

ATTACHMENT 3.3

HOW CONSUMER ENGAGEMENT INFORMED OUR REVISED PROPOSAL

Contents

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1. Introduction

Essential Energy has a solid history of engaging with our customers through a number of ways in line with our Stakeholder Engagement Framework (refer to Attachment 3.1). This approach to engagement involves utilising a number of levels to ensure appropriate conversations and message delivery occur with the right customer and stakeholder groups. The spectrum of participation includes:

- > Inform
- > Consult
- > Involve
- > Collaborate
- > Empower

Based on this approach, the business is able to deliver effective customer communications about capital programs as well as programs utilised to manage our assets, safety messages and information about planned and unplanned supply interruptions.

In developing our plans for the next regulatory control period, Essential Energy and Networks NSW undertook a range of engagement activities with a number of key customer and stakeholder groups. The activities undertaken as part of our regulatory proposal were outlined in the substantive regulatory Attachment 2.2 How consumer engagement informed our regulatory proposal.

Following on from the submission of the substantive proposal and the publication of the draft determination by the Australian Energy Regulator (AER), the business undertook additional consumer engagement activities and research to further substantiate and support the position of our revised regulatory proposal.

This document highlights these activities and how the findings were utilised to inform our revised regulatory proposal.

2. Research

Essential Energy conducted further consumer research to understand consumer preferences and willingness to pay when presented with a choice model. Choice models aim to provide outcomes regarding consumer preference with particular service levels and price points. This research, conducted in December 2014, complements the research we undertook in June 2012 to support our substantive regulatory proposal.

We provided 869 customers weighted across the Essential Energy footprint area with a series of choices with regards network prices and services. Price was pitched against the number of blackouts which may occur, the timeliness of emergency response, our ability to prune trees to maintain safety standards and the likely impact on clearances; the timing and interval between aerial inspections; and the time taken to repair defective streetlights. Consumers were then asked to select their most preferred option from these different choices. Refer to Attachment 3.2 for the full report on this research.

The results of this research showed:

- > While price is a driver of participants' selection of potential service offerings, the majority of customers are not prepared to sacrifice reliability and safety for lower charges.
- > Changes in service offerings – particularly in terms of the time associated with service restoration and number and length of unplanned blackouts – are also key drivers of choice for Essential Energy customers. Specifically, increases in the time taken to restore power to houses, such as only during business hours and the number and length of unplanned blackouts had significant negative effects on the consideration of potential service offerings.
- > Customers were much less likely to select scenarios that had longer service restoration times and more unplanned blackouts than the status quo. The status quo was modelled on Essential Energy's current reliability standards.

- > In contrast, vegetation management had the most modest effect on participants' likelihood to consider potential service offerings, indicating that this was the service characteristic that mattered least to customers, indicating a need to enhance education to consumers around the importance of vegetation management and the role it plays in safety and reliability – which are of value to our customers.
- > Customers indicated a preference for ongoing aerial inspections. When introduced in the context of asset maintenance and reduced bush fire risk, customers saw value in the ongoing aerial inspection of the network.
- > The number and length of unplanned blackouts, and service restoration times were also key drivers. With increases in the number and length of these blackouts and the time taken to restore power, participants were less likely to select potential service offerings.
- > Acceptability of potential service offerings hinged on price, number and length of blackouts and service restoration times. This was demonstrated by the high unacceptability rating when presented with the lowest quarterly price at \$197, but a reduction in the quality of all other service characteristics from the status quo. This option was the second least acceptable offering to customers.
- > Of significance, this scenario was based on the quarterly network charge that would flow from the AER's draft decision, along with relative reductions in service standards due to reduced revenue, while the option that presented the current network quarterly charge coupled with current service levels rated the second highest in terms of acceptability.

These results and key themes are reflected throughout our regulatory proposal and supporting documentation with regards to the plans and priorities of the business. We maintain our position on providing a service that meets the long term priorities of our customers through the delivery of safe, reliable and affordable supply of electricity. Specifically, findings have been referenced in Attachment 4.3: Response to AER draft decision – STPIS, to strengthen the revised proposal recommendation of maintaining reliability for our customers.

Utilising the outcomes of this research has also been a consideration of the business objectives to ensure customers are considered in everything we do. Our key objectives are:

- > Safety – by continuously improving safety performance for employees, contractors and the public.
- > Affordability – by striving to contain average price increases for our share of customers' electricity bills to at or below CPI.
- > Reliability – by ensuring the ongoing reliability, security and sustainability of the network.

