



## **Better Regulation**

# **Draft Consumer Engagement Guideline for Network Service Providers**

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# 1 Nature and authority

## 1.1 Introduction

This publication sets out the Australian Energy Regulator's Draft Consumer Engagement Guideline for Network Service Providers.<sup>1</sup>

## 1.2 Authority

The National Electricity Objective and National Gas Objective require electricity and gas transmission and distribution network service providers to operate their networks in the long term interests of consumers. Recent changes to the National Electricity Rules (NER) make this requirement even more explicit for distribution and transmission electricity network service providers. Specifically, these service providers must describe how they have engaged with electricity consumers and sought to address any relevant concerns identified as a result of that engagement.<sup>2</sup> These changes to the NER reflect a desire by both rule makers and different levels of government for a much greater emphasis on consumer engagement. The guideline aims to support these initiatives and give guidance on our expectations of consumer engagement, but is not binding on either gas or electricity service providers.

## 1.3 Role of the guideline

We intend to apply the guideline to all electricity and gas transmission and distribution network service providers (service providers), who must act in the long term interests of consumers.<sup>3</sup> The guideline states our expectations of how service providers engage with their consumers—that is, their 'end users'. The 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 to how a service provider engaged with its consumers and accounted for the long term interests of those consumers.

## 1.4 Definitions and interpretation

In the guideline, the words and phrases have the meaning given to them in:

- the glossary, or
- if not defined in the glossary, the NER or National Gas Rules (NGR).

## 1.5 Process for revision

We may amend or replace the guideline or any part of it at any time.

## 1.6 Version history and effective date

A version number and an effective date of issue will identify every version of the guideline.

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<sup>1</sup> For this guideline, we use the term 'consumer'. This term is consistent with the National Electricity and National Gas Objectives. It is also reflected in the National Electricity Rules, which refer to 'electricity consumers'. We acknowledge 'consumer' and 'customer' have distinct meanings, and it is valid to make the distinction in some cases. We also acknowledge these terms are used interchangeably.

<sup>2</sup> NER, cl. 6.8.2(c1)(2) and 6A.10.1(g)(2).

<sup>3</sup> *National Electricity (South Australia) Act 1996*, s. 7 and *National Gas (South Australia) Act 2008*, s. 23.

## 2 Overview

Service providers should engage with their consumers so they can provide services that better align with consumers' long term interests. Specifically, the guideline sets out how we expect service providers to engage with their consumers. The NER now requires service providers to describe how they have engaged with consumers, and how they have sought to address any relevant concerns identified as a result of that engagement. Service providers present this information in an overview report to their regulatory or revenue proposals.<sup>4</sup> The NER is not prescriptive about consumer engagement, and the guideline is not binding. However, we considered it prudent to outline our expectations for consumer engagement. Therefore, we developed the guideline to help service providers engage systematically, consistently and strategically with consumers on issues that are significant to both parties.

Consumer engagement is about working openly with consumers and providing opportunities for their views and preferences to be heard and to influence service providers' decisions. Stronger consumer engagement can help us test service providers' expenditure proposals, and can raise alternative views on matters such as service priorities, capital expenditure proposals and price structures. To this end, we expect service providers to adopt the guideline.

*'The businesses should be accountable to their customers, and they owe their customers an explanation of the reason for expenditure and the reliability outcomes they intend to achieve.'*

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

Consumer engagement is optimised by interdependent service providers delivering a consistent approach to strategy development, delivery and review.

The guideline centres on best practice principles, which overarch four components<sup>5</sup> that we consider constitute a robust approach to consumer engagement. Together, the principles and components seek to drive consumer engagement and a commitment to continuously improve that engagement across all business operations. For some service providers, this work may require a significant cultural shift. The guideline also places the onus on service providers to develop consumer engagement strategies and activities. Service providers

can do this most appropriately because they are in the best position to understand their consumer base and its issues. For this reason, the guideline is not prescriptive.

However, we expect each service provider to develop consumer engagement approaches and strategies that address the best practice principles and the four components of the guideline:

- **Principles:** a set of best practice principles to guide engagement with consumers
- **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)
- Accountability: the assignment of responsibility for development, delivery, review and implementation of improvements to consumer engagement strategies and activities.

<sup>4</sup> NER, cl. 6.8.2(c1)(2) and 6A.10.1(g)(2).

<sup>5</sup> Refer to sections 3.1 to 3.5 of the guideline.

- **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.

