

# Supporting Documentation Informing Our Plans, Our Engagement Program



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To ensure we manage the distribution network efficiently, Ergon Energy is regulated under the National Electricity Rules (NER) by a national regulator, the Australian Energy Regulator (AER). It is the AER's role to set the amount of money we're allowed to collect for the use of our electricity network. These network charges make up approximately half of the retail 'price' of electricity in Queensland.

To assist the AER in making the decisions it needs in determining our revenue allowance for 2015 to 2020, we have provided them with our future investment plans as a Regulatory Proposal. After considering our proposal and public submissions, the AER will publish a draft Distribution Determination. This will be available for further consultation in May 2015.

We have engaged with our customers to help inform our proposal and are confident, with the AER's support, that our investment plans will enable us to deliver the best outcome for regional Queensland into the future.

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## **How to read our Regulatory Proposal**

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Ergon Energy's Regulatory Proposal is presented in a number of documents to make it easier for our different stakeholders to access the information they need.

The document, An Overview Our Regulatory Proposal, provides the context for the proposal and an overview of the price impacts and the broader customer benefits, along with the highlights of how we plan to deliver them. The overview document is supported by a number of documents.

One of the supporting documents is this document, Informing Our Plans, Our Engagement Program. It details our engagement program and the customer insights used to inform our Regulatory Proposal.

The document, Ergon Energy Regulatory Proposal 2015 to 2020, fully addresses the regulatory requirements of the proposal for the AER.

These and a suite of other documents are available at [www.ergon.com.au/futureinvestment](http://www.ergon.com.au/futureinvestment)

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We will continue to make improvements to our engagement approach, to find the best path to meet the longer-term needs of the communities we serve.

## A solid foundation to build on

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To help develop Ergon Energy's Regulatory Proposal we have invested considerable effort in asking our customers and other stakeholders what they expect from us.

These efforts have been part of an ongoing conversation with our customers and the communities we serve, which I have been leading as the Chief Executive of both our electricity distribution and retail businesses.

I am confident the understanding we have gained around our customers' expectations, especially over recent times, has been applied in forming our future investment plans for our distribution business.

Our engagement program over the past eighteen months has included direct customer engagement – supported by information sharing online – as well as a significant customer research program. There has also been a substantial senior management commitment to both regional stakeholder and peak body engagement, which I personally have found extremely valuable for testing my thinking, and ensuring that we are on the right track.

Our engagement program has been instrumental in helping us to refresh our service commitments to regional Queensland. These commitments have in turn helped inform the expenditure categories in our Regulatory Proposal.

I trust this document provides you with the confidence that we are listening and that we have made a serious effort to ensure our customers' views and concerns are reflected in our plans for the future.



**In a snapshot, electricity affordability is the core concern for our customers, with perceptions of affordability falling dramatically over the past five to six years as prices have risen.**

**Reliability and quality of supply, as well as choice and control, also remain important to our customers.**

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IAN McLEOD  
**CHIEF EXECUTIVE**

We certify that the key managers/planners responsible for developing our Regulatory Proposal have, wherever reasonable and practical, applied the customer insights gained through our engagement program into their decision making.

Ian McLeod  
**Chief Executive**

Peter Billing  
**Executive General Manager Customer Service**

Gordon Taylor  
**Executive General Manager Strategy, Revenue and Transformation**

Mal Leech  
**Executive General Manager People and Shared Services**

David Edmunds  
**Executive General Manager Network Optimisation**

Mike Hutchens  
**Chief Financial Officer**

**Our customer/community engagement activities around our future investment plans have been rolled out as part of Ergon Energy’s overarching stakeholder engagement strategies, under our umbrella stakeholder engagement policy and framework.**

Our stakeholders are defined as any person or group who could potentially be impacted by our activities or decisions, or who could affect our ability to serve our customers.

Through our stakeholder engagement policy, we have long recognised effective stakeholder engagement as essential to delivering on our purpose. We see stakeholder engagement as vital, firstly, to ensuring our corporate vision and operational strategies are compatible with our stakeholders’ aspirations, and secondly, in enlisting stakeholder support to successfully realise our goals.

Our policy, which has been in place since 2008, outlines a number of key principles that we apply to our decision making. These are as relevant to our engagement around our future investment priorities, as they are to our day-to-day operational decisions.

## **OUR CORE PRINCIPLES**

Our core principles for stakeholder engagement are:

- our stakeholders have a right to be informed about our activities in a timely and accurate manner, and be engaged in decisions relating to the issues that affect them
- we actively seek stakeholder feedback, both individually and through research programs, so that specific stakeholder and broader societal concerns can be considered in our decisions and that, as appropriate, plans can change to address concerns
- the level and complexity of engagement will be appropriate to the issue and the degree of involvement desired by our stakeholders
- we respect the diverse values and cultures of our many stakeholders. We will always show respect for differing views and endeavour to explain the range of considerations undertaken in coming to a decision.

Our policy also makes a commitment to transparent decision making. In practice, this is a commitment to being upfront with stakeholders on how they may influence a decision.

We are also active in reporting publicly and, as is the case in this program of engagement and many others, we look to identify clear measures for success to help us evaluate the effectiveness of our engagement.



**Dean Condon, Ergon Energy Technology Innovation Engineer, discussing the complexity of network interactions with the new technologies being adopted by customers, with Townsville City Council’s Deputy Mayor Vern Veitch, at our Townsville ‘Creating Energy Futures for Queensland’ stakeholder event.**

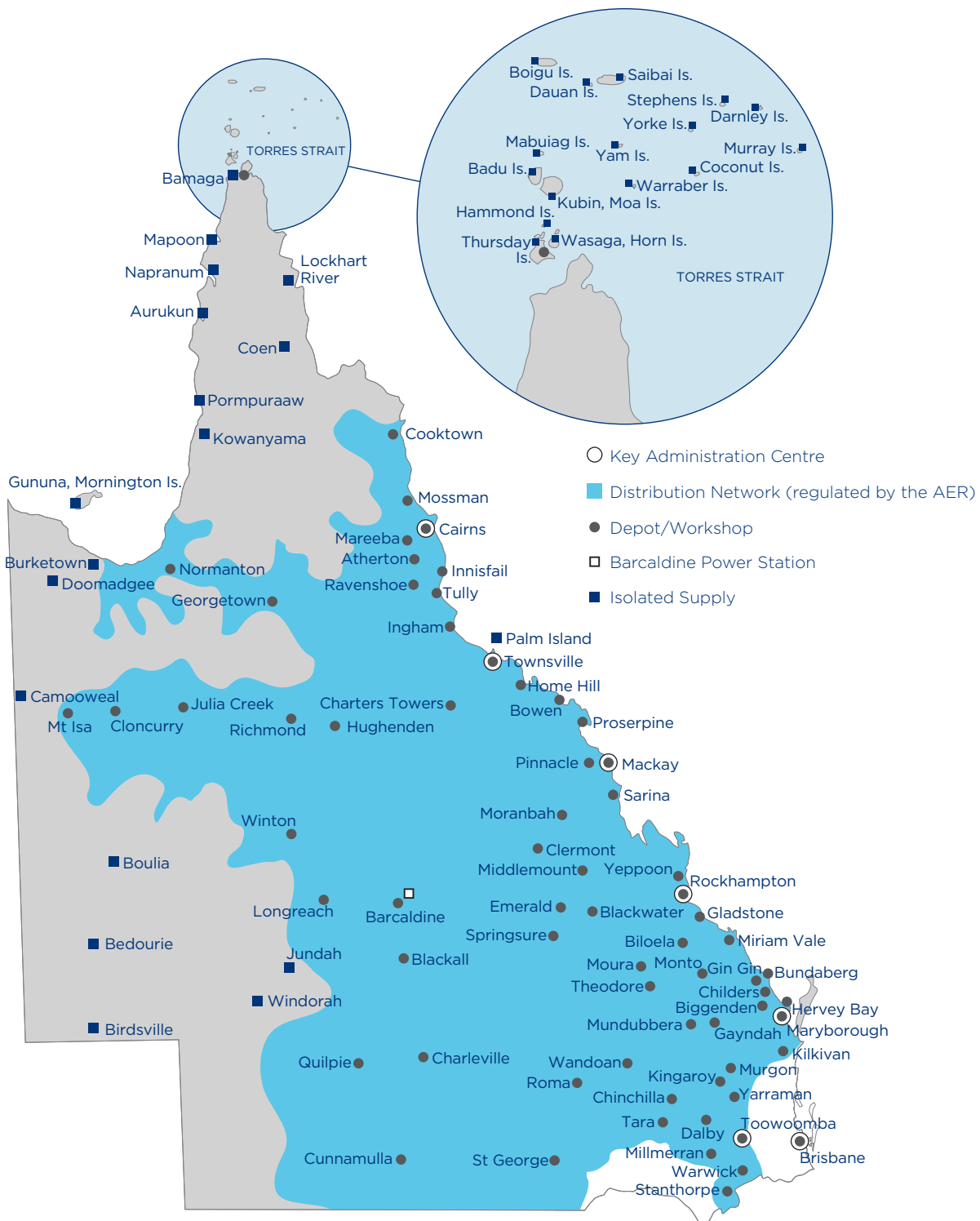
# Our customers, our communities

Ergon Energy provides electricity to a population of 1.5 million people – with around 725,000 customer connections.

We service communities from regional Queensland’s expanding coastal population centres to some of the most remote parts of the state. Two thirds of our customers are located outside Queensland’s urban population centres.

Around 85% of our customers are residential, 14% are small to medium businesses, and the remaining are regional Queensland’s large commercial and industrial operations.

Our distribution network has the second lowest customer density in the Australian electricity market – with five customers per kilometre overall – and even lower densities throughout the network’s western reaches.



## CUSTOMER PROFILING

To build on our understanding of what our customers want from our electricity distribution network we have undertaken an in-depth look at the different segments that make up our customer base.

We are increasingly using these insights – from the demographic, industry, consumption and other data analysed – along with the insights gained from the engagement activities outlined in this document, to best target investment in the network and improvements to our customer-service offering.

With the internal separation of our retail operations from our distribution business, this work is being progressed through a newly established Distribution Customer-driven Blueprint. This blueprint is providing the framework for how our corporate strategy is to be delivered, with a chain of results identified for the coming years to ensure we realise our vision to be a ‘high-performance, customer-driven energy business’.

### Our residential customers

We have profiled our residential customer base against the suite of standard Experian Mosaic socio-demographic segments; using demographics, electricity-consumption data, spend patterns, home occupancy, employment status, household income, credit risk, product suite and account tenure.

The vast majority of our customers are within the five key segments below.



As the next generation moves into our customer base we are anticipating home automation and other energy-related technologies to transform the way the community use and interact with our electricity network.

## RESIDENTIAL CUSTOMER SEGMENTS

**22%**

**Distance Existence.** Our largest residential customer group is made up of stable, traditional Australian family households, from the farming and mining communities across regional and remote Queensland. Customers in this group reside in large homes, frequently as an extended family group.

**19%**

**Regional Endeavours.** The next largest residential customer group is a mix of retirees, elderly singles and couples, older families with ‘blue collar’ backgrounds who live in modest homes across regional Queensland.

