30 April 2015

Customer Engagement Initiatives and Outcomes

United Energy Regulatory Proposal: 2016-20

Public

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1. Introduction

This document tells the story of our customer and stakeholder engagement in the preparation of our regulatory proposal for the 2016-20 period.

A significant shift occurred in the Victorian electricity industry when it was privatised back in the mid-1990s. As the State Electricity Commission of Victoria was broken up, new businesses were created in generation, transmission and distribution companies.

Thousands of skilled men and women that had populated the old SEC migrated to all parts of the sector. Engineers went to the infrastructure businesses, while many customer facing people ended up working in energy retail.

For the next 20 years, despite some further twists and turns, distribution businesses like United Energy, responsible for delivering safe, reliable electricity via the network, ran quietly in the background, out of view from the customer.

Now, as technology empowers customers and electricity is transformed from essential service to a consumer product, we have been called upon to reintroduce ourselves, explain what we do, and talk to our communities about what they want from their network service.

This is challenging, but we think it is a good thing. There are enormous benefits, both to our community and to us as a business, from a deeper, genuine engagement with our stakeholders.

The development of our regulatory proposal has provided an excellent opportunity to increase the customer focus across our business. We have used it as a catalyst to develop a new strategic approach to engaging with our customers that allows us to have a valuable two-way communication with customers across a range of interest levels and expertise.

We would like to thank everyone who has contributed their views and perspectives on our proposal over the past 12 months or so, no matter how big or small, general or detailed. We've learnt a lot and our proposal is undoubtedly better for the experience.

Hugh Gleeson
Chief Executive Officer
United Energy

2. What we have learnt about engagement

- The customer and stakeholder engagement program has been a valuable experience in the development of the 2016-2016 regulatory proposal.
- We recognised that the rule changes to Chapter 6 of the National Electricity Rules (NER) that the Australian Energy Market Commission (AEMC) and the AER's Better Regulation Reform Program represented a new era in the relationship between network operators, customers and stakeholder groups.
- In our efforts to improve our customer and stakeholder engagement performance, we have benefited from the support of senior management and the United Energy Board. We view this support as essential to making the improvements we have achieved sustainable.
- In our view, the shift from relative anonymity to a more customer centric approach to running our business has the potential to create mutual benefits. To make the transformation, we needed to improve the quality, frequency and depth of our engagement.
- The development of a new customer and stakeholder engagement strategy at the outset of this program has positioned us to integrate engagement much more effectively into our normal business practices.
- Our experience has highlighted the dramatic differences in interest and capacity of customers and stakeholders to engage on energy issues. While we expect this to change over time, the relatively low engagement by the vast majority of customers should not necessarily be seen as a failure by the sector to engage effectively. We will continue to refine our approach in line with best practice, particularly the IAP2 public participation spectrum.
- Given the low levels of engagement by individual customers, our challenge is to engage with organised customer representatives more effectively. Engagement of this nature must ensure a diversity of views is accessible.
- Our relationship with local government has traditionally been transactional in nature, with a bureaucratic approach (on both sides) limiting our ability to work towards strategic outcomes. Through this engagement program, we have identified a partnership approach with councils in our network as a priority.
- Customer advocacy groups and other stakeholders have made a considerable contribution in the development of our proposal. While we recognise the risk of stakeholder capture over the medium to long term, we have benefited from frank and robust debate about key issues, much of which is reflected in our proposal.
- Customer and stakeholder engagement is a combination of business culture and values, and specialist skills. We recognise that the further development of our capability in customer and stakeholder engagement will take time.

3. Background

Since United Energy submitted its regulatory proposal and the Australian Energy Regulator (AER) made its distribution determination for the current regulatory control period (1 January 2011 to 31 December 2015), Australia's energy sector landscape has changed dramatically.

Rising electricity prices and scrutiny of the drivers of electricity prices as a by-product of the carbon pricing debate led to pressure on governments, regulators and industry, leading to a succession of recent reviews and reforms. These have included:

- The (then) Standing Council on Energy's Review of the Limited Merits Review Regime (October 2012);
- The Australian Senate's Senate Select Committee on Electricity Prices (November 2012);
- The (then) Standing Council on Energy's Putting Consumers First reforms (November 2012);
- The changes to Chapter 6 of the National Electricity Rules (NER) that the Australian Energy Market Commission (AEMC) made in its Economic Regulation of Network Service Providers determination (November 2012);
- The Productivity Commission's report on Electricity Network Regulatory Frameworks (April 2013);
- The Australian Energy Market Commission's (AEMC) Strategic Priorities for Energy Market Development 2013 and associated Consumer Engagement Blueprint (October 2013); and
- The AER's Better Regulation Reform Program through which, amongst other things, it issued a new, principles-based Consumer Engagement Guideline and established a new Consumer Challenge Panel.

As a result of this suite of reviews and reforms, there has been a heightened focus by Governments, industry and the community generally on the need for effective empowerment and engagement of electricity customers.

Customers and their representatives have an increased expectation that distribution network service providers (DNSPs) will engage with them in an on-going, effective and meaningful manner about the services and prices that they provide.

This shift represents a significant challenge for network service providers that, in the case of Victoria, have managed the networks and operated with relative anonymity since privatisation in the mid-1990s.

In effect, network businesses have been challenged to engage with customers to earn and secure their social licence to operate. This social licence relies on customers understanding the nature, quality and value of the services provided, and a majority of those customers supporting the approach and outcomes of individual businesses.

Better Regulation consumer engagement guideline

In December 2012, the AER announced a program of work to deliver an improved regulatory framework focused on the long term interests of electricity consumers. This followed the aforementioned changes to the NER made by the AEMC on 29 November 2012.

Part of the AER's program included dealing with the new requirement for DNSPs to demonstrate effective engagement with consumers and that they have responded to consumers' concerns in preparing their regulatory proposals.

In November 2013, the AER released its Consumer Engagement Guideline for DNSPs. The guideline details the AER's expectations of how service providers engage with their consumers[1]:

> *This guideline provides service providers with a high level framework to integrate consumer engagement into their business-as-usual operations. When we review regulatory proposals, revenue proposals and access arrangements (expenditure proposals), we will have regard, on a case by case basis, to how a service provider engaged with its consumers and accounted for the long term interests of those consumers.*

Underpinning the AER's Guideline are four best practice principles:

- Clear, accurate and timely communication – The provision of information to consumers that is clear, accurate, relevant and timely, recognising the different communication needs and wants of consumers.
- Accessible and inclusive – The recognition, understanding and involvement of consumers early and throughout the business activity or expenditure process.
- Transparent – Clear identification and explanation of the role of consumers in the engagement process, and consultation with consumers on information and feedback processes.
- Measurable – Measurement of the success, or otherwise, of engagement activities.

The AER's Guideline is structured around four components. The components set out a process for service providers to develop and implement new or improved consumer engagement activities to meet the best practice principles:

- Priorities – DNSPs are expected to identify consumer cohorts and the current views of those cohorts; outline their engagement objectives; and discuss the processes to best achieve those objectives.
- Delivery – DNSPs are expected to address identified priorities via robust and thorough consumer engagement.
- Results – DNSPs are expected to articulate the outcomes of their consumer engagement processes, and how they measure the success of those processes, reporting back to the AER, their business and consumers.
- Evaluation and review – DNSPs are expected to periodically evaluate and review the effectiveness of their consumer engagement processes.

[1] AER, *Consumer Engagement Guideline for Network Service Providers*, November 2013

4. Our approach

Our approach to customer engagement recognises that the biggest changes to our industry in the future won't be driven by regulation. They'll be driven by customers, in concert with technology. There are enormous benefits, both to our community and to us as a business, from a deeper, genuine engagement with our stakeholders.

We recognise that to be meaningful, communication needs to be two-way. We have a responsibility to provide information about what we do, what drives our decision-making and what we are doing to plan for the future. Equally important is the need to seek the opinion of our community, take time to understand those views and incorporate them into our planning.

To ensure our investment proposals meet the needs, expectations, and long term interests of our customers, we embarked on a comprehensive, multi-channel customer and community engagement program.

The aim of our stakeholder engagement program for the regulatory proposal was to give customers and other stakeholders the opportunity to express their views and concerns and provide input on how we invest in their electricity network.

Our stakeholders are diverse, so in order to ensure we captured the breadth of their long term interests, our engagement process considered our different stakeholder groups' capacity to engage, the impact of different elements on them, and their areas of influence.

By mapping our stakeholders, we were able to examine the key areas where we were making decisions in the preparation of the Regulatory Proposal and work through how best to consult with our diverse stakeholder and customer groups.

Our engagement program included direct customer engagement through customer kiosks in major shopping centres within our network area and an online engagement portal. A multi-stakeholder Customer Consultative Forum provided us with an opportunity to examine in detail what our customers want from our electricity distribution network. We've also run a series of focus groups and conducted a comprehensive a best practice survey to assess customers' willingness to pay or trade savings for changes to existing service levels, or the introduction of new services.

We will continue using these insights to ensure our future network investments are targeted and that our service offering meets customers' expectations.

Customer engagement in the development of our investment plans for the 2016-20 pricing period included four phases, commencing in December 2013.

Stage 1: Strategy Development

We recognised that in order to meet changing community expectations, we needed fresh thinking about the way we communicate. We developed our Customer and Stakeholder Engagement Strategy to outline our commitment and approach.

Stage 2: Research

From April to July 2014 we undertook a range of research initiatives to establish customer priorities and assess customers' willingness to pay or trade for changes to service levels, or for us to introduce new services.

Phase 3: Community outreach and consultation

In the second half of 2014 we ran two initiatives concurrently. The first was a series of in-depth consultation sessions with key stakeholder groups on major topic areas to be considered in our proposal. These included customer services, network investment and innovation, and environment and safety.

