storm Arwen as an example, the interviewee described how unusual conditions compounded the damage: leaves still on the trees, unexpectedly high wind speeds and heavy snowfall that followed the storm. "The issue we have is the networks are really designed up to a point...you might suddenly end up with so much network damage that you simply run out of resources to try and fix it all and it takes weeks," they said, referencing similar challenges experienced in Ireland during severe storms.

Planning for extreme weather events remains difficult because every storm is different. Computer modelling and resilience analysis can help identify risks, but they cannot predict exactly where damage will occur.

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"If you look back in history, the parts of the network that fail during one storm might not be the same parts that will fall for the next one," the interviewee said, meaning reliance on historic patterns can leave networks exposed to new vulnerabilities.

Energy companies are responding with targeted resilience programmes, including strengthening vulnerable assets and undergrounding sections of network. These measures aim to reduce the likelihood of outages and shorten restoration times, but they cannot fully remove the risks posed by increasingly severe weather.

Water supply risks are increasing

Environmental risks remain firmly on the radar for the water sector as well, although the latest rankings suggest a subtle shift in focus. While the extreme weather risk still scores highly, a new concern has entered the top ten: "extreme water shortage jeopardises service delivery/ security of supply". Its appearance reflects growing concern that supply resilience itself is becoming a critical issue.

Recent events have underscored the point. Over the past 12 months several significant water supply disruptions have affected parts of the UK. Many incidents were linked to ageing infrastructure failures triggered by freeze-thaw weather events and compounded by periods of high demand.

Water companies argue that regulation and policy have struggled to keep pace with the scale of the challenge. A strong regulatory focus on tackling combined sewer overflows has diverted investment away from routine maintenance and upgrades to existing infrastructure. At the same time, efforts to keep customer bills low have delayed major long-term investments such as new reservoirs, leaving supply systems under growing strain.

Companies also point to tensions between regulators. In some cases, different regulatory priorities appear to conflict. One water company said tighter environmental restrictions have reduced the amount of water it can extract from rivers and streams, while planning permission for infrastructure that could move water from other sources has been difficult to secure.

Rethinking resilience

Looking ahead, many in the sector are hoping that the introduction of resilience standards will allow regulators to approve the level of capital investment needed to strengthen ageing infrastructure and prevent service disruption.

As one industry figure put it, "you've got more extreme weather, population growth and changing water use – more garden watering, hot tubs and fountains. All of that is putting pressure on the public water supply, while at the same time the Environment Agency is reducing the places we can take water from".

Dr. Bev Adams, head of client engagement Strategic Risk Consulting Marsh, argues that policymakers and industry are beginning to recognise a wider infrastructure risk beyond the strong policy focus on net zero and energy. Discussions with MPs and think tanks suggest greater attention is needed on critical resources such as water alongside power.

She highlights a growing debate about whether society may eventually need to accept some level of service disruption if maintaining constant supply becomes too costly. Drawing on a flood-resilience analogy – where some organisations plan to recover quickly rather than prevent all damage – she says similar questions are emerging around electricity.

"We may have to ask whether a short power outage is acceptable if the cost of keeping the grid perfectly resilient becomes too high."

Dr. Adams also warns that underinvestment in infrastructure could hold back economic growth. She points to water infrastructure funding gaps in Northern Ireland as an example where shortages could limit housing and development. Overall, she argues the UK faces a step change in infrastructure risk and must develop future scenarios, deciding whether risks should be mitigated or accepted.

"WE MAY HAVE TO ASK WHETHER A SHORT POWER OUTAGE IS ACCEPTABLE IF THE COST OF KEEPING THE GRID PERFECTLY RESILIENT BECOMES TOO HIGH."

Dr. Bev Adams, head of client engagement Strategic Risk Consulting**, Marsh**

Focus shifts to recovery

Callum Ellis, head of climate resilience Marsh, says "climate and extreme weather risks remain a concern for utilities, but many are reprioritising resources towards more critical short-term threats such as change to cybersecurity". As a result, while organisations are shifting their short-term focus, they recognise there is an ongoing opportunity to build longer-term climate resilience into their operations. He argues that many utilities are now moving towards a recovery-focused approach to handling weather-related disruptions, ensuring that impacts are minimised through careful contingency planning and recovery protocols.

Ellis also highlights "Utilities are becoming more resilient to climate risks, but unpredictable extreme events and rising demand mean infrastructure systems may face greater pressure in the future." In particular, this relates to the challenge of preparing for events outside normal operating conditions. Emerging hazards in the UK, including drought, wildfire and subsidence, could affect infrastructure in new ways, particularly as demand for energy and water grows. These climatic challenges, alongside new areas of growth across e.g. data centres, new housing and more energy-intensive industry practice, may put significant strain on the utility sector.

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CONCLUSION

The 2026 risk landscape for the UK water and energy sectors reflects a period of unprecedented uncertainty and operational pressure. Cybersecurity has surged back to the top of the risk table, with its score now 2.5 points higher than the next-ranked threat, highlighting utilities' growing concerns over ransomware, data theft, and the impact of global tensions on critical infrastructure.

At the same time, regulatory and policy reforms are climbing the agenda, with the Cunliffe Review driving plans to replace Ofwat with a single integrated regulator, strengthen oversight and coordinate regional planning.

Companies face exposure navigating current rules while preparing for new governance and financial controls, and the transition period itself has emerged as a key operational risk.