**15%**

**New Homes and Hopes.** We have a slightly smaller proportion of young families (traditional and single-parent) who are budget constrained, being typically first home buyers in areas of recent high growth (who are not surprisingly large purchasers of new appliances).

**14%**

**Provincial Living.** We also have a large group of residential customers who typically rent small dwellings in a town. They are students, unemployed people and single parents who frequently change their place of residence.

**13%**

**Remotely Blue.** The last of the five main residential socio-demographic customer groups is made up of blue collar workers and pensioners with low incomes, living in low-cost housing in outer regional and remote locations.

**17%**

Our remaining customers are spread through the remaining socio-demographic segments. These include small numbers of affluent customers, living in large urban dwellings, who are well established and commonly utilise the availability of excess capital, to invest for energy savings and efficiency.



**While they only comprise 5% of our customer base, our mining and manufacturing customers account for almost half of business energy use.**

### Our business customers

Ergon Energy's business customers range from the very large to the multitude of small businesses in regional Queensland. Our segmentation here has looked at our business customers' electricity consumption and linked this to the industry sector.

Our largest energy users, using over 40GWh a year, are the coal-mining operations of the Bowen, Surat and Galilee basins. They make up around 30% of the total energy load on the network. The resource sector's volatility, its dependency on international trade and currency-exchange rates, makes forecasting load for this segment challenging. These customers can often be connected close to the transmission network.

We then have over 8,600 large commercial and industrial electricity users. They are located across the state and come from a broad mix of sectors, and include resorts or entertainment venues, manufacturing operations, port facilities, irrigation and other water pumping loads, sugar mills, government and educational facilities, and major shopping centres. These customers have high service expectations and significant network requirements. Meeting the demand for the connection of major industrial and mining loads remains a priority for us.

Our remaining 96,000 plus business customers are the small to medium enterprises, who use less than 100MWh a year.

Agriculture is the largest industry sector in this customer segment; ranging from livestock farming to crop and plant growing operations. Managing seasonal energy demand, especially in the sugar and cotton industry, is a key consideration for us. Safety is also important, with education and network design critical to minimising the risks associated with power infrastructure spanning these rural properties.

The other prominent industry in our service area is tourism. The tourism industry is a significant contributor to the regional Queensland economy. It includes the accommodation, restaurant and retail trade sectors, which are typically centralised in coastal tourism hubs, driving unique and often highly seasonal electricity load profiles.

### Key industry participants

As regional Queensland's electricity distributor, Ergon Energy has service partnerships with a number of different industry participants.

Ergon Energy Queensland Pty Ltd is our subsidiary electricity retailer. We also have service relationships with a range of other retailers who are operating in the contestable market and have customers supplied via our electricity network.

To enable end users to connect to the distribution network, Ergon Energy provides various network connection services to real estate developers. We also support large developers in undertaking their own electricity infrastructure design and construction works.

Ergon Energy also works with electrical contractors and solar suppliers/installers in order to deliver, as an industry, the energy solutions chosen by our customers.



## A coordinated engagement program

To ensure our investment plans for 2015-20 were aligned with the long-term interests of our customers, we implemented a coordinated, multi-channel customer/community engagement program. This program built on our business-as-usual engagement activities undertaken across our regional footprint as a distributor and retailer.

Our aim has been to give our customers the opportunity to express their views and concerns around their electricity supply, and at the same time help them and our other stakeholders better understand the challenges facing Ergon Energy and the industry.

### WHY WE ENGAGED

When we set out in early 2013 on our path to refresh our strategies and operational priorities, in order to inform our Regulatory Proposal, our customer/community engagement plans were presented to our executive. The objectives they endorsed were to:

- ensure our regulatory proposal, and the future works program, was appropriately informed by customer/community stakeholder concerns and their 'willingness to pay'
- provide our customers/community stakeholders with the opportunity to express their views and concerns and give them a genuine opportunity to influence the outcome
- achieve greater stakeholder understanding of the challenges and opportunities facing the industry, and Ergon Energy in particular
- enable us to demonstrate a strong link between customer expectations and our proposal to the AER.

### WHEN WE ENGAGED

Our engagement program began formally in July 2013, and had the following four key phases. The initiatives in each are shown in the following timeline and discussed on the following pages.

#### PHASE 1: INVITE STAKEHOLDERS TO BE INVOLVED AND BUILD ON ENGAGEMENT (COMMENCED JULY 2013)

The engagement program was launched at a stakeholder event in Townsville, with the approach and timeline outlined on our web site. Specific briefings then commenced with our Customer Council, as well as with regional community leaders.

#### PHASE 2: UNDERTAKE CUSTOMER RESEARCH (COMMENCED AUGUST 2013)

Our existing research was reviewed, before a sophisticated service/cost trade-off research study was developed and undertaken. This allowed customer views across different segments and geographical areas to be actively considered in the development of the final proposal.

#### PHASE 3: VALIDATE OUR SERVICE COMMITMENTS AND DIRECTION OF INVESTMENT PLANS (APRIL TO AUGUST 2014)

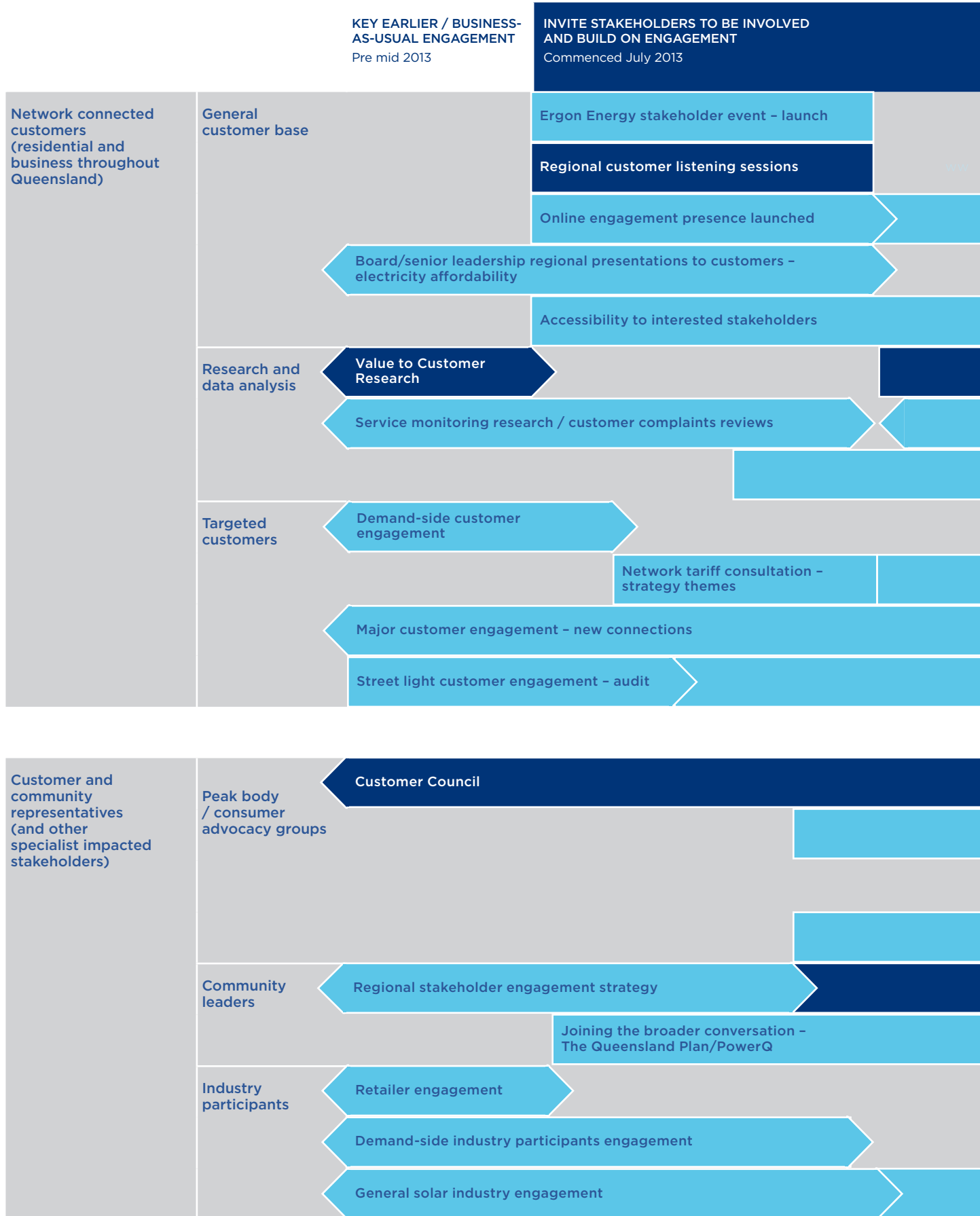
Engagement activity was undertaken to validate the direction of the proposal, supported by the release of our refreshed service commitments, as well as our research findings and a range of other updates.

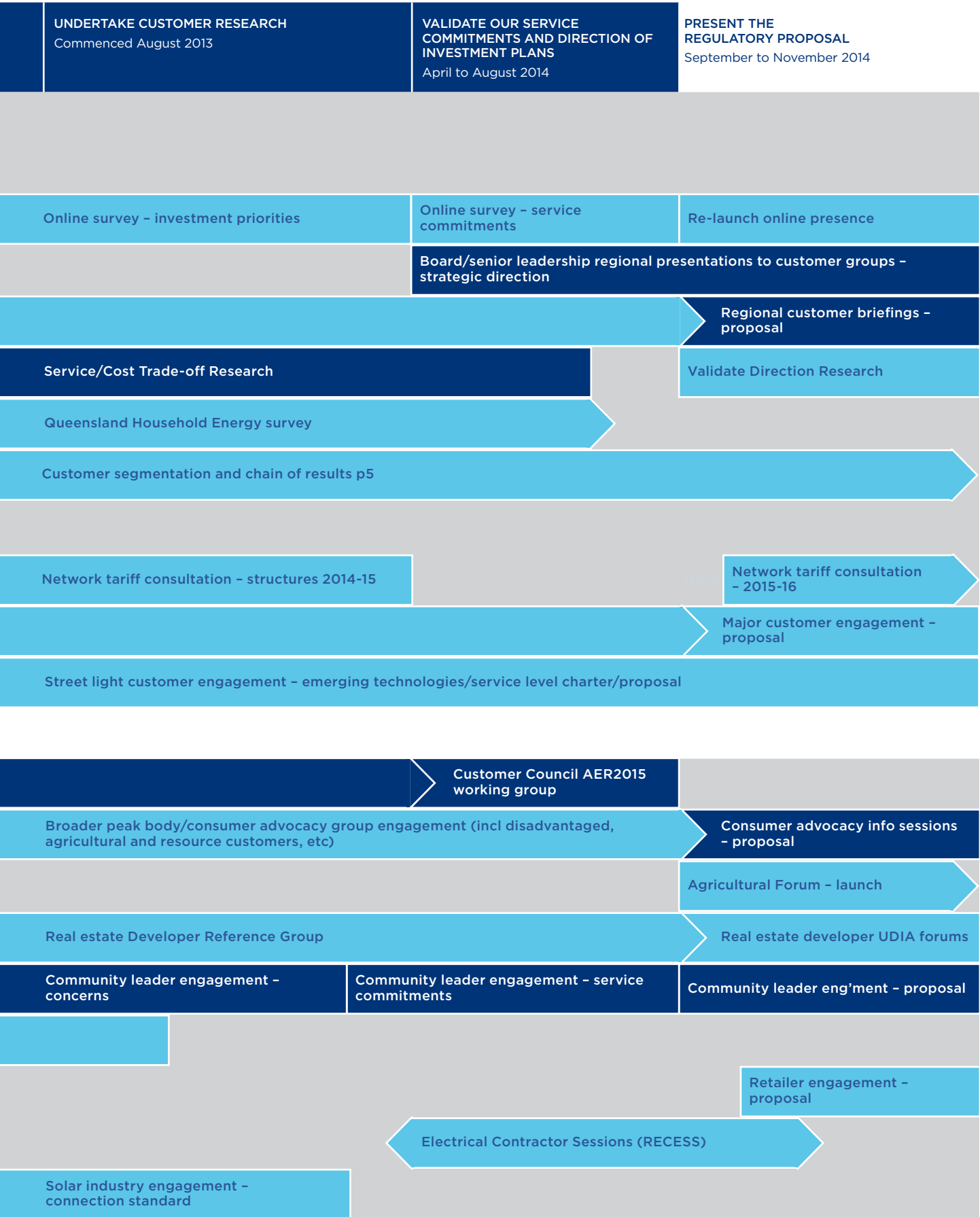
#### PHASE 4: PRESENT THE REGULATORY PROPOSAL (SEPTEMBER TO NOVEMBER 2014)

