



Better Regulation

Explanatory statement

Draft Consumer Engagement Guideline for Network Service Providers

July 2013

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Inquiries about this document should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
Tel: (03) 9290 1444
Fax: (03) 9290 1457
Email: AERInquiry@aer.gov.au

AER reference: 50305

Shortened forms

Shortened form	Full title
AEMC	Australian Energy Market Commission
expenditure proposal	regulatory proposal, revenue proposal or access arrangement
explanatory statement	Explanatory statement—Draft Consumer Engagement Guideline for Network Service Providers
guideline	Draft Consumer Engagement Guideline for Network Service Providers
NEO	National Electricity Objective
NER	National Electricity Rules
NGO	National Gas Objective
NGR	National Gas Rules
service providers	electricity distribution and transmission network service providers and gas distribution and transmission service providers

Request for submissions

This explanatory statement and the accompanying Draft Consumer Engagement Guideline for Network Service Providers are part of the Australian Energy Regulator's (AER) Better Regulation program of work. This program follows changes to the National Electricity Rules (NER) announced in November 2012 by the Australian Energy Market Commission. We are publishing a series of guidelines to set out our regulatory approach under the new framework. We will publish all the guidelines by the end of November 2013.¹

We invite interested parties to make written submissions to us on this explanatory statement and the guideline by the close of business, 16 August 2013.

Submissions should be sent electronically to consumerengagement@aer.gov.au. We prefer all electronic submissions to be in Microsoft Word or another text readable program.

Alternatively, submissions can be sent to:

Mr Warwick Anderson
General Manager – Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

We prefer all submissions to be publicly available, to facilitate an informed and transparent consultative process. For this reason, we will treat submissions as public documents unless otherwise requested. Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim
- provide a nonconfidential version of the submission in a form suitable for publication.

We will place all nonconfidential submissions on our website at www.aer.gov.au. For further information about the use and disclosure of information provided to us, see the ACCC/AER Information Policy (October 2008) on our website.

Please direct enquiries about this paper, or about lodging a submission, to the Network Regulation Branch of the AER at (02) 9230 9133 or consumerengagement@aer.gov.au.

¹ Further details on the consultation processes and other guideline work streams are available at www.aer.gov.au/node/18824.

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Executive summary

This explanatory statement accompanies the Draft Consumer Engagement Guideline for Service Providers, which aims to guide service providers in returning consumer interests to the centre of Australia's energy sector.

The Australian Energy Regulator is Australia's independent national energy market regulator. Our role is to promote the national electricity and gas objectives. The objectives focus us on promoting the long term interests of consumers.

A major part of our work is regulating the energy networks that transport energy to consumers (electricity poles and wires, and gas pipelines). In 2012, the Australian Energy Market Commission (AEMC) announced important changes to the electricity and gas rules, affecting our role in regulation. Our role is also changed by the energy market reforms that the Prime Minister announced on 7 December 2012.

We initiated the Better Regulation program to draw together these important reforms and our work in developing our regulatory processes and systems. The Better Regulation program involves us:

- extensively consulting on seven new guidelines that outline our approach to receiving and assessing network businesses' expenditure proposals and determining electricity network revenues and prices
- establishing a consumer reference group specially for our guideline development work, to help consumers engage across the broad spectrum of issues that we are considering
- forming an ongoing Consumer Challenge Panel (appointed 1 July 2013) to ensure our network regulatory determinations properly incorporate consumers' interests
- improving our internal technical expertise and systems, and our engagement and communication with all our stakeholders.

One key focus of the AEMC's rule changes and government reforms is improving service providers' engagement with their consumers. In support, we developed the Draft Consumer Engagement Guideline for Service Providers (guideline) and the accompanying explanatory statement. These documents set out our expectations for electricity and gas transmission and distribution network service providers (service providers) to better engage with their consumers (end users). In doing so, we expect service providers can better align their services with consumers' long term interests.

Our consultation with consumer groups and service providers showed some consumer engagement occurs, but that consumers are often unaware whether their input has any impact on service providers' decision making. Consumer groups indicated the guideline should provide a framework for service providers to adopt when developing consumer engagement strategies and processes. We therefore developed a guideline that sets out four components that service providers can follow:

- **Priorities:** the need to identify issues and set priorities for engagement with consumers (that is, developing a process to analyse and understand consumers' needs as part of business planning)

National electricity and gas objectives

The objective of the Electricity and Gas Laws is to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to—

- (a) price, quality, safety, reliability and security of supply of energy; and
- (b) the reliability, safety and security of the national energy systems.

- **Delivery:** the activities that we would expect service providers to undertake to engage effectively with consumers (set at a high level)
- **Results:** an articulation of the outputs and measures of success, focusing on explaining how consumer input affected the service providers' decision making
- **Evaluation and review:** a robust process to identify and make renewed commitment to addressing areas of improvement.

Overarching these components are best practice principles to guide engagement with consumers.

The explanatory statement, in addition to explaining our reasoning and approach in developing the guideline, contains examples of what we expect from service providers. Overall, we expect service providers to adopt the guideline to build a robust consumer engagement strategy and processes.

1 Introduction

The Australian Energy Regulator is responsible for the economic regulation of electricity transmission and distribution services in eastern and southern Australia under chapters 6 and 6A of the National Electricity Rules (NER). We monitor the wholesale electricity market and are responsible for compliance with and enforcement of the NER. We have similar roles for gas distribution and transmission under the National Gas Rules (NGR). We also regulate retail energy markets in the ACT, South Australia, Tasmania (electricity only) and New South Wales.

