

# Draft Decision

**Endeavour Energy**

**Electricity Distribution**

**Determination 2024 to 2029**

**(1 July 2024 to 30 June 2029)**

**Attachment 12**

**Customer Service Incentive  
Scheme**

**September 2023**

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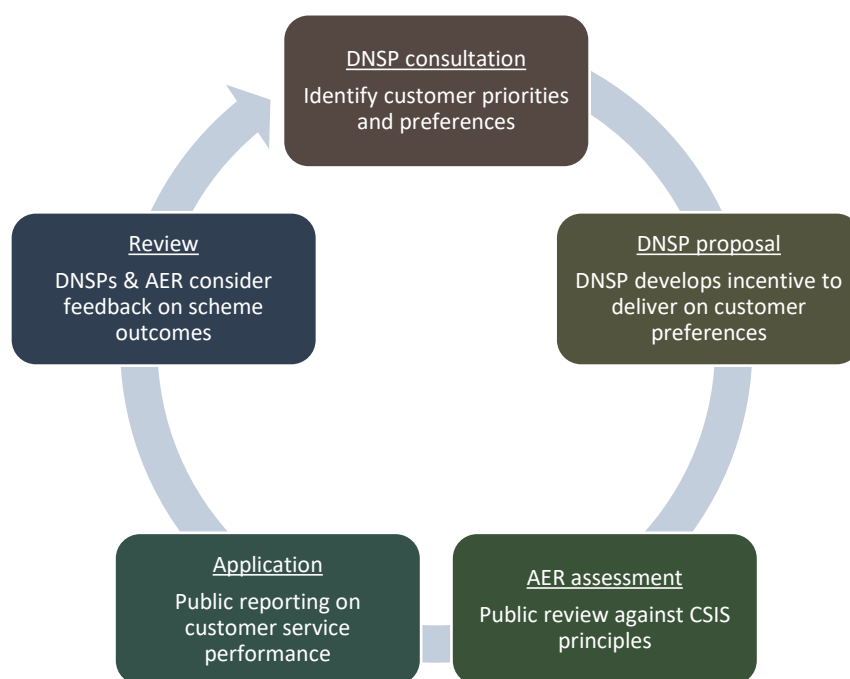
## 12 Customer Service Incentive Scheme

The Customer Service Incentive Scheme (CSIS) is designed to encourage electricity Distribution Network Service Providers (DNSPs) to engage with their customers and provide customer service in accordance with their preferences. The CSIS allows us to set targets for DNSPs' customer service performance and require DNSPs to report on performance against those targets. Under the CSIS, DNSPs may be financially rewarded or penalised depending on how they perform against their customer service targets.

DNSPs are 'natural' monopolies, which means that they do not face competition from other networks<sup>1</sup>. In the absence of economic regulation, DNSPs do not face the same incentives to deliver price and quality of service outcomes that customers prefer. The CSIS creates an incentive for DNSPs to maintain and improve customer services not covered by the Service Target Performance Incentive Scheme (STPIS), or other mechanisms, when desired by customers.

The CSIS is a flexible 'principles-based' scheme that can be tailored to the specific preferences and priorities of a DNSP's customers. This flexibility will allow for the evolution of customer engagement and the introduction of new technologies. The principles of the scheme target it at customer preferences and provide safeguards to ensure penalties/rewards under the scheme are commensurate with improvements/detriments to customer service. Figure 12.1 illustrates how the CSIS works in practice.

**Figure 12.1 Application of the CSIS**



Source: AER, *Explanatory Statement Customer Service Incentive Scheme*, July 2020, p. 4.

<sup>1</sup> Productivity Commission, *Electricity Network Regulatory Frameworks, inquiry report no. 62*, 2013, p. 12.

Under the principles-based approach, the CSIS has principles that must be met by DNSPs for the scheme to be applied. These principles are targeted at improving customer experience. DNSPs can identify, in consultation with their customers, incentive designs that would meet those principles. This allows us to apply different parameters to different DNSPs. Importantly, we will not apply an incentive design unless a DNSP can demonstrate that its customers support the incentive design through genuine engagement.

