

Small Scale Incentive Scheme for Customer Service

Response to Issues Paper

19 August 2019

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Key messages

- » The development and approval of innovative customer service incentive schemes for both electricity and gas networks, such as that proposed by AusNet and its Customer Forum, is strongly supported.
- » Incentive schemes play an important role in the regulatory framework and changes in technology and customer expectations mean that those schemes related to customer service are more important than ever before.
- » The scope of the current customer service measure within the distribution STPIS is limited in its applicability and value to customers and the proposed use of the Small Scale Incentive Scheme for trialling alternative customer service measures will allow for more bespoke customer service outcomes that better meet the desires of each network's customers.
- » Whilst a consistent Customer Service Incentive Scheme design is desirable, the measures within that scheme may need to be variable to ensure relevance to customers.
- » Survey based measures will need to be SMART: Specific, Measurable, Achievable, Relevant and Time Bound to ensure that they can readily be converted into a result and clearly linked to an incentive target.

Overview

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Energy Networks Australia welcomes the opportunity to provide a submission to the Australian Energy Regulator's (AER) Issues Paper "Small Scale Incentive Scheme for Customer Service" (the Issues Paper).

Energy Networks Australia has in partnership with Energy Consumers Australia and the AER been an active sponsor of the 'NewReg' project and trial process which has led to the development of the proposed Customer Service Incentive Scheme by AusNet and the Customer Forum. The putting forward of this proposed innovative service incentive scheme demonstrates that the trial is bringing networks and customers into valuable and productive discussions about tangible service metrics that customers value.

Incentive-based regulation is a key component of the regulatory framework that delivers substantial benefits to customers¹. In the case of customer service, incentive schemes encourage networks to maintain or improve their service performance to customers. As such, the importance of incentive schemes in relation to customer service cannot be overlooked.

This is particularly the case as networks continue to transform to accommodate the continuing changes in generation, consumption and technologies as these changes are significantly altering how customers interact with networks, as well as their needs and expectations. As such, incentive schemes for both gas and electricity networks which are closely and flexibly targeted to valued components of customer service have more urgency in the regulatory framework than ever before.

More detail on our key messages can be found in the following sections. Our response to the questions posed in the Issues Paper can be found in the Appendix.

Limitations of current customer service measures

The current distribution network customer service measure within the Service Target Performance Incentive Scheme (STPIS) is very narrow as it encompasses just one measure – that calls to the customer service centre are answered within 30 seconds. This measure overlooks the changing range of network services offered to customers and the different types of interactions networks have with customers.

To remain relevant, customer service measures must be able to adapt with continuing changes in technology and consumer expectations. As such, customer service may be more appropriately measured and assessed through broader measures that:

» **Capture more than just a subset of customers served.**

The current measure will never capture customers who don't make a call to the network. This would encompass those customers who experience an outage, a vegetation management service or some other network service but, for whatever reason, never call the network.

» **Consider the time taken to resolve customer issues/requests.**

What is a reasonable amount of time will vary with the issue/request. For example, setting up a new connection should take one quick phone call from the customer, whereas the time to restore power from an unplanned outage will vary with the customer's location and the extent of network damage. What matters to

¹ See Energy Networks Australia, *Rewarding Performance – How customers benefit from incentive-based regulation*, July 2019
https://www.energynetworks.com.au/sites/default/files/072919_rewarding_performance_-_how_customers_benefit_from_incentive-based_regulation.pdf

a customer in the case of the latter is being informed of the planned restoration time and being notified of any changes.

» **Place a value on customers time.**

For example, the benefit to a customer of having to make only one phone call to a network to resolve an issue, will likely be more highly valued than the same customer having to make three or four separate phone calls to resolve the same issue, even if each of those calls are answered within 30 seconds.

‘Appropriate’ service measures will vary

What is an ‘appropriate’ customer service measure will vary by customer – both by customer type, energy type and by location – as well as by market structure. This means that customers of different networks will have differing views of what customer service should entail and exactly how it should be measured.

The proposed use of the Small Scale Incentive Scheme (SSIS) for customer service is an appropriate way to accommodate these customer nuances and will allow networks to provide bespoke customer service measures that are relevant and valued by their customers. This is preferable to the current customer service measure within the STPIS that assumes all customers value customer service using the same single measure – having their call answered within 30 seconds.

Market structures may also influence customer service measures. For example, New South Wales (NSW) has a contestable connections market, and both South Australia (SA) and NSW have a contestable market for new/replacement meters. This differs from Victoria where both services are performed by networks. The customer service experience in obtaining a new meter in NSW and SA will be highly dependent on the ability of the various parties to coordinate their responsibilities, while in Victoria there will be greater efficiencies and synergies in the customer service experience and access to customer data that can be used to further improve service.

Based on stakeholder feedback received through the regulatory proposal process, several Energy Networks Australia members are already looking to conduct their own paper-based trials of potential alternative customer service measures over their current/coming regulatory periods. These networks intend to gather data for a proposed SSIS relating to customer service that can be presented to stakeholders and consulted on as part of their next regulatory determination.²

² See, for example, Essential Energy’s ‘2019-24 Revised Regulatory Proposal’, p.24 <https://www.aer.gov.au/system/files/Essential%20Energy%20-%20Revised%20Proposal%20-%20December%202018.pdf> and Ausgrid’s ‘Revised Proposal, Attachment 9.01 - Application of incentive schemes’, January 2019, p.15 <https://www.aer.gov.au/system/files/Ausgrid%20-%20Revised%20Proposal%20-%20Attachment%209.01%20-%20Application%20of%20incentive%20schemes%20-%20January%202019.pdf>

Clear relationships to existing schemes

It is important that any potential Customer Service Incentive Scheme (CSIS) has a clear and logical relationship with other applicable schemes. As an example, a range of networks are subject to license obligations, Guaranteed Service Level targets and other jurisdictional schemes which may interact with a CSIS. It would be important to recognise and accommodate these interactions in any design phase.

Early and collaborative consultation with stakeholders will minimise this risk and allow sufficient time for any required jurisdictional changes to be undertaken.

Balance between consistency and flexibility

Energy Networks Australia believes that whilst it is preferable to have consistency in the design of any CSIS, this shouldn't necessarily mean that the individual measures within the scheme need to be consistent across all networks. To remaining relevant to customers, the CSIS measures must appropriately consider the network's customers as well as the market structures operating within the jurisdiction.

Potentially a CSIS may have the same measures, but with different weightings across jurisdictions or networks. Alternatively, it may have some measures that apply to all networks, as well as some bespoke measures agreed with each network's stakeholders. The results of various network customer service trials under the SSIS will help inform this outcome and the ultimate design of any CSIS should be considered in the future.

Whilst Energy Networks Australia sees value in having consistency and predictability in incentive schemes, customer service is an area that has and continues to experience significant change. As such, any CSIS must be capable of remaining relevant and valuable to customers. This proposed approach accommodates differences in networks customer compositions (type and location) and their associated customer service expectations. It also allows for the varying market structures within jurisdictions that will influence customer service outcomes. More importantly, it also provides for CSIS longevity as the measures can be altered over time if customer expectations around service change.

In time, Energy Networks Australia would expect to see some level of convergence and commonality across schemes, recognising however that the needs and valued service elements of different customers across gas and electricity networks will naturally vary.

Surveys require careful design

Customer service measures driven from survey results will need to be SMART: Specific, Measurable, Achievable, Relevant and Time Bound to ensure that they can readily be converted into a result and clearly linked to an incentive target.

This will likely mean tying questions to measures that networks can influence and manage. For example, the ability to influence satisfaction on customer interactions regarding notifications on planned/unplanned outages has some dependency on obtaining up-to-date customer information from other market participants (via AEMO B2B procedures). It will also mean survey participants having to give scores or ratings for their service experience with the network as well as written feedback.

As the Issues Paper identifies, surveys will need to be conducted by an independent body using appropriate data sampling and collection methods. The results must also be robust and capable of independent verification and audit.

A well-designed survey will account for factors that may skew results on satisfaction by, for example, ensuring that surveyed customers:

- » have had a recent interaction with the distributor;
- » understand the roles of the distributor versus that of other market participants; and
- » views relate to the service interaction for which the survey is being undertaken, rather than being influenced by some previous negative event. For example, the major 2016 blackout in SA negatively impacted customer service results for some time.

Energy Networks Australia does not, however, support a requirement for networks to have their surveys audited on a regular basis. This would be a costly exercise given the number of surveys likely to be undertaken over a regulatory period, especially when considered relative to the amount of revenue at risk. Instead, Energy Networks Australia suggests that it would be far more cost-effective for any such audits to be undertaken by the AER on an ad-hoc basis.

Appendix – Questions for consultation

1. Do the AER's incentive schemes provide sufficient incentives for distributors to provide customer services as desired by customers?

No, the current incentive schemes are not sufficiently flexible or comprehensive to enable the best incentivisation for gas and electricity distributors to be rewarded for providing the customer services genuinely desired by customers. Whilst the STPIS scheme adequately caters for the duration and frequency of unplanned customer outages, the current customer service measure within the STPIS is narrow.

Customers' interactions with networks and their service expectations have changed considerably with changes in technology and will continue to do so. The current measure fails to adequately consider customer service across all customers, nor does it consider the full suite of customer service technologies now available to networks.

For more details, see the [Limitations of current customer service measures](#) section.

2. What would be necessary preconditions for applying the trial CSIS? Is broad customer support a necessary prerequisite, and how could broad customer support be demonstrated?

Stakeholder support should be a prerequisite for applying a trial CSIS. Energy Networks Australia does not, however, consider it is necessary to specify in advance exactly how that support should be obtained or exactly what the definition of broad customer entails.

This approach provides networks with the flexibility to work with their stakeholders on the best approach. So long as statistically representative customer support can be demonstrated: whether that support is achieved solely through stakeholder consultation as part of the regulatory proposal process; through a customer advisory group/forum; some combination of the two; or any other meaningful manner is not important.

What is important is the network clearly linking how that feedback demonstrates a broad level of support.

3. How should we determine the revenue at risk if applying a trial CSIS?

Energy Networks Australia believes that the 0.5 per cent default rate for revenue at risk under the SSIS is appropriate. However, an alternative rate up to the one per cent allowed under the SSIS should also be allowed where a network can demonstrate this is broadly supported by customers.

4. Are financial incentives alone sufficient to improve customer service outcomes? Should any CSIS also involve public reporting of customer service performance?

Financial incentives alone are not sufficient to improve customer service outcomes. Non-financial outcomes, like improved business reputation or customer trust, also have a role to play, though the starting point and journey along this path will vary for each network.

In terms of reporting customer service performance, Energy Networks Australia does not believe that any new annual reporting should be required. Any SSIS or CSIS measures will have to be reported to the AER and networks are already self-reporting on customer service, for example in their annual reports, regulatory proposals or under the new Energy Charter. As such, any AER requirement to also prepare a publication would be a duplicative of existing information and represent regulatory burden.

5. Are customer surveys a good basis for an incentive? If so, what processes should be in place to ensure the robustness of the data used to calculate rewards/penalties under the incentive scheme?

Surveys should be conducted by an independent body using robust data sampling and collection methods. The data must be capable of independent verification and auditing.

In addition:

- Customer service measures driven from survey results will need to be SMART: Specific, Measurable, Achievable, Relevant and Time Bound to ensure that they can be clearly linked to an incentive target; and
- Whilst Energy Networks Australia agrees that surveys must be capable of being audited, there should be no requirement for networks to have their surveys audited regularly.

More detail can be found in the [Surveys require careful design](#) section.

6. How could the AER decide what parts of a scheme should be consistent across all distributors and what parts of a scheme should be flexible?

Energy Networks Australia believes this question is best deferred until networks have had the chance to consider and trial various customer service measures appropriate for their customers under the SSIS.

The aspects of any scheme that may be consistent and flexible will reveal themselves in time. Additional feedback in relation to this question can be found in the [Balance between consistency and flexibility](#) section.