

22 August 2019



Mr Chris Pattas
General Manager Distribution
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Email: RegulatoryInnovation@aer.gov.au

Dear Mr Pattas

Energy Queensland submission on the Small Scale Incentive Scheme for Customer Service Issues Paper

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator on its Small-Scale Incentive Scheme for Customer Service Issues Paper (the Issues Paper). The attached submission is provided by Energy Queensland, on behalf of its network businesses Energex Limited and Ergon Energy Corporation Limited.

Energy Queensland broadly supports discussion of new initiatives to improve the quality of distribution businesses' services to meet evolving customer and community expectations. However, it is important that any initiatives strike the right balance between improved customer service and customers' stated preferences for lower costs.

Energy Queensland's responses to the consultation questions are included in the attached submission.

Should you require additional information or wish to discuss any aspect of this submission, please contact me on (07) 3851 6787 or Peter Wall on (07) 3664 4968.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Trudy Fraser".

Trudy Fraser
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Encl: *Energy Queensland's submission to the Issues Paper*

Energy Queensland Submission on the Small Scale Incentive Scheme for Customer Service

Issues Paper

Energy Queensland Limited
22 August 2019



About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business, Yurika Pty Ltd (Yurika), which includes Metering Dynamics Pty Ltd (Metering Dynamics).

Energy Queensland's purpose is to "safely deliver secure, affordable and sustainable energy solutions with our communities and customers" and is focussed on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer service experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km² and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes Yurika, an energy services business creating innovative solutions to deliver customers greater choice and control over their energy needs and access to new solutions and technologies. Metering Dynamics, which is a part of Yurika, is a registered Metering Coordinator, Metering Provider, Metering Data Provider and Embedded Network Manager. Yurika is a key pillar to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

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1 Introduction

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its Small-Scale Incentive Scheme for Customer Service Issues Paper (the Issues Paper). This submission is provided by Energy Queensland, on behalf of its network businesses Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network).

Energy Queensland broadly supports discussion of new initiatives to improve the quality of distribution businesses' services to meet evolving customer and community expectations. However, it is important that any initiatives strike the right balance between improved customer service and customers' stated preferences for lower costs. As stated in Energex's and Ergon Energy Network's Distribution Annual Planning Reports and Regulatory Proposals for 2020-2025, during extensive customer and community engagement customers have clearly stated that they are satisfied with the overall quality of electricity supply but are concerned about affordability for households and businesses. Accordingly, Energex and Ergon Energy Network have committed to deliver price relief while maintaining current service standards

Energex and Ergon Energy Network are already subject to a state-based Guaranteed Service Level Scheme and are concerned about the potential for the implementation and operation of a new Customer Service Incentive Scheme (CSIS) to increase operational expenditure and thereby result in upward price pressure. We anticipate that a new scheme would require administration, new tools and additional monitoring mechanisms which will require additional expenditure ultimately borne by customers.

Energy Queensland welcomes further consultation on the proposed Small-Scale Incentive Scheme for Customer Service and is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.

2 Specific comments

2.1 Response to consultation questions

#	Consultation question	Energy Queensland response
1	Do the AER's incentive schemes provide sufficient incentives for distributors to provide customer services as desired by customers?	<p>Energy Queensland considers that the AER's existing incentive schemes support outcomes which generally align with the services customers have told us are most important to them - to deliver electricity services safely and efficiently with high levels of reliability and responsiveness. However, despite this, Energy Queensland is of the view that the AER's incentive schemes do not provide strong financial incentives for distributors to improve the quality of non-reliability-related services. For example, the "telephone answering" component of the existing Service Target Performance Incentive Scheme (STPIS) is useful to drive customer responsiveness to network faults. However, while the financial aspect of this incentive measure is likely adequate to drive performance, perhaps more important is the reputational impact if performance against this measure is not maintained. Further, the narrow focus of this measure means that other areas, which may be equally important to customers, are not recognised.</p> <p>We note other initiatives, such as Queensland's Guaranteed Service Level (GSL) scheme, direct customer engagement, and overarching commitments to customers to reduce costs to alleviate rising prices, have proven effective in improving non-reliability-related customer service outcomes. For example, the Queensland GSL scheme prescribes minimum service levels for a range of</p>