This explanatory statement is the first paper in our consultative process for developing the Draft Consumer Engagement Guideline for Network Service Providers (guideline) for electricity and gas service providers. It forms part of our Better Regulation program of work, following the AEMC's changes to the NER and NGR on 29 November 2012. The aim of these reforms is to deliver an improved regulatory framework that focuses on the long term interests of energy consumers.

The objective of the Draft Consumer Engagement Guideline for Network Service Providers is for electricity and gas transmission and distribution network service providers (service providers) to better engage with their consumers. In doing so, we expect they can provide services that better align with

'This is an important tool in increasing the accountability of network businesses ...'

AER Chairman, Andrew Reeves, CEDA speech, 23 April 2013

consumers' long term interests. Specifically, the guideline sets out how we expect service providers to engage with their consumers. This explanatory statement complements the guideline with examples of good engagement, the views of interested parties, and our reasoning behind the guideline.

At present, most service providers undertake some form of consumer engagement. However, we are aware of significant variations in consumer engagement:

- between distribution and transmission service providers across the gas and electricity sector
- within each group of service providers (for example, between distribution electricity businesses)
- by a single service provider over time.

The National Electricity Objective (NEO) and National Gas Objective (NGO) require electricity and gas transmission and distribution network service providers to operate their networks in the long term interests of consumers. This theme was evident in the AEMC's rule changes, including the introduction of provisions in the NER for service providers to engage with their consumers. The NER now explicitly provides that electricity service providers must describe how they have engaged with electricity consumers and sought to address any relevant concerns identified by that engagement.² We expect that both electricity and gas network service providers will adopt the principles set out in the guideline.

Recognising this strong theme, our guideline provides a framework for service providers to establish a consumer engagement strategy and processes. The guideline reflects the broader policy position on consumer engagement expressed by the Council of Australian Governments and other government

² NER, cl. 6.8.2(c1)(2) and 6A.10.1(g)(2).

bodies.³ We expect electricity and gas service providers to engage meaningfully with consumers as part of their usual way of doing business. We consider this engagement is necessary for service providers to work in the long term interests of electricity and gas consumers. Further, consumer engagement, as one of the relevant considerations in making our determinations, can help ensure a balanced regulatory process. It can help us test the regulatory proposals, revenue proposals and access arrangements (expenditure proposals) of service providers, and provide alternative views on matters such as service priorities, capital expenditure proposals and price structures.

Implemented properly, the guideline may require most service providers to significantly change how they run their businesses. We expect service providers, helped by the guideline, to develop and implement strategies for consumer engagement to occur in a more systematic and strategic way. Service providers should seek to understand and address issues of significance to the business and its consumers. Over time, we expect service providers to embed consumer engagement in their businesses.

1.1 Structure of the explanatory statement

The explanatory statement discusses the guideline's framework and details our reasoning:

- Section 2 provides our rationale and approach to developing the guideline.
- Section 3 summarises the key points raised by interested parties during consultation.
- Section 4 explains the framework behind the guideline.
- Section 5 discusses our expectations.

³ On 7 December 2012, the Council of Australian Governments (COAG) endorsed a comprehensive package of national energy market reforms developed collaboratively with the Standing Council on Energy and Resources (SCER) to respond to the current challenges of rising electricity prices. SCER also released a paper titled *Putting consumers first*, December 2012. SCER agreed to significant reforms on 6 June 2013, including changes to the appeal framework that make it clear that appeals to regulatory decisions must be decided in the long term interests of consumers, and to establish, in principle, the National Energy Consumer Advocacy Body from 1 July 2014—see The Hon Gary Gray AO MP, Minister for Resources and Energy, *Reforms target electricity price rises*, Media release, 6 June 2013.

2 Our rationale and approach

2.1 Rationale

Consistent with the broad thrust of the AEMC's rule changes, the guideline seeks to enhance consumer engagement by building the link between consumer preferences and discretionary expenditure proposals by regulated businesses. This link is important for establishing the efficiency of proposed expenditure, which is an important consideration for an economic regulator. We also consider this link fundamental to identifying the long term interests of consumers, which is a component of the NEO and NGO. Consumers, therefore, need an opportunity to influence their service providers' proposals. The guideline and explanatory statement further suggest service providers adopt the proposed framework to engage with consumers outside reset periods. Service providers cannot undertake genuine engagement or serve the long term interests of consumers by consulting with them only to meet regulatory requirements every five years.⁴

'It is difficult for the regulator to be confident that a business's proposal will deliver the services that consumers want, if consumers don't have a real opportunity to affect that proposal.'

AER Chairman, Andrew Reeves, CEDA speech, 23 April 2013

Successful consumer engagement, whether in the lead-up to a regulatory determination or in the period between determinations, can help consumers better understand how the network functions and what the associated costs are. It also conveys the level at which consumers can be involved in business operations and regulatory matters—for example, whether they have a say in determining future services and prices.

