



A NEW MODEL FOR PRICING SERVICES IN VICTORIA'S WATER SECTOR

Post-conference survey results

May 2016



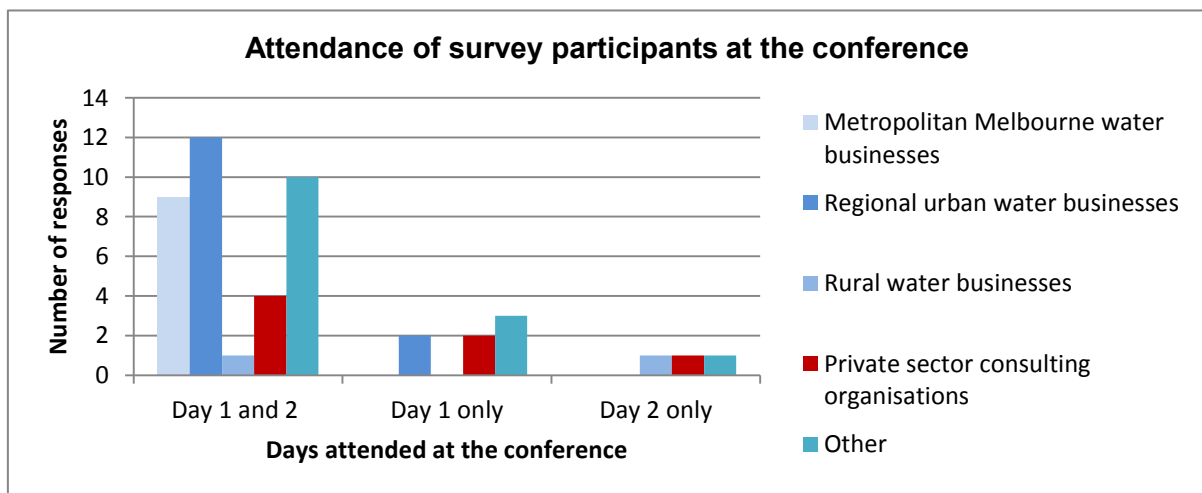
POST-CONFERENCE SURVEY RESULTS

Following our Water Pricing Conference held on 9 and 10 November 2015, we issued a survey via email to attendees. Our aim was to understand which elements the attendees thought should or should not be key parts of the new pricing approach. 46 responses were received from representatives from water businesses and other participants. Other participants included representatives from private sector consulting organisations, economic regulators and consumer and water business groups.

Note: 'unsure' was an option for questions 6 to 12. We have only reported a figure in our charts when it was selected by a respondent.

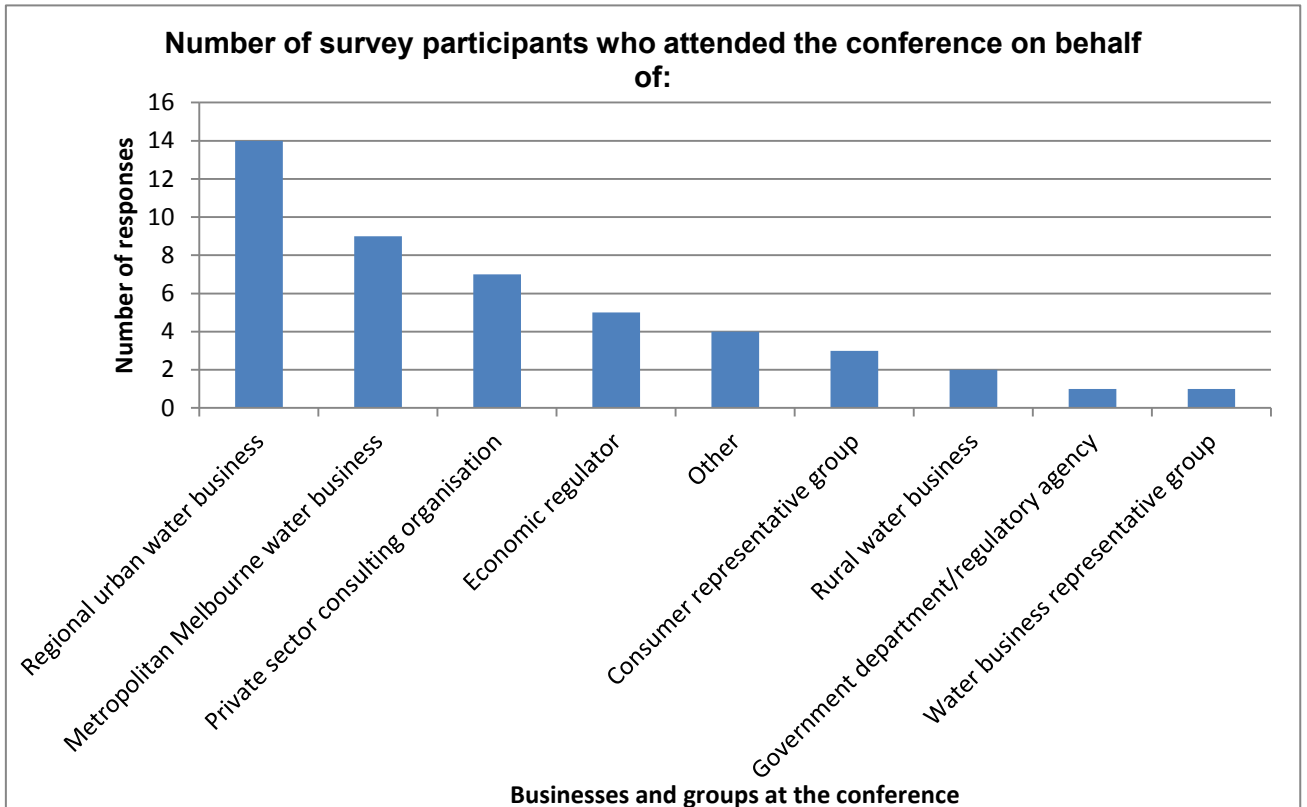
1. I attended:

- day 1 and 2 of the conference (or part of both days)
- day 1 of the conference only (or part of)
- day 2 of the conference only (or part of)



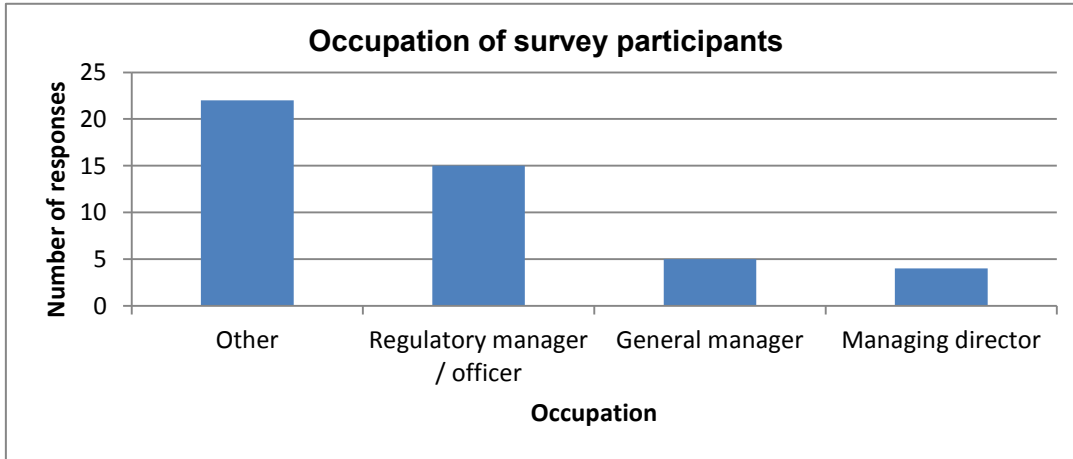
2. You attended the ESC water pricing conference on behalf of (select one):

- a metropolitan Melbourne water business
- a regional urban water business
- a rural water business
- a consumer representative group
- a water business representative group
- an economic regulator
- a government department or other regulatory agency
- a private sector consulting organisation
- other (please specify) _____

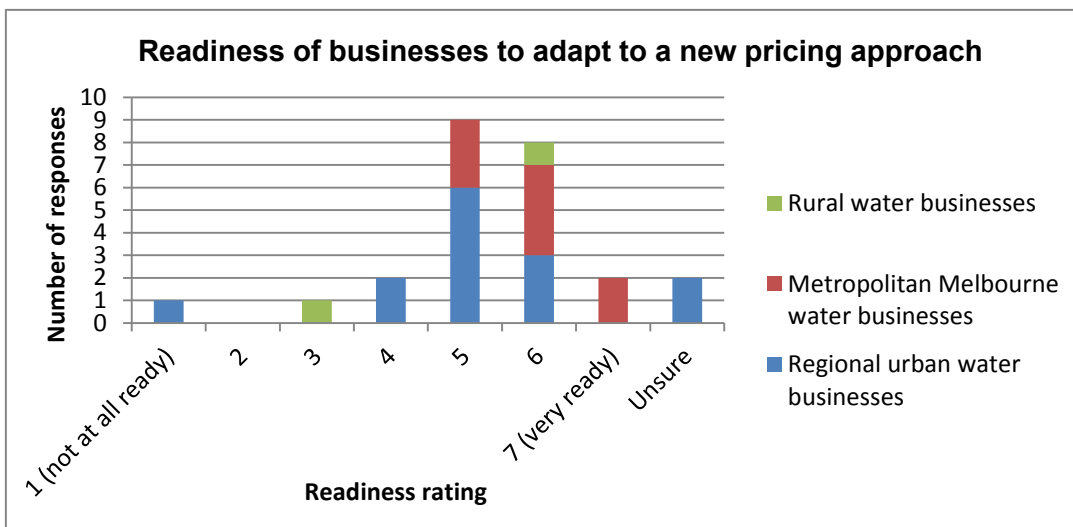


3. Your occupation or role is:

- board member
- managing director
- general manager
- regulatory manager/officer
- customer service manager/officer
- other (please specify) _____

