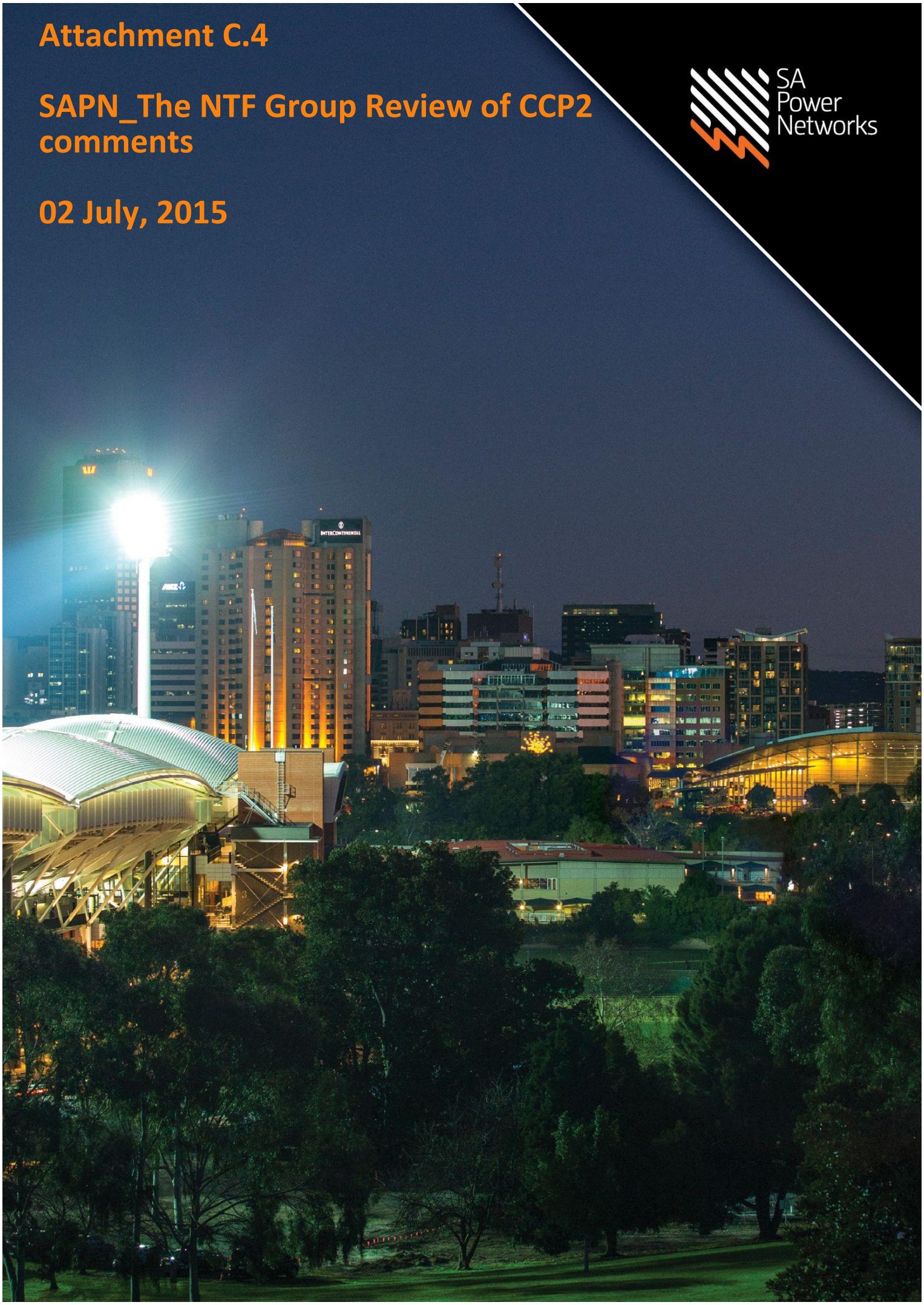**Attachment C.4**

SAPN_The NTF Group Review of CCP2 comments

02 July, 2015

C.4: Review of CCP2 comments

Prepared for SA Power Networks

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Review Team

Greg Taylor

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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 limited comments made by the CCP2 on SAPN's Customer Engagement Program (CEP), as outlined in its Original Regulatory Proposal.

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 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.

2. CCP2 COMMENTS

While acknowledging the extensive consumer research program undertaken by SAPN, CCP2 exercise caution in linking Willingness To Pay (WTP) to investment decisions because they state this research is in its *"conceptual and practical infancy"*.

The CCP2 then raise a number of specific concerns about the application of SAPN's consumer research including:

- Consumers not understanding the regulatory structure
- Consumers not being informed of the components of price (eg WACC)
- Price reductions were not explored
- Conflict between direct consumer feedback and the results of a scientifically designed survey.