Advanced presentation of the Regulatory Proposal was undertaken, allowing customers and other stakeholders to review and assess the key building blocks of our expenditure and the potential price impacts. This engagement is continuing. We are also encouraging participation in the AER's engagement activities through the final stages of the process.

## WHEN AND HOW WE ENGAGED – AN OVERVIEW

### Key phases and initiatives





## WHO WE ENGAGED WITH AND WHAT ON

In planning our engagement approach we looked at our different customer/stakeholder groups and considered their areas of interest and the potential impact of our investment plans on each. We also looked at the matters where we were making decisions in developing our Regulatory Proposal that could be genuinely informed by customer or other stakeholder perspectives.

STAKEHOLDER	MATTERS ENGAGED ON
<b>OUR CUSTOMERS:</b>	
<b>Residential</b>	<ul style="list-style-type: none"> <li>• Engagement requirement/preferences</li> <li>• Service standards:               <ul style="list-style-type: none"> <li>- safety and vegetation management</li> <li>- reliability direction (standards/communications)</li> <li>- regional presence</li> <li>- support for solar</li> <li>- advanced metering and tariffs</li> <li>- demand management opportunities</li> <li>- community impacts of new infrastructure.</li> </ul> </li> <li>• Network tariff reform</li> <li>• Our refreshed service commitments</li> </ul>
<b>Business</b> - Small to Medium Enterprises - Major Customers	<ul style="list-style-type: none"> <li>• As above with more engagement on:               <ul style="list-style-type: none"> <li>- new connections</li> <li>- network tariff reform</li> <li>- other load forecasting considerations.</li> </ul> </li> <li>• Our strategic direction/advance detail on the Regulatory Proposal</li> </ul>
<b>CUSTOMER AND COMMUNITY REPRESENTATIVES:</b>	
<b>Customer Council/Working Group</b>	<ul style="list-style-type: none"> <li>• Our forecasting methodology</li> <li>• Network tariff reform</li> <li>• Our customer-community engagement plan:               <ul style="list-style-type: none"> <li>- the engagement strategy and timetable</li> <li>- findings from the Service/Cost Trade-off Research.</li> </ul> </li> <li>• Regulatory arrangements and specific issues:               <ul style="list-style-type: none"> <li>- changes to classification of services</li> <li>- confidentiality of material in the proposal</li> <li>- approach to metering charges</li> <li>- carry forward of under-recoveries in the current period</li> <li>- treatment of feed-in-tariffs.</li> </ul> </li> <li>• Our refreshed service commitments</li> <li>• Our Regulatory Proposal documentation</li> <li>• How the cost of capital is determined</li> <li>• Asset utilisation and our demand forecasts</li> <li>• Our strategic direction/advanced detail on the Regulatory Proposal</li> </ul>
<b>Other peak bodies and consumer advocacy-groups</b>	<ul style="list-style-type: none"> <li>• Engagement requirement/preferences</li> <li>• As relevant to the represented customer segment:               <ul style="list-style-type: none"> <li>- new connections</li> <li>- network tariff reform</li> <li>- street lighting.</li> </ul> </li> <li>• Our strategic direction/advanced detail on the Regulatory Proposal</li> </ul>
<b>Community leaders</b>	<ul style="list-style-type: none"> <li>• Engagement requirement/preferences</li> <li>• As relevant to the represented customer segment               <ul style="list-style-type: none"> <li>- street lighting</li> <li>- local reliability issues</li> <li>- community or regional development plans.</li> </ul> </li> <li>• Our strategic direction/advanced detail on the Regulatory Proposal</li> </ul>
<b>Electricity retailers</b>	<ul style="list-style-type: none"> <li>• Network tariff reform/pricing impacts</li> <li>• Service order delivery</li> <li>• Demand management strategy</li> <li>• New connections timeframes</li> </ul>
<b>Other industry participants (electrical contractors, solar industry, developers)</b>	<ul style="list-style-type: none"> <li>• Network tariff reform</li> <li>• New connections charter for developers</li> <li>• Service order delivery</li> <li>• Metering strategy</li> <li>• Inverter Energy System connection standard</li> </ul>

## HOW WE ENGAGED

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In developing our engagement plans we considered the capacity of different stakeholders to engage, and the appropriate means to engage. Our aim was to consult effectively across our broad regional footprint. This led to a multi-channel and integrated approach.

### Our general customer base

#### Ergon Energy stakeholder event – launch

The engagement program was officially launched in July 2013 with an event in Townsville, 'Creating Energy Futures for Queensland'. Through the Ergon Energy hosted forum, more than 50 customers and other stakeholders were able to meet to discuss the challenges and opportunities currently facing the industry, and Ergon Energy, and better understand how they could be part of the solution.

The Board participated in this event and also conducted a variety of stakeholder visits and regional tours to engage on our future plans and strategies for the 2015-20 period.

#### Regional customer listening sessions

Four customer listening sessions and six in-depth interviews were held in Cairns and Townsville in August 2013 to explore our customers' 'willingness to pay' for different areas of our service and any specific areas of customer concern.

#### Online engagement

Our online communications aimed to build participation in the process by sharing information and perspectives.

The web pages at [www.ergon.com.au/futureinvestment](http://www.ergon.com.au/futureinvestment) were used as a portal to share updates related to the development of our Regulatory Proposal. The pages received very high average time on the page, showing a good depth of engagement by those stakeholders visiting the site. Over 80 people registered to be advised when updates were available.

We also used the site to support two online surveys. These were promoted via social media, our home page and through a range of external events so that interested stakeholders could provide feedback.

The first survey provided an open framework for feedback, with thought starters recognising electricity affordability as the major concern, and outlining the challenges facing Ergon Energy in addressing the cost pressures on electricity prices. The second was a simple survey that sought feedback on our refreshed service commitments, following the publication of the document, Sharing Our Future Investment Plans With You.

As part of Ergon Energy's digital engagement strategy, in April 2014, we launched the Talking Energy blog ([www.ergon.com.au/about-us/news-hub/talking-energy](http://www.ergon.com.au/about-us/news-hub/talking-energy)) to provide a vehicle for our people to share information on the industry, emerging technology and other matters.

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**250+ of our regional stakeholders, including 16 of our biggest business customers, were invited to give their views early in our investment planning process.**

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**Listening sessions with 43 customers gave us fresh insights into what our customers were thinking.**

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**Engaging online has boosted involvement in the process. There were around 3,000 unique views of the dedicated web pages and 80 people gave feedback through our online stakeholder surveys.**

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**Senior managers participated in around 40 forums across the state, addressing in the order of 5,000 customers and building vital, ongoing relationships.**

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**We asked 1,822 residents and 513 businesses across regional Queensland how they would be willing to trade-off standards to help us bring electricity prices down.**

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The blog is more conversational than our other communications, and has given a face and name, as well as a personal story to the topics we are seeking to engage with the community on. We have also been increasingly using our social-media channels to engage – using Facebook to direct people to the Regulatory Proposal's web pages for more information.

With the launch of the documentation for our Regulatory Proposal, we have revamped the web pages to support ongoing engagement with the detail of our investment plans going forward.

#### Board/senior leadership regional presentations to customer groups

In order to engage directly and effectively with the widest representation of our customer base possible, we undertook to have as many active conversations as possible through existing external forums, as presenters, panellists, sponsors and guests.

During the early stages of the program these events included Australians in Retirement meetings and a range of local government and Agforce conferences.

On refreshing our service commitments we scaled up these efforts, presenting our strategic direction to a diverse mix of business and community groups, from the 'Power Prices and Farmers – Decision-making forum' in Bundaberg to tourism industry events held by Capricorn Enterprise Limited. These events also allowed us to gain diverse, regional perspectives of our customers' views and concerns.

This activity has given our Board, Chief Executive and our Senior Leadership Team direct and personal exposure to a range of customer sentiments. A highlight was the Western Queensland Local Government Association Annual Conference at Tambo in May 2014 – here Ergon Energy's Chairman and Chief Executive listened to feedback from stakeholders from across Queensland's central west on our plans for the future. Another important event was the Resource Industry Network Monthly Business Meeting in September 2014 – through our sponsorship of this event our executive and directors we were able to address 120 representatives from the mining industry (an important customer segment).

### **Accessibility to interested stakeholders**

Throughout the process we have made ourselves available to interested customers and stakeholders with an open invitation for engagement on our web page. In September we began proactively seeking engagement with customers participating in the AER's own engagement activities in order to provide these customers advance detail on our Regulatory Proposal. This led to a number of consumer advocacy groups attending presentation sessions in Brisbane, as well as ongoing discussions and an information session in Cairns.

### **Research and data analysis**

#### **Value to Customer and Cost Trade-off Research**

Ergon Energy has a strong business-as-usual customer engagement program, with Value to Customer Research the main study used to monitor customer value in terms of the benefits received versus the price paid. The residential element of this study commenced in 2001, and was extended to business customers in 2009.

This monthly tracking research, which is embedded in our business performance agreement with our government shareholders, is designed to measure performance of key customer touch points across the business and help prioritise areas for improvement. It also allows us to benchmark against a group of similar peer suppliers.

Another important component of our customer research program is the Brand Track monitor, which has been in existence since 2001.

Independent research agency, Colmar Brunton, reviewed our existing customer research reports at the start of the Regulatory Proposal's dedicated engagement program. This enabled key managers involved in developing the proposal to review existing customer insights and identify any gaps in our understanding of our customers' expectations. From this we developed a sophisticated Service/Cost Trade-off Research study.