The second was a community outreach initiative to build general awareness of our business and the services we provide, and to ask customers general questions about the things that are important to them when it comes to electricity

Phase 4: Preliminary proposal overview for public comment

In February 2015, we published an overview for public comment, on the direction and priorities of our regulatory proposal. The proposal explicitly addressed the price impacts of our proposed approach, and the impacts on our service offering over the next regulatory period.

5. Strategy Development

In December 2013 we engaged KPMG to assist in the preparation and implementation of a number of elements of our engagement program. The first of these elements was the development of a Customer and Stakeholder Engagement Strategy, recognising that we needed a new framework and strategic approach to improve the quality and effectiveness of our engagement activities.

A copy of the strategy is available on our website at uemg.com.au and is also provided as an Appendix to our regulatory proposal.

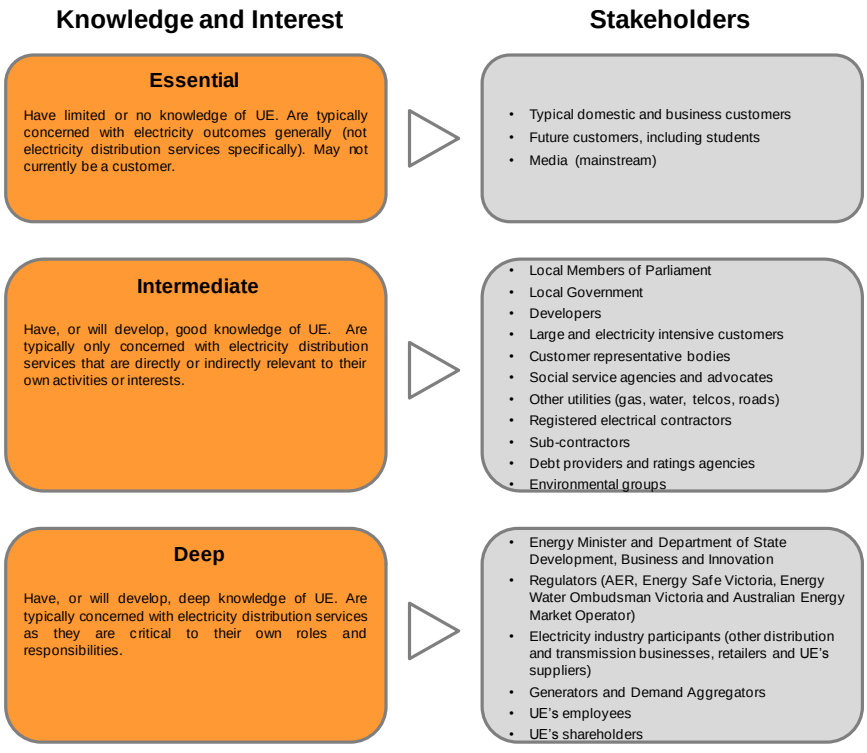
The strategy was developed with input from across our business, including senior management. A draft was provided to members of our Customer Consultative Committee (CCC) for their review and feedback. The final strategy was endorsed by the United Energy Board and includes an introductory message from our Chief Executive.

The strategy aims to give effect to our stakeholder engagement vision, which is that:

> *We will be an outwardly focussed business. We will embed effective stakeholder engagement throughout our operations and develop mature relationships with our stakeholders based on effective two-way communication and understanding.*

The strategy is designed to consider all individuals and organisations that have an interest in our services to be our stakeholders. It recognises that stakeholders have different levels of interest and knowledge of our operations and services. With this in mind, we segmented our stakeholders to help identify the best engagement channels for them. This segmentation is necessarily generalised and we will adapt our engagement based on what works best for our stakeholders.

Our objectives for consultation with each of these customer segments were established with reference to the IAP2 public participation spectrum, reflecting the capacity and motivation of these segments to participate in our consultation program.



Our approach to stakeholder engagement has five elements, illustrated below. While they are represented sequentially, they are part of United Energy's commitment to an on-going process of engagement.

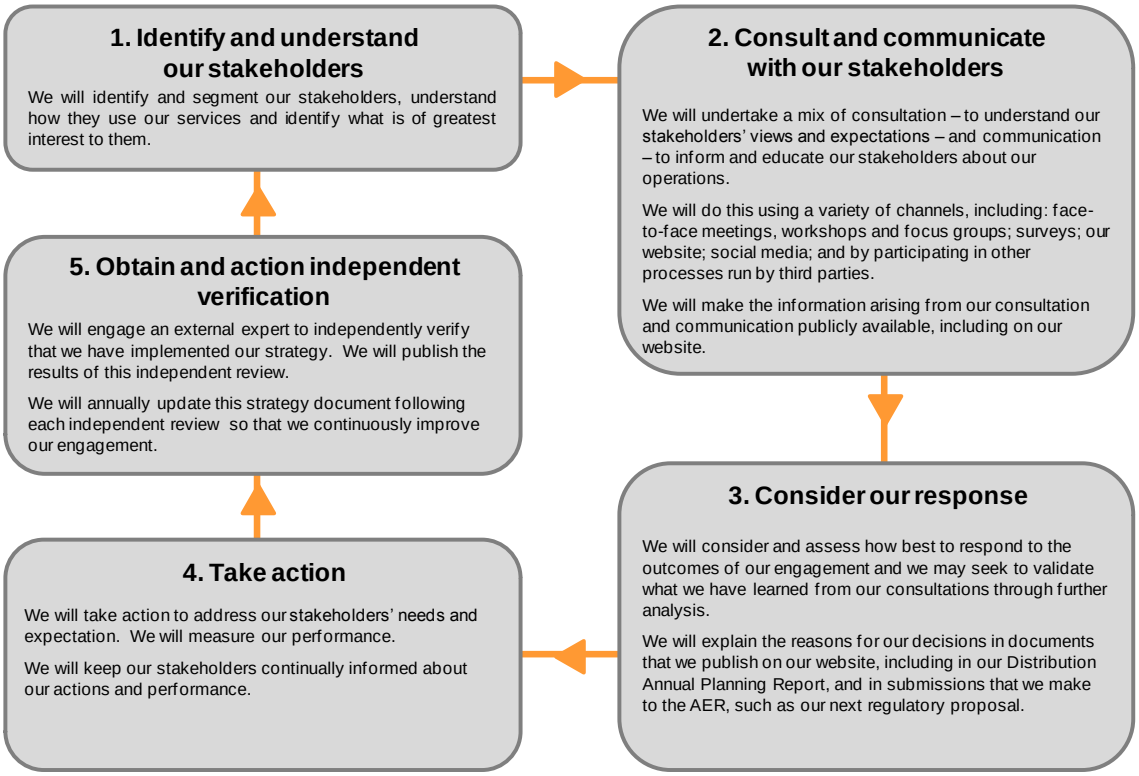


Figure 5.1: Stakeholder Engagement Strategy

The strategy identifies a range of channels for us to engage with our stakeholders:

- Customer Consultative Committee
- Working groups
- Residential and business customer focus groups
- Surveys
- Bilateral meetings
- Our website and social media
- Direct mail
- News media
- Advertising
- The AER's Customer Challenge Panel.

The strategy recognises that different channels will be used to communicate and consult with different stakeholders, depending on their various interests and knowledge of our operations and services.

The strategy commits us to listening to understand the issues that are most important to our stakeholders. It also identifies the specific issues that we have identified to engage our stakeholders on:

- Safety
- Environment
- Network performance, outages and restoration
- Quality of supply
- Customer connections
- Customer service and satisfaction
- Social obligations
- Affordability and pricing
- Major projects and investment
- Innovation and new technology
- Regulatory processes.

While the strategy was developed as the basis for ongoing customer and stakeholder engagement, it highlighted stakeholder focus groups, workshops and a best practice *Willingness to pay* survey as key inputs to our next regulatory proposal.

6. Research

From March to July 2014 we implemented the research phase of our engagement program. While each initiative provided valuable input to our understanding of customer priorities generally, they were also designed specifically to assist in the development of a best practice '*Willingness to pay, willingness to trade'* (WTP) survey.

6.1 Research review

Our first step was to undertake a review of customer research undertaken in July 2013, to establish a baseline for key customer priorities.

Quantum Market Research was commissioned by United Energy and Multinet Gas to conduct qualitative research to explore perceptions and expectations of energy suppliers across the UE and MG areas in Victoria.

This research, which focussed on general services for both our electricity and Multinet Gas business, included 14 in-depth interviews with business customers and six focus groups with residential customers.

The key findings of the research are outlined below:

Awareness	
Understanding of the distributor to customer relationship	There is limited understanding about the distributor / retailer split – many simply named their retailer when asked who their distributor was However, this is generally not viewed as a problem. As such a low engagement category (in times of reliable supply) whilst there is acknowledgement of the gap in knowledge, there is no customer driven want to rectify this
Awareness of United Energy (and Multinet Gas)	Extremely low awareness, even after listing out the names of all the distributors in Victoria, though there was some recall of the UE name when prompted
Understanding of what energy distributors do	Most assume the distributor maintains and repairs the network, but there is little awareness beyond this Very low awareness that maintenance of street lighting is taken care of by the electricity distributor and not the council

Awareness tended to be low across both business and residential customers. The key exception was for large hospitals / medical services groups, where energy management is considered critical.

Service delivery priorities

- Reliability of supply, minimising power outages, and minimising time without power following an unplanned outage tended to be the top priorities
- Public lighting, scheduled maintenance, customer service through issue resolution and call centres were intermediate priorities
- New connections, vegetation management and safety messages all tended to be considered the lowest priority areas.

