

2 CUSTOMER AND STAKEHOLDER CONSULTATION

TasWater is a provider of essential services in Tasmania, and it is imperative that it provides these services in a manner that customers and stakeholders can easily understand, and is consistent with their needs and expectations.

To this end, the Economic Regulator required TasWater to consult with its customers and stakeholders during the development of its proposed PSP. TasWater was further required to provide details on the extent and nature of its consultation processes in its proposed PSP, including matters on which it had consulted and the feedback it received in response.

Specifically, the Economic Regulator required TasWater's proposed PSP to include the following information:

- an outline of the consultation undertaken with industry regulators, customers and stakeholders during the preparation of the proposed PSP;
- the objectives of the consultation, specifying issues consulted on and the consultation methods used;
- a summary of feedback received from customer committees, customers and other stakeholders during consultation processes;
- an explanation of how consultation outcomes are reflected in the proposed PSP; and
- any significant issues of customer interest the Economic Regulator should be aware of in its consideration of TasWater's proposed PSP Plan – particularly where TasWater has decided not to address these concerns.

The Economic Regulator also required that TasWater present its proposed PSP (and any supporting consultation information) in plain English so a wide range of stakeholders could understand it.

This chapter outlines the Economic Regulator's understanding, based on the information provided by TasWater, of the consultations that occurred between TasWater and its customers and stakeholders to inform the development of TasWater's proposed PSP, and how the proposed PSP reflects the outcome of these consultations.

2.1 TasWater's approach for the second regulatory period

In its *Tasmanian Water and Sewerage Industry 2014-15 Price Determination Investigation Price and Service Plan Guideline*, (October 2013), the Economic Regulator required TasWater to include a chapter dedicated to its customer and stakeholder consultation process but did not specify what that chapter should contain. TasWater described its consultation methods and some of the feedback it received, outlining three main methods of customer and stakeholder consultation:

- targeted market research, including a phone survey and regional focus groups;
- one-on-one discussions with key stakeholders; and
- inviting written submissions in response to its proposed PSP.

Most of TasWater's discussion of its customer and stakeholder consultation process in its PSP for the second regulatory period focused on the submissions it received. TasWater also included minimal information about the feedback it received from its other forms of customer and stakeholder consultation, and no information about how it had incorporated that feedback in the preparation of its PSP.

Given the shortcomings of TasWater's discussion of its customer and stakeholder consultation methods and their outcomes in its PSP for the second regulatory period, the Economic Regulator provided guidelines for TasWater's discussion of customer and stakeholder consultation in its proposed PSP for the third regulatory period that were more prescriptive.

2.2 TasWater's approach for the third regulatory period

TasWater's approach to customer and stakeholder consultation during the development of its proposed PSP for the third regulatory period comprised four main elements:

- a Consultation Issues Paper aimed at informing customers and stakeholders of TasWater's key challenges and priorities entering the third regulatory period;
- focus groups and telephone surveys involving representative cross-sections of TasWater's customer group;
- one-on-one interviews with TasWater's key stakeholders, peak bodies and regulators allowing detailed discussion and feedback on TasWater's key challenges and priorities; and
- a summary to customers and stakeholders of the feedback received during the consultation process, and an explanation of how and why TasWater planned to act (or not act) on it.

The Economic Regulator notes that TasWater based its consultation approach on the International Association for Public Participation's Community Engagement Spectrum, which is widely viewed as an example of industry best practice in customer and stakeholder consultation. TasWater also appeared to expand and build on its consultation approach from the second regulatory period.

2.2.1 Consultation Issues Paper

TasWater published its Consultation Issues Paper for the third regulatory period on its Yoursay website on 16 December 2016. The paper included information in response to various issues raised by customers and stakeholders in discussions with TasWater, addressing among other things:

- TasWater's priorities for action and expenditure during the third regulatory period;

- what TasWater customers would view to be reasonable and acceptable service charges;
- the relationship between customer charges and TasWater's service standards;
- an explanation of TasWater's serviced land policy and charges;
- the cost of new developments to the water and sewerage system, and how TasWater can recover these costs; and
- TasWater's trade waste policy and practices.