2.2 Approach

In developing the guideline and explanatory statement, we:

- spoke to most service providers to conduct a high level survey of their current consumer engagement activities
- held four forums with 24 consumer groups to discuss consumer engagement and options for how the guideline might look⁵
- met with some service providers to report on consumer views, to provide our preliminary view on the guideline's form and our expectations of consumer engagement, and to gain input from the businesses⁶
- workshopped a range of issues with our Consumer Reference Group⁷
- issued an open invitation via the Energy Networks Association for any service providers to provide suggestions, comments and input

⁴ This view is supported by the Stakeholder Engagement Standard (AA1000SES) – Institute of Social and Ethical Accountability (2011).

⁵ A meeting summary on the Consumer Forums is available at the AER website www.aer.gov.au/node/18894.

⁶ A meeting summary and supporting material are available at the AER website www.aer.gov.au/node/18894.

⁷ The AER established a Consumer Reference Group (CRG) to assist with the development of Better Regulation guidelines. CRG members distil key issues and information for constituents' consideration, then consult and report back to the AER. This mechanism provides us with coordinated and informed input from a cross-section of consumer groups.

- conducted research of other regulated businesses, both domestic and international
- reviewed literature on consumer engagement
- held informal discussions with interested parties.⁸

We treated all interested parties' views as submissions.

⁸ Appendix A sets out the dates of consultation and engagement with interested parties.

3 Key submissions from interested parties

In developing the guideline and explanatory statement, we received valuable input from consumer groups and service providers.⁹ Our starting point was to understand the consumer engagement that service providers already conduct. We spoke with most service providers to obtain the following overview of their current engagement activities:

- Most service providers are conducting consumer engagement.
- The level of consumer engagement varies both within each network business and across the energy sector.
- Most engagement is targeted at informing consumers.
- The service providers undertake limited consumer engagement in preparing their expenditure proposals because they consider the technical material makes the engagement less effective.
- The service providers have a range of starting positions in developing and implementing their consumer engagement strategies or processes.
- Most service providers are positive about the emphasis on improved consumer engagement.

When presented with the above information, consumer representative groups agreed with our high level assessment. From our consumer forums, five themes emerged:

- Consumers want an opportunity to influence service provider decision making.
- Service providers should seek continuous improvement. Consumer groups seek a cultural shift in how service providers engage with consumers across their business operations.
- Service providers should desire engagement, so their consumer cohorts can contribute meaningfully.
- The dialogue needs to be transparent. Consumers want to understand how their input affects service providers' business and expenditure proposals.
- Consumers are realistic that service providers need time to develop and implement robust engagement strategies and processes. However, service providers can take steps now to improve consumer engagement.

Consumer representative groups suggested service providers often engage with them late in the business or expenditure proposal process. Additionally, it is often unclear to them how their input, if recorded, impacted on expenditure proposals or business operations (apart from issues like brand perception). In some instances, this issue arose for consumer advisory committees, of which consumer groups are members.

Consumer representative groups submit the guideline should lead service providers to:

- develop consumer engagement strategies or processes that the most senior level management endorse and embed in the business over time

⁹ Meeting summaries, slide presentations and supporting materials provided to interested parties are available at www.aer.gov.au/node/18894.

'Consumer engagement is a multi-layer process, it involves building trust on both sides and using a range of processes to ensure that the key issues of energy provision for consumers are adequately understood and solutions to problems considered.'

Mark Henley, UnitingCare Australia

- implement an engagement strategy and processes to identify consumer cohorts and understand their issues
- periodically review and evaluate the engagement strategy and processes, and strive for continuous improvement
- report the progress and outcomes of consumer engagement in an honest (that is, the good and the bad) and transparent manner.

Consumer representative groups also suggested a set of best practice principles to underpin engagement strategies and processes would help service providers improve their consumer engagement.

We developed the guideline's framework around consumer input, which aligned with case studies and a range of literature we reviewed. In presenting the guideline's outline to a number of service providers, we received general support for the direction we were taking. We understand service providers face some challenges to step outside their compliance framework and develop an approach to consumer engagement. To help their transition, service providers sought examples of meaningful consumer engagement. We include examples in this explanatory statement.

Service providers raised the difference between community consultation for capital projects and consumer engagement for expenditure proposals. They noted that engagement in determinations, planning processes, the consideration of local non-network solutions etc. needs to differ in terms of who to engage and how to engage them. We accept this point. However, we consider that service providers should conduct both community and consumer engagement, and draw out any tensions in their reports. We discuss this matter further in section 4.4.

We consider the guideline equally applicable to gas service providers, who must operate in the long terms interests of consumers as the National Gas Law requires. We understand some gas service providers may not consider the guideline relevant as the NGR does not reflect NER requirements for consumer engagement. Envestra made this view clear in a letter to us.¹⁰ Envestra considers our inclusion of gas service providers in the guideline inappropriate.

