

Small Scale Incentive Scheme for Customer Service

Ausgrid submission to AER issues paper
August 2019



19 August 2019

Chris Pattas
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Lodged by email: regulatoryinnovation@aer.gov.au

24-28 Campbell St
Sydney NSW 2000
All mail to
GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
ausgrid.com.au

Dear Mr Pattas,

Ausgrid is pleased to provide this submission to the Australian Energy Regulator (AER) issues paper considering the development of a small scale incentive scheme for customer service.

As outlined in our recent regulatory proposal, Ausgrid has also been considering how existing customer service metrics can be improved. As distribution networks evolve to give customers greater choice and control over how they consume and generate electricity, we support the development of new customer service metrics to better measure the quality of the customer service we provide. These metrics, when incorporated in an incentive scheme, will help drive better customer service outcomes.

We would welcome the opportunity to discuss the issues raised in this submission in more detail. If you have any questions or would like to discuss further, please contact Sean Tedi, Regulatory Strategy Manager at sean.tedi@ausgrid.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "Iftexhar Omar", written in a cursive style.

Iftexhar Omar
Head of Regulation

KEY MESSAGES

- Current incentive schemes provide a level of incentive for distributors to provide improved customer services (e.g.: reliability and prompt telephone answering of the emergency fault line) however there is room for these metrics to be expanded in order to better measure customer satisfaction with the service we provide as a distributor.
- Distribution networks are evolving to give customers more control over how they buy and consume energy. As the industry becomes more customer-centric, the customer service framework needs to evolve with it.
- The existing service incentive scheme provides a financial incentive to answer telephone calls within 30 seconds. This metric does not measure the quality of the customer service provided through other customer channels.
- Consistent with the approach of economic regulators in other jurisdictions, the Australian energy sector should look to other industries to draw ideas for what ‘good looks like’ in regards to customer service. This should involve looking at competitive industries that have placed ‘customers at the centre’ as part of their core business (e.g. retail, hospitality) and other comparable services such as gas, internet, mobile phone, insurance, banking and water.¹
- Ausgrid supports the development of a new customer service scheme that will help drive customer service outcomes. To begin with, the focus should be on identifying and collecting robust and accurate data, prior to trialling prototypes with no reward/penalties attached.

¹ <https://energyconsumersaustralia.com.au/wp-content/uploads/Energy-Consumer-Sentiment-Survey-Report-June-2019.pdf>

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

Ausgrid believes there is room to expand the current service scheme to better incentivise distributors to provide customer services desired by customers. As regulated monopolies, distributors do not face the same competitive pressure as competitive firms to improve customer service outcomes.

Current state: Service Target Performance Incentive Scheme

- **Strengths:** The majority of financial rewards or penalties (4.5% of total revenue) are dedicated to ensuring that distributors are incentivised to reduce the frequency and duration of interruptions to electricity supply. This is a high priority for customers and a critical priority for Ausgrid.
- **Development area:** The customer service incentive (0.5% of total revenue) is linked to only *one* aspect of customer service: rewards are provided if distributors answer a sufficient portion of fault line telephone calls within 30 seconds. The relevancy of this metric in the changing technology environment has been highlighted by customer groups.

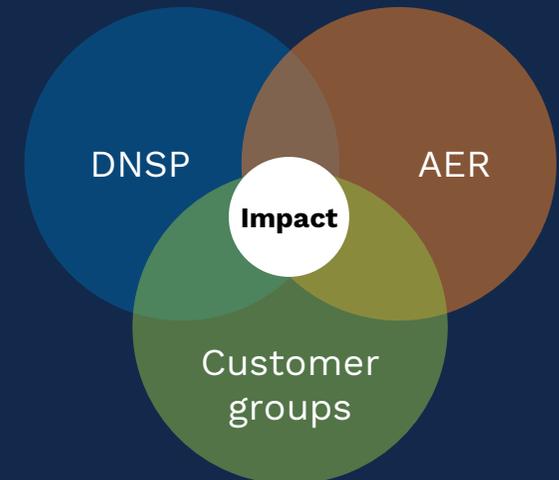
Customer desires: What Ausgrid has been told by customer groups

- Stakeholder feedback received via the Customer Consultative Committee (CCC) raised telephone answering as a lack of a meaningful STPIS measure for customer service
- Call answering is considered by the Electricity and Water Ombudsman of NSW and other members of our Customer Consultative Council (CCC) an outdated way of measuring customer satisfaction
- The Consumer Challenge Panel provided a submission on the AER's preliminary F&A paper which included discussion of alternative STPIS parameters beyond call answering.

