

## 7 SETTING CUSTOMER SERVICE STANDARDS

### 7.1 Regulation of customer service standards

The Economic Regulator is responsible for regulating standards and conditions of supply of regulated water and sewerage services. This does not, however, extend to water quality standards, which are the responsibility of the Director of Public Health, or waste water standards which are the responsibility of the EPA.

The regulation of water and sewerage service standards has been undertaken through the specification of minimum service standard targets within the Customer Service Code as well as the determination of transitional service standards as part of the Price Determination processes.

The Economic Regulator's current approach to regulating water and sewerage services may be summarised as:

- establishing the Customer Service Code;
- establishing minimum service standard targets within the Customer Service Code;
- requiring regulated water and sewerage entities to develop customer charters;
- requiring regulated water and sewerage entities to develop transitional customer service standard proposals as part of price and service plans to move towards the minimum service standard targets within the Customer Service Code; and
- establishing a performance reporting framework that, amongst other things, monitors performance against approved transitional service standards and minimum service standard targets.

### 7.2 Minimum and transitional customer service standards

Minimum service standards are usually developed following consultation with customers on current levels of service and price implications of alternative levels of service provision. However, during the early stages of the water and sewerage industry reform process, this information was largely unknown. That is, the absence of customer service regulation prior to the commencement of reforms for the water and sewerage sector resulted in a general lack of data being collected in relation to customer service. Therefore, the Economic Regulator chose to adopt an alternative approach within the Customer Service Code when it was introduced in July 2010.

The Customer Service Code was initially developed to include a number of minimum service standards that the then regional water and sewerage entities used as targets

for transitioning levels of service provision to an acceptable level over time. The Economic Regulator determined these standards using a benchmarking approach based on existing service standards within Victoria. The Customer Service Code then stipulated that a regulated entity is to achieve the minimum service standards within the second pricing period.

Transitional service standards were subsequently proposed by each of the three regional water and sewerage entities and approved for the first regulatory period (effective from 1 July 2012). Progress of the entities against the agreed performance transition paths was then monitored and reported upon by the Economic Regulator as part of the performance monitoring and reporting framework.

### 7.3 Review of minimum service standards

The Customer Service Code provided that the Economic Regulator would undertake a review of the minimum service standards by 30 June 2013 to take into account cost and service level data which came to light during the first regulatory period.

Accordingly, a review was undertaken with the objective of introducing differential service standards in the second regulatory period to reflect the different costs of delivering the regulated services to different geographical areas. The adoption of differential service standards was considered particularly important in the context of proposed 'postage stamp' pricing for water and sewerage services across the State. Under postage stamp pricing, charges are the same across the State regardless of location or the cost to provide these services. In this environment, differential service standards provide an opportunity to achieve more efficient outcomes that reflect different costs of service provision across the State, without affecting uniform state-wide prices.

It was presumed, at the time of the review, that the water and sewerage entities would have a better understanding of the systems involved and the different costs to provide services over those systems. Therefore the implementation of a differential service standard approach was more likely to be practically achievable.

However, it quickly became evident, through representations by the previous regulated entities, that there were still issues with the availability of comprehensive cost and service level data on a detailed system or area basis. Despite this, the Economic Regulator resolved that, on the grounds of what information was known at that time, and what further data would become available in the short to medium term, there was scope for the adoption of appropriately defined differential standards of service in the second regulatory period.

To this end, the Economic Regulator proposed that moving to a 'metropolitan' and 'non-metropolitan' split would be the most practical and achievable basis for differentiation of service standards.

It was resolved that the appropriateness of zone boundaries for such differentiation would be assessed in consultation with the newly amalgamated water and sewerage entity, TasWater (which commenced operations on 1 July 2013). The Economic Regulator stated that it would require TasWater to determine and provide

advice of its relevant metropolitan and non-metropolitan areas, identifying these zones with the use of maps (which may, for example, be systems based). TasWater would also be required to detail the characteristics it had used for justifying the provision of different levels of service across those defined metropolitan and non-metropolitan areas. This information was required to be submitted by TasWater as part of its proposed Price and Service Plan and considered by the Economic Regulator as part of the second price determination investigation process.

#### **7.4 Assessment of customer service standards proposed by TasWater**

As part of the Economic Regulator’s Customer Service Code review, it was resolved that TasWater would have to achieve the new minimum service standard targets, set on a differential basis, before the conclusion of the third regulatory period (which is scheduled to commence on 1 July 2018).

