



**Consumer Engagement Guideline for Network
Service Providers
Response to Draft Guideline**

16 August 2013

1. Overview

The Energy Networks Association (ENA) welcomes the initiative of the Australian Energy Regulator (AER) in developing a Consumer Engagement Guideline to outline its expectations and approaches to assessing consumer engagement undertaken by service providers in the energy network sector.

The energy network sector has strongly promoted to policy makers and regulators the benefit of improving consumer engagement both in critical network determination processes, and continuously through time to ensure networks deliver a range of services that consumers value. Energy network businesses are currently proactively undertaking a diverse range of consumer engagement activities, which are highlighted in [Attachment 1](#).

The draft guideline positively reflects consultation with ENA and its members, by providing a principles-based and flexible statement of expectations. This approach is supported, and will promote innovation, tailored approaches and experimentation leading to improved engagement over time.

The ENA has a number of specific comments on the content of draft guideline. These relate to ensuring the scope of consumer engagement is clear, to allow for efficient and focused engagement related to the long-term interests of consumer consistent with the intent of the National Electricity and Gas Objectives (NEO and NGO).

The final guideline should recognise that a range of other matters that go beyond the NEO and NGO and the delivery of network services valued by consumers that involve environmental, social and distributional considerations are best addressed through other existing processes.

Finally, the final guideline should recognise that there will be resourcing requirements and cost impacts to meeting increased levels of consumer engagement activities. It will be important through the implementation phases of this guideline to explore and measure the levels of engagement that meet the expectations of consumers, and represent efficient levels of expenditure. This highlights that it will be important for the guideline to recognise that different network businesses, with different sets of consumers and key stakeholders, will require tailored programs.

2. Background

ENA is the peak national body representing gas distribution and electricity transmission and distribution businesses throughout Australia.

Energy networks are the lower pressure gas pipes and low, medium and high voltage electricity lines that transmit and distribute gas and electricity from energy transmission systems directly to the doorsteps of energy customers.

Twenty-six electricity and gas network companies are members of ENA, providing governments, policy-makers and the community with a single point of reference for major energy network issues in Australia.

With more than \$75 billion in assets and 13 million customer connections across the NEM, Australia's energy networks provide the final step in the safe and reliable delivery of gas and electricity to households, businesses and industries.

3. Approach and objective of the guideline

ENA members are committed to pursuing more effective and detailed engagement with consumers to improve consumers' understanding of and input into network decisions and operations to promote outcomes in the long term interest of consumers. An understanding of current and future consumers' needs and likely preferences is central to the long-term sustainability of any industry. In the case of networks featuring natural monopoly characteristics, processes to ensure that together the network businesses and the regulator deliver on consumer expectations over time are of even greater importance than in openly competitive markets.

The ENA was a strong advocate of the recent changes to the *National Electricity Rules* which enable for the first time the AER to explicitly take into account consumer engagement in the assessment of proposed expenditure programs. This change represents an important recognition of the centrality of consumers in the expenditure proposal development and approval process.

This is a challenging policy area due to the heterogeneous characteristics and preferences of consumers, the potential for disparate perspectives on desired outcomes, the need to account for the interests of future consumers, and the limited capacity in network service delivery under current technological conditions to provide differentiated services.

This highlights the need for network businesses to be given the maximum flexibility to innovate and trial a range of engagement approaches. These approaches will in some cases build on initiatives and activities already commenced at the initiative of network firms, but in other cases they may represent entirely new programs of activities. A range of different engagement approaches historically in place across networks to date means that there will be no universally appropriate template. Rather, there is a common commitment in the network sector to explore new approaches and foster deeper engagement with consumers through both the regulatory determination cycle, but also continuously, as part of normal business practices.

The AER's guideline adopts an approach which supports this commitment, and ENA endorses its overall approach. Particular strengths of the outlined approach include a focus on continuous improvement, recognition of the need to realistically define the levels and impact of engagement in terms of external constraints on network businesses' expenditure and operational decisions, and the drawing on of internationally recognised tools for assessing engagement options. In addition the inclusion of examples in the Guideline (including from the energy network sector) of

best practice consumer engagement provides useful guidance on the AER's future considerations. The ENA provides further examples provided from its members in [Attachment 1](#).

