



# Regulating the water businesses

Response to Discussion Paper 2  
Promoting a customer focus

20 July 2021

Sydney  
**WATER**



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# Executive summary

Sydney Water welcomes the opportunity to respond to IPART's discussion paper on promoting a customer focus. We support the general direction IPART has outlined in its paper and endorse the key development in IPART's thinking, emphasising the need to link customer engagement to business planning and strategy in the development of the whole plan. This holistic approach focuses on how customer insight is embedded into the company's governance and decision-making, not simply on how that insight is applied in isolated areas of the business.

A whole-of-plan discussion with our customers has the potential to help refocus the regulatory process on areas that deliver the greatest value to them. It is much better to pursue this approach, than to continue to emphasise the division between mandatory expenditure, which IPART is required to fund so SOCs can meet their obligations, and discretionary expenditure, for which customers need to demonstrate they are willing to pay. While willingness-to-pay studies remain important as part of the suite of tools and techniques to engage with customers, the distinction between mandatory and discretionary expenditure is hard to sustain across our business as a whole and the continued pursuit of it risks reinforcing the traditional focus on cost, rather than value.

We view IPART's proposal to provide principles-based guidance on engagement and empowering the utilities to take responsibility to design business plans that deliver on their customers' views, priorities and needs, as sensible.

A review of best practice confirms IPART's views that the NSW approach lags behind other jurisdictions in terms of customer centricity.<sup>1</sup> We support a stronger focus within the regulatory process on engaging with customers and better integrating the areas customers identify as valuable into business plans. Utilities should be held to account through financial and reputational rewards and penalties to deliver outcomes valued by customers and to demonstrate in the pricing proposal clear links between customer preferences and proposed service levels and projects. We acknowledge that achieving customer centricity is a journey that we are on and we continue to embed customer insight and customer perspectives more fully into our decision-making. Transitional arrangements may be necessary.

We support IPART considering the costs of engaging with customers to ensure that the benefits of engagement are extracted from the process efficiently. IPART's guidance should encourage utilities to engage with customers without imposing a disproportionate burden.

We favour a flexible approach that allows the business the freedom to design an innovative engagement plan suited to its situation and to ensure the business can continuously improve its customer dialogue. Because of the regulated nature of our business, we recognise it is also an important part of informing our regulatory proposal.




We acknowledge that IPART aims to promote the long-term interests of customers.<sup>2</sup> A best practice regulatory framework has the long-term interests of customers 'hard coded' in the

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<sup>1</sup> IPART, *Promoting a customer focus - Discussion Paper*, p 3.

<sup>2</sup> IPART, *Promoting a customer focus - Discussion Paper*, p 2.

legislation. This is an important element to provide confidence to customers, government and regulated businesses about the overarching objective of the framework and how IPART makes decisions. We continue to support legislative change to the IPART Act to create an explicit duty for IPART to consider the long-term interests of customers.

AREAS IPART SEEKS FEEDBACK	OUR VIEW
 <p>Businesses should remain responsible for understanding their customers' views, priorities and needs.</p> <p>The long-term interests of customers may be furthered with:</p> <ul style="list-style-type: none"> <li>• a mid-determination 'early check-in'</li> <li>• principles/guidelines around the long-term interests of customers</li> <li>• principles/guidelines supported by a 'grading' of how customer centric the proposal is.</li> </ul>	<p>We agree that we should be responsible for engaging with our customers.</p> <ul style="list-style-type: none"> <li>• We support a mid-term check-in. Ideally, this step would be part of an ongoing, constructive dialogue with IPART in which we receive feedback on our customer engagement strategy.</li> <li>• While we support IPART's goal of promoting the long-term interests of our customers, we request that this is specified as the overarching objective in the legislative framework to allow better guidance so we can make long-term decisions.</li> <li>• We support grading proposals, noting comparison among proposals may not be suited to the NSW context due to the variation among the regulated utilities and the different levels of engagement required by each.</li> </ul>
 <p>Guidance around customer engagement will remain principles-based.</p>	<p>We support principles-based guidance from IPART. We also support the current and three additional principles.</p>
 <p>Customer advisory or challenge groups need to clearly support customer outcomes.</p>	<p>We support a requirement to establish customer advisory or challenge groups and a framework that links expenditure, outcomes and customer preferences.</p> <p>A flexible, fit-for-purpose approach should be adopted to accommodate the variation among the water utilities.</p>



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

We support a framework that links expenditure, outcomes and customer preferences.

On a practical level, it will take time to build capability in this area and to engage with our customers at the level and continuum required. We request transitional arrangements to implement an outcomes-based approach.