Service expectations and satisfaction levels	
Reliability of supply	The key service expectation of all consumers is a continuous, reliable supply of energy Given interruptions are relatively rare for most, customers tend to be understanding that unplanned interruptions will happen and are largely out of the control of the distributor. However, patience is limited and regular interruptions (>3 per year) leads to frustration and discontent A minority of residential customers are interested (even concerned) to know what plans distributors have in place to ensure a secure and reliable supply of energy into the future, and what plans are in place to increase usage of renewable energy sources.
Customer service	There is a strong preference for a call centre in Australia with Australian staff. This is primarily due to a perceived need for the call centre to be able to relate to, and immediately understand the issue at hand – leading to less frustration and faster resolution. Most want to speak to a real person, with no need to push buttons or say key words to get through to the right area Call centre staff should be courteous, helpful, knowledgeable and able to deal with problems on the spot Where issues cannot be dealt with immediately, customers expect timely follow-up with a call back within a week.
Other	Promised timeframes need to be met (e.g. for new connections, contractor visits, notified interruptions It a scheduled interruption is not going to proceed as planned, businesses need to be notified as early as possible, as some (particularly in the health and aged care sector) may incur costs to hire generators during planned outages While consumers felt it would be useful for United Energy (and Multinet Gas) to provide information about energy conservation and safety, they did not necessarily feel it was their distributor's responsibility to provide this information.

Implications

1. Overall, both business and residential customers' top priority is a reliable supply of energy
2. Very few customers had had interactions with their energy distributor
3. Customers expect clear communication about planned and unplanned interruptions to supply.

6.2 Focus groups

A total of 57 people representing business and residential customers took part in a series of focus groups held across our network in St Kilda, Dandenong and Rosebud.

The objective of the focus groups was to listen to and understand residential and business consumers' views and expectations about the services we provide. The focus groups sought to:

- Reveal consumers' experiences of purchasing and using electricity, as they relate to our services
- Identify the key issues of importance to consumers in their interactions with our business
- Inform the development of the WTP survey; and
- Provide evidence of United Energy's commitment to robust and meaningful engagement of its stakeholders.

A Melbourne based market research company was engaged to recruit residential and business consumers to ensure a broad cross-section of participants for the focus groups. The target participants were the 'person on the street' and small business owners who may or may not have been aware of the United Energy brand or our role in the electricity supply chain. The only criteria for inclusion in the focus groups was that the individual was responsible for paying the electricity bill. Participants were paid a nominal amount to attend the focus groups.

The focus groups sought to engage consumers from across our network. Six focus groups of 1.5 hours duration each were conducted in the northern, central, and southern sub-regions of United Energy's network. The breakdown was aligned with analysis of our network performance to represent three broad bands of reliability - from the best in the north to the poorest in the south. The location and number of participants in each focus group are provided in the table below.

A total of 57 participants attended the six focus groups, comprising 25 men and 32 women ranging from 23 to 68 years of age, as illustrated in the table below.

Location of Focus Group	Residential	Small Business
North (St Kilda)	9	9
Central (Dandenong)	10	9
Southern (Rosebud)	10	10

Table 5.1 - Breakdown of focus group attendances

A United Energy representative attended each of the focus groups as an observer, and addressed participants' specific questions about United Energy at the conclusion of each focus group.

The focus group discussions were facilitated by KPMG, drawing on a set of questions to guide the discussion. The questions covered 10 topic areas aligned with our Stakeholder Engagement Strategy.

- Awareness of United Energy
- Electricity supply
- Customer service
- Connections
- Power outages and restoration
- Price and affordability
- Environment
- Safety
- Social obligations
- New technologies.

Ten key insights were identified from the focus group discussions. These insights were subsequently explored further in the *Willingness to pay, willingness to trade* survey, in order to determine whether they reflect consumers' experiences.

1. Awareness of United Energy was low

Residential and business participants had limited awareness of United Energy and/or of the electricity supply chain:

- Participants were asked during the recruitment process if they could name their electricity DNSP. 15 of the 57 participants were able to correctly identify United Energy. Participants generally cited their retailer, with companies named including Origin, AGL, Momentum Energy, Red Energy, Dodo, and Lumo.
- Across all focus groups, a few participants were able to correctly describe the role of a DNSP as distinct from a retailer, however many were not aware that there was a difference between the two.
- Participants reported limited contact with United Energy. Examples were provided of contact due to a power surge and installation of solar panels. Some participants recalled letter box drops for planned outages when prompted by the facilitator.

2. Supply experience

Participants were asked to comment on when they last thought about their electricity supply. Participants reported that they typically thought about their electricity supply in three circumstances:

- Upon receipt of their retail bill;
- When there is a supply problem, notably an unplanned outage; and
- When they are approached by retail companies to change retailer.

Participants reported that the supply of electricity to their homes and businesses was not something they generally thought about, unless there was an issue that needed addressing.

Participants were asked to comment on their last experience of an unplanned outage. There was considerable variation across the network:

- The majority of participants in the northern sub-region could not recall a recent power outage ("I can't fault it"), while some noted that "the power has occasionally gone off in the middle of the night"; and
- Experiences of outages were greater in the central and southern sub-regions, which were attributed to construction works, car accidents, ageing infrastructure and fallen power lines. However, participants in these areas considered that unplanned outages were occurring less frequently than in the past.

Unplanned outages have a varied impact on residents and businesses; while some were understanding of the causes of such outages, others were less so.

Business and residential participants were not prepared to pay less for lower reliability. They consider electricity to be a basic utility, that electricity supply should be continuous and of high quality, and they do not a see reason to pay a premium for improved reliability.

A few participants perceived that there was less apparent or obvious maintenance of the network than they recall in the past.

Business participants reported significant inconvenience and loss of revenue associated with planned and unplanned outages. They specifically noted impacts on their IT systems and infrastructure.

3. Consumers are not willing to trade reliability over price

Participants noted that outages have significant cost impacts for businesses, primarily due to a loss of sales.

Participants indicated that residents want price and supply standards to be maintained, and are not willing to pay more for their services. They perceive electricity to be a basic utility, that electricity supply should be constant and of high quality, and do not see a reason to pay a premium for improved reliability.

Consumers are supportive of the adoption of new technologies, but are not necessarily prepared to pay more for them.

4. Consumers expect timely access and accurate information from customer call centres

Only a few participants had recent experience of contacting United Energy.

Participants were divided over where United Energy should locate its call centres. Approximately half of the focus group participants indicated that having a call centre in Australia was important to them, as they would prefer that 'jobs remain in Australia', however they understood that this may come at a higher cost due to wage pressures. The other half did not have a preference, but indicated that it is the quality of the service received, and the capacity for personnel to address their concerns, that are important.

Some participants indicated a preference for a 'case management' of significant supply issues, with a United Energy staff member allocated to coordinate the issue, to avoid them having to repeat their story.

Some participants noted that they wouldn't have any reason to contact their DNSP, and would simply contact their retailer if they had issues or concerns about their electricity supply.

Residential and business participants indicated a preference for more direct lines of communication for planned and unplanned outages and welcomed more information about United Energy.

Business participants, particularly in retail and services (e.g. food, hairdressing, mechanics), typically indicated a need for a longer period of notice for planned outages than residential participants. Most business participants would prefer one to two weeks' notice, particularly for appointment-based services.

5. Consumers would like more direct communication about unplanned outages

Business participants favoured more notice than the current standard for planned outages, with a preference for one to two weeks' notice, and prompt restoration updates after an unplanned outage.

Residential and business participants suggested that United Energy use more personalised communication methods when unplanned outages occur, for example, via SMS or direct email. Radio announcements and online updates were also considered important.

6. Consumers have a limited understanding of price structures

Participants across all focus groups were concerned about the increasing cost of electricity.

Approximately half of all participants had some understanding of tariff structures, and could identify peak/off-peak as a tariff option. The other half had a limited understanding of the range of tariff options available to them, and many were not aware that they had a choice. Some reported that they were 'forced' to choose a particular tariff.

Some frequently and actively sought better tariffs, while other participants were aware of choice but “didn’t have the time” or were “too complacent” to pursue them.

Few participants in each focus group were aware of the various components of their bill, i.e. a daily supply charge and a variable tariff. None knew what proportion of their bill was passed onto the DNSP.

Many residential and business participants noted concerns about the lack of transparency in electricity pricing and, in particular, the capacity of the elderly or consumers with limited English to understand contracts in order to identify the best ‘deal’ to suit their circumstances, and to resolve issues with their bills when they arose. Again, this was noted to be an issue to address with retailers.

Participants agreed that they would welcome mechanisms that would improve their ability to compare prices across retailers. They did not feel that they received value for money, or that electricity was affordable.

Participants who had solar power had a stronger understanding of price structures and factors that increased use and cost, compared with participants without solar power.

7. Consumers found it difficult to identify measures to further reduce their electricity use

Participants had some awareness of the factors that contributed to how much electricity they used. The majority identified air-conditioning and heating, the number of appliances used, and (for residential consumers) how often and for what duration they were at home.

Many residential participants reported having taken some action to reduce their electricity usage, and thus their retail bills. Examples included changing light globes, purchasing energy efficient appliances and investigating the installation of solar panels. However, most residential participants reported that this had had limited favourable impact on their bills.

Residential participants were open to incentives to reduce power consumption in peak periods. However, factors such as having elderly parents or young children limit their ability to do so. Some were strongly opposed to taking such action, and viewed the use of electricity as their personal right. Other participants noted that they would be happy to reduce their consumption to a lower, more sustainable average.

8. Businesses are less able than residents to reduce electricity usage

Some business participants indicated that they had taken action to reduce their electricity usage, such as opting to purchase low-power computer screens and printers, and changing light globes. Some business participants were unclear if there was any real benefit, and indicated that mechanisms such as sensor lights and more efficient machinery were too costly.

Business participants were less willing than residential consumers to pursue initiatives aimed at reducing demand, noting that electricity was essential for them to run or operate their business.

Business and residential participants alike were keen to receive more information about how they could reduce or better monitor their usage, as a basis for reducing their electricity bills. Suggestions included improved access to technology.

9. Consumers have limited awareness of safety and environmental issues

The environmental impacts of electricity distribution were not well understood, and residential and business participants had limited awareness of safety issues associated with electricity distribution services.