The further comments provided by ENA are concerned with ensuring there is clarity in the scope of the guideline and the expectations of all parties going forward, and this should be viewed in the context of the industry's overall support for the direction so far.

4. Achieving improved clarity on scope of guideline

A fundamental priority for successful engagement in the context of the guideline is for there to be clarity over who the network firms will be consulting with, and the nature and scope of issues subject to consultation.

The AER has suggested in the draft guideline that it will expect the identification and tailored consultation with a wide range of cohorts, some of which are imprecise or beyond the scope of a guideline under the *National Electricity Law*. For example, the draft guideline nominates 'essential community services groups' and environmental groups. Further, the guideline suggests that network firms should seek to identify whether engaged consumers are 'socially conscious'.

The ENA understands that the primary purpose of the guideline is to promote engagement with the range of consumers networks deliver services to on the issue of how networks proposed expenditures and activities can meet the long-term interests of consumer consistent with the factors set out in the NEO and NGO. This is ambitious and wide role in itself – care should be taken to ensure it is not unintentionally conflated with an expectation that under this guideline NSPs will engage on an ongoing basis with consumers on a range of issues outside of the scope of the *National Electricity Law* and *National Electricity Rules*.

It is unclear, for example, on what basis the AER would expect the particular perspectives of an identified cohort of 'socially conscious' consumers to be taken into account or weighed against the long-term interests of other consumers. The term 'socially conscious' is ambiguous and likely to result in either arbitrary judgements being made in consultative approaches or the creation of confusion. ENA takes it to mean, in this context, the potential views of energy consumers on what arrangements should be made to ensure the adequate provision of energy services to vulnerable or disadvantaged consumers.

The competition policy and energy market frameworks both clearly and deliberately provide for broader 'distributional'-type decisions with a social or political dimension to occur transparently outside of network businesses and the economic regulatory environment. Any shaping of network pricing and business activities to reflect such concerns is correctly the province of the legislative and executive activities of elected governments, who have proper accountability for decisions made (for example, through democratic electoral processes, public budgeting processes, the obligation to fund Community Service Obligations transparently etc).

Similarly, the NEO, which focuses on ‘the long term interests of consumers’ is framed and interpreted as an economic efficiency focused objective¹ – policy makers have consciously chosen, after consideration in 2006-07 to not include an environmental element to the existing broad criteria, to provide clarity to energy market institutions and regulated firms and in recognition of the other avenues (regulatory, legislative or market-based) for pursuit of these objectives.

Given this, the AER’s expectations about the role and function of identifying and consulting with environmental groups under the guideline are unclear. There is a significant potential for a misunderstanding to arise as to the intended and practical scope of the engagement. The scope of perspectives of environmental groups will by their nature be extremely broad, and yet it is not at all clear that the output of these consultations will be able to be meaningfully reflected in network regulatory proposals or ongoing business activities.

If the results of poorly targeted or focused engagement are unable to be meaningfully progressed by the network firms concerned (because they lay outside of their control or relate to government policy initiatives) undertaking activities identified as consultation on these issues may result in scarce resources of both such groups and networks being diverted to no benefit.

Here it is critical to distinguish between the types of consumer engagement that we understand to be the primary focus of the AER guideline and existing community consultation processes on a wide variety of environmental and land use matters (which is undertaken by network businesses under a range of existing licensing, council planning and environmental approval regimes). This latter category is typically location and project specific consultation, which directly impacts on the manner in which a network firm will meet its service delivery obligations in a manner consistent with regulatory obligations or good industry practice. Introduction of an open-ended obligation to consult on environmental issues under the AER Consumer Engagement guideline could duplicate and introduce confusion into these existing arrangements, and divert focus from the intended objectives in both cases.

5. Resourcing enhanced consumer engagement

The draft Consumer Engagement guideline discusses the AER’s expectation that there will be a significant change in the manner in which network businesses run their businesses over time arising from enhanced consumer engagement.²

The ENA understands that the development of this Guideline follows an AER consumer engagement review that was undertaken in early 2013. The review involved discussions with service providers, consumer groups and other interested parties to understand the current approach and potential opportunities for expanding the scope and effectiveness of consumer engagement following changes to the NER.