To allow us to critically assess our customers' willingness to pay for reliability the research study used a discrete paired trade-off choice model. This saw a number of supply scenarios developed, and participants presented with two scenarios at a time and asked to select the most acceptable to them. Each option included a combination of the length of outage, frequency of outage, time of day, and an associated bill impact. The results allowed customer concerns and their 'willingness to pay' for service improvement to be more actively considered in the development of our investment plans.

This study was central to refreshing our service commitments.

The detail in the service commitments were tested further in an additional research activity focused on our residential customers to ensure we understood their views. The research format, which involved interviewing 34 residential customers, was designed to validate the direction of the Regulatory Proposal and our engagement approach.

### **Service monitoring**

Ergon Energy introduced customer service monitoring research in October 2004 to track performance around specific business processes. This was expanded over the years and now includes a number of separate research activities covering a suite of key service areas, from general telephone enquiries and fault calls to online experience and our customer-requested network connection works (both small and major capital works).

These insights are being actively used by the distribution customer strategy team and the business to drive a response to systemic or emerging issues. This team is also accountable for Ergon Energy distribution-related complaints management.

### **Queensland Household Energy Survey**

Our annual Queensland Household Energy Survey asks our customers about their household energy use in order to better understand the potential demand on the network in the future, and guide our network investment decisions. This study is commissioned in collaboration with Energex and Powerlink.

Commencing in 2009, the report details key insights on the:

- type and number of appliances customers own, including air conditioning units and solar energy systems
- types of appliances and technologies customers intend to purchase in the coming years
- energy efficient behaviours customers are undertaking in order to save.

All of the research and data analysis, and the Service/Cost Trade-off Research in particular, will be increasingly applied at the local level thanks to the investment in customer segmentation and a focus on delivering the tasks required to move the organisation along a chain of results aimed at realising our 'customer-driven' vision. p5

## Targeted customer engagement

### Customer demand-side engagement

Customer demand-side solutions are now frequently proving a more cost-effective way to respond to demand growth, and offset or defer costly expenditure in major electricity infrastructure. This has followed success in targeting customer engagement in areas where network limitations exist.

At the beginning of the regulatory control period we were leading the Townsville Solar City program, which had a major community engagement component. Countless other demand-related engagement initiatives have been successfully undertaken since – from programs of activity like the Townsville Energy Sense Community program to individual customer initiatives, such as targeted energy saving audits aimed at helping to drive our customers' bills down. These audits are being undertaken for energy intensive agriculture segments such as cane, cotton, dairy and chicken (meat/eggs), feedlots, prawn farms, etc.

Demand management is now considered a business-as-usual activity. As we entered the fifth and final year of the current regulatory control period, we surpassed our five-year target, delivering 126MVA in demand reductions – a clear demonstration of the capability developed in this area over recent years and the customer insights gained.

A significant contributor to the past year's success was the Mackay EMPower program. This program engaged customers through a market delivery mechanism by offering incentives for optimising their electricity use through a Trade Ally Network (p15) supported by a Demand Reduction Incentive Map, as a more efficient delivery model for customer demand-side engagement.

### Network tariff consultation

Engagement on our evolving network tariff strategy commenced in July 2013, with a consultation paper launched online and promoted to interested parties. At this point we were seeking input from stakeholders across a range of key strategic themes, this allowed us to move on to engagement on the network tariff reforms that were ultimately approved for 2014-15. The submissions received from a diverse range of advocacy organisations, and individual residents, businesses and local government authorities are available at [www.ergon.com.au/futurenetworktariffs](http://www.ergon.com.au/futurenetworktariffs)

While not formally covered by our 2015-20 Regulatory Proposal, this engagement has given us the confidence in our ability to move progressively towards greater cost reflective pricing structures including time-of-use tariffs, and provided an operating context for our investment planning decisions.

### Major customer engagement

At the beginning of the customer engagement program, a letter was issued to our major customers encouraging participation in the revenue determination process.

Ergon Energy has a dedicated team to engage with our major customers on a daily basis. This engagement by the Major Customer Intelligence Group covers matters such as new connections, network performance, and load forecasts. The potential for new block load is passed onto our network planning teams for consideration in their subtransmission and distribution load forecasting.

We also have a Customer Connections Group who engage directly with our small to medium business customers/developers on service expectations and anticipated load.

### Street (public) lighting customer engagement

Ergon Energy has been undertaking an extensive program of engagement with our street lighting customers. This has included meetings with Regional Organisations of Councils, the Local Government Association of Queensland, individual councils and the Department of Transport and Main Roads.

We undertook an audit of our street lighting assets in early 2013 and have been engaging on the findings since then, as well as service levels, on new lighting technology, and on charges.

This engagement most recently (September 2013) included a series of nine regional meetings with our regional councils, and with the department, to agree on the ownership of the street lighting assets in each area.

Further engagement is also planned for November on the practical aspect of our street lighting strategy, on our new customer portal, LightMap, service levels and on charges. Service levels for our street lighting offering are under development – this will provide improved clarity for both the customer and Ergon Energy on our respective responsibilities.

### Peak body/consumer advocacy groups

#### Our Customer Council

Our Customer Council, which was established in 2011 to bring together representatives from nine peak organisations across regional Queensland, has been at the centre of our engagement approach.

Since early 2013 our aim has been to build the members' capacity to understand the regulatory arrangements we operate under and the issues under consideration.

The Customer Council as a whole was consulted on the engagement approach for the Regulatory Proposal and our expenditure forecasting methodology, as well as on network tariff reform.

Once we moved into the final stages of preparing the proposal we established a dedicated Customer Council working group to provide a forum through which Ergon Energy could validate the direction of the proposal broadly, and explore the customer impacts of any related regulatory matters or specific business decisions. To encourage genuine engagement, the members of the working group were supported by an external facilitator charged with providing independent expertise on the regulatory matters under consideration.

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**A range of key topics were workshopped with our Customer Council. The membership of the group represents a cross section of our customer base.**  
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The working group was made up of members who provided representation across each of the following areas:

- residential customers (including disadvantaged customers)
- regional development
- commercial and industry customers
- agricultural sector
- large energy users.

For further information on this element of the engagement program, refer to the Customer Council AER2015 Working Group Report online.

### **Broader peak body / consumer advocacy group engagement**

We have also been actively engaging with a number of other groups through the past 18 months. At the beginning of the Regulatory Proposal engagement program, a letter was issued to a wide group of representative organisations encouraging participation in the process. Key advocacy groups were also approached personally to determine their engagement requirements.

In September 2014, we expanded our Customer Council working group engagement format to enable a wider group of peak bodies to participate in two half day information sessions. These sessions were presented by a range of Ergon Energy subject matter experts and were designed to explain our expenditure forecasts in advance of the submission of our Regulatory Proposal. In total 12 consumer advocacy group representatives participated.

We also actively engage on a business-as-usual basis with a range of representative bodies through our Community Electricity Safety Awareness Program. To reduce electrical safety incidents, we continued to share strategies with Cotton Australia, Queensland Trucking Association and Master Builders, and others.

### **Agricultural Energy Forum launched**

Ergon Energy's Chief Executive led the first meeting of a new Agricultural Energy Forum in August 2013. This forum has brought together members of Ergon Energy, the agriculture industry and the Queensland Government. It is aimed at addressing issues associated with electricity costs and efficiency for the agriculture sector.

The forum is helping to improve awareness of the impacts of electricity prices and how to best escalate issues to the appropriate areas of responsibility within Ergon Energy/government/regulators. The agenda of the second meeting in October specifically included the Regulatory Proposal.

### **Real estate Developer Reference Group**

We also undertook engagement through our real-estate Developer Reference Group. Established in September 2013, the group consists of external stakeholders from the Urban Development Institute of Australia (UDIA) and Ergon Energy representatives, on service improvement plans and anticipated demand in the new connections area.

This also led to a program of eight events with real estate developers across the state, with forums held in conjunction with the UDIA. The aim was to provide the development industry with an overview of our strategic direction and our investment plans and highlight our partnership with the UDIA and the associated improvements in our customer-initiated connection capital works services.



**Our real estate developer's stakeholder reference group was instrumental in the drafting of our New Connections for Developers' Charter, launched with the Minister for Energy and Water Supply and our Chief Executive.**

### **Regional stakeholder engagement**

We place a high priority on building and maintaining local relationships with our community leaders. Local managers have the responsibility for developing specific stakeholder relationships - these include our relationships with regional elected representatives (local government and Members of Parliament).

Through this channel more than 100 stakeholders have been approached individually and asked for feedback on our service commitments and our strategic direction. We have also been seeking to gain insights around any local development or community plans that could potentially require infrastructure considerations or on any community power supply concerns.



This area of our engagement approach has recently been reenergised as part of an organisational restructure and will continue to be central to our business-as-usual engagement approach.

### Joining the broader conversation

Ergon Energy has been an active participant in the Queensland Government's reform process for the electricity industry. This has been about ensuring the electricity sector remains adaptive, resilient and customer-focused, and that we are able to address rising electricity costs.

This process has delivered the PowerQ: 30-year Electricity Strategy, a roadmap for how the state's electricity is to be delivered now and into the future. In undertaking the reforms there has been significant public debate and broader community engagement opportunities where Ergon Energy has been involved.

We also participated in the October 2013 summit for The Queensland Plan. This saw more than 600 Queenslanders come together to review the areas emerging as important to Queenslanders, identify the steps to deliver the 30-year vision, and bring together a working draft of The Queensland Plan for ongoing consultation. The final plan is online at [www.queenslandplan.qld.gov.au](http://www.queenslandplan.qld.gov.au)

Ergon Energy's strategic direction and Regulatory Proposal are in line with these Queensland Government initiatives.

In addition, Ergon Energy participated in the Future Grid Forum in 2013. Convened by the CSIRO to explore potential scenarios for Australia's energy future, the Forum brought together more than 120 representatives of the electricity industry, government and community. Findings from the forum are available online at [www.csiro.au/Organisation-Structure/Flagships/Energy-Flagship/Future-Grid-Forum-brochure.aspx](http://www.csiro.au/Organisation-Structure/Flagships/Energy-Flagship/Future-Grid-Forum-brochure.aspx)

Ergon Energy's Chief Executive, and other senior managers, also participated in the Northern Development Summit held by the ADC Forum in June 2014. The forum was about developing a shared vision and action plan for development of Australia's northern regions. We also sponsored the Committee for Economic Development of Australia public think tank, Northern Australia: Policy and Prosperity in September 2014.

### Retailer engagement

Being both a retailer and a distributor, much of this engagement is internal. We have worked in partnership with our retailer on matters like demand management and our metering strategy (and the metering service pricing approach).

We do, however, have a specific role dedicated to retailer liaison with all retailers operating in our area. This supports day to day engagement on service order delivery and other matters. Over the past year there has also been specific engagement on network tariff reform. This broader group of retailers are also being encouraged to provide feedback on our Regulatory Proposal.

### Demand-side engagement industry participants engagement

The EMPower program (p13) aims to attract and encourage market-based solutions for managing demand. It provides private-sector businesses with clear information on the network value of the demand reduction, enabling them to develop and operate as a channel for solutions that benefit both our customers and our network. To support this, a Trade Ally Network has been established incorporating a wide range of businesses with specialist capabilities in the energy services sector, including companies with capabilities such as energy consultants, electrical contractors, air conditioning specialists and even finance companies.

