



WATER SERVICES
ASSOCIATION OF AUSTRALIA



**WSAA submission to
IPART Discussion Paper:
Promoting a customer
focus**

July 2021



1. Key messages

- Water businesses need to demonstrate that all investment is meeting customers' needs and their willingness to pay.
- The regulatory regime needs to support these directions.
 - IPART's core objective should be to promote the long-term interest of customers. We believe that this should be formalised through the inclusion in legislation in the IPART Act.
 - Customer preferences should be at the centre of the regulatory regime. The onus is on water business to understand their customers' needs and demonstrate to the regulator in a rigorous way that they are being followed through.
- We support the less prescriptive, principle-based approach to customer engagement proposed by IPART. This allows flexibility in approach by the water business to suit their customers and context.
- We support engagement and feedback by IPART through a mid-determination check in of the engagement strategy. This should be part of a continuing conversation between IPART and the water business.
- We commend IPART on the increased focus of involving customers in the regulatory process. While water businesses are already engaging with their customers, this may still require a significant increase in capability for both water businesses and regulators. This may need to happen over more than one pricing submission.
- We caution against direct comparison of the water businesses' customer engagement processes as part of the regulatory model. This is unlikely to be suitable in the NSW context where the regulated water businesses are very different in size and customer base. However, we do support grading of proposals as long as the criteria is provided in advance. This will provide useful guidance to water businesses.
- We support the measurement and tracking of customer outcomes. We believe that these customer outcomes should be developed as part of the customer engagement process and therefore will be different for each water business. The onus is on the water business to ensure that they effectively demonstrate how they will measure and track the customer outcomes.

2. Context

The Water Services Association of Australia welcomes the opportunity to provide feedback on IPART Discussion Paper 2. We commend IPART on carrying out this review and inviting broad and detailed consultation.

In our original submission, we focused on the importance of including customer needs and preferences as part of the regulatory process. Our presentation at IPART Workshop 2 on the 10 May 2021 highlighted the trends we are seeing in customer engagement in other regulatory models including:

- The water business 'owns' the relationship with the customer and this includes the responsibility of understanding and reflecting their needs and preferences in the regulatory business plan.
- There are multiple dimensions to engagement and this means starting earlier, understanding the key areas of importance to the customers and carrying out deep engagement on these specific areas (as opposed to everything).
- Water businesses are also moving towards the 'Empower' end of the IAP2 spectrum but this takes time and requires the water business to build appropriate capability and capacity in this area.
- There is an expectation of universal and inclusive engagement. This means understanding and removing barriers to ensure that customers with lived experience (and not just the advocates) are part of the engagement. This goes beyond just ensuring a representative demographic sample of your customer base.
- Customer research should be triangulated. That means more than one 'source of truth', particularly for willingness to pay studies. There needs to be a robust process to ensure that the water business is interpreting insights appropriately and there is an ongoing feedback loop back to the customer (and not just at the end).
- It should be very clear where customer input has influenced the regulatory business plan in regards to investments, service levels and performance targets.
- Ongoing engagement is used to inform the regulatory business plan. This does not mean more engagement, but instead better use of existing customer research and insights such as complaints, customer journey mapping, voice of customer programs and community consultation for infrastructure delivery.
- Regulatory models are adapting to consider long-term affordability. WICS, the Scottish Water regulator incorporated this in the latest determination for Scottish Water, where based on customer research, they approved a real 2% increase not just for the upcoming price path but indicated that this would be for the next price path as well. This ensures that customers do not endure price shocks in the future for the sake of steady prices, or price falls in the short term.
- Customers are expecting to engage not just on cost versus service trade-offs but also on how water businesses can deliver better public value. Ofwat is considering the role of the price review in incentivising water businesses to better deliver public value.
- The line between discretionary and non-discretionary expenditure is less clear. Customers do not want to engage on just the last \$50 of this bill and therefore want to have a say in areas that may have been considered non-discretionary in the past (such as depreciation). As such, we need to consider whether it is appropriate to have different framework for discretionary versus non-discretionary spend.

We see many of the key messages in our original submission and our presentation at the workshop reflected in this Discussion Paper 2.

All regulators and water businesses are on the path on increasing customer involvement to develop investment decisions and business plans. There is no clear 'right way' to do this but we do believe that the core objective of any regulatory regime is to promote the long-term interests of customers. We believe that this is so important that it should be legislated in the IPART Act.

3. Our response to IPART's Discussion Paper



Businesses should remain responsible for understanding their customers' views, priorities and needs.

