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Lodged by email: regulatoryinnovation@aer.gov.au

Small Scale Incentive Scheme for Customer Service – Issues Paper

EnergyAustralia welcomes the opportunity to make this submission to the AER's consultation on a proposed Small Scale Incentive Scheme for Customer Service (CSIS).

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in New South Wales, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity in the National Electricity Market (NEM).

We support the development of a CSIS as a way to improve customer service and to ensure that any benefits to customers from applying the scheme warrant the incentive for the distribution network service provider (DNSPs). In this way customers will not be exposed to the risk that they are required to pay more than they are willing for improvements. We agree that existing customer service incentives within the AER's service target performance incentive scheme (STPIS) are too narrow.

We also encourage the AER to fully consider the dynamics of the shared customer relationship between retailers, DNSPs and customers to fully understand how the DNSP interacts with the customer when providing each service. Any incentives approved by the AER should be appropriately designed to reflect what the DNSP controls and its impact on customer service. We recommend that if the AER proceeds to design a CSIS scheme based on customer service surveys, it should take a consistent approach to approving measures used by DNSPs and in the ways they are being measured due to the inherent issues with customer service surveys.

If you would like to discuss this submission in greater detail, please contact Shawn Tan at +61 3 8628 1512 or Shawn.Tan@energyaustralia.com.au.

Yours sincerely

Carmel Forbes
Industry Regulation Lead

1.0 What does customer service mean?

The DNSP's direct interaction with the customer is generally limited. Typically, a way a DNSP can provide customer service is through an efficient and responsive B2B framework with retailers and metering parties.

For many services the DNSP performs such as a new connection, assessing and coordinating the addition of solar panels, metering services (where the DNSP is still responsible for metering) and the coordination of metering services where a contestable metering party is involved, it is on behalf of a retailer who is responsible for coordination and sending a service order to request the service through B2B/industry processes. This often forms the customer service portion of a job, and answering queries is often performed by the retailer who liaises with the DNSP on behalf of the customer. In approving incentive measures proposed by DNSPs, we suggest that the AER should attempt to be precise in including items which the DNSP has direct contact and control with the customer.

For example, for a new connection, the customer service aspect the DNSP provides relates to the timeliness, cost and quality of the physical connection (some aspects of which may already be covered by jurisdictional Guaranteed Service Level (GSL) codes). The retailer manages the connection processes, such as navigating through the DNSP's online portal and paperwork required or providing updates to the customer. Where DNSPs may directly communicate with the customer, there is potential for confusion if the DNSP is providing different information. In this instance we suggest that any CSIS incentives relating to new connections should only address timeliness, cost and quality of the services the DNSP provides.

The nature of complaints directed to the retailer and DNSP can also differ in nature. Complaints are often directed to the retailer in first instance (and subsequently the Ombudsman if unable to be resolved). In most cases, the retailer is reliant on the DNSP to provide information relating to the customer, so it can resolve the complaint. We recommend that any CSIS incentive being proposed needs to consider the DNSP's interaction with the retailer prior to the complaint being directed to the DNSP, and that the retailer may have been unable to resolve it on behalf of the DNSP through industry processes and in B2B interaction with the DNSP.

In addition, the AER may need to consider that the nature of customer service being provided by the DNSP can vary across Victoria and other NERR states. We would expect that in Victoria, DNSPs have more interaction with the end customer due to DNSPs still having responsibility for metering.

2.0 Adequacy of the existing incentive framework for customer service

Our view is that the STPIS measurement of answering phone calls within 30 seconds is narrow; a business has the incentive to only focus on mandatory requirements. We agree that as they are, the current set of incentives do not address customers valuing courteous, efficient and timely service from their DNSP. In designing the CSIS we encourage the AER to consider if customer service incentives double-up on existing physical service provision metrics or incentives, and to what extent the potential for over recovery (or penalties) should apply.

