

Consumer

Challenge

Panel

**CCP17 Advice to Australian Energy Regulator -
Application of Customer Service Incentive Scheme
for CitiPower, Powercor and United Energy
1 July 2021 – 30 June 2026**

Consumer Challenge Panel (CCP) Sub-Panel CCP17

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1. Introduction

Following the AER's release of its final decision on a new Customer Service Incentive Scheme (CSIS) for electricity distribution network businesses in July 2020, CitiPower, Powercor and United Energy (CPU) submitted an application to the AER to implement their proposed Customer Service Incentive Scheme for the 2021-26 regulatory control period.

Consumer Challenge Panel Sub-Panel CCP17 was formed in November 2017, to advise the AER on:

- Whether the Victorian Electricity Distribution businesses' proposals are in the long-term interests of consumers; and
- The effectiveness of the businesses' engagement activities with their customers, and how this is reflected in the development of the network businesses' proposals.

The purpose of this advice is to provide the AER with a perspective from CCP17 on the proposed application of a CSIS for CitiPower, Powercor and United Energy as part of their Regulatory Proposals for 2021-26.

2. CCP Support for Customer Service Incentive Schemes in principle

CCP sub-panels have been providing advice to the AER highlighting the value of an enhanced customer service incentive scheme for network businesses for some time. These have included:

- CCP10, in its response to the Preliminary Framework and Approach for NSW Electricity Distributors in April 2017;¹
- CCP14, in response to the Preliminary Framework and Approach 2020-25 for Energy Queensland's network businesses in May 2018;²
- CCP17's response to the Preliminary Framework and Approach for Victorian Electricity Distributors in November 2018 which acknowledged and supported the proposal by AusNet Services to develop a new customer service incentive scheme;³
- CCP17's response to the AER Issues Paper – 'Small Scale Incentive Scheme for Customer Service' in August 2019, supporting the approach taken by the AER to consult on the effectiveness of the current framework for delivering customer service outcomes that consumers desire, and the potential for the introduction of incentive schemes that would support this objective;⁴
- CCP17's advice on the draft Customer Service Incentive Scheme, in February 2020.⁵

CCP17 welcomes the formal establishment of the CSIS earlier this year by the AER as a positive step towards supporting electricity distribution businesses in their endeavours to deliver improvements in customer service that are wanted and valued by their customers. We are also of the view that the CSIS provides opportunities for energy distribution businesses to build and extend their social licence to operate, which is essential to addressing the well-documented erosion of community trust in the energy supply chain in Australia.

¹ <https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%2010%20-%20Submission%20on%20preliminary%20framework%20and%20approach%20for%20NSW%20distributors%20-%202021%20April%202017.docx>, p17

² https://www.aer.gov.au/system/files/CCP14%20-%20Submission%20to%20Preliminary%20Framework%20and%20Approach%202020-25%20-%20204%20May%202018_2.pdf, p11

³ https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20Victorian%20Preliminary%20Framework%20and%20Approach%202021-25%20-%202012%20November%202018_0.pdf, p11

⁴ <https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20the%20Customer%20Satisfaction%20Incentive%20Scheme%20Issues%20Paper%20-%202029%20August%202019.pdf>

⁵ <https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%20-%20Submission%20on%20the%20draft%20Customer%20Satisfaction%20Incentive%20Scheme%20-%202014%20February%202020.pdf>

3. AER's Customer Service Incentive Scheme

The new CSIS has been designed as a principles-based scheme, a design which is strongly supported by CCP17. In its final decision approving the establishment of the CSIS, the AER explained the rationale for this approach ie:

Under the principles based approach, the CSIS has principles that must be met by distributors in order for the scheme to be applied. These principles are targeted at improving customer experience. Distributors can identify, in consultation with their customers, incentive designs that would meet those principles. This allows us to apply different parameters to different distributors. We consider that this approach is preferable where it is likely that customer preferences will differ across distributors, and may change over time.⁶

The CSIS principles are divided into four 'elements' that reflect the necessary components of an incentive scheme. The scheme elements and their associated principles are outlined below.