The long-term interests of customers may be furthered with:

- **A mid-determination 'early check in'.**
- **Principles/ guidelines around the long-term interests of customers**
- **Principle/ guidelines supported by a 'grading' of how customer-centric the proposal is.**

WSAA supports the suggestion of a mid-determination 'early check in'. It would provide the opportunity for IPART to provide feedback on the robustness of the strategy along with any obvious issues or gaps. We would envision that this would be in the form of an ongoing constructive dialogue between the water business as opposed to 'approving' a strategy. Flexibility is still required as experience has shown that the water business needs to build flexibility into their engagement plan to adapt to unforeseen circumstances and results.

We support the principles IPART has included around promoting the long-term interests of customers but believe that this should be enshrined in legislation to give it credence as the primary goal. In addition, we would support clarity on the role of IPART when it comes to the customer. By stipulating that the water business is responsible for understanding customers' priorities and needs, there is an onus on the regulator to act on the outcomes and insights of this research and engagement

We see value in the grading of proposals as they can provide valuable direction and guidance for water businesses under the following conditions:

- The criteria for grading are provided to water businesses in advance.
- The grading is not used to compare water businesses. There is a high level of variability between the NSW water businesses making comparison inappropriate.



Guidance around customer engagement will remain principle based.

WSAA agrees that guidance should remain principle based and light-handed to allow water businesses to develop engagement that suits their circumstances, customer base and capabilities. It will also allow the business to adapt and improve.

We support the additional three principles which build on the current principles by highlighting the importance of the 'golden thread' and demonstrating where and how the outcomes of customer engagement have influenced investment decisions, service levels and expenditure.

While we do not advocate more prescriptive guidance, we do believe that water businesses would benefit if IPART could provide what they consider leading practice examples or case studies under each of the principles. This could be done informally through workshops or case studies.



Customer advisory or challenge groups need to clearly support customer outcomes.

There is a mixed history in the use of challenge panels and customer advisory groups in different regulatory regimes. While WSAA supports the use of challenge and customer advisory groups, we note that the form, purpose and skill set of these groups will be highly dependent on the regulatory model that IPART decides to adopt.

We would also recommend that the regulatory model is not prescriptive in the requirement of challenge panels and customer advisory groups. It should be noted that Ofwat is considering removing the requirement for challenge panels for PR24. Instead, the water business should be required to demonstrate that they have gone through a comprehensive process, informed by their customers, to ensure that their research and engagement is:

- robust and replicable
- that they have included representation from across their customer demographics including those most impacted and customers experiencing vulnerability
- that information provided, and communication is free from bias, and
- that the outcomes of research and engagement is appropriately interpreted and reflected in the regulatory business plan

The water business should be able to develop a flexible and fit for purpose approach to their customer advisory groups and challenge groups to deliver the above outcomes. We expect that this will vary depending on the engagement strategy, the type of business and their customer base.



Proposed expenditure should be well-supported by customer preferences. In particular, expenditure proposals which define the outcomes in the long-term interests of customers, with targets and evidence of customer willingness-to-pay, would provide a clearer basis for assessing whether proposed expenditure supports customer preferences.

WSAA supports regulation that links expenditure to customer preferences. These should be reflected as outcomes and targets in the regulatory business plan. We recognise that this will mean that outcomes, measures and targets will be different for different businesses. We recognise that this may present a challenge both for the businesses and the regulator in determining appropriate measures and targets (ambitious but achievable) and also whether there should be incentives (and penalties) for meeting (or failing to meet) these performance targets.

While we believe that these outcomes, measures and targets are important to demonstrate transparency in performance monitoring, the number of measures should be minimised to ensure that only the highest priority outcomes are reported against. We would caution against making this process too onerous or complex as this does not aid public transparency.

Many water businesses will need to build capacity to provide the detailed level of economic analysis, research and engagement to provide the required evidence. As such we suggest that this requirement is phased in over more than one price submission to give water businesses the time to build this capability in-house.

WSAA has produced guidance around Willingness to Pay Studies to assist water businesses in providing this evidence.



The role of discretionary expenditure is less clear.

- What is the role of discretionary expenditure in an outcomes-focussed regime?
- How should the discretionary expenditure framework be improved?

WSAA believes that the line between discretionary and non-discretionary expenditure is blurred. As a result, we do not believe that discretionary expenditure should be subject to a separate framework. Instead, we believe that the regulatory process should support a discussion with customers on the 'whole of business' plan rather than only on the proportion of the bill that is considered discretionary. Engagement should be efficient and to that effect we encourage customers to be involved in discussion around a bigger proportion of the bill. Rather than imposing additional burden (and cost) on the water business by engaging in more areas, we hope it would improve the efficiency of the engagement by only focussing on those areas where customer can make the biggest difference to the bill (as opposed to only allowing engagement on 'the last \$50'). By integrating the frameworks between discretionary and non-discretionary expenditure, we hope that this will also reduce the burden on water businesses.

Contact

WSAA welcomes the opportunity to discuss this submission further.

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