We prioritise our customer engagement efforts and resources towards the areas that our customers identify as important to them. Engaging on all expenditure could potentially impose unnecessary burden on the business. IPART's proposed check-in could be an opportunity to discover efficient levels of engagement and transition approach.



The role of our discretionary expenditure framework is less clear.

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

We support linking customer engagement to business planning and strategy in the development of the whole plan, rather than separate treatment of mandatory and discretionary expenditure.

A whole-of-plan discussion with our customers could refocus the regulatory process onto areas that deliver the greatest value to customers.



# Our response to IPART's paper

## 1 Putting customers at the centre of what we do

At Sydney Water, we aim to deliver a world-class customer experience and collaborate with our current and future customers, communities, stakeholders and partners to deliver better outcomes. Guiding this outcome is our central value – we have the customer at the heart.<sup>3</sup>

Over the past five years, we have increased our capability in engaging with customers; focusing on better understanding our customers and improving the customer experience. We take a broad interpretation of the term 'customer engagement' – we engage with our customers using a multi-channel approach, using both one- and two-way communications.

But much work needs to be done to focus our business planning and price proposals on our customers. We are in the process of deepening our engagement and integrating our customers' values within all levels of our organisation. It will take time for us to embed customer insight and customer perspectives more fully into our decision-making.

### Engaging for price reviews

We have begun engaging for the 2024 Price Review. We are informing groups of customers of issues and opportunities, educating on options, and helping to develop a response and/or identify preferred solutions. But we serve five million customers through two million customer accounts – the challenge is to obtain a representative view of our customers that recognises their diverse views and values. Notwithstanding challenges, we aim to clearly link customer priorities and research, our business planning, and our strategy in our next price review, and ultimately, be held to account for delivering against the outcomes identified as important by our customers.

We will keep IPART informed on key milestones in our engagement projects, and extend a standing invitation for IPART and the Secretariat to observe, participate, provide feedback and share in our customer engagement events.

### Engagement is continuous

We are deepening the engagement on our business plan to inform regulatory processes. But engagement with our customers is also ongoing. We have a multi-modal engagement strategy with both one- and two-way communications, including customer interaction feedback, customer complaints handling certified by Customer Services Institute of Australia, customer expectations across other service industries, media releases, water literacy, climate change and supply augmentation education campaigns and water conservation campaigns. We are developing our capability in inferring our customers' expectations and preferences. Some of our recent developments in our engagement strategy include:

- **Our Customer Hub.** This project has improved the experience for anyone either experiencing a Sydney Water service fault or affected by a service interruption. After every

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<sup>3</sup> Our corporate strategy contains further details on our customer centricity, available at [www.sydneywater.com.au](http://www.sydneywater.com.au).

service issue reported and after the job is completed, we seek feedback from our customers; since September 2017 we have had 35,000 customer responses providing us insights into their values and expectations. Our research clearly showed that customers value being notified before and/or during a service interruption, as well as being kept informed of progress on an issue they have reported and having first point resolution to avoid repeat problems/contacts. We have incorporated these insights into our processes by increasing communications and engaging earlier with our customers experiencing service interruptions.

- **Engagement for drought:** We sought feedback from a broad cross-section of our customers for their appetite for water restrictions. The main research objectives were:
  - a. How acceptable and tolerable are different types of water restrictions relative to each other and how do they compare when traded off against each other?
  - b. Where restrictions are not acceptable or tolerable, why are they not acceptable or tolerable?

We used insights from this study to inform current and future water conservation marketing campaigns and programs, to add exclusions for water use for business customers and to inform the Greater Sydney Water Strategy.

#### Our process of understanding and integrating our customers' preferences

IPART has presented a cycle of strategy, engagement, and action. We follow a similar cycle based on best practice, set out in Figure 1-1 below with an additional step after 'reflection & action' to measure performance. This extra step of measuring performance is to assess whether the changes we implemented had the intended effect and provides an opportunity to assess the performance of the action once implemented.

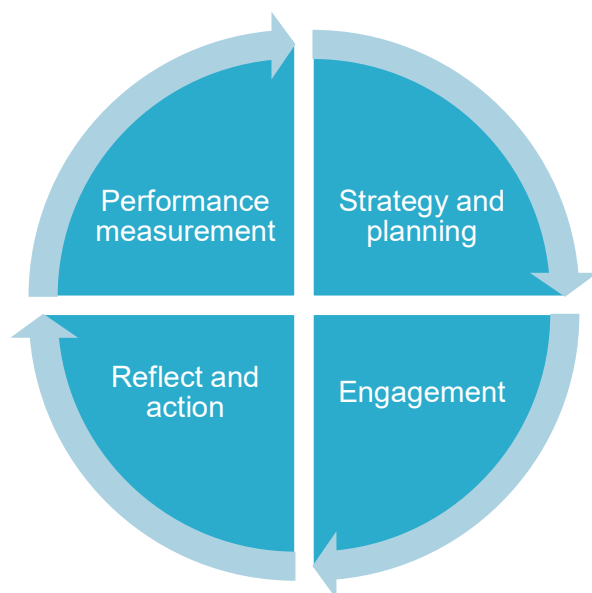


Figure 1-1 Sydney Water's cyclical process to understand and evaluate implementation of our customers' preferences



## 2 Current process and what other jurisdictions have shown us

While many aspects of IPART's current approach to customer engagement are sound, we support IPART considering innovations in other jurisdictions to identify improvements to the current approach. We support IPART unlocking the benefits of best practice, recognising the practical challenges of applying models that require comparison in the NSW context.

### 2.1 We support a light-handed approach to customer centricity

Table 2.1 of IPART's discussion paper summarises IPART's current framework to promote customer centricity. In particular, we support IPART's principles-based guidance, rather than prescription as it allows flexibility in the way businesses engage with their customers and recognises that the utility 'owns' the relationship with its customers. A flexible approach is needed as engagement should be tailored to the specific circumstances of the utility and evolve over time. We support IPART retaining a flexible, principles-based approach so that the businesses can continue to design and implement engagement models that best suit its situation.

### 2.2 We urge caution when applying or adapting other models

We support IPART exploring regulatory innovations from other jurisdictions, noting most leading models establish 'competition by comparison'. The challenge will be to unlock the benefits to customers of these models in a jurisdiction with limited comparators.

Insufficient comparators increases the probability of regulatory error. Any comparison conducted by the regulator would be highly subjective. Financial rewards and penalties under a 'competition by comparison' model would be subject to significant discretion by the regulator. We envisage a situation where either bills are higher without equivalent improvements in outcomes or there are unwarranted financial penalties imposed on the utility. Without an objective comparison, it is unclear whether the reputational incentives that underlie these other models will be present either.

## 3 Understanding customer preferences



### 3.1 We support a mid-determination check-in

We welcome the opportunity to work with IPART to shape our engagement through a mid-determination check-in. We see this as a valuable opportunity for IPART to provide early guidance to the business. This could be achieved through the submission of a high-level customer engagement plan, 18 to 24 months before the proposal is due.

Ideally, the check-in should allow the utility to receive feedback on its customer engagement strategy and be part of an ongoing, constructive dialogue with IPART. This could avoid the utility progressing costly engagement strategies that will be rejected at a later stage of the regulatory process. An informal and collaborative check-in in which we receive feedback from IPART should result in better customer engagement and better outcomes for our customers in the long term.

Additionally, the check-in should be informed by subject matter experts in customer engagement. We propose coordinating and collaborating with IPART as a way of avoiding costly and inefficient





duplication of research to maximise the benefits we can extract from the process for our customers.

### **3.2 We support a grading system**

We consider that there is merit in exploring a grading system that reflects the evidence of customer preferences in the submission, and the quality and suitability of the engagement. We support publication of the grades and our plan where appropriate as transparency in the process will allow businesses to improve their engagement by observing peers and receiving feedback from a wider range of stakeholders.

Any grading system would need to be clearly defined before the price review, including examples of IPART's grades, the assessment criteria and any penalties and rewards resulting from the grading assessment. A pre-specified grading system will assist us in preparing evidence that meets IPART's expectations. Financial and reputational rewards and penalties would need to be carefully calibrated so that customers and utilities are not unfairly disadvantaged. We request an opportunity to provide input into IPART's proposed grading system to ensure a workable approach.

As noted in Section 2.2, comparison is unsuited to the NSW context due to lack of comparable utilities. We oppose any grading system being extended to comparing all the NSW water utilities against each other.

## **4 IPART's guidance**

We support IPART's principles-based approach for customer engagement. This allows flexibility for Sydney Water to design and deliver engagement plans tailored to our customers and unique operating environment. To this end, we also support IPART's existing and proposed principles for effective engagement. We consider the principles are current and fit-for-purpose to achieving this objective.

Exploring outcomes with our customers and integrating them into our business plan will be challenging to complete satisfactorily for the 2024 Price Review. Flexible, transitional arrangements will be needed in the meantime. Further, any assessment should be flexible enough to recognise changes in circumstances between the beginning and end of a price path – the outcomes set in a determination may lose relevance over time.

Good engagement is not a clear-cut issue – additional guidance from IPART could assist engagement and balancing trade-offs that exist between principles. For example, a perfectly representative study may not be appropriate where the costs and burden of doing so are not proportionate to the service change. We see the mid-determination check-in as an ideal opportunity for IPART to provide this guidance. We also see value in IPART providing examples of what it considers leading engagement.



## 5 Customer advisory or negotiation groups

### 5.1 Current customer advisory group

In our experience, our Community Advisory Committee<sup>4</sup> has served a useful purpose in terms of providing a channel for direct feedback on existing customer services and emerging customer issues.

We have made some progress integrating this feedback into our business plans. We are currently reviewing how we can better link our insights from this (and other) engagement to our business plans so that we can be held to account to deliver the outcomes our customers value. We have engaged experts to identify opportunities to improve the governance and methodology of this engagement.

We have identified that the Committee's remit could be revised so that the purpose of the committee is to develop direct customer engagement activities leading up to price reviews. Updates to our Community Advisory Council Charter have contributed to improvements in this area, but the change in purpose has not been entirely realised. We will continue to review the operation of the Committee to ensure it is fit for purpose.

We support a formal requirement to establish and engage with customer groups for Sydney Water. Recognising the variation among the water utilities, we suggest a flexible, fit-for-purpose approach as the size of utility and the type of customers they service will affect whether these groups are beneficial.

### 5.2 Other customer groups

In addition to the Community Advisory Committee, we consider there is a need for an additional group to inform our broader engagement during the transition to an outcomes-focused framework. To this end, we propose to establish a Customer Advisory Forum consisting of a representative, informed group of customers with which we can regularly engage without placing undue burden on participants. Similar to the Community Advisory Committee, we anticipate that this group would interact directly with Sydney Water.



A subsidiary customer advisory group may provide an opportunity, as part of the Regulator's Advisory Panel, to guide the proposals' development particularly in a transition period. While the views of this group would not be representative there is an opportunity for this group to provide impartial advice on best practice to both IPART and utilities.

## 6 Incorporating preferences and measuring outcomes

We agree with tracking and reporting outcomes from customer engagement. Doing so should be central in informing regulatory reviews and business processes so that we are held accountable for delivering outcomes valued by our customers. As such, the outcomes that should be tracked will depend on the utility and the preferences of its customers. However, there may be scope to work

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<sup>4</sup> Sydney Water's Community Advisory Committee includes representatives from various industry and customer groups and provides a forum for direct feedback on existing customer services, emerging customer issues and our ongoing customer engagement processes.



collaboratively within the water sector to develop a common set of outcomes, with utilities open to propose bespoke outcomes from their own customer engagement.

IPART identifies customer satisfaction and complaints-related outcomes.<sup>5</sup> Additionally, environmental, resilience and liveability outcomes may also be appropriate. However, we reiterate the challenges in implementing this change and developing a robust set of outcomes and metrics that our customers value most.

While tracking and reporting outcomes will provide reputational incentives to Sydney Water, it is inefficient to report on every outcome and metric identified in our customer engagement processes. Ideally, the framework should target outcomes and metrics of most value to customers. Requiring annual reporting on each outcome and metric would come at a considerable cost and increase regulatory burden with little benefit. It may in fact reduce transparency by increasing the complexity of the information we provide to customers. Further, for customer satisfaction-related outcomes, most utilities already have research programs in place and channel reporting through Water Services Association of Australia. We caution against regulatory reviews duplicating these processes where there will be unclear reputational incentives.

In the NSW water sector, it is unclear at this stage which financial incentives will drive better quality customer engagement or price proposals. We support continuing to work with IPART to understand whether the experience in other jurisdictions provides useful features to apply in our regulatory framework.

## 7 Discretionary expenditure

### 7.1 Expenditure should be considered as a whole package

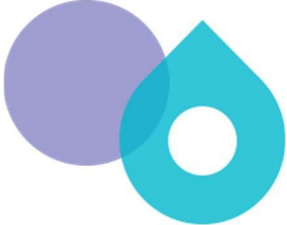

We support IPART exploring whether there is scope to simplify and integrate the assessment of mandatory and discretionary expenditure. Integrating the mandatory and discretionary services framework is an important step in supporting a move to an outcomes-focused approach as it links customer engagement to business planning and strategy in the development of the business plan as a whole. Ideally, all elements of the proposal (discretionary or otherwise) could be assessed against their impact on the overall outcome.

As IPART notes, the current separate treatment and RABs for discretionary project is burdensome, which could preclude us from pursuing projects that our customers value. This may bias our investment decisions towards traditional approaches, rather than projects that potentially deliver large benefits to our customers according to their values, preferences and willingness-to-pay. As noted by WSAA at the second workshop, it also has the effect of confining engagement to 'the last \$100 of the bill' rather than the proposal as a whole.

In our experience, there is also not a clear delineation between mandatory and discretionary expenditure. The Waterway Health Improvement Program approved by IPART in the 2020 Price Review is an example of this. Our Operating Licence requires that we operate, manage and maintain a Stormwater Drainage System. However, we are not necessarily required to manage the

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<sup>5</sup> IPART, *Promoting a customer focus - Discussion Paper*, p 23.



impacts of stormwater on waterway health.<sup>6</sup> It is sometimes unclear which activities under the latter are truly discretionary.

While we support a framework that better integrates treatment of mandatory and discretionary projects, we note that engaging on every aspect of the proposal would be considerably costly. In addition to being resource-intensive to Sydney Water, engaging imposes a burden on our customers. IPART's proposed check-in could be an opportunity for the utility and IPART to work together to find the efficient level of engagement.

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<sup>6</sup> Our Operating Licence provides that the operation and management of stormwater drainage systems *may* include measures necessary to manage impacts of stormwater on waterway health: Sydney Water, *Operating Licence 2019-23*, s 2.1.



# Our response to IPART's questions

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**1. Should we require a customer engagement plan to be submitted in the lead-up to a pricing proposal? How far in advance of the proposal due date should it be submitted? Should this be published?**

We support a mid-term check-in of our customer engagement plan 18 to 24 months in advance of our pricing proposal. Ideally, this step should allow the utility to receive feedback on its customer engagement strategy and be part of an ongoing, constructive dialogue with IPART.

See Section 3.1 for details.

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**2. Should we move to a system of grading the quality of proposals?**

We support grading proposals, noting comparison among proposals may not be suited to the NSW context due to the variation among the regulated utilities and the different level and form of engagement required by each.

See Section 3.2 for details.

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**3. Are our customer engagement principles current and fit for purpose? How could they be improved?**

We support principles-based guidance and IPART's current principles. We see value in IPART providing examples of what it considers leading engagement.

See Section 4 for details.

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**4. Do you agree with our additional 3 principles relating to incorporating customer preferences and performance? Is something missing?**

We support the additional principles. However, we acknowledge the challenge that will be required to satisfactorily deliver it. We request flexible transitional arrangements in the meantime.

See Section 4 for details.

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**5. How fit for purpose are the current customer advisory groups? How could they be enhanced?**

We are currently reviewing the method and governance of our Community Advisory Committee to identify opportunities to enhance our governance and methodology. Sydney Water's Community Advisory Committee provides a forum to discuss customer service and emerging customer issues.

See Section 5.1 for details.

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**6. Is there a need for a subsidiary customer advisory group developed with expert skills to represent customers?**

Sydney Water considers that effective use of the Community Advisory Committee, with the addition of a small number of expert members and a refresh of the existing membership, could perform this role.

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**7. Should non-licensed utilities adopt a form of customer advisory panel? Why or why not? How would this be run and funded?**

We consider this is a matter for unlicensed utilities and IPART.

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**8. Do you agree we should be tracking outcomes? What kind of outcomes should we track? Would these vary by business?**

We support a move to an outcomes-based framework. Outcomes should be proposed by the utility and based on the insights acquired through customer engagement. A flexible, fit-for-purpose approach should be adopted to accommodate the variation among the utilities and their customers. The outcomes should extend beyond the customer service outcomes IPART discusses.

See Section 6 for details.

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**9. Is the discretionary expenditure framework fit for purpose?**

No. The current approach of separating mandatory and discretionary expenditure creates an unnecessary burden.

See Section 7 for details.

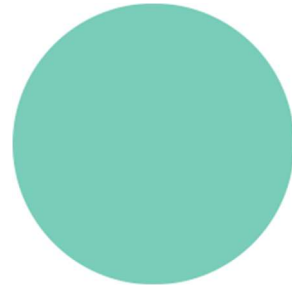
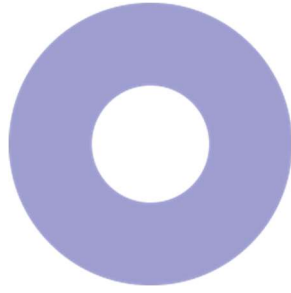
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**10. Should this framework be retained separate to a framework for mandatory services?**

We support integrating the frameworks so that the business plan is considered as a whole.

See Section 7.1 for details.

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