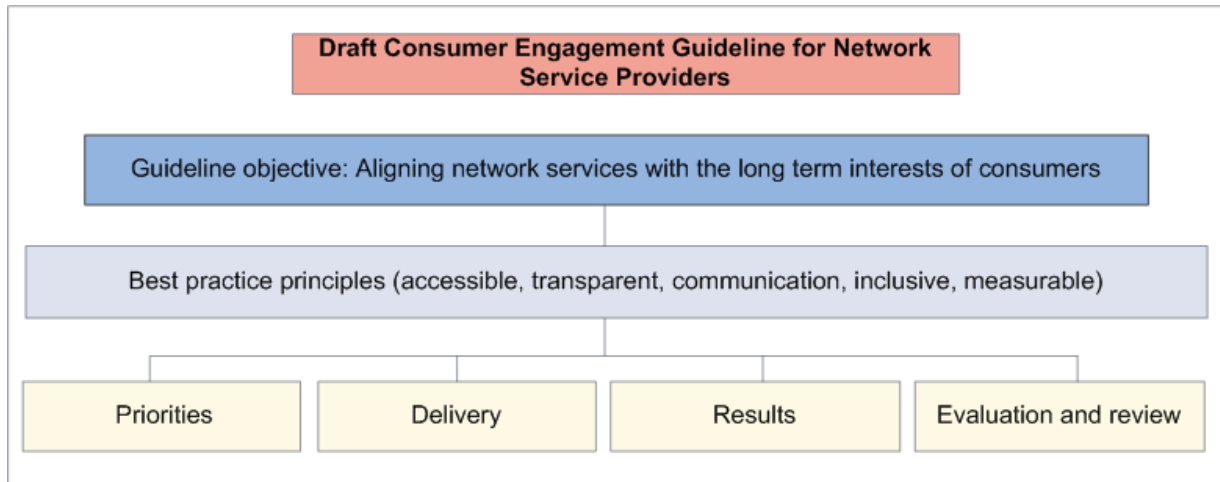
Overall, the input from consumer representative groups, service providers and the Energy Networks Association was pivotal in helping us develop the guideline and explanatory statement.

¹⁰ A copy of Envestra's submission dated 5 June 2012 (sic) to the AER is available at www.aer.gov.au/node/18894. The AER received the submission on 5 June 2013.

4 The framework behind the guideline

The guideline consists of five best practice principles, which overarch four components (diagram 1). This framework arose from consumer views, which fell generally into four categories. That is, service providers should develop a robust engagement strategy and processes, implement them, report appropriately and perform this work with a focus on continuous improvement. We expect each service provider to develop consumer engagement strategies or approaches that encompass the best practice principles and the guideline's components.

Diagram 1: Overview of draft guideline



A principles based approach

Prescribing particular engagement activities that service providers should undertake with specific consumer groups would provide the clearest statement on how we consider service providers should engage with consumers. We discussed with consumer groups whether such an approach would be desirable. Generally, they advised that a prescriptive approach could discourage service providers from undertaking innovative and meaningful engagement activities that maximise the effectiveness (and/or minimise the costs) of that engagement. Similarly, the Energy Networks Association suggested we should avoid a prescriptive approach.¹¹ We agree. We do not want consumer engagement to become a compliance activity, because that would undermine the potential for engagement to be innovative and responsive to consumers. Instead, we seek a transformation to the way service providers do business. We seek cultural change that results in continual and self-perpetuating improvement to service providers' consumer engagement.

For this reason, we adopted the approach of highlighting certain high level activities or actions that we consider represent good examples of consumer engagement. Consumer groups and service providers generally supported this approach. Thus, while the guideline provides a high level framework for service providers, it also allows flexibility in how the service providers develop a better understanding of their consumer base and consumer issues. This explanatory statement provides examples (not an exhaustive list) to assist service providers.

¹¹ Energy Networks Association, *Informal feedback on guideline development*, 4 June 2013.

4.1 Best practice principles

Overarching the four guideline components are the following best practice principles for consumer engagement:

- accessible
- transparent
- communication
- inclusive
- measurable.

The corresponding elements under each principle (appendix B) serve as general statements of best practice for service providers. Similarly, the principles do not prescribe how to engage specifically, but are intended to guide service providers to improve their engagement processes and outcomes. Both the principles and elements generally capture the improvements that consumer representative groups seek.¹² We expect service providers to apply the principles when dealing with any aspect of consumer engagement.

Example: Port Macquarie–Hastings Council

In February 2013, Port Macquarie–Hastings Council finalised its *Towards 2030: Community Strategic Plan*. The plan aims to ascertain community concerns and drivers for development of the council area in the coming years. As part of the council's commitment to this program, all staff are trained on consumer engagement (both its importance and how to facilitate it). The council has committed to consumer engagement by investing in training and seeking to understand community concerns now and into the future. The training will help council staff provide good communication and engage in a transparent and inclusive manner.

Source: www.hastings.nsw.gov.au

Example: Hunter Water Corporation

Hunter Water Corporation views regular and ongoing consumer input as a key business input. To get the most from this process, it:

- educates consumers about proposed projects and business issues in the initial stage of any engagement strategy
- seeks out the expectations and concerns of consumers
- provides tangible examples to consumers by providing scenarios and demonstrating the overall impact on customers' bills
- uses consumer views to inform business decisions and add evidence in support of its price submissions.

These points demonstrate Hunter Water's strong culture of consumer engagement across the business.