## 12.1 Draft decision

We consider that Endeavour Energy's incentive design sets out each of the scheme elements (performance parameters, measurement methodology, assessment approach and financial component). Each of the scheme elements (as assessed below) satisfy the required principles outlined in clause 3.2 of the scheme.

The performance parameters are an aspect of the customer experience component of the DNSP standard control services that Endeavour's Energy's customers have indicated that they value and want improved. The measurement methodology complies with scheme requirements and the assessment approach baselines Endeavour Energy's performance using historical data. The performance target proposed by Endeavour Energy incentivises genuine improvement in customer services.

Table 12.1 and Table 12.2 present our draft decision on the applicable performance targets, revenue at risk and incentive rates that will apply to Endeavour Energy for the 2024–29 period.

Endeavour Energy is required to submit the latest up to date CSIS data in its revised revenue proposal in order for us to re-calculate its CSIS targets and incentive rates for our final decision.

**Table 12.1 Draft decision – CSIS management of planned outage parameters**

Measure	Baseline target <sup>a</sup>	Revenue at risk <sup>b</sup>	Incentive rate <sup>a</sup>
Actual start time of the planned outage compared to the planned start time within 30-minute tolerance	25.75%	± 0.125%	0.03%
Actual finish time of the planned outage compared to the planned finish time within 1 hour tolerance	22.38%	± 0.125%	0.03%

Source: AER analysis.

(a) Endeavour Energy, *Response to IR#39*, 29 August 2023.

(b) Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, pp. 16 & p. 19.

**Table 12.2 Draft decision - CSIS customer satisfaction parameters**

Parameter	Baseline target <sup>a</sup>	Revenue at risk <sup>b</sup>	Incentive rate <sup>a</sup>
Customer Satisfaction (CSAT) Score following a Planned Outage	6.3563	± 0.083%	0.09%
CSAT Score following an Unplanned Outage	5.0799	± 0.083%	0.09%
CSAT score following a General Enquiry	7.8669	± 0.083%	0.16%

Source: AER analysis.

(a) Endeavour Energy, *Response to IR#39*, 29 August 2023.

(b) Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, pp. 16 & p. 19.

## 12.2 Endeavour Energy’s proposal

Based on the preferences of customers and feedback from its Regulatory Reference Group (RRG), Endeavour Energy proposed a mix of the following customer satisfaction and outage management measures:

- Outage management:
  - The percentage of planned outages starting within 30 minutes of communicated start time
  - The percentage of planned outages finishing within 1 hour of the planned duration.
- Customer satisfaction with:
  - Unplanned outages
  - Planned outages, and
  - General enquiries.

The RRG and the Customer Panel engaged extensively in consultation in the development of Endeavour Energy's proposed incentive design. A list of the customer engagement activities was provided in Endeavour Energy's Customer Service Incentive Scheme 2024–29 Regulatory Proposal.<sup>2</sup>

Below we outline each of these parameters in further detail.

### 12.2.1 Management of planned outages

Based on research and engagement with customers and customer advocates, Endeavour Energy's proposed CSIS measurements and performance targets for planned outage communication and management seek to improve 'adherence to communicated timeframes of planned outages'. This is designed to increase the accuracy of information provided to

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<sup>2</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, pp. 10-14.

customers regarding planned outages to minimise disruption to customers (e.g. more accurate start and end times of planned outages).<sup>3</sup>

Endeavour Energy analysed 4,697 planned outage jobs conducted from January 2022 to September 2022, (inclusive of Accredited Service Provider activity). This data was extracted from its Advanced Distribution Management System (ADMS). The results of that analysis confirmed: 26.5% of planned outages starting within 30 minutes of the start time communicated to customers; and 22.2% of planned outages finishing within 60 minutes of the planned duration time communicated to customers.<sup>4</sup>

In striving to continuously improve the accuracy of information communicated to customers Endeavour Energy's proposed CSIS targets for planned outage management.

## 12.2.2 Customer satisfaction

Endeavour Energy has been measuring CSAT via direct surveys since July 2019. Surveys are conducted following a service interaction and Endeavour Energy currently surveys against three categories – planned outages, unplanned outages, and general enquiries.<sup>5</sup>

To determine proposed incentive targets, Endeavour Energy analysed data from 5,315 surveys (1,861 for planned outages, 1,410 for unplanned outages, 2,044 for general enquiries) taken from December 2021 to October 2022.<sup>6</sup>

The proposed baseline targets detailed in table 12.2 are based on CSAT results from December 2021 to October 2022.

## 12.3 Assessment approach

Under Section 2.1 of the CSIS, we will apply a DNSP's proposed incentive design to a distribution determination if we consider it:

- will achieve the CSIS objectives;
- meets the incentive design criteria, which includes the principles of the CSIS; and
- is accompanied by a proposal that meets the incentive design proposal requirements.

We have therefore assessed Endeavour Energy's proposed incentive design against these criteria.

We also assess any submissions received on the CSIS proposal.

Our assessment is set out below.

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<sup>3</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 3.

<sup>4</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 16.

<sup>5</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 17.

<sup>6</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 18.

## 12.4 Reasons for draft decision

### 12.4.1 CSIS objectives

The objectives for the CSIS are that it:

- Is consistent with the National Electricity Objective in section 7 of the National Electricity Law (NEL).
- Is consistent with clause 6.6.4 of the National Electricity Rules, which requires that, in developing a small-scale incentive scheme the AER must have regard to the following matters;
  - DNSPs should be rewarded or penalised for efficiency gains or losses in respect of their distribution systems
  - the rewards and penalties should be commensurate with the efficiency gains or efficiency losses in respect of a distribution system, but a reward for efficiency gains need not correspond in amount to a penalty for efficiency losses
  - the benefits to electricity consumers that are likely to result from efficiency gains in respect of a distribution system should warrant the rewards provided under the scheme and the detriments to electricity consumers that are likely to result from efficiency losses in respect of a distribution system should warrant the penalties provided under the scheme
  - the interaction of the scheme with other incentives that DNSPs may have under the rules, and
  - the capital expenditure objectives and the operating expenditure objectives.
- Achieves clauses 1.4(1) and 1.4(2) [of the scheme objectives (detailed above)] by aligning the incentives of DNSPs with the customer service preferences of their customers.
- Promotes transparency and understanding throughout the National Electricity Market (NEM) regarding DNSP's customer service initiatives.

Endeavour Energy's incentive scheme design is consistent with the CSIS Objectives. The incentive for Endeavour Energy to maintain and improve its customer services, in line with the interests of its customers, gives effect to the long-term interests of consumers.

Endeavour Energy's proposed incentive design will reward or penalise it for improving, or degrading, its customer service. To ensure that only efficient customer service performance improvements are delivered, penalties and rewards under the scheme align with the value that customers place on the customer service. As this value has been identified through customer engagement, the scheme aligns Endeavour Energy's interests with those of its customers. We are therefore satisfied that the benefits (detriments) to consumers that are likely to result from efficiency gains (losses) warrant the rewards (penalties) provided under the scheme.

We do not consider that the CSIS duplicates any other incentive schemes Endeavour Energy is currently subject to. Endeavour Energy's current customer service metric for the STPIS is based on the percentage of calls answered within 30 seconds. During the 2019-24 determination process, Endeavour Energy identified that telephone answering 'was an antiquated measure of customer service'. Endeavour Energy confirmed this through



customer research and engagement supporting the development of their 2024-29 regulatory proposal. Endeavour Energy is proposing to replace the current customer service metric with a more customer-centric CSIS.<sup>7</sup>

We have had regard to the capital and operating expenditure objectives in applying the CSIS. In particular we note the objective to "maintain the quality, reliability and security of supply of standard control services". By setting targets at or above historical performance Endeavour Energy has an incentive to at least maintain its current levels of customer service.

Endeavour Energy's engagement with its RRG from December 2021 to August 2022 and Customer Panel from May 2022 to September 2022 has promoted an understanding of its customer service initiatives. Endeavour Energy's ongoing application and reporting on the CSIS will further enhance this understanding.

As Endeavour Energy is incentivised to maintain at least current levels of performance through rewards and penalties, the proposed scheme meets the objectives of a small-scale incentive scheme. These incentives are aligned with customer preferences, as parameters and targets were identified through consumer engagement processes and approved by the RRG. By reflecting customer preferences, the scheme contributes to promote consumer understanding and the National Electricity Objective in satisfaction of CSIS objectives.

#### **12.4.2 Incentive design criteria**

Under Section 3.1 of the CSIS, the incentive design criteria include a number of principles.

We have considered Endeavour Energy's proposal against these principles.

The CSIS's principles are split into four different categories that relate to each of the necessary elements of an incentive design, being:

- performance parameters – what customers want to be incentivised under the scheme
- measurement methodology – how performance is measured
- assessment approach – how performance is rated against performance targets
- financial component – how penalties/rewards are calculated and applied.

We separately considered each of these components of Endeavour Energy's proposed incentive design below. We also consider Endeavour Energy's incentive design as a whole against the objectives of the CSIS.

##### **12.4.2.1 Performance parameters**

The relevant principles for performance parameters are that each performance parameter:

- must be an aspect of the customer experience component of the DNSP's standard control services
- is one that the customers of the DNSP particularly value and want improved, as evidenced by genuine engagement with, and support from, the DNSP's customers

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<sup>7</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 3.

- is substantially within the control of the DNSP, and
- is a parameter for which the DNSP does not already have an incentive under another incentive scheme or jurisdictional arrangement.

Genuine engagement with, and support from a DNSP's customers is necessary for us to apply an incentive design under the CSIS. We expect that customer support would be demonstrated by DNSPs through broad consultation, using a number of different consultation processes to reflect views across vulnerable household customers, small business and commercial and industrial businesses. Customers should also be provided with more than one opportunity to provide input.<sup>8</sup>

Endeavour Energy's proposed incentive design has been underpinned by genuine engagement with its customers through its customer research and engagement with its RRG and Customer Panel.

This engagement has been documented in Endeavour Energy's proposal with parameters being agreed upon after extensive engagement with Endeavour Energy's RRG and Customer Panel. A high percentage of the customer panel expressed support for the proposed parameters.

Endeavour Energy's incentive design meets the performance parameter principles as the parameters were developed through genuine consumer engagement, do not duplicate other incentives and are in its control as they relate directly to the services that Endeavour Energy provides.

#### **12.4.2.2 Measurement methodology**

The measurement methodology principles<sup>9</sup> govern how performance under the scheme is measured. The relevant principles for measurement methodology are that for each performance parameter, the proposed measurement:

- accurately measures the features of the performance parameter
- is sufficiently independent, in that it is either conducted by an independent third party or based upon an independently developed methodology
- is compiled in an objective and reliable manner with data retained in a secure and logically indexed database, and
- produces results that could be audited by an independent third party.

Endeavour Energy's proposed approach accurately measures the features of the identified performance and is based upon an independently developed methodology.

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<sup>8</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 9.

<sup>9</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

Endeavour Energy engaged Qualtrics, an independent provider of a customer experience platform to create and distribute online surveys and to capture and report CSAT scores and feedback.<sup>10</sup>

Qualtrics facilitates the end-to-end process for CSAT surveys within a security database that undertakes protocols and controls to ensure data integrity and accuracy is upheld.<sup>11</sup>

To facilitate an independent process for CSAT, Endeavour Energy has systemised both the solicitation and measurement of CSAT. The assurance process for CSAT includes:

- Qualtrics undertaking the randomisation of data using logic built into the Software as a Service (SaaS) platform. Endeavour Energy adopt a simple random sampling approach to obtain a balanced and broad view from customers across the network for each interaction trigger
- Qualtrics sending a CSAT survey invitation to randomly selected customers. Customers will click on a link within the SMS to complete an online survey managed by Qualtrics
- CSAT results being calculated from algorithms built into the Qualtrics platform, and do not require human intervention.<sup>12</sup>

Endeavour Energy expects the annual CSIS reporting for the 2024-29 period to form a part of the annual Regulatory Information Notice (RIN) submission which requires an audit by an independent expert.<sup>13</sup>

Robust data oversight is a vital component of the CSIS. We expect that Endeavour Energy will provide a report from an independent expert on its annual CSIS performance in accordance with the relevant annual compliance reporting requirements.

As the proposed methodology is quantified and external audits can be implemented to verify outcomes, we consider that the measurement methodology principles have been met.

### **12.4.2.3 Assessment approach**

The assessment approach principles<sup>14</sup> cover how performance is evaluated and then translated into an expression of improvement or deterioration which can be used to determine a reward or penalty. These principles establish a baseline or neutral level of performance against which performance is assessed as a single value. The incentive design must set a performance target for each performance parameter that incentivises genuine improvement in line with the value of the identified service improvement and makes reference to the baseline or neutral level of performance.

The customer service incentive target for Planned Outage Management is based on the percentage of outage jobs performed within the timeframe advised to customers. Endeavour

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<sup>10</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024–29 Regulatory Proposal*, 20 December 2022, p. 9.

<sup>11</sup> Endeavour Energy, *Response to AER IR#016*, 11 May 2023.

<sup>12</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024–29 Regulatory Proposal*, 20 December 2022, p. 20.

<sup>13</sup> Endeavour Energy, *Response to AER IR#016*, 11 May 2023.

<sup>14</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

Energy collaborated with the Independent Members of the RRG on an appropriate range of improvement over the course of the 2024-29 period compared to the baseline performance.<sup>15</sup>

In order to determine proposed incentive targets for CSAT, Endeavour Energy analysed data from 5,315 surveys taken from December 2021 to October 2022.<sup>16</sup> Endeavour Energy 'collaborated with the Independent Members of the RRG on an appropriate level of improvement over the course of the 2024–29 period for CSAT scores, acknowledging their advice that CSAT scores can be 'difficult to budge'. Based on these desired improvements Endeavour Energy set an incentive rate that would reward (or penalise) Endeavour Energy the maximum revenue at risk only up to this level of improvement (decline).<sup>17</sup>

Endeavour Energy's incentive design meets the assessment approach principles as it establishes a direct relationship between identified parameters and Endeavour Energy's performance, ensuring that it is correctly rewarded or penalised. The performance targets set by Endeavour Energy incentivise genuine improvement and the targets make reference to baseline performance.

#### **12.4.2.4 Financial component**

The relevant principles<sup>18</sup> for the financial component include that the incentive design provides rewards or penalties that increase relative to performance, are commensurate with service improvements or degradations and reflect the value the customers attribute to service level improvements. The value that customers attribute to service improvements or degradations must be established using a reasonable process that is transparent and involves genuine consultation with its customers.

Based on the incentive rates proposed in Tables 12.1 and 12.2 and assessment of Endeavour Energy's proposal we consider that Endeavour Energy's incentive design gives effect to the financial component principles. Endeavour Energy is rewarded or penalised financially in proportions relative to the degree of outperformance or underperformance, as calculated by the identified value of the service improvement. Endeavour Energy collaborated with the members of the RRG on an appropriate range of improvement over the course of the 2024–29 period compared to the baseline performance and based on these desired improvements they set an incentive rate that would reward (or penalise) Endeavour Energy.<sup>19</sup> The performance targets have been fixed based on historical performance, with rewards or penalties determined depending on how well Endeavour Energy performs against the target.

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<sup>15</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 16.

<sup>16</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 18.

<sup>17</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 19.

<sup>18</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

<sup>19</sup> Endeavour Energy, *Customer Service Incentive Scheme 2024-29 Regulatory Proposal*, 20 December 2022, p. 19.

### **12.4.3 Incentive design proposal requirements**

Endeavour Energy's proposal meets the incentive design requirements as set out in Section 3.3.1 of the CSIS.

### **12.4.4 Conclusion**

Endeavour Energy's design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS. We consider that Endeavour Energy has therefore satisfied criteria under Section 2.1 of the CSIS. Our draft decision is to apply Endeavour Energy's proposed incentive design.

## Shortened forms

Term	Definition
AER	Australian Energy Regulator
CSIS	Customer Service Incentive Scheme
DNSP	Distribution Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
STPIS	Service Target Performance Incentive Scheme

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