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Small Scale Incentive Scheme for Customer Service: Issues Paper

AGL would like to take this opportunity to comment on the *Small-Scale Incentive Scheme for Customer Service: Issues Paper* (Issues Paper) released by the Australian Energy Regulator (AER) on the 28 July 2019.

We understand this Issues Paper is in response to an AusNet proposal for the AER to develop a customer service incentive scheme (CSIS) and whether this should replace the current Service Target Performance Incentive Scheme (STPIS). The Issues Paper also considers whether there is merit in using the small-scale incentive scheme framework in the National Electricity Rules (NER) to trial such a scheme and better inform the AER's decisions on a potential CSIS.

AGL notes that the AusNet Customer Forum identified that persistent customer complaints indicated that there are several areas where service can be improved and was currently 'under-resourced'. It concluded that the service provided by electricity distributors and retailers generally falls short of customer expectations. Although this is not unreasonable, it highlights AGL's concern that customers find it difficult to identify between the distributors and retailers' responsibilities for service given most customer interactions are with the retailer.

Rather than creating an additional incentive scheme for distributors' infrequent interactions with consumers, AGL believes that enforcing a network's current regulatory requirements and responsibilities for timely service, including to retailers, would see immediate improvements in the general service level for customers.

Accordingly, AGL sees little merit in the introduction of another incentive scheme but accepts that the use of the small-scale incentive scheme framework is a reasonable approach to testing whether the:

- customer service provided by electricity distributors falls short of customer expectations in some areas; and more importantly
- can incentives be effective in targeting these areas where customer service is identified to be deficient and improve the levels of service.

At the very least, using the small-scale incentive scheme framework will limit the cost to consumers while testing whether any customer value can be derived.

Effectiveness of current Incentive schemes

AGL is not convinced that any of the current incentive schemes are delivering benefits to customers that are greater than the costs.

In principle, these schemes seek to address the lack of financial incentives for economically regulated firms to improve their efficiency and level of service. However, in practice, AGL believes they cannot be implemented effectively because they are:

- too complex;
- too subjective;
- rely on stable time series of financial information; and
- the information asymmetry between the regulated firms and the AER are too great.

This framework attempts to link revenues to efficient costs and incentivise distributors to reduce costs over time but is predicated on the AER allowances for efficient expenditure being accurate and that any deviation is due to efficiency rather than the allowance being inflated, economic circumstances changing or the regulated business making different decision than were forecast.

AGL believes the results have invariably been that consumers are paying higher network costs due to the incentive payments, with no confidence that these additional payments have had any influence on efficiency gains shown by distributors.

In competitive markets, any efficiency gains are accrued by a firm but at no additional cost to consumers. These benefits are also only accumulated until other rivalrous firms improve efficiency and prices fall.

Under the AER's regulated incentives scheme framework, all firms can accrue the benefits designated by the scheme for a substantial period, at the consumers' cost. If these incentive schemes were to better reflect a competitive market, then the they should be designed so that the rewards provided, and penalties imposed on the regulated businesses are relative the performance of the other businesses. With this approach, high performing firms can accrue financial benefits, but the scheme can be cost neutral to consumers.

AGL believes the regulated revenue cap framework provides enough incentive for networks to make commercial decisions on improving productivity and efficiency without the need for additional payments.

Potential CSIS

Given AGL's experiences to date, we do not support the introduction of any broad reaching incentive scheme such as a CSIS.

However, if the small-scale incentive trials can highlight specific areas of service improvements for customers then AGL would support its introduction for targeted measures such as the STPIS. However, we do not see any compelling reason why such measures should be introduced as an incentive scheme rather than as service standards, with companies penalised if they fail to increase their performance to benchmark levels.

As identified by the AER, the introduction of a CSIS must be contingent on it providing value to consumers. If a CSIS was to be considered, AGL would encourage the AER to ensure the financial rewards/penalties for performance improvement/deterioration are balanced so that the overall impact on electricity consumers is neutral.

If not, AGL would be concerned that the scheme would provide financial rewards to all participants but never provide the benefit to consumers to justify this cost. This would appear to be a common occurrence under the current incentive schemes.

Should you have any questions in relation to this submission, please contact me on (03) 8633 6207 or Patrick Whish-Wilson on (02) 9921 2207.

Yours sincerely

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