STPIS

In determining parameters for what CSIS measures DNSPs can propose, the AER should ensure this is aligned with what CSIS is trying to achieve; i.e. customer satisfaction and service, as opposed to physical performance of the distribution system directly impacting customers, which is measured through the STPIS and measures such as SAIDI, SAIFI. The potential for double-counting customer service measures associated with planned outages and unplanned outages

with existing STPIS incentive schemes should be noted. We therefore recommend that the AER consider how these interact with existing STPIS incentive schemes.

We recommend avoiding double counting (and over-recovery/penalising) where possible and that the satisfaction focus may broadly be focused on the timeliness and quality of the provision of information or communication with the retailer or the customer, and the services rendered.

Guaranteed Service Levels (GSL)

As the AER would be aware, jurisdictional GSLs often apply to DNSPs. In Victoria, the purpose of GSLs are to "provide an incentive to deliver an economically efficient level of service by rewarding electricity distributors (through the price control) for improvements in their average performance relative to a target, and penalising them for deteriorations in the average performance."[1]. Current GSLs in Victoria cover appointments, failure to supply (new connections timeframes), supply restoration and low reliability payments[2].

There is potential for the CSIS to overlap with the GSL schemes and result in over-rewarding (or penalising) a DNSP or be contrary to the intent of the GSLs if measures proposed are not designed appropriately. We recommend the AER keeps these in mind when setting out guidelines for the proposal of CSIS measures.

Where a DNSP is proposing recovering extra incentives for a stretch target (e.g. a new connections timeframe), this should not "nullify" the intent of a GSL. For example, in Victoria GSLs of $70 per day (up to $350) must be paid where a DNSP does not supply electricity to a customer for each day over the day agreed with the customer (clause 6.2 of the Victorian Electricity Distribution Code). In addition, where no date is agreed the DNSP must connect the supply address within 10 business days after the request (clause 2.2). It would therefore be inappropriate to have a target of over 10 business days. However, it also might be inappropriate to have a stretch target of rewarding the DNSP for performing the service any earlier than 5 business days, as the GSL is capped at $350 (i.e. 5 business days) for being late.

3.0 Designing a CSIS

We agree with the AER's preliminary position that appropriate performance targets should be set. We also agree that broad customer support is needed. Energy is delivered through a supply chain in which many parties are involved. We suggest that along with trial data, industry support and consultation would also be a useful tool in refining the CSIS.

We suggest that the AER could consider a number of high-level principles to assist in designing the CSIS. These include:

- Remuneration and penalties should be equal where appropriate.

- Utilise learnings and methodology from the AER's value of customer reliability (VCR) deliberations to measure how much customers value customer service, and scale this appropriately. While the VCR methodology might be overly complex for CSIS, a watered-down version of willingness to pay (WTP) methodology, i.e. with appropriate sample sizes

[1] Essential Services Commission of Victoria, Review of the Victorian Electricity Distributors' Guaranteed Service Level Payment Scheme Final Decision: https://www.esc.vic.gov.au/sites/default/files/documents/721d99ec-9f7d-4bdd-af7c-6e88647a64b1.pdf

[2] Essential Services Commission of Victoria, Electricity Distribution Code version 9A: https://www.esc.vic.gov.au/sites/default/files/documents/Electricity-Distribution-Code-version-9A-August-2018_0.pdf

and a higher tolerance for statistical significance measures, could still be used to measure WTP for customer service.

- Targets should not be set too low (in reference to customer WTP).

Performance parameters

To be able to meet the requirement of whether customers will benefit from the CSIS to warrant the DNSPs receiving an incentive, we consider that there are a number of performance parameters that could be measured beyond the standard targets.

Ausnet's proposed survey measures include, planned outages; unplanned outages; new connections, and; complaints. We broadly support this as an indicative list of issues that impact customers, and, in addition, support the AER predetermining a list of measures that the DNSP must report on using a standardised methodology. In addition, should a DNSP choose to depart from the predetermined list, for example the exclusion or inclusion of certain parameters, or a different way of obtaining the survey results, justifications should be provided in its proposal to the AER.

