

Customer Service Incentive Scheme – Workshop Notes

This note is a summary of discussions from the workshop held on 6 November 2019.

Organisations represented:

- Ausgrid
- AusNet Services
- AER Staff
- AER Board - Jim Cox
- Evoenergy Energy Consumer Reference Council
- A member of the AusNet Services Customer Forum
- Essential Energy
- Energy Consumers Australia
- Endeavour Energy
- Energy Queensland
- Energy Networks Australia
- Evoenergy
- Queensland Energy and Water Ombudsman
- Queensland Department of Natural Resources, Mines and Energy
- Members of CCP17
- Power and Water Corporation

Meeting notes

Session 1: Performance Parameters

Attendees cited a number of processes by which distributors could gather customer views on the value of different performance metrics for customers. Stakeholders discussed options, such as relying on feedback gathered in the regulatory determination or engagement with consultative bodies. Stakeholders noted that distributors should lead development of incentives in the trial phase. 'Double testing' was a suggested model with two steps:

1. Distributors initially consult with their customers to determine what they would like in a scheme, and
2. Distributors return to their customers with a proposed scheme seeking endorsement of that scheme.

Overall, stakeholders considered that at a trial stage, specifying a particular method of customer engagement may be counterproductive. Participants also discussed the potential to measure the quality of service to additional service channels that benefit customers where the distribution business is not the sole provider, such as retailers or Accredited Service Providers.

Attendees discussed the proposition that performance parameters should have an identifiable estimate of customer 'willingness-to-pay' available. Participants noted that perhaps a study similar to the Value of Customer Reliability (VCR) study undertaken by the

AER would be a 'gold-standard', but that this methodology had issues both in concept and in the context of a trial scheme. Stakeholders suggested alternative formulations, such as a 'willingness-to-reward' framework and substituting studies for estimations of willingness-to-pay that can be tested with customer engagement. Overall, stakeholders expressed a preference for allowing flexibility in determining the willingness to pay under a CSIS. It was noted that willingness-to-pay should be considered with reference to the scheme as a whole, and endorsement of the scheme (as covered by *step 2* above) would cover the willingness-to-pay.

Attendees discussed the proposition that distributors should be required to provide good customer service as part of their business-as-usual operations and that customers should not pay additional incentives for improvements. Affordability for customers was suggested as the primary consideration in the development of the incentive scheme. Some comments suggested that customers would not approve of a scheme, which rewarded distributors for improvement in customer service, and that a scheme which imposes penalties would be preferable.

Participants considered that the AER's outlined principles generally captured the relevant aspects for considering potential performance parameters, noting the comments made above.

Session 2: Measurement Methodology

Stakeholders commented that surveys, while measuring subjective views, can be compiled into objective data if the sampling methodology is robust and the provider is sufficiently independent and experienced. Some comments indicated that utilising surveys as the basis for a financial incentive would reduce their value, as they are easier to manipulate than other metrics. Other stakeholders noted the potential for similar manipulation of objective metrics (such as the introduction of automated call answering systems in response to incentives to answer calls within a certain timeframe).

Stakeholders discussed the merit of a national measurement method that could apply to all distributors. Attendees suggested that the AER should consider the future possibility of a consistent application, but allow for different approaches in trials.

Stakeholders discussed the role of assurance requirements. Some attendees pointed to the current level of regulatory burden, and noted that the appropriateness of the burden should be viewed in the context of the overall size of the incentive. Other stakeholders noted that a high level of attention would need to be paid to this area, so that customers have confidence that the survey reflects their views.

Stakeholders also discussed the principles identified by the AER. Stakeholders considered that the selected methodology should be relevant to the chosen performance parameter. Attendees discussed whether the focus should be on measuring specific performance or on measuring a performance trend. Stakeholders stated that the scheme should require the measurement to be 'accurate' (instead of reliable). Attendees discussed the need for customers to have trust in the selected measurement methodology.

Session 3: Assessment Approach

Stakeholders discussed the role of historical performance in setting the baseline or neutral level of distributor performance. Participants stated that the views of customers of individual distributors should be the primary consideration when setting performance targets. Some attendees were of the view that the baseline level should be the basic level expected by customers. Others considered that historical performance was the appropriate means of incentivising future improvements.

Some participants stated that a lack of sufficiently comparable data would likely make a benchmarking approach inappropriate for a trial scheme, but that benchmarking could be used once data sets were established. Stakeholders also noted that benchmarking approaches may create a disincentive for distributors to collaborate to improve customer service. Stakeholders also noted that benchmark performance across networks may not align with customer's preferences for customer service.

Some stakeholders indicated that assessment should take account of how difficult certain levels of improvement were to achieve, and reward distributors accordingly.

Attendees also made comments in relation to the proper methods to weight and average measured performance, noting that a simple approach was not always sufficient to produce accurate results. It was suggested that a geometric average (which would reward consistent performance across a number of metrics) might be more appropriate.

Stakeholders indicated a preference for a scheme that incentivised continuous improvement. One stakeholder proposed performance targets that incrementally increase over time. Another stakeholder suggested continuous review of the scheme to ensure that the incentive was effective.

Attendees generally considered that the AER principles were relevant to considering assessment approaches, noting the views discussed above.

Session 4: Financial Component

Stakeholders discussed how to gather customer views on their willingness-to-pay for service improvements. Participants pointed to similar methods as discussed in relation to performance parameters, including double testing. Stakeholders also discussed a variety of estimation techniques, such as 'back solving' that could be augmented by testing with stakeholders. Attendees emphasised that costs to customers should be the primary consideration given customers' focus on affordability.

In this discussion regarding the proportionality of rewards, workshop attendees indicated that the business should bear the risk of investments made under the scheme, i.e. that distributors should not receive increases in their regulated revenue in order to operate the scheme. Stakeholders noted that the development of a CSIS would remove the need for the AER to approve expenditure for customer service improvement projects. Some participants made the point that customers were unlikely to approve of rewards, but suggested that penalties be instituted where distributors do not deliver the required level of service.

Stakeholders also discussed the appropriateness of the STPIS revenue adjustment formula for the CSIS. Participants suggested applying the scheme to calendar year performance to avoid the potential for a two year lag caused by reporting arrangements. Stakeholders suggested moving to a shorter regulatory reporting timeframe. Other attendees indicated that this may increase regulatory burden, and would need to be carefully considered depending on the measurement methodology employed.

Stakeholders stated that it is important that the AER consider how costs associated with the scheme (such as the costs of administering the scheme as well as the costs of improving customer service outcomes) should be treated from a regulatory perspective. In particular the importance of removing the scope for double dipping was noted. Stakeholders suggested that a clear way to do this might be to take an approach similar that used to fund improvements in reliability under the STPIS, i.e. to fund improvements through the incentive rather the forecast expenditure allowance.

Attendees discussed the desirability of making the increase in reward or penalty non-linear in order to reflect the value to customers of different service improvements. Stakeholders stated that the focus should be on customers' 'willingness-to-reward' the distributor for customer service improvements rather than willingness-to-pay. Attendees discussed the

possibility that adjustments other elements of the regulatory framework (such as the Return on Capital) could increase the effectiveness of this (and other) incentives.

It was noted by a participant that the AER principles were phrased in a way that emphasised rewards, without appropriately considering penalties. In general, participants communicated that the principles captured other relevant aspects of the issue, subject to the comments made above.

Other comments

A stakeholder suggested that the AER should specify the objective of trialling incentives and what would constitute a successful trial under the CSIS.