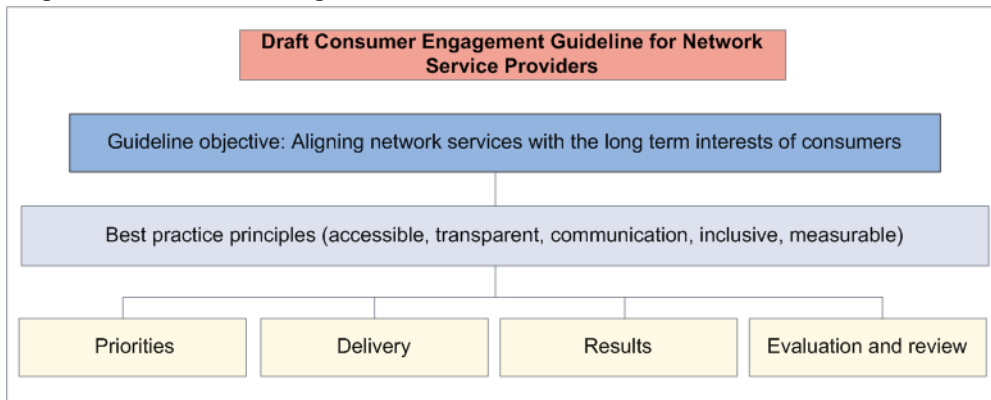
Section 3 mirrors the above areas, discussing:

- best practice principles (section 3.1)
- priorities (section 3.2)
- delivery (section 3.3)
- results (section 3.4)
- evaluation and review (section 3.5)
- our expectations (section 3.6).

### 3 Draft Consumer Engagement Guideline for Network Service Providers

We structured the guideline around four components, which sit under best practice principles for consumer engagement (diagram 1). We intend the components to guide service providers in developing new or improved consumer engagement strategies and processes.

Diagram 1: Overview of draft guideline



#### 3.1 Best practice principles

Five best practice principles reflect the aims of the National Energy Laws. We drew the principles from the Stakeholder Engagement Standard (AA1000SES), Institute of Social and Ethical Accountability (2011), and the International Association of Public Participation and Guidelines for complaint handling in organizations (AS/NZS ISO 10002:201X).<sup>6</sup> They overarch all aspects of consumer engagement, so service providers should use the following principles in undertaking each component of the guideline:

- accessible
- visible and transparent
- communication
- inclusive
- measurable.

These principles are not an exhaustive list, and we do not prescribe how a service provider should apply them. However, below we draw out elements that underpin the guideline's four components.

##### 3.1.1 Accessible

We expect service providers to ensure that consumer engagement is accessible to everyone, particularly people who may require assistance.

**Comment [A1]:** Draft document currently out for Public Comment until 27 September 2013. Some of my additions are in line with the draft Standard.

**Comment [A2]:** Suggest replacing 'transparent' with 'visible and transparent'. More explanation in following comments.

**Comment [A3]:** 'Accessibility' is being widely used in the following context 'Accessibility is the degree to which a product, system or service is available to as many people as possible.'  
Suggest all references to 'Accessible' be replaced with 'Visible' and additional information surrounding 'Accessibility' be added. Approximately 20% of Australians are classified as having some form of disability therefore reference to 'Accessibility' is an important inclusion.

<sup>6</sup> www.iap2.org.au.



Indigenous Australians, young people and those with culturally and linguistically diverse backgrounds should also be catered for in consumer engagement strategies and activities.

The following components should be considered for accessibility.

- Access to information
- Appropriateness of engagement activities or assistance if required
- Staff training
- The process for accepting responses from family members, friends, agents, advocates or others who act on behalf of, or support, a person who themselves may have limited capacity to provide feedback.

We expect service providers to recognise, understand and involve consumers during project and budget proposal and planning phases early and project implementation and review throughout the process. This work includes providing consumers with the information that they need to participate in a meaningful way.

**Comment [A4]:** I believe 'early' requires further clarification. Suggested replacement text.

**Comment [A5]:** Suggested replacement text for.

#### 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.

**Comment [A6]:** This section to now be included in 'visible and transparent'.

### 3.1.2 Visible and 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.

### 3.1.3 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
- avoid industry jargon and use plain English in all communication with consumers, including providing plain English summaries of key issues and impacts when complexity is hindering engagement
- keep documentation concise and provide clear document navigation
- investigate and use a range of methods and mediums to communicate with consumer cohorts, having regard to their engagement preferences.

### 3.1.4 Inclusive

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

Consumer engagement is optimised where related service providers deliver a consistent message to consumers.

#### 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 to do so, both in how the business engages with consumers and in what outcomes are available.
- create opportunities to share strategies and engagement efficacy results with other service providers to improve quality of consumer engagement over time.

### 3.1.5 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
- ensure systems are in place to allow for regular measurement of key performance indicators
- publish the results of measurement activity.

*Consumer engagement needs to be designed and implemented in a credible way.*

Stakeholder Engagement Standard (AA1000SES)

### 3.2 Priorities

Setting priorities is the first step in developing a consumer engagement strategy. We expect service providers to (1) identify consumer cohorts, and the current views of those cohorts and their service provider, (2) outline their engagement objectives, and (3) discuss the processes to best achieve those objectives. To this end, we expect service providers to develop and undertake a process for identifying issues and setting priorities for consumer engagement. Service providers could take the following steps:

- understand the consumer base.
  - This work should include identifying and understanding consumer cohorts—that is, who they are, and how the service provider can best engage them. Examples include families, vulnerable consumers, commercial and large industry, small to medium businesses, essential community services groups and environmental groups—in metro, regional and rural areas. To target engagement activities appropriately, service providers need to understand whether these consumers are for example, socially conscious, feel disempowered or are indifferent to energy issues.
  - Identify and understand prospective areas of consumer interest for each cohort. This work should include long term issues as well as current issues.
- determine a list of priority issues requiring consultation, and the level of engagement required for each consumer cohort. The service provider needs to consider whether its engagement approach should aim to inform, consult, involve, collaborate or empower<sup>7</sup> consumer cohorts. The level and mode of engagement may change over time as relationships with consumer cohorts mature.
- develop tailored and appropriate consumer engagement activities and mechanisms for delivery
- work with consumer cohorts to plan and prioritise when consumer engagement will occur
- consider whether market research is beneficial

<sup>7</sup> International Association of Public Participation, *Public Participation Spectrum*, [www.iap2.org.au](http://www.iap2.org.au).