¹ Second reading speech *National Electricity (South Australia) (New National Electricity Law) Amendment Bill*

² AER Better Regulation *Explanatory Statement - Draft Consumer Engagement Guideline for Network Service Providers*, July 2013, p.12

The development of this guideline clearly arises from the AER's assessment that current customer engagement undertaken by network businesses are, in some cases, not sufficient and are not consistent with promoting the NEO under the new rules.

This implies that for many businesses, there may be a retargeting of existing resources from existing consumer engagement activities to new areas. It also implies some network businesses will require net increases in levels of resourcing in consumer engagement, to both bring resourcing up to a level consistent with consumer and AER expectations, and to support the scoping and trialling of innovative engagement models for the future.

The extent of this resourcing will be driven by network businesses' decisions on the most cost-effective and practical means of promoting consumer engagement, and clarity provided by the AER in the final guideline on the expected scope of such activities.

To the extent that new expectations represent a change in scope and scale of a range of engagement activities, the AER will be obliged to consider the forecast costs of these activities. This will require it to form a view, based on the material in the regulatory proposal and other views (such as the Consumer Challenge Panel and consumer submissions) on a proportional and 'efficient' level of forward expenditure on consumer activities.

As noted in consultation forums on the draft guideline, there may be circumstances in which the AER is obliged under the *National Electricity Rules* to consider levels of proposed engagement and associated resourcing that differ materially between networks. These may differ based on existing activities and the design and implementation options selected by networks to trial innovative mechanisms to engage consumers in a dialogue on regulatory proposals, and ongoing activities.

In some areas of the draft guideline, there needs to be further consideration and guidance on the resourcing implications of expectations set by the AER. As an example, the Guideline discusses an expectation that networks will seek to '*proactively build consumers' capacity to understand the issues, processes and potential impacts and outcomes of a decision*'.³

The issue of capacity building of consumer advocacy activities has been taken up in a number of policy and regulatory contexts over the past year. This has culminated in the launch of the AER Consumer Challenge Panel last month, and the Standing Council on Energy and Resources announcing a commitment to a new national energy consumer advocacy body to be established next year. These regulatory and policy commitments are designed to significantly enhance the capacities of consumer bodies to engage in network determination, as well as other regulatory and rule-making processes.

Given these considerations the ENA recommends that the final guideline should:

- recognise that - in some cases - there will be additional resourcing (including specialist research expenditure) required to be approved to support its vision for enhanced consumer engagement;

³ AER Draft Consumer Engagement Guideline for Network Service Providers, July 2013, p.10

- clarify that identification of consumer cohorts under this Guideline does not extend to environmental or ‘socially conscious’ consumers; and
- clarify the scope of anticipated resourcing associated with the specific goal of building consumers capacity.

6. Relationship to other consumer focused initiatives

A critical factor in the success of the range of consumer focused policy and regulatory initiatives will be their effective coordination and clarity for all stakeholders surrounding the interlocking relationships between them.

ENA considers that there should be close coordination and communication between governments, regulators agencies, the Consumer Challenge Panel, the existing Consumer Advocacy Panel funding mechanism, the future National Energy Consumer Advocacy Body, existing consumer groups and other stakeholders (including networks) on precisely what are the expected roles and functions of the new bodies, and how they can be expected to relate to the consultative processes envisaged by the Consumer Engagement Guideline. Ideally, there should be a shared vision of the scope of issues to be considered by, and expected areas of focus of, each of the new bodies.

Achieving this set of shared expectations will permit each body to focus on where they can best affect outcomes for consumers, avoiding either dispersion of effort, or inefficient duplication of functions. ENA would welcome contributing to this dialogue, recognising the central role which the views and preferences of other participants will play.