The majority of participants started by discussing green power sources, and the environmental impacts of the generation of electricity. Some were concerned about the health impacts of electricity transmission.

Participants in all focus groups were aware that sparks from electricity lines can start grass fires. Most were not aware of consumers and DNSPs' respective roles and responsibilities for vegetation management.

Safety issues identified included safety in the home or workplace (such as test and tag programs), risks associated with faulty wiring and old fuse boxes, and the dangers of fallen power lines.

Some business participants favoured safety checks within their business, however, they had mixed views on whether this should be at an additional cost to the consumer.

There was some support for undergrounding, for aesthetic purposes, to replace ageing infrastructure, as well as to reduce maintenance costs in the longer term. This was, however, tempered by some participants' awareness of the significant associated cost of undergrounding.

10. Consumers would like more information from United Energy

Participants favoured additional information about who United Energy is, what value and services it is providing to its consumers, strategies to reduce electricity demand, and how to make best use of smart meters.

6.3 Workshops

Workshops were held with representative groups and some of our large business customers with the following objectives:

- Gain an understanding of stakeholders' perspectives on electricity supply
- Identify issues of importance to key stakeholders
- Communicate, and gain support for, the WTP survey and inform the final version
- Provide evidence of United Energy's commitment to robust and meaningful stakeholder engagement.

The workshops targeted stakeholders who were likely to have some awareness of United Energy's brand and its role in the electricity market. KPMG facilitated two workshops, one with United Energy's Customer Consultative Committee (CCC) and another with its large and commercial consumers.

Grouping stakeholders with common interests provided for a more robust and meaningful discussion, thereby improving the quality of the outputs. The number and composition of workshops are provided in table 5.1.

Stakeholder Group	Participants
CCC and associated Working Groups	United Energy Alternative Technology Group Consumer Utility Advice Centre Consumer Action Law Centre Australian Industries Group
Large Commercial and Industrial Consumers	United Energy Wilson Transformers Aurora (packaging manufacturer) Dandenong Hospital Metro Trains

Table 6.1 - Composition of workshops

United Energy identified and invited its stakeholders to participate in the workshops by:

- Utilising its CCC and associated Working Groups; and
- Directly approaching (by letter and telephone) community groups and large business consumers.

Workshops were held in community venues within United Energy's service area in order to minimise any potential barriers to participation (such as travel distance and time). A United Energy representative attended each workshop to meet and greet stakeholders and to listen to stakeholders' views. The AER was also invited to attend as an independent observer to support their early understanding of United Energy's approach to stakeholder engagement, however it declined the offer.

Each workshop was facilitated by two KPMG team members, and notes were taken, however, comments were not attributed to individual participants. These notes were sent to participants within two business days of the workshop for validation and for their own records.

United Energy was interested in understanding from the workshops the range of issues that were important to its stakeholders. The topics discussed:

- Were tailored to each stakeholder group, recognising their different interests and interactions with United Energy
- Reflected the key issues that United Energy wanted to communicate and consult with their stakeholders on, as outlined in the Stakeholder Engagement Strategy
- Included items to be subsequently addressed in the WTP survey – there was also a discussion of the draft WTP survey.

The issues that United Energy identified for discussion during the workshops included stakeholders' views on:

- What is important to consumers' supply and what impacts on their use
- Consumers' service experiences, including whether dealings with United Energy were positive or negative
- Preferred forms of communications, including its form and any additional services that United Energy should be providing
- United Energy's social obligations, including how it can better service disadvantaged and vulnerable community members, and experiences of supply disconnection
- Power outages and restorations, including United Energy's notification, restoration, communications processes, duration, and the preparedness to pay to change the duration and frequency of interruptions
- Experiences of connection to the network
- Pricing and affordability, including how prices are determined, the understandability of charges, awareness of how to reduce bills and/or consumption, willingness to participate in programs to reduce bills and/or consumption and rebates and/or incentives
- The importance of safety, including on the network and at premises and the willingness to pay for safety checks
- Environmental issues, including the impacts of electricity distribution and mitigation strategies
- How United Energy should be embracing and adapting to new technology.

Observations

Customer Consultative Committee

The following summarises the feedback provided by United Energy's CCC during the workshop.

1. Deferring or avoiding network upgrades

One stakeholder raised concerns about the significant costs of building new capacity into the system to meet rising peak demand. The stakeholder felt that United Energy should actively engage with businesses to work with them to manage their load in order to seek alternatives to the high capital costs of building new network capacity.

2. Customer service centre education

Stakeholders expressed concern that staff in customer service centres are unable to provide advice on tariffs, and typically refer consumers back to their retailers. Stakeholders emphasised the importance of all staff that interact with consumers understanding tariffs, so that they can readily communicate with them.

3. Greater transparency and availability of information

Stakeholders felt greater access is needed to information to enable consumers to understand bills better, including a breakdown of what the bill means in plain English. Stakeholders considered that many consumers simply don't have the time or knowledge to explore and comprehend what the best retail supply arrangement would be for them. This applies both to many small to medium enterprises (SME) and residential consumers.

Further, stakeholders noted that consumers are looking for avenues to reduce bills and to better understand their energy costs. Stakeholders indicated that consumers are also interested in accessing information in differing formats for improved engagement, and a consistency in language from DNSP to retailer to consumers.

4. Outages and restoration

Stakeholders highlighted that the reliability and quality of supply are of great significance to small business and manufacturing consumers, as a momentary interruption can adversely impact their processes, impose additional costs and result in lost revenue.

Some stakeholders were also keen to provide input into the value of customer reliability (VCR) that is used by United Energy.

5. Tariffs

Stakeholders were concerned about issues of cross subsidisation and equity in electricity tariffs. One stakeholder was keen to see a shift away from consumption / volumetric based tariffs to one that reflects the costs incurred by United Energy to deliver services to specific consumers. Other stakeholders raised the possibility of charging based on:

- A capacity charge, irrespective of use; and
- A peak demand charge, based on an historical peak.

6. Pass through of cost reductions

Stakeholders felt that cost savings achieved by United Energy should flow back through to the end consumer in the form of lower prices.

7. Feedback on the design of the WTP survey

Participants provided limited direct feedback on the design of the WTP survey. One stakeholder wanted the WTP survey to have more direct questions about smart meters and the services that they deliver.

Large Commercial and Industrial Consumers

The following summarises the feedback provided by United Energy's large commercial and industrial consumers during the workshop with them.

1. Communication

One stakeholder indicated that its electricity usage peaks for a short period of time when it tests the products that they manufacture. It noted that it is difficult for it to plan any notification to United Energy about when these peaks occur.

Some stakeholders raised concerns about a lack of adequate notification by United Energy before planned outages occur. They indicated that sending a letter to one registered point of contact is no longer adequate, as it may not reach the right people in their business at the right time. Stakeholders suggested that United Energy maintain a list of key contacts (e.g. at the site by site level / plant level rather than to a business's central office) to provide notification regarding planned outages.

Stakeholders felt that the form of communication from United Energy was inconsistent with the size of their account, and they need more tailored service, such as telephone call.

Stakeholders felt that more regular updates regarding unplanned outages would better assist businesses to optimise their use of resources (e.g. whether to send staff home, or keep on site). While high voltage consumers have a direct line to United Energy's control room, stakeholders considered that United Energy should provide information directly to consumers, rather than consumers needing to chase information.

Some stakeholders indicated that at least one week's notification was appropriate for planned outage notification, from the time of first receiving the communication from United Energy.

Stakeholders provided United Energy with examples of the matters on which other DNSPs in Victoria and interstate have undertaken to improve notification. This included:

- Asking manufacturers when they had planned maintenance shutdowns, and scheduling network maintenance to coincide with this; and
- Meeting with large business to identify mutually convenient times for shut downs, and supplying a temporary generator to provide continuity of supply.

Stakeholders supported the provision of dedicated account managers by United Energy, which they noted was not common for other DNSPs. Stakeholders' preference was to deal with the DNSP rather than the retailer on most occasions.

Stakeholders felt that sub-contractors should be able to set specific appointment times with large commercial and industrial consumers to undertake works, such as to access a site for a meter installation, rather than just to nominate the current three hour window.

Stakeholders also suggested United Energy prepare a contact list for large consumers to use in contacting United Energy for particular issues or projects.

2. Power outages

Stakeholders noted that power outages can result in significant costs to businesses, including as a result of financial penalties under contractual arrangements with third parties. They noted that even a short five to ten minute outage can be very costly, due to the need to re-start processes, and loss of product.

3. Tariffs

Stakeholders were complimentary of the rolling demand tariff provided by United Energy noting that other DNSPs do not offer this tariff.

Stakeholders also expressed concerns that peak demand tariffs did not provide businesses with the intended demand management incentives, where their operations cannot change during peak hours (e.g. metropolitan train operation). Manufacturing businesses can't necessarily shift demand / shed load, so there is a need to examine alternative incentives to reduce demand.

Some stakeholders felt that capacity charging was a more equitable means of pricing, although they recognised this would require a restructuring of pricing arrangements.

4. Additional services

Stakeholders also identified various additional services that United Energy could consider providing, such as:

- Voluntary demand side participation;
- An application to communicate with smart meters;
- Better education on the capabilities and uses of smart meters;
- Consistency of metering information across DNSPs, as many large consumers operate across multiple networks;
- Site visits by United Energy staff to customer sites to discuss opportunities for energy savings in processes and equipment; and
- Greater transparency from United Energy in advance of price increases.

6.4 Willingness to pay, willingness to trade research

We undertook a best practice survey to assess customers' willingness to pay or trade savings for changes to existing service levels, of the introduction of new services. More than 1,100 people took part in the survey to give us a final sample of 960 customers from across our network.

Purpose

A WTP survey is designed to assess the maximum amount a person would be willing to pay, sacrifice or exchange in order to receive a service or to avoid an undesirable event.