Alongside structural pressures, societal and environmental challenges are intensifying: rising customer debt, persistent public and political scrutiny, widespread misinformation and stubborn consumer behaviour all threaten trust, investment and service delivery.

For water, the growing risk of physical abuse is adding to the pressures of retaining staff and resourcing workloads. Water supply resilience is under pressure from ageing infrastructure, extreme weather and an increasing population, while conflicting regulatory priorities divert investment away from essential maintenance and upgrades. Taken together, these trends paint a complex picture of a sector balancing immediate operational pressures with long-term transformation, highlighting the need for strategic foresight and robust risk management.

That's before we even get to navigating the benefits and downsides of AI and geopolitical uncertainty. As one of those interviewed out it: "Nothing seems predictable anymore."

Of course, poor management and inefficiencies heighten risks in any business and utilities have improvements to make there and must not shy away from the deployment of advancing technology where this can make a difference. But so many of these risks are not generated in the utilities landscape – like the march of AI, or conflicts in the Middle East. But others are very much down to regulators and politicians to ease and reduce.

Certainly, water and energy companies are hoping that the government will use forthcoming reforms of water and energy regulation to help reduce risks that are in its gift. That means repairing broken regulatory systems and articulating clearer priorities as utilities successfully walk the increasingly wobbly tightrope of keeping bills down while ensuring supply and pleasing shareholders, customers and politicians.

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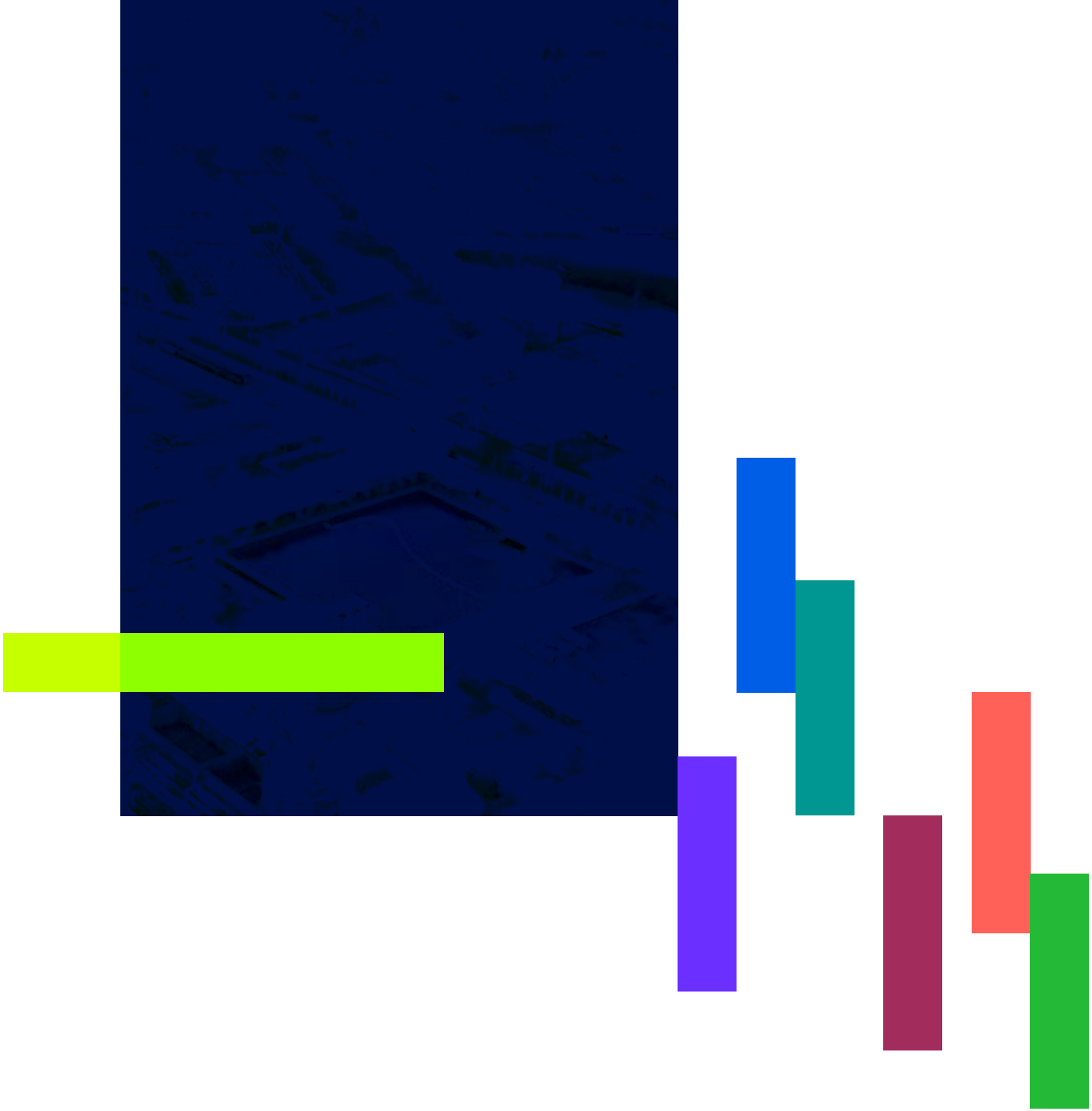

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