These objectives feed into all the programs and plans developed as part of the regulatory proposal ensuring the key priorities of the business align to the values our customers.

Secondary research

Secondary research has been used to compliment and collaborate with the results of the primary research undertaken by the business. In particular, secondary research has been utilised to support the position that our customers wish to maintain current reliability standards, without further price rises. Bodies of reference have been utilised as follows:

- > Dr Gill Owen, *The potential role of Consumer Challenge in energy network regulation in Australia: a think piece for the Australian Energy Regulator*, 13 March 2013.

This research is utilised to support the response to the AER's assessment of Essential Energy's customer and stakeholder engagement with regards to their draft decision. This research is referenced in Chapter 3 of the revised regulatory proposal, Our Customers.

This piece of research confirms Essential Energy's research piece regarding customer expectation of reliability and prices. Furthermore, this piece highlights the need for the regulator to explore material differences in claims made by distribution businesses and those of consumer challenge groups when making final decisions.

- > CSIRO, *Understanding extreme weather changes*, 20 November 2014

This research demonstrates the expected changes to climate in Australia based on a view of two milestone dates, 2030 and 2070. The research showed that associated costs with catastrophic weather events in

Australia are rising. Alongside this so are the number of days over 40 degrees and the number of total fire ban days.

This research supports the recommendations made in Essential Energy's vegetation management plan to continue managing vegetation around the network based on our strategic approach. This research also supports the proposed approach for LiDAR patrols as part of our broader maintenance and bushfire risk mitigation strategies.

3. Stakeholder engagement activities

From the publication of the AERs draft determination to the submission of Essential Energy's revised regulatory proposal a number of activities and communications were undertaken. Outcomes of activities are utilised in the relevant business area to ensure the concerns of customers and stakeholders are considered when developing plans as part of our regulatory proposal, as well as incorporated into business as usual activities to continually improve practices where appropriate.

Table 3-1: Engagement and research activities timeline

| Engagement | Description | Timing |
|--|--|-------------------|
| Rural Advisory Group meeting Customer Council meeting | > Explanation of the AER's draft decision in factual terms. Each customer group received a presentation on the potential service levels changes required to deliver on the draft decision. The group's each expressed major concern over the potential impacts to service levels, safety and reliability. These sentiments have been reflected in our response to the draft decision on STPIS. | December 2014 |
| Stakeholder meeting | > Essential Energy met with Cotton Australia in January 2015. Essential Energy provided impacts about the potential service level changes should the draft decision be implemented in full. This meeting also provided a platform to receive feedback from this important rural stakeholder representative group and a commitment for ongoing engagement and dialogue in order to understand issues and concerns from both perspectives. | January 2015 |
| Your Power Your Say | > The Your Power, Your Say Facebook page has continued to be utilised on an ongoing basis in order to educate and engage with customers on an easily accessible platform. The Your Power Your Say campaign reached over 1.6million people, or 21 per cent of the NSW population. > Findings from this channel have been utilised on an ongoing basis to inform our day to day business operations as well as inform research questions and support the consumer sentiments in our revised proposal. | Ongoing |
| Local Councils | > Local councils and Regional Organisation of Councils (ROCs) were consulted with through public forums and the formation of a Streetlighting Consultative Committee (SCC). This committee, its drivers and outcomes is discussed in detail below. | September onwards |

Beyond the engagement activities structured to understand concerns and customer sentiment regarding our regulatory proposal, Essential Energy has a strong business as usual approach to engagement through our regional management teams. This involves the delivery of ongoing communications to local councils and stakeholders, managing issues and community expectations for information during supply interruptions and ensuring the views of regional customers and stakeholder groups are recognised as part of our plans for customer service and stakeholder engagement strategy development.

Streetlighting Consultative Committee (SCC)

Essential Energy responded to feedback from the AER and submissions from local councils regarding our approach to consultation and plans for the management of streetlights in the Essential Energy network area. We recognised our need to

SCC Timeline:

- > **24 September 2014** - Public lighting forum
- > **4 November 2014** – Call for committee member nominations
- > **26 November 2014** – Confirmation of committee members
- > **11 December 2014** - First SCC meeting
- > **29 January 2015** – Second SCC meeting scheduled

improve with regards to consultation in this space and instigated a Streetlighting Consultative Committee (SCC). This Committee is an example of our genuine approach to be transparent and upfront with regards to our streetlighting proposal.

