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**Small Scale Incentive Scheme for Customer Service  
(Customer Service Incentive Scheme – CSIS)**

CCP17 response to AER Issues Paper

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**Consumer Challenge Panel (CCP) Sub-Panel CCP17**

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## Introduction and Background

The Consumer Challenge Panel (CCP) has been providing advice to the AER highlighting the value of an enhanced customer service incentive scheme for network businesses for some time. In April 2017, in its response to the Preliminary Framework and Approach for NSW Electricity Distributors, CCP10 noted:

*However, it must be noted that other areas of service delivery that are largely monopoly services by distributors remain somewhat outside the STPIS including:*

- 1. Non-contestable connection services: where the network business provides technical standards, connection approval and the physical connection the parts of network and customers connections constructed by others. Despite the intent of rules such as Chapter 5A of the NER, the incentives for timely and customer-focussed connection services are not strong.*
- 2. Public Lighting: where incentives for a strong customer and community service approach are lacking, as evidenced by emerging unrest from customers, councils and developers regarding the transparency of pricing, service response and performance outcomes provided by distributors.*
- 3. Response to complaints: relating to the quality and timeliness of distributors' responses to customer complaints and queries, where an increasing number are processes in written and electronic form, rather than contact by telephone.*
- 4. Planned Interruptions: where network performance targets for planned interruptions are just as important as the response to unplanned and emergency work. Incentives to reduce or at least optimise the number, period and commercial impact of planned interruptions to customers would benefit from formal incentives to at least maintain current performance in a manner similar to unplanned interruptions.*

***“The CCP(10) would encourage the AER to consider the wider application of the definition of service targets and performance in upcoming determinations”<sup>1</sup>***

CCP14's response to the Preliminary Framework and Approach 2020-25 for Energy Queensland's network businesses in May 2018 included:

***“customer service aspects of the STPIS should be enhanced to reflect new and high-impact ways that utilities interact with customers and communities.”<sup>2</sup>***

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<sup>1</sup> <https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%2010%20-%20Submission%20on%20preliminary%20framework%20and%20approach%20for%20NSW%20distributors%20-%2021%20April%202017.docx>, p17

<sup>2</sup> [https://www.aer.gov.au/system/files/CCP14%20-%20Submission%20to%20Preliminary%20Framework%20and%20Approach%202020-25%20-%204%20May%202018\\_2.pdf](https://www.aer.gov.au/system/files/CCP14%20-%20Submission%20to%20Preliminary%20Framework%20and%20Approach%202020-25%20-%204%20May%202018_2.pdf), p11

CCP17's response to the Preliminary Framework and Approach for Victorian Electricity Distributors in November 2018 acknowledged and supported the proposal by AusNet Services to develop the new incentive scheme.<sup>3</sup>

Consistent with this earlier advice, CCP17 supports 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.

The following section provides CCP17's responses to the questions posed in the AER's "Issues Paper – Small Scale Incentive Scheme for Customer Service".<sup>4</sup>

### Responses to Issues Paper Questions

*Q1. Do the AER's incentive schemes provide incentives for distributors to provide customer services as desired by customers?*

CCP17 does not consider that the current customer service incentive scheme for distributors (as an element of the Service Target Performance Incentive Scheme, STPIS) provides incentives for the distribution businesses to deliver customer services as desired by their customers.

In our opinion, incentives set by a regulator should not be the main driver of the provision of quality services for customers. The commitment to attaining and maintaining a "social licence to operate" should be the primary incentive for businesses to "do the right thing". The notion of "ethical regulation" is the ideal on which network businesses and regulators should be focused, because it is the right thing to do. The launch of the Energy Charter this year indicates a desire by Australian energy networks to "do the right thing" for individual customers and for communities more broadly.

Given this perspective, the place for incentive schemes, including the CSIS, should be to help guide businesses to focus on the priorities that they are gleaning from their engagement with their consumers and with consumer groups.

Incentive schemes should act as signalling and supporting functions to a business' customer responsiveness, rather than being the primary motivator of consumer centric business practice:

- The signalling role of an incentive scheme is delivered through the regulator using a particular incentive to signal an aspect of business activity that it expects the businesses to be addressing, based on consumer advice received by the regulator.

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<sup>3</sup> [https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20Victorian%20Preliminary%20Framework%20and%20Approach%202021-25%20-%2012%20November%202018\\_0.pdf](https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20Victorian%20Preliminary%20Framework%20and%20Approach%202021-25%20-%2012%20November%202018_0.pdf), p11

<sup>4</sup> Available with supporting documentation at <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/customer-service-incentive-scheme>

The signal would generally be for all network businesses, but could be for a subset of businesses.

- The support role of an incentive scheme reinforces an aspect of business behaviour that consumers are seeking, including by providing financial and other incentives.

