



Better Regulation

Consumer Engagement Guideline for Network Service Providers

November 2013

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Contents

Contents	3
1 Introduction	4
2 Overview	5
3 Consumer Engagement Guideline for Network Service Providers	7
3.1 Best practice principles.....	7
3.1.1 Clear, accurate and timely communication	7
3.1.2 Accessible and inclusive	8
3.1.3 Transparent	9
3.1.4 Measurable.....	9
3.2 Priorities	9
3.3 Delivery.....	10
3.4 Results.....	11
3.5 Evaluation and review.....	11
3.6 Our expectations.....	12
Glossary	14

1 Introduction

This publication sets out the Australian Energy Regulator's Consumer Engagement Guideline for Network Service Providers (guideline).¹

The National Electricity Objective and National Gas Objective require electricity and gas transmission and distribution network service providers to operate their networks in the long term interests of consumers. Recent changes to the *National Electricity Rules* (NER) make this requirement even more explicit for distribution and transmission electricity network service providers. Specifically, these service providers must describe how they have engaged with electricity consumers and sought to address any relevant concerns identified as a result of that engagement.² These changes to the NER reflect a desire by both rule makers and different levels of government for a much greater emphasis on consumer engagement. The guideline³ aims to support these initiatives and give guidance on our expectations of consumer engagement, but is not binding on either gas or electricity service providers.

We intend to apply the guideline to all electricity and gas transmission and distribution network service providers (service providers), who must act in the long term interests of consumers.⁴ The guideline states our expectations of how service providers engage with their consumers—that is, their 'end users'.

Consistent with our expectations for service providers to engage better with consumers, we also recognise the need for the AER to better engage with stakeholders, including consumers, and accordingly have released our own Stakeholder Engagement Framework in November 2013.

This guideline provides service providers with a high level framework to integrate consumer engagement into their business-as-usual operations. When we review regulatory proposals, revenue proposals and access arrangements (expenditure proposals), we will have regard, on a case by case basis, to how a service provider engaged with its consumers and accounted for the long term interests of those consumers.

¹ For this guideline, we use the term 'consumer'. This term is consistent with the National Electricity and National Gas Objectives. It is also reflected in the National Electricity Rules, which refer to 'electricity consumers'. We acknowledge 'consumer' and 'customer' have distinct meanings, and it is valid to make the distinction in some cases. We also acknowledge these terms are used interchangeably.

² NER, cl. 6.8.2(c1)(2) and 6A.10.1(g)(2).

³ NER, cl. 6.2.8(a)(2) and 6A.2.3(a)(2).

⁴ *National Electricity (South Australia) Act 1996*, s. 7 and *National Gas (South Australia) Act 2008*, s. 23.

2 Overview

Service providers should engage with their consumers so they can provide services that better align with consumers' long term interests. Specifically, the guideline sets out how we expect service providers to engage with their consumers. The NER now requires service providers to describe how they have engaged with consumers, and how they have sought to address any relevant concerns identified as a result of that engagement. Service providers present this information in an overview report to their regulatory or revenue proposals.⁵ The NER is not prescriptive about consumer engagement, and the guideline is not binding. However, we considered it prudent to outline our expectations for consumer engagement. Therefore, we developed the guideline to help service providers engage systematically, consistently and strategically with consumers on issues that are significant to both parties.

Consumer engagement is about working openly and collaboratively with consumers and providing opportunities for their views and preferences to be heard and to influence service providers' decisions. Stronger consumer engagement can help us test service providers' expenditure proposals, and can raise alternative views on matters such as service priorities, capital expenditure proposals and price structures. To this end, we expect service providers to adopt the guideline.

'We expect the network businesses to demonstrate a commitment to ongoing and genuine consumer engagement on a broad range of issues relevant to consumers. We want to see businesses being more accountable to their consumers.'

AER Chairman, Andrew Reeves.