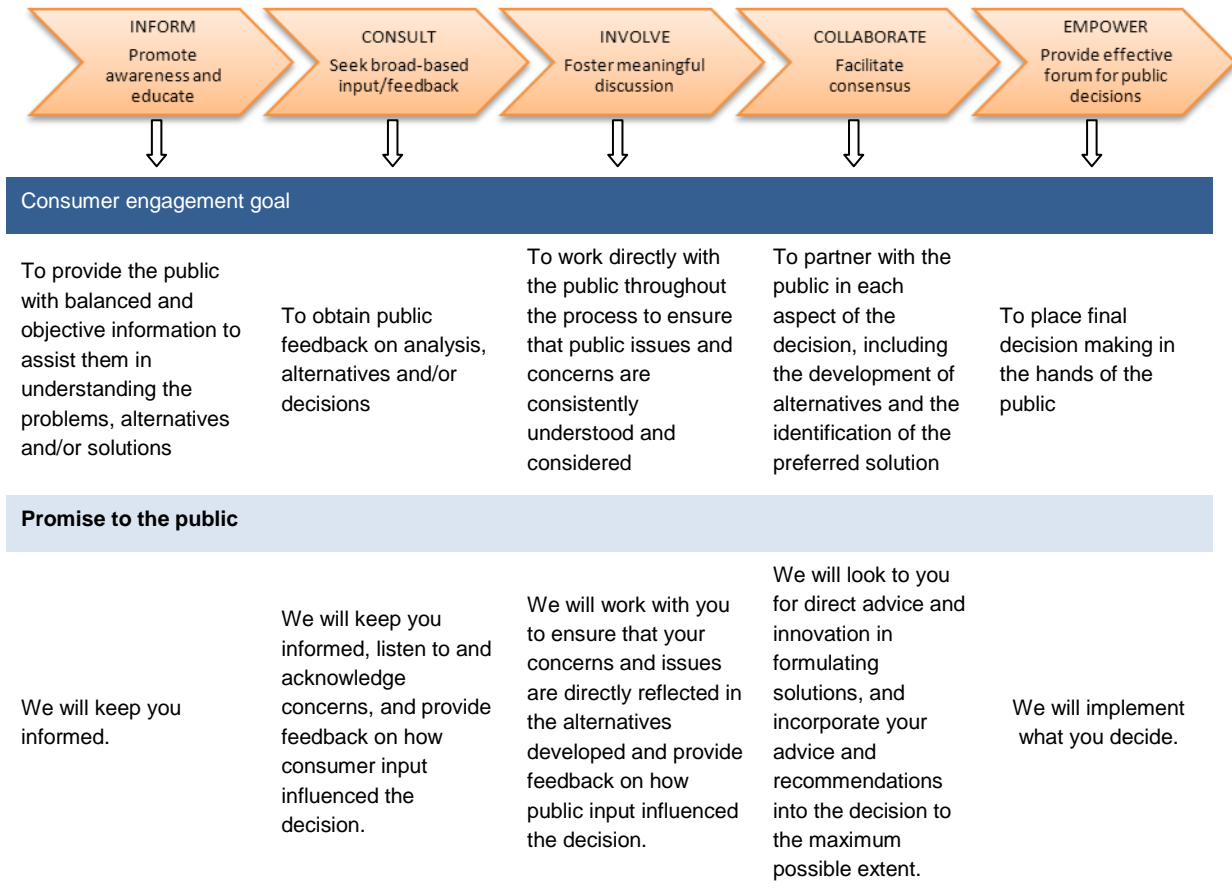
Source: www.hunterwater.com.au

¹² AER, Meeting summary on Consumer Forums, March 2013, www.aer.gov.au/node/18894.

4.2 Priorities

Different levels of consumer participation are appropriate depending on the outcomes, timeframes and resources for, and interest in, a matter or pending decision. Therefore, we suggest service providers adopt the internationally recognised Public Participation (IAP2) spectrum¹³ in developing their consumer engagement strategies and processes. The IAP2 spectrum provides a framework for service providers to target consumer engagement based on the influence that consumers should have over a decision or activity.

Diagram 2: IAP2 engagement spectrum



After gaining a better understanding of who their consumers are, and what issues are significant to them, service providers should ask questions such as:

- Are consumers best informed about the issue, or does it lie further along the spectrum?
- Do consumers want to be informed on the issue or involved at a deeper level, if appropriate?
- Do consumers need information before they can contribute in more detail to the issue?
- Do the proposed engagement activities align with the targeted level of involvement for each consumer cohort?

¹³ International Association of Public Participation (IAP2), www.iap2.org.au.

- How much influence can consumers genuinely have over this issue? That is, state legislative restrictions, for example, may mean that informing consumer cohorts is the only viable option.

By asking such questions, service providers can develop targeted engagement strategies and processes as consumers become more informed about energy issues. As their knowledge increases, their expectations around consultation will rise. Therefore, involving consumer cohorts in this development is beneficial, and also helps them understand the time and resources needed to meaningfully participate. Consumer representative groups identified this understanding as important to their project planning and grant applications.

As an example, SA Power Networks provided the following information on its consumer engagement strategy. It is currently setting its priorities.

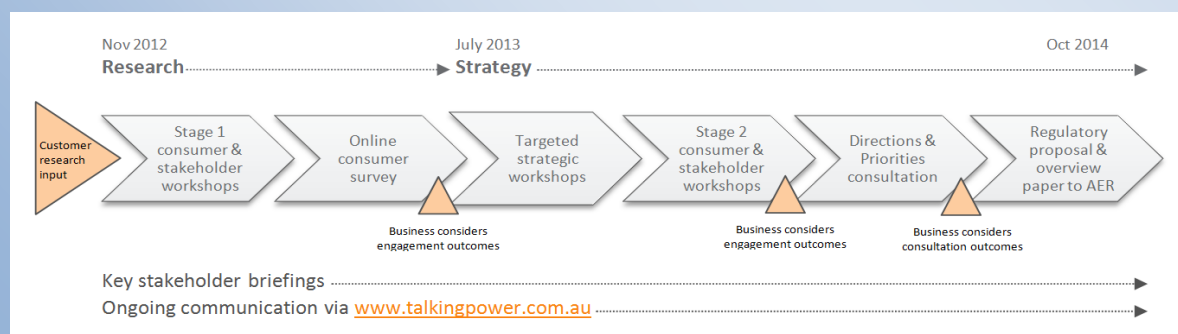
SA Power Networks' consumer engagement planning for the 2016–20 regulatory control period