TasWater was responsible for proposing, in its proposed Price and Service Plan for the second regulatory period, the new differential minimum service standard targets that will be included in the Customer Service Code. In addition, TasWater was to propose transitional service standard targets for each financial year of the second regulatory period to demonstrate how the entity intends to transition towards the minimum service standards it proposed.

The progress of TasWater in relation to achieving its agreed performance obligations, as it transitioned towards the targets, would be monitored and reported upon by the Economic Regulator as part of the performance monitoring and reporting regime.

The Economic Regulator’s PSP Guideline for the 2014-15 price determination investigation, issued in November 2013, clearly outlines the obligations of TasWater in the setting of customer service standards.

Relevant industry officers had significant involvement in the development of the revised customer service standards framework for the second and subsequent regulatory periods. Despite this, the Economic Regulator noted that TasWater had not proposed service standards, nor outlined any associated transition path, on a differential basis. Rather, TasWater proposed state-wide minimum service standards as well as annual transition targets to move to the service standard targets during the second regulatory period.

Under this proposal, in reporting against the level of service standards, TasWater would effectively be continuing to report aggregated performance (ie averaged out across the system).

In its proposed Price and Service Plan TasWater noted that relevant to the consideration of service standard differentiation was TasWater’s operating model, customer engagement, the focus of TasWater’s 2015-18 capital program and data quality issues. Furthermore, in considering the impact and interaction of a number of factors in this regard, TasWater maintained that it was not in a position to propose

the requisite service standards, nor the associated transitional standards, on a differential basis, at this time.

The Economic Regulator did not find TasWater's argument to be persuasive and, accordingly, sought a more detailed explanation from TasWater as to the reasons for its inability to develop and propose differential service standards.

TasWater subsequently agreed to provide the Economic Regulator with further justification for not proposing differential service standards at this time. However, the Economic Regulator noted that this advice, when received, simply reflected what had already been documented in TasWater's proposed Price and Service Plan. That is, that TasWater did not have the necessary reliable data about its assets and relevant performance to propose differential service standards that would be meaningful for TasWater as a business or its customers.

As noted above, the omission, by TasWater in its proposed Price and Service Plan, of differential service standards results in there remaining only one set of proposed customer service standards for the State.

Differential service standards, either between or within regions, are preferred as they better reflect the different customer expectations and the different cost of service delivery across geographical areas. This has the potential to generate cost efficiencies for TasWater. The Economic Regulator remains concerned that this matter has not been addressed and will undertake further discussions with TasWater in order to resolve this issue.

Notwithstanding, the Economic Regulator undertook an assessment of the minimum service standards proposed by TasWater in its proposed Price and Service Plan and offered, in its Draft Report, the following comments for consideration.

The Economic Regulator noted that the minimum service standards as listed by TasWater were taken directly from Schedule 1 of the Customer Service Code. In this way, TasWater had not proposed any variation to the current minimum service standard targets, as approved by the Economic Regulator for the first regulatory period. Rather, TasWater had, for the majority of indicators, proposed new transitional service standards it intended to achieve over the second regulatory period.

Table 7.1 provides a comparison of the annual transition targets approved as part of the first Price Determination, for the then three regional regulated entities, and the targets proposed by TasWater for the duration of the second regulatory period (note that the table includes some updated information provided by TasWater after it submitted its proposed Price and Service Plan). For the purposes of this comparison, an average of the approved targets for the three previous regulated entities was calculated.

**Table 7.1 Minimum service standards – transitional pathway comparison**

Indicator	Minimum Service Standard	Average of previous regulated entities			TasWater		
		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>WATER:</b>							
Unplanned water supply interruptions (per 100km of water main)	32	49	48	46	55	45	32
Average time taken to attend bursts and leaks – Priority 1 (minutes)	30	48	44	37	40	35	30
Average time taken to attend bursts and leaks – Priority 2 (minutes)	120	120	120	120	120	120	120
Average time taken to attend bursts and leaks – Priority 3 (minutes)	1 440	1 440	1 440	1 440	1 440	1 440	1 440
Average frequency of unplanned water supply interruptions (number per customer)	0.10	0.20	0.19	0.17	0.20	0.15	0.10
Average frequency of planned water supply interruptions (number per customer)	0.10	0.20	0.17	0.13	0.15	0.15	0.10
Average unplanned customer minutes off water supply (minutes)	20	22	22	20	25	25	20
Average planned customer minutes off water supply (minutes)	15	25	25	22	20	15	15
Average duration of unplanned water supply interruption (minutes)	100	153	147	140	140	120	100
Average duration of planned water supply interruption (minutes)	180	260	248	230	220	200	180
Unplanned water supply interruptions restored within 5 hours (per cent)	98	89	90	93	85	90	98
Planned water supply interruptions restored within 5 hours (per cent)	95	72	75	78	80	90	95
Number of customers receiving more than 5 unplanned water supply interruptions in a financial year (number)	0	167	167	167			0
Unaccounted for water (per cent)	10	25	24	20			10
<b>SEWERAGE:</b>							
Sewer breaks and chokes (and spills) (per 100km of sewer main)	28	60	55	51	55	40	28
Average time to attend sewer spills, breaks and chokes (minutes)	41	70	65	60	60	50	41
Average sewerage service interruption (minutes)	150	210	203	190	200	180	150