For United Energy, the WTP survey provides information about consumers' willingness to pay or trade for particular characteristics of their electricity supply, such as reliability, quality of supply and cost.

The design of the WTP survey for United Energy was informed by the outputs of the focus groups and workshops. This enabled the questions that were included in the survey to address the range of issues that are important to United Energy's consumers and other key stakeholders.

The purpose of the WTP survey is to inform the development of United Energy's regulatory proposal for the next regulatory control period, using robust methods to understand consumer preferences.

Survey approach and design

The survey consisted of the following stages:

- Survey design;
- Sample design;
- Data collection;
- Analysis; and
- Reporting.

1. Survey design

The survey built on previous surveys conducted by KPMG. It was adapted in consultation with United Energy, taking into account the outputs of the focus groups and workshops. It included well-proven scales to determine the respondents' perceptions about the reliability of their electricity supply.

The survey comprised approximately 160 questions, and was designed to be completed within 20 minutes, incorporating:

- Demographic questions to provide an understanding of the characteristics of respondents;
- National Meter Identifier (NMI) details to ensure the sample could be matched to United Energy's catchment and to ensure the respondent's experience could be calibrated to United Energy's feeder performance data;
- Attitudinal survey questions, which comprise:
  - Yes/No questions to ascertain the profile of respondents' electricity equipment and consumption;
  - "Likert scale" questions to ascertain the frequency of events experienced by respondents; and
  - "Likert scale" questions to ascertain importance and relevance of particular features to consumers.
- Willingness to pay / forego – simple choices of ten possible attributes, for which respondents indicated they were willing to pay something or forego a saving. This was included because the number of attributes that could be tested was too great to be included in the more robust choice experiment; and
- A choice model experiment to ascertain consumers' willingness to pay for particular characteristics of energy supply, and willingness to trade one characteristic for another. This experiment presented respondents with a number of choice sets using scales. They were asked either to accept or reject each choice set. The choice sets included trade-offs between the following attributes of electricity supply:

  Interruption frequency – The average number of interruptions a customer experiences per annum, measured by the System Average Interruption Frequency Index (SAIFI);

  Interruption duration – The average total duration of interruptions per customer per annum, measured by the System Average Interruption Duration Index (SAIDI);

Longest duration interruptions – A respondent's longest duration for a single interruption;

Momentary interruptions – The average number of times a customer experiences momentary interruptions per annum, measured by the Momentary Average Interruption Frequency Index (MAIFI) and defined as interruptions of one minute or shorter duration; and

Quality of supply – A customer's average frequency of flickering or blinking lights, blown light bulbs, damaged electrical equipment and sustained low voltage.

Sample design

A sample design was required to select the respondents to participate in the survey. Generally speaking, the objective of the sample design was to obtain the most statistically accurate (reliable) results with the resources available for this project.

The sample needed to be representative both of the population of interest and the range of service standards across United Energy's service area. The sample needed to be sufficiently large to provide statistically reliable data.

A sample size of approximately 1,000 survey responses (600 residential and 400 small business) was required to provide an acceptable level of confidence in the reliability of the survey. The sample was controlled and weighted by the following factors to ensure that it closely represented the underlying population:

- For business and residential consumers:
  - Solar photovoltaic (PV); and
  - Electricity reliability zone – derived from United Energy performance data.
- For business alone:
  - Industry sector (retail and service or light industrial/other).
- For residential alone:
  - Household size.

Data Collection

Survey data was collected both online and by telephone.

All residential and some business data were collected online via a secure site managed by I-View, in accordance with relevant market research standards – ISO 26362 and ISO 20252. The balance of business data were collected by I-View using computer aided telephone interviewing (CATI) using a centralised, supervised control room.

United Energy provided contact phone numbers for customers on feeders selected in the sample design phase. United Energy also provided information about the measured reliability performance on individual feeders that serviced customers. This was used in the "calibration" phase and is discussed below.

Table 6.2 shows that the original, unweighted sample of respondents to the WTP sample was 1,125 respondents. Following the weighting, and matching of respondents to United Energy's NMI data, the final matched sample was reduced to 960 respondents. The business survey had a perfect match as contact phone numbers were provided by United Energy. Some of the businesses, and all of the residential customers, were sourced from internet panels. A number of respondents answered with invalid NMIs. This came about either from mis-keyed entries or respondents not being United Energy's consumers (i.e. they are supplied by another

DNSP). An online survey cannot be finely targeted to source respondents only from United Energy's service area. Any respondents without a United Energy NMI were excluded from the sample.

A sample of 960 respondents is sufficiently large to provide statistically reliable data for the survey.

Sample source	Original sample	Matched sample
Business CATI	331	331
Business on-line	72	49
Total Business	**403**	**380**
Residential on-line	722	580
Total	**1,125**	**960**

Table 6.2 - Survey response rate and reweighting of sample

Analysis

The analysis stage included:

- Quantitative assessment of the electricity network's reliability performance as identified by United Energy's data;
- Understanding the attitudinal questions of importance and relevance to respondents;
- Understanding the types of equipment respondents had within their homes or businesses;
- Calibrating respondents' perceived network performance for the frequency and duration of their interruptions – as revealed through the survey – to the actual feeder performance as measured by United Energy – which can be related back to respondents' individual NMIs. This calibration is explained in section 0 below; and
- Determining the perceived threshold points for electricity performance measures, including the duration and frequency of interruptions for all consumer segments.

Two methods were to be used to validate responses:

> *Calibrating perceived reliability with actual reliability – This provided a robust and accepted method for validating survey findings. The application of calibration requires United Energy to provide two key pieces of information:*

Residential – NMI and network reliability; and

Business – consumer phone numbers matched to network reliability.

Comparison with the outputs of previous consumer engagement – United Energy contrasted the outputs of the WTP survey with the responses from the focus groups and stakeholder workshops.

Calibration

Respondents were asked to provide information about their perceived service levels. There is a high likelihood of errors in these responses and in respondents' perceived service levels compared with the service they actually receive. These errors could arise, for example, because respondents may not remember with perfect

accuracy events that affect their supply, or they may not be at their premises (or may not be using electricity) when an interruption event occurs.

There is a need for a calibration process to neutralise for these distortions. The calibration process compares respondents' perceptions about the reliability of the network with actual data about the performance of the feeder from which they are served. A respondent's perception is representative of the service level at its connection point, which may be different to a consumer on a different part of the same feeder. These perceptions were compared to the United Energy feeder data to represent an average for the feeder.

In general, the results of analysis showed that respondents perceive that they face fewer reliability events than is being measured by United Energy on the feeders from which they are supplied.

Service standard thresholds

A robust and thorough consumer research process was used to obtain estimates of threshold points for various measures of reliability, including average duration, average frequency and the longest duration interruption.

Threshold points measure a consumer's willingness to trade for improvements in a particular aspect of a product or service. The thresholds are determined by undertaking consumer research which asks participants to trade-off different levels of attributes of their electricity supply, such as the number versus duration of interruptions to supply. In other words, the threshold points are levels of a reliability index, above which consumers would generally be seeking improvements in that reliability index and below which customers would generally not be seeking improvements. These thresholds may also be considered as points of indifference at which consumers are equally willing to trade for better or worse reliability. The threshold is determined where the 'choose worse' and 'choose better' lines intersect.

The 'choose worse' and 'choose better' lines represent the proportion of people that chose the offer and the total number of people made that offer. This is illustrated in figure 5.3 below.

Importantly, these lines do not represent the arithmetic sum of the responses to a particular offer, as the responses for trade-offs where the offer was the same supply, are excluded from the analysis.

Interpreting the threshold graphs

In the threshold graph presented in figure **Error! Reference source not found.**5.3 below, and those presented in section 11.4 of Appendix 3, the y-axis represents the percentage of respondents and the x-axis represents the respondents' perceived level of reliability.

The dashed line represents the proportion of consumers in the choice experiment who 'choose worse', such as a lower level of reliability than they currently receive. The solid line represents the proportion of consumers who 'choose better'. For example, in figure 5.3 below, for those consumers that currently have a perceived SAIFI of once a year, approximately 70 per cent would accept a bundle of attributes that includes a higher frequency of interruptions, while approximately 20 per cent would accept a bundle of attributes that includes a lower frequency of interruptions.

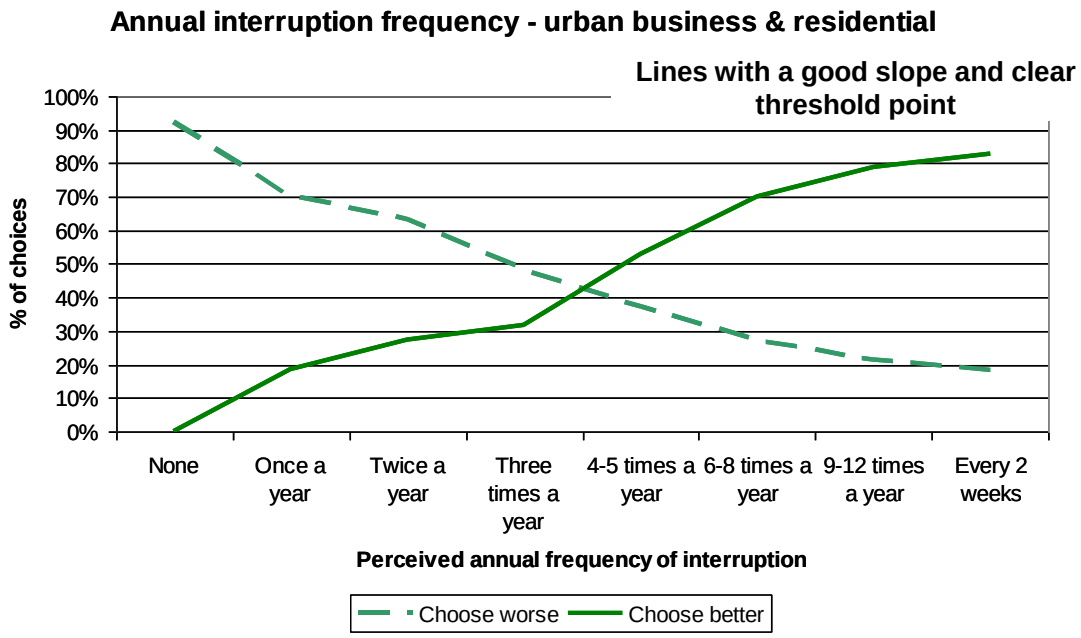


Figure 6.3: Example threshold graph

The threshold point is where the lines intersect. At SAIFI below the threshold point, the proportion of respondents willing to choose worse is higher than the proportion of respondents choosing better (and vice versa).