7. Promoting a ‘fit for purpose’ approach for all networks

Application to gas network service providers

The explanatory statement discusses the guideline being equally applicable to gas as to electricity network businesses. The guideline should reflect two fundamental points of difference in the scope of its application between the electricity and gas sectors – the relevant regulatory rules and market position of the networks.

Gas network businesses operate networks which offer a discretionary fuel in markets which feature, in many cases, significant inter-fuel competition. This provides significant market-based incentives to ensure that gas networks are responsive to the price, quality and reliability priorities of gas consumers.

Under the electricity rules the regulator has explicit guidance in assessing proposed capital and operating cost forecasts to consider the nature and extent of engagement with consumer regarding expenditures that form part of the regulatory proposal. There is no equivalent provision in gas, reflecting the different market circumstances and the naturally strong incentives on gas network operators to closely focus on consumers’ needs and willingness to pay for network services.

ENA considers it important that the final guideline is clear about the effect of the explicit weight placed on consumer engagement in the NER, through the just completed rule change process, compared to the existing *National Gas Rules*. To effectively 'import' similar considerations into the regulatory proposal assessment process in the NGR, in the absence of any equivalent provisions would undermine the guiding role of regulatory rules, and does not reflect an appropriate separation of the application of regulatory rules (the role of the AER) and regulatory rule making powers (vested in the AEMC). Should stakeholders consider that the expenditure assessment provisions be interpreted in a way that gives specific weight to the degree of consumer engagement activities undertaken by gas network firms, this change should be assessed and effected through the rule change process.

Application to electricity transmission service providers

In similar terms, the nature of consumer engagement between electricity transmission and other sectors is likely to be different, due to the major customers of TNSPs being effectively large industrial users, DNSPs and generators.

The AER guideline should more explicitly recognise the differences this is likely to mean for TNSPs, as it is not in the long term interests of consumers to fund inefficiently scaled consumer engagement activities covering networks which do not directly have a direct relationship in serving typical household and commercial electricity users. The Grid Australia submission sets out a number of associated transmission-specific issues arising from this in more detail.

In ENA's view, the challenge here will be developing efficient means of scoping and scaling any consumer engagement activities and individual network businesses will be best placed to explore and innovate how this can be achieved.

Current network sector consumer engagement activities

SA Power Networks

As South Australia's sole electricity distributor, SA Power Networks is responsible for delivering electricity to over 830,000 customers. SA Power Networks recognises the importance of providing performance updates and feedback opportunities to consumers and other stakeholders through regular initiatives such as Customer Satisfaction and Brand Health Surveys, Customer Consultative Panel and an internal Customer Service Review Group. For major network projects stakeholder consultation processes are also embedded in planning and implementation. In the context of preparations for the 2010-15 reset, SA Power Networks engaged with key stakeholders extensively via bilateral meetings and a consultation document titled 'Directions & Priorities'.

For the 2016-2020 regulatory period SA Power Networks is building on its previous consultation approach with a more comprehensive and inclusive consumer engagement process that supports the *National Electricity Rules* requirements. The program is supported by the Board and senior management and is designed to ensure the business is well positioned to: listen early to stakeholders' views; provide relevant information to stakeholders; establish a prompt and transparent feedback loop; establish a framework for methodical assessment of issues; demonstrate an evidence based process aligned with best practice stakeholder engagement principles; and provide a template for ongoing stakeholder engagement outside of reset periods.

The engagement program is divided into two key stages – research and strategy; with a number of consultation activities falling within each stage. Key features of the program include engagement of expert research advisors, development of a custom consultation program named 'Talking Power' including a dedicated website where updates and reports are published, and the integration of consumer insights into business planning and expenditure forecasting.

Jemena Electricity Networks

Jemena Electricity Networks (JEN) holds regular Stakeholder Consultative Committee meetings. This process is considered business-as-usual for JEN, as the meetings cover a range of issues including (but not limited to) EDPR submissions, service delivery, customer service improvement strategies and community support initiatives. Committee members include representatives from consumer advocacy groups and local councils. The committee is currently being reviewed and enhanced, in order to broaden its reach with JEN's stakeholders.

