

Essential Energy

8.03 Customer Service Incentive Scheme

January 2023



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Attachment summary

- > Essential Energy has developed a Customer Service Incentive Scheme (CSIS) with its customers, targeting highly valued aspects of customer service
- > Three performance parameters covered by the scheme relate to:
 - communicating unplanned outage resolution times
 - resolving complaints in a timely way
 - improving customer satisfaction, as measured by a 'customer ease' score.

Overview

In July 2020, the Australian Energy Regulator (AER) introduced the Customer Service Incentive Scheme (CSIS) to encourage distributors to improve customer service in alignment with their customers' preferences. Essential Energy supports introducing a CSIS, as we recognise the importance of placing customer service at the centre of everything we do.

Our customers have told us that they support the introduction of such a scheme. Through our engagement process to date, we have worked with them to develop a proposed design that satisfies the objectives set out in the CSIS Final Guideline – namely that the scheme needs to be in the long-term interests of electricity consumers, and consistent with the electricity rules governing the development of a small-scale incentive scheme.

Our proposed scheme design focuses on targeting three performance parameters:

1. **Percentage of unplanned outages that have an estimated time to restore (ETR) communicated to customers** – Unplanned outages can impact a large number of customers. Customers have highlighted that this is an area where Essential Energy can improve its communication.
2. **Time taken to resolve customer complaints** – Customers value timely resolution of their complaints.
3. **Customer ease score** – This is a score that reflects the degree of customer satisfaction with Essential Energy. The score reflects a broad range of customer views and experiences in dealing with us.

These are the aspects of performance that customers have indicated that they value, and for which there is no existing incentive scheme or jurisdictional arrangement.

The remainder of this attachment sets out our proposed CSIS for the period 1 July 2024 to 30 June 2029. It provides the information required by the CSIS Guideline, namely: ¹

- > the customer and stakeholder consultation process used to develop the CSIS
- > all elements of the proposed performance parameters, including their definition, measurement methodologies, proposed performance targets and incentive rates.

This attachment is supported by our CSIS model, which can be found in **Supporting document 8.03.01**.

Essential Energy will continue to measure and monitor performance against these proposed CSIS parameters during 2023. We propose to provide updated performance information to customers, and to confirm the final design of the CSIS with them. That information will be submitted with our Revised 2024–29 Regulatory Proposal, to be lodged with the AER later in 2023.

¹ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 6.

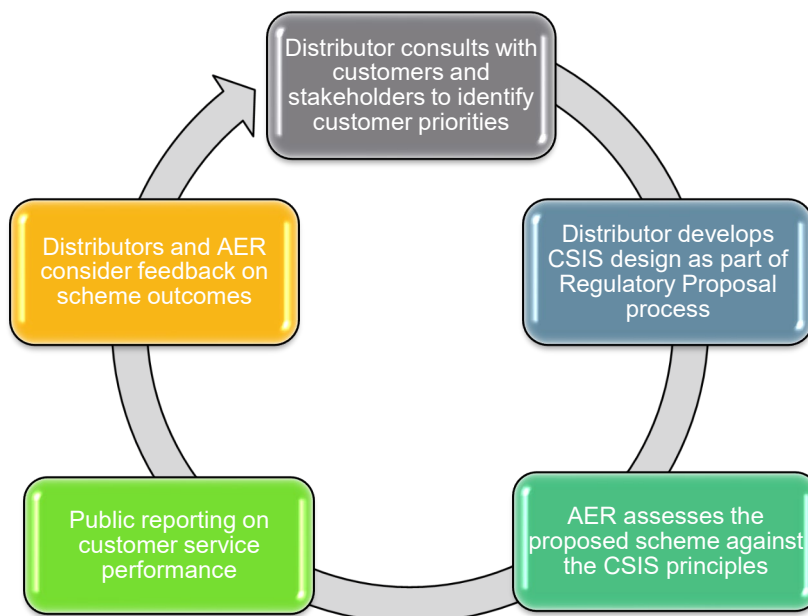
Background

The CSIS is a flexible principles-based scheme that can be tailored to the specific priorities and preferences of a distributor's customers. The improvements targeted by a distributor in its scheme must be valued by customers. The current call-answering parameter of the Service Target Performance Incentive Scheme (STPIS), rewards or penalises distributors based on the percentage of telephone calls to the fault line answered within 30 seconds. This is a narrow measure of customer service and it does not provide an insight into the level of customer satisfaction or the actual experiences customers have in their interactions with a business.²

