

Attachment C.3

SAPN_The NTF Group Report on Business SA Research

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C.3: Report on Business SA Research

Prepared for SA Power Networks

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Review Team

Greg Taylor

Joan Nelson

Tony Corke

The NTF Group Pty Ltd

5 Lime Street,

Suite 318

Sydney NSW 2000

Australia

P: +61 02 9290 2441

www.ntf.com.au

1. INTRODUCTION

1.1 Scope of this report

The NTF Group (“NTF”) has been engaged to prepare this report by SA Power Networks (“SAPN”). The context of this report is the Distribution Determination being conducted by the Australian Energy Regulator (“AER”) in relation to SAPN's Revised Regulatory Proposal for the 2015-20 period.

This report addresses the brief from SAPN to examine the research undertaken by Business SA and referred to in its submission to the AER titled 'Business SA: SA Power Networks Regulatory Proposal 2015-20, January 2015'. NTF's examination of the research was to include an assessment of the sample, survey design, questionnaire sequencing and wording, as well as the analysis of results.

1.2 Expertise

The NTF Group is a leading Insights and Analytics firm, with expertise in, and a specialist focus on, *inter alia*, “willingness to pay” research. NTF has been in operation for nearly 20 years, and its clients count amongst some of the largest, most influential and reputable corporations in the Asia Pacific region.

The consultants undertaking this review have over 70 years of combined experience in market research survey and analysis techniques and their application.

Curriculum Vitae of the NTF project team are appended.

1.3 Constraints

While Business SA has disclosed the questionnaire and sample size, no other documentation relating to the methodology has been released. This means NTF's assessment is confined to the questionnaire and sample.

2. REPORTED RESEARCH FINDINGS & BUSINESS SA CONCLUSIONS

In a media release¹ Business SA highlights the following insights based on a survey of its members:

‘Business SA CEO, Nigel McBride said “Our survey of member businesses found 87% want reduced electricity prices as their highest priority. Furthermore, 89% are not willing to pay more for increased reliability.”’

Business SA then goes on to justify, at least in part, its proposals to avoid or defer investment in the network on the basis of these findings.

¹ <http://business-sa.com/business-advocacy/advocacy/all-news/article/business-calls-for-electricity-price-relief>

3. NTF REVIEW OF BUSINESS RESEARCH

3.1 Preamble to the Survey

- In its introduction to the survey, Business SA states: “we are very aware of the impact the rising costs of electricity have had on business in recent years and we will do all we can to ensure electricity prices are as low as possible”
- Business SA then encourages members to ‘send a stronger message to Government’ through participating in the survey.
- This is a leading introduction to the survey. Business SA has not attempted to give members license to express alternate opinions (e.g “there are no right or wrong answers”), but are imploring members to reinforce their own view.
- As such, this exercise does not constitute professional market research (which is designed to objectively elicit opinions), but is more akin to lobbying.

3.2 Sample

- The small sample size of 167 is problematic. Unless this represents a significant proportion of the entire membership base of Business SA ², which we understand is not the case, then the sample variance is +/- 7.6%.
- Importantly, given the leading introduction to the survey, it is possible those businesses with opposing views chose not to participate, so there is a real risk of self-selection bias, as businesses disagreeing with Business SA’s statements on electricity prices may have been less inclined to participate.
- The composition of a small sample like this is critical and Business SA did not provide these breakdowns. A key unresolved question is how the composition of the Business SA survey (e.g size of business, industry sector) compares with ABS data for all businesses in SA. Business SA has not made this information available.

3.3 Questionnaire design and wording

We regard the research as leading and simplistic in its design and execution, and any conclusions drawn from this survey to be incorrect and misleading.

We consider the following questions to be likely to lead to erroneous conclusions:

- Q4. How much have your electricity costs increased since 2009?

There is no opportunity to answer zero and the assumption is that electricity costs have increased. This should have been a two part question – eg. Have your electricity costs increased, decreased or stayed the same? And then (if increased or decreased) by how much?

There is a very imprecise time frame, giving six years; this is a long time and it is hard for a respondent to differentiate.

- Q5. What has been the actual impact of rising electricity costs on your business since 2009?

² In which case it would be legitimate to apply the finite population correction factor.

There is again an assumption that there have been rising costs and these have had an impact on the business. No scope is given to say 'not applicable'.