The guideline centres on best practice principles, which overarch four components⁶ that we consider constitute a robust approach to consumer engagement. Together, the principles and components seek to drive consumer engagement and a commitment to continuously improve that engagement **across all business operations**. For some service providers, this work may require a significant cultural shift. The guideline also places the onus on service providers to develop consumer engagement strategies and activities that best suit their business. Service providers can do this most appropriately because they are in the best position to understand their consumer base and its issues. For

this reason, the guideline is not prescriptive.

However, we expect each service provider to develop consumer engagement approaches and strategies that address the best practice principles and the four components of the guideline:

- **Principles:** a set of best practice principles to guide effective engagement with consumers
- **Priorities:** the need to identify issues and set priorities for engagement with consumers (that is, developing a process to analyse and understand consumers' needs as part of business planning) recognising that consumers may have diverse interests
- **Delivery:** the activities that we would expect service providers to undertake to engage effectively with consumers (set at a high level)

⁵ NER, cl. 6.8.2(c1)(2) and 6A.10.1(g)(2).

⁶ Refer to sections 3.1 to 3.5 of the guideline.

- **Results:** an articulation of the outputs and measures of success, focusing on explaining how consumer input affected the service providers' decision making
- **Evaluation and review:** a robust process to identify, and make renewed commitment to addressing, areas of improvement.

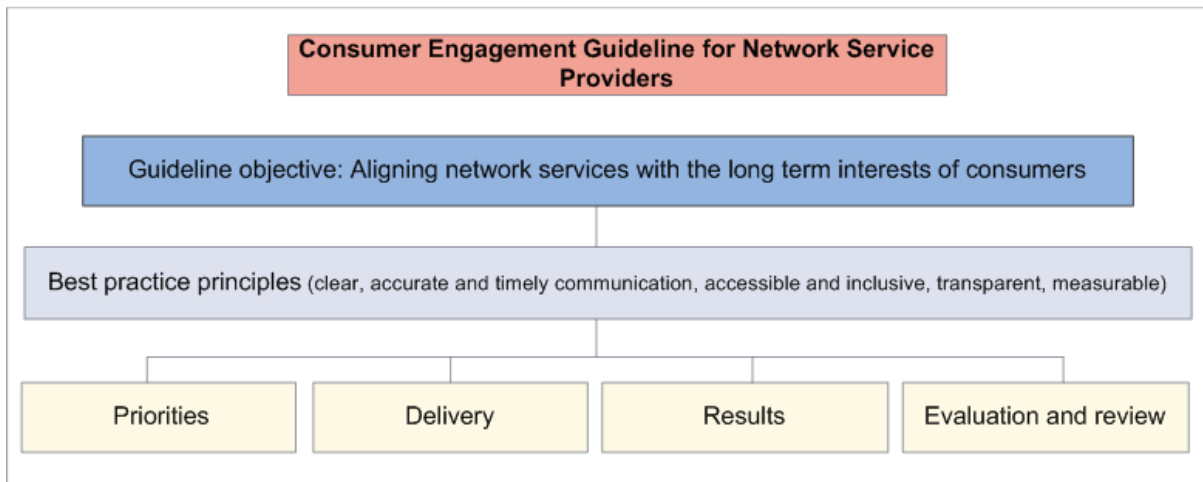
Section 3 mirrors the above areas, discussing:

- best practice principles (section 3.1)
- priorities (section 3.2)
- delivery (section 3.3)
- results (section 3.4)
- evaluation and review (section 3.5)
- our expectations (section 3.6).

3 Consumer Engagement Guideline for Network Service Providers

We structured the guideline around four components, which sit under best practice principles for consumer engagement (diagram 1). We intend the components to guide service providers in developing new or improved consumer engagement strategies and processes.

Diagram 1: Overview of guideline



3.1 Best practice principles

Four best practice principles reflect the aims of the National Energy Laws. We drew the principles from the Stakeholder Engagement Standard (AA1000SES), Institute of Social and Ethical Accountability (2011) and the International Association of Public Participation.⁷ They overarch all aspects of consumer engagement, so service providers should use the following principles in undertaking each component of the guideline:

- clear, accurate and timely communication
- accessible and inclusive
- transparent
- measurable.