In the discussion of the results, a "worse power supply" refers to a lower level of reliability / higher frequency or duration of supply incidents. Conversely, a "better power supply" refers to a higher level of reliability / lower frequency or duration of quality of supply incidents.

The threshold point is where consumers are equally balanced in terms of the reliability they choose. Setting reliability standards to the left of the threshold point would give them better reliability than they choose and setting it to the right would give them worse reliability. It should be noted that there can be multiple threshold points. This indicates that there is a "zone of indifference" between the thresholds. Moving the reliability standards within that zone will make little difference to consumer demands for reliability. In those cases, the reliability standards could be set anywhere between the threshold points.

Ideally, the aim is to establish a clear threshold point, indicating clear preferences in the market for reliability standards. The intercept is arithmetically interpolated in the spreadsheet and not estimated on the curves. The positioning on the curves is indicative only.

The choice or trade-off tasks

During the survey, consumers were asked to make choices based on their preferences for defined outcomes relative to actual performance on the electricity network. In the first choice task, respondents were offered six to eight "real" electricity options in which they were asked to trade-off simultaneous variations in the five reliability service standard attributes within the range of plus or minus two categories of their perceived reliability. A further three to four choices included money.

The choice is based on each respondents' perceived experience and is therefore more relevant to their perceived values. In any one choice, any of the attributes may be better, the same or worse than what they are currently receiving. The respondents simply had to say whether they accepted or rejected the offer.

Observations

The following section details the observations from the different techniques that were employed in the survey, being:

- The attitudinal survey;
- The willingness to pay / trade survey – simple choices; and
- Reliability choice modelling / choice experiment.

Attitudinal Survey

Part of the survey involved an attitudinal survey. This involved a series of yes / no, agree / disagree questions and simple rating scales about United Energy and its service provision.

The graphical results of the attitudinal survey are presented in Appendix 3. Figure 6.4 provides an example of the attitudinal survey results for questions about supply reliability.

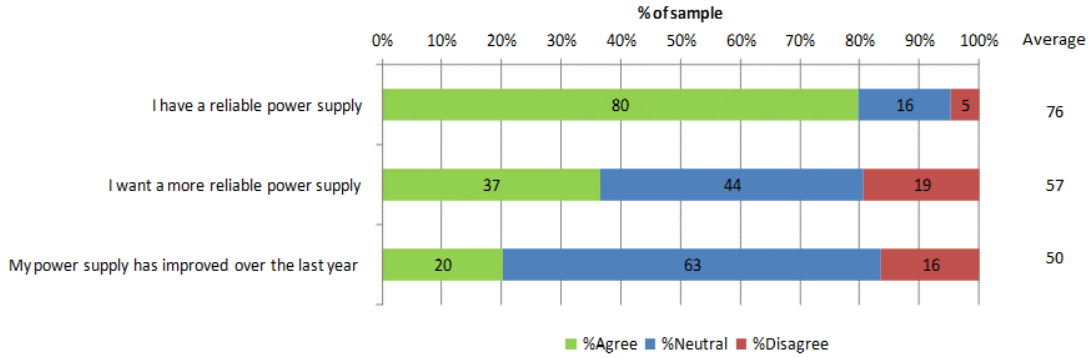


Figure 6.4 - Example of attitudinal survey result

The attitudinal survey addressed the following matters:

> *Knowledge of United Energy and its services - 67 (av)[2] of respondents agreed that they were aware that United Energy was their DNSP and, on a scale of very likely (9) to very unlikely (0), were likely (5.9) to recommend United Energy to a friend. 53 (av) of respondents agreed that they wanted to know more about United Energy and their services, the most popular means being through United Energy's website (67 (av)). Businesses were slightly less interested in knowing more about United Energy than residential consumers;*

[2] The Likert scale of 1 to 5 was converted to a 0 to 100 scale. Where (av) is included, this is the average score on the transformed scale. It approximates a percentage agreed score.

Network reliability – 76 (av) of respondents agreed they received reliable supply from United Energy and that, on average, power supply has neither improved nor declined over the last year. There was a small appetite from respondents for improved reliability (57 (av)). Business consumers were slightly more likely to agree with this. The relative indifference to reliability improvement is an important finding as it supports and confirms the results of the WTP survey, which are discussed later in this section. In general, consumers "perceive" their reliability to be of a good standard, and do not desire a better/worse level of reliability;

Call centre contact in the last two years – Business respondents (36 (av)) contacted United Energy's call centre more often than residential consumers (23 (av)), with almost half of all contacts relating to faults. On average, consumers agreed the quality of interaction with United Energy's call centre as slightly better than neutral (54 (av));

Planned interruptions – Respondents indicated that letter box drops and email were the preferred notification methods for planned interruptions (70 (av)), with radio and social media being the least preferred (supported by less than one fifth of respondents). Businesses preferred personalised mail slightly more than letter box drops;

Unplanned interruptions – Both residential and business consumers indicated that email and SMS were the preferred notification for unplanned interruptions (approximately 65 (av)), with the least popular being social media (16 (av));

Information response to interruptions – Residential and business consumers equally agree (79 (av)) that rapid information response is needed for both planned and unplanned interruptions. Businesses were more attracted than residents to the most rapid response time of one hour;

System management – Vegetation and particularly attractiveness of the system (31 (av)) were rated negatively, and the importance of system safety was rated somewhat positively (63 (av)). Improvements were not identified as a priority except for safety, which businesses expressed a slight need for improvement;

Prioritisation of service – Respondents were generally positive that United Energy could be trusted to manage the network for the greater good of the system (67 (av)), and that they should direct their efforts to where it would do the most good rather than to service individual needs (64 (av)). Further, respondents were in moderate agreement that all electricity users should pay for solar panels to be connected to the electricity grid (56 (av));

Provision of information – Respondents wanted information (70 (av)) to enable them to control their electricity bill. They agreed that they are reasonably aware of their electricity consumptions patterns (66 (av)), and have purchased energy efficient appliances (73 (av)), but indicated they would pay closer attention to usage patterns (75 (av)) if they could easily do so. Approximately half of respondents deliberately vary their usage patterns to save electricity, and most (80 (av)) agreed that they would like United Energy's costs to be separately identified on their electricity bill;

Disruptive technologies – Nearly half of respondents agreed that they would disconnect from the electricity grid if there was capacity for them to do so; and

Electricity equipment – Almost all residential and business respondents have at least one computer and a fixed internet connection. The majority of residential respondents were mains connected to the gas supply (92 (av)), compared to one third of business respondents. More than two thirds of all respondents had electric air conditioning and surge protection and half had a telephone that doesn't operate during power outages. One third of business respondents had uninterruptible power supply and two in five had industrial power tools and equipment. More than 90 (av) of residential respondents had a washing machine, and approximately two thirds had an electric oven and dishwasher. Two thirds of residential respondents had energy saving devices for appliances, compared to one third for business respondents.

Willingness to pay/forgo – simple choices

Respondents were asked to nominate:

- Which of ten initiatives they would pay extra for; and
- How much extra in total they would be prepared to pay per bill.

The ten initiatives included suggestions regarding:

- Undergrounding of electricity assets;
- Improving reliability;
- Improving safety;
- Communications regarding planned / unplanned interruptions;
- Improving information response capability;
- Improving the aesthetics of assets;
- Improving vegetation management;
- Improving call centre responsiveness; and
- Learning more about United Energy's services.

On average, respondents indicated that they were only prepared to pay a very small amount to improve their current service levels. The matters that they were willing to pay something for were:

- Replacing existing power supply poles with undergrounding ($0.83 to $2.77 per bill);
- Improving electricity reliability by a noticeable amount ($0.48 to $1.46 per bill); and
- Making the power lines, poles and transformers safer ($0.47 to $2.28 per bill).

However, more than half of respondents were not prepared to pay anything for a change in service. These results are summarised in *Table 6.*5

Willingness to pay	Residential	Business
Willingness to pay something for change of service	47.1%	48.4%
Median total willing to pay per bill	$0.00	$0.00
Average total willing to pay per bill	$2.89	$12.51
Number of initiatives willing to pay something for	1.41	2.58

Table 6.5 – Willingness to pay results

Respondents were also asked to nominate which of the ten initiatives they would choose to receive by forgoing any future savings when their bill fell in value, and how much in total that reduction would need to be per bill.

On average, residential respondents were prepared to forego $3.44 per bill and business respondents were willing to forego $36.39 per bill to improve their current service levels. Respondents choose to improve the same service attributes as noted above for the willingness to pay element of the survey.

However, half of residential respondents were not willing to forego more than $0.5 per bill and business respondents more than $5 per bill. These results are summarised in *Table* 6.*5.6*.

Willingness to forego	Residential	Business
Willingness to forego something for change of service	52.4%	68.3%
Median total willing to forego per bill	$0.50	$5.00
Average total willing to forego per bill	$3.44	$36.39
Number of initiatives willing to forego something for	1.56	3.82

Table 6.6 - Willingness to forgo results

Reliability choice modelling/choice experiment

A variation of the bill was included in one third of the choice models.