3. NTF REVIEW OF CCP2 COMMENTS

3.1 Discrete Choice Modelling and Willingness to Pay are mature methodologies

The CCP2 comments that WTP research "is still in its infancy". This is incorrect. WTP uses choice modelling methodology, which not only has been endorsed in the past by IPART and other energy regulators such as ESCoSA, but also is internationally recognised in many commercial arenas as best practice research. It has been used across a large number of willingness to pay studies for several decades.

Choice modelling and WTP are commonly used to value community improvements for the environment, transport and healthcare.

3.2 The level of consumer understanding of regulatory structure doesn't impact consumers' ability to make choices

The CCP2 raises concerns about the level of regulatory and industry understanding among respondents, in the context of their ability to provide valid feedback. We agree this is a laudable goal. That is why in early qualitative stages of the CEP, SA Power Networks used its senior executives to provide educative information in workshop settings, and in the quantitative on-line survey, targeted educative information was provided in the survey instrument, to the extent practicable.

With regard to the WTP research component of the CEP, respondents do not need an understanding of the industry or regulatory framework in order to make trade-offs relating to their own household budgets. Consumers make trade-offs regarding financial products and services, telephony products, and so on, without understanding how those industries are regulated. The critical issue for the WTP research is that we explained to respondents the proportion of their bill accounted for by electricity distribution, and also explained the total electricity bill impact of their choices.

Further, CCP2 note that in conveying total bill impacts, respondents were not made aware of reductions in WACC. Again, changes in WACC are irrelevant in relation to the choices consumers are being asked to make (this particular service improvement in return for this increase in your electricity bill). WACC is a complex issue to explain for respondents, as well as being irrelevant to the choices they are being asked to consider.

3.3 The opportunity for consumers to reduce electricity bills was explored in a dedicated survey

A representative from the CCP2, in a public forum on 10 December 2014, listed a number of criticisms. We provide the following points:

- The CCP2 asserted that network price/charges reductions were not adequately explored in the CEP research. We refute this. The NTF Service-Price survey (refer to Attachment 17.3 of SAPN's Original Proposal) showed results consistent with similar surveys from other jurisdictions, namely that the vast majority (80%) of households would prefer to pay the current cost for the current reliability level, 11% would prefer to pay more for a more reliable standard of service and 9% would prefer to pay less for a less reliable standard of service.

- Another point questioned basic research sampling matters. Both NTF surveys as part of the CEP were representative of the population and post-weighted in accordance with industry best practice.

3.4 Direct consumer feedback needs to be treated as anecdotal

The CCP2 representative, in the preliminary decision conference on 13 May 2015, listed additional criticisms. We provide the following points:

- The CCP2 cites direct feedback to undermine certain CEP research findings. It needs to be stressed that responses to the CCP2 are self-selecting and therefore unless the CCP2 has undertaken professional market research to gauge opinion from a large and representative group of South Australian households, this feedback needs to be considered anecdotal only. For example, CCP2 states it is problematic that low income households would be willing to pay for additional services. A key finding of the WTP research is that low income households are not monolithic, but exhibit diversity in their willingness to pay. For example low income households with solar PV had very high willingness to pay compared, for example, to high income households without solar. To stereotype low income households is simplistic and does not reflect their views and preferences, which are indeed diverse.
- The CCP2 made reference to the SACOSS submission's attached research report, conducted by Colmar Brunton Research. That report is methodologically flawed for reasons set out in our Report on SACOSS' Consumer Research. The 93% of respondents they cite who want a reduction in the price of electricity is the product of a simplistic and biased question and therefore this assertion should be discounted.

4. CONCLUSIONS

The CCP2 acknowledge they are not subject matter experts on WTP methodologies and this may explain how they underestimated the maturity of WTP methodologies. WTP research has been used for decades to value community improvements for the environment, transport and healthcare.

NTF agrees with the CCP2 that it would be ideal for the community to have a better understanding of the electricity industry structure and regulation, but we reject that this is required for consumers to be able to make price (expressed in terms of full bill impacts) and service trade-offs. In fact, consumers make these decisions all the time, often in the absence of clear understanding of how markets are regulated.

We presume the CCP2 was unaware of the Service-Price survey (contained in SAPN's Original Proposal) which canvassed consumer preference for reducing electricity costs.

It is concerning that stakeholders, such as the CCP2, are treating anecdotal information (e.g. the opinions of individuals or small groups) in the same category as information obtained through robustly designed surveys (using random sampling), from which information can be inferred about the whole community.

5. APPENDICES

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.