

16 August 2013

Mr Warwick Anderson
General Manager – Network Regulation
Australian Energy Regulator
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Canberra ACT 2601
Email: consumerengagement@aer.gov.au

Dear Mr Anderson

Response to the AER's Draft Consumer Engagement Guideline

ActewAGL Distribution (ActewAGL) welcomes the opportunity to comment on the *Draft consumer engagement guideline for network service providers* (draft guideline), which the AER released on 1 July 2013. ActewAGL appreciates the value and importance of consumer engagement. We inform our consumers about network issues and have devoted significant resources to understanding their preferences. We consider that the draft guideline provides a framework within which network service providers (NSPs) should have the flexibility to continue developing and implementing engagement strategies which ensure the long term interests of their consumers are addressed in the most efficient and effective way.

A principles based approach

ActewAGL supports the principles based approach adopted by the AER. We agree with the comment, in the explanatory statement, that a prescriptive approach could discourage NSPs from undertaking innovative and meaningful engagement activities that maximise the effectiveness (and/or minimise the costs) of engagement. We also agree with the AER's comment that consumer engagement should not be thought of as a compliance activity, because that would undermine the potential for engagement to be innovative and responsive to consumers.

The appropriate type of engagement will vary widely, depending on the nature and complexity of the issues to be considered, the size and composition of the customer base, and the size of the NSP. Network service providers are best placed to determine what is appropriate, within the framework provided in the guideline.

ActewAGL's experience conducting choice modelling surveys over the past decade highlights that meaningful engagement can be achieved by assessing the preferences of a representative sample of customers in relation to the balance between cost and service levels. The pioneering research undertaken for ActewAGL by NERA and ACNielsen in 2003,¹ and subsequent studies by researchers from the Australian National University between 2008 and 2012,^{2,3,4} have

¹ NERA and ACNielsen 2003, *Willingness to pay research study*, A Report for ACTEW Corporation and ActewAGL prepared by NERA and ACNielsen, September.

² McNair B.J. and Abelson P., 2010, Estimating the Value of Undergrounding Electricity and Telecommunications Networks. *The Australian Economic Review* 43, pp. 376-388.

³ McNair B.J., Bennett J., Hensher D.A. and Rose J.M., 2011, Households' Willingness to Pay for Overhead-to-Underground Conversion of Electricity Distribution Networks. *Energy Policy* 39, pp. 2560-2567.

provided consumers with an opportunity to reveal their preferences with respect to supply reliability, supply quality, customer service, and overhead-to-underground network conversion. The valuable information generated by these studies is increasingly being used in developing expenditure priorities and programs that deliver net benefits to customers. This type of targeted engagement should continue to play a key role in our engagement strategy, supported by a range of other activities designed to inform consumers and give them an opportunity to comment on a range of issues.

The costs of engagement

In the explanatory statement and draft guideline the AER does not address the costs of consumer engagement or how the AER will assess expenditure proposals relating to engagement activities. In the consultation forums on the draft guideline the issue of cost recovery has been raised and AER staff members have acknowledged that the reasonable costs of engagement will need to be recovered in network tariffs. The AER says that it expects comprehensive ongoing consultation, not only in relation to the 5 year regulatory proposals but also outside reset periods.⁵ This will require significant resources and involve additional ongoing costs for NSPs.

The AER will need to assess consumer engagement expenditure proposals on a case-by-case basis, noting the difficulty of accurately forecasting these costs, particularly in the early years of implementation, and also the difficulty in assessing the likely benefits or outcomes of engagement. Particularly challenging for ActewAGL (and the other NSPs), is the preparation of regulatory proposals before the guideline's finalisation. Approved expenditures need to be sufficient to allow businesses to trial a range of engagement options, and to establish the appropriate expertise and most effective processes for ongoing engagement.