- involve consumer cohorts in setting priorities and developing the engagement strategy or approaches.

### 3.3 Delivery

Service providers should establish accountability for development, delivery and review of consumer engagement. Accountability for consumer engagement should be clear and rest ultimately with the Chief Executive.

We expect service providers to address the identified priorities via robust and thorough consumer engagement. Service providers could aim to deliver engagement processes that are underpinned by:

- demonstrated high level support from within the business to undertake consumer engagement as part of business-as-usual activities (that is, CEO and board endorsement). This output could include:
  - promoting and facilitating consumer engagement across the business
  - ensuring all relevant staff are appropriately skilled to facilitate consumer engagement and well informed to answer consumers' questions.
- an understanding of the capability of consumer cohorts to participate. This output could include providing resources or education to consumers or consumer representative groups to help them liaise with their constituents.
- work in conjunction with interdependent service providers to deliver a consistent customer engagement experience
- forthright, transparent two-way communication arrangements and feedback processes. Service providers should report developments regularly, factually and promptly.
- clear definitions for the scope and purpose of consumer engagement. In particular, service providers should state how consumer input will influence the issue/decision.
- continuing consultation on difficult topics when tensions exist or develop
- regular evaluation and review of engagement tools, mechanisms and activities (during and after delivery). Evaluation and review processes should include consumer feedback.
- documentation of consumer views, attendance rates and key themes, and reporting on how that information will be used.

Using the above approach, service providers could consult on the following example issues:

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

### 3.4 Results

We expect service providers to articulate the outcomes of their consumer engagement processes and how they measure the success of those processes. If service providers genuinely engage with consumers on significant issues, they should be able to draw on that information and use it, for example, to help explain the reasoning behind expenditure proposals. Service providers could report the following information, for example:

- evidence that the service provider heard from a comprehensive cross-section of consumer cohorts. Such reports should include consumer feedback, engagement activity summaries (the scope and objective of each activity), and whether the activities achieved their respective objectives.
- how the service provider considered consumer input and whether that input influenced the business and/or an expenditure proposal (and why). If consumers did exert influence, then the service provider should explain how.
- consumers' issues raised during engagement activities that have subsequently been incorporated into business decisions
- emerging issues or long term consumer issues that emerged during engagement activities. Such reports should explain how the business might address these issues.
- evidence of addressing challenges or tensions in consumer views and community views—for example, proposed capital investment projects may draw differing views from a community directly affected by that project compared to the broader consumer base.
- effect of consumer engagement activities through monitoring complaint data and media activity.

### 3.5 Evaluation and review

We expect service providers to periodically evaluate and review the effectiveness of their consumer engagement processes. It will enable them to identify areas for future focus, encouraging continual improvement, transparency and accountability.

The feedback received should be capture in a manner allowing it to be measured and analysed.

Service providers could, for example:

- commit to periodic reviews (at least annually) of their consumer engagement strategy or processes as well as complaints data
- apply a robust and thorough evaluation method to their consumer engagement strategy or processes. Service providers should develop their evaluation method and key performance indicators when they deliver their engagement strategy.
- reset or realign identified priorities with consumer feedback and the evaluation and review results
- renew their commitments (with CEO and board endorsement) to areas needing improvement or change.

## 3.6 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.<sup>8</sup> Similarly, we will assess gas service providers' proposals for expenditure against the National Gas Law's objective 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.<sup>9</sup> 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.

We seek service providers to demonstrate a commitment to ongoing and genuine consumer engagement on a broad range of issues relevant to consumers. To do so, service providers will need some time to develop and implement robust and comprehensive engagement strategies and approaches. However, their response to the guideline is an opportunity for service providers to undertake best practice in consumer engagement and to exceed regulatory obligations.

Clearly, we expect consumers will be the principal beneficiary of greater consumer engagement. However, service providers will also benefit. These benefits may come in the form of improved consumer satisfaction, higher consumer willingness to pay for services, and greater ease in obtaining regulatory approval of expenditure proposals.

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<sup>8</sup> NER, cl. 6.5.7(5A).

<sup>9</sup> 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.

## Glossary

Term	Definition
expenditure proposal	regulatory proposal, revenue proposal or access arrangement
guideline	Draft Consumer Engagement Guideline for Network Service Provider
National Electricity Rules (NER)	The rules as defined in the National Electricity Law
National Gas Rules (NGR)	The rules as defined in the National Gas Law
service providers	electricity transmission and distribution network service providers and gas transmission and distribution service providers