TasWater invited submissions in response to the issues raised in the paper or any other matters that customers and stakeholders wished to raise with TasWater. Submissions in response to the paper closed on 17 February 2017.

2.2.2 Focus groups

During December 2016, TasWater conducted a series of six focus groups; three with residential customers (one each in Hobart, Launceston and Devonport) and three with small and medium business customers (one each in Hobart, Launceston and Devonport). These focus groups sought specific customer feedback and perceptions on the issues covered in TasWater's Consultation Issues Paper.

2.2.3 Individual interviews and discussions

TasWater held individual interviews and discussions with representatives from its major business customers, and with various peak bodies acting on behalf of the business and community sectors. These interviews covered topics largely based on the Consultation Issues Paper.

According to the information provided by TasWater, around 60 of its major business customers participated in the interview process, including major processing plants, public housing managers, operators of aged and community care facilities and agricultural operations. TasWater reported that the interviews with these customers typically lasted between 20 and 60 minutes, depending on the level of interest and the number and complexity of issues raised.

TasWater also consulted with 13 peak bodies, either by phone or by face-to-face interview.

2.2.4 Telephone surveys

In early 2017, TasWater engaged ORC International (ORC) to conduct a telephone survey of TasWater customers. The survey sample consisted of 511 customers, of whom 105 were business customers and 406 residential customers. Based on information provided by TasWater, this sample size ensured a statistically valid representation of the views of TasWater's customer base.

ORC used random digit dialling to contact residential customers from across TasWater's geographical service area, and selected a random group of business customers from TasWater's databases. The survey only included customers who receive bills from TasWater for water and sewerage services.

TasWater notes that the raw data received in response to the survey may not be representative of the general Tasmanian population, as some Tasmanians (for example residential renters) receive water and sewerage services from TasWater but do not receive bills, while others live in areas that do not receive reticulated water and sewerage services. To correct for these potential differences between TasWater's customer base and the broader population of Tasmania, and consistent with industry standards, ORC applied a demographic weighting to the survey results.

The telephone survey questions covered topics including TasWater's priorities for expenditure and outcomes during the third regulatory period, pricing and tariff structures, price and service trade-offs, and policies.

2.3 Outcomes from TasWater's consultation

The following sections:

- summarise the information that TasWater provided to the Economic Regulator;
- outline the feedback that TasWater received from its customer and stakeholder engagement during the development of its proposed PSP for the third regulatory period; and
- describe how TasWater has incorporated this feedback into the proposed PSP.

2.3.1 Customer priorities for TasWater

Participants in TasWater's focus groups and individual interviews consistently identified the following four matters as priorities for TasWater (in order of importance):

- providing safe drinking water to customers;
- treating sewage and wastewater to agreed environmental discharge standards;
- ensuring adequate supply of water to meet community needs; and
- maintaining the structural safety of dams and reservoirs.

The telephone surveys of TasWater customers returned similar results, although TasWater reports that while there was a very high awareness among the customer base of TasWater's challenges in providing safe drinking water, there was a much lower awareness of the challenges posed by dam safety issues.

The Economic Regulator notes that this list, and order of priorities, aligns with TasWater's Long Term Strategic Plan 2018-2037 (October 2017) (LTSP).

2.3.2 Investment to address key challenges

TasWater invited customers and stakeholders to provide their views on how TasWater should prioritise its spending to address key issues, and whether TasWater's current balance between opex and capex is appropriate.

As noted above, the customers and stakeholders consulted during this process broadly agreed with TasWater's current investment and expenditure priorities. Some also recognised that the expenditure required to achieve particular benefits in one priority area would differ from the expenditure required to achieve similar benefits in a different priority area. Overall, those consulted did not feel that they had adequate experience or expertise to comment further on TasWater's spending priorities.

The Economic Regulator is not surprised at this result, and considers it unlikely that many people in the community would have, or need, an in-depth understanding of the expenses and challenges TasWater faces.

TasWater reported that most customers and stakeholders had no difficulty in understanding the concept of trade-offs in TasWater's investment and expenditure and that spending more in one area may require a reduction in spending in other areas. Those consulted recognised that TasWater would not be able to address all of its priorities at once.