Indicator	Minimum Service Standard	Average of previous regulated entities			TasWater		
		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Sewerage spills contained within 5 hours (per cent)	99	93	93	95	99	99	99
Customers receiving more than 3 sewerage service interruptions per year	0	167	167	167	0	0	0
<b>CUSTOMERS:</b>							
Total water and sewerage complaints (per 1000 properties)	9	9	9	9	7	7	7
Water and sewerage complaints to Ombudsman (per 1000 customers)	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Percentage of calls answered by an operator within 30 seconds	90	73	78	83	85	90	90

The above transition paths for TasWater appeared satisfactory when considered against an average of those approved for the previous regional regulated entities for the first regulatory period. The Economic Regulator however noted that for the ‘Total water and sewerage complaints (per 1 000 properties)’ indicator, TasWater expected to exceed the minimum service standard target for each year of the regulatory period but had not proposed a revision to that standard in the Customer Service Code. Notwithstanding, the Economic Regulator was satisfied that the proposed transitional service standards for TasWater were reasonable.

To this end, the Economic Regulator assessed the current minimum service standards, and TasWater’s proposed transition path for 2015-16 to 2017-18, for reasonableness against TasWater’s 2013-14 performance data.

TasWater’s performance data for 2013-14 provides an annual result for each indicator calculated as an average of performance outcomes for the northern, north-western and southern regions of the State.

Based on 2013-14 performance data, for the majority of indicators TasWater achieved a comparable or better than minimum service standard result. However, there were several indicators against which TasWater’s result for the 2013-14 year were deficient in comparison to the minimum service standard as set for the first regulatory period. For example, for the indicators in question, TasWater failed to achieve a performance result, in 2013-14, within 30 to 300 per cent of the associated minimum service standards as outlined in the Customer Service Code. This was the case for indicators such as ‘Unplanned water supply interruptions (per 100km of water main)’, ‘Average duration of planned water supply interruptions (minutes)’ and ‘Sewer breaks and chokes (and spills) per 100 km of main’. Notwithstanding such results, TasWater chose not to propose revised minimum service standards for these indicators which would suggest that the entity considered achievement of these standards possible.

Not proposing any amendments to the already three year old minimum service standards (that were based on Victorian service standards at that time) suggested that TasWater considered the standards still appropriate and relevant for its customers. TasWater did not include in its proposed Price and Service Plan any assessment of these standards taking into account customer views, its ability to achieve these targets or the associated cost of doing so.

In light of this outcome, the Economic Regulator, in its Draft Report, outlined its intention to approve the current minimum service standards as outlined Schedule 1 of the Customer Service Code as actual minimum standards for the second regulatory period. That is, the performance of TasWater against each indicator would no longer be averaged out across TasWater's system statewide. Rather, the service standard proposed for each indicator would be the absolute minimum standard which TasWater would have to meet, in all instances, and in all of its interactions with customers state-wide, with respect to that indicator.

As a result of this approach, the Economic Regulator also intended to require TasWater to amend its proposed Price and Service Plan by removing any discussion concerning the development and application of differential service standards. This included the map of TasWater's management areas as shown on page 22 of TasWater's proposed Price and Service Plan. Furthermore, references to any transition path were also to be removed.

In addition, in its Draft Report, the Economic Regulator detailed its intention of making all necessary amendments to the Customer Service Code to ensure service standards on a differential basis are proposed by TasWater for the third regulatory period (commencing 1 July 2018). However, as a result of discussions subsequently held with TasWater, and noting TasWater's desire to work with the Economic Regulator in developing future service standards, the Economic Regulator has decided not to formally amend the Customer Service Code in this regard at this time.

Whilst the Economic Regulator, in its Draft Report, proposed a more binding arrangement on TasWater, with the adoption the current minimum service standards as actual, absolute minimum standards, the Economic Regulator also considered the introduction of an appropriate incentive/penalty regime to encourage TasWater to meet the customer service standards as determined for the second regulatory period.