We also engage more broadly with the electrical contractors through newsletters and our Residential Electrical Contractor Engagement Session (RECESS) - 10 information sessions were held across regional Queensland in June 2014 to educate electrical contractors about the electricity industry and listen to feedback. A future roadshow is currently being planned.

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### 190 solar industry representatives attended engagement sessions in Townsville and Brisbane to help inform our solar connection standard.

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### Solar industry engagement

With solar energy such an integral part of our customers' energy supply arrangements, we have prioritised engagement this year with the solar industry.

In May 2014 we asked the industry for feedback on the development of the Connection Standard for Small Scale Parallel Inverter Energy Systems up to 30kVA, now published on our web site.

The engagement included two stakeholder workshops, undertaken in conjunction with Energex, as well as online engagement. Here we experimented with video online so that those who attended, and those who were unable to attend, could review the key matters before making submissions. The final standard is at: [www.ergon.com.au/contractors,-suppliers--and--developers/solar-pv-installers/new-connection-standard](http://www.ergon.com.au/contractors,-suppliers--and--developers/solar-pv-installers/new-connection-standard)

## Customer insights informed our plans

By listening to our customers we have gained deep insights into what they value.

We understand the level of concern there is in the community about rising electricity prices.

We also appreciate that our customers still want the peace of mind that comes from having a safe, dependable electricity service.

Our customers also increasingly want greater choice and control around their energy supply solutions.

**PEACE  
OF MIND**

**CHOICE  
AND  
CONTROL**

**FOR THE BEST  
POSSIBLE PRICE**

### THIS INFORMED...

- Ergon Energy's corporate strategic goal, set in 2011, to limit increases to average network charges to less than the CPI. This goal has provided the umbrella framework for developing the expenditure forecasts for the entire Regulatory Proposal. It has driven an organisation-wide focus on prudence, efficiency and effectiveness.
- In addition, we looked at what our customers were telling us and refreshed our broader service commitments, in order to help inform the different expenditure categories in our Regulatory Proposal.

Details of our service commitments, which include our 'best possible price' commitment, are available in the document, *An Overview Our Regulatory Proposal 2015 to 2020*.

An overview of what our customer have said to us and where this has informed specific areas of the proposal are covered in this section.

### BEST POSSIBLE PRICE, AND OVERALL VALUE

The cost of electricity is a significant issue for our customers; with affordability concerns rising as sharply as prices have risen. While our customers generally do not understand what has driven prices up, they expect Ergon Energy to respond as part of our role as the face of the industry in regional Queensland.

Our residential customers want prices to stabilise and our business customers see price relief as a key objective – they are no longer willing to pay more for further service improvements. Reliability and service standards, however, remain important to our customers' value perceptions.

### Rising electricity prices

Across our engagement activities, from our customer research to our peak body engagement, there has been a very clear message our customers are looking for relief from rising prices.

Over recent years cost/affordability has increased in importance as the key driver of customer value perceptions (47% residential and 49% business).<sup>1</sup>

Many feel they have done all they can to reduce their electricity use – 47% of regional Queenslanders are highly concerned about their ability to pay their next electricity bill – and others are investing in technologies, such as solar, to reduce their bills.<sup>2</sup>

Our choice modelling research showed residential customers want prices to stabilise and businesses price relief. From a reliability perspective, a tipping point has been reached where our customers are no longer willing to pay more for further improvement in the reliability of electricity supply. Most would even accept more frequent and longer outages, if it meant a decrease in their bill.

Despite this, however, our customers still support expenditure to varying degrees across what they consider to be our core service areas, which are perceived to deliver value. This is discussed throughout this section.<sup>3</sup>

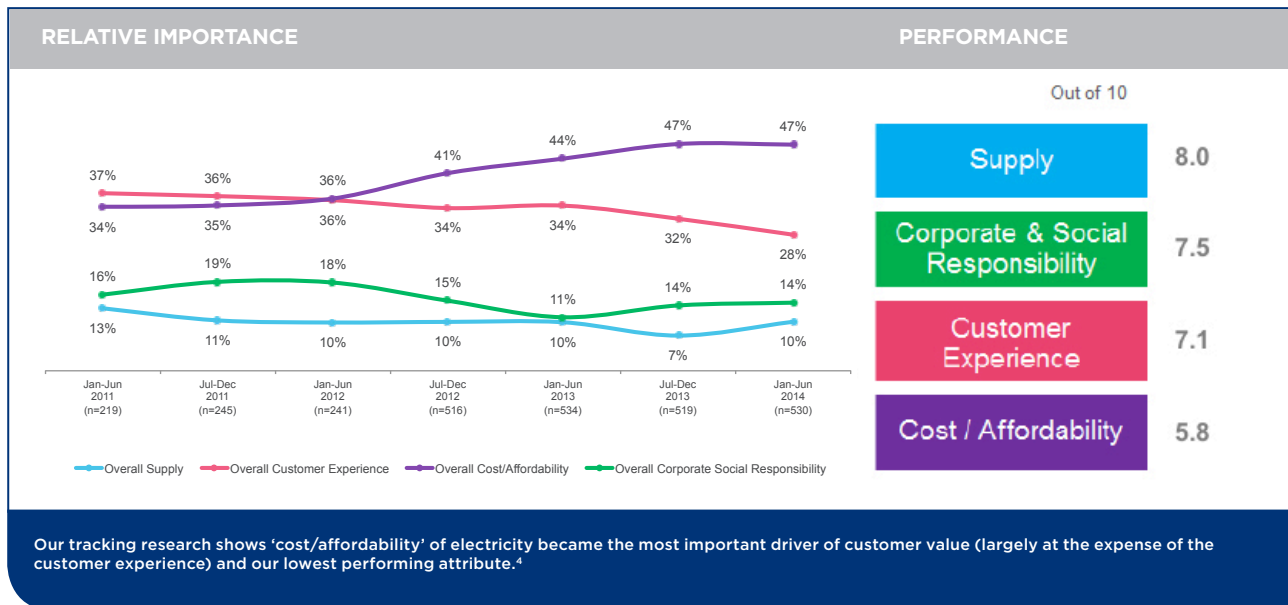
**“The focus should be on sustainability in the long term, both in terms of financial sustainability, the ability to meet the community's expectations...”**

**“Yes, we are very concerned about the increased cost of electricity...”**

**“I would like to see Ergon's costs stabilise and agree that something less than CPI each year is a great goal to aim for.”**

Source: Service/Cost Trade-off Research; online survey.

## VALUE PERCEPTIONS OF RESIDENTIAL CUSTOMERS



## THIS INFORMED...

- Our overall approach, from our efficiency and effectiveness drive to changes to the way we manage the network, including seeking support from the Queensland Government to 'flat-line' reliability Minimum Service Standards and change our security planning criteria (this will allow us to deliver the same level of service more cost effectively) (Appendix A, Appendix B).
- Our decision on how to manage potential price volatility in the first year (2015-16). Effectively we have sought to defer part of our annual revenue requirement to later in the period, so customers are not faced with price volatility in early years, when taking into account other revenue adjustments (section 3.9).
- The proposed approach for the recovery of the costs of the feed-in-tariff (FiT) paid under the Solar Bonus Scheme. By delaying the recovery by two years we will avoid recovery of both a FiT cost pass through amount and jurisdictional scheme amount in a single year, avoiding price shocks for customers (section 4.3.5).
- Our departure from the Shared Asset Guidelines, as they do not appear to consider the situation where assets are used to provide Standard Control Services and Alternative Control Services. Rather than apply the Guideline, to avoid double-recovery of costs, we have applied an offsetting revenue adjustment consistent with the AER's Distribution Determination 2010-15 (section 3.7.3).
- Our treatment of future cost savings. Normally, under the existing regulatory framework, any prospective benefits or cost reductions from innovation or other initiatives would be shared with customers in future regulatory control periods. However, we have prepared our forecasts in a way that passes on the anticipated savings in full and at the start of the period (section 4.1).

NOTE: All of the THIS INFORMED references provided are for the document, Ergon Energy Regulatory Proposal 2015 to 2020. Available at [www.ergon.com.au/futureinvestment](http://www.ergon.com.au/futureinvestment)

1. Colmar Brunton Value to Customer and Value to Business Research 2014
2. Colmar Brunton Queensland Household Energy Survey 2013
3. Colmar Brunton Service/cost Trade-off Research 2014
4. Colmar Brunton Value to Customer Research 2014

# Peace of mind from a safe, dependable service

Our customers do not want us to compromise on safety. They see electricity reliability as important and recognise that it has improved. They are no longer looking for higher reliability standards (except in areas where reliability is still poor).

They value our local presence, and our disaster response, and see investing in the network’s resilience to severe weather as important. Our customers are looking for further improvements in the delivery of new connections, including solar connections.

We are seen as a good corporate citizen, with responsibilities around electrical safety, emergency management, local employment and apprenticeships, energy conservation, the impact of new electricity infrastructure on the community and community participation.

## Our approach to safety

Ergon Energy is recognised for providing a reliable and safe electricity supply, and for helping customers stay safe around electricity.

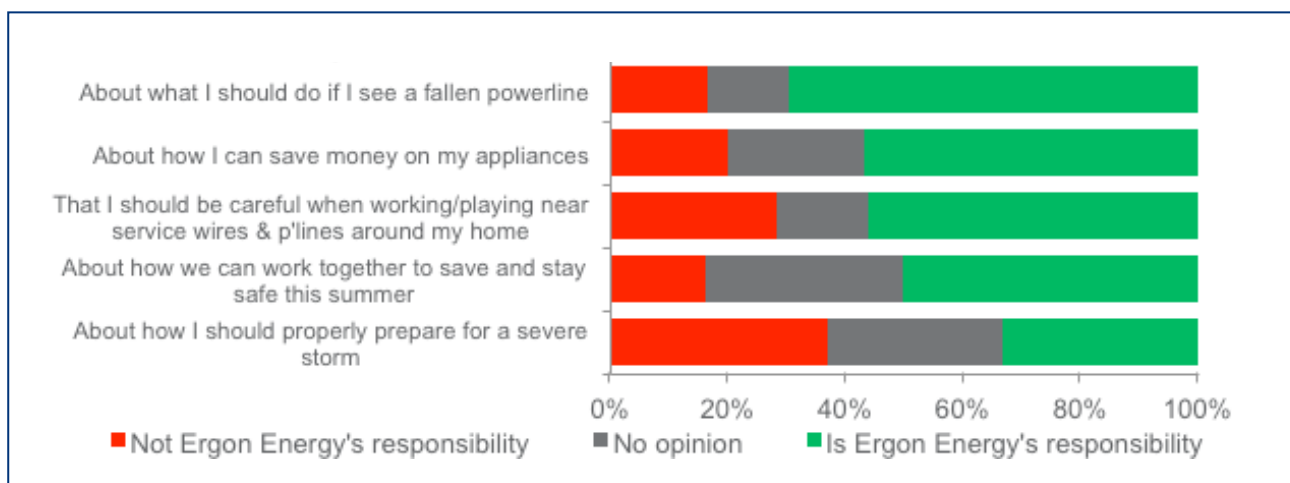
Our ‘regard for electrical safety’ is considered an important corporate and social responsibility (CSR). While the impact of CSR on perceptions of value has decreased over the past few years, as the price of electricity has increased, the impact that any dissatisfaction with CSR has on value remains strong. Our customers perceive that a responsible provider should hold the highest regard for electrical safety; look after the environment (minimising our operational and infrastructure impact); maintain a local presence (to ensure responsiveness to natural disasters and provide local employment opportunities).<sup>5</sup>

In line with this, and the strength of the current community safety education program, safety remains our strongest brand pillar.<sup>6</sup> Through our stakeholder engagement activity, our Community Electricity Safety Awareness Program also continues to receive strong public support.