Most customers and stakeholders agreed that TasWater's current levels of opex and capex are reasonable, though some suggested that capex should be slightly higher. While many customers accepted that TasWater would need to increase its levels of investment and expenditure to adequately address the challenges it faces, most indicated a preference for TasWater to identify and explore possibilities for internal cost savings prior to raising customer prices.

As with the matter of spending priorities, the Economic Regulator does not expect that many members of the community have a sufficient knowledge of opex and capex matters, and consequently does not view these results as surprising. The Economic Regulator commends TasWater's decision to consult with customers and stakeholders on its investment and expenditure priorities, but suggests that those consulted need to be provided with sufficient background information to allow them to develop an informed opinion. Otherwise, such consultation is of limited value.

2.3.3 Price increases and tariff structures

Those customers and stakeholders involved in the consultations commented on both TasWater's tariff structures, and on what level of price increases they felt it would be reasonable and acceptable for TasWater to introduce.

2.3.3.1 Price increases

TasWater explained to the customers and stakeholders involved in its consultations that the scale of improvements required to meet its compliance obligations and upgrade infrastructure would necessarily result in increases to TasWater's operating costs. TasWater then asked customers and stakeholders for their views on the level and pace of price increases necessary for TasWater to cover the costs of achieving full compliance.

The telephone survey asked TasWater customers whether they felt that the current rate of annual increase for TasWater prices (roughly five per cent) was acceptable considering the requirements for TasWater to meet compliance obligations and upgrade its infrastructure. Responses to this question varied, but overall TasWater reported that:

- 41 per cent of customers surveyed favoured the current rate of price increase (five per cent per annum);
- 23 per cent preferred an annual increase of two per cent;
- 16 per cent wanted prices to remain the same (that is, no annual increase); and
- most of the remaining respondents preferred an annual price increase of between zero and five per cent.

The Economic Regulator also notes that TasWater's figures show that only one per cent of customers surveyed favoured an annual price decrease, while five per cent expressed no preference.

TasWater reported that the feedback it received from business and community peak bodies largely favoured minimal price increases, either to maintain business confidence or to protect vulnerable and disadvantaged members of the community. TasWater has committed to reviewing its Financial Hardship Policy during the third regulatory period in consultation with customers, stakeholders and regulators.

2.3.3.2 Fixed and variable costs

Residential customers involved in the consultation process received a breakdown of a typical household water and sewerage bill, explaining that roughly 80 per cent of current bills relates to fixed costs (including infrastructure and service provision) and 20 per cent relates to variable costs (including the amount of water used). Business customers did not receive this information, as different businesses can differ considerably in their requirements for water and sewerage services and, consequently, in the size and makeup of their bills.

TasWater reported that 42 per cent of residential customers agreed that an 80 per cent fixed costs ratio in the bill was reasonable and appropriate. Only 20 per cent of business customers gave this response.

The Economic Regulator notes that there is a marked difference between the views of residential and business customers, and that TasWater has not offered any insights as to why this disparity of views exists.

2.3.3.3 Sewerage charges - equivalent tenements

TasWater reported that nearly 60 per cent of business customers consulted supported TasWater changing from its current equivalent tenement method of calculating sewerage charges to an individual calculation method, such as a volumetric discharge factor. Roughly 33 per cent of business customers supported retaining the existing system.

The Economic Regulator notes TasWater's comment that many customers were unclear what is meant by 'equivalent tenement', and suggests that TasWater make a greater effort to explain its equivalent tenement method in a manner that is accessible and understandable to all customers and stakeholders.

Several major business customers who provided feedback argued that the equivalent tenement method is not valid for calculating the sewerage bills of accommodation businesses, as it does not account for the seasonal occupation of rooms. However, TasWater countered this argument by pointing out that fixed costs make up the majority of sewerage costs and that TasWater has designed its sewerage systems to deal with peak season demand. The equivalent tenement rate charged to accommodation businesses reflects these fixed costs and is consistent with the rate used in other jurisdictions such as New South Wales. TasWater therefore does not propose any changes to the equivalent tenement rate for accommodation businesses during the third regulatory period.

