

19 August 2019

Chris Pattas
Australian Energy Regulator
Via email: regulatoryinnovation@aer.gov.au

Dear Chris

Issues Paper: Small Scale Incentive Scheme for Customer Service

Thank you for the opportunity to comment on the AER's Issues Paper considering a small-scale incentive scheme for customer service. Australian Gas Infrastructure Group (AGIG) has been a longstanding supporter of developing appropriate incentive arrangements for regulated network businesses, including for customer service. We are encouraged by the progress to date on this issue for electricity networks and urge the AER to embark on similar efforts for gas networks.

AGIG is one of Australia's largest energy utility businesses. Our assets are in all mainland states of Australia and the Northern Territory, and include gas distribution networks, gas transmission pipelines and storage facilities. We have over two million customers, 34,000km of distribution networks, over 4,000km of gas transmission pipelines and more than 42 petajoules of gas storage capacity.

We note and support Energy Networks Australia's submission to the AER in response to the Issues Paper. Below we also provide our response to the questions raised in the issues paper.

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

The objectives in *National Gas Law*, *National Electricity Law* and *National Energy Retail Law* have the potential to be better served by enhancing the incentive arrangements, including in respect of customer service, that apply for all distribution networks. The objectives all refer to the "long term interests of consumers...with respect to price, quality, safety, reliability and security of supply".

Rule 98 of the *National Gas Rules* (NGR) allows access arrangements to include incentive mechanisms "to encourage efficiency in the provision of services". While this could include incentives to improve customer service, to date incentive mechanisms have tended to focus on efficiency or reliability. As noted in the Issues Paper, the current approach may encourage the pursuit of cost reductions over service quality.

For AGIG's South Australian gas distribution network our Access Arrangement proposal for 2016-21 included a customer service incentive scheme. The proposal was not approved, with the AER's Draft Decision noting "[w]e consider it preferable that the development and implementation of any new incentive schemes under the NGR be subject to a similar consultative, informed and industry-wide process" as had already occurred for electricity networks at that time.

While progress has been made in this regard for electricity networks, and this Issues Paper is looking to further develop incentives available (beyond the existing Service Target Performance Incentive Scheme), no further action has occurred to consider developing customer service incentive schemes in the interests of gas customers.

The benefits to customers of an incentive mechanism focussed on promoting customer service outcomes apply equally to electricity and gas distribution networks. The coverage of both networks in similar approaches internationally supports this conclusion. For example, Ofgem's "Broad Measure of Customer Satisfaction" and the New York Public Utilities Commission's "Customer Service Performance

Mechanism". The AER should consider a similar approach in Australia, recognising the benefits for both gas and electricity networks in parallel.

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 the industry-wide consultation process currently being conducted by the AER in respect of the CSIS should be a sufficient pre-condition for the introduction of a trial, pending stakeholder comments. If the AER considers further customer engagement is required, this could be achieved through a range of means including through the Access Arrangement proposal process of individual networks, or through an industry-wide customer process (as described in the AER's draft decision in response to our South Australian Access Arrangement proposal).

We also note that any trial CSIS should also extend to gas distribution networks.

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

We support the intention to use 0.5 per cent as the default rate for revenue at risk for a trial as outlined in the Issues Paper. However, where a network can demonstrate customer support for an alternative rate this should be allowed.

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

Public reporting of customer service performance can act as a supporting mechanism to any proposed quantifiable financial incentives. AGIG reports publicly on our customer satisfaction for all of our distribution networks through monthly surveys. These surveys measure customers' experiences and level of satisfaction across our services,¹ enabling AGIG to target improvements in customer satisfaction.

Adopting a broadly consistent approach to customer satisfaction surveys (or elements thereof), while allowing for differences in approach if required, could help customers better understand the performance of their network by comparing performance with other networks across the country. This would help to empower customers to provide feedback to their network provider and would further assist their participation in AA reviews.

While not a substitute for financial incentives, such an industry-wide and broadly comparative approach can be a powerful motivator to improve performance.

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?

Our 2016-21 South Australian Access Arrangement customer service incentive proposal was limited to telephone responsiveness and complaints. The proposal preceded the adoption of our customer satisfaction survey which commenced in 2016 for our distribution networks in South Australia, Queensland, New South Wales and Victoria, and since 2018 for our Multinet Gas Network (MGN) in Victoria. The survey is identical across all networks.

Today, our customer satisfaction survey operates in parallel with reporting on call responsiveness and complaints. As noted in the Issues Paper, a broad approach can help customers to understand our performance and to determine their preferences. For example, the outcome a network achieves by mandating maximum call waiting times does not necessarily equate to timely issue resolution. We are happy to share further information with the AER in respect of the surveys if required.

It is also important to recognise that state energy regulators often already require objective measures related to customer service. For example, call response times are already monitored by state based energy regulators, but measures of customer satisfaction are missing, outside of the individual efforts of networks themselves. We therefore support customer service incentives that recognise measures of customer satisfaction as well as objective measures like call responsiveness and complaints.

¹ For the most recent results see our *2018 Annual Review* at <https://www.agig.com.au/>

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?

A customer service incentive scheme should be designed to allow broad consistency across distributors while also allowing some flexibility to provide for differences if required. Trials provide one means of discovering these differences. Therefore early trials in gas distributors should allow for different approaches which will aid the discovery of areas of customer satisfaction requiring consistency or flexibility.

Customer service incentives have the potential to play an important role in meeting the needs of customers while aligning with the performance of service providers. Incentives are a powerful tool to improve performance and address customer expectations. Adopting an industry-wide approach across networks could help further these goals. While we are encouraged by the progress to date on this issue for electricity networks, we urge the AER to embark on similar efforts for gas networks.

Should you have any queries about the information provided in this letter please contact Drew Pearman, Manager Policy and Government Relations (0417 544 731, drew.pearman@agig.com.au).

Yours sincerely



Craig de Laine
General Manager People and Strategy