These principles are not an exhaustive list, and we do not prescribe how a service provider should apply them. However, below we draw out elements that underpin the guideline's four components.

3.1.1 Clear, accurate and timely communication

We expect service providers to provide information to consumers that is clear, accurate, relevant and timely, recognising the different communication needs and wants of consumers. This work includes ensuring two-way communication is possible.

Elements

⁷ www.iap2.org.au. While we have drawn on iap2, other engagement frameworks are available including World Bank Ladder of Consumer Participation, see www.openknowledge.worldbank.org and Australian Government — STEP Framework: Science and Technology Engagement Pathways, see www.innovation.gov.au.

We expect service providers to:

- establish clear and realistic timeframes for consumer input
- avoid industry jargon and use plain English in all communication with consumers, including providing plain English summaries of key issues and impacts when complexity is hindering engagement
- keep documentation concise and provide clear document navigation ensuring its accessibility
- investigate and use a range of methods and mediums to communicate with consumer, having regard to their engagement preferences.

For consumer engagement to be effective, consumers must also commit to the process.

3.1.2 Accessible and inclusive

We expect service providers to recognise, understand and involve consumers on an ongoing basis, not just at the time an expenditure proposal is being prepared. This work includes providing consumers with the information that they need to participate in a meaningful way to seek outcomes that are in the consumers' interests.

Elements

We expect service providers to:

- identify relevant 'end user' or consumer cohorts, recognising they can change over time. Service providers may also engage with consumer representative groups, retailers and industry bodies, or work with other service providers to support their interaction with identified groups of consumers.
- acknowledge that consumer cohorts are not homogenous. There will be a range of consumer views and issues of concern within each group.
- prepare consultation plans and tailor engagement strategies to meet the needs of differing consumer groups
- when a matter's complexity is hindering engagement, proactively build consumers' capacity to understand the issues, processes and potential impacts and outcomes of a decision
- ensure that consumers can access sufficient information to understand and assess the substance of all issues relevant to the proposal. This may include the conditional release of confidential information.
- recognise adequate time and resources are necessary for all consumers to engage effectively
- create opportunities to share expertise and information. Raw data and independent research commissioned by the service provider should be sufficiently open to scrutiny by consumers. An example is the publication of terms of reference, survey questions and final reports.

'This approach (AER's principles based approach) is supported and will promote innovation, tailored approaches and experimentation leading to improved engagement over time.'

Energy Networks Association

- give consumers choice when it is reasonable to do so, both in how the business engages with consumers and in what outcomes are available.

3.1.3 Transparent

We expect service providers to clearly identify and explain the role of consumers in the engagement process, and to consult with consumers on information and feedback processes. This work includes communicating how consumer input affects business operations or expenditure proposals.

Elements

We expect service providers to:

- clearly identify and explain the role of consumers in the engagement process, and the objective of that process
- reinforce and manage expectations of the outcomes of consumer input, particularly how that input will influence service providers' decisions. That is, clearly communicate how consumer input will be used.
- credibly and openly report the input of all consumers, including positive and negative experiences and outcomes.

3.1.4 Measurable

We expect service providers to measure the success, or otherwise, of their engagement activities. Measuring outcomes is a critical element of good engagement because it allows service providers to understand what is effective and to improve the quality of consumer engagement over time.

Elements

We expect service providers to:

- develop a range of key performance indicators (both qualitative and quantitative) to measure engagement strategies and activities
- develop systems to allow for regular measurement of key performance indicators
- publish the results of measurement activity in a timely manner.