## THIS INFORMED...

- Our understanding of what is reasonable for Ergon Energy in terms of our capital and operational investment associated with addressing identified safety risks and our community electrical safety awareness activities (Appendix A, Appendix B).

## RESPONSIBILITY TO INFORM



Our customers see our efforts to maintain community electrical safety awareness as a key corporate responsibility<sup>6</sup>.

## A reliable, quality electricity supply

Across our customer engagement activities, there is a clear theme that customers trust Ergon Energy is doing the right things on a day-to-day basis to keep the power on.

Reliability of supply remains an important factor in our customer value perceptions, with performance in the supply area consistently strong.

A total of 84% of residents, 75% of small businesses and 68% of medium to large businesses highly rate their overall satisfaction with the electricity supply.<sup>5</sup>

The Service/Cost Trade-off Research found, with customers being generally satisfied with the current levels of reliability, few see a strong need to pay for further improvement.<sup>8</sup>

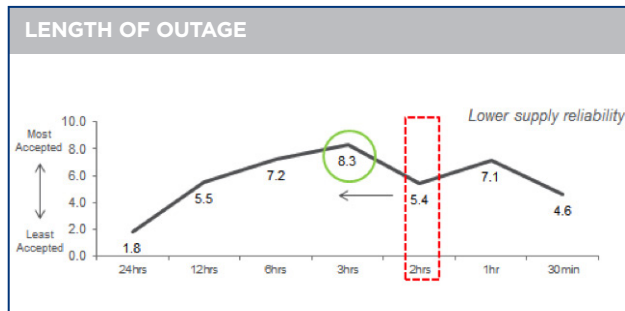
This research also confirmed anecdotal feedback, however, that a customer's reliance on electricity, their current reliability experience and the geographical location can impact their willingness to pay for different reliability standards:

- customers have a preference not to be impacted at certain times: for business generally their most critical hours are 7am-1pm and for residential customers it is 5pm-8pm
- those who feel that they are 'frequently impacted' by outages consider both 'price' and 'length of outage' as important, while those 'barely impacted' see 'price' as the most significant concern
- looking at residential customer preferences, customers inland from the coastal population centres, who typically experience more outages, have slightly higher willingness to pay for reliability improvement.

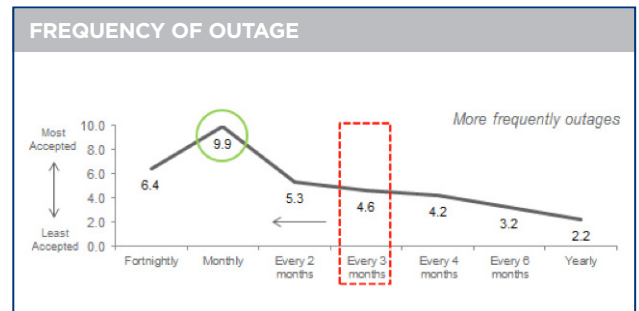
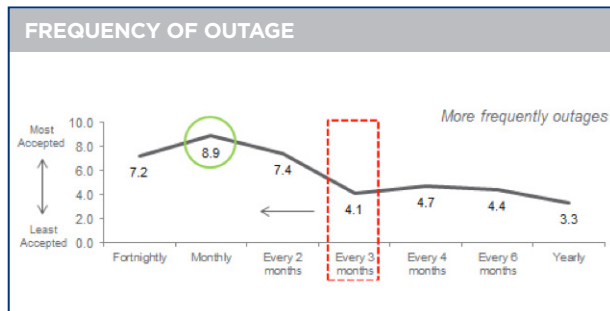
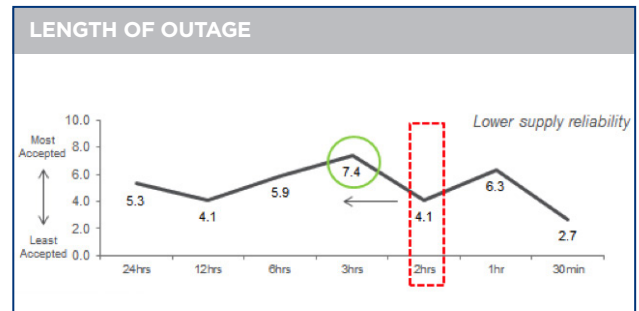
## RELIABILITY/COST TRADE-OFF

○ Most preferred    □ Current Short Rural standard

### RESIDENTIAL



### BUSINESS



In the Service/Cost Trade-off Research the outage scenario most selected by customers, when presented with the appropriate price impacts, was three hours, every month, occurring overnight. This is a lower supply reliability than the 2012-13 Minimum Service Standard<sup>6</sup>.

5. Colmar Brunton, Value to Customer and Value to Business Research June 2013
6. Colmar Brunton, Brand Track June 2013
7. Colmar Brunton, Value to Customer and Value to Business Research June 2013
8. Colmar Brunton Service/Cost Trade-off Research 2014

.....  
**“Community electrical safety education is essential and your company delivers it particularly well.”**  
 .....

.....  
**“Reliability standards and services should not be considered as price savings.”**  
 .....

.....  
**“... there has been a very marked improvement over the last 10 years... I would not be prepared to accept a decrease in that high standard.”**  
 .....

.....  
**“I have no issues with this work being prioritised (for) those experiencing worse service than myself.”**  
 .....

.....  
**“I would be willing for a lesser reliable network if it meant keeping prices (down).”**  
 .....

.....  
**“We have a gas stove and a also gas/solar back-up for our refrigerator and freezer in times of extended blackouts.”**  
 .....

Source: Service/Cost Trade-off Research; online survey.

#### Customer Satisfaction Supply Performance

Residential **84%**

Small Business **75%**

Medium to Large **68%**

At the same time, some of the online feedback, customer complaints data and other regional stakeholder feedback from the areas of the network experiencing reliability or quality of supply issues clearly demonstrate an expectation that we should respond to community-level concerns and improve local performance levels. This is particularly important where a community is experiencing momentary outages on a regular basis.

During 2013, Ergon Energy recorded around 9,000 complaints through its feedback tracking system. The top six distribution-related complaints categories overall were:

- Meter reading (2,183 complaints)
- Solar related (1,096 complaints)
- Contact Centre (905 complaints)
- Field activity (886 complaints)
- Supply issues (650 complaints)
- Vegetation management (343 complaints).

The level of complaints around supply related issues remained constant (compared to the previous year) at 650. Of these, 270 related to outage duration or frequency; 197 related to outage notification (discussed in our approach to communications); and 103 to power quality.

Power quality is an issue that has grown in significance with the take-up of sensitive electronic consumer goods. While there are technical standards, Ergon Energy relies on customers reporting issues experienced so we can take action. These complaints, along with a growing ability to monitor the network, drive local issue investigation and the remedial work necessary to address customer concerns.

Customer insights are also used to build our understanding of the future demand on the network. Managing demand is essential for a secure, reliable electricity supply.

Our demand forecasts have been reviewed against insights on general energy usage trends, market intelligence on regional development and potential block loads.

Last year’s growth showed a slow return to the growth pattern evident before the downturn of 2007-08, and prior to the Global Financial Crisis. Our customer insights and behaviour, however, indicate significant uncertainty and that a full recovery is some way off.

The expected increases in demand growth will largely be due to the resource sector activity within Central Queensland and Central and Southern Queensland. Several companies are developing or proposing to develop LNG fields in the Darling Downs and west of Clermont, and demand is expected to be driven upwards as local supply centres grow to supply accommodation and service industries. Port development is also expected to add considerable load.

In addition to this perspective, the success of our demand management engagement has shown that our customers, and increasingly the market, are willing to participate in customer demand-side solutions, where there is a clear economic benefit to them. Further detail on the outcomes of our demand management program is available online at [www.ergon.com.au/network/network-management/demand-management](http://www.ergon.com.au/network/network-management/demand-management)

## THIS INFORMED...

- **Our position that the increasingly stringent Minimum Service Standards and the security planning criteria set by the Queensland Government (after the Electricity Distribution Service Deliver (EDSD) Review in 2004) no longer aligned with our customers expectations. In preparation for our Regulatory Proposal we sought the support of government to flat-line these reliability standards to 2011-12 levels and remove the prescriptive network planning criteria. This has seen expenditure on reliability improvement and on network augmentation reduced substantially (Appendix A, Appendix B).**
- **Our commitment, where prudent, to continuing to improve the experience of customers who are suffering outages well outside our standards (Appendix B).**
- **Our understanding of forecast regional organic, block load and customer number growth, and our decision to adopt the load forecast associated with the low economic growth scenario to formulate the augmentation program of works for 2015-20 (Appendix B).**
- **The customer engagement strategy within our overall demand management strategy, and our confidence that customer demand-side engagement will continue to be an important means to defer network cost intensive augmentation expenditure (Appendix A, Appendix B).**

### Our disaster response

Our stakeholder engagement frequently reinforces the importance of our disaster response to the community and the pivotal role Ergon Energy is seen to play in a community's recovery.

Stakeholder expectations around power restoration times revolve largely around the 'visibility of the damage'. From past experience, community expectations following a cyclone can generally be managed around these timeframes:

- Category 1 and 2: "The power restoration process should begin within hours, only where access is an issue would you expect it to drag into weeks"
- Category 3: "You should expect major damage across the region, so the power could be off in places for up three or four weeks"
- Category 4 and 5: "Depending on the level of devastation, power restoration could take four weeks or even more".

The Service/cost Trade-off Research showed strong support for maintaining the current number of local depots and toward improving the network's resilience to severe weather events – both issues relate to our service region's geographical size and exposure to natural disasters. The level of support for investment in the network's resilience was countered by feedback from local council stakeholders that our earlier program had already addressed supply to the most essential services in our cyclone prone areas.

The importance of maintaining a local presence and the ability to respond rapidly is also highlighted by the comments opposite from our online stakeholder survey.

Anecdotally, through engagement with our regional stakeholders, support for a strong local presence is associated with the desire to ensure the Ergon Energy's response capability is maintained, and that jobs stay local. Maintaining a local presence is of particular importance to those in the smaller communities of western Queensland.