Furthermore, submissions highlighted the dissatisfaction with the inclusion of one confidential item within our substantive streetlighting proposal. Although this information has since been shared, we have ensured our revised streetlighting proposal contains no confidentiality claims and will be published in full.

Moving forward this Committee has been designed to provide a direct channel to councils to ensure the views of these councils are heard and represented throughout the planning and delivery process. With this in mind, Committee members are working with Essential Energy to develop a sustain, cost-reflective approach to streetlight service levels and pricing arrangements.

4. Stakeholder submissions

The outcomes of Essential Energy's engagement activities have directly informed our revised regulatory proposal and corporate objectives. Following the publication of the AER's draft decision, a number of customers and stakeholders voiced concerns regarding the potential impact should the draft decision become reality with regards to service levels and safety concerns.

A member from Essential Energy's Rural Advisory Group publically shared his views and expressed concern of the draft decision with regards to service levels, reliability and job losses in regional NSW. This opinion was published in the Forbes Advocate and is available in Appendix A.

This article provides a point of view from a regional customer that is part of our Rural Advisory Group to act as a stakeholder representative for rural and regional NSW.

In addition, two letters received from NSW Fire & Rescue and NSW Rural Fire Service (RFS) are of note. These letters can be found in Appendix B. Each of these letters provided a view regarding potential safety hazards. The NSW Fire & Rescue expressed concern about redirecting important firefighting and emergency response resources to man downed wires and protect public safety whilst waiting for network resources to arrive.

The RFS expressed its concerns regarding increased levels of vegetation around the network and the potential bushfire risk. It was very explicit in its view that this increased risk would not be tolerated and the RFS would enact powers to force the distributor to act, or pay the price any vegetation management rectification works undertake by the RFS.

These views supported our overarching business decision to ensure safety remains our number one priority. This means safety for our employees, contractors and the public which we serve. In addition, these submissions support the current structure of regionally distributed depots to respond to fault and emergency situations. Furthermore, the submissions support Essential Energy's vegetation management operating expenditure proposal and confirm the view that the funding of such works has to be paid through a structured approach to vegetation management, or through the payment of rectification costs as a result of the enforcement of legal powers by the RFS.

5. Next steps

Essential Energy's Stakeholder Engagement Framework will continue to inform the approach to ongoing customer and stakeholder engagement. Alongside this, we are strengthening our commitment to customers through strategic customer service development. This aim of this strategy is to ensure the customer is at the centre of everything we do.

The publication of the final determination will be communicated and shared with our customers and stakeholders to ensure they understand any implications to customer charges and service delivery throughout the course of the regulatory control period.

6. Appendix A

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Future of Essential Energy in doubt

A dire warning has been issued about future employment and reliability of services offered by Essential Energy after the national energy regulator rejected the supplier's pricing submission.

Parkes man, David Hughes has been a member of the Essential Energy Rural Advisory Group for 17 years and said he fears for the future of the network after the decision.

His concerns follow a determination by the Australian Energy Regulator (AER) against a proposal for the next five years submitted by Essential Energy.

The AER's decision has cut Essential Energy's submission by \$3.6 billion claiming the average customer will receive a \$346 drop in costs over 12 months.

Mr Hughes however believes the decision will result in massive job losses in the thousands, drastic safety, maintenance and reliability issues, and depot closures.

"The question is whether customers are prepared to sacrifice reliability for a 13 per cent reduction in their bill," Mr Hughes said.

"The AER says yes, common sense says no.

"At the present time, blackouts are virtually non-existent. The AER's proposals would mean a return to the days of many years ago when blackouts were a regular

occurrence - for lengthy periods of time.

"As well, tree maintenance will need to be carefully reconsidered, more likely meaning increased power outages, and there will be reduction in other services threatening safety of delivery of power."

Mr Hughes said the regulator had looked at all the distribution network service providers and made their decision based on a bench-marking process.

"But it is impossible to compare Essential with some of the other providers which are based entirely in the cities," he said.

"For example, Essential Energy covers 95 per cent of NSW, has 200,000 kilometres of power lines, and 1.4 million poles, not to mention the sub-stations.

"Some of these providers have millions of customers, but cover an extremely small area. Costs are understandably going to be much less."

Essential Energy staff have been notified of the regulator's determination by chief operating officer, Gary Humphreys.