Jemena Gas Networks (JGN) has a well-established stakeholder management program that seeks feedback from large customers, market participants and key interest groups on commercial and service delivery issues. JGN is in the process of establishing a Customer Council to more broadly engage with the representatives of end customers on an ongoing basis.

Jemena has also recently undertaken a strategic review of its external relations approach, which included a significant research component involving both interviews with stakeholders (including consumer advocacy groups, retailers, regulators, government and industry associations) and online

surveying of end users. The results of this research are influencing the development of Jemena's consumer engagement strategy and future plans.

ENERGEX

Energex is currently developing a detailed customer engagement strategy to build on our existing customer knowledge with the aim of increasing our understanding of customers' expectations of Energex, now and into the future. This includes building a framework that considers how these expectations should be incorporated into Energex's business and operational planning to better align customers' expectations and Energex's investment decisions. Increased understanding of expectations provides the opportunity to develop an improved customer engagement strategy and implementation framework to engage customers in a way that is meaningful and relevant to them to ensure their interests are represented in network investment strategies.

An in-depth qualitative and quantitative research program involving a diverse range of connected customers (both residential and business), stakeholders and representative groups, will explore the value drivers of different customer cohorts and their willingness to pay and trade for services across various touch points, interactions and relationships they have with Energex.

This program will form part of an ongoing customer engagement strategy for Energex.

Ergon Energy

In order to achieve its primary objective of delivering a Distribution Determination which improves affordability and customer value, while prudently investing for and efficiently delivering a safe, secure and reliable network, Ergon Energy has developed an AER 2015 Consumer Engagement Plan that will facilitate the gathering of stakeholder feedback/concerns in a way that can best inform our regulatory proposal, and the future works program. The Plan has been developed from an assessment of our stakeholder's ability to influence the project outcomes, and the potential impacts the project could have on our stakeholders. This assessment will be reviewed on an ongoing basis, as considerations such as awareness or concern around issues shift.

The Plan is to use direct engagement with major customers, peak bodies, customer representatives, community leaders to inform our investment decisions. This will be complemented through representation of the broader customer base through a formal research program. Additionally, customers will also have the opportunity to utilise online engagement to further complement other engagement activities. Engagement will occur in accordance with the Plan through Phase 2 of Ergon Energy's AER 2015 program, from July 2013 through to May 2014.

ActewAGL Distribution

ActewAGL Distribution (ActewAGL) is committed to meaningful engagement with its customers. A key part of ActewAGL's engagement strategy has been understanding customer preferences in relation to striking the balance between cost and levels of service. For more than a decade, ActewAGL has been at the forefront of 'willingness to pay' (WTP) research utilising world-leading authorities in the application of choice modelling techniques to gain a detailed understanding of these preferences. In 2003, ActewAGL commissioned a ground-breaking WTP study into residential

and commercial customers' preferences in relation to electricity supply reliability, electricity supply quality and gas supply reliability.⁴ ActewAGL has subsequently been involved in further choice modelling work, undertaken by researchers at the Australian National University (ANU), assessing WTP for overhead-to-underground electricity network conversion and the value of supply reliability to domestic electricity and gas customers.^{5,6,7} The valuable information generated by these studies is increasingly being used in developing expenditure priorities and programs that deliver net benefits to customers. Periodic research of this nature will form part of ActewAGL's ongoing consumer engagement programme – an approach that has been recognised by the Australian Energy Market Commission.⁸ ActewAGL also commissions surveys on an annual basis that measure customer satisfaction with service, assess the extent to which customer expectations are being met, and provide an opportunity for feedback.

⁴ NERA and ACNielsen 2003, *Willingness to pay research study*, A Report for ACTEW Corporation and ActewAGL prepared by NERA and ACNielsen, September.

⁵ McNair B.J. and Abelson P., 2010. Estimating the Value of Undergrounding Electricity and Telecommunications Networks. *The Australian Economic Review* 43, 376-388.

⁶ 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, 2560-2567.

⁷ 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.

⁸ Australian Energy Market Commission 2013. *The Hitchhiker's Guide to the NEM: What was the question again?* Discussion Paper: Maddocks Energy Signature Lunch, 7 August 2013, Sydney, Australia, p18.