Figure 6.7 highlights the impact of relatively small changes in price to the respondents and the percentage of time an offer of improved service is accepted. It shows that, where no money is offered, respondents accept the offer of improved service almost 45 per cent of the time. Where they are asked to pay only $0.50 more on their bill, acceptance falls to almost 30 per cent. By the time respondents are asked to pay $15 on their bill, acceptance falls to less than 10 per cent, where it remains for higher payments.

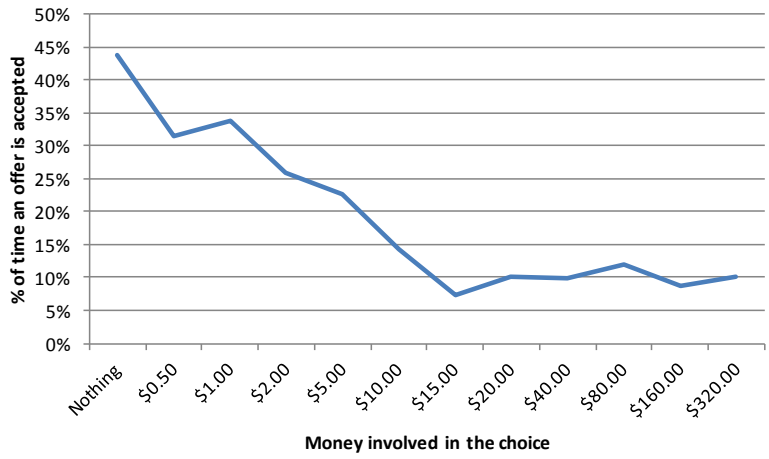


Figure 6.7 - The impact of money on choices

Price variation had a very powerful distorting effect on the answers respondents gave in the survey. The inclusion of money not only distorted the choice experiment, but also meant that the choice became much more about the money than any other element of the available choice. For these reasons, any of the choices involving money were excluded from further analysis. As a result, the remaining choices provided an assessment of "willingness to trade" (WTT) only (i.e. where no money is involved).

Interruption frequency

Figure 6.8 shows that, when taken together, the survey revealed residential and business respondents having a perceived threshold point for their interruption frequency of 1.0 times per annum. When calibrated to United Energy's actual network performance, this translated to 1.99 interruptions per annum. That is, respondents perceived that they experienced half as many interruptions as they actually experienced. Further analysis on network data shows that 57 per cent of consumers are receiving better reliability than the threshold point indicates. For business consumers, perceived interruptions ranged between 1.7 to 12.7 times per annum, which gave them calibrated network thresholds of 2.1 to 3.7 times per annum.

Figure 6.8 - Residential and business consumer perceived interruption frequency

It is worth noting that the lines of the threshold chart in Figure 6.8 vary from the illustrative chart provided in figure 5.3**Error! Reference source not found.** in that the lines to the right of the threshold point are relatively flat whereas they diverge much more steeply in the earlier example. This shows that, despite there being a threshold point, there is little appetite for respondents to choose a better service level. This finding applies to all the reliability measures tested in the survey. This finding is supported both by the results in the attitudinal survey and in the focus groups.

The remainder of the choices indicate that United Energy is generally delivering a better reliability than the population expects. This is reflected through all of the five attributes of electricity supply detailed in section 7.2.1.

Interruption duration

Figure 6.9 shows that respondents established a threshold point for their perceived total duration of interruptions of 71.6 minutes per annum which when calibrated to the actual network performance translates to 191 minutes per annum.

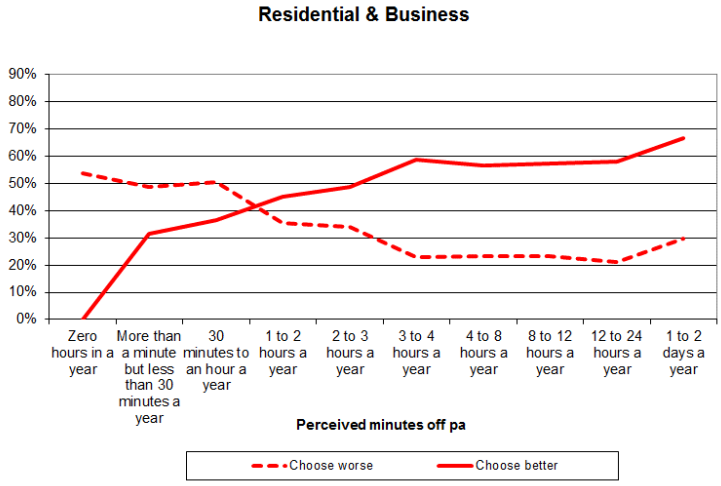


Figure 6.9 - Residential and business consumer perceived interruption duration

Across the different perceived interruption durations, there was little appetite for respondents to choose a better level of service, as shown by the relatively flat threshold lines.

71 per cent of consumers are receiving better performance than they perceive. For residential consumers, the threshold point for perceived interruption duration ranged between 14.9 to 58.3 minutes per annum, giving a network performance of 187 to 190 minutes per annum. For business consumers, perceived interruption duration ranged between 82 to 1,292 minutes per annum, giving a network performance of 191 to 269 minutes per annum.

Longest duration interruptions

Figure 6.10 shows that respondents established a threshold for their perceived longest duration for a single interruption at 43.4 minutes per annum.

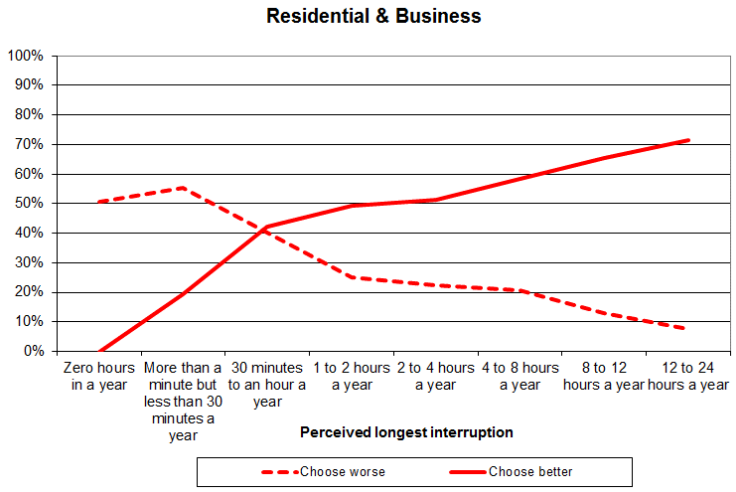


Figure 6.10 - Residential and business consumer perceived duration of longest single interruption

Across the different perceived interruption durations there was little appetite for respondents to choose a better service level, except for those consumers experiencing an interruption of eight hours or more. These respondents make up a relatively small proportion of United Energy's total customer base.

Momentary interruptions

Figure 6.11shows that consumers have a perceived threshold 0.8 momentary interruptions per annum. This calibrates to an actual network performance of 1.63 times per annum.

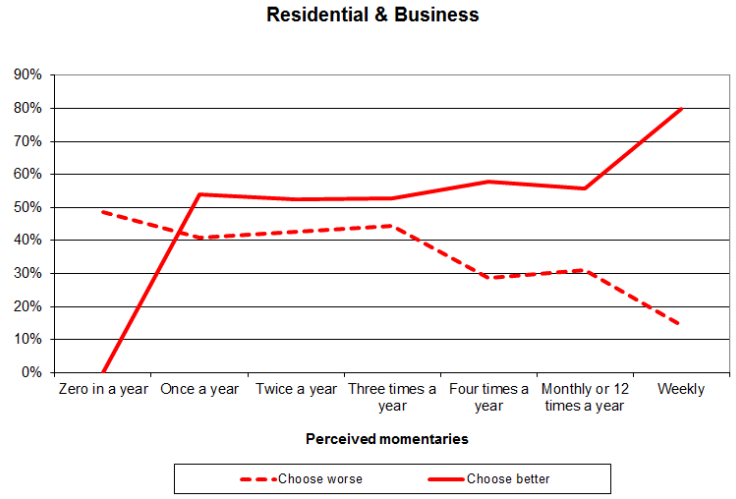


Figure 6.11 - Residential and business consumer perceived momentary interruptions

Across the different levels of perceived momentary interruptions, there was little appetite for respondents to choose a better service level, except for those respondents currently experiencing weekly momentary interruptions. These consumers make up a tiny proportion of the total consumer base.

70 per cent of consumers are receiving better performance than they specify in the threshold point. For business consumers, perceived momentary interruption threshold ranged between 1.7 to 10.0 times per annum, compared to United Energy's actual network performance of 2.0 to 3.0 times per annum.

Quality of supply

On average, consumers' perceived threshold for the frequency of flickering or blinking lights, blown light bulbs, damaged electrical equipment and sustained low voltage is 0.9 times per annum, which calibrates to an actual experience of 1.6 times per annum. This is necessary as there is no network measure of quality. This is shown in Figure 6.12.

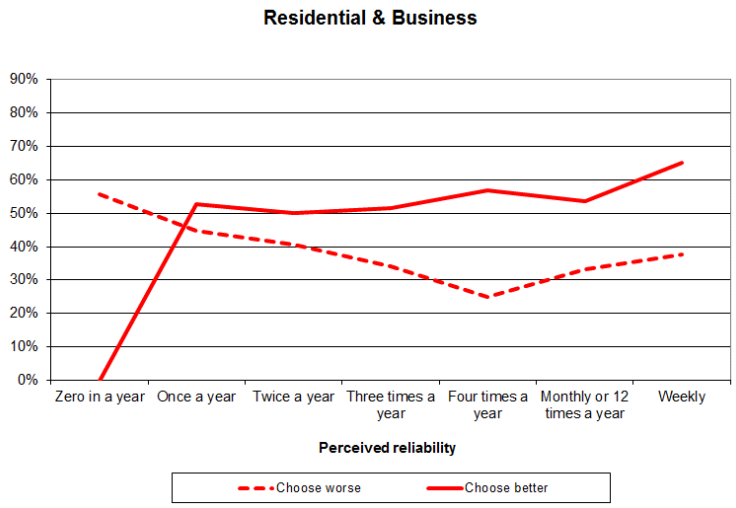


Figure 6.12 - Residential and business consumer perceived reliability threshold

Across the different levels of perceived quality issues, respondents had little appetite for a materially better quality of service, as shown by the relatively flat threshold lines.