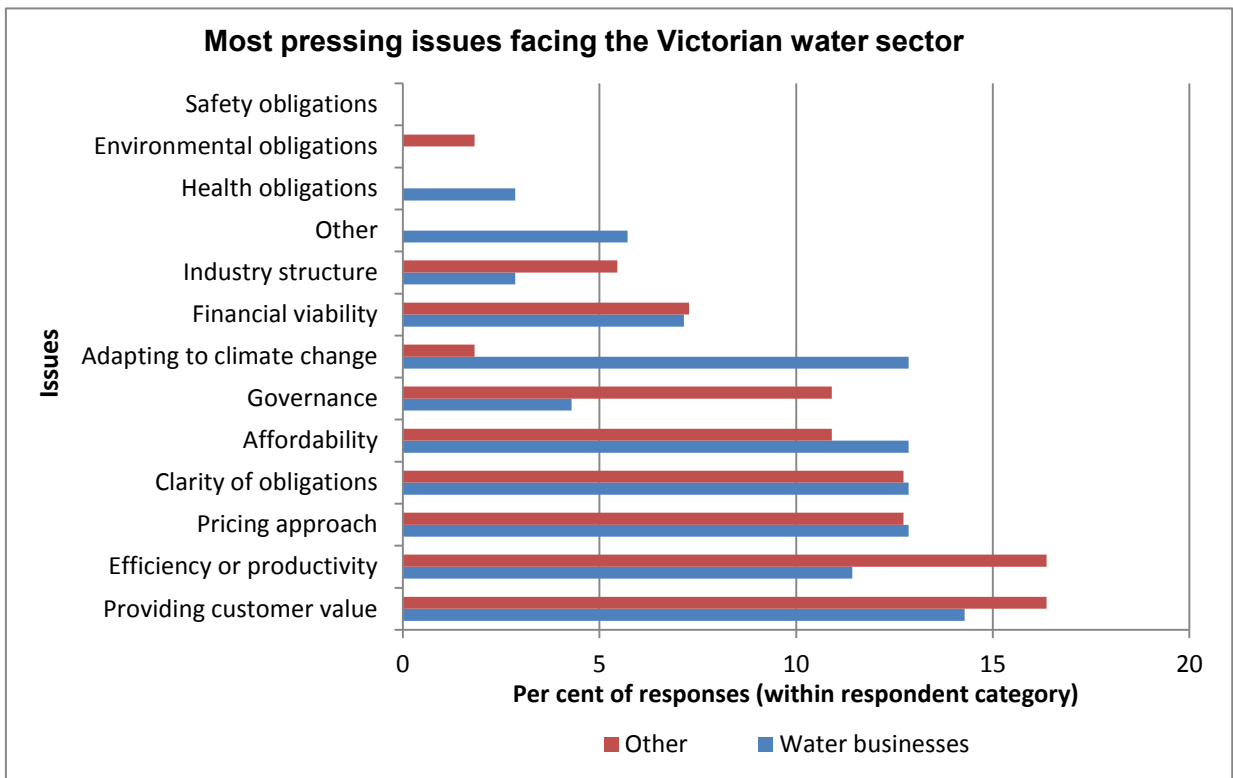


4. Rate on a scale from 1 (not at all ready) to 7 (very ready) how ready your business is to adapt a new pricing approach.



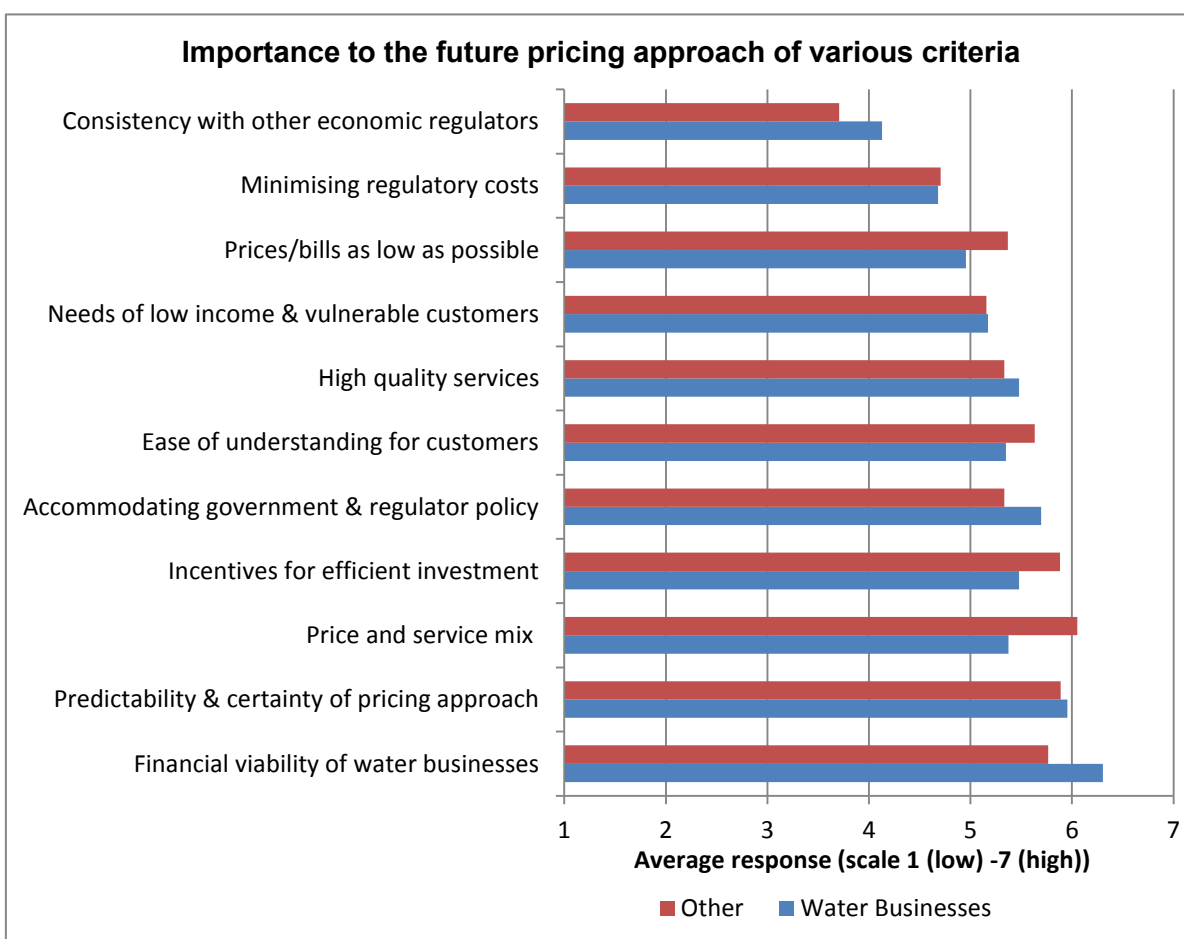
5. Tick the three most pressing issues facing the Victorian water sector:

