



Customer engagement: Why bother?

Dr Ron Ben-David

Chairperson

Essential Services Commission

SACOSS Consumer Engagement in Energy and Water Regulation Conference
(18 August 2015)

Warren Buffett:

“Price is what you pay, value is what you get.”

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Value rest 'in the eye of the beholder'

(beholder = *recipient* of what is being produced = the customer)

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Ron Ben-David (to water industry):

“So what value do you produce?”

Derryn Hinch:

“What service? I mean you turn the tap on, you turn the tap off. You turn the shower on, you turn the shower off. You provide your own service.”

* 10 August 2010

So what's the 'value' of the service provided by water authorities?

Three perspectives:

- nature of the service
- industry lifecycle
- regulatory framework

Two others (if time permits):

- distribution of benefits
- payment characteristic

It's an *essential* service.

It's an essential service.

BUT . . . What does that mean?

What does “essential” mean?

Are substitute products available?

Is voluntary exit
from the market
an option?

See: Ron Ben-David (2015) *If the retail energy market is competitive then is Lara Bingle a Russian cosmonaut?*

What does “essential” mean?

Are substitute products available?

	YES	NO
YES		
NO		

Is voluntary exit from the market an option?

What does “essential” mean?

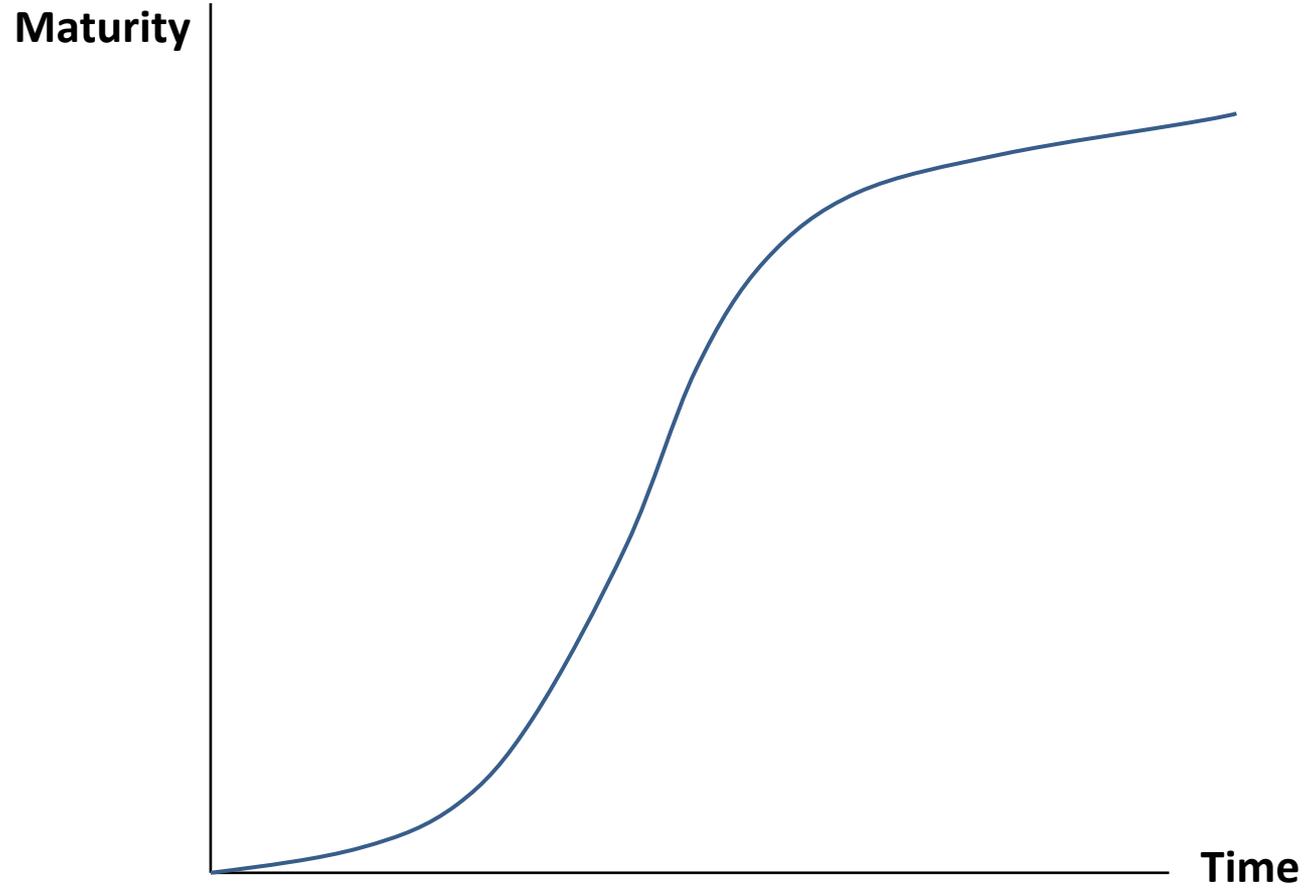
Are substitute products available?