Under the CSIS, customer service performance is measured against targets, and distributors are required to report on their performance against those targets. The CSIS will reward or penalise distributors for improving or reducing the value of the customer experience they provide to customers. To do this efficiently, the service improvements observed need to be valuable to customers and delivered at a cost that is less than or equal to that value.

The total revenue at risk under the scheme will be capped at a maximum of plus or minus 0.5 per cent of the annual revenue requirement, which is the same as the current percentage for the STPIS call-answering parameter. Essential Energy plans to replace the call-answering parameter with the CSIS measures. Figure 1 gives an overview of how the scheme will be applied in practice.³

Figure 1 How the CSIS will be applied



The introduction of the CSIS at Essential Energy aligns with our increased focus on improving customer experience. We have recently completed a Customer Journey Mapping Program to better understand our customers' interactions across the business. Whether a customer interacts with us face to face or via phone, social media, the website or other channels, mapping the customer journey visually helps ensure that we understand how customers experience our services, versus how we think they do.

Over a 15-month period we mapped the 'as is' journeys and then created the 'ideal' future state journeys, with a supporting roadmap of recommended initiatives. The intention of the roadmap is to improve customer experiences and ultimately customer satisfaction. This exercise also informed the CSIS design by identifying areas for improvement in customer service performance.

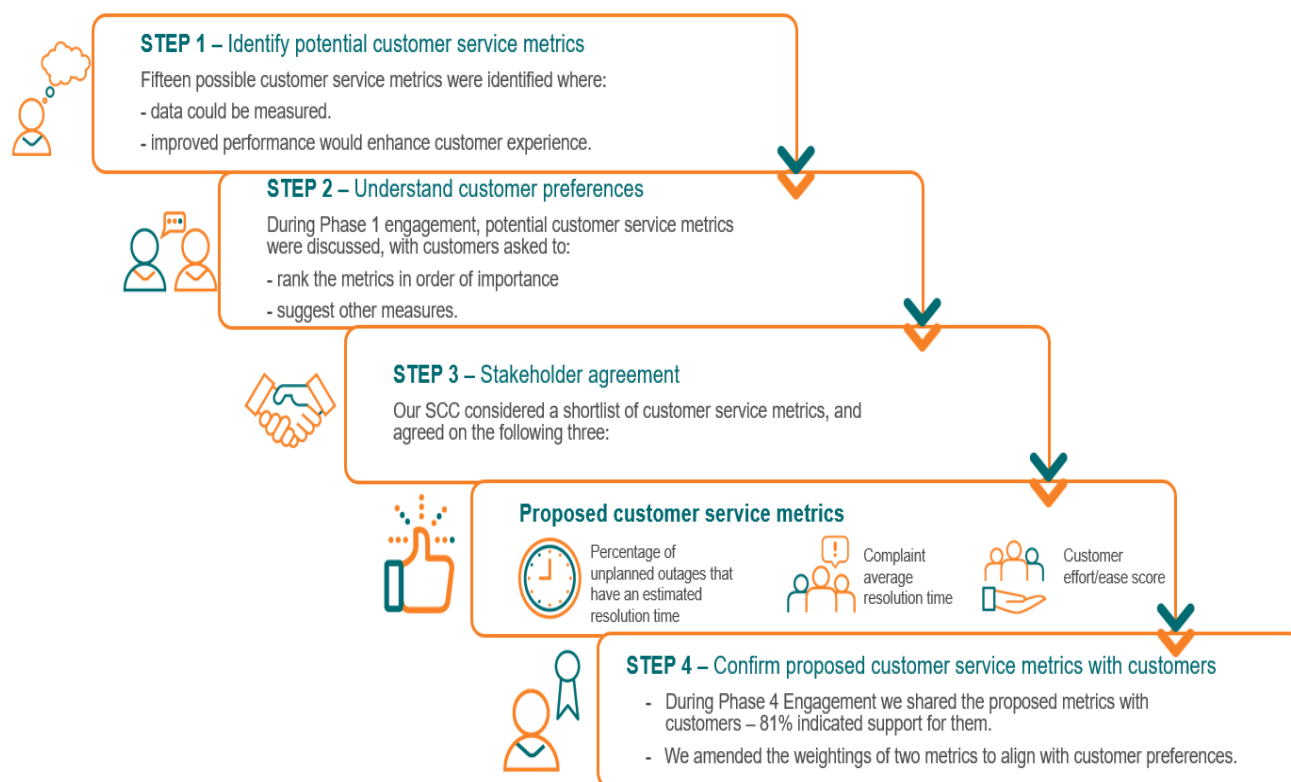
² Essential Energy will continue to ensure that calls to the fault line are answered quickly. Essential Energy has demonstrated its ability to achieve this over a long period.