- governance
- pricing approach (economic regulation framework)
- environmental obligations
- health obligations
- safety obligations
- adapting to climate change
- affordability
- efficiency or productivity
- industry structure
- financial viability
- providing customer value
- clarity of obligations
- other (please specify) _____



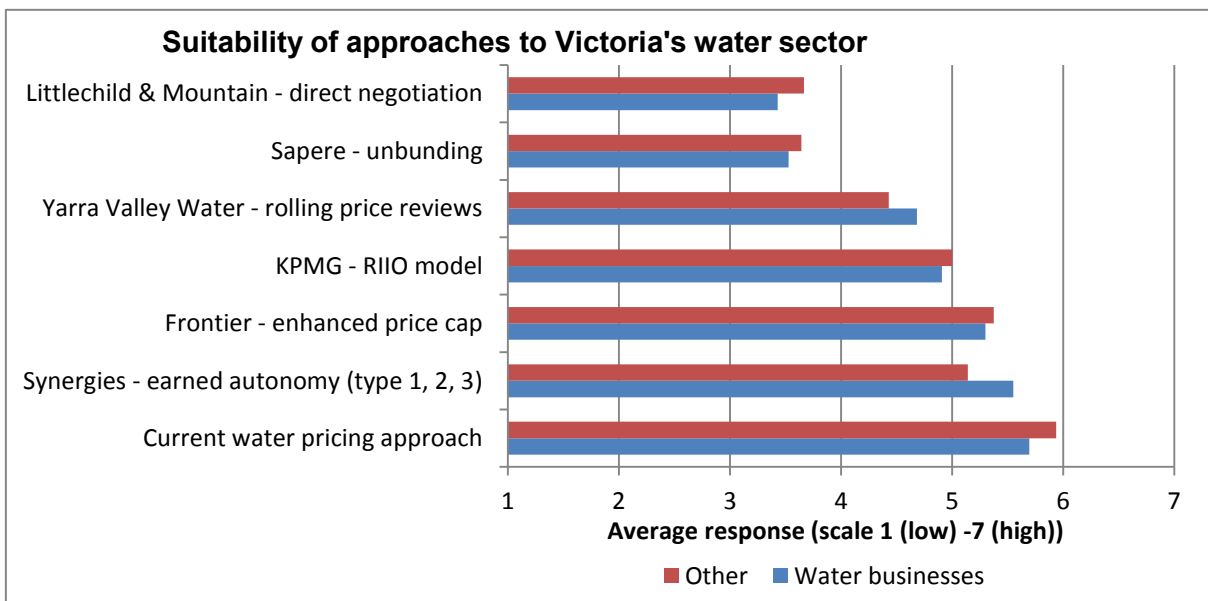
6. On a scale from 1 (very low) to 7 (very high), rate each of the following criteria in terms of importance to the future pricing approach:

- prices/bills as low as possible
- high quality services
- price and service mix (i.e. not just considering price and service in isolation)
- minimising regulatory costs
- ease of understanding for customers
- incentives for efficient investment
- predictability and certainty of pricing approach
- financial viability of water businesses
- accommodating government and regulator policy/requirements
- needs of low income and vulnerable customers
- consistency with other economic regulator approaches
- please specify any other important criteria _____



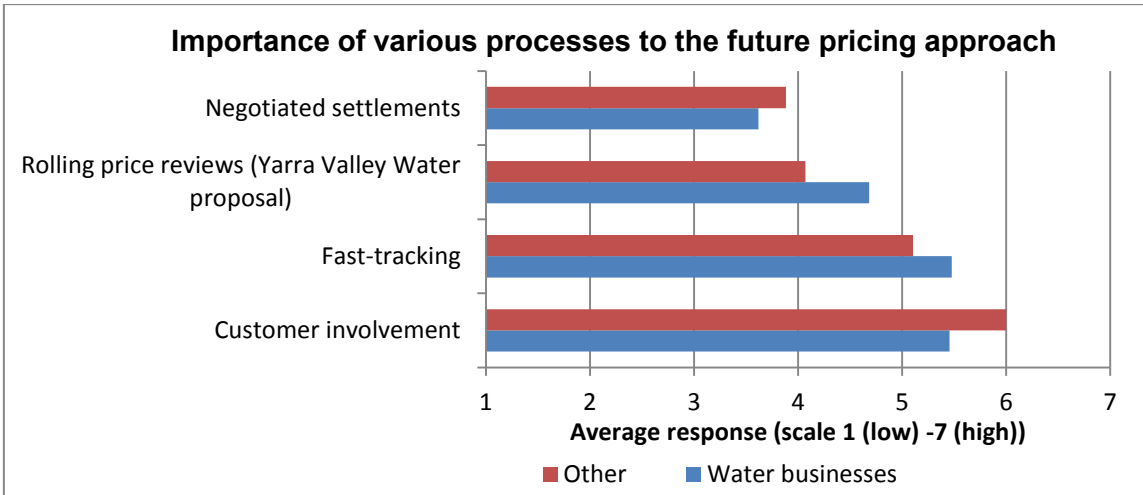
7. Rate on a scale from 1 (not at all suitable) to 7 (very suitable) the suitability of the approaches below to Victoria’s water sector:

- Synergies — earned autonomy (type 1, 2, 3)
- KPMG — RIIO model (innovation, incentives, outputs focused incentives)
- Frontier — enhanced price cap (customer engagement, benchmarking, incentives based on outputs)
- Sapere — unbundling (building block for bulk services, default price path for others)
- Yarra Valley Water — rolling price reviews
- Stephen Littlechild and Bruce Mountain — direct negotiation (negotiated settlements)
- the ESC’s current water pricing approach



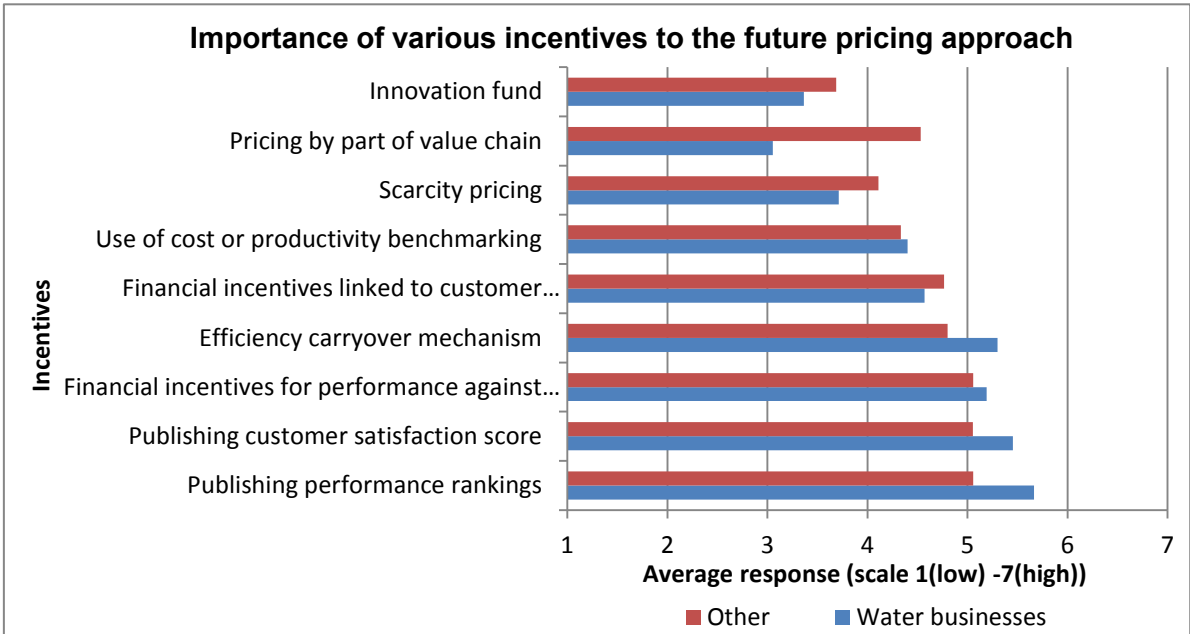
8. Processes: Rate on a scale from 1 (very little importance) to 7 (very high importance) each of the following in terms of importance to the future pricing approach:

- fast-tracking
- customer involvement
- rolling price reviews (Yarra Valley Water proposal)
- negotiated settlements/direct negotiation



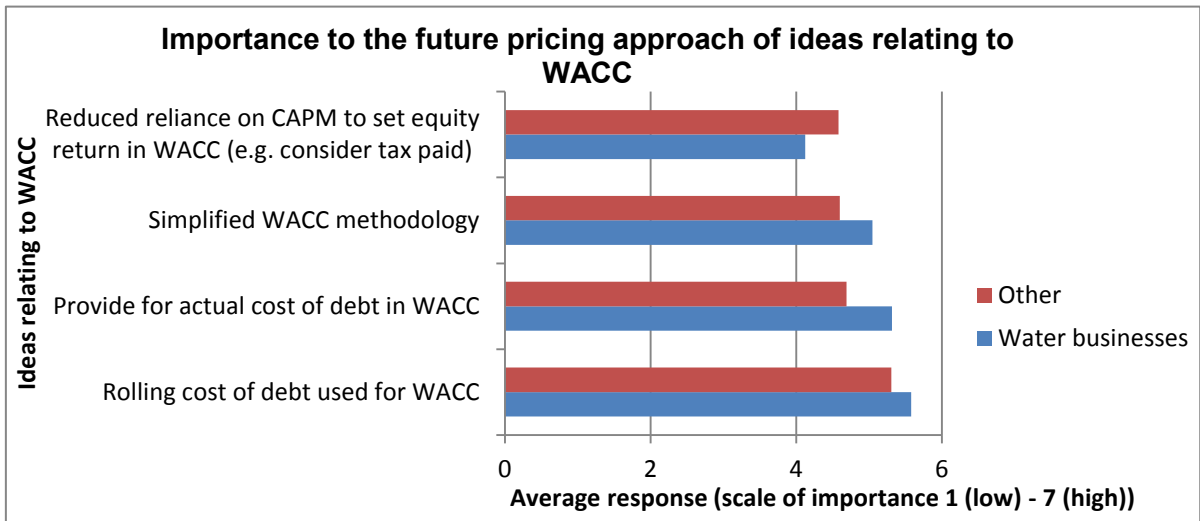
9. Incentives and efficiency: On a scale from 1 (very little importance) to 7 (very high importance), rate the following in terms of importance to the future pricing approach:

- efficiency carryover mechanism (financial incentive)
- financial incentives linked to performance against service commitments
- publishing performance rankings (reputation incentive)
- publishing customer satisfaction score (reputation incentive)
- financial incentives linked to customer satisfaction score
- use of cost or productivity benchmarking
- innovation fund
- pricing by part of value chain
- scarcity pricing



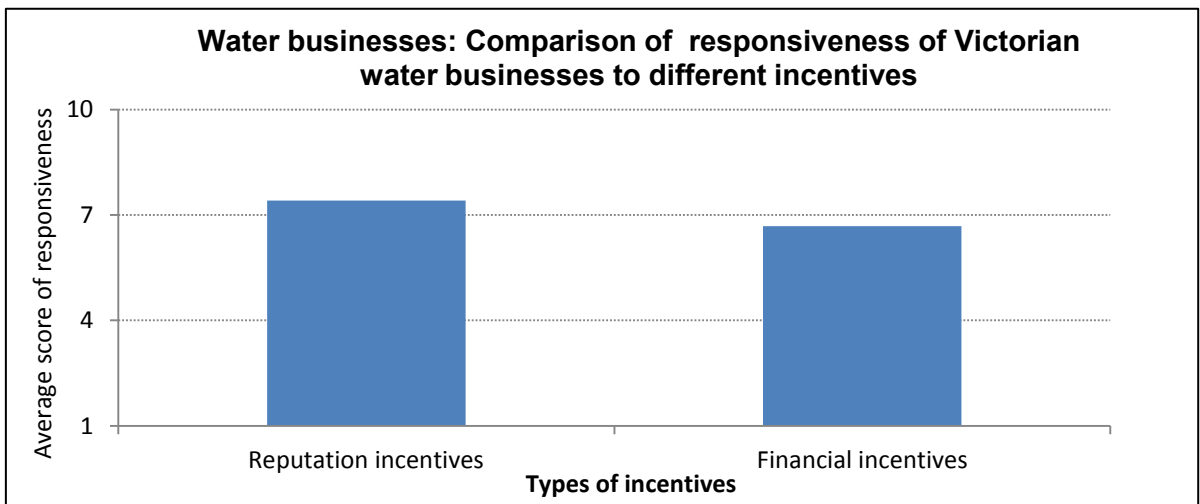
10. Finance/ Weighted Average Cost of Capital or WACC: On a scale from 1 (very little importance) to 7 (very high importance), rate the following in terms of importance to the future pricing approach:

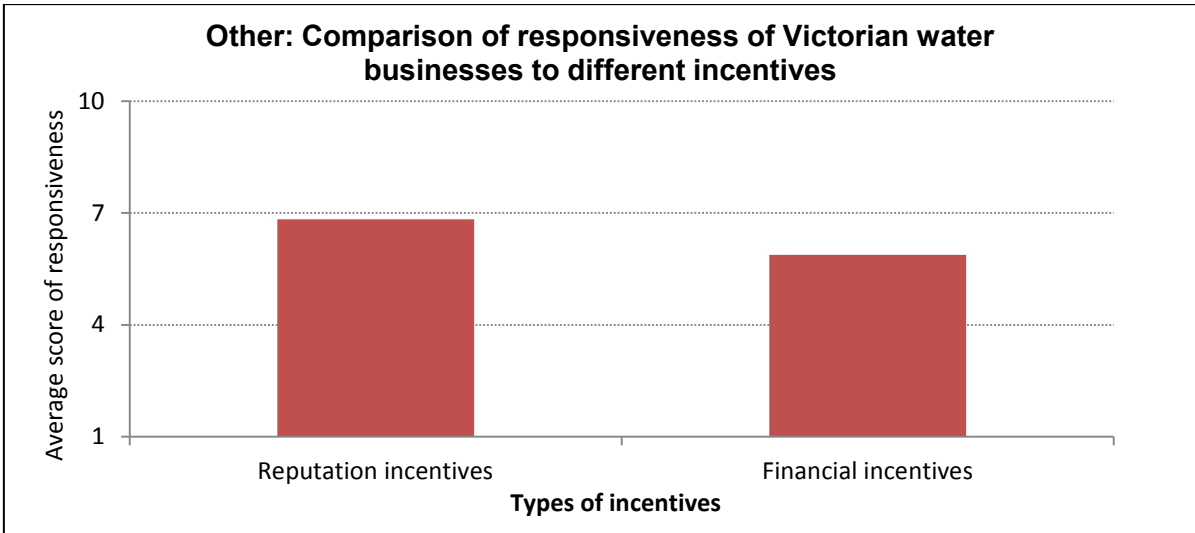
- rolling cost of debt used for WACC
- simplified WACC methodology
- reduced reliance on the Capital Asset Pricing Model (CAPM) to set equity return in WACC (e.g. consider tax paid)
- provide for actual cost of debt in WACC



11. Rate on a scale from 1 (extremely low) to 10 (extremely high) how responsive are Victorian water businesses to reputation incentives (e.g. published rankings and publicity of performance)?

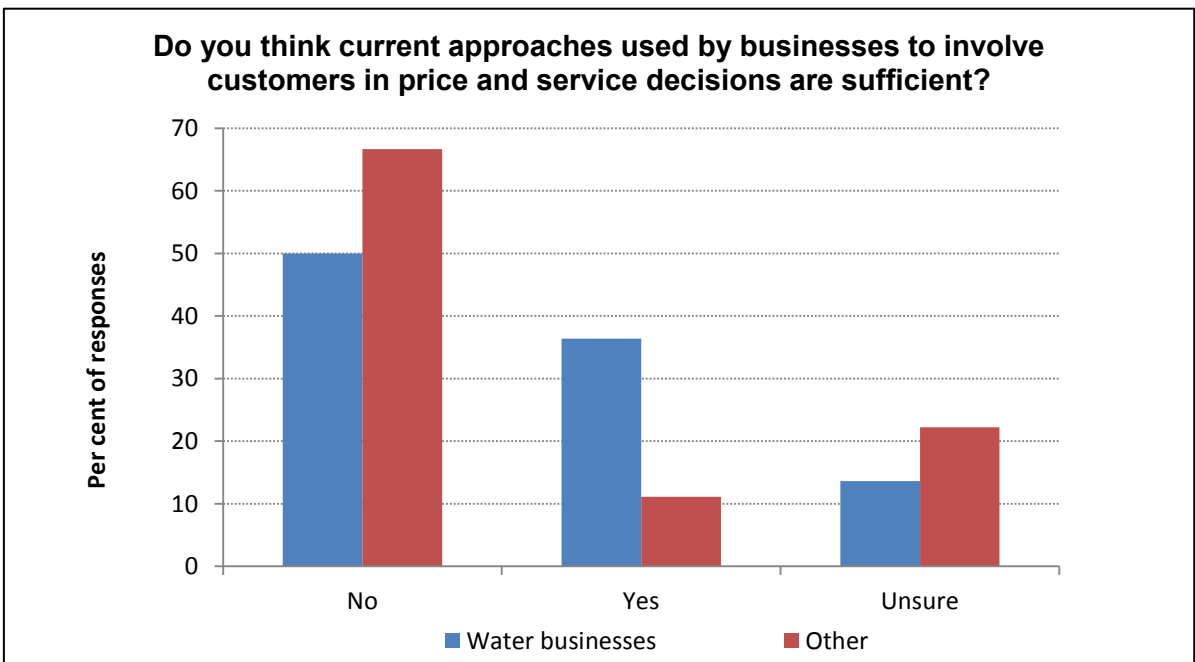
12. Rate of a scale from 1 (extremely low) to 10 (extremely high) how responsive are Victorian water businesses to financial incentives (e.g. revenue increases or decreases depending on performance against benchmarks)?





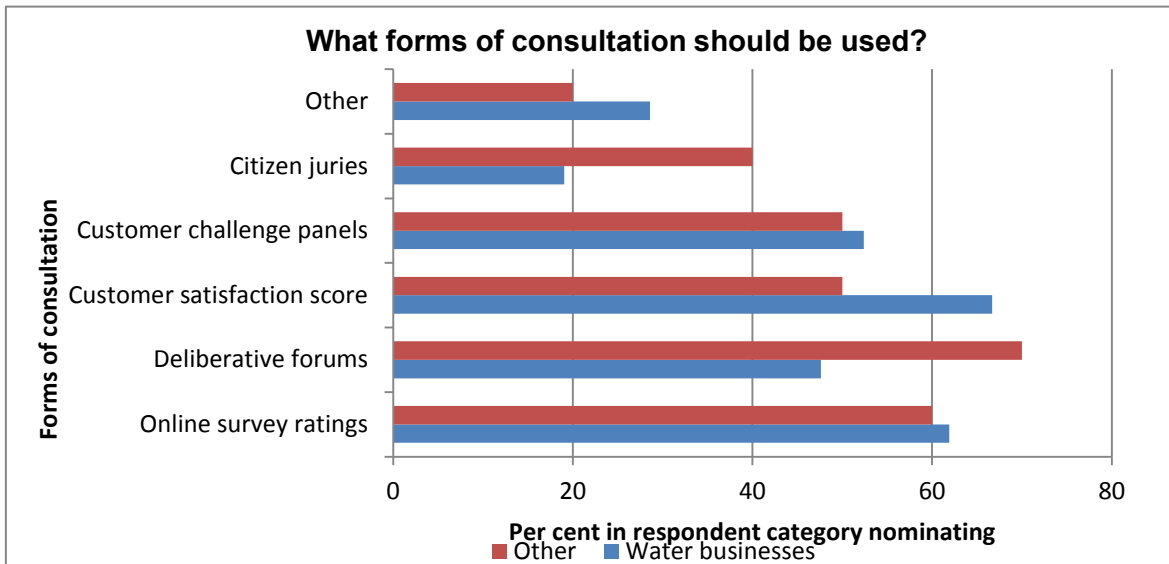
13. Do you think current approaches used by businesses to involve customers in price and service decisions are sufficient?

- yes
- no
- unsure



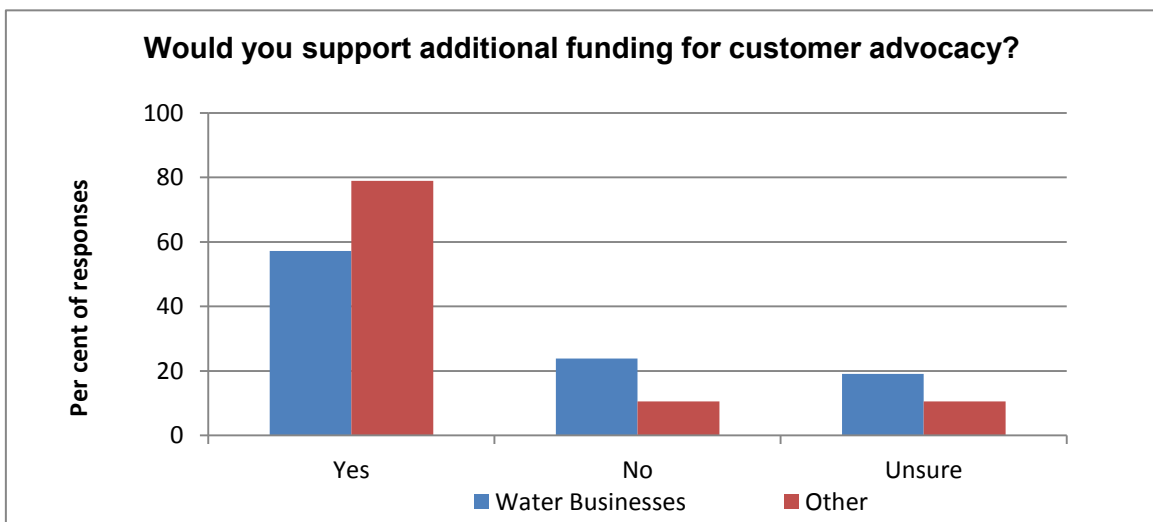
14. From the list below, what forms of consultation should inform prices and services delivered by water businesses (tick all that are relevant)?

- customer challenge panels
- citizen juries
- deliberative forums
- online survey ratings (shared economy)
- customer satisfaction index or score
- other (please specify) _____



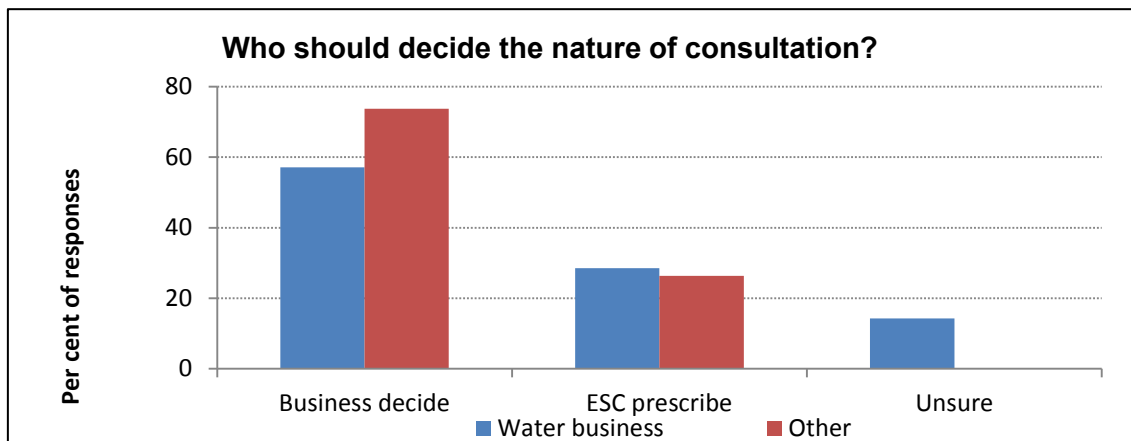
15. Would you support additional funding for customer advocacy?

- yes
- no
- unsure



16. Should the ESC prescribe the nature of consultation or should this be decided on by water businesses?

- ESC prescribe
- businesses decide
- unsure



17. What do you see as the most significant barrier or issue to overcome in developing a new pricing approach?

The table below summarises the most common issues, representing 68 per cent of responses.

Most Common Issues	Number of Responses
Customer Engagement – determining the level and best process for customer engagement and getting customers to participate in customer engagement with an understanding of the process and issues. Some consider that the ESC is focusing too much on increasing customer engagement. The approach to customer engagement should not be a one-size-fits-all approach.	5 water business responses + 3 other
Insufficient Time for Businesses - to understand and implement changes once guidance is issued, particularly in regard to customer engagement and delivering a plan.	6 water business responses
Understanding – of the issues and the new pricing approach by boards and customers.	2 water businesses + 3 other
Government Intervention or Support – non evidence based direction (i.e. political direction) will not be helpful and an ESC decision might require government support.	1 water business + 3 other
Adapting to Differences in Businesses – it is difficult to produce a single framework that suits all businesses. Need flexibility in the framework to adapt to the size, complexity, services of each business.	3 water business responses
Current Pricing Approach – is working and requires little change.	1 water business + 2 other