Links to other consultation requirements

Several new consumer engagement requirements have been introduced or proposed over the past year. For example:

- The Australian Energy Market Commission's (AEMC's) October 2012 final decision on the *Distribution network planning and expansion framework* includes new requirements for distribution network service providers (DNSPs) to develop a demand side engagement strategy and to communicate and consult with stakeholders (through the regulatory investment test for distribution process and publication of a Distribution Annual Planning Report).
- The Standing Council on Energy and Resources (SCER) has agreed to submit a rule change proposal on distribution pricing principles, including enhancements to the engagement of DNSPs with retailers and consumers on network pricing, arising from the AEMC's *Power of Choice* review.⁶
- The AEMC is currently assessing IPART's rule change proposal, which includes new requirements for DNSPs to engage with consumers and retailers.

The AER's draft consumer engagement guideline should be considered as a further element in this suite of current and potential requirements. When assessing whether DNSPs are meeting

⁴ McNair, B.J. and Ward, M.B. 2012, *Balancing cost and standards of service: the stated preferences of Canberra households*, presented at Energy Networks Conference, 2 May, Brisbane, Australia.

⁵ AER 2013, *Draft Consumer Engagement Guideline for Network Service Providers*, July, p. 13 and *Explanatory Statement*, p. 10.

⁶ Australian Government 2013, *Response to the Productivity Commission Report, Review of Electricity Network Regulatory Frameworks*, June, pp. 21-22

the expectations set out in the guideline, the AER should take into account existing requirements and customer focussed initiatives already in place. Businesses need the flexibility to develop an overall engagement strategy which best satisfies the range of requirements and expectations.

Links to the AER's stakeholder engagement framework

In the draft guideline the AER says it expects NSPs to proactively develop consumers' capacity to understand complex issues, and ensure that consumer cohorts can access sufficient information to understand and assess relevant issues.⁷

ActewAGL agrees that consumers need to be properly informed. In some cases it may be more efficient for the AER to play a greater role where there are common issues across NSPs. For example, rather than having each NSP educate consumers on complex matters such as the weighted average cost of capital (WACC) and how it influences network prices, it is likely to be more efficient to have the AER take the lead through its stakeholder engagement activities.

Consultation with retailers

The AER says in the draft guideline that it expects network service providers to engage with retailers and others (such as industry groups) to support their interaction with identified groups of consumers.⁸ ActewAGL agrees that engagement with retailers will be critical, to help identify relevant consumers and issues, to ensure that retailers are well informed about network issues and regulatory proposals, and to avoid any potentially confusing and costly overlap between retailers' and NSPs' engagement with consumers.

Application to gas

The AER's view is that the guideline is as relevant for gas network service providers as it is for electricity, even though the National Gas Rules do not include explicit requirements relating to consumer engagement, as the National Electricity Rules do in clause 6.5.7(5A).⁹

ActewAGL agrees that the long term interests of customers are a primary consideration in gas, as they are in electricity. However, we do not agree that the guidelines should apply equally to both electricity and gas. We consider that the AER should recognise that fundamental differences between gas and electricity mean that consumer interests and preferences will be addressed in different ways. Given that gas is a fuel of choice, gas service providers gather additional market information on consumer preferences and willingness to pay. As the AEMC has identified, the most effective form of engagement may vary depending on whether the business is providing gas or electricity.¹⁰

Please contact Leanne Holmes, Manager Economic Regulation, on 0412 850 715 if you would like to discuss this submission.

Yours sincerely



David Graham
Director Regulatory Affairs and Pricing

⁷ AER 2013, *Draft Consumer Engagement Guideline for Network Service Providers*, July, p. 8

⁸ AER 2013, *Draft Consumer Engagement Guideline for Network Service Providers*, July, p. 9

⁹ AER 2013, *Draft Consumer Engagement Guideline for Network Service Providers*, July, p. 13

¹⁰ AEMC 2012, *Directions Paper, Economic Regulation of Network Service Providers and Price and Revenue Regulation of Gas Services*, March, p.155