## THIS INFORMED...

- **Our position on the appropriateness of our operational strategy – our operating costs and the efficiency adjustment possible – and our non-system capex forecast (including our fleet and property strategies) (Appendix A, Appendix B).**
- **A decision to incorporate a new cyclone insurance proposal in our plans (as a potentially more prudent way to meet expectations in the event of the devastation of one of our major regional population centres) (Appendix A).**
- **A decision to deliver enhanced network resilience through general investment (renewal, augmentation, reliability) and a modest investment in 'spreaders' rather than as a major stand-alone program (Appendix B).**

.....  
**“We were badly affected in the floods and Ergon needs to be congratulated. Your boys did some great work. They would have consoled many heart broken people.”**  
.....

.....  
**“I think that extending the infrastructure so that we have less outages in severe weather situations will benefit everyone.”**  
.....

.....  
**“I believe maintaining a local operational presence in our smaller communities is important. It is a little like insurance. It costs even if not used, but when a natural disaster occurs, it will be worth its weight in gold.”**  
.....

.....  
**“Job opportunities are very limited in rural and remote areas, so any job/apprenticeship opportunities play a huge role in the local economy and social aspects of our communities.”**  
.....

.....  
**“Every good corporate citizen should have a ‘give back to the community’ in some shape or form.”**  
.....

Source: Service/Cost Trade-off Research; online survey.

## A FUTURE OF GREATER CHOICE AND CONTROL

.....

A significant proportion of our customers feel they have done all they can to reduce their usage and save on their bill, and others are investing in technologies, such as solar and battery storage, as a means to control costs.

Our customers want us to look to a future where customers are empowered with new electricity supply solutions, and to consider transitioning towards a smart network. While a number of key customer segments indicate they need more information to fully understand the benefits of ‘smart meters’, which measure usage in intervals, they see value in receiving information to help them manage their energy needs.

Customers want more options around how they connect to the network. They find tariffs complex, and want simplicity, but they are looking for options and incentives to help them save on their bill.

Our customers increasingly want to be informed on energy-related matters.

## A future of customer choice

A growing proportion of our customers want more control and choice when it comes to managing their electricity usage – and to be more self-reliant for some or all of their power needs. They want to be able to take advantage of the new energy-related technologies that are emerging in the market place in order to respond to the rising cost of electricity.

This message, and general support for Ergon Energy’s focus on innovation and technology, has been received right across our engagement activities.

It is also reflected by the number of customers who either already have solar photovoltaic systems connected to the network or plan to do so in the future.<sup>10</sup>

Our customer research shows a moderately high proportion of customers (66%) want to see Ergon Energy modernising the network in order to allow customers to take up new technologies, such as solar power, batteries (to store electricity) and electric vehicles (echoed in our engagement with the solar industry). There was also support for smart meters, however, the willingness to pay was significantly lower (56% for residential and 60% for business).<sup>11</sup>

However, it is clear from the research and our other engagement channels that not everyone is seeking greater self-sufficiency or control (they want solutions to today’s challenges to be implemented for them in the background). It was also clear that many are not willing to pay a premium for Ergon Energy to move towards enabling this. Ergon Energy needs to cater to both segments of the market in a way that is both sustainable and equitable for all.

In addition to the research findings, our understanding of our customers’ concerns around our ability to support the connection of new technologies to the network has been gained through the management of escalated customer complaints. In 2013, we received over 1,000 solar-related complaints. Around half were related to tariffs or billing credits, the other half related to distribution matters.

**Solar PV on homes in regional Queensland**

(June 2014)

**16%**

**Solar PV future intention to purchase in regional Queensland**

**15%**

10. Colmar Brunton Queensland Household Energy Survey 2013



.....  
**“I will always be open to new technologies that will reduce my electricity bill. Therefore, I believe Ergon needs to improve its network and systems now to enable these new technologies.”**  
.....

.....  
**“The infrastructure is your commercial problem. Requiring customers to pay will generate resentment.”**  
.....

.....  
**“There isn’t enough incentive to change tariffs eg. 11 to 12 or to start changing behaviours to use electricity at different (non peak) times.”**  
.....

.....  
**“Smart meters must also give direct information to the customer, not just to Ergon.”**  
.....

.....  
**“It is very important to keep costs to a minimum, so I would rather not have to deal with the problems of smart meters.”**  
.....

Source: Service/Cost Trade-off research; online survey.

These included our requirement to ‘downsize’ or decline the connection application for a solar system due to the potential for network and other customer impact; a system’s under-performance where the local network is unable to support the export capacity of the systems installed; and our ability to support other technical alternatives for connecting solar to the network. Similar matters were raised in our consultation with the alternative energy industry.

In our engagement on network tariff strategy we found customers generally supported the removal of cross subsidies and cost reflective pricing. However, some felt that low consumption/low income customers could potentially be adversely impacted, and that higher fixed charges may de-incentivise customers from changing their behaviours. This engagement is continuing independently to the Regulatory Proposal. For further information see [www.ergon.com.au/futurenetworktariffs](http://www.ergon.com.au/futurenetworktariffs)

On the AER’s changes to the classification of metering charges for the upcoming regulatory control period, and the options for developing our metering service tariffs, the feedback has been related to managing any potential financial implications. The consumer advocacy groups involved in this engagement understood the rationale for the change (to remove any impediments to future competition in the provision of metering services.) However, they expressed concern about the potential for the reclassification to cause a perverse outcome of increasing the total retail charges for those customers who are supplied under the regulated retail tariffs. For more details, see the Customer Council AER2015 Working Group Report online.

Whilst not forming part of our engagement on the Regulatory Proposal itself, in our engagement many customers also said they are also looking for choice in their retailer.

## THIS INFORMED...

- Our strategic direction, specifically our efforts around effective market reform, which has provided context for the development of the Regulatory Proposal (A Changing Industry and Marketplace).
- Our position on the progressive investment in modernising the network so that we can meet customer expectations, deliver operational efficiencies (while maintaining reliability), use existing network assets more effectively and defer capital intensive augmentation (Appendix B).
- Our understanding of regional forecast demand, and the anticipated rate of penetration of solar energy systems and other technologies. This understanding has been important for distribution level planning (Appendix B).
- Our connection standard for small scale parallel Inverter Energy Systems, and the implications for distribution level planning (Appendix B).
- Our position on the role of tariffs in managing demand, and the need to adapt to the changing way customers are using the network and address asset utilisation (Appendix A, Appendix B).
- Our approach to the AER’s changes in metering services, and the development of efficient metering tariffs (section 5.5).

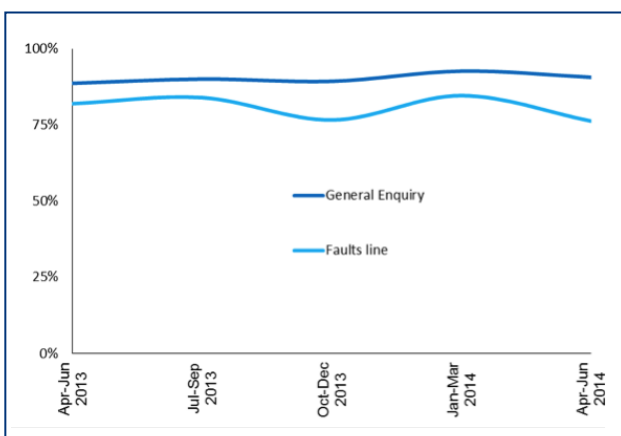
11. Colmar Brunton Service/Cost Trade-off Research 2014

## Open, helpful communications

'Customer experience' remains important to our customers, and for some is as important as the price. Although the value perceived has fallen as price concerns have risen<sup>12</sup>. The Service/Cost Trade-off Research, showed that business are more price sensitive (and somewhat willing to forego the current communication standard), even though they want better customer service/proactive advice.<sup>11</sup>

To manage our customer enquiries, Ergon Energy operates a contact centre across two sites. Customer satisfaction with this service remains strong with an average satisfaction rate of 91% during 2013-14.<sup>13</sup> Feedback through a series of recent customer focus groups was also consistently positive. Managing our response capability during major disasters is a key customer expectation.

### SOUND CUSTOMER SATISFACTION WITH CONTACT CENTRE



Customers who contact our general enquiry line remain highly satisfied (91%). Satisfaction with faults line is lower at 76%. Overall satisfaction with our online experience remains below the other channels at 66%.<sup>12</sup>

In the Service/Cost Trade-off Research customers were seeking improvement in a number of areas:<sup>11</sup>

#### Alternative communication channels:

There is strong support for the introduction of alternative communication channels, including SMS, email, online chat, social media and an online self-service account, (especially where this could reduce costs). However, customers in the 'older generation', and businesses in western Queensland and Cape York, are more willing to pay for the traditional call centre service.

#### Power outage communications:

- The majority of customers expect information regarding outage restoration to be communicated within one hour of the outage occurring – many expect to be able to get an update in under 30 minutes.
- Most customers believe they require at least one week's notice for a planned outage affecting their supply, with only 34% of business customers and 43% of residential customers considering the current 48 hour notice standard to be sufficient.

While these expectations are higher than the standard currently provided, there is not a strong willingness to pay more for improvement.

Across the other services that have a guaranteed service level, standards appear to generally be in line with expectations.

## THIS INFORMED...

- **Decisions associated with our customer service function. The investment being made in 2014-15 is expected to address some of this feedback (no step changes in operating expenditure or significant capital expenditure are being sought in this area through the Regulatory Proposal).**
- **Our operational technology strategy. The visibility of the network from the control centre will improve our ability to respond in a timely fashion and keep customer informed of restoration progress (Appendix A, Appendix B).**

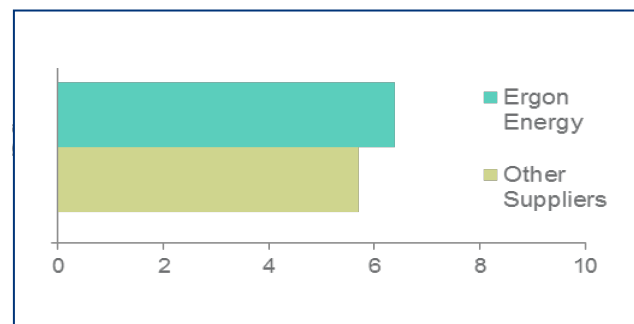
## Engagement on energy related matters

Information and engagement is seen by our customers as necessary to empower them to make decisions about their energy use. Customers want the knowledge and the tools to make informed decisions.<sup>14</sup>

While we expect this to remain largely a retail activity, stand-alone distributors have found that their customers' expect them as a distributor to engage in a number of relevant areas. Customers have expressed that the distributor has clear responsibility for educating the community about demand management and energy efficiency, as well as shared responsibilities in other areas.

This is in line with the success Ergon Energy has had with targeted demand management engagement activities.

## VALUE TO CUSTOMER - PRODUCTS AND ADVICE



Providing innovation and relevant products and services to help you use less electricity.<sup>14</sup>

12. Enhance Research Customer Service Monitor research Jun 2014

13. Colmar Brunton Value to Customer and Value to Business Customer 2013

14. Colmar Brunton Validate Direction Research Residential October 2104

Specifically on the Regulatory Proposal, anecdotally our engagement activities have been well received. The consumer advocacy groups involved in our Customer Council AER2105 Working Group found the forums valuable. They helped them better understand the regulatory framework, under which Ergon Energy provides its distribution services, and how distribution prices (and the development of our Regulatory Proposal) fit into the build-up of retail electricity prices. The sessions were also seen as an opportunity to provide input and share views about matters relevant to the proposal.

