



DRAFT DECISION

AusNet Services Distribution Determination 2021 to 2026

Attachment 12 Customer Service Incentive Scheme

September 2020

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Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to AusNet Services for the 2021–26 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

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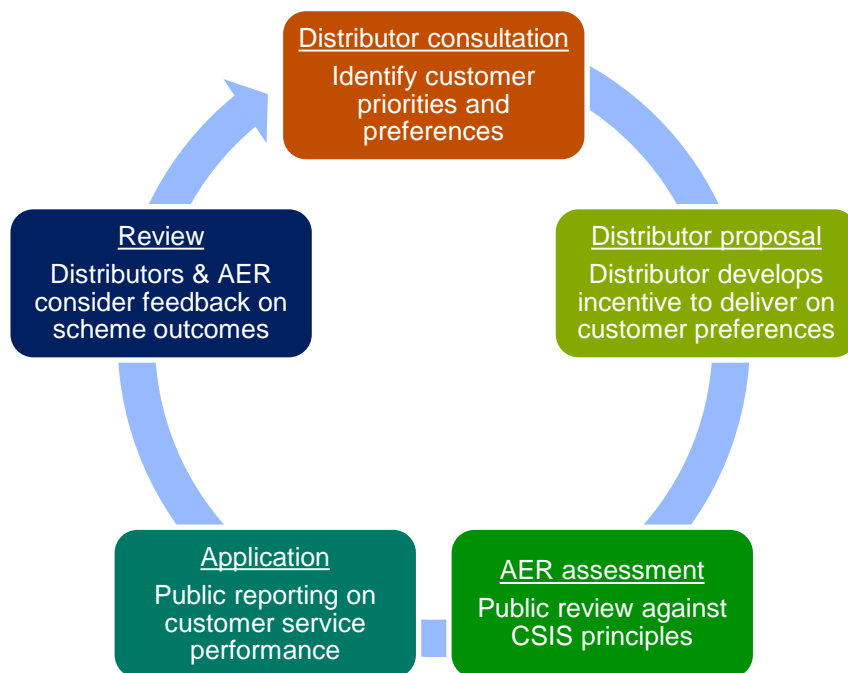
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12 Customer Service Incentive Scheme

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

The CSIS is a flexible 'principles based' scheme that can be tailored to the specific preferences and priorities of a distributor's customers. This flexibility will allow for the evolution of customer engagement and adapt to 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 1 illustrates how the CSIS works in practice.

Figure 1 Application of the CSIS



Under the CSIS, distributors may propose different 'incentive designs'. For the CSIS to be applied, incentive designs must meet the schemes' principles. Importantly, we will not apply an incentive design unless a distributor can demonstrate that its customers support the incentive design through genuine engagement.

12.1 Draft Decision

Our draft decision is to apply AusNet Services' proposed incentive design.¹ However, we will set final targets for AusNet Services once it provides updated performance data for 2019–20.

AusNet Services did not propose to apply the Service Target Performance Incentive Scheme (STPIS) telephone answering parameter. The CSIS is intended to replace the telephone answering parameter under the STPIS, as it is considered to be a more holistic incentive that addresses the broad needs and preferences of AusNet Services' customers, as approved by the Customer Forum.²

The total revenue at risk for customer service performance will be 0.5 per cent of total annual revenue.

12.2 AusNet Services' proposal

AusNet Services has trialled a new process to develop its regulatory proposal 'New Reg' under which it negotiated elements of its regulatory proposal with a Customer Forum.³ As part of the negotiations, AusNet Services negotiated to apply customer service incentives with its Customer Forum.

The Customer Forum was selected to have relevant skills and experience to ensure they function as an effective, independent and robust counterparty to AusNet Services. It was given autonomy and funding by AusNet Services to undertake customer research and evidenced its positions in its engagement report.⁴ We supported the Customer Forum to ensure that it could effectively engage with AusNet Services. This included providing the Customer Forum with technical and economic support during the negotiation process, such as education on the AER's expenditure assessment approaches. The Customer Forum also had access to comprehensive information to support its negotiations, including:

- extensive background information about AusNet Services' day-to-day operations, the regulatory framework and access to operational managers who deal with customer processes

¹ AusNet Services, *Electricity Distribution Price Review 2022–26*, January 2020, p. 233.

² AusNet Services, *Electricity Distribution Price Review 2022–26*, January 2020, p. 232.

³ The AER, Energy Networks Australia (ENA) and Energy Consumers Australia (ECA) have developed "New Reg", a joint initiative to explore ways to improve sector engagement and identify opportunities for regulatory innovation. The goal of this initiative is to ensure that customers' preferences drive energy network businesses proposals and regulatory outcomes. Under the New Reg process the most significant departure from traditional practice is that a Customer Forum negotiates aspects of the regulatory proposal in advance of lodgement with the AER. The Customer Forum does not represent the perspectives of particular interests, instead conducts research and customer engagement to ensure it can effectively represent the perspectives of all the network business' customers.

⁴ AusNet Services' *Customer Forum, Customer Forum final engagement report*, January 2020.

- information from AusNet Services to support its proposals and responses to numerous information requests from the Customer Forum to clarify those proposals
- meetings conducted with numerous AusNet Services' customers
- market research commissioned by both AusNet Services and the Customer Forum
- input from other stakeholder groups, advocates and individual customers including the AER's Consumer Challenge Panel and AusNet Services' Customer Consultative Committee.

A comprehensive list of the Customer Forum's engagement activities is provided in Appendix B of the Customer Forum's Final Engagement Report.⁵

Customer experience was one of the matters that the Customer Forum negotiated with AusNet Services. Although customer service is not specifically referred to in Chapter 6 of the National Electricity Rules (NER), the Customer Forum chose to include it within the negotiations because of concern that without a specific customer focus, services customers expect and value may not receive the attention they deserve.⁶ After extensive negotiation, in addition to agreeing on customer service incentives, the Customer Forum agreed with AusNet Services on a range of new and enhanced services, including:⁷

- fixing customer pain points including the management of new network connections, solar connection and planned and unplanned outages
- enhanced training for customer contact centre staff
- an ongoing customer research program to monitor customer perceptions and changes in their needs and expectations
- aligning internal performance incentives with customer outcomes
- improving the claims processes when AusNet Services inadvertently damages or destroys customers' appliances or equipment
- employing dedicated business customer relationship staff
- establishing accountability and transparency through the annual publication of a Customer Interaction and Monitoring Report
- AusNet Services self-funding guaranteed service level payments for missed appointments and connections not completed by the agreed date.

In its CSIS incentive design, AusNet Services has proposed four 'performance parameters' to be incentivised. These are customer satisfaction with:

1. Communication on unplanned outages;

⁵ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, pp. 63–79.

⁶ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 22.

⁷ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 22.

2. Communication on planned outages;
3. Customer service for new connections (basic and standard); and
4. Customer service in managing complaints.

Below we outline each of these parameters in further detail.

12.2.1 Communication relating to Unplanned Outages

The unplanned outage parameter provides an incentive for AusNet Services to improve its communication on unplanned outages.⁸ After an unplanned outage, AusNet Services will ask its customers to rate its communications in respect to that unplanned outage.

As unplanned outages impact a broader group of customers, improvements in this area are considered to have widespread impact.⁹

Based on AusNet Services' independent commission of monthly telephone surveys to residential and business customers, with a total sample size of 420 participants over the 2018–19 period for electricity and gas services, the average target for unplanned outages is 6.5.¹⁰ This target is directly derived from the scores participants identified on a scale of 0 to 10 measuring their overall experience in relation to this parameter, where 0 is 'extremely dissatisfied' and 10 is 'extremely satisfied'. An average target of 6.5 for example, reflects the average of scores attributed by survey participants for the overall service experience.¹¹

AusNet Services and its Customer Forum agreed on a reward/penalty of \$493,579 (0.08% of revenue) for each 1-point improvement/degradation in satisfaction annually.¹²

⁸ Unplanned outages are defined by AusNet as an unexpected interruption to supply that has a duration of at least one minute. See AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 235.

⁹ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 235.

¹⁰ AusNet, ASD - CSIS - CSAT data, targets and reporting template, 31 January 2020

¹¹ AusNet, <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/AusNet-Services-negotiating-position-notes/Customer-experience.ashx?la=en>, p. 5.

¹² AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 238.

12.2.2 Communication relating to Planned Outages

Planned outages similarly affect all customers in specified regions, and have a widespread impact.¹³¹⁴ Like for unplanned outages, AusNet Services will ask its customers to rate its communication on planned outages.

Based on a total sample size of 420 participants over the 2018–19 period, the average target for planned outages is 7.2 for electricity and gas services. This target is directly derived from the scores participants identified on a scale of 0 to 10 measuring their overall experience in relation to this parameter, where 0 is 'extremely dissatisfied' and 10 is 'extremely satisfied'. An average target of 7.2 for example, reflects the average of scores attributed by survey participants for the overall service experience, covering factors such as whether customers were given appropriate advance notification and the quality of communication provided.¹⁵

AusNet Services and its Customer Forum agreed on a reward/penalty of \$493,579 (0.08% of revenue) for each 1-point improvement/degradation in satisfaction annually.¹⁶

12.2.3 Customer Service for New Connections (Basic and Standard)

New connections affect a smaller group of customers, but is considered to be an important interaction stage with the customer, as delays may occur when seeking to occupy a premises.¹⁷

This parameter captures both basic and standard connections.¹⁸

The current target for new connections is 6.3. This target is directly derived from the scores participants identified on a scale of 0 to 10 measuring their overall experience in relation to this parameter, where 0 is 'extremely dissatisfied' and 10 is 'extremely

¹³ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 234.

¹⁴ AusNet defines planned outages as pre-arranged interruptions to supply where affected customers are given advanced notification (including both short sustained and general interruptions). , p. 235.

¹⁵ Goals to ensure that customers are correctly notified about planned outages; <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Electricity-distribution-network/Master-document-Final-0209201902.ashx?la=en>, p. 31, quality of communication: <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/AusNet-Services-negotiating-position-notes/Customer-experience.ashx?la=en>, p. 5.

¹⁶ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 238.

¹⁷ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 234.

¹⁸ AusNet defines a basic connection as including a meter hanger, without the need for network changes or upgrades. A standard connection however, requires a network change, and may include a new pole installation, line extension or upgrade, construction or technical changes. It, however excludes negotiated or more complex connections. Source: AusNet report, p. 235.

satisfied'. An average target of 6.3 for example, reflects the average of scores attributed by survey participants for the overall service experience, covering factors such as the time to connect,¹⁹ ease of communications and any pre-arrangements.²⁰

AusNet Services and its Customer Forum agreed on a reward/penalty of \$493,579 (0.08% of revenue) for each 1-point improvement/degradation in satisfaction annually.²¹

12.2.4 Customer Service in Managing Complaints

Complaints are brought by a small portion of AusNet Services' overall customer base, and may be indicative of a deficiency in service delivery.²² AusNet Services defines this parameter to capture escalated customer disputes that have not been resolved by a Resolutions Team member.²³

Based on a total sample size of 240 participants over the 2018–19 period, the average target for planned outages is 3.6.²⁴

This target is directly derived from the scores participants identified on a scale of 0 to 10 measuring their overall experience in relation to this parameter, where 0 is 'extremely dissatisfied' and 10 is 'extremely satisfied'. An average target of 3.6 for example, reflects the average of scores attributed by survey participants for the overall service experience, having reflected on factors such as the speed to which complaints were resolved,²⁵ and the quality of information provided.²⁶

AusNet Services and its Customer Forum agreed on a reward/penalty of \$246,789 (0.04% of revenue) for each 1-point improvement/degradation in satisfaction annually.²⁷

¹⁹ Processing times; see AusNet Services, Customer Experience, 1 October 2018, <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Determining-Revenues/Distribution-Network/Customer-Forum/AusNet-Services-negotiating-position-notes/Revised-negotiating-position-note---Customer-experience--01-10-2018.ashx?la=en>, p. 25 and Time to connect; see AusNet Services, September 2019, <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Electricity-distribution-network/Master-document-Final-0209201902.ashx?la=en>, p. 28.

²⁰ See customer effort; AusNet Services, <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Electricity-distribution-network/Master-document-Final-0209201902.ashx?la=en>, p. 29.

²¹ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 238.

²² AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 234.

²³ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 235.

²⁴ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 236.

²⁵ Time to resolve, see AusNet Services, September 2019, <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Electricity-distribution-network/Master-document-Final-0209201902.ashx?la=en>, p. 28.

²⁶ Better communication, see AusNet Services, September 2019, <https://www.ausnetservices.com.au/-/media/Files/AusNet/About-Us/Electricity-distribution-network/Master-document-Final-0209201902.ashx?la=en>, p. 29.

²⁷ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 238.

However, unlike the above parameters, where a reward or penalty is applied if the 90% confidence interval is greater or less than the target, a deadband ('minimum threshold') is applied for customer complaints. As the current performance is stipulated as 3.6 out of 10, with industry leading performance 5.8 out of 10, the Customer Forum expressed concern that AusNet Services would be rewarded for improving complaints from a low baseline ('starting point').²⁸

AusNet Services agrees with a proposed deadband of 5 out of 10, and will therefore only receive incentive payments if performance exceeds this threshold.²⁹

12.3 Assessment Approach

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

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

We have therefore assessed AusNet Services' proposed incentive design against this criteria.³⁰ Our assessment is set out below.

12.4 Reasons for Draft Decision

12.4.1 CSIS objectives

The objectives for the CSIS are that it:

- 1) Is consistent with the *national electricity objective* in section 7 of the *National Electricity Law (NEL)*,
- 2) Is consistent with clause 6.6.4 of the *NER*, which requires that, in developing a *small-scale incentive scheme* the *AER* must have regard to the following matters;
 - (a) *DNSPs* should be rewarded or penalised for efficiency gains or losses in respect of their *distribution systems*,
 - (b) 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;
 - (c) The benefits to electricity consumers that are likely to result from efficiency gains in respect of a *distribution system* should warrant the rewards provided

²⁸ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 237.

²⁹ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 237.

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*

- (d) The interaction of the *scheme* with other incentives that *DNSPs* may have under the rules, and
 - (e) The *capital expenditure objectives* and the *operating expenditure objectives*.
- 3) Achieves clauses 1.4(1) and 1.4(2) by aligning the incentives of *DNSPs* with the customer service preferences of their customers.
 - 4) Promotes transparency and understanding throughout the *National Electricity Market* (NEM) regarding a *DNSP's* customer service initiatives.

We consider that these objectives are complimentary, and overall the scheme will deliver on these and the national electricity objective. An incentive for AusNet Services to maintain and improve its customer services, in line with the interests of its customers, gives effect to the long term interests of consumers.³¹

AusNet Services' proposed incentive design will penalise or reward 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 AusNet Services' 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 AusNet Services is currently subject to. AusNet Services intends that the CSIS replaces the current STPIS call answering parameter, as it achieves broader consumer objectives, while matching the overall revenue at risk.³²

We have had regard to the capital³³ and operating³⁴ 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 we are providing AusNet Services with an incentive to at least maintain its current levels of customer service.

AusNet Services' public negotiations with its Customer Forum has promoted an understanding of customer service. AusNet Services' ongoing application and reporting on the CSIS will further this understanding.

³¹ NEL, Section 7.

³² AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 233.; AusNet Services, *Electricity Distribution Price Review 2022–26*, p. 237.

³³ NER, cl.6.5.7

³⁴ NER, cl.6.5.6

As AusNet Services 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 Customer Forum.

By reflecting customer preferences, the scheme contributes to promote consumer understanding and NEL aims, in satisfaction of CSIS objectives.

12.4.1.1 Incentive Design Criteria

Under Section 3.1 of the CSIS, the incentive design criteria include a number of principles. We have considered AusNet Services' 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
- financial component – how penalties/rewards are calculated and applied

We separately consider each of these components of AusNet Services' proposed incentive design below. We also consider AusNet Services' 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;

- (a) that the customers of the DNSP particularly value and want improved, as evidenced by genuine engagement with, and support from, the DNSP's customers,
- (b) that is substantially within the control of the DNSP, and
- (c) for which the DNSP does not already have an incentive under another incentive scheme or jurisdictional arrangement.³⁵

Genuine engagement with, and support from a distributor's customers is necessary for us to apply an incentive design under the CSIS. We expect that customer support would be demonstrated by distributors through broad consultation, using a number of different consultation processes to reflect views across vulnerable household

³⁵ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

customers, small business and commercial and industrial businesses.³⁶ Customers should also be provided with more than one opportunity to provide input.³⁷

AusNet Services' proposed incentive design has been underpinned by genuine engagement with its customers through its customer research and negotiations with its Customer Forum.³⁸ This engagement has been documented in the Customer Forum's engagement report and on AusNet Services' website.³⁹ The parameters were agreed upon after extensive negotiations with the Customer Forum,⁴⁰ and reflected 'key areas of concern amongst customers'.⁴¹

These parameters are substantially within the control of AusNet Services,⁴² as they relate directly to the services it provides. There are no duplicate incentive schemes or jurisdictional arrangements covering these parameters.⁴³ The CSIS replaces the existing STPIS telephone answering parameter.

AusNet Services' 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.

12.4.2.2 Measurement Methodology

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

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

AusNet Services' proposed approach accurately measures the features of the identified performance parameters,⁴⁴ and is based upon an independently developed methodology.⁴⁵

³⁶ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

³⁷ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

³⁸ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

³⁹ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, pp. 63–79.

⁴⁰ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 232.

⁴¹ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 234.

⁴² AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴³ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴⁴ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴⁵ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

AusNet Services has engaged Customer Service Benchmarking Australia ('CSBA'), an independent firm, to survey its performance for the CSIS. This is the same firm which gathered historical performance data used to set targets for the CSIS.⁴⁶

AusNet Services has applied ISO 20252 (Market & Social Research) standards in collecting its survey data. The data is thus compiled in an objective and reliable manner.⁴⁷ CSBA retains the data in a secure and logically indexed database,⁴⁸ which is capable of being audited.⁴⁹

CSBA conducts its research through quantitative measurements, with optimum sample sizes to ensure results are statistically robust and within acceptable margins of error. Where relevant, weightings are used to enhance the representations of samples to reflect the target population. Consistent rating scales are adopted and indexed against industry norm.⁵⁰

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

12.4.2.3 Assessment Approach

The assessment approach principles 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.

For each of its parameters AusNet Services has proposed average historical performance as the target. This will ensure that AusNet Services is only rewarded if it improves on its historical performance.⁵¹ However, for the complaints parameter, the Customer Forum considered that the target of 3.6 out of 10, as based on average historical performance, was not considered acceptable. This approach would incentivise performance off a low baseline, noting that industry leading performance is 5.8 out of 10.⁵² A deadband has therefore been applied for the complaints threshold to be set at 5 out of 10, ensuring that AusNet Services is rewarded for material improvements to customer service.⁵³

AusNet Services' historical performance in respect of the identified parameters has been quantified as a single value between 1 to 10,⁵⁴ ensuring that actual performance

⁴⁶ AusNet Services' Customer Forum, *Customer Forum final engagement* report, January 2020, p. 235.

⁴⁷ CSBA, *Quality Management System - Quality Management Population Statement*, p. 4.

⁴⁸ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴⁹ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁵⁰ CSBA, *Quality Management System - Quality Management Population Statement*, p. 1-2.

⁵¹ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁵² AusNet Services, *Electricity Distribution Price Review 2022–26*, January 2020, pp. 236-7.

⁵³ See Section 12.2.4 of this paper.

⁵⁴ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5

can be compared to the performance targets to calculate the applicable penalty/reward.

There is a clear relationship between the performance and determination of an incentive or penalty,⁵⁵ with improvements to the parameters resulting in relative increases in rewards or penalties.⁵⁶ Incentive rates are provided in Table 16-3 of *AusNet Services' Regulatory Proposal 2022–26*.

AusNet Services' incentive design meets the principles as it establishes a direct relationship between identified parameters and AusNet Services' performance and ensuring that it is correctly rewarded or penalised.

12.4.2.4 Financial Component

AusNet Services is rewarded or penalised financially in proportions relative to the degree of performance, as calculated by the identified value of the service improvement.⁵⁷ The fixed performance targets are set using the average of the Customer Satisfaction data,⁵⁸ with rewards or penalties issued per a 1 point change in targets.⁵⁹ While there is a subjective element in the agreement of these rates, it was agreed with the Customer Forum, through transparent, genuine consultation⁶⁰ that the level would not unduly reward the distributor.⁶¹

It was further noted that these incentive rates would require a significant increase for the maximum reward to be achieved.⁶²

In fulfilment of ensuring that the incentives do not exceed the value that customers attribute to the level of service improvement observed,⁶³ AusNet Services has reflected prior concerns from the Customer Forum to apply a deadband to the complaints parameter. By applying a deadband at 5 out of 10, as opposed to its current historical performance of 3.6 out of 10, this ensures that AusNet Services is not rewarded for improving complaints from a low threshold.⁶⁴

When considered in aggregate, the incentives available to AusNet Services do not exceed the value customers attribute to that parameter of customer service.⁶⁵ The quantity of the incentives or penalties are therefore relative to the identified value of service improvement, and hence satisfy the financial component principles.

⁵⁵ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁵⁶ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁵⁷ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 238.

⁵⁸ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 236.

⁵⁹ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 236.

⁶⁰ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 6.

⁶¹ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 237.

⁶² AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 237.

⁶³ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁶⁴ AusNet Services' Customer Forum, *Customer Forum final engagement report*, January 2020, p. 236.

⁶⁵ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

12.4.3 Incentive Design Proposal Requirements

AusNet Services' proposal further meets the incentive design requirements as set out in Section 3.3.1 of the CSIS. The proposal was submitted with AusNet Services' proposal,⁶⁶ and included each of the necessary items.

12.4.2 Conclusion

AusNet Services' design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS. It was further accompanied by a proposal that meets the incentive design proposal requirements.

We consider that AusNet Services has therefore satisfied criteria under Section 2.1 of the CSIS. Our draft decision is to apply AusNet Services' proposed incentive design.

⁶⁶ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 6.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
Customer Service Benchmarking Australia	CSBA
Distributor/DNSP	distribution network service provider
ECA	Energy Consumers Australia
NEL	National Electricity Law
NER	National Electricity Rules
STPIS	service target performance incentive scheme