The current suite of AER incentive schemes provides a good mix of incentives, and has been developed with the primary objective of providing economic incentive for efficient capital and operational expenditure. Incentive schemes need to adjust with time. The more recent introduction of the Demand Management Incentive Scheme (DMIS) is a good example of an incentive scheme designed to promote a set of behaviours that were new at the time of introduction, and continue to be highly relevant.

As the processes of providing excellent customer service change over time, it is appropriate that the incentive regime changes too. CCP17 agrees with the original proponents of the CSIS, the AusNet Services Customer Forum, that the time is right to adjust customer service incentives to reflect the contemporary experience and aspirations of consumers. The CSIS that is trialled should include measures of effective customer service that build on recent technologies, including text messaging, and accuracy and timeliness of updates of websites and social media sites. It should continue to recognise that more established technologies are also appropriate for some customers. For example, we would not want to see telephone answering measures removed from customer service incentive schemes, because some customers still rely on telephone communication. Further, the increased reliance on mobile phones for telephone communication means that long periods on “hold” and the time spent ‘on the phone’ can become more costly for consumers who are using up their mobile phone credit by calling their network. There is a higher cost now for customers to ring service providers, including energy businesses. Customers on low or fixed incomes, in particular, can ill afford any loss of their mobile phone credit from slow-moving service providers.

Also, under the National Broadband Network (NBN), landline telephones do not work when there is a power cut, so users without power are forced to use their mobile telephone to call the network business.

*Q2. What would be the necessary preconditions for applying the trial CSIS? Is broad customer support a necessary prerequisite, and how could broad customer support be demonstrated?*

The necessary preconditions for applying a trial CSIS are the same as for any trial:

- Clarity of the hypothesis that the trial is testing
- Transparency of process
- Identifiable measures
- Independent assessment and review
- Public reporting of all aspects of the trial, including assessment / evaluation
- In the case of the CSIS, engagement with customers, customer representatives and Customer Council members will also be critical.

In this instance, we do not consider broad consumer support to be necessary for a trial to be undertaken. This is because the trial has been proposed as an outcome from a significant consumer engagement process, the AusNet Services Customer Forum / NewReg project. The Customer Forum is one of the most substantial engagement processes undertaken by an Australian energy business. While we have no intention of pre-empting the outcomes of the NewReg evaluation, we think it is accurate to state that the five Customer Forum members have spent more hours engaged with a single regulatory process than any other group of consumers in Australia. This coupled with the consumer focus of the five members of the Customer Forum means that a proposal that they make is unlikely to be completely out of kilter with broad consumer sentiment. Consequently, we think that the engagement and thinking undertaken by the Customer Forum is adequate to justify a trial. We would expect broader consumer consideration of trial results and of any subsequent implementation of a new incentive scheme that might emerge from the CSIS trial.

*Q3. How should we determine the revenue at risk if applying a trial CSIS?*

Given that the CSIS process is being considered as a trial, we do not consider that it would be responsible for a 'strong' financial incentive to be applied. The half a percent incentive "strength" as proposed in the AER's Issues Paper is reasonable and responsible. Through the 'telephone answering' metric in the STPIS, customers are already exposed to +/- 0.5% customer service incentive payment. If this level is maintained for a trial, customers are likely to be no worse off financially, but may experience the benefit of improved customer service for the same level of payment. The STPIS measure could be included in the CSIS +/- 0.5% for a total CSIS revenue risk of +/- 0.5%.

The strength of the finance incentive is one of the topics that should receive active consideration during the trial, and in the evaluation phase of the trial, if the trial CSIS is further developed into a continuing, networks wide incentive scheme.

In considering application of "revenue risk" to be applied, an appropriate balance needs to be struck between incentive payments received by the business and benefits for consumers, taking into account the cost of network services and the impact on the final consumer bill, along with service quality.

Various CCP subpanels have reported that when consumers are asked about service and reliability trade-offs with price, in almost all circumstances consumers indicate a strong preference for price reductions over service / reliability improvements. This means that for a service focus incentive scheme, there would need to be significant service improvement with modest cost impacts for consumers to be satisfied.

Incentive schemes should also provide opportunities, through their design, for consumers to have the option of price reductions, rather than it only being network businesses that can gain a financial benefit.

Similarly, a consumer-focused incentive scheme should be designed to provide asymmetric benefit to consumers in aggregate, when compared to the potential financial benefit gained by a network business. The 70% / 30% split of the CESS has resonance.