"The overwhelming message I've heard from the business is a shared concern for Essential Energy's ability to continue to deliver safe, reliable services to our communities if the AER's draft proposals are implemented," he said.

7. Appendix B

Letters from NSW Fire & Rescue, NSW Rural Fire Service and Roads & Maritime Service

See overleaf.



NSW RURAL FIRE SERVICE



Mr Vince Graham
Chief Executive
Networks NSW
51 Huntingwood Drive
HUNTINGWOOD NSW 2148

HQ14/2003

5 December 2014

Dear Mr Graham

I refer to the release of the Australian Energy Regulator's (AER) draft determinations for electricity distribution businesses in NSW, in particular the operating expenditure component, and the possible ramifications on vegetation management programs should the determinations ultimately be enacted.

I understand that vegetation management is a substantial cost within the operating expenditure of electricity distribution businesses and note the draft proposals substantially reduce this expenditure by up to 39%. I am deeply concerned that the draft determination will lead to a reduction in vegetation management and preventative programs by the industry and potentially increase the bush fire risk to communities.

Vegetation management around electricity poles, wires and infrastructure is a critical bush fire mitigation measure. Historically the NSW Rural Fire Service (NSW RFS) has been satisfied that electricity distribution businesses have been appropriately addressing bush fire risks, including increased utilisation of emerging technologies such as LiDAR and has not been required to exercise its regulatory powers to address the risk posed by electricity infrastructure.

As you are aware the NSW RFS is the lead combat agency for bush fires in NSW. As Commissioner, I have broad powers under the *Rural Fires Act 1997* to ensure bush fire hazards are adequately addressed. In my capacity as Commissioner, I am also the Chair of the Bush Fire Coordinating Committee (BFCC), which is responsible for planning in relation to bush fire prevention and coordinated bush fire fighting at state level.

Following the devastating 2009 Victorian bush fires, which claimed the lives of 173 people and destroyed over 2,000 homes, a representative of the NSW energy regulator has been included as a member of the BFCC to ensure bush fire issues from industry, fire services and land managers are given statewide focus. Electricity providers are also members of the 67 local Bush Fire Management Committees (BFMCs) in NSW and have been for some time. This demonstrates the critical role of electricity providers in bush fire management and mitigation in this state.

A primary role of all BFMCs is to draft a bush fire risk management plan for their area which, once approved by the BFCC, imposes an obligation on all parties to implement the agreed risk mitigation treatments. For electricity providers, this includes any vegetation management requirements identified around electricity infrastructure.

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The NSW RFS has regulatory powers to require that any bush fire hazards be removed. In discharging its legislative responsibilities, if the NSW RFS becomes aware that vegetation clearance around power lines or other electricity infrastructure is not adequate, it would be obliged to issue a notice on the electricity provider to undertake works or undertake the works itself at the providers cost. This reactive process, which the NSW RFS would be obliged to implement, would increase our costs for inspection and enforcement, most likely resulting in a higher cost for electricity providers than a preventative program of vegetation management works.

There have been numerous examples of bush fires igniting from electrical infrastructure during adverse fire weather. The most recent example being the October 2013 Blue Mountains bush fire which caused significant damage and destroyed over 200 properties, although it is acknowledged the origin of that fire appears to be from a private power line.

It would appear that the broader ramifications of the draft determinations have not been subject to a detailed risk assessment by the AER and I strongly encourage the AER to undertake detailed risk assessments of the broader impacts of these determinations in its current form.

I seek clarification from you about the possible implications to the vegetation management programs of electricity distribution businesses, should the draft determinations be enacted. I trust that you will be able to provide some reassurance that critical bush fire mitigation measures by electricity distribution businesses will not be adversely affected by this determination. You may also be able to advise whether or not the AER plans to consult more widely on its draft determinations to seek advice on the broader impacts should these determinations be enacted in its current form.

I feel it would be beneficial to meet and discuss this significant issue, so please contact my office on (02) 8741 5103 to make suitable arrangements.

Yours sincerely



Shane Fitzsimmons AFSM
Commissioner NSW Rural Fire Service
Chair Bush Fire Coordinating Committee

CC:
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Chair
Australian Energy Regulator
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4 December 2014

Mr Vince Graham
Chief Executive
Networks NSW
51 Huntingwood Drive,
HUNTINGWOOD NSW 2148

Email: Paula.Conboy@aer.gov.au

Dear Mr Graham

I refer to the release of the Australian Energy Regulator's (AER) draft determinations for electricity distribution businesses in NSW, and seek urgent clarification from you about possible ramifications should the determinations ultimately be enacted. Specifically, I have noted the draft proposals to substantially reduce operating expenditure by up to 39%. I understand that my colleague Commissioner Shane Fitzsimmons from the NSW Rural Fire Service will be writing to you on behalf of the NSW Bushfire Coordinating Committee, on which Fire & Rescue NSW is represented, in relation to concerns about the possible impact on vegetation management in bushfire-prone areas of NSW.