Our customers and other regional stakeholders also continue to appreciate the opportunity to engage, recognising that it is difficult to understand and keep up with the many facets of change, and the potential impacts, which are occurring in the Queensland electricity industry at present. They have appreciated being asked to comment on our refreshed customer commitments; even those that have specific concerns (either a stronger desire for price relief due to their own circumstances or on the other hand, concerns about the standard of their electricity supply).

In the Validate Direction Research undertaken our residential customer considered the level of customer engagement for the Regulatory Proposal to be sufficient; the scope of the customer engagement was more than what residents expected to have been undertaken. In addition, the customer engagement undertaken, as well as knowing we are accountable to the AER, contributed favourably to research participants overall opinions of Ergon Energy. Our understanding of customer expectations was endorsed through this research as accurately reflecting the majority of regional Queenslanders thoughts and opinions regarding Ergon Energy and their future electricity needs. The participants could also see a clear link between what we have heard from our customer base and our response, detailed in our refreshed service commitments (although they wanted more specific measures and further clarity). This research again highlighted the blurring of our retail and distribution functions.<sup>15</sup>

### THIS INFORMED...

- **Our commitment to making the information in our Regulatory Proposal accessible. We have limited our confidentiality claims to information that is truly confidential (Appendix E).**
- **Our engagement approach moving forward, especially an ongoing commitment to regional stakeholder engagement, the role of our forums for our different advocacy group representatives, and to managing our relationship with the broader community as we continue as an industry to undergo significant change.**

### Timely new connections

Major customers have continued to see improvements in the service standards for major customer-initiated connections. This activity is largely associated with Queensland's resource sector. As a result, satisfaction with our performance on customer-initiated capital projects has continued to improve over the last six months from 55% (December 2013) to 75% (June 2014).<sup>16</sup>

Improvements are also being seen by customers seeking non-complex customer-initiated connections and upgrades (connection cycle timeframes across all regions were reduced by 17% through 2013-14). Customers perceive a reduction in the personal effort required to connect to our network.<sup>17</sup>

We have also been addressing feedback received through the Developer Reference Group – this has been around the financial aspects of new connections, the design standards and the need for dedicated customer service contacts.

There continues to be concern around the cost impact of new connection works on regional economic development. Conversations are continuing around the development industry's desire for the contestability of electrical works associated with new developments to be expanded further (specifically head works, testing and commissioning).

### THIS INFORMED...

- **The effort put into forecasting new connection demand. Our aim is to ensure we can repond in a timely manner (Appendix B).**
- **The development of a New Connections for Developers' Charter, which is now providing the framework for our service commitment in this area going forward (Appendix A, Appendix B).**
- **Changes to the financial security required by developers, improvements to substation and cable design specifications for developments, and a range of other measures (Appendix D).**

15. Colmar Brunton, Major Customer Connections Research June 2014.

16. AMR Research, CICW Satisfaction Monitor

## MAJOR CUSTOMER CONNECTIONS

69%

of those in the **coal industry** are satisfied

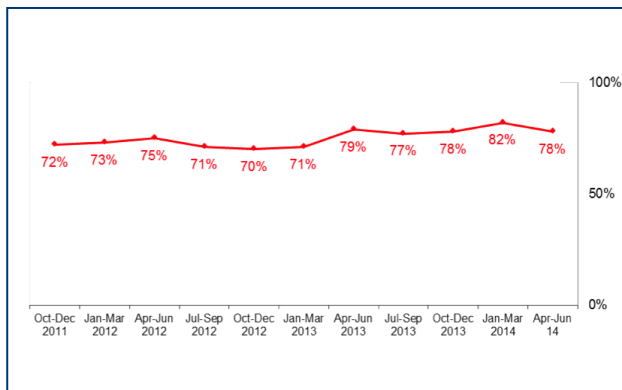
June 2014

80%

of those **outside the coal industry** are satisfied

June 2014

## GENERAL CUSTOMER SATISFACTION WITH OUR NEW CONNECTION SERVICE



In the small to medium customer areas, customer satisfaction with our new connection service has been boosted over recent years.

## Street (public) lighting

Street lighting charges are becoming a significant issue for the community. Currently Ergon Energy's street lighting customers pay the full cost of Retail Tariff 71 and, for the first time this year, 10% of the Alternative Control Service charge (with a price path to full recovery being considered by the Queensland Government). In addition, the outcome of the street lighting audit program has impacted the cost of lighting road ways in some local government areas.

There is an expectation that the ongoing management of the street lighting asset will be more transparent. Councils, especially the larger ones, also have clear expectations about service levels.

As a result of electricity price rises and greenhouse gas emission goals, a number of councils are also seeking to change their lights to more energy efficient public lighting.

## THIS INFORMED...

- The development of our street lighting strategy (including efforts to make it easier to transition to new energy efficient street lighting LED technology and to bring public lighting prices down), our ongoing engagement plans, and our developing service levels (section 5.6).

## Our engagement approach going forward

We will look to continue making improvements to our engagement approach.

We commissioned an independent review of our engagement for our Regulatory Proposal. We will be workshopping the recommendations from this report with senior management to support continuous improvement.

Our approach going forward is to continue to engage in order to drive efficiencies without a negative impact on our service standards, and to find the best path forward to meet the longer-term needs of the communities we serve. We will continue to track what our customers value and monitor service expectations. As new technologies emerge, a priority will also be placed on understanding and responding to our customers' evolving energy needs.

We have been reenergising our regional stakeholder engagement activities and will continue to adapt to different stakeholders' engagement preferences. This will include evolving the role of our different advocacy group forums and our online engagement capability.

We take our corporate responsibilities seriously; assessing and minimising the social, environmental and economic impact on our communities in our decision making.

An ongoing investment will be made in community participation in the decision making process around new infrastructure proposals and, wherever reasonable, on responding to community concerns or proposals raised.

We see demand side engagement as a key component of our strategy to address rising electricity prices. Our approach includes engaging early with stakeholders, customers and non-network providers on potential demand side solutions to identify the most cost effective solution to network supply problems.

As a distributor, we'll continue to build our capability to manage the customer experience independent from our retail arm. We already have both a major customer intelligence group, and dedicated teams based around the state to manage our service relationships with developers and individual customers.

**“Ergon Energy has planned and implemented an Executive-led program of communication, direct engagement and research activities with its customers and key stakeholders that has built on its business-as-usual (BAU) engagement efforts and helped inform its future investment plans and overall submission to the AER.**

**The extent of these activities has been driven by the vast geographic area of Ergon Energy's operations, some almost 97% of Queensland. In light of this, it is appropriate that a range of direct consultation and engagement channels, as well as indirect channels have been utilised to facilitate participation.**

**One of Ergon Energy's strengths is its engagement with its customers throughout Queensland regions as part of its day-to-day operations, both as a distributor and a retailer.**

**It is worth noting that this engagement process for Ergon Energy's AER proposal has taken place at a time of structural change within Ergon Energy. This appears to be providing a window of opportunity to refresh its regional engagement approach.**

**We are satisfied that Ergon Energy has been responsive to the needs and views of customers and stakeholders throughout the consultation process for the formulation of its AER2015 Regulatory Proposal. We also are satisfied that the final report of Ergon Energy's customer and stakeholder engagement efforts reflects the records of feedback received and is consistent with delivery of its engagement program.**

**In conclusion, we are satisfied that, based on the evidence provided and reviewed, that the customer and community engagement process for Ergon Energy's Regulatory Proposal has been transparent, inclusive and comprehensive with customers and stakeholders offered a variety of opportunities and methods to have their voice heard.”**

Summary conclusion from independent review: Deb Camden, PRISM Communication Architects

### **WE WILL APPRECIATE WHO HAS A STAKE**

We group our stakeholders based on their relationships with us.

Our customer segments are our residential customers, our small businesses, medium and large enterprises, and our major customers. We also have working relationships with customer advocates (such as peak bodies and user-groups), community leaders, and key industry participants (electricity retailers, electrical contractors, solar installers, and real-estate developers).

### **WE WILL MAKE OURSELVES ACCESSIBLE**

We think it's important we maintain a regional presence – with regional managers making themselves accessible so that the leaders in the communities we serve have someone they can call on.

We also have teams dedicated to managing our customer groups – from our major customers to real-estate developers. And we have a formal process for escalating complaints.

### **WE WILL BUILD RELATIONSHIPS AND UNDERSTANDING**

We engage proactively and meaningfully. We operate a Customer Council to enable peak bodies to engage with us on our challenges, and use other forums to actively engage and to focus our improvements on areas that really count for our customers.

We also engage with the broader community to build awareness and understanding – from promoting electrical safety to encouraging energy efficiency.

### **WE WILL USE RESEARCH FOR A BALANCED VIEW**

We undertake formal research to ensure we understand the views across our customer groups. Our 'value to customer' tracking research is central to our insights program. We also track trends in household energy use, as well as customer satisfaction with our service delivery.

The findings from these research activities and the study into our customers' willingness to pay for different standards of service will be increasingly integrated into our customer segmentation insights to best target effort by location.

### **WE WILL ENSURE FEEDBACK GUIDES IMPROVEMENT**

We are active in assessing our stakeholders' expectations and feeding this into our decision-making, both at a strategic and operational level.

We have engagement teams dedicated to supporting this process – driving customer service improvement or community participation in infrastructure proposals, as key examples.

This element of the strategy is at the heart of our Distribution Customer-driven Blueprint – the framework for how our corporate strategy is to be delivered in order to realise our vision to be a 'high-performance, customer-driven energy business'.p5



### **WE WILL REPORT OPENLY AND HONESTLY**

Where practical, our aim is to report openly on feedback received from our stakeholders, the decisions we make and the performance we deliver. Online engagement is providing greater opportunity in this area, with a recent example being our engagement on our developing network tariff strategy.

We will look for further opportunities to do this in the future.

### **WE WILL COLLABORATE FOR THE BEST OUTCOME**

We talk to our community leaders, customers, and suppliers to find the best way to respond to supply challenges. Collaboration on demand management is a central plank in our strategic direction.

We continue to team up in other ways to achieve the best result for our communities, especially with local government, in areas like infrastructure planning and emergency response.

## **Additional information**

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On our website at [www.ergon.com.au/futureinvestment](http://www.ergon.com.au/futureinvestment) we have made available:

- **PRISM Communications Architects' Review of Engagement Program.**
- **Customer Council Working Group Report**
- **Service/Cost Trade-off Research Study**
- **Queensland Household Energy Survey**
- **Stakeholder events we hosted/participated in**
- **Validate Direction Research Residential**

We also have documentation on the online web pages analysis, our Distribution Customer-driven Blueprint, and details of our regional engagement strategy.

Please don't hesitate to contact us through [futureinvestment@ergon.com.au](mailto:futureinvestment@ergon.com.au) if you would like more information on our engagement activities.

Ergon Energy Corporation Limited ABN 50 087 646 062

[ergon.com.au](http://ergon.com.au)