3.2 Priorities

Setting priorities is the first step in developing a consumer engagement strategy. We expect service providers to (1) identify consumer cohorts, and the current views of those cohorts and their service provider, (2) outline their engagement objectives, and (3) discuss the processes to best achieve those objectives. To this end, we expect service providers to develop and undertake a process for identifying issues and setting priorities for consumer engagement. Service providers could take the following steps:

- understand the consumer base.
 - This work should include identifying and understanding consumer cohorts—that is, who they are, and how the service provider can best engage them. Examples include residential consumers, commercial and large industry and small to medium businesses—in metro,

regional and rural areas. To target engagement activities appropriately, service providers need to understand consumers' views and those of any other stakeholders with an interest in the reliable and safe supply of electricity and gas services.

- identify and understand prospective areas of consumer interest for each cohort. This work should include long term issues as well as current issues.
- determine a list of priority issues requiring consultation, and the level of engagement required for each consumer cohort. The service provider needs to consider whether its engagement approach should aim to inform, consult, involve, collaborate or empower⁸ consumers. The level and mode of engagement may change over time as relationships with consumers mature.
- develop tailored and appropriate consumer engagement activities and mechanisms for delivery
- work with consumers to plan and prioritise when consumer engagement will occur, where practical
- consider whether market research is beneficial
- involve consumers in setting priorities and developing the engagement strategy or approaches.

Consumer engagement needs to be designed and implemented in a credible way.

Stakeholder Engagement Standard (AA1000SES)

3.3 Delivery

We expect service providers to address the identified priorities via robust and thorough consumer engagement. Service providers could aim to deliver engagement processes that are underpinned by:

- demonstrated high level support from within the business to undertake consumer engagement as part of business-as-usual activities (that is, CEO and board endorsement). This output could include:
 - promoting and facilitating consumer engagement across the business
 - ensuring all relevant staff are appropriately skilled to facilitate consumer engagement and well informed to answer consumers' questions.
- an understanding of the capability of consumers to participate. This output could include providing resources or education to consumers or consumer representative groups to help them liaise with their constituents in a timely manner.
- forthright, transparent two-way communication arrangements and feedback processes both during and at the conclusion of engagement activities. Service providers should report developments regularly, factually and promptly.
- clear definitions for the scope and purpose of consumer engagement. In particular, service providers should state how consumer input will influence the issue/decision at the outset of an engagement activity.
- continuing consultation on difficult topics when tensions exist or develop

⁸ International Association of Public Participation, *Public Participation Spectrum*, www.iap2.org.au.

- regular evaluation and review of engagement tools, mechanisms and activities (during and after delivery). Evaluation and review processes should include consumer feedback.
- documentation of consumer views, attendance rates and key themes, and reporting on how consumer input is used.

Using the above approach, service providers could consult on the following example issues:

- making price and reliability trade-offs
- setting and designing tariffs (including time of use and critical peak tariffs)
- setting reliability targets and standards when appropriate
- understanding demand hot spots and exploring associated impacts
- exploring alternatives to capital investment.

3.4 Results

We expect service providers to articulate the outcomes of their consumer engagement processes and how they measure the success of those processes. If service providers genuinely engage with consumers on significant issues, they should be able to draw on that information and use it, for example, to help explain the reasoning behind expenditure proposals. Service providers could report the following information, for example:

- evidence that the service provider heard from a comprehensive cross-section of consumers. Such reports should include consumer feedback, engagement activity summaries (the scope and objective of each activity), and whether the activities achieved their respective objectives.
- how the service provider considered consumer input and whether that input influenced the business and/or an expenditure proposal (and why). If consumers did exert influence, then the service provider should explain how.
- consumers' issues raised during engagement activities that have subsequently been considered in business decisions
- emerging issues or long term consumer issues that emerged during engagement activities. Such reports should explain how the service provider might address these issues.
- evidence of addressing challenges or tensions in consumer views and community views—for example, proposed capital investment projects may draw differing views from a community directly affected by that project compared to the broader consumer base.