SA Power Networks aims to build on its previous consultation approaches with a more comprehensive, inclusive consumer engagement process that:

- provides relevant information to stakeholders via an open and clear communication channel
- ensures the business is positioned to listen early to stakeholders' views and concerns
- drives the methodical assessment of those issues and the business' potential to address them
- provides prompt and clear feedback to stakeholders on conclusions reached and actions taken
- demonstrates the business followed an auditable evidence based process
- aligns with best practice principles and is viewed as best practice among Australian service providers
- provides a template for ongoing stakeholder engagement across the business outside of reset periods.

The approach

The diagram below outlines the business's overall approach to consumer engagement. The engagement program has two key stages—research and strategy—with a number of consultation activities falling within each stage.



Key features of the program include:

- engagement of expert advisors for research and reporting services
- the development of a consultation 'brand' and collateral, including an online consultation channel
- integration of consumer insights into business planning and expenditure forecasting processes
- working with the Essential Services Commission of South Australia, jointly designing an online survey to provide input to the review of the SA Service Standards Framework, and to test ideas discussed at stage 1 consumer and stakeholder workshops.

The future

SA Power Networks is seeking to embed a strong consumer engagement focus and framework within its business.

4.3 Delivery

Once service providers set consumer engagement priorities, we expect they will implement targeted engagement strategies and activities. When determining how best to deliver those strategies and activities, service providers could:

- look at current consumer engagement approaches and activities, and question whether they exemplify best practice principles and align with the priorities and needs of consumer cohorts. Service providers may consider whether they can build on their current activities—for example, by updating existing surveys. We encourage service providers to be strategic and innovative in building on existing frameworks.
- monitor the delivery progress of each engagement activity, ensuring activities remain aligned with best practice principles. It is particularly important that service providers are communicative and transparent throughout their activity.
- use the IAP2 spectrum for each activity, so they deliver the activity at the right level. Service providers must allow consumer cohorts time to understand and provide an informed response to the issue. This time should be commensurate with the level of input expected.

Example 1: Yarra Valley Water

Following an independent review of its existing Consumer Consultative Committee, Yarra Valley Water created the Community Advisory Group. The Committee had a 15 year history, made up of 10 members. The review recommended changes to the scope, structure and style of deliberation would allow the Committee to be more effective, providing more value for Yarra Valley Water's business objectives and insights into consumer issues. The Committee needed to refocus on what it could provide the business, restructuring the committee and its agenda to shift from a passive role to a more collaborative, problem solving one. The newly formed Group now workshops a range of issues and helps develop Yarra Valley Water's policies, Water Plans, programs and communications, rather than being presented with reports and summarised data at meetings. In short, Yarra Valley Water redesigned a long established consumer engagement process to maximise its effectiveness and better align it with the priorities and needs of consumers.

Sources: www.yvw.com.au; Pax Populos, Review of Yarra Valley Water Customer Consultative Committee, August 2010.

During our consultation with consumer representative groups and service providers, we sought an indication of the topics of engagement. The expenditure proposals that we receive are prepared with consideration of the long term interests of consumers. However, these proposals generally lack consumer evidence to support what is proposed. We consider service providers could, when appropriate, obtain useful consumer input on the following example topics:

- making price and reliability tradeoffs
- setting and designing tariffs (including time of use and critical peak tariffs)
- setting reliability targets and standards
- understanding demand hot spots and exploring associated impacts
- exploring alternatives to capital investment.

Yarra Valley Water, using the IAP2 spectrum, undertook comprehensive, dynamic and inclusive consumer engagement in developing its Water Plan 2013–18.

Example 2: Yarra Valley Water

In developing its 2013–18 Water Plan, Yarra Valley Water ran a six hour deliberative forum, a roundtable with over 100 business customers, focus group workshops, community forums ('citizen juries'), an online quantitative survey and an online portal. Consultation included exploring options for different pricing paths, tariff structure, proposed investments and so on. The extensive consultation led to a proposal to move from a price cap to a revenue cap, with consumer support. The Essential Services Commission approved the move to a revenue cap in its draft determination. Yarra Valley Water's understanding of its consumer cohorts and its targeted ongoing engagement are examples of committed and extensive priority setting and delivery processes.

Sources: www.esc.vic.gov.au; Yarra Valley Water and GA Research.

4.4 Results

Consumers highly value service providers reporting on the outcomes of engagement.¹⁴ After investing time and resources in consultative processes, consumers want transparent and timely reports on how service providers used information from consumers, and on the influence that consumers had on the business or expenditure proposals. While consumers are eager to have a real opportunity to influence areas that are of significance to them, CRG members noted consumers are not in favour of change for the sake of change.¹⁵ Notably, consumer representative groups have realistic expectations for results. They appreciate service providers need time to build and implement consumer engagement strategies across their businesses.