Other measures which could address customer service "pain points", and might be appropriate to include:

- Missed appointments: customers are generally not happy wasting their time waiting for staff to turn up; this is also clearly in control of the DNSP.

- Response quality: (i.e. whether the query was able to be resolved) and times to retailer queries on behalf of a customer, or directly to a customer.

- Customer and retailer satisfaction: being given advance notice of process or fee changes; sudden changes to DNSP fees or processes often have a significant impact on customers. For example, a customer may not be able to obtain the full benefit of a new tariff from the DNSP if insufficient notice of technical pricing specifications or processes is given for the retailer to be able to pass on the charges.

- The satisfaction of customers in relation to the communication by the DNSP of quoted fees where there may be a potential of significant variance in the fees charged to the customer (e.g. connection assessment fees).

- Metering data provision services: i.e. number of estimated reads where the DNSP is still responsible for metering; a high number of estimated reads lead to inaccurate billing to the customer.

Measuring customer service

As the AER would be aware, surveys can be subject to psychological biases, but controls can be put in place in survey design and methodology to ensure that these remain robust. If the AER decides to allow customer surveys to be used in the calculation of revenue at risk in a CSIS scheme it is important that a robust and consistent process of surveying customers is put in place to avoid survey biases, moral hazard and an incentive for the DNSP, or a perception of leading questions, to take place.

It should also be clear in the surveys that customer satisfaction vs. actual service performance are separate. For example, the outages or delays experienced versus the information and communication being provided to the customer.

We suggest several ways the AER could address these:

- Consistent questions, language and survey methodology (including the amount and robustness of panel data sets required for a proposal) guidance needs to be provided by the AER, or approved by the AER in the DNSP's proposal and/or subject to industry consultation.

- Appropriate weighting of the customer service survey measures with other "hard" measures which can be measured more reliably (e.g. new connections timeframes); weightings could be reviewed once greater confidence and stability is established in the survey methodology over time.

- DNSPs to provide statistical sampling methodology for the AER to approve to ensure that the sample is as random and reflects the customer base as much as possible to avoid self-selection bias and avoid skewing the results.

- AER could also utilise verification or auditing of selected surveys and its methodology on a limited/risk basis.

- We understand also that Ofgem in the UK utilise an expert panel to interrogate data[3]; this is a possible option for the AER.

- Comparison of customer survey results with other broader consumer sentiment measures or channels to ensure that this aligns with results of the Consumer Challenge Panel (CCP) or other sources of reliable information.

A flexible approach to a CSIS

We acknowledge that the if the AER proceeds in applying a revamped CSIS scheme based on customer service measures the AER needs to strike a balance between flexibility and consistency. We recommend that due to the potential weaknesses of "soft" customer service measures that the AER leans toward a consistent approach initially.

The benefits of consistency are the ability to benchmark performance to other distribution network businesses. Consistency may also partly address the information asymmetry issue between DNSPs and the AER, by improving comparability and the ability to determine whether a CSIS incentive, and the level it is being set at, is appropriate in relation to its peers.

To ensure consistency of the functions covered we suggest a potential approach the AER could take would be for a standard predetermined list of parameters and methodology be provided by the AER for which justification for its departure would have to be provided.

Notwithstanding, the measurement methodologies should also allow flexibility for DNSPs to adjust their incentives to what their customers want. For example, customers might place a different value of reliability in a rural region as compared to a metropolitan area. However there can be difficulties practically in measuring what customers want exactly and equity issues involved which would be beyond the remit (or intention of the CSIS). There should be flexibility to allow approval of a DNSP's proposed CSIS scheme taking into account geographical differences and differences in consumer preferences (elicited through surveys), and existing jurisdictional requirements (e.g. GSLs).

[3] https://www.ofgem.gov.uk/system/files/docs/2018/11/decision_letter_dnos.pdf