	YES	NO
YES	Café latte	MS DOS c.1990*
NO	“Food”	Water

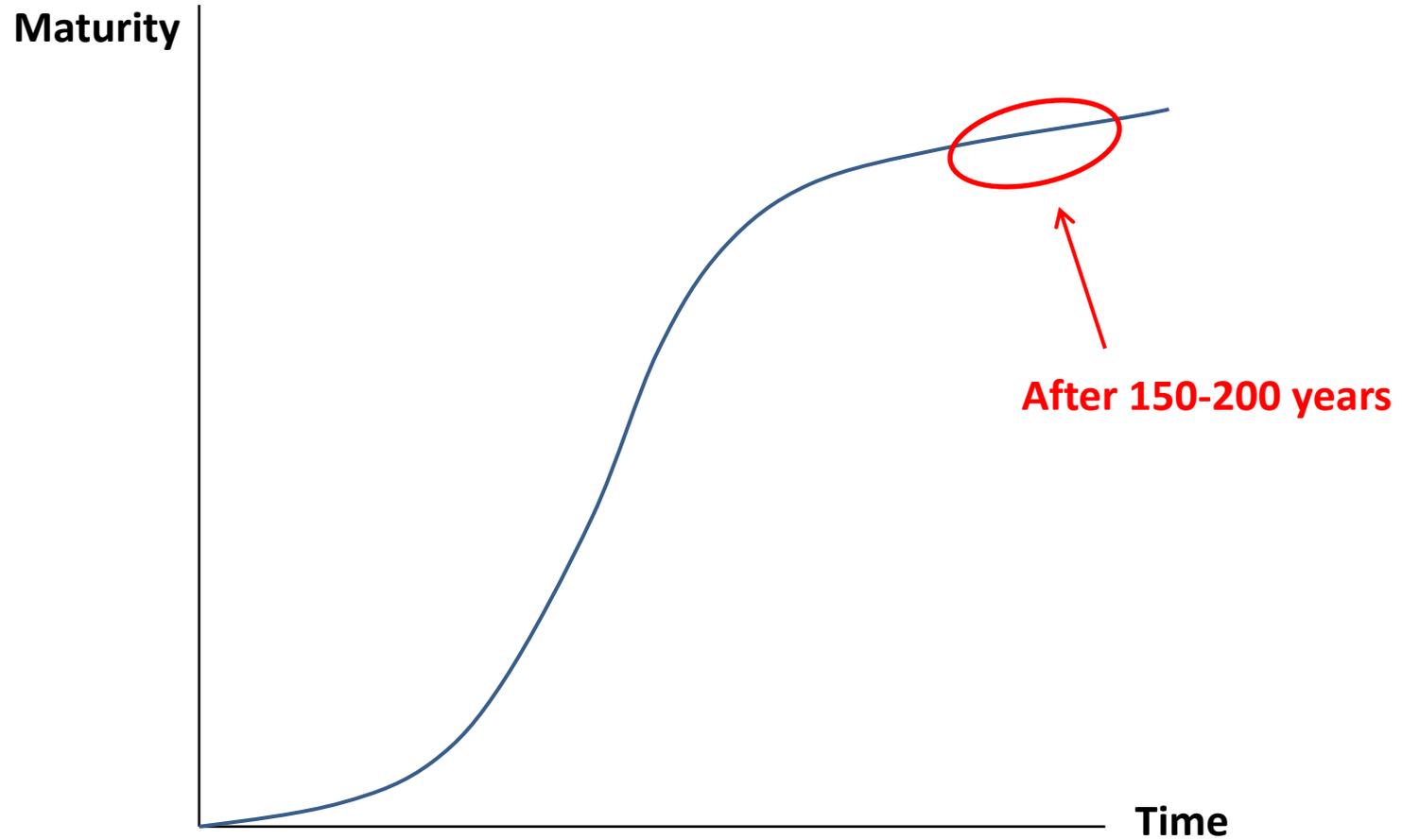
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Industry lifecycle (eg. product, technology, preferences)

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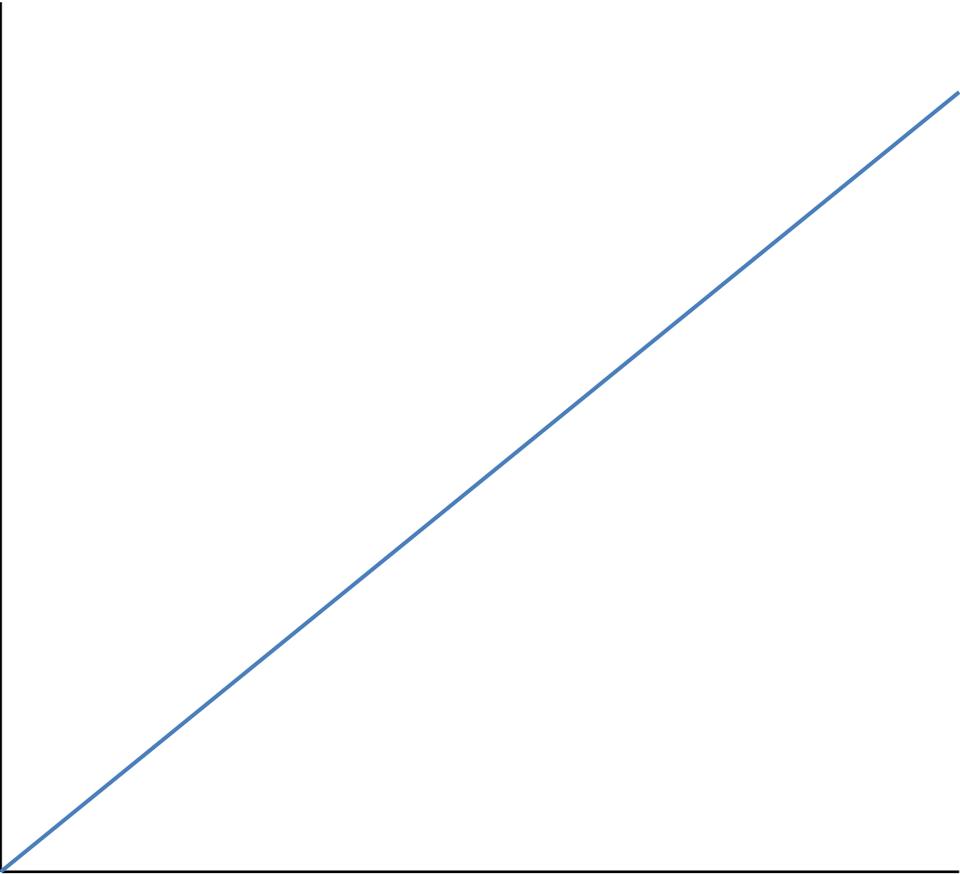
Industry lifecycle (eg. product, technology, preferences)



Regulatory Maturity (under the building block model)

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Depreciation
(regulatory)

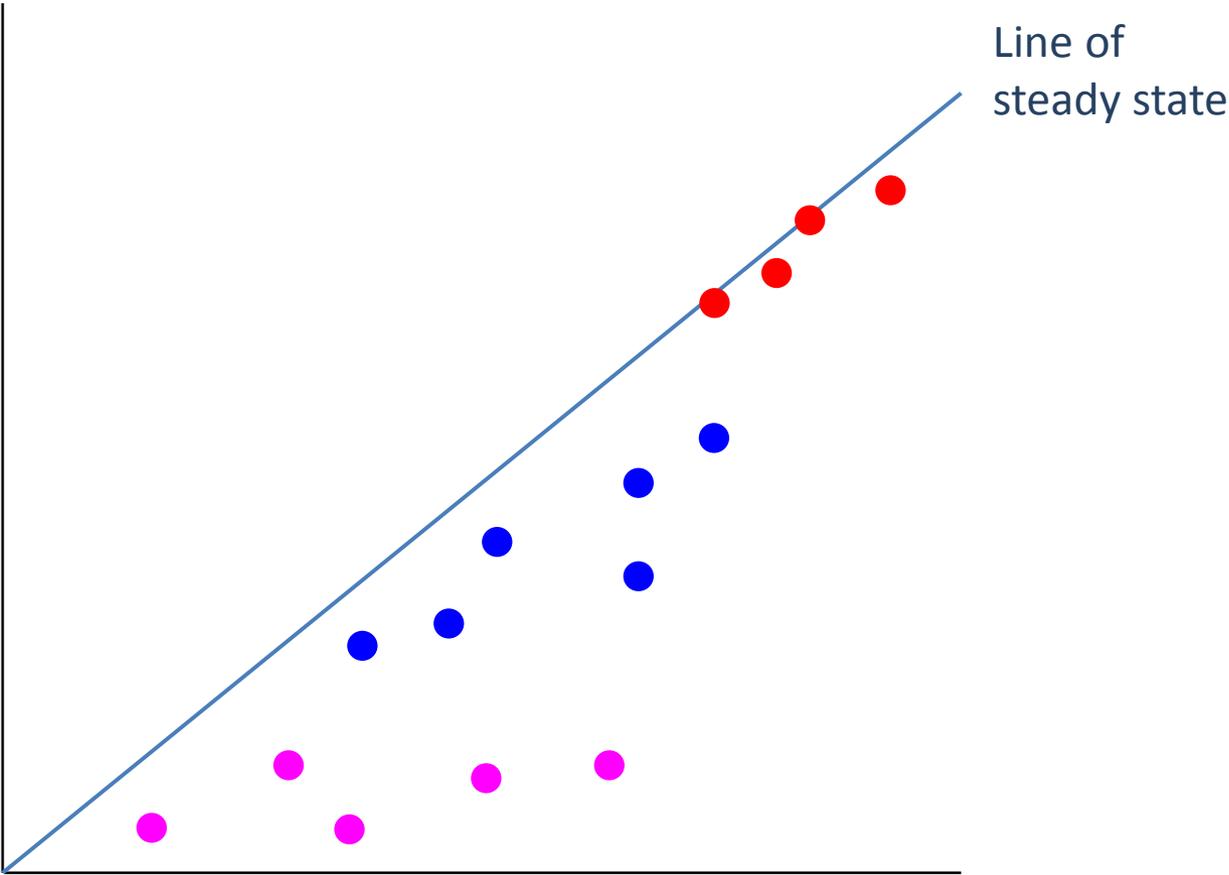


Line of
steady state

New Investment
(required)

Regulatory Maturity (under the building block model)

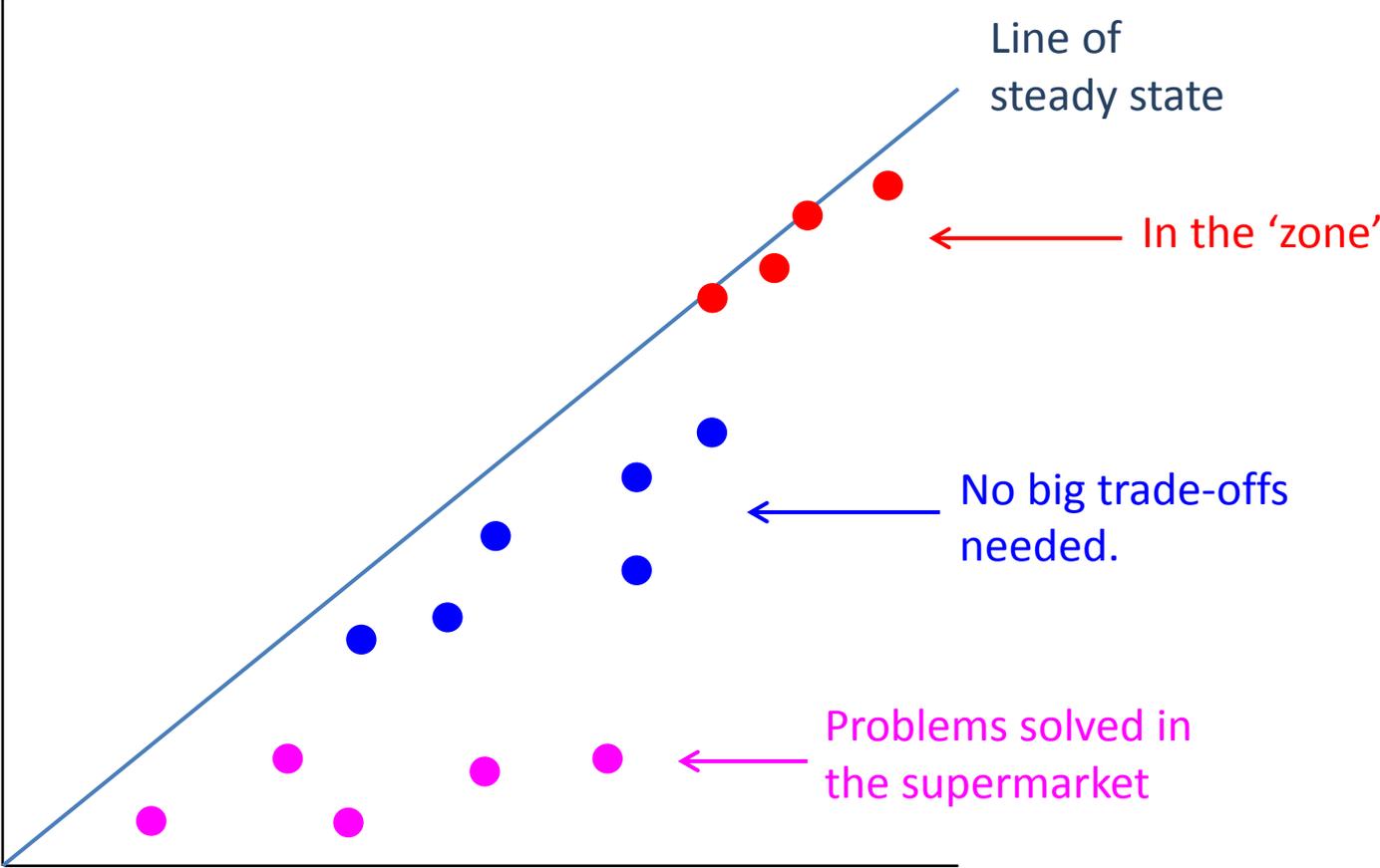
Depreciation
(regulatory)



New Investment
(required)

Regulatory Maturity (under the building block model)

Depreciation
(regulatory)



New Investment
(required)

**So why are we so bothered by the
need for customer engagement?**

It's because in 2010 one Victorian water business told its customers:

“As part of the Essential Services Commission’s four year pricing plan approved in 2009, the price of water, sewerage and recycled water charges have increased. From 1 July 2010, the average water bill for residential customers will increase by 19.1 per cent including CPI.”

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You are responsible for your water prices because you are responsible for your planning and your Water Plans.”

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Ron Ben-David (2010) *Governance and the water industry: The challenge of defining, creating and delivering value*

Ron Ben-David (2011) *Economic regulation of the water sector. How can we know the dancer from the dance?*

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“It’s your role to deliver services to your customers, not ours. It’s your role to charge them for those services, not ours. It must therefore be your responsibility to determine what they are prepared to pay for.”

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Ron Ben-David (2015) *Consumer engagement: Why bother?*

A step in the right direction

In the last price review (concluded in 2013) we placed much greater emphasis on water businesses having to consult with their customers – that is, making customers rather than the regulator the focus of their planning process.

The sector generally responded positively.

But was it *really* consultation ?

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Consultation

ex post* vs *ex ante

to planning



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Some other possible perspectives

1. Costs & Benefit: Who pays and who gains?

2. Are water charges a fee-for-service or a tax?

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The answer is not self-evident.

Fee-for-service or a tax?

Variable charge:

- Economic theory suggests VC should equal LRMC. If so, then possibly a fee-for-service
- If greater than LRMC, then . . . ? (and there's no agreed definition of LRMC anyway)

Fixed charge:

- Is a residual (i.e. revenue required after revenue from variable charges).
- Early theorists not fussed how the residual was funded (including by governments) provided it did not distort prices (i.e. $P = VC = LRMC$).
- Try not paying it.
- Water authorities have 'powers of coercion' => an extraction?

Are taxpayers the same as 'customers' ?

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**We don't think of ourselves as 'customers' of
State or Federal governments**

(even though they also deliver services)

