



Oakley Greenwood

Peer review of the willingness to pay research submitted by the NSW distribution businesses

prepared for:
Australian Energy Regulator



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1. Review background, requirements and limits

1.1. Background of the review

In accordance with the recent requirements of the regulatory process, the three NSW distribution businesses - Ausgrid, Endeavour Energy and Essential Energy - have established consumer engagement processes and conducted consumer research to inform their current Electricity Distribution Price Review proposals.

Most of that research and engagement was included in and reviewed as part of their original proposals. In response to comments provided in the Australian Energy Regulator's (AER) Draft Determination, the businesses jointly commissioned additional consumer research in the form of a willingness to pay study conducted by Ipsos Social Research Institute.

1.2. Requirements of the review

The AER subsequently commissioned Oakley Greenwood to peer review the Ipsos research. The AER specified that the peer review meet the following requirements:

- *Provide a report that peer reviews the IPSOS Research and the assumptions and methodology that underpinned the research. In particular, the report should comment on:*
 - *the robustness of the research, including the assumptions or methodology used, and the accuracy of its findings;*
 - *the strength of the conclusions that can be drawn from the results of the survey;*
- *Regard should be had to:*
 - *IPSOS Research - Willingness to pay for network services, submitted as part of the NSW distributors' revised proposals in January 2015;*
 - *Supporting material provided by the NSW distributors in March 2015 in response to an information request from the AER;*
 - *Relevant sections of the Revised Proposals submitted by the NSW distributors that deal with the WTP research:*
 - *Ausgrid Revised Proposal: Summary, pp 10-11 and Chapter 2 - Our Customers, pp. 39-47;*
 - *Endeavour Energy Revised Proposal: Executive Summary, pp 10-11 and Chapter 2 - Our Customers, pp. 44-52; and*
 - *Essential Energy Revised Proposal: Executive Summary, pp13-14 and Chapter 3 - Our Customers pp 52-65.*

1.3. Limits and caveats

It should be note that the scope of this study is limited to a review of:

- The willingness to pay research conducted by Ipsos Social Research Institute (Ipsos) for the three NSW distribution businesses
- The conclusions drawn from that research by the distribution businesses in their Revised Proposals.

This research was undertaken as part of the distribution businesses' overall customer engagement activities. This review, however, is limited to the willingness to pay research and the conclusions drawn from it by the distribution businesses. The review does not address any other aspects of the businesses' customer engagement activities or the integration of those activities into their proposals.

It is also important to note that OGW did not have access to any aspects of the research other than what was contained in the Ipsos reports that were published as part of the distribution businesses' revised proposal submissions. We did have access to the following additional documents:

- The request for quote for the provision of a choice modelling survey to be conducted of each of the three NSW distribution businesses that was sent to Ipsos on behalf of the distribution businesses by Endeavour Energy, and
- Ipsos' proposal in response to that request.

2. Findings

This section of the review examines:

- The robustness of the research, including the assumptions or methodology used, and the accuracy of its findings, and
- The strength of the conclusions that were drawn from the results of the survey.

2.1. Robustness of the research

2.1.1. Assumptions

Only one assumption was identified that could have affected the robustness of the research were identified, as follows:

The Request for quote that was sent to Ipsos by Endeavour on behalf of the three NSW distribution businesses stated that:

Ausgrid, Endeavour Energy and Essential Energy have submitted their respective substantive regulatory proposals to the Australian Energy Regulator (AER) for the period 2015 - 2019.

The AER regulates the revenues of each business in the National Electricity Market (NEM).

The AER requires each network business to detail: how consumers and stakeholders have been identified; how they have been engaged; how consumer feedback has been assessed; and how this feedback has been considered as part of each proposal.

*Each business has now received its draft determination from the AER. The AER has outlined significant cuts to our planned operational expenditure and capital expenditure across each business. **In short, the AER believes customers would be willing to trade reliability in return for a lower electricity bill** . . . [emphasis added]*

The scale of the reductions set out in the draft determinations have other related impacts including an increased risk of bushfires, higher response times and the risk of more frequent blackouts on the hottest days of the year . . .

