

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 a Water and Sewerage Industry Customer Service Code (the Code);
- establishing minimum service standard targets within the 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 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 Code when it was introduced in July 2010.

The 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 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 as part of the first Price Determination (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 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 Price Determination.

Accordingly, a review was undertaken with the objective of introducing differential service standards in the second Price Determination 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 water and sewerage 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 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 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 over 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 entity's 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 this issue, the Economic Regulator has undertaken an assessment of the minimum service standards proposed by TasWater in its proposed price and service plan and offers the following comments for consideration.

The Economic Regulator notes that the minimum service standards as listed by TasWater are taken directly from Schedule 1 of the Code. In this way, TasWater has not proposed any variation to the current minimum service standard targets, as approved by the Economic Regulator as part of the first Price Determination. Rather, TasWater has, for the majority of indicators, proposed new transitional service standards it intends 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 water and sewerage 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 has been 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
WATER:							
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
SEWERAGE:							
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
CUSTOMERS:							
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 appear satisfactory when considered against an average of those approved for the former entities as part of the first Price Determination. The Economic Regulator however notes that for the ‘Total water and sewerage complaints (per 1 000 properties)’ indicator, TasWater expects to exceed the minimum service standard target for each year of the regulatory period but has not proposed a revision to that standard in the Code. Notwithstanding, the Economic Regulator is satisfied that the proposed transitional service standards for TasWater are reasonable.

To this end, the Economic Regulator has 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 has achieved a comparable or better than minimum service standard result. However, there are several indicators against which TasWater’s result for the 2013-14 year are deficient in comparison to the minimum service standard as set for the first regulatory period. For example, for the indicators in question, TasWater has 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 Code. This is 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 has chosen not to propose revised minimum service standards for these indicators which would suggest that the entity considers 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) would suggest that TasWater considers 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 intends to approve the current minimum service standards as outlined Schedule 1 of the Code as actual minimum standards for the second regulatory period. That is, the performance of TasWater against each indicator will no longer be averaged out across TasWater's system statewide. Rather, the service standard proposed for each indicator will be the absolute minimum standard TasWater must 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 intends 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 includes the map of TasWater's Management Areas as shown on page 22 of TasWater's proposed price and service plan. Furthermore, reference to any transition path should also be removed.

Notwithstanding that differential standards have not been proposed for the second regulatory period, the Economic Regulator intends on making all necessary amendments to the Code to ensure service standards on a differential basis are proposed by TasWater for the third regulatory period (commencing 1 July 2018).

Given the significant period of time leading up to the 2015-18 Price Determination process, the involvement of relevant entity representatives in the Code review and the publication of guidance material from the Economic Regulator with respect to TasWater's preparation of its proposed price and service plan, the Economic Regulator intends to work with TasWater to ensure that the development of differential service standards is given greater priority.

Whilst the Economic Regulator has now proposed a more binding arrangement on TasWater, with the adoption the current minimum service standards as actual, absolute minimum standards, the Economic Regulator is also considering 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 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 Level¹ (GSL) arrangement or S-factor mechanism.² 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 considers there is merit in establishing a GSL scheme whereby TasWater will be required to provide a payment to affected customers, in those instances where the minimum service standard for certain indicators are not met. However, the Economic Regulator notes that there does not currently appear to be the necessary legislative and regulatory framework to support the introduction of such arrangements. It is, therefore, 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 would propose that it be applicable against all of the proposed customer service standards in relation to duration and frequency of unplanned interruptions.

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

The Economic Regulator considers 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.

Performance reporting on TasWater's achievement (or otherwise) of the minimum service standards will continue to 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. Where these service undertakings are binding through the Code or a price determination, the Economic Regulator will be able to take appropriate compliance enforcement action.

¹ 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.

² 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.

The Economic Regulator intends to:

- (1) approve the minimum service standard targets to be achieved by the end of the second regulatory period and as presently outlined in Schedule 1 of the Code;***
- (2) approve the transitional service standards to be applied in each year of the second regulatory period as binding standards to be achieved by TasWater in all instances, with respect to all of TasWater’s interactions with its customers state-wide;***
- (3) require 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) note that there is merit in the Government considering whether to legislate for the introduction of a GSL scheme.***