Key research findings

Following completion of the research phase of the customer and stakeholder engagement program, a number of general conclusions were developed on the key matters on which consumers were engaged:

Awareness of United Energy – consumers have relatively low awareness of United Energy and the services it provides but want to know more about them. Those who do know about United Energy would generally recommend it to others;

Price structures – consumers generally do not understand the cost breakdown of their retail bills but think that United Energy's component should be separately identified;

Reliability – consumers generally think they receive reliable supply from United Energy – in fact they perceive their reliability to be better than that they actually experience. Consumers generally have little or no appetite for improved reliability. They are also generally not willing to pay anything to improve their service;

Communication – consumers want better communication from United Energy about planned and unplanned interruptions. Their principal concern is not that power goes off but not knowing when it is going to come back on (i.e. the speed and accuracy of United Energy's response information);

Electricity consumption – consumers are generally willing to respond to incentives to reduce their peak demand, although this can be more difficult for business consumers. Consumers would generally pay closer attention to their usage patterns if it was easy to do;

Bill control – consumers generally want better and more timely information to enable them to control their electricity bills; and

Safety and environment – consumers generally consider that United Energy is looking after the day-to-day issues of vegetation management, safety and aesthetics close to their expectations.

7. Community outreach and consultation workshops

7.1 Shopping centre kiosks

During August and September 2014, we ran a community outreach initiative where we hosted a branded kiosk in three shopping centres in our network area at Chadstone, Frankston and Glen Waverley.

The objectives of the kiosks were to:

- Build awareness of United Energy and our services
- Increase awareness of the regulatory process and price setting framework
- Establish high level customer priorities relating to electricity supply
- Test the concept of community outreach for future customer engagement.

In addition to providing general coverage of our network area, the locations also provided a mix in terms of the nature of the facilities and the customer traffic. For example, while Westfield Chadstone gave us exposure to much greater numbers of customers, a larger proportion were expected to come from outside our network area. In addition, the smaller suburban centres in Frankston and Glen Waverley tended to be visited by people undertaking more regular shopping activities, with more time and inclination to engage kiosk staff in conversation.

The kiosk was supported by two staff at all times. Initially, the staff was a mix of customer service and engineering personnel from within our business.

Over the course of the three weeks, more than 1,000 people visited to kiosk and were engaged in conversation. Feedback from the first two weeks of the initiative consistently referred to customer conversations being highly general and related to issues such as retail bills and solar. In response, we increased customer service personnel and decreased support from our engineering professionals.

We created a simple five-minute online survey to identify customer priorities relating to electricity supply. The interactive survey required customers to order a list of seven issues in order of importance to them. Around 300 people completing an online survey to tell us what was important to them when it comes to electricity.

What does energy mean to you - what's most important when you think about electricity in your home?							
Price	Reliability	Help managing usage	Safety	Customer service	Undergrounding power lines	Solar	Other
44	116	17	5	14	3	6	15
What's important to you							
Improving call centre responsiveness	Improving electricity reliability	Providing service interruption notifications by SMS or email	Making infrastructure (poles, lines) and vegetation more attractive	Improving safety of power lines, power poles, transformers, etc.	Provision of information about the services we provide	Undergrounding power lines and power poles	
38	108	31	8	270	18	39	

7.2 Council workshops

Recognising the specific issues of concern to local government in our network area, we held two workshops for Councils during the engagement program.

- The first workshop session, held 6 March 2014, focused primarily on public lighting. The outcomes were used to inform our response to the AER Framework and Approach for Victorian businesses.
- The second workshop, held in 4 December 2014, focused primarily on vegetation management, including potential solutions to ongoing problems with scheduling of tree cutting by councils, as well as process and communication issues generally.

7.3 Consultation workshops

Between July and December we held a series of monthly in-depth workshops with diverse representative groups to discuss key issues including public lighting, customer service and communication, network innovation and investment, demand forecasting, environmental programs, safety initiatives and pricing scenarios.

We wrote to a broad range of stakeholder groups were invited to attend, before following up by phone. While stakeholders were encouraged to come to all of the sessions, by setting out the topic areas to be covered in each session at the outset of the program, participants were able to select which sessions to prioritise.

7.3.1 Workshop participants

The following groups were represented at one or more of the consultation workshop sessions:

- Alternative Technologies Association
- St Vincent de Paul Society
- Consumer Action Law Centre
- Consumer Utility Advocacy Centre
- Victoria Police
- Municipal Association of Victoria
- Springvale Community Aid and Advice Bureau
- Ironbark Sustainability
- Victorian Department of State Development, Business and Innovation
- Eastern Alliance for Greenhouse Action
- South East Councils Climate Change Alliance
- Energy and Water Ombudsman of Victoria
- Victorian Council of Social Services
- City of Stonington Council

7.3.2 Workshop format

Each workshop session included a brief presentation from United Energy from subject matter experts from across the business. The objective of the presentation was to set out the general issues related to the topic area, before a discussion among the group participants about specific concerns, items to be addressed in the regulatory proposal and other matters to be pursued, such as process improvements unrelated to the price review.

Sessions were facilitated by a representative of KPMG. While we paid KPMG for this service, the role of the facilitator was independent with the objective to provide opportunity for further clarification of issues as required.

7.3.3 EDPR Information and Consultation Session Schedule

Date 2014	Topic Area	Description
Thurs 31 July	EDPR overview	About UE Regulatory framework The EDPR process, timeframes, outcomes and implications Consultation process and opportunities Generic expenditure and pricing impacts Research findings
Thurs 28 August	Customer service	Initiatives to provide customers with better access to accurate and timely information Further research outcomes Community outreach program
Thurs 25 September	Network investment and innovation	Network related capital investment to plan for future customer needs Initiatives to support technology innovation
Wed 22 October	Safety and environment	Initiatives related to community safety Vegetation management Environmental initiatives
Friday 12 December	UE EDPR proposal 2016-2020 / Expenditure and price path scenarios	High level summary of draft EDPR proposal Base, medium and high scenarios of potential investment proposals

The final consultation workshop, held on 12 December, included an overview of the high level priorities and directions of the preliminary draft proposal for discussion.

In addition, we presented pricing scenarios compared against the 2011-15 regulatory period. A menu of options including regulatory changes, network performance, customer experience and council initiatives were also provided, matched against explicit price impacts and customer outcomes.

8. Preliminary proposal overview for public comment

In February 2015 we released a summary of our draft proposal for public comment. A copy of the consultation paper is available from our website, and is also provided as an Appendix to our regulatory proposal.

The objective of the consultation paper was to provide customers and stakeholder groups with an easy to understand overview of our business and proposal, with explicit information about price impacts. It included:

- A foreword from our Chief Executive Officer
- An introduction to United Energy and our role in the energy supply chain
- A profile of our customer base and stakeholders
- Our engagement strategy
- What customers have told us
- What we delivered in the 2011-15 regulatory period
- What we propose to deliver in the 2016-20 regulatory period
- Explicit pricing impacts, including a price cut of approximately $55 in 2016
- Customer outcomes and investment highlights
- Information on how to provide customer and stakeholder feedback.

In consultation with stakeholders, we confirmed that we would delay the release of any consultation document until after the Australia Day long weekend, recognising that many customers and stakeholder groups would be unavailable to consider the document.

The consultation paper was open for one month, with submissions closing on Friday 20 March.

8.1 Distribution

The consultation paper was made available online and sent directly to stakeholder groups that had participated in the engagement program.

We also provide a copy to local and metropolitan media. A story appeared in the Herald Sun on 27 February.

In addition, we ran half page advertisements in the nine Leader Community Newspapers titles covering our network area.

8.2 Key customer outcomes

The following table sets out key customer outcomes which form part of our regulatory proposal, matched against the findings of our engagement activities, categorised by general issue.

Issue	Customer objective	Outcome
Affordability and reliability	Customers do not want to pay more for better reliability or additional services.	We will maintain reliability and cut our charges for a typical customer by approximately $70 in 2016.
Better communication	Customers want better information faster, when the lights go out.	We will invest in ICT solutions to provide better outage information, online customer claims and tracking tools and a self-service portal for new connections to streamline the process for customers, electricians and developers.
Energy information	Customers want access to energy consumption data to help control electricity bills.	We will invest in our customer portal 'EnergyEasy' to give customers ready access to the information they need to make informed energy choices.
Market transactions	Retailers want us to improve the quality and reliability of our market transactions and data provision, including the reliability of transfer reads and re-energisation / de-energisation transactions.	We will continue to invest in our ICT systems to improve the quality and reliability of market transactions. We will also take advantage of the remote capabilities of AMI meters for transfer and re-energisation / de-energisation reads.
Energy innovation	Councils and some customer groups want us to find alternatives to traditional network investment to meet growing peak demand.	We will continue to pursue non-network solutions including demand side initiatives and technology.
Safety and environment	Councils want us to find better solutions to manage vegetation in order to balance our safety requirements with local amenity.	We will commit $3 million to a three-year trial of dedicated vegetation management crews to work with Local Councils in our area.
Public lighting	Councils told us they wanted to better manage the price/service offering for public lights.	The AER's Victorian Framework and Approach paper supported our proposal to split public lighting into two services: a regulated service applicable to services involving shared public lighting assets and a negotiated service which relates to dedicated public lighting assets. The negotiating framework is submitted with our Regulatory Proposal.