For the first regulatory period the Economic Regulator chose not to pursue the establishment of arrangements to provide an incentive/penalty scheme to achieve agreed service standard levels. The Economic Regulator did, however, reconsider this matter as part of its 2013 Customer Service Code review process.

As part of the review, the then three regional water and sewerage entities provided a submission in response to the Economic Regulator's public circulation of its options paper outlining a proposed approach for the adoption of revised minimum service standards from 1 July 2015. The entities agreed with the Economic Regulator's

assessment at the time that it was premature to implement financial incentives such as a Guaranteed Service Level<sup>1</sup> (GSL) arrangement or S-factor mechanism.<sup>2</sup> Furthermore, the entities believed that the newly amalgamated entity, TasWater, should be given sufficient time to progress any new differentiated service standards before an incentive/penalty regime is established.

However, in response to TasWater's inability to meet its obligations with respect to the development of differential service standards for the second regulatory period, the Economic Regulator considered that there was merit in establishing a GSL scheme whereby TasWater would be required to provide a payment to affected customers, in those instances where the minimum service standard for certain indicators were not met. However, the Economic Regulator noted that there did not appear to be the necessary legislative and regulatory framework to support the introduction of such arrangements. It would, therefore, be a matter for the Government to consider whether to legislate for the introduction of a GSL scheme as proposed.

With respect to which indicators such an incentive/penalty payment would apply, should a GSL scheme be introduced, the Economic Regulator proposed that it be applicable against all of the proposed customer service standards in relation to duration and frequency of unplanned interruptions.

The Economic Regulator also proposed that the GSL scheme be similar to the current GSL arrangements for Aurora Energy in terms of the value of the payment TasWater would be required to provide its customers who were affected by the relevant minimum service standard(s) not being achieved.

The Economic Regulator continues to consider an appropriate GSL scheme beneficial as it would encourage TasWater to commit to, and achieve, levels of quality service for its customers. In the current Tasmanian context, TasWater is operating within a sector with natural monopoly characteristics, and is subject to little or no competition. In this way TasWater has the ability to reduce the level of service provided as customers generally cannot move to an alternative water and sewerage service provider. The introduction of a suitable penalty arrangement would provide that incentive.

## 7.5 Customer service standards to apply for the second regulatory period

TasWater was the only interested party to provide a submission in response to the Economic Regulator's indicated position concerning customer service standards, as outlined in its Draft Report and as summarised above.

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<sup>1</sup> A Guaranteed Service Level (GSL) arrangement: eligible water and sewerage customers would be entitled to a GSL payment, from TasWater, in instances where the customer does not receive the relevant agreed minimum level of standard for customer service.

<sup>2</sup> An S-factor mechanism: provides financial incentives for businesses to deliver agreed service levels, with penalties when service levels fall below the set standard and bonuses when service levels are above the set standard.

TasWater indicated concern with the Economic Regulator’s intention to approve actual minimum service standards to apply during the second regulatory period, maintaining that averages provide better incentives for businesses to drive efficiency, which was particularly relevant at this stage in TasWater’s maturity. In addition, TasWater considered that the setting of actual minimums would possibly drive outcomes that were at odds with the priorities set by the technical regulators and TasWater’s legislative obligations.

TasWater also remained concerned about the quality of its data, noting that systems and processes required to fully comprehend its underlying performance did not yet exist. TasWater also considered that it would be in a better position to provide more accurate and evidence-based customer service standard targets for the third regulatory period.

Nevertheless, TasWater indicated that it was open to exploring, with the Economic Regulator, the possibility of setting actual minimum standards for some of the indicators.

To this end, TasWater provided a secondary proposal in relation to customer service standards for the Economic Regulator’s consideration. This secondary proposal was based on TasWater’s recent analysis of actual performance data for the period 1 July 2014 to 28 February 2015. On the basis of that analysis, and recognising the Economic Regulator’s desire to move to actual minimum standards, TasWater identified it was in a better position to propose more accurate and evidence-based customer service standards with respect to ‘response time’ and ‘duration related’ indicators and service standards relevant to ‘water supply interruptions’ and ‘sewer breaks and chokes’ indicators.

Revised ‘actual minimum’ service standards for these aforementioned indicators were subsequently provided to the Economic Regulator for its consideration.

In addition, TasWater identified that, whilst a number of its proposed revised service standards would be met, in accordance with its newly proposed customer service standards transition path, response time and duration related indicators would only be achieved ‘X’ per cent of the time during the second regulatory period (specifically 80 or 90 per cent of the time).