We agree with customer feedback and see this as an exciting opportunity to improve the quality of service provided by electricity distributors. Ausgrid is happy to contribute any time and effort required to support the development of the new scheme, from inception of the idea through to the delivery.

Considerations:

Customer expectations may differ from each geography and even customer segment groups within the same geography. There is a challenge to find the right mix of standardisation and allowance of flexibility to account for this in the scheme. We suggest working with the business (Ausgrid/DNSP), Regulator and Customer/Customer Groups, to find the intersection between the three groups that brings maximum long-term impact.



Review of other economic regulators incentivising Customer Satisfaction (CS)

When compared with other frameworks, there is a big opportunity for additional customer value-adding metrics to be incorporated along side the existing customer service parameters.

Regulator	Scheme	What's tracked	Data capture	Incentive	Influence on CS
AER	STPIS	<ul style="list-style-type: none"> Time to answer calls once it answers call centre queue 	<ul style="list-style-type: none"> IT-system, logged, reported to AER 	Reward & penalty	Only addresses one facet
Ofgem	Broad Measure of Customer Satisfaction	<ul style="list-style-type: none"> Length of time taken to resolve complaints Customer satisfaction survey designed to capture customers' satisfaction in relation to the interruption, minor connection and general inquiry services 	<ul style="list-style-type: none"> independent third parties contracted by distributors 	Reward & penalty	High
Ofwat	Service Incentive Mechanism. Customer Measure of Experience (C-MeX) will replace the SIM from April 20 onwards	<ul style="list-style-type: none"> Relies on qualitative (75% weight) & quantitative (25% weight) parameters, but weighted more heavily to qualitative Where customers have made contact when something has gone wrong or appears to have gone wrong, eg, phoning about a billing error or writing to complain about a water supply problem. A customer survey measuring how well companies have handled all types of customer contacts, not just when things have gone wrong 	<ul style="list-style-type: none"> Qualitative component: Customer experience survey Quantitative component: Number of written complaints and customer phone contacts 	Reward & penalty	High ¹
Alberta Utilities Commission	Performance Based Ratemaking framework	<ul style="list-style-type: none"> At least 75% of customers who contact the distributor must 'agree' that the distributor performed effectively Also measures overall satisfaction of a sample of all customers on an annual basis Report on the number of complaints made about their services and meet certain obligations regarding complaints handling 	<ul style="list-style-type: none"> Customer surveys; methodology set out by the Rules 	NA	NA
California Public Utilities Commission	Performance Based Reporting Mechanism	<ul style="list-style-type: none"> Customer service performance metrics <p>Commission discontinued it following data falsification and manipulation by certain electricity distribution businesses.</p>	<ul style="list-style-type: none"> Aggregate survey of customer satisfaction 	NA	Low
New York State	Customer Service Performance Mechanism	<ul style="list-style-type: none"> Complaint performance Call answer rate Outage notification Satisfaction of Callers, Visitors and Emergency Contacts Customer engagement 	<ul style="list-style-type: none"> Semi-annual surveys of customers who have contacted the distributor via each avenue 	Reward & penalty	NA
Massachu. Depart. of Public Utilities	Service Quality metrics	<ul style="list-style-type: none"> Measures customer's overall feeling towards the utility after accessing various services 	<ul style="list-style-type: none"> Measured via telephone surveys 	Penalty	NA
Essential Service Commission of Victoria	PREMO How customers rate their water business	<ul style="list-style-type: none"> Value for money Reputation in the community Level of trust Overall satisfaction <p>Completed 12 month trial to check that questions were successful in helping find out more about what people think of their water provider.</p>	<ul style="list-style-type: none"> Survey via external company to develop survey. 	Reward Incentivised via allowed return on equity (higher or lower)	High ²

1: <https://www.ofwat.gov.uk/regulated-companies/company-obligations/customer-experience/service-incentive-mechanism/>