- Q6. Please rank the following from 1 (most important) to 5 (least important) for what should be the priorities for SA Power Networks over the next five years:

The ordering of the answer frame is leading as it positions 'reduce electricity costs' as the first option on the list.

- Q7. Do you have any direct experience of the customer engagement process SA Power Networks recently undertook to **substantiate** its spending measures over the next 5 years? (our emphasis)

This is perhaps the most concerning of all of the questions as it is clearly making the assumption that the customer engagement process, which was in fact an open exploration of customer needs, was seeking to engage in persuading customers.

The survey questionnaire is attached to this report as Appendix 5.1.

4. CONCLUSIONS

Business SA has clearly not utilised a professional research firm or methodology, and as a consequence the survey is deeply flawed.

Specifically, the sample is small and possibly not representative of all business (or even representative of Business SA's approximately 5,200 members).

The risk of self-selection bias is heightened by the highly leading introduction, which leaves an unresolved question as to whether the 97% of Business SA members who chose not to respond did so because they disagreed with Business SA's own views about electricity prices, or for other reasons.

Critically the question wording is leading and biasing.

5. APPENDICES

5.1 Survey questionnaire

Electricity Costs

SA Power Networks (formerly ETSA) is owned by the Hong Kong based 'Cheung Kong' group and ASX listed Spark Infrastructure and manages and operates South Australia's electricity distribution network (the poles and wires). Because SA Power Networks operates in a natural monopoly market, its revenues and performance are regulated by the Australian Energy Regulator (Federal Government). As part of the regulatory process, SA Power Networks must submit a proposal to the AER every five years which sets out how much it will spend on capital and operating expenditure and what that means for the prices paid by customers, including business.

Business SA is preparing a submission to the AER on SA Power Networks' 2015-20 regulatory proposal to ensure all its proposed spending is prudent and that the AER focuses its regulatory powers on achieving outcomes consistent with the needs of SA businesses. We are very aware of the impact the rising costs of electricity have had on business in recent years and we will do all we can to ensure electricity prices are as low as possible to achieve the levels of service required by business. To help inform our submission and to send a stronger message to the Government about the importance of reliable electricity delivered at a cost effective price for business, we need your help by filling out this anonymous survey. If you encounter any problems with the survey or would like to discuss this topic further, please feel free to contact Andrew McKenna, Senior Policy Adviser at andrewm@business-sa.com or on 8300 0009

Question 1 of 7

***1. What industry do you operate in?**

Question 2 of 7

***2. How many employees do you have in SA?**

Question 3 of 7

***3. What is your preference in terms of the trade-off between level of service (reliability) and price for electricity?**

- Can sacrifice some reliability for a lower price.
- Reliability is about right and not willing to pay more.
- Want better reliability and willing to pay more.

Question 4 of 7

***4. How much have your electricity costs increased since 2009?**

- <20%
- 20%-40%
- 40%-60%
- 60%-80%
- >80%

Question 5 of 7

***5. What has been the actual impact of rising electricity costs on your business since 2009?**

(If you can provide any detail about the nature of how electricity is used in your business, this will also be helpful.)

***6. Please rank the following from 1 (most important) to 5 (least important) for what should be the priorities for SA Power Networks over the next five years:**

Please note - Once you begin ranking, your selected responses will move to the number chosen.

<input type="text"/>	Reduce electricity prices
<input type="text"/>	Spend on measures to improve the reliability of electricity
<input type="text"/>	Spend on measures to mitigate bushfires
<input type="text"/>	Spend on measures to prevent car accidents involving stobie poles
<input type="text"/>	Spend on measures to improve customer service

Question 7 of 7

***7. Do you have any direct experience of the customer engagement process SA Power Networks recently undertook to substantiate its spending measures over the next 5 years.**

Yes

No

8. If yes, do you mind providing your contact details for Business SA to speak to you about that experience?

5.2 NTF Review Team

Greg Taylor CV

Joan Nelson CV

Tony Corke CV

GREG TAYLOR - DIRECTOR

Greg Taylor has over eighteen years' experience in the design, implementation and analysis of both qualitative and quantitative research. He is a member of the AMSRS. Before co-founding The NTF Group with Joan Nelson in 1995, he was the General Manager of the Financial Market Research division of a national market research agency, with a team of researchers specializing in financial markets. He has particular expertise in the areas of customer segmentation, value proposition development, customer selection and targeting, database modelling and choice modelling and demand projections.

Greg has been involved in numerous econometric and discrete choice modelling studies for transformational studies in both infrastructure and services. His experience in quantitative research is essential for segmenting and sizing the market. He has implemented research in many organizations and has played a key part in organizational transformation.

Greg has been an Adjunct Professor of Boston University and has lectured at the Australian School of Government (ANZSOC) on the use of quantitative methods in government policy development as related to decision making under uncertainty.

Over the past years he has managed assignments in Australia, China, New Zealand, the United Kingdom, and the United States for major Australian and multinational clients.

Major projects for which he has conducted research include:

- Customer satisfaction modelling for Telstra
- Customer segmentation and organizational transformation for Australia Post
- Customer satisfaction modelling for Suncorp
- Analysis of customer data and customer segmentation for Department of Human Services
- Demand projections for transport and housing in Shanghai
- Regulatory pricing: Willingness to pay for new water infrastructure, Yarra Valley Water (2 re-sets)
- Regulatory pricing: Willingness to pay for electricity infrastructure, Citipower
- Regulatory pricing: Willingness to pay for electricity infrastructure, SAPN

Greg has been involved in numerous econometric and discrete choice modelling studies for both infrastructure and services. His experience in quantitative research is essential for segmenting and sizing the market.

He has developed expertise in online quantitative research, particularly in the area of choice modeling, using NTF's own software.

In recent years he has become a regular speaker at 'Big Data' conferences and has taught groups at the AGSM the fundamentals of dealing with large data sets.

JOAN NELSON – DIRECTOR

Joan Nelson is a highly experienced qualitative researcher, member of the MRSA, and the American association of qualitative research consultants, QRCA. She was previously NSW General Manager of a national research company and was responsible for introducing choice modelling to the Group. She has special interests in social policy research, infrastructure, and the use of choice modelling techniques in a social context.

Major infrastructure projects for which she has conducted qualitative research include:

- Sustainable Sydney: Community Attitudes to sustainable transport and planning in Sydney
- Friends of Sydney: community attitudes to public transport
- Bishop Austrans: Evaluation of attitudes to new ultra light transport
- Demand for accessible transport – people with various disabilities
- Women’s transport needs – multi-trip transport
- Transport for Greater Sydney: Attitudes amongst transport decision-makers to what the public wants of public transport, compared to what the public wants
- Personal Public Transport – Perth; Gold Coast
- Queensland Rail: freight customer attitudes
- Attitudes to transport and housing needs in Shanghai
- Feasibility study for VFT (South Coast route – Sydney to Melbourne 1990)
- Willingness to pay for new water infrastructure – Victoria and South Australia
- Willingness to pay for new electricity infrastructure - Victoria

Joan has been involved in numerous demand projection studies for infrastructure, new services and new products. Her experience in qualitative research is essential for these quantitative studies as her work assists in segmenting the market and defines the attributes on which customer decisions are based.

TONY CORKE – HEAD OF MODELLING & ANALYTICS

Tony Corke is responsible for a team of experienced, in-house analysts and for sourcing and managing suppliers of world-class modelling services from a range of prestigious institutions.

His experience managing the analysis for large and complex projects in eHealth, e-commerce, banking and finance sectors well qualifies him for analysing the data across a wide range of client organisations. He has developed customised algorithms for numerous clients to append on their own internal databases and provide predictive selection of data for internal use. He believes strongly in knowledge transfer and is a valued member of Analyst First, an organisation that works closely with a number of government departments to support higher level analytics within those organisations.

Tony's impressive work history has helped him gain expertise in information architecture and management, data warehousing, customer relationship management, as well as data-driven and internet marketing. Previous roles have included Vice President Information, for a US internet startup company, Chief Manager, Information Management for one of Australia's 4 major banks, and Programme Director, Group Information Programme also for a major Australian bank.

Modelling and analysis projects include:

- Customer segmentation and profiling for Department of Human Services
- Customer demand modelling for electricity infrastructure
- Willingness to pay for electricity infrastructure (SAPN 2015 re-set)
- Modelling ROI of Wireless infrastructure in a major hospital in NSW
- Analysis of benefits of a Radiology information Service in hospitals in Queensland
- Willingness to pay for water infrastructure in Victoria and South Australia
- Willingness to pay for electricity infrastructure for Victoria
- Modelling environmental attitudes for a large project on sustainability in Victoria

In addition to these projects, Tony has been head of analytics for a range of studies where his background in econometrics, and as a former CIO of a major Australian bank has been invaluable.