		<p>customer service measures and requires payments to small customers when service levels are not met. Although the scheme is not intended to provide a strong financial or economic incentive to invest in customer service, the measures target specific customer service areas which are important to customers and successfully drive a culture of meeting customers' service expectations.</p> <p>The existing scope of the Queensland GSL scheme seems to be appropriate. During the 2018 review of the Queensland GSL scheme¹ by the Queensland Competition Authority (QCA) (to inform the approach for the 2020-25 period), customers and their representatives indicated broad support of the scope of the GSL scheme's customer service measures. Interestingly, only one new measure was proposed by customers (related to response times to restore network faults), although ultimately this was not supported by the QCA.</p> <p>We acknowledge that the AER's existing incentive schemes were established during a different operating environment and recognise the need to respond to the influence of disruptive technologies, new products and services and changing customer expectations. However, we also note that given Energy Queensland's network businesses, Ergon Energy Network and Energex, are subject to existing measures targeted at improving customer service performance, and we are concerned that the introduction of a new incentive scheme may change the focus of customer service away from areas customers have told us are important to them.</p>
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¹ Queensland Competition Authority - Review of Guaranteed Service Levels to apply to Energex and Ergon Energy from July 2020 - www.qca.org.au/Electricity/Industry/Review-of-Guaranteed-Service-Levels/Final-Report/2020-Review-of-GSLs#finalpos

		<p>Energy Queensland undertakes a significant amount of work to understand what service customers expect in order to proactively meet their needs. Ergon Energy Network and Energex carry out an annual household energy survey and have developed a customer index to measure their performance against a set of criteria which are important to customers. We also note that Ergon Energy Network and Energex have signed on to the Energy Charter. We believe this commitment, and the implementation of changes to become more customer-centric, will make a bigger impact to improve customer service standards.</p> <p>Energy Queensland considers that the introduction of any new incentive schemes to improve customer service performance should consider existing incentives and penalties, and industry initiatives, such as the Energy Charter, to critically assess the fundamental need for the new incentive scheme and to clarify the scheme's objective.</p>
2	<p>What would be necessary preconditions for applying the trial CSIS?</p> <p>Is broad customer support a necessary prerequisite, and how could broad customer support be demonstrated?</p>	<p>Energy Queensland considers that broad customer support is an important and necessary precondition to develop a CSIS, even to implement a CSIS as a trial. As noted above in our response to question 1, Energex and Ergon Energy Network undertake a significant amount of work to better understand the level of service customers expect. This engagement has revealed that the key concern for Queensland customers is affordability, rather than other indicators of customer service. This is not to say that improvements are not possible or should not be pursued, but rather improved customer service is not the primary concern for our customers, especially if it comes at an additional cost.</p> <p>We acknowledge that customer support can be tested in a variety of ways. As noted above, Ergon Energy Network and Energex carry out an annual household energy survey which provides valuable insights into the networks' customer service performance. A similar approach could be useful to ascertain customers' views for a CSIS. Customer support could also be established through customer</p>

		<p>consultation during the Regulatory Proposal process. However, it is important that the existing level of customer satisfaction be measured prior to a trial to establish a baseline. This approach could also be used to inform the objectives for the trial and the desired outcomes.</p> <p>Further, the requirement for customer support should be closely linked to the customer impacts, such as the costs of the proposed CSIS, the extent to which customers will be required to participate, and the expected benefits. We firmly believe that customers should be sufficiently informed of the trade-off between the costs of compliance and administration of a CSIS, and the benefits they can expect to receive in addition to those arising from current initiatives.</p>
3	How should we determine the revenue at risk if applying a trial CSIS?	<p>Energy Queensland acknowledges the importance of accountability for customer service performance and notes that incentive schemes can be useful mechanisms to enable network businesses to share in the benefits of their performance. However, it is also important to ensure that these incentives do not impact on customers' current concerns, namely costs and affordability.</p> <p>In Energy Queensland's most recent customer survey, customers gave us several clear messages:</p> <ul style="list-style-type: none"> • Network performance and reliability – 83 per cent of our customers are satisfied with the overall reliability or quality of their power supply. • Affordability – 41 per cent of our customers are highly concerned about their ability to pay their electricity bill. • Future investment – 87 per cent of our customers believe it is important that we modernise our electricity networks to continue to enable customers to take up new technologies. • Alternative supply – 69 per cent of our customers will consider an energy storage system for their home in the future.

		<p>As such, and consistent with our response to question 2, Energy Queensland suggests to more work is required to explore the extent to which customers support the development of a CSIS, fully informed of the trade-off between potential benefits and costs and the impact on prices. Although the proposed 0.5 per cent rate for revenue at risk appears reasonable, we consider it premature for such details to be discussed at this time.</p>
4	<p>Are financial incentives alone sufficient to improve customer service outcomes?</p> <p>Should any CSIS also involve public reporting of customer service performance?</p>	<p>Energy Queensland supports the AER's existing incentive schemes as a mechanism to improve customer service outcomes. However, as noted in our response to question 1, these incentive schemes do not always provide strong financial incentives for distributors to improve the quality of non-reliability-related services. Instead, other initiatives, such as GSL schemes and overarching commitments to customers, have proven effective in improving customer service outcomes.</p> <p>We consider that cultural change within businesses offers greater potential for improving customer service outcomes. To this end, Ergon Energy Network and Energex are proud to have signed on to the Energy Charter and believe this commitment, and the implementation of internal cultural changes within Ergon Energy Network and Energex to operationalise this approach, will make a bigger and more lasting impact to improve customer service standards than incentive schemes.</p> <p>As stated above in our response to question 3, Queensland electricity customers have told us that they concerned about electricity affordability and their ability to pay their accounts. As a result, Ergon Energy Network and Energex are focussed on improving the affordability of electricity services while maintaining existing customer service levels.</p>

		<p>In relation to public reporting, we note that Ergon Energy Network and Energex already report on their performance against their GSL obligations on a quarterly basis to the QCA. Energy Charter updates are also to be provided on a regular basis. In light of this, Energy Queensland notes the challenge of existing public reporting obligations and questions the benefit to customers of reporting arrangements which duplicate or are substantially similar to reporting for other initiatives.</p>
5	<p>Are customer surveys a good basis for an incentive?</p> <p>If so, what processes should be in place to ensure the robustness of the data used to calculate rewards/penalties under the incentive scheme?</p>	<p>Energy Queensland is comfortable with the use of customer surveys as a basis for testing customers' appetite for new or improved standards for customer service, and what measures of customer service are most important. However, we question the appropriateness of surveys to gauge customers' support for an incentive scheme or the incentives and penalties under such a scheme. This is due to the complexity of how these incentive schemes operate and the difficulty in explaining this to customers. Further, customer surveys are unlikely to be a suitable mechanism to determine the appropriateness of rewards or penalties for a CSIS for a similar reason.</p> <p>That said, we generally agree with the approach taken by Ofwat in the UK that a CSIS should be a broad measure of customer satisfaction and include both qualitative and quantitative measures.</p> <p>Energy Queensland suggests that customer surveys should be:</p> <ul style="list-style-type: none"> • related to general enquiries, complaints handling process, claims handling, timeframes to connect, onsite service, faults response • completed and monitored through an external provider • utilise a statistically representative random sample across different customer segments (residential, small and large business, major developers, electricians, retailers)

		<ul style="list-style-type: none"> • utilise benchmarking practices across all distributors rather than previous performance to ensure consistency of performance throughout the industry. <p>Other quantitative measures could include:</p> <ul style="list-style-type: none"> • customer response timeframes - average speed of answer for general enquiries, loss of supply and emergency calls, as well as other methods of contact from customers where relevant (email, webchat etc) • proportion of complaints resolved at the first point of contact • time taken to manage escalated complaints. <p>However, we consider that prior to the initiation of new surveys to inform the development of a CSIS, existing surveys on customer satisfaction should be explored to assess suitability for an incentive scheme. Further, it is important that the data used to calculate rewards/penalties under the incentive scheme be traceable and (potentially) auditable to guarantee robustness.</p>
6	<p>How could the AER decide what parts of a scheme should be consistent across all distributors and what parts of a scheme should be consistent across all distributors and what parts of a scheme should be flexible?</p>	<p>Energy Queensland considers that the application of a CSIS should be generally consistent across all distributors. However, flexibility within the scheme would be important to enable customer service indicators to be tailored to each networks circumstances and customers' preferences. For example, customer service measures could reflect location, geography, technology adoption, social vulnerability, and enable alignment with other requirements (GSLs etc).</p> <p>The AER should also consider the scope, aims and objectives of state-based GSL schemes as well as the stated customer service objectives for each network business.</p>