When reporting consultation results, service providers should draw out tensions in the range of consumer views, as well as consensus. The interests and views of an affected community, for example, may differ from (and possibly be opposite to) the interests and views of their consumers generally. Competing views—whether between consumer cohorts or between consumers and discrete communities—form part of the assessment that service providers should conduct if they are genuinely acting in the long term interests of consumers. Consumer groups expect service providers

¹⁴ This was a strong message from consumer representative groups throughout our consultative process.

¹⁵ AER, Consumer Reference Group—consumer views, Melbourne meeting, 23 May 2013.

to report on the range of competing views, as well as on the options presented to consumer cohorts. That is, they expect service providers to demonstrate transparency and accountability. Consumer groups do not want service providers to take the path of least resistance by targeting consumer cohorts most likely to accept their positions.¹⁶

Example: AA1000 Stakeholder Engagement Standard and UK Power Networks

In the United Kingdom, Ofgem adopted the AA1000 Stakeholder Engagement Standard, recognising it as a leading international standard for stakeholder engagement. A review of UK Power Networks' Business Plan (similar to an expenditure proposal) demonstrated:

- a clear adoption of the AA1000 Stakeholder Engagement Standard
- integration of an engagement program across all aspects of the business
- ongoing reporting to the UK Power Networks Board through its CEO
- a genuine call for feedback on both the engagement process and business plan content, including how the plan compares with that of other businesses.

UK Power Networks' website also presents a clear commitment to ongoing, transparent and accountable consumer engagement by:

- providing surveys
- seeking comments on plans
- explaining how consumer feedback is used
- providing information on upcoming engagement events
- publishing reports and presentations on a range of issues, including willingness to pay, planning scenarios, outputs and priority issue events.

Source: www.ukpowernetworks.co.uk.

4.5 Review and evaluation

Ongoing and periodic evaluation and review provide an opportunity for service providers to consider whether their priority setting, delivery mechanisms and reporting are suitable. They also encourage a culture of continual improvement and openness. A service provider should develop its review and evaluation process and method in the 'priorities' and 'delivery' phases. At their simplest, evaluation and review are about finding out whether the consumer engagement strategy or activity was useful, what it achieved and what could be done to improve it. We expect service providers will develop a set of key performance indicators that are meaningful to them, causing them to reflect on how consumer input influenced decisions across their business.¹⁷ An evaluation could include, for example:

- whether the objectives of the engagement were achieved
- which engagement techniques drew the highest response rate and also the highest level of satisfaction from participants

¹⁶ AER, Consumer Reference Group—consumer views, Melbourne meeting, 23 May 2013.

¹⁷ AER, Consumer Reference Group—consumer views, Melbourne meeting, 23 May 2013.

- to what extent consumer cohorts expressed their views
- how useful the information obtained was
- the impact of consumer engagement on decision making across the business
- the adequacy of timing, funding and other resources
- the cost effectiveness of the engagement
- whether participation represented a diversity of consumer cohorts. If not, why not and what can be done about it
- whether all consumer cohorts felt they were listened to and their views were adequately recorded.

Service providers could adopt numerous mechanisms and techniques to evaluate their consumer engagement strategy and activities.¹⁸ Melbourne Water provides a good example of reviewing and evaluating a consumer engagement strategy.

Example: Melbourne Water

Melbourne Water's *Waterways Communication and Engagement Strategy 2013–2018* demonstrates a commitment to openness and continual improvement by reviewing the objectives, targets and appropriateness of measures based on consumer feedback. Melbourne Water developed a strategy that deliberately focuses on direct engagement tools, strategic partnerships and collaborations, and education and capacity building. The strategy articulates Melbourne Water's objectives, targets, measures and engagement activities. And it demonstrates Melbourne Water adopted a range of principles and developed and implemented a consumer engagement strategy. The business gathered consumer feedback and considered it in reviewing and evaluating its consumer engagement performance. It then adapted its strategy when necessary and made renewed commitments publicly.

Source: www.melbournewater.com.au.

¹⁸ For example, Department of Planning NSW, *Community Engagement in the NSW Planning System*, 2003, www.iplan.nsw.gov.au/engagement.

5 Our expectations

We expect all network service providers—gas and electricity, transmission and distribution—to use the guideline to enhance their consumer engagement activities. While the guideline is not prescriptive, we anticipate all service providers will make an effort to adopt the guideline. This effort would form part of a genuine and fundamental reconsideration of how service providers could better engage with consumers.

The guideline cannot compel any particular form of consumer engagement by service providers. However, it has links to how we assess service providers' expenditure proposals. For electricity, this link is explicit: the NER requires us to consider the extent to which the proposed expenditure addresses consumers' relevant concerns identified during the service provider's engagement with consumers.¹⁹ Similarly, we will assess gas service providers' expenditure proposals against the NGO to provide services in the long term interests of consumers. In our view, this makes the guideline as relevant for gas service providers.

Consequently, the quality of a service provider's consumer engagement will be a factor in how we assess expenditure proposals.²⁰ We will consider whether and how well a service provider considered and responded to consumer views, equipped consumers to participate in consultation, made issues tangible to consumers, and obtained a cross-section of consumer views. We will make our assessment on a case by case basis, considering whether it would have been reasonable to engage on a particular issue. We will monitor consumer engagement activities and expect service providers to improve reasonably quickly if current engagement activities are minimal. In addition, we may publicly comment on any shortcomings that we identify from an expenditure proposal that reflect weaknesses in consumer engagement.