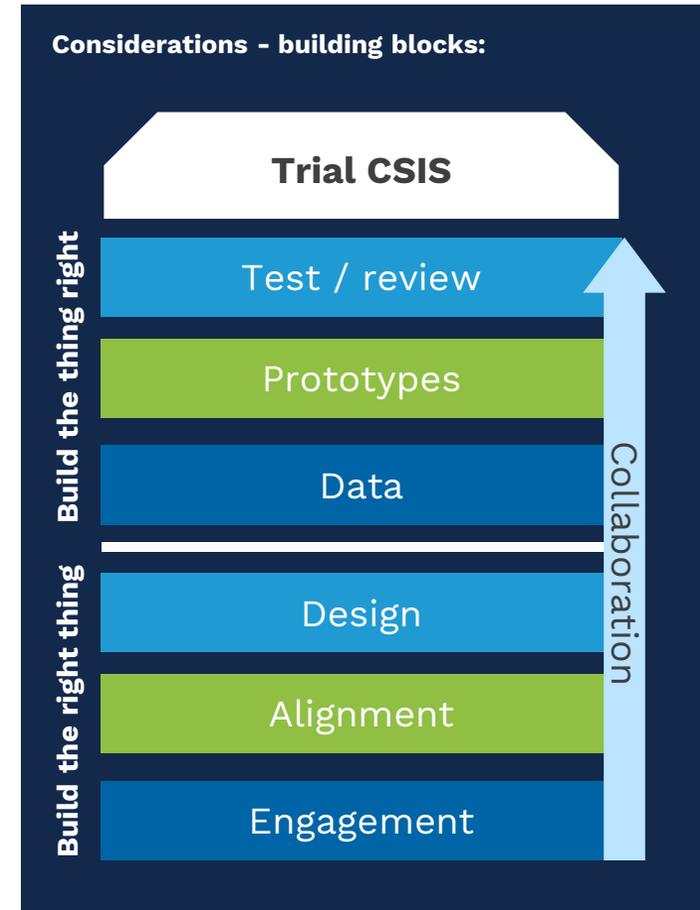
2: <https://www.esc.vic.gov.au/water/how-we-regulate-water-sector/premo-water-pricing-framework>

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?

Ausgrid believes that (1) an accurate current state analysis (baseline view) and (2) broad customer support will be crucial to the successful design of any trial CSIS. Again, robust data is critical and will help inform targets customers are happy with. Ultimately, customers bear the costs of any rewards provided under the scheme thus their support is required. Initial focus should be on 'building the right thing'.

Preconditions

- Ausgrid commenced review of its STPIS metrics earlier in 2019 and sufficient **robust and accurate data** to set parameters and targets was identified as a **critical success factor** of the implementation of new metrics.
- The development of any new metric would need to be undertaken in tandem with customers and customer groups:
 1. **Engagement and alignment:** Identify stakeholders to engage, collaborate, and co-design with e.g. Customer Consultative Committee, Energy Consumers Australia, CCP, EWON etc. Third-party survey vendors to advise best practice for questions.
 2. **Design:** Determine revenue at risk, performance parameters, performance targets, and the incentive rate. Consult with customers if the identified metrics has potential to sufficiently influence customer service.
 3. **Data:** Current and future state analysis - identify data to track, manage and report on (inputs into scheme). High level change impact assessment - what transformation activities would need to occur to prepare the data? How long will this take i.e. when could a new scheme be implemented properly? What would it cost (third party vendors for surveys)? How would businesses report?
 4. **Prototypes:** Create one or more viable options to trial within a defined period.
 5. **Test / review:** What works? What doesn't? Consultation with stakeholders and support to be demonstrated.
 6. **Trial CSIS:** Use findings to integrate into final design and attain robust data to set baseline target.



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

Ausgrid is of the view that there may not be a 'one size fits all' approach to determining revenue at risk. For the trial period, we believe it prudent to not have any financial penalties/rewards attached and focus on attaining the right data to inform the processes and design for the scheme. There are a number of options that could be considered to determine revenue at risk:

Option 1 Replace current customer service component in STPIS: CSIS assumes 0.5% of the annual revenue requirement for the STPIS.

- **Benefits:** Minimal revenue impact from applying scheme. Encourages greater customer service across broader parameters.
- **Potential risks:** Degradation of telephone answering parameters over time. Could be mitigated by agreeing to a renewed and maintainable service level customers and customer groups support that is reported publically but does not have financial penalties attached.

Option 2 STPIS and CSIS alongside together: 0.5% annual revenue requirement for STPIS remains with an additional 0.5% for the CSIS.

- **Benefits:** Telephone answering service levels maintained and the business incentivised to provide customers with greater customer service across broader parameters.
- **Potential risks:** Material revenue impact from applying scheme. A potential risk customers may not see full value. It will be critical to ensure that customers are not exposed to risk paying more than they are willing for customer service improvements. This could be mitigated through additional trials, detailed consultation with customers and customer groups, and regular transparent reporting.

Option 3 Hybrid – balanced approach: Use a proportion of 0.5% annual revenue requirement for telephone answering in STPIS and transfer remainder to the CSIS – i.e. a weighting system.

- **Benefits:** Minimal revenue impact from applying scheme. Maintenance of telephone answering service levels. Introduction of incentivised greater customer service.
- **Potential risks:** Will require detailed consultation and regular transparent reporting to ensure customers are satisfied with outcomes.

Option 4 Hybrid 2 – increased customer satisfaction focus: Reduce the 4.5% of annual revenue requirement for reliability to 4%. Allocate 1% to STPIS/CSIS with weighting to be determined.

- **Benefits:** Minimal revenue impact from applying scheme. Maintenance of telephone answering service levels. Introduction of incentivised greater customer service.
- **Potential risks:** Will require detailed consultation and regular transparent reporting to ensure customers are satisfied with outcomes.

Considerations:

- The initial option chosen may be a 'pivot' for a different longer term option in the future.
- Collaboration with the business, regulator, customer and customers groups will be required to determine what will provide customers the greatest long term value without shouldering any unnecessary risks

Question 4: 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?

Ausgrid believes that customer surveys are *one* good basis for an incentive (acknowledging the caveats already identified by the AER), however they should be used in conjunction with other objective data with tracking and reporting mechanisms, as found with Ofgem and Ofwat.

We heavily support a scheme that encompasses a number of different data sources when reviewing performance under the scheme. Having a history of robust and accurate data not only will inform a better scheme design, but will also provide the AER and customer groups a strong historical baseline view. We propose a number of options below. Our preferred is Option 1.

For qualitative-driven metrics (e.g. customer service)

Option 1 Single reputable-third party vendor per DNSP

- **Benefit:** Allows for objectivity and flexibility on assessment of outcomes for the specific business and their customers.
- **Risk:** Potential risk of biased outcomes if the business and vendor builds a strong relationship. This could be mitigated with a panel instead.
- **Method:** Oversight of questions will be required to ensure objectivity. Options for methodology will need investigating.

Option 2 Single reputable-third party vendor for ALL DNSPs

- **Benefit:** Allows for objectivity and a consistent approach. Less risk of biased outcomes.
- **Risk:** Less flexibility on assessment of outcomes for specific business and their customers. Scale may be too large for any single vendor to deliver effectively.
- **Method:** Oversight of questions will be required to ensure objectivity. Options for methodology will need investigating.

Option 3 Panel sourcing: Based on the frequency required from surveys there is potential to have a strategic vendor 'panel' for research.

- **Benefit:** Allows for greater objectivity. Will be able to deliver at scale.
- **Risk:** Harder to achieve consistency. Harder to build in flexibility on assessment of outcomes for specific business and their customers. More time consuming to organise.
- **Method:** The panel could work in conjunction with one another to determine a set of objective questions that is applicable to all businesses and their customers, and potentially bespoke questions unique to each business (e.g. in NSW connections is out of scope). DNSPs could be randomly appointed a vendor each year by the AER. Outcomes are shared with the AER, customer groups, and the DNSP. Additional panel benefit could be negotiation of a discounted rate with savings passed on.
- **Regardless of the option used, it must be possible to independently verify the data.**

Considerations:

- The right balance of qualitative and quantitative measures will need to be identified.
- Customer satisfaction can be measured in multiple ways – will there be a staged approach in applying metrics (suggested) or all at once? Services measured likely to differ from DNSP to DNSP.
- If customer surveys are widely used data integrity will need to be protected from potential falsification and manipulation.
- Third-party vendors are a potential solution for surveys, however maintaining objectivity, consistent methodology, sample integrity, etc. will need to be considered.
- What role can technology play to facilitate transparent quantitative data tracking for relevant metrics? Eg. CRM system reporting and complaints handling metric

Question 5: Are financial incentives alone sufficient to improve customer service outcomes? Should any CSIS also involve public reporting of customer service performance?

Ausgrid believes that although financial incentives only would be effective, we support the public reporting of customer service performance. However, any reporting obligations should not duplicate any existing reporting requirements.

We have listed some potential benefits and costs of this reporting below. Some of the issues that would need to be clarified are:

- Where will businesses post results - onto their own public channels and / or a centralised location?
- Will businesses be compared to one another? If so, this suggests there will be a need for consistent metrics (or partly consistent) as the comparisons should be like-for-like

<p>Benefits</p> <ul style="list-style-type: none"> • Encourages set up of systems and structures for understanding impact to customers that may not have been there before • Provides external stakeholders, investors, customers, special interest groups etc access to information • Public reporting of the survey results would enable the AER and other stakeholders to monitor the performance of the scheme over time. • Provides accountability and transparency • Ability to identify below average performers 	<p>Costs</p> <ul style="list-style-type: none"> • Additional compliance time / effort / costs will be incurred if any additional obligations are imposed • Risk of organisations developing a ‘compliance mentality’ whereby companies change their practices in accordance with the regulations • Smaller businesses may incur additional costs / effort disproportionate to their size
<p>Benefits of not doing</p> <ul style="list-style-type: none"> • Maintenance of the ‘status quo’ 	<p>Costs of not doing</p> <ul style="list-style-type: none"> • Potential reputation impacts with Customer Groups • Works against rebuilding trust and transparency in the industry • Inhibits move towards future where DNSPs can be benchmarked against each other

Considerations:

- Assessment for the mechanics for public reporting would be more relevant once the detailed design of the scheme is completed post trials
- Reporting through the annual reporting RIN is one possible option
- The CSIS is relevant to Principle 4 of the Energy Charter: *We will improve the customer experience.* Signatories of the Energy Charter could be provided an option to ‘opt-in’ for further reporting on their customer service metrics unique to their business
- Comparisons across businesses will be difficult until consistent metrics and methodology are defined, which may be a later future ambition as the scheme evolves / matures

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?

It is difficult to determine what parts of a scheme should be consistent and which parts should be flexible in advance of trialling different customer service measures. The review of other economic regulators in slide 4 shows that there are certain 'themes' that could be used as an initial guide (customer satisfaction for various services, complaints handling etc) . Below we outline a process to help inform the decision:

- Initially, each business may be assessed on their own outcomes which were informed by their engagement with customers. This will ensure outcomes are tailored to customer needs (see Ofwat).
- In the future, there may be a mix of consistent parameters across all businesses supported by bespoke metrics, with incentives split on a proportion basis (e.g. 0.25% for each set).
- Working with stakeholders, each business could trial a prototype that best suits their customers' need
- Outcomes / findings could then be consolidated and shared with the AER and customers to collaboratively review 'what works, what doesn't, what would be better if...'. This insight may feed into the future state 'New world design and where consistent metrics could be identified.

Current state
Old world



- **STPIS only**
- Reliability
- Telephone answering metrics
- Reported annually

Interim state (example)
next 4 years
Middle world



- **Trial (TBC)**
- Some consistent parameters / metrics across businesses e.g. complaints handling
- Different incentive rate methodology across businesses so the AER can assess which methodology works best
- Public reporting post trials

Future state (example)
New world



- **CSIS live (TBC)**
- Whole of industry participation
- Consistent parameters / metrics across businesses supported by bespoke metrics (weighted)
- One incentive rate methodology
- Public reporting of outcomes in centralised location
- Business' comparable to one another

Interim 'Middle world' considerations:

- Different metrics requiring different sources of data (surveys, telephone, data extraction / reports etc) may be required for each business
- Requirements between urban vs rural areas
- Different incentive rate methodology will be required however a common 'framework' could be established
- Should 'trials' really have incentive attached? Penalising failure too hard too early can stifle innovation / innovative solutions. There should be a period of 'immunity' to find the right mix - to build the right thing, before building the thing right (Slide 6).