1. **Performance parameters** – what customers want to be incentivised under the scheme

Each performance parameter must be an aspect of the customer experience component of the DNSP's standard control services:

- (a) that the customers of the DNSP particularly value and want improved, as evidenced by genuine engagement with, and support from, the DNSP's customers,
- (b) that is substantially within the control of the DNSP, and
- (c) for which the DNSP does not already have an incentive under another incentive scheme or jurisdictional arrangement.

2. **Measurement methodology** – how performance is measured

For each performance parameter, the proposed measurement:

- (d) accurately measures the features of the performance parameter,
- (e) is sufficiently independent, in that it is either conducted by an independent third party or based upon an independently developed methodology,
- (f) is compiled in an objective and reliable manner with data retained in a secure and logically indexed database, and
- (g) produces results that could be audited by an independent third party.

3. **Assessment approach** – how performance is rated

For each performance parameter, identify:

- (h) how performance is evaluated and then translated into an expression of improvement or deterioration which can be used to determine a reward or penalty,
- (i) a baseline or neutral level of performance.

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<https://www.aer.gov.au/system/files/Service%20Incentive%20Scheme%20explanatory%20statement.pdf>, p7

4. **Financial component** – how penalties/rewards are calculated and applied

For each performance parameter, specify:

(j) overall revenue at risk,

(k) incentive rate.

4. CPU Consumer Engagement

CPU's CSIS engagement program consisted of five stages as outlined below.

Table 1. CPU CSIS engagement and CCP17 observation

Timing	Methodology	Purpose	Observed by CCP17?
2017-2019	Various, including workshops, surveys, deliberative forums, deep dives, interviews	Understand customer needs & priorities Develop customer service priority areas	Yes – at least one CCP17 member was present at the majority of events in this period
May 2020	Online discussion forum	Identify which services customers value and provide an indication of where services can be improved through the incentive scheme.	Yes
July 2020	Online survey (quantitative)	Gather quantitative evidence of customer preferences and values.	No
August 2020	Online discussion forum	Test support for draft CSIS design	Yes
September 2020	Online Customer Advisory Panel (CAP) Meeting	Test support for draft CSIS design	Yes

CCP17 observations

CCP17 has previously provided advice to the AER regarding CPU's consumer and stakeholder engagement program for the 2017-2019 period. In our Advice on the Victorian Electricity Distributors' Regulatory Proposals for the Regulatory Determination 2021-26⁷, we commented that:

'The range of consumer engagement activities that the businesses have undertaken is a strength of the approach. It has enabled a large number of customers to participate in a variety of different ways. The events that we have observed have been well run, with discussions and activities to maintain interest levels of participants. Participants have largely been engaged, and have had free range to say what they want, to present their own views without undue pressure from others, and also to ask subject matter experts from the businesses for clarification where some things were not clear.'

and

'Overall, the consumer engagement has enabled the business to look at things from a customer perspective'.

We consider that this program of engagement activities provided CPU with a sound foundation for understanding customer needs and customer service priority areas, and was a good starting point for deeper consultation on a potential CSIS.

⁷ https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%2017-%20Submission%20on%20the%20Victorian%20Electricity%20Distribution%20Regulatory%20Proposal%202021-26%20-%20June%202020_0.pdf, pps 25,26

During 2020, COVID-19 has had a significant impact on the ability of businesses to engage with customers using traditional face-to-face methods. In response, CPU designed the remaining stages of their CSIS engagement program so that it was conducted wholly online. CCP17 congratulates CPU for their agility and innovation in moving very quickly to adopt online discussion forums as the primary engagement methodology during this period. CCP17 members were able to observe these discussion forums in real time and can confirm that the verbatim comments and the consumer sentiments we observed were fairly reflected in the final Forethought reports. We were unable to observe operation of the online quantitative customer survey but note that the findings from the survey as reported by Forethought are consistent with our observations and understanding of CPU customer priorities over the past 3 years.

