

# Customer Service Incentive Scheme – Workshop Notes

This note is a summary of discussions from the second workshop held on 13 November 2019.

## Organisations represented:

- AER Board- Jim Cox
- AusNet Customer Forum
- AusNet Services
- Australian Gas Infrastructure Group
- Citipower/Powercor/UE
- CCP17
- CSBA (the customer experience experts)
- Essential Services Commission
- Jemena
- Red Lumo
- SA Power Networks

## Meeting notes

### **Session 1: Performance Parameters**

Attendees discussed whether a new scheme was justified. Stakeholders discussed the possibility that the scheme would reward distributors for service that they should provide without an additional incentive. Other attendees suggested that there was a gap in the regulatory framework. This gap could lead distributors to not deliver service at the level that customers might prefer.

Participants stated that current incentives are not doing enough to trigger action from distributors and that a new incentive should target performance that customers value. Others noted that while there is a lot of room to better align services to customer preferences, there is still merit in the current telephone answering scheme. Stakeholders noted that customer attitudes to an incentive are likely to differ. Some customers will not want to pay extra, some may want different things, some may want more information than they are getting, while other customers do not care.

Stakeholders discussed whether customers should have to pay for internal process improvements. Some saw this as a negative outcome, while others saw it as delivering value for customers. Attendees noted that *placing value* on customer preferences, should not necessarily *drive higher value* (and therefore customer payments) in relation to these areas.

There was general support for the framework to provide flexibility for distributors to set performance parameters. Some attendees proposed that the same flexible approach for distributors to engage with customers as part of the reset process should be adopted by the Customer Service Incentive Scheme framework. Stakeholders noted that to develop performance parameters, customers' understanding of the role of the distributors needs to be considered.

Stakeholders noted that there is some merit in having a shared understanding of common things customers value, without each individual distributors undertaking their own research to understand this.

## **Session 2: Measurement Methodology**

There was general support for the use of customer surveys to measure performance. Stakeholders discussed approaches to manage the subjective nature of surveys, including sufficient sample size, robust collection of data and consistency of data collected (particularly for the benchmark methodology). Stakeholders considered that benchmark based performance targets should be approached with caution.

Attendees noted that if the scheme utilises benchmarking, then comparability of data is important. Stakeholders considered that if individual distributor improvement is used to set targets, then design principles need to ensure that measurement is robust and repeatable. There was also interest in supplementing the use of surveys with other forms of data, such as the telephone answering parameter.

Attendees noted that robustness of surveys is very important, to ensure survey results reflect distributor performance. Others noted that there are a range of different kinds of surveys. Some may rely on anecdotal reporting, which may introduce uncertainty, but allows the incentive to target specific customers or events. The use of different survey approaches could target isolated poor performance issues, or identify broader endemic issues. Participants noted the surveys should inform distributors of what customers value, not simply check a hypothesis.

Attendees agreed that the proposed measurement principles are sensible. Some attendees noted that a two-step consultation with customers is necessary, first to consult on appropriate performance measures, and second, to attain feedback on the application of the CSIS as a whole. Stakeholders noted that independence of performance measurement is even more important than the number of customers consulted. Some attendees indicated that distributors are currently measuring their customer's satisfaction through surveys.

Stakeholders noted that some form of oversight is required. Attendees noted that an independent audit may address the risk that data is misrepresented by distributors. Stakeholders noted that including the reporting as part of the annual Regulatory Information Notice responses could reduce compliance cost. Some stakeholders noted that a separate audit process may increase costs, but that it may be required depending on the kind of incentive design pursued. Stakeholders noted that survey firms may already have assurance processes in place that may reduce the need for an audit.

Stakeholders discussed the option of establishing an independent review panel, comprised of consumer representatives and those from other industries, to assess and report to the AER on distributor performance. Stakeholders noted that assurance may be more important during the trial stage, and required less once the scheme is established.

Stakeholders did not mind if the word 'accurate' replaced 'reliable' in the measurement principles.

## **Session 3: Assessment Approach**

Stakeholders discussed the use of historical and benchmark performance to set performance targets in different situations. There was general agreement that both historical and benchmark assessments approach are effective in encouraging performance in different circumstances.

Stakeholders noted that the use of historical performance has merit.

Stakeholders noted that an industry benchmark may be the best option in the long-term. Attendees noted that benchmarks can incentivise continuous improvement. Other stakeholders suggested that perhaps a portion of the incentive could be based on historical benchmark, while another portion relies on external benchmarks. Stakeholders considered that while this could be a preferable approach, it may also be complex to implement.

Attendees noted that using an industry benchmark presents challenges. Comparing industry members against one another may not be beneficial because there are multiple variables that will impact different members of industries, such as extreme weather events. Attendees considered that certain aspects, particular to a jurisdiction, will flavour customer expectations of service. Weighting parameters appropriately was suggested as a solution to this challenge. Other stakeholders noted that the use of industry benchmarks may lead to perverse outcomes.

Stakeholders considered that the scheme should take a flexible approach to the use of historical performance and industry benchmarks, based on available data and current performance levels. Other stakeholders suggested that if industry members are performing below industry benchmark standards, then the industry benchmark could serve as a guide for target performance. If performance is above the industry benchmark, then historical performance could guide the performance target.

Stakeholders noted that how targets are set can determine when distributors are penalised/rewarded. The higher the target, the more likely distributors are to be penalised for underperformance. If distributor underperform, then they should be penalised. Some attendees noted that distributors and customers should agree when penalties apply. Stakeholders noted that the design approach should ensure symmetry, and include both penalties and rewards to incentivise distributor behaviour.

#### **Session 4: Financial component**

There was stakeholder support for using the STPIS revenue adjustment formula in the scheme. Stakeholders noted that adapting the STPIS formula would be a simpler approach as it would apply the same formula and processes. Attendees noted that the methodology to calculate revenue adjustments should be simple, accurate and transparent.

Attendees noted that there is concern about a lag in reporting. Stakeholders noted that, while there is a two year lag in revenue adjustments, distributors would report on their performance annually and could make data public on the same timeframe. Reporting timeliness was posited as being more important than the financial outcome.

Stakeholders noted the term 'customer willingness to pay' has negative connotations with some customers, and that 'willingness to reward' may be better received. Some stakeholders noted that customers may value a service, but may not be willing to pay for it. Attendees noted that the scheme should consider raising customer awareness of what they currently pay for the service. Stakeholders noted that the telephone answering parameter assumes that there is a customer willingness to pay, and that it would be useful to 'sense test' that through customer engagement. Attendees noted that this 'sense test' of customer's willingness to reward is important, so the incentives do not go beyond the customers willingness to pay for service improvements.

Stakeholders noted that customers are already paying for service under the current incentive scheme, and that the CSIS could redirect the current revenue to other service areas that are more aligned with customer preferences. Attendees noted that the current proposal would not place additional revenue at risk, but would promote engagement with customers to target the incentive to improve areas that better align with customer preference. Stakeholders

noted that the telephone answering parameter provides a guide regarding customers' willingness to reward distributors.

**Other comments**

Stakeholders noted that as the scheme is developed, it is important that the design considers what problem it is trying to solve.