I will therefore confine my comments to other areas relating to electricity transmission infrastructure, but please note that Fire & Rescue NSW shares significant concerns about the possibility of increased bushfire ignitions should there be a reduction in essential vegetation management.

You would no doubt be aware that in the event of major storm activity in metropolitan areas and major regional centres resulting in infrastructure damage, Fire & Rescue NSW is often inundated with emergency 000 calls seeking various forms of assistance. The most common types of callouts in these situations are "wires down" and "tree down on powerlines".

In recent weeks there have been 2 major storm events that impacted Sydney and the Illawarra. On each occasion there were hundreds of emergency callouts and every available fire appliance and crew had to be simultaneously deployed in the field, seriously degrading overall response capacity. Because of the danger from downed live powerlines, on many occasions fire crews had to remain on scene for extended periods awaiting repair crews from the utilities. On one of these occasions a major bushfire was simultaneously in progress at Katoomba, and our ability to respond firefighting resources was hampered. Additionally, response times blew out from the normal target of 10 minutes, to, in some cases, more than 30 minutes. I am sure that you can appreciate what this would mean in the event of a house fire with people trapped, a situation which was realised some years ago during a storm on Sydney's northern beaches. On that occasion, because all local fire crews were committed at "wires down" incidents, there was an extended response time to a house fire at Avalon and a person perished in the fire. The Avalon fire crew was 5 minutes away from the burning house



but could not be released to respond due to the possibility of people coming into contact with downed live powerlines at their location, and the lack of availability of personnel from the network provider to release the firefighters.

Fire & Rescue NSW has raised the issue of long response times for utility repair crews on several occasions over the years, as I do not believe that this is a valid use of Fire & Rescue NSW emergency response crews. I have continually asked that utilities take more responsibility, not less, in this area so that availability of fire crews for life threatening emergencies is maximised.

I fear that the impact of the draft determination could be a greater reliance on Fire & Rescue NSW in storm situations, due to smaller numbers of available utility staff and less vegetation management activities. As illustrated above, I am deeply concerned that this could lead directly to greater loss of life and property in the community due to fire crews being engaged for even longer periods at "wires down" incidents.

I am hopeful that you will be able to provide some reassurance that this will not be the case. You may also be able to advise whether or not the AER plans to consult more widely on its draft determination, and whether detailed risk assessments of the broader impacts of its draft determination have or will be conducted. I am available at short notice to meet and discuss this significant issue. Please do not hesitate to contact my office on (02) 9265 2930.

Yours sincerely

Yours sincerely



Greg Mullins AFSM
Commissioner

CC:
Ms Paula Conboy
Chair
Australian Energy Regulator
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Melbourne VIC 3001

CE14/2011

Mr Vince Graham
Chief Executive Officer
Networks NSW
PO Box 811
Seven Hills NSW 1730

Dear Mr *Vince* Graham

The Network NSW Black Spot Pole Program, across the three businesses of Endeavour Energy, Ausgrid and Essential Energy, continues to be an important component of Roads and Maritime's Road Safety strategy.

The Program improves road safety by investing in infrastructure to reduce the impact of vehicle incidents involving power poles. Since the inception of the Endeavour Energy program, fatalities resulting from vehicle collisions involving power poles in the Endeavour Energy franchise area have decreased by more than 60%.

I understand the Black Spot Pole Program is at risk of being reduced or discontinued as a result of the Australian Energy Regulator's draft determinations on the annual revenue requirement for the regulated businesses, issued in November 2014.

Roads and Maritime supports the continuation of investment in the Black Spot Pole Program, with its objectives of improving driver safety and reducing the impacts associated with vehicle and power poles.

Networks NSW is a key partner for Roads and Maritime, particularly relating to power poles. I look forward to continuing to work with the Network NSW businesses on improving road safety. For more information, please contact Mr Steven Head, Network General Manager Sydney on (02) 8588 5610, who would be happy to take your call.

Yours sincerely



Peter Duncan
Chief Executive