*Q4. Are financial incentives alone sufficient to improve customer services outcomes? Should any CSIS also involve public reporting of customer service performance?*

Opting into a customer service incentive scheme should be viewed as a public commitment by a business to focus on the needs and expectations of their customers, and not as an opportunity to earn additional revenue. Incentives for improved consumer outcomes, for network businesses, are likely to be driven by moral suasion – doing the right thing – and a sense of competition between network businesses, rather than by a low strength financial incentive. For example, when Ofgem introduced the Stakeholder Engagement and Consumer Vulnerability (SECV) incentive scheme for network businesses in the UK, one aspect of the scheme was to publish a “league table” of results.<sup>5</sup> The network business with the highest score, Western Power Distribution in the first couple of years, regarded this as a high honour and actively publicised the success it had attained. The second-place business in the initial league table, UK Power Networks, was and continues to be highly motivated to achieve the top ranking, as do other network businesses.

We do not consider Australian network businesses to be that different from their UK counterparts, and we are aware of an eagerness to be recognised for outstanding customer engagement and service. The annual ENA /ECA award for consumer engagement, which is in its third year this year, has attracted very strong interest from network businesses, with winners expressing delight and those that do not win being very disappointed. Network business boards, managers and staff are motivated by more than financial return.

These observations reinforce our view that while financial incentives are an important part of any incentive scheme, they are not the primary drivers of business behaviour, and should serve as a guide to good practice, rather than as the definitive driver.

Public reporting of results relating to customer service performance from a reputable independent source is crucial for driving the non-financial incentives associated with an incentive scheme, alongside the financial incentive. Relevant, publicly available and timely data associated with the anticipated CSIS trial is crucial to the trial’s effectiveness.

*Q5. 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?*

CCP17 is not particularly enamoured with customer surveys as a basis for expressing consumer sentiment in general, or for incentive scheme application. Consumer groups have seen too many examples of poor customer surveys that can provide very leading questions and amount to little more than “push-polling”. Of course, well considered and

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<sup>5</sup> Further information about Ofgem’s Stakeholder Engagement and Consumer Vulnerability (SECV) incentive scheme is provided as Appendix 1 to this submission.

independently reviewed customer surveys can be very effective, and no doubt will play a role in the CSIS. Qualitative survey metrics must be balanced with quantitative results.

Ofgem and Ofwat decisions not to calculate customer service incentive rates based on the customer's willingness to pay / willingness to pay surveys are sensible, and we would be very wary of any suggestion of using willingness to pay methodologies in association with the CSIS. The CCP has previously expressed concerns about the use of inappropriate willingness to pay (WTP) survey methodologies.<sup>6</sup>

The three-stage evaluation process used for Ofgem's SECV incentive scheme comprised:

1. Assessment by Ofgem (internal assessment) against the minimum requirements;
2. A consultant assessment of vulnerable customer approaches; and
3. An assessment by an expert panel of stakeholder engagement.

The use of an expert panel has particular merit, as the expert panel can include consumer representatives as well as people with relevant expertise from other industries. There is value in considering the development of an expert panel independent of network businesses and the AER to assist in the assessment of effectiveness of the CSIS.

Using an independent auditor and an expert panel means that network businesses can collect data in support of their incentive scheme, which is cost and time efficient, but the veracity of the data is determined through peer / stakeholder review and by the AER.

CCP17 supports the survey measures proposed by AusNet Services, namely:

- planned outages
- unplanned outages
- new connections
- complaints

We also propose retaining

- telephone answering (though not necessarily in its current form)

while other areas to consider being part of the basket of measures could include:

- response to contact by customers, other than by telephone
- speed of posting updates to website / social media platforms
- initial accuracy of posts.

Consideration should be given to integration of the measures discussed above with performance statistics assembled by the relevant Ombudsman Scheme.

*Q6. 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?*

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<sup>6</sup> [https://www.aer.gov.au/system/files/Consumer%20engagement%20advice\\_141030.pdf](https://www.aer.gov.au/system/files/Consumer%20engagement%20advice_141030.pdf)

As a matter of principle, most elements of a CSIS should be consistent across all network businesses, Australia-wide, but we recognise that there are instances where specific local circumstances need to be taken into account. In these instances, a demonstrated consumer engagement strategy to reach an agreed decision about not applying a measure or applying another measure for individual network business would be appropriate. For example, we are aware that there are times when a business might have a very high number of planned outages, such as to replace several poles on a “stringy” part of the network. Were planned outages part of the incentive scheme, it would be acceptable for the relevant business to seek from the AER exemption from using that part of the incentive scheme, by demonstrating that it had negotiated an optimal outcome with affected customers and communities.

Some of the proposed measures and approaches appear to be relevant for electricity distribution networks, but not as relevant for gas distribution networks. While some measures would be consistent across all distribution networks, some measures may relate uniquely to electricity or gas networks.

### Other considerations

CCP17 is concerned that there may be a potential for ‘double dipping’ if network businesses are allowed regulated revenue to fund the development and implementation of customer service systems (particularly IT systems), which would then equip them to qualify for CSIS benefits.

### Summary

CCP17 supports the proposed Small Scale Incentive Scheme for Customer Service, and considers that there is merit in trialling and evaluating a scheme with a view to recognising better practice with more contemporary customer service measures.