3.5 Evaluation and review

We expect service providers to periodically evaluate and review the effectiveness of their consumer engagement processes. It will enable them to identify areas for future focus, encouraging continual improvement, transparency and accountability. Service providers could, for example:

- commit to periodic reviews (at least annually) of their consumer engagement strategy or processes

- apply a robust and thorough evaluation method to their consumer engagement strategy or processes. Service providers should develop their evaluation method and key performance indicators when they implement their engagement strategy.
- reset or realign identified priorities with consumer feedback (on the consumer engagement process as well as the subjects of engagement) and the evaluation and review results
- renew their commitments (with CEO and board endorsement) to areas needing improvement or change.

3.6 Our expectations

We expect all network service providers—gas and electricity, transmission and distribution—to use the guideline to enhance their consumer engagement activities. While the guideline is not prescriptive, we anticipate all service providers will make an effort to adopt the guideline. This effort would form part of a genuine and fundamental reconsideration of how service providers could better engage with consumers on a range of business matters and during reset periods.

The guideline cannot compel any particular form of consumer engagement by service providers. However, it has links to how we assess service providers' expenditure proposals. For electricity, this link is explicit: the NER requires us to consider the extent to which the proposed expenditure addresses consumers' relevant concerns identified during the service provider's engagement with consumers.⁹ Similarly, we will assess gas service providers' proposals for expenditure against the National Gas Law's objective to provide services in the long term interests of consumers. In our view, this makes the guideline as relevant for gas service providers.

'We do not think the businesses can effectively engage around their network proposals if they do not engage effectively more broadly.'

AER Chairman. Andrew Reeves

Consequently, the quality of a service provider's consumer engagement will be a factor in how we assess expenditure proposals.¹⁰ We will consider whether and how well a service provider considered and responded to consumer views, equipped consumers to participate in consultation, made issues tangible to consumers, and obtained a cross-section of consumer views. We will make our assessment on a case by case basis, considering whether it would have been reasonable to engage on a particular issue. We will monitor consumer engagement activities through the AER's Consumer Challenge Panel and our ongoing engagement with stakeholders. We expect service providers to improve their engagement with consumers reasonably quickly if current engagement activities are minimal. In addition, we may publicly comment on any shortcomings that we identify from an expenditure proposal that reflect weaknesses in consumer engagement in our determination

We seek service providers to demonstrate a commitment to ongoing and genuine consumer engagement on a broad range of issues relevant to consumers. To do so, service providers will need some time to develop and implement robust and comprehensive engagement strategies and approaches. However, their response to the guideline is an opportunity for service providers to undertake best practice in consumer engagement and to exceed regulatory obligations.

⁹ NER, cl. 6.5.7(5A).

¹⁰ The AER's Consumer Challenge Panel will also have a role in advising the AER on the effectiveness of *service providers'* engagement activities with their consumers and how this engagement has informed, and been reflected in, the development of their expenditure proposals.

Clearly, we expect consumers will be the principal beneficiary of greater consumer engagement. However, service providers will also benefit. These benefits may come in the form of improved consumer satisfaction, higher consumer willingness to pay for services, and greater ease in obtaining regulatory approval of expenditure proposals.

Glossary

In the guideline, the words and phrases have the meaning given to them in:

- the glossary, or
- if not defined in the glossary, the NER or National Gas Rules (NGR).

Term	Definition
consumer	For this guideline, we use the term 'consumer'. This term is consistent with the National Electricity and National Gas Objectives. It is also reflected in the National Electricity Rules, which refer to 'electricity consumers'. We acknowledge 'consumer' and 'customer' have distinct meanings, and it is valid to make the distinction in some cases. We also acknowledge these terms are used interchangeably.
expenditure proposal	regulatory proposal, revenue proposal or access arrangement
guideline	Consumer Engagement Guideline for Network Service Providers
National Electricity Rules (NER)	The rules as defined in the National Electricity Law
National Gas Rules (NGR)	The rules as defined in the National Gas Law
service providers	electricity transmission and distribution network service providers and gas transmission and distribution service providers