We note that CPU has engaged with a broad range of consumers in this process including residential, small business and large C&I customers. Under normal circumstances, CCP17 would draw attention to the fact that CPU's engagement methodology has excluded the views of consumers who are not users of online technologies. This cohort can include a range of consumer groups including low income and older consumers, and consumers from a non-English speaking background as well as consumers with a disability. In this case, although we think it would have been preferable to be able to canvas the views of these consumer groups, we consider that the final proposal will be equally beneficial to all consumers.

In the second round of online discussion forums in August 2020, the issue of cost was raised by several participants eg

'I support the proposal as long as the high prices don't go higher'

'Will prices go up because more customer service agents are being hired?'

We encourage CPU to clearly address the cost/bill implications (if any) with consumers during any future engagement processes.

CCP17 members participated in the online meeting at which the CAP was briefed on the proposed CSIS. CAP members supported the proposal and suggested that the quality and accuracy of the information provided to customers may be areas for an ongoing improvement focus.

CCP17 considers that, in spite of the constraints imposed by COVID-19, the CPU's engagement on the proposed CSIS has been of high quality, very effective and that clear customer preferences have been revealed.

5. Customer Service Incentive Scheme proposed by CPU

In this section we consider the three measures proposed by CitiPower, Powercor and United Energy (CPU) regarding their Customer Service Incentive Scheme with reference to the specified performance measures that are provided in section 3.

The following table uses a “traffic light” assessment for each of the three measures.

Table 2. Rating CPU CSIS measures against principles

Rating the 3 measures against principles. (Section 3)	Reducing the number and duration of planned outages on average	Faster SMSs to more customers during unplanned outages	Further improvements to phone answering
Performance parameters			
customers particularly value measure and want it improved. evidenced by genuine engagement	Green	Green	Light Green
within control of DNSP	Green	Green	Green
not duplicating an existing incentive	Green	Green	Green
Measurement methodology			
accurately measures the features of the performance parameter	Yellow	Green	Green
sufficiently independent: it is either conducted by an independent third party or uses independently developed methodology	Green	Green	Green
compiled in an objective and reliable manner with data retained securely	Green	Green	Green
results able to be audited	Green	Green	Green
Assessment approach *			
performance is translatable into an expression of improvement or deterioration which can be used to determine a reward or penalty	Green	Green	Green
baseline or neutral level of performance	Green	Green	Green
Financial component *			
each performance parameter, specifies overall revenue at risk	Green	Green	Green
each performance parameter specifies incentive rate	Green	Green	Green
Consumer Test	Green	Green	Green

*Indicated that there are differences between the three businesses

“traffic light” legend for table above

Colour				
Interpretation	Principle met	Principle mainly met	Clarification required	Principle not met

The table indicates that in the opinion of CCP17 the measures proposed predominantly meet the CSIS principles. The following comments provide some further clarification.

Performance Parameters

We suggest that the improvements and telephone answering measure are not quite as strongly valued by customers as the other two measures. This reflects the evidence that was provided by the businesses but does not diminish the customer advice that telephone answering measures was the third most valued measure of a range that were tested.

Feedback provided by customers in engagement activities conducted by “Forethought” was clearly expressed with sentiments like “we want to be able to talk to a real person.” This being for situations where other communication measures were ineffective. CCP17 also observes that telephone answering promptness continues to be of high importance for lower income customers for whom their mobile phone is their major form of communication and they don’t want phone credit being “wasted” by being on hold to utilities, businesses or government departments. Some customers also prefer telephone communication.

It is also noted that with regard to non-duplication of measures that telephone answering is part of the existing STPIS arrangements but since this measure is proposed to be replaced by the combination of three measures including telephone answering, it is not a duplication.

The consumers who participated in engagement activities were very clear that customer service relating to accurate and timely notifications about unplanned outages and a reduction in planned outages were the highest customer service priorities.

The three measures proposed by CPU accurately reflect the customer service priorities of their customers.

Measurement methodology

We have rated all of the measurement methodology principles as being met, except for our perception that there is some further clarity needed regarding “accurately measures the features of the performance parameter” for planned outages. This is because there is need for very clear measurement parameters regarding the definitions of planned outages, the geographic range that is referenced by this measure and possibly the time period to which the measure relates.

It is understood that the specification matters can be readily clarified but we regard some engagement with consumers or consumer representatives in finalising this measure to be useful.

Assessment approach

CCP17 is satisfied that both aspects of this principle are met for all three customer service measures.

Financial component

It is our opinion that the principles of the financial component are met with each performance parameter incentive rate being clearly specified. These are provided in the table below.

Table 3. CPU CSIS incentive rates for the 3 measures

Incentive Rate	Reducing the number and duration of planned outages on average	Faster SMS's to more customers during unplanned outages	Further improvements to phone answering	Total incentive
Powercor	0.15%	0.15%	0.2%	0.5%
CitiPower	n/a	0.25%	0.25%	0.5%
United Energy	0.15%	0.15%	0.2%	0.5%

The differences in incentive rates amongst the three businesses is noted and considered to be appropriate due to the differences between aspects of the businesses operations, with the incentive rates reflecting the views of customers from the three businesses.

We note the following comments regarding the measure of SMS notifications for unplanned outages and incentive rate. The businesses provide the following commentary:

Table 3: SMS notifications for unplanned outages

	Powercor	CitiPower	United Energy
Baseline target	63.12%	57.40%	60.26%
Revenue at risk	0.15%	0.25%	0.15%

“We propose an incentive rate of 0.04 meaning for every 1% improvement on the baseline we receive 0.04% of revenue. This incentive measure is based on well-established precedent as it is consistent with the incentive rate as set out in the service target performance incentive scheme (STPIS) for the telephone answering service.”

We consider the baseline targets to be moderately low and observe that if the first half of this paragraph is considered alone, then a 4% improvement on the baseline, which should be very achievable, would result in a 0.16% of revenue incentive rate for the businesses which is greater than the “revenue at risk” of 0.15%. It is quite conceivable, and we suggest desirable that a greater than 4% improvement in notifications for unplanned outages is achieved. The revenue at risk of 0.15% must be a cap on the total incentive payment that is possible to be achieved through this incentive element.

Customers were very clear that they were supportive of the customer service measures provided that they did not cost them more than they are paying now. It is imperative that the proposed incentive strength is capped at 0.5% which is the amount of revenue currently at risk through the STPIS scheme.

6. Comparison with other Customer Service Incentive Schemes

This section provides a brief comparison of the proposed customer service incentive scheme with other schemes as an indicative reasonableness test of the proposed CPU scheme.

AusNet Services

AusNet Services appointed a Customer Forum with whom to negotiate aspects of their revenue proposal through the “NewReg” trial. They have proposed a CSIS that has been negotiated with their Customer Forum and have already proposed to the AER that the scheme be accepted. The following four elements and associated reward / penalty comprise the proposed AusNet Services scheme.⁸

“1. Communication on unplanned outages;

AusNet Services and its Customer Forum agreed on a reward/penalty of \$493,579 (0.08% of revenue) for each 1-point improvement/degradation in satisfaction annually (Scale is 0-10, with reference performance 6.5). Annual satisfaction determined through a survey of AusNet Services customers.

2. Communication on planned outages;

AusNet Services and its Customer Forum agreed on a reward/penalty of \$493,579 (0.08% of revenue) for each 1-point improvement/degradation in satisfaction annually

3. Customer service for new connections (basic and standard); and

AusNet Services and its Customer Forum agreed on a reward/penalty of \$493,579 (0.08% of revenue) for each 1-point improvement/degradation in satisfaction annually

4. Customer service in managing complaints.

AusNet Services and its Customer Forum agreed on a reward/penalty of \$246,789 (0.04% of revenue) for each 1-point improvement/degradation in satisfaction annually.”

In the draft determination for AusNet Services the AER determined “AusNet Services’ design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS. It was further accompanied by a proposal that meets the incentive design proposal requirements. We consider that AusNet Services has therefore satisfied criteria under Section 2.1 of the CSIS. Our draft decision is to apply AusNet Services’ proposed incentive design.”

CCP17 is supportive of the AusNet Services Customer Service Incentive Scheme and recognises the initiative of the Customer Forum in promoting and negotiating the scheme. We consequently support the AER draft decision to accept the scheme.

United Kingdom

Ofgem, the regulator for electricity and gas businesses in the United Kingdom, has also paid close attention to customer service incentive schemes. Their website provides the following overview of the customer service incentive scheme, noting that there are other incentive schemes as well:

⁸ https://www.aer.gov.au/system/files/AER%20-%20Draft%20decision%20-%20AusNet%20Services%20distribution%20determination%202021-26%20-%20Attachment%2012%20-%20Customer%20service%20incentive%20scheme%20-%20September%202020%20_0.pdf

“Customer service”

Since the electricity Distribution Network Operators (DNOs) are monopolies they have no natural incentive to have a good standard of customer service – especially in terms of telling customers about interruptions, carrying out new connections and dealing with complaints.

For the current price control (DPCR5) we introduced a new customer service incentive, the Broad Measure of Customer Satisfaction (BMCS), to drive the network companies to deliver good customer service. It aims to replicate the sorts of measures typically used by consumer-facing businesses in a competitive environment.

The BMCS has three components:

- Customer Satisfaction Survey
- Complaints Metric
- Stakeholder Engagement Incentive

The BMCS incentivises DNOs to satisfy customers, deal with complaints quickly and effectively and engage with stakeholders to inform how they run their business.”

We observe that the stakeholder engagement (and consumer vulnerability) incentive focuses on consumer engagement rather than the more specific aspects of customer service so the main customer service measures are a customer satisfaction survey and a complaints “metric.”

The following table summarises the main measures for customer service / customer satisfaction from Ofgem, AusNet Services and CPU group.

Table 4. Comparison of Customer Services scheme elements

AusNet Services	CPU	Ofgem
Communication on unplanned outages	Faster SMS’s to more customers during unplanned outages	Customer Satisfaction Survey
	Similar	
Communication on planned outages	Reducing the number and duration of planned outages on average	Complaints Metric
	Similar	
Customer service for new connections	Further improvements to phone answering	Stakeholder Engagement Incentive
Customer service in managing complaints		

It is our perspective that the two main measures for both AusNet Services and the CPU group are similar, both dealing with planned and unplanned outages, the major focus of improvement sought by Victorian customers. Potentially the CPU “planned outages” measure is stronger given the focus on reducing the number and duration of planned outages. With its focus on customer satisfaction rather than more specific customer service measures, we suggest that the UK approach has less direct relevance to the CPU CSIS proposal than the AusNet Services proposal.

The CPU CSIS proposal is reasonable when considered alongside the AusNet Services CSIS and, to some extent, the Ofgem approach.

(We note as an aside, a keen CCP interest in the Ofgem Stakeholder Engagement (and Customer Vulnerability) Incentive Scheme which, like STPIS, and the two CSIS proposals provides an incentive strength of 0.5% of revenue. The scheme is also evaluated for each network business, annually, by an independent panel.)

7. Concluding Comments

We consider that some further thinking is required about evaluation of the proposed CPU Customer Service Incentive Scheme if it is endorsed by the AER as well as the AusNet Services CSIS, to ensure that the principles for the scheme are met through ex post review and that there is discernible customer benefit.

It is also our view the timing is important and believe that an initial audit / review of the scheme should be implemented after the first year. This would enable early assessment of consumer benefit to be determined and allow for some adjustment of measurement parameters or techniques if required.

CCP17 supports the CSIS proposal that has been provided by CPU and regard the proposal as a fair representation of priorities gleaned from sound consumer engagement. We also regard the core elements of the proposal to be in line with the core elements of the AusNet Services CSIS proposal that the AER has endorsed in its draft determination.