## Appendix 1

Observations about SECV prepared by Mark Henley, 2017, after visiting Ofgem, network businesses and consumer groups.

CCP is reflecting on the SECV, as we consider some of its elements to be useful in considering aspects of design for any incentive scheme.

### The UK Stakeholder Engagement and Consumer Vulnerability (SECV) incentive scheme for network businesses

One of the incentive schemes that has now been put in place is the Stakeholder Engagement and Consumer Vulnerability (SECV) incentive scheme. As this was a significant part of my discussions, a summary of the scheme follows. A guidance paper can be found at: [www.ofgem.gov.uk/system/files/docs/2016/04/electricity\\_distribution\\_secv\\_guidance\\_document.pdf](http://www.ofgem.gov.uk/system/files/docs/2016/04/electricity_distribution_secv_guidance_document.pdf)

Ofgem says that the scheme is to “ensure the ongoing delivery of an efficient network that embraces wider social and environmental objectives, electricity distribution network operators need to engage with a range of stakeholders. Key stakeholders will include parties are affected by, or reprinted by, decisions made by the network companies.

In particular, network companies have an important role to play in helping consumers in vulnerable situations...

The stakeholder engagement and consumer vulnerability incentive drives network companies to engage with stakeholders and address consumer vulnerability issues.”

Businesses lodge a submission for each year which the regulator says must include three parts:

- part one: demonstrate that minimum requirements are met
- part two: network performance against panel assessment criteria (given later)
- part three: demonstrate network performance against customer tolerability criteria

The assessment of the network submissions is a three-stage process

1. Assessment by Ofgem (internal assessment) against the minimum requirements
2. a consultant assessment of vulnerable customer approaches
3. an assessment by an expert panel of stakeholder engagement.

The Panel is comprised of at least four “scoring members” chaired by an Ofgem employee, who does not score. Panel members are drawn from organisations with expertise in stakeholder and consumer engagement, e.g. CAB, Sustainability First, who score each network proposal against published assessment criteria.

Businesses that score greater than nine points receive the full award that is on offer; businesses receiving less than four points receive no reward; businesses scoring between four and nine points receive a proportion of the reward.

The reward is a maximum of 0.5% of annual revenue allowance, so is paid for by customers, so the network business needs to demonstrate that the customer improvement through stakeholder engagement and supporting vulnerable customers is greater than the value of the reward on offer. Businesses that receive a reward and return this to business owners are unlikely to obtain a significant reward the following year.

The panel assessment criteria (with the stakeholder engagement focus) are:

1. incentives are part of a holistic approach embedded in the business
2. initiatives reflect innovative thinking that maybe recognised as smart/best practice and could be replicated across the industry
3. initiatives which best serve specific interests of challenging groups or hard to read stakeholders
4. initiatives resulting measurable benefit to stakeholders
5. the quality of the network company strategy to address consumer vulnerability and the quality of the outcomes derived

The consumer vulnerability criteria are

1. strategic understanding and commitment to the role the network companies can play in tackling social issues relevant to vulnerable consumers
2. engagement with stakeholders to improve the data and information that they hold on vulnerable consumers and what they do with it
3. approach taken to management and use of the priority service register and associated services
4. approach taken to develop and utilise partnerships (e.g. referral networks) to identify and deliver solutions (both energy and non-energy) for vulnerable consumers
5. embedding this strategy for addressing consumer vulnerability in their systems, processes and how they manage consumer interactions.

The following table is published by Ofgem and shows the Panel scores and ranking for each of the UK network businesses in 2015/16

<b>Rank</b>	<b>Organisation</b>	<b>Sector</b>	<b>Score 2015/16</b>
1 <sup>st</sup>	Western power Distribution	DNO	8.75
2 <sup>nd</sup>	UK Power Networks	DNO	7.53
3 <sup>rd</sup>	Electricity North West	DNO	6.9
4 <sup>th</sup>	National Grid (GDN)	GDN	6.9
5 <sup>th</sup>	Northern Gas Networks	GDN	6.8
6 <sup>th</sup>	Scottish Power	DNO	6.78
7 <sup>th</sup>	Northern Powergrid	DNO	6.5
8 <sup>th</sup>	National Grid electric	Trans	6.25
9 <sup>th</sup>	Scottish power	Trans	6.25
10 <sup>th</sup>	National grid Gas	Trans	6.15
11 <sup>th</sup>	Wales and West Utilities	GDN	6.05
12 <sup>th</sup>	SSE Hydro Electric	Trans	6
13 <sup>th</sup>	Scotia Gas	GDN	5.75
14 <sup>th</sup>	SSE	DNO	5.73

DNO = Distribution Network Operator (electricity)

Trans = Transmission Business (electricity)

GDN = Gas Distribution Network