However, service providers will hopefully develop and implement consumer engagement strategies that go beyond our guideline.²¹ Consumer engagement provides them with important information on and insight into the service levels (above those mandated) and service offerings (such as price structure) that consumers prefer. Service providers might not otherwise obtain this information, due to the absence of competitive pressure further emphasising why engaging with consumers is worthwhile. For this reason, it is good practice to use consumer engagement to inform business-as-usual operations. That information or evidence then feeds into expenditure proposals. Therefore, ongoing consumer engagement and evidence gathering will contribute to better regulatory outcomes. Such outcomes may include improved consumer satisfaction, higher consumer willingness to pay for services and greater ease in obtaining regulatory approval of expenditure proposals.

In our view, the improvement of consumer engagement will be a continuous process whereby service providers need to seek (on an ongoing basis) to better understand and reflect the views of consumers across business operations.

¹⁹ NER, cl. 6.5.7(5A).

²⁰ The AER's Consumer Challenge Panel will also have a role in advising the AER on the effectiveness of service providers' engagement activities with their consumers and how this engagement has informed, and been reflected in, the development of their expenditure proposals.

²¹ The guideline and explanatory statement are the first step in a range of policy related developments, including the commencement of the AER's Consumer Challenge Panel and the creation of the National Consumer Advocacy Body. We are conscious of ensuring the guideline remains current with any policy developments.

Appendix A: Consultation and engagement with interested parties

We set out below the key meetings with interested parties undertaken by us in developing the guideline and explanatory statement.

Table A.1 Consultation and engagement meetings

Date	Parties	Purpose of discussion
January–February 2013	AER staff, most service providers	High level overview of current consumer engagement activities
11 March 2013	AER staff, Consumer representative groups	Sydney forum - input on development of guideline
12 March 2013	AER staff, consumer representative groups	Melbourne forum - input on development of guideline
13 March 2013	AER staff, consumer representative groups - Adelaide forum	Adelaide forum - input on development of guideline
14 March 2013	AER staff, CRG Meeting	Update on consumer forums and input on development of guideline
18 March 2013	AER staff, consumer representative groups	Brisbane forum - input on development of guideline
22 March 2013	AER staff, consumer representative groups	Teleconference forum - input on development of guideline
30 April 2013	AER staff, Energy Networks Association and group of service providers	Update on consumer views, guideline outline and input on development of guideline
14 May 2013	AER staff, Networks NSW, Ausgrid, Endeavour Energy, Essential Energy and ActewAGL	Update on consumer views, guideline outline and input on development of guideline
23 May 2013	AER staff, CRG Meeting	Presentation and workshop outline of guideline
24 May 2013	AER staff, SA Power Networks	Update on consumer views, guideline outline and input on development of guideline

We also sent periodic email updates to the CRG sub-group on Consumer Engagement Guideline for Network Service Providers.

Appendix B: Best practice principles for consumer engagement

Accessible

We expect service providers to recognise, understand and involve consumers early and throughout the process. This work includes providing consumers with the information that they need to participate in a meaningful way.

Elements

We expect service providers to:

- identify relevant 'end user' or consumer cohorts, recognising they can change over time. Service providers may also engage with consumer representative groups, retailers and industry bodies, or work with other service providers to support their interaction with identified groups of consumers.
- prepare consultation plans and tailor engagement strategies to meet the needs of differing consumer groups
- when a matter's complexity is hindering engagement, proactively build consumers' capacity to understand the issues, processes and potential impacts and outcomes of a decision
- ensure that consumer cohorts can access sufficient information to understand and assess the substance of all issues relevant to the proposal. This would be likely to include the conditional release of confidential information.

Transparent

We expect service providers to clearly identify and explain the role of consumers in the engagement process, and to agree with consumers on information and feedback processes. This work includes communicating how consumer input affects business operations or expenditure proposals.

Elements

We expect service providers to:

- clearly identify and explain the role of consumers in the engagement process, and the objective of that process
- reinforce and manage expectations of the outcomes of consumer input, particularly how that input will influence service providers' decisions. That is, clearly communicate what is negotiable.
- credibly and openly report the input of all consumer cohorts, including positive and negative experiences and outcomes.

Communication

We expect service providers to provide information to consumers that is clear, accurate, relevant and timely, recognising the different communication needs and wants of consumer cohorts. This work includes ensuring two-way communication is possible.

Elements

We expect service providers to:

- establish clear and realistic timeframes for consumer input
- use plain English in all communication with consumers, including providing plain English summaries of key issues and impacts when complexity is hindering engagement
- investigate and use a range of methods and mediums to communicate with consumer cohorts, having regard to their engagement preferences.

Inclusive

We expect service providers to consider and value consumer input, and to seek mutually beneficial outcomes.

Elements

We expect service providers to:

- recognise adequate time and resources are necessary for all consumers to engage effectively
- create opportunities to share expertise and information. Raw data and independent research commissioned by the service provider should be sufficiently open to scrutiny by consumer cohorts. An example is the publication of terms of reference, survey questions and final reports.
- give consumers choice when it is reasonable or sensible to do so, both in how the business engages with consumers and in what outcomes are available.

Measurable

We expect service providers to measure the success, or otherwise, of their engagement activities. Measuring outcomes is a critical element of good engagement because it allows service providers to understand what is effective and to improve the quality of consumer engagement over time.

Elements

We expect service providers to:

- develop a range of key performance indicators (both qualitative and quantitative) to measure engagement strategies and activities
- publish the results of measurement activity.