³ AER, *Explanatory Statement Customer Service Incentive Scheme*, July 2020, p. 4.

Design of the CSIS developed in conjunction with customers and stakeholders

We have consulted with customers and stakeholders to identify areas of customer service they value and would like to see improved. This collaborative design journey is described in Figure 2. In addition, we gathered customer feedback from a customer survey as part of our Customer Journey Mapping Program, which covered 1,525 residents and 500 small and medium enterprises (SMEs).

Figure 2 How we developed the CSIS in conjunction with customers and stakeholders



What we heard from customers and stakeholders

Phase 1 engagement forums

Our customers and stakeholders told us that good customer service involves clear and simple communication via multiple channels. They consider interactions involving outages to be the most important communications that customers have with Essential Energy. Most participants in customer engagement forums stated that both internal data collection and customer survey feedback were equally important measures of customer service. There was limited support among forum participants for retaining the current telephone answering measure of customer service – with less than a quarter suggesting this was a very important measure. Of the measures presented, communicating accurate planned outage timeframes, and providing an estimated time to restore power for unplanned outages, and its accuracy, were considered most important to measure.

Most participants supported the use of customer surveys in general and liked the idea that customers had the opportunity to provide feedback in relation to the performance of Essential Energy. Some participants suggested that customers should be surveyed immediately after interactions for more timely feedback.

As well as discussing the list of measures that Essential Energy had prepared in advance, we asked participants if there were other areas they felt should be targeted. Suggestions included:

- > the accuracy of communications about the timing of meter reading
- > notification that power has been restored after planned and unplanned outages
- > first call resolution
- > the proportion of solar customers who can export their full amount of electricity
- > time taken to upgrade or alter a connection
- > time taken to repair streetlights.

Business partners and stakeholders tended to agree with customers on the measures presented. Renewable developers, solar installers and retailers commented on the importance of the time taken to facilitate new connections, as this measure was relevant to their businesses. Streamlining the National Metering Identifier (NMI) allocation process and having a single point of contact were also suggested as ways of making it quicker and easier for customers.

Process for deciding which parameters to target and the metrics to be used

We were open to targeting additional areas. We used customer feedback from the forums and the customer survey to rank the importance of each measure. Table 1 summarises the top 10 metrics considered, and the factors considered when deciding whether to include them in the CSIS. The metrics highlighted in green are those selected for the CSIS.

The importance customers place on each metric was balanced with how Essential Energy currently performs, the scope for further improvement, how much control we can exercise in achieving improvements, and the number of customers who would benefit. We also needed to consider our maturity in terms of systems and processes to capture the data. After the Phase 1 customer engagement, we chose two metrics to focus on – percentage of unplanned outages that have ETRs and customer ease scores. However, after consultation with our Stakeholder Collaboