

19 August 2019

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Dear Mr Pattas,

Customer Satisfaction Incentive Scheme – Response to AER’s issues paper

AusNet Services appreciates the opportunity to respond to AER’s issues paper on our proposed Customer Satisfaction Incentive Scheme (CSIS). AusNet Services sees customer satisfaction as a key element of our regulatory proposal and this incentive scheme would help permanently embed a focus on customer satisfaction within our business. We consider the proposed scheme is an improvement on the current telephone answering metrics.

As an overarching point we note that the Small Scale Incentive Scheme framework allows for the trial of incentive schemes. We consider it important that the CSIS is established in a robust manner to ensure the integrity of the trial and allow the results to be relied upon. However, we also consider a degree of pragmatism is necessary in developing the scheme, in recognition of its trial nature.

The issues paper seeks stakeholder views on the development of the proposed CSIS. We submit the following positions to the questions asked in the issues paper.

Question 1: Do the AER's incentive schemes provide sufficient incentives for distributors to provide customer services as desired by customers?

It is important that distributors invest in customer experience and that any investment in customer experience aligns with improvements that customers value. This should be viewed in an analogous manner to the way the economic framework treats reliability. The AER’s reliability scheme (STPIS) places a value on customer’s reliability. This is then used by DNSPs to determine when it is economically beneficial to invest in reliability improvements. The STPIS provides a long term economic framework for assessing and investing in improvements in reliability.

Similarly, setting up a robust customer satisfaction incentive would provide a long term price signal that DNSPs can incorporate into their planning and should ultimately result in stable investment and measurable customer satisfaction improvements.

Question 2: What would be necessary preconditions for applying the trial CSIS? Is broad customer support a necessary prerequisite, and how could broad customer support be demonstrated?

We consider that broad customer is an important precondition for permanently establishing this scheme as part of the regulatory framework and applying it to all DNSPs.

However for this proposed trial, we consider it sufficient that:

- AusNet Services' Customer Forum (which was established as part of the "New Reg" process to represent the views of our customers) supports the proposed establishment of the scheme; and
- The AER is satisfied that the establishment of the scheme is consistent with the regulatory framework and in the long term interest of consumers.

We consider that our scheme is well founded on customer feedback we have received via our Customer Forum and more broadly as part of our regulatory proposal such that it is appropriate to proceed with the trial. Importantly, the outcomes of this trial should be used to inform any future application of the scheme and embedding of customer satisfaction in the regulatory frameworks. A successful outcome from this trial would also allow the AER to establish there is broad customer support for the scheme.

Question 3: How should we determine the revenue at risk if applying a trial CSIS?

AusNet Services considers there should be 0.5% revenue at risk to make this trial meaningful. If run as a paper trial, without any revenue at risk, outcomes will not be sufficiently robust to determine whether the scheme achieves its aim or has broad customer support. It is difficult for a DNSP to develop business cases for customer satisfaction initiatives based on a paper trial.

We consider it preferable that the trial be given the best chance of succeeding to enable timely deployment if considered appropriate. As a paper trial would likely require a further trial (with revenue at risk) in the next regulatory period. This represents an unnecessary and lengthy delay toward the goal of making a customer satisfaction a permanent feature of the regulatory regime.

We note that the AEMC considered the appropriate revenue at risk when making a change to the NER to introduce Small Scale Incentive Schemes, the AEMC stated:¹

The sum of money at stake should balance the need to be high enough to understand how the scheme would be likely to operate but not so high that there would be a significant impact on a NSP if the scheme did not operate as intended. The Commission considered that this balance would be met if the revenue at stake was one per cent of revenue for a regulatory year if the NSP agrees with this amount, or up to 0.5 per cent of revenue for a regulatory year if the NSP does not. The lower revenue at risk that can be placed on the scheme if the NSP does not agree to it was to reflect that the NSP would have no choice as to whether a scheme is applied to it and the scheme would not have been subject to the rule making process. The AER would also be able to undertake paper trials, i.e. a scheme in which no money is at risk, as part of its discretion. The limits described above were considered high enough such that the effectiveness of a scheme would be able to be determined.

The AEMC considered revenue at risk of up to 1% could be applied and that 0.5% is an appropriate balance of the risk and reward from a Small Scale Incentive Scheme. We consider 0.5% is appropriate for AusNet Services' proposed trial.

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<https://www.aemc.gov.au/sites/default/files/content/396b3f96-d020-47ab-8038-e2f36514fcf2/Final-Rule-Determination.pdf>, pg. 197

Question 4: Are financial incentives alone sufficient to improve customer service outcomes? Should any CSIS also involve public reporting of customer service performance?

AusNet Services has separately committed to our Customer Forum to publishing a customer outcomes report, which will have further reporting of customer service outcomes. However, we have not made this a component of the proposed Small Scale Incentive Scheme.

Question 5: Are customer surveys a good basis for an incentive? If so, what processes should be in place to ensure the robustness of the data used to calculate rewards/penalties under the incentive scheme?

As noted in the AER's issues paper using survey responses is an approach that has been used by a number of international regulators. We consider there are reasonable grounds to consider survey responses suitable as the basis of an incentive scheme.

In preparing our proposal for a CSIS we considered whether other stand-alone objective measures (i.e. connections timeframe) were appropriate for the scheme. We consider that a weakness of these stand-alone metrics is that customer satisfaction is driven by the end to end customer experience and measuring a subset of the experience only (even one as important as timeframes) cannot accurately reflect whether a customer was satisfied with their experience. It is entirely possible to complete a connection in a specified timeframe and for the customer to remain unsatisfied with the experience, for example:

- The customers expectation of timeliness may differ from the measure used.
- The communication around the process may not have been clear and timely.
- The crew in attendance may not have communicated appropriately, or left the site untidy.

Asking a customer whether they were satisfied with their connection process allows for the whole experience to be captured and for customers to advise on which areas of the experience mattered to them.

Further, as customers' expectations evolve, this would be organically captured by the survey responses, but not by the objective measures. For example, the incentive rate for the 30 second telephone answering parameter was set based on a report by KPMG produced in 2003. This was a report prepared before the widespread adoption of smart phones and the internet was less developed at that time, and it is likely that customers' expectations have changed. However, changing customer expectations have not been captured in this measure.

Regarding the robustness of the data, AusNet Services will have an independent third party undertake the surveys on our behalf (as is already the case). We are happy for the AER to engage with the third party to receive the necessary assurances it requires about this process. We note privacy legislation would place some restrictions on our ability to provide raw data, but we consider that a reasonable level of assurance can still be provided to the AER.

Question 6: How could the AER decide what parts of a scheme should be consistent across all distributors and what parts of a scheme should be flexible?

We consider that as this is a trial, there is merit in allowing a wide diversity of approaches. AusNet Services has proposed one possible design of a CSIS, which we consider has a high probability of delivering improved customer satisfaction. However, we acknowledge there could be other credible approaches and if another DNSP wishes to

trial an alternative approach, we would encourage the AER to permit this. Comparing the results of multiple trials would better allow the AER to determine whether any particular scheme was a success or not.

As our aim is to improve our customer satisfaction we would eagerly observe the progress of any trial undertaken by another DNSP.

If you have any queries about any of the positions outlined in this response, please do not hesitate to contact Michael Larkin on 03 9695 6346.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'G. Hannan', with a long horizontal stroke extending to the right.

Greg Hannan
Manager Economic Regulation