The following table provides an overview of the current minimum service standards as documented in Schedule 1 of the Customer Service Code along with TasWater’s revised service standards proposal for all indicators over the duration of the second regulatory period.

**Table 7.2 Minimum service standards proposal for second regulatory period**

	<b>CURRENT Minimum Service Standard in Schedule 1 of Code</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Actual minimum achieved X% of time</b>	<b>Average standard or ratio</b>
<b>Water</b>						
Unplanned water supply interruptions (per 100km of water main)	32	71	68	54		✓
Time taken to attend bursts and leaks – Priority 1* (minutes)	30	60	60	60	✓ (90%)	
Time taken to attend bursts and leaks – Priority 2* (minutes)	120	180	180	180	✓ (90%)	
Time taken to attend bursts and leaks – Priority 3* (minutes)	1440	4320	4320	4320	✓ (90%)	
Average frequency of unplanned water supply interruptions (number per customer)	0.1	0.1	0.1	0.1		✓
Average frequency of planned water supply interruptions (number per customer)	0.1	0.1	0.1	0.1		✓
Average unplanned customer minutes off water supply (minutes)	20	25	25	20		✓
Average planned customer minutes off water supply (minutes)	15	20	15	15		✓
Duration of unplanned water supply interruption (minutes)	100	180	180	180	✓ (80%)	
Duration of planned water supply interruption (minutes)	180	180	180	180	✓ (80%)	
Unplanned water supply interruptions restored within 5 hours (per cent)	98	85	90	98		✓
Planned water supply interruptions restored within 5 hours (per cent)	95	80	85	90		✓
Number of customers receiving more than 5 unplanned water supply interruptions in a financial year (number)	0	0	0	0	✓ (90%)	
Unaccounted for water (per cent)	10	14	12	10		✓

\* *Priority 1: is a burst or leak that causes, or has potential to cause, substantial damage or harm to customers, water quality, flow rate, property or environment.  
Priority 2: is a burst or a leak that causes, or has the potential to cause, minor damage or harm to customers, water quality, flow rate, property or environment  
Priority 3: is a burst or leak that causes no discernable impact on customers, property or the environment.*

	<b>CURRENT Minimum Service Standard in Schedule 1 of Code</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Actual minimum achieved X% of time</b>	<b>Average standard or ratio</b>
<b>Sewerage</b>						
Sewer breaks and chokes (and spills) (per 100km of sewer main)	28	104	98	93		✓
Time to attend sewer spills, breaks and chokes (minutes)	41	60	60	60	✓ (90%)	
Sewerage service interruption (minutes)	150	180	180	180	✓ (80%)	
Sewerage spills contained within 5 hours (per cent)	99	99	99	99		✓
Customers receiving more than 3 sewerage service interruptions per year	0	0	0	0	✓ (90%)	

	<b>CURRENT Minimum Service Standard in Schedule 1 of Code</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Actual minimum achieved X% of time</b>	<b>Average standard or ratio</b>
<b>Customers</b>						
Total water and sewerage complaints (per 1000 properties)	9	9	9	9		✓
Water and sewerage complaints to Ombudsman (per 1000 customers)	0.5	0.5	0.5	0.5		✓
Percentage of calls answered by an operator within 30 seconds	90	85	85	85		✓

The Economic Regulator, after considering TasWater's alternative proposal, accepts that the proposal does represent movement in the right direction towards service standards that are meaningful to customers.

The Economic Regulator will continue to work with TasWater towards the development of more relevant and representative customer service standards, on a differential basis, for the third regulatory period.

Performance reporting on TasWater's achievement (or otherwise) of the revised actual minimum service standards will be undertaken, with any consistent discrepancies between approved and actual service levels being detailed in the Economic Regulator's annual state of the industry reports. As these service undertakings will be binding through the Customer Service Code and Price Determination, the Economic Regulator will be able to take appropriate compliance enforcement action.

***The Economic Regulator:***

- (1) approves the proposed minimum service standards as outlined in Table 7.2 of this Final Report for adoption by TasWater for each year of the second regulatory period;***
- (2) will implement the newly approved minimum service standards by way of the Customer Service Code change process (for a 1 July 2015 commencement);***
- (3) requires TasWater to amend its final Price and Service Plan by removing any discussion concerning the development and application of differential service standards. This includes the map of TasWater's management areas as shown on page 22 of TasWater's proposed Price and Service Plan; and***
- (4) notes that there is merit in the Government considering whether to legislate for the introduction of a GSL scheme.***