TasWater did, however, note that its proposed PSP for the third regulatory period makes certain targeted changes to the existing equivalent tenement method in response to issues raised by representatives of specific business types during the customer and stakeholder consultation process. TasWater also noted that it would retain its current equivalent tenement methodology to avoid the difficulties of changing its billing system and managing customers who are transitioning to target tariffs. Chapter 12 contains further discussion of TasWater's proposed equivalent tenement method.

The Economic Regulator notes that TasWater has committed to review its method for sewerage charging prior to the fourth regulatory period.

2.3.3.4 Fire services

Participants in the customer and stakeholder consultation process largely agreed that TasWater's current arrangements and charges for the provision of fire services are reasonable and appropriate. TasWater notes that these participants included representatives of organisations who have fire systems installed and pay the relevant fire services charges.

2.3.4 Customer service standards

The majority of participants in the customer and stakeholder consultation process felt that TasWater's current response times for attending to water main breaks and sewage spills are appropriate, even considering the fact that increasing these response times could result in lower bills for customers. TasWater also noted that an even larger majority of participants stated that they would be happy for TasWater to increase the time it takes to answer telephone calls to its customer call centre. TasWater's current target is to answer all calls within 30 seconds, but 29 per cent of participants indicated they would be satisfied with a target of five minutes, while 25 per cent responded that they would be satisfied with a target of ten minutes or more.

The Economic Regulator notes that, consistent with these findings, TasWater proposed to maintain its service standards at current levels. However, the Economic Regulator also notes that TasWater has not included any changes to current call centre response times in its proposed PSP for the third regulatory period. Given that any such changes would likely help to reduce the escalation rate of customer bills, the Economic Regulator supports TasWater's intention to investigate possible changes to its call centre response times, in consultation with customers and stakeholders, prior to the fourth regulatory period.

2.3.5 Serviced land

TasWater reported that 59 per cent of the phone survey participants agreed that TasWater should continue its current practices regarding serviced land charges. The Economic Regulator notes that 15 per cent of respondents, although agreeing that TasWater should continue to collect serviced land charges, indicated that they were not happy with the current situation. Further to this, 36 per cent of business customers surveyed indicated a preference for the removal of serviced land charges and for TasWater to increase its other charges to compensate for any resulting loss of revenue.

The Economic Regulator also notes that TasWater presented the question in its phone survey relating to serviced land charges in terms of the cost of change to customers, rather than in terms of the fairness (or otherwise) of its current serviced land arrangements. While this would not necessarily have influenced participants' broader opinions on this issue, the Economic Regulator considers that responses may have been different had the question been presented differently.

2.3.6 Policies for new development

Participants in TasWater's focus groups, and representatives from TasWater's major business customers and peak bodies acting on behalf of the business and community sectors, provided a variety of views on TasWater's current developer charges practices. Suggestions ranged from having all development costs met by developers, to spreading development costs across all TasWater customers on the basis that this would boost economic growth in Tasmania. TasWater reported that its discussions did not reveal any consistent or uniform views among these participants.

Phone survey participants revealed a majority preference for the sharing of developer costs across all TasWater customers, with this preference being higher among business customers (71 per cent) than residential customers (60 per cent). The Economic Regulator notes that the phone survey question relating to developer charges apparently focused only on headworks charges, and did not consider works external or works internal charges. As such, the question was effectively asking whether phone survey participants supported TasWater maintaining its existing developer charges practices with regard to headworks charges.

2.3.7 Trade waste policies and practices

TasWater reported that 84 per cent of phone survey participants supported its current trade waste arrangements, but noted that some of its major customers who produce large volumes of trade waste

have expressed dissatisfaction at the level of support TasWater provides when establishing unregulated trade waste contracts. TasWater suggests that this may be due in part to confusion around its transition to full cost recovery for trade waste customers, and noted that one of the goals of its proposed PSP for the third regulatory period is to provide clear and concise information and policies for its trade waste customers.

The Economic Regulator acknowledges this strong support for TasWater's current 'polluter pays' approach to trade waste, and notes an interesting dichotomy between the phone survey responses relating to trade waste and the phone survey responses relating to developer charges. Phone survey participants were apparently comfortable with TasWater's practice of sharing headworks charges costs across its entire customer base, but expressed the opposite view about trade waste costs.

2.3.8 Incorporation of feedback into TasWater's proposed Price and Service Plan

In its proposed PSP for the third regulatory period, TasWater included a table summarising:

- the key issues it had consulted on;
- the feedback it had received; and
- how it had incorporated that feedback into the proposed PSP.

The Economic Regulator notes that TasWater has prioritised its capex projects for the third regulatory period based on the customer and stakeholder feedback, with a focus on improving compliance while maintaining service standards.

TasWater acknowledged that affordability is a key issue for many of its customers, proposing a limit of 4.6 per cent on its annual price increases and working within this framework to improve its compliance outcomes while reflecting customer priorities. In response to the feedback it received from customers and stakeholders, TasWater has committed to reviewing its Financial Hardship Policy, maintaining its current ratio of fixed to variable costs and reviewing its equivalent tenement methodology prior to the start of the fourth regulatory period.

Given TasWater's focus on improving compliance outcomes during the third regulatory period, and the feedback it received from customers and stakeholders on matters relating to price and service trade-offs, its proposed PSP maintains current service levels rather than increasing them. TasWater will consider changing its call centre response time standard ahead of the fourth regulatory period. It has also initiated a Productivity Improvement Program to identify and implement productivity and business process improvements. The Economic Regulator notes that these measures are consistent with customer expectations and will help TasWater to reduce upward pressure on bills.

Based on the feedback it received during customer and stakeholder consultation on several of its current policies, TasWater's proposed PSP for the third regulatory period does not include any significant changes to these policies. However, the Economic Regulator notes TasWater's commitment to improving the clarity of these policies and working closely with its major trade waste customers during the transition to full cost recovery.

2.4 Economic Regulator's Draft Report conclusions

In its Draft Report, the Economic Regulator considered that TasWater had conducted a thorough customer and stakeholder consultation process through a good mix of forums. The Economic Regulator also considered that TasWater had made obvious efforts to involve and obtain feedback from customers and stakeholders across a range of demographics and regions. While the

Economic Regulator expressed some concern regarding the structure and wording of certain questions that TasWater used in its phone survey, the Economic Regulator judged that the responses to these questions had resulted in TasWater making reasonable assumptions.

Overall, the Economic Regulator felt that TasWater had appropriately reflected the outcomes from its customer and stakeholder consultation process in its proposed PSP. The Economic Regulator therefore considered that TasWater had fulfilled the customer and stakeholder consultation requirements outlined in the Economic Regulator's PSP Guideline.

2.5 Issues raised during consultation on the Economic Regulator's Draft Report

In its submission responding to the Economic Regulator's Draft Report, Nekon stated that TasWater's customer consultation process during preparation of its PSP was inadequate, and involved too many participants who were poorly informed or had little understanding of water and sewerage issues.

Noting Nekon's views, the Economic Regulator considers that TasWater's customer consultation process for its proposed PSP was a significant improvement on its previous customer consultations and was consistent with standard industry practice. The Economic Regulator notes that TasWater made efforts to inform participants of relevant facts and issues prior to and during its consultation processes, but has also acknowledged, in conversation with the Economic Regulator, that more customer education is necessary, particularly in relation to issues like trade waste.

The Economic Regulator's view is that it is appropriate for TasWater to make decisions based on input from its entire customer base regardless of their level of knowledge. The Economic Regulator is concerned that if TasWater limited its customer consultation to those customers with a good understanding of the relevant issues, this would disenfranchise a large proportion of its customer base and could potentially lead to decisions that benefit certain customer groups while disadvantaging the majority. There would also be the problem of judging which of TasWater's customers have a good enough understanding of each particular aspect of its business to warrant involvement in any public consultation on that topic.

2.6 Economic Regulator's decision

While acknowledging Nekon's concerns, the Economic Regulator maintains its conclusion from the Draft Report. That is, the Economic Regulator considers that TasWater has fulfilled the customer and stakeholder consultation requirements outlined in the Economic Regulator's PSP Guideline.

The Economic Regulator concludes that TasWater has fulfilled the customer and stakeholder consultation requirements outlined in the Economic Regulator's Water and Sewerage Price and Service Plan Guideline.