In order to address this issue [the fact that the Consumer Challenge Panel had stated in its submission on the businesses' original proposals that 'consumers are not being presented with surveys designed as choice experiments. Instead, they are presented with questions about how something is valued, without reference to the potential trade-off involved.'], Networks NSW is seeking to commission a choice modelling study. The study will pose a number of scenarios to up to 1000 customers from each business on topics relating to electricity supply and pricing.

These questions will seek preferences in relation to many topics impacted by the AER's draft decision including the impact of price reductions on: vegetation management and bushfire risk; response times to unplanned outages; the impact on services for life support customers; communication methods for customers; and ability to provide electricity to new growth areas . . .

A key component of this project is to identify stakeholder priorities and preferences in relation to different pricing and electrical service scenarios, so that these can be used in our final proposals to address issues raised by the AER in its draft determination.

In essence, the brief starts from the assumption that the cuts proposed by the AER will reduce reliability. However, this was not actually the case. In its Draft Determinations of each of the three distribution businesses' original proposals the AER set the reliability performance targets of the three distribution businesses for the upcoming regulatory period (2014-2019) "to account for the historical expenditure for improving supply security and reliability". The AER further stated that "We consider that these adjustments are important and will ensure that the reliability improvement resulting from past capital expenditures are retained, because customers are paying for such historical investment on an ongoing manner"¹.

It is not likely that this assumption on the part of the three distribution businesses affected the methodology of the study, but it may have limited the scope as compared to what might have been a fuller treatment of customers' preferences regarding various services and their willingness to pay for various levels of those services. It may have also constrained the analysis of the results to some extent by precluding a wider range of other interpretations of the results that may have more comprehensively represented the detailed findings of the research. This is discussed further in the following section.

2.1.2. Methodology, scope and implementation

Methodology

As stated by Ipsos:

The specific objectives of the research were to understand:

- *Customer preferences for a range of network service attributes, including:*
 - *Network charge*
 - *Reliability (unplanned blackouts)*
 - *Response times during blackouts*
 - *Street light repairs*
 - *Vegetation management*
 - *Pole maintenance*
- *Customers' willingness to pay varying levels of service for each of the attributes assessed.*
- *The acceptability to customers of a range of service offerings.*²

A Discrete Choice Experiment (DCE)³ design was chosen as the methodology for investigating these issues. This is a well-known and entirely applicable approach for addressing issues of the type nominated for the study.

1 In its Draft Determinations the AER set the reliability performance targets of the three distribution businesses "to account for the historical expenditure for improving supply security and reliability". The AER further stated that "We consider that these adjustments are important and will ensure that the reliability improvement resulting from past capital expenditures are retained, because customers are paying for such historical investment on an ongoing manner". See section 9.3.2 of the Draft Determination of each of the distribution businesses.

2 See, Section 2.3 of the Ipsos *Willingness to pay for network services* report prepared for each of the three NSW distribution businesses. The only variation in this section across the three reports was the substitution of 'aerial inspections' for 'pole maintenance' in the Essential Energy study, which reflected the significantly larger and less dense nature of Essential's service area and the higher relative concern there with bushfires.

3 Also known as a stated choice or stated preference design.

Implementation

The following aspects of how the survey was implemented were entirely in accordance with standard practice:

- Sample size - Up to 1,000 responses were to be obtained for each of the businesses; actual sample sizes achieved were Ausgrid - 988; Endeavour Energy - 958; and Essential Energy - 869. These sample sizes provide an entirely adequate level of statistical reliability (calculated by Ipsos as being better than $\pm 5\%$ at the 95% confidence level).
- Sampling frame - The sample was drawn from three online research panels. This approach was used, according to Ipsos, due to the short fieldwork period.
- Sample composition and quotas - Reasonable quotas were established regarding the location of respondents within subregions of each of the distribution businesses' service areas, respondents' gender, and respondents' age. Weights were applied where location quotas were not entirely met, but Ipsos stated that the quotas were very closely approximated in all cases, resulting in the weights being quite small and therefore immaterial to the robustness of results.

Ipsos also provided useful and thorough information on the composition of the sample in terms of household size and composition, education level and employment status of the respondent, and household income and ethnicity (in terms of language spoken in the home).

- Survey delivery method - The surveys were delivered online.
- Timing of the surveys - The surveys were conducted between 12 and 23 December 2014. This is not an ideal time to conduct surveys due to its proximity to the Christmas holiday period. However, the timing of the fieldwork was constrained by the time at which the AER provided comments on the businesses' original proposals which indicated the need for the additional research (27 November 2014) and the time their revised proposals were submitted to the AER (20 January 2015).

Areas in which the implementation of the survey could have been improved include:

- Sample quotas or at least identification of feeder types - A 2012 study conducted for the AEMC⁴ determined that the value that residential customers place on the reliability of their electricity supply varied by the type of feeder the customer is located on. This can be a useful statistic given the fact that with the metrology that is currently available in most parts of NSW, the feeder is the most disaggregated geographic level at which the distribution business could plan to deliver different levels of reliability. We note that it took significant time and effort to identify and recruit respondents to the 2012 survey based on feeder type, and that a similar effort would almost certainly not have been possible in this case, given the constrained schedule for the Ipsos research. However, this could be an area worth consideration in future studies.
- Inclusion of statistics on response rates - Ipsos did not report statistics on the response and abandonment rates of the survey, which would have been useful, particularly given the time of year at which the surveys were conducted. However, as noted above, the achieved sample was adequate in terms of size and composition and therefore the lack of these statistics is not a material concern.

4

Oakley Greenwood Pty Ltd, *NSW Value of Customer Reliability*, May 2012, for the Australian Energy Market Commission.

Survey scope and content

The scope of the survey was limited in the businesses' request for quote to customers' willingness to pay for activities that the distribution businesses undertake that relate to the reliability of electricity supply. There is nothing wrong with this *per se*, but it should be recognised that in doing so, the survey did not establish customers' willingness to pay for other activities provided by their electricity distributor or the relativity of their willingness to pay for those activities as compared to activities related to reliability.

Research undertaken by the distribution businesses that was included in their original proposals to the AER identified what they termed key consumer concerns. Table 1 below shows the key concerns identified by each of the three NSW distribution businesses.

Table 1: Key customer concerns identified by the three distribution businesses

Ausgrid ⁵	Endeavour Energy ⁶	Essential Energy ⁷
I strongly believe prices are high enough.	Anything Endeavour can do to keep costs down is welcome	I expect you to be there when I need you
I want your help when I need it and I want to be heard.	We're living in a first world country and paying for a service	I want information to plan and make decisions
I want you to keep restoring outages as quick as possible	I expect safety to be a big priority for such an essential service	I need confidence in my electricity supplier
I expect you to keep the power supply safe	I've already done a lot to reduce my energy bill and welcome information and tools to help manage my electricity use	I expect my prices to be fair
I want to know how I can best make a difference.	[Support for vulnerable customers] it's important, yes, but my priority is containing my bill	I need the knowledge and tools to make a difference
	Why can't you keep the lights on...I'm paying a lot for this service	You should be doing more to protect the vulnerable
	I want substations to look good if they are in my neighbourhood and for them to be secure	
	I understand you need to trim trees for safety but I don't always like the result	
	I want tools to keep costs down but I don't want my old meter replaced with a smart meter	
	I don't know a lot about Endeavour Energy and its programs - you need to do more to educate your customers	

Note: Ausgrid and Essential Energy customer concerns appear in the order listed in their documents. Endeavour Energy customer concerns are listed in priority order as identified by the business' research.

⁵ Ausgrid, *Regional briefings presentations*, Attachment 2.08 to Revised Proposal, January 2015.

⁶ Endeavour Energy, *Affordable, safe and reliable electricity, An overview of our plans 2014 - 19*, May 2014, p.4.

⁷ Essential Energy, *Affordable, safe and reliable electricity, An overview of our plans 2014 - 19*, May 2014, p 3.

As can be seen, customers are concerned with a number of aspects of electricity service in addition to reliability. The fact that these other concerns were not tested in the surveys (based on the brief provided by the businesses) results in there being no information on customers' *relative* willingness to pay for these other aspects of service as compared to reliability.

2.1.3. Accuracy

The surveys used different impacts on reliability and different corresponding changes in the quarterly network charge for each of the distribution businesses. Ipsos states that the service levels bundles that is, the combination of service levels across the various service attributes - and the associated quarterly network charge - included in each choice pair presented to the respondent were (a) designed in close consultation with staff from each of the businesses, and therefore (b) "represent realistic approximations of potential service outcomes based on potential decisions about operational and capital expenditure on the network"⁸.

The interest in making the trade-offs realistic is a positive aspect of the approach taken. However, the change in the quarterly network charge was based on the change that would take place in the bill of the average customer within each of the businesses. To the extent that a specific respondent has a particularly small or large bill, the change in cost will seem proportionally higher or lower as compared to their actual bill and will not represent the actual impact on the customer's bill if the service option were to be implemented by the customer's electricity distributor.

Having said this, it is the case that it is exceedingly difficult to use anything other than the average bill to test cost/service trade-offs. The only alternative is to have access to the customer's billing history during the survey and to use that information to calculate the change in charges that would accrue to that customer. This is possible through the use of a more complicated recruitment and survey implementation process⁹ but would not have been possible within the timeframe available to Ipsos for the fieldwork.

A related area where accuracy could potentially have been improved concerns how customers' actual experience of reliability was handled in the survey. Ipsos states that

*In DCEs, there can be bias associated with presentation of the status quo, such that people are unwilling to properly consider alternatives. In order to resolve this issue the status quo was incorporated in the model but was not labelled. This meant that Ipsos could evaluate alternative service arrangements without the possibility of these cognitive biases occurring.*¹⁰

However, the Ipsos questionnaire asked respondents to estimate the number of unplanned outages they had experience in the last 12 months and how long those outages had lasted on average. In Ausgrid's case, customers estimated that they had experienced 1.2 outages within the past year with an average duration of 2.4 hours (144 minutes). By contrast, the actual average number of outages over the previous year for Ausgrid customers was 0.8 according to information supplied by Ausgrid to Ipsos, and the average duration of those outages was 75 minutes.

These questions were asked prior to the questions asking the respondent to choose the preferred alternative in each of 8 pairs of service bundle options and associated network charges.

⁸ Ipsos Social Research Institute, *Willingness to pay for network services*, prepared for Ausgrid, Attachment 2.11 of Ausgrid's Revised Proposal, p. 11.

⁹ Such an approach was used in a study undertaken by KPMG for ESCOSA in 2003, entitled *Consumer Preferences for Electricity Service Standards*.

¹⁰ *Ibid.*, p. 15.

In Ausgrid's case, the status quo or average outage frequency and duration and the other (non-average / non-status quo) outage frequency and duration bundles that were tested were as shown in Table 2 below.

Table 2: Status quo and alternative outage frequency and duration levels tested in Ipsos' WTP study for Ausgrid

Option	Outage frequency (average over five years)	Outage duration (average in minutes)
Status quo / average	4.0	75
Alternative option 1	3.5	65
Alternative option 2	5.5	100
Alternative option 4	6.0	120

It is worth noting that as compared to respondents' average estimate of recent experience, each of the options represent improvements in service. It is not clear whether and to what extent the fact that on average respondents estimated the average number and duration of outages materially higher than the actual average experienced in Ausgrid's service area may have affected the service bundle option respondents chose.

Some analysis of how respondents' preference for reliability varied with their perception of the reliability they had experienced would have been useful. In addition, as commented in regard to customers' bills, a more complicated recruitment and survey implementation process could have identified the actual level of outage experienced by each respondent and allowed an analysis of both the preferences of customers who have actually experienced more and fewer outages, and customers whose perceptions of the number and duration of outages is either higher or lower than actual¹¹. Such analyses could provide information on possible means for improving information to customers about outages in ways that would increase satisfaction.

However, as noted before, such approaches would not have been possible within the timeframe available for the Ipsos fieldwork.

Table 3 below compares respondents' average estimate of the number and duration of outages in the last year and the businesses' actual (status quo) levels.

Table 3: Comparison of respondent's estimate of the frequency and duration of unplanned outages in the past year with the distribution businesses' status quo levels

	Status quo		Survey respondents' average estimates	
	Average no of outages annually over 5 years	Average outage duration (minutes)	Average no of outages annually over 5 years	Average outage duration (minutes)
Ausgrid	0.8	75	1.2	144
Endeavour Energy	0.8	60	1.6	168
Essential Energy	1.6	210	2.6	180

¹¹ This sort of analysis was provided in the KPMG study undertaken for ESCOSA in 2003, entitled *Consumer Preferences for Electricity Service Standards*.

2.2. Strength of conclusions drawn

Ipsos produced two primary forms of results:

- An analysis of the degree to which each specific service level in each service attribute affected the likelihood of a service bundle option to be preferred by the respondents of each of the three distribution businesses. This was calculated in terms of a set of trade-off coefficients that measured the direction and strength of each service level of each service attribute on the likelihood that the respondent would prefer a service bundle option containing that service level for that service attribute. The direction of the service level change was determined with regard to the status quo level of each service level.

Table 4 on the following page shows the three service attributes that exhibited the strongest influence on customer preferences in each of the three distribution business areas.

Table 4: The three most important service attributes to respondents in each of the NSW distribution areas

	Ausgrid	Endeavour Energy	Essential Energy
1 st	Price - lower prices had the strongest effect on the likelihood of a scenario being selected; higher price decreased likelihood of selection	Price - lower prices had the strongest effect on the likelihood of a scenario being selected; higher price decreased likelihood of selection	Price - lower prices had the strongest effect on the likelihood of a scenario being selected; higher price decreased likelihood of selection
2 nd	Service restoration time - very long restoration times (24 to 48 hours) showed a strong negative effect on selection; shorter times (i.e., 4 to 6 hours) had a much smaller effect	Service restoration time - very long restoration times (24 to 48 hours) showed a strong negative effect on selection; shorter times (i.e., 4 to 6 hours) had a much smaller effect	Service restoration time - even a moderate increase in the amount of time required to restore power to consumers (e.g., 6-8 hours) significantly reduced the likelihood of the scenario being selected
3 rd	Pole maintenance had a marginally larger effect on selection than did the number and length of unplanned blackouts	The number and length of unplanned blackouts exhibited a strong influence on the likelihood of selection in both directions	The number and length of unplanned blackouts exhibited a strong influence on the likelihood of selection in both directions

As can be seen the three service attributes that had the greatest impact on respondents' choice of service bundle option in all three distribution service areas were:

- Price
- The time required to restore power after an outage occurs, and
- The frequency and duration of unplanned outages (though the level of pole maintenance was marginally more influential than in the Ausgrid area).
- An analysis of the relative acceptability and unacceptability of nine specific service bundles to the respondents of the survey in each of the three distribution business areas. This analysis identified that:
 - The service bundle in which price was lowest, pole maintenance (or aerial inspections in the case of Essential Energy) was better than the status quo and the rest of the service attributes were equal to the status quo - had the highest acceptability rating and the lowest unacceptability rating; and

- The service bundle in which price was the lowest level offered but at least two service attributes were also at their lowest service level (in all cases one of which was the frequency and duration of unplanned outages) and the remaining service attributes were at service levels below the status quo - had the highest unacceptability rating among Ausgrid respondents and the second highest unacceptability rating among respondents of Endeavour Energy and Essential Energy, which indicated that “while price is a major driver of participant satisfaction, participants nevertheless appear unwilling to completely sacrifice quality of service for a lower quarterly network”¹².

From these analyses Ausgrid concluded that

The results of this research validate previous research and engagement initiatives, which showed that while customers are concerned about price and affordability, the majority are not willing to trade reliability, safety and service for lower charges.

Importantly, a scenario featuring network charges based on the AER’s draft decision and relative reductions in service standards due to reduced revenue was the most unacceptable statement of all presented to Ausgrid’s customers. The report found this outcome indicated that:

“...customers are unwilling to sacrifice service offerings (particularly in terms of number and duration of unplanned blackouts and service restoration times) for a large reduction in quarterly network charge.”

*The choice modelling research revealed that while price is a key driver for customers’ choice of potential service offerings, changes in service offerings - particularly the number and length of unplanned blackouts, service restoration times and pole maintenance - are also key drivers.*¹³

*When presented with a scenario based on Ausgrid’s proposed network charges and largely consistent with current service levels, around two-thirds rated the scenario as acceptable.*¹⁴

The other two distribution businesses reached similar conclusions¹⁵.

As noted above, the highest acceptability rating and the lowest unacceptability rating went to the service bundle in which price was lowest, pole maintenance (or aerial inspections in the case of Essential Energy) was better than the status quo and the rest of the service attributes were equal to the status quo.

While this certainly indicates the importance of price to customers, the fact that the average perception of service levels in terms of the frequency and duration of unplanned outages so significantly exceeded Ausgrid’s status quo service levels could as easily be a product of many customers believing that they were choosing an option that represented both the lowest price on offer as well as at least some improvement in service levels. In this regard it is important to recall that the current service levels of Ausgrid and the other distribution businesses were not revealed to respondents, and their perception, on average, was that service performance is actually significantly worse than what is on average delivered, at least in the case of unplanned outage frequency and duration.

¹² See Section 4.2.1 in each of the Ipsos reports.

¹³ Ausgrid, *Revised Regulatory Proposal and Preliminary Submission*, January 2015, p 11.

¹⁴ *Ibid.*, p 45.

¹⁵ See Endeavour, *Revised Regulatory Proposal*, January 2015, p. 13 and Essential Energy, *Revised Regulatory Proposal*, January 2015, p. 64.

Similarly, while around two thirds of Ausgrid respondents rated as acceptable a scenario in which the network quarterly charge was consistent with Ausgrid's proposed pricing and current service levels, it should be noted that this option was only the third best ranked.

The second highest ranked option among Ausgrid respondents - which was deemed acceptable by 71% - was comprised of a lower (though not the lowest) network charge, two service attributes (service restoration time and street light repairs) at status quo service levels, and the remaining three service attributes (pole maintenance, unplanned outages and vegetation management) at lower than current service levels.

This would suggest that the customers may be willing to make more nuanced trade-offs between price and service, including choosing more service in one or another area and less service in other areas. It strikes us that the statement that "the majority [of customers] are not willing to trade reliability, safety and service for lower charges" is an oversimplification of the results and potentially inaccurate.

In addition, some breakdown of the trade-off preferences by customer segment suggest that there can be significant differences within the customer base that should be taken into account when deciding on the actual bundle of service levels and price to be offered. For example,

- In Ausgrid's survey responses, *perceived unacceptability of scenario five (lower quarterly network charges with decreased service attributes) differed according to the household composition of participants. Specifically:*
 - *Participants with three or more people in their household (31%) were significantly less likely to have considered this scenario unacceptable than others (47%); and*
 - *Those living with one or more children (27%) were significantly less likely to have deemed this scenario unacceptable than those without children (45%).¹⁶*
- By contrast, in Endeavour Energy's survey responses, *statement two - higher network charge for increased services - differed significantly according to the characteristics of participants. Specifically:*
 - *Vulnerable participants (42%) were significantly more likely to have deemed the scenario unacceptable than non-vulnerable participants (24%);*
 - *Those living by themselves (35%) or with one other person (33%) were significantly more likely to have considered the scenario unacceptable than those with three or more people in their household (21%); and*
 - *People with a CALD background (15%) were significantly less likely to have considered the scenario unacceptable than those who only spoke English (32%).¹⁷*

¹⁶ Ipsos Social Research Institute, *Willingness to pay for network services*, prepared for Ausgrid, Attachment 2.11 of Ausgrid's Revised Proposal, p 23.

¹⁷ Ipsos Social Research Institute, *Willingness to pay for network services*, prepared for Endeavour Energy, Attachment 2.03 of Endeavour Energy's Revised Proposal, p 24.

Finally, while the fact that respondents soundly rejected the service bundle in which the lowest price on offer was accompanied by material reductions in the service levels of all service attributes - including those of high importance to them - is likely to be a reflection of the importance of service to customers, it may also have been a reflection of respondents feeling that they have already paid for the current level of service in the recent significant increases in the cost of electricity distribution services, and that these service levels - or at least some of them - should be able to be maintained while lowering charges. It is worth noting that such a view would be consistent with the narrative provided to customers in the Regional Briefings for why prices had escalated to the extent they had over the recent past¹⁸.

It is likely that customers' historic experience - and what they have been told by the distribution businesses regarding that experience and the lower price rises expected in the near term - need to be considered in seeking to understand the research results. The customer is not a "clean sheet" in the process of considering trade-offs between price and service levels. As noted, one of the key concerns of Ausgrid customers was "I strongly believe prices are high enough". This concern was echoed by Endeavour Energy customers: "Anything Endeavour can do to keep costs down is welcome", and even more pointedly: "Why can't you keep the lights on...I'm paying a lot for this service".

In sum, the recent history of unprecedented network price rises, their impact on customers' concerns and expectations, and their willingness to make trade-offs seems likely to be more complex than the relatively black and white conclusions reached by the NSW distribution businesses. It is entirely plausible, given the results of the willingness to pay research, that well-supported conclusions could be drawn from the research that would differ markedly from and not support the hypotheses posed by the distribution businesses in their research brief to Ipsos.

As noted by the Consumer Challenge Panel "evidence of the WTP by consumers can provide useful insights on consumer preferences about competing priorities . . ." ¹⁹ The results of the willingness to pay research that was commissioned by the NSW distribution businesses and carried out by Ipsos does indeed provide "useful insights". It is best used in our opinion to suggest further refinement to the options being considered rather than a determinative statement on the specific bundle of service levels and price to be offered by the businesses.

In particular, options for cost reductions in other parts of the business and service levels in other areas of documented concern to customers should be considered. The option of offering compensation when service shortfalls occur rather than just price changes for a definitely reduced level of service could also be tested. Finally, allowing more time in the aspects of the research design noted above to improve targeting, relevance and accuracy should also be considered in future efforts.

18 Example in Ausgrid Revised Regulatory Proposal (February 2015) - Attachment 2.08 Ausgrid regional briefings presentations - January 2015

19 Consumer Challenge Panel submission.

3. Other considerations

Two other considerations may be worth considering regarding the role of willingness to pay research in AER regulatory determinations:

- The relationship of WTP study values for reliability as compared to the use of benchmarking

Benchmarking establishes the level of service that can be provided at a given cost by similar distribution businesses. How should research documenting a willingness to pay more for a higher level of service (or less for a lower level) be viewed in regulatory proceedings where that same level of service is already provided elsewhere at a lower relative cost? Would such an instance imply the possibility that trade-offs in less-valued service attributes areas may have already been made in those jurisdictions and that these could usefully be identified and tested in the jurisdiction could be reviewed?

- The relationship of WTP study values to AEMO's VCR values

The Australian Energy Market Operator has recently undertaken a NEM-wide study that established the value that residential (and other customer classes) place on the reliability of their electricity supply. How should research documenting a willingness to pay more than the VCR for a higher level of service be treated in regulatory proceedings? Similarly, where a willingness to pay study documents a lower willingness to accept value than the VCR, how should that be handled in a regulatory proceeding considering reduced reliability for reductions in network charges?

In this regard, it might be informative to convert the reductions in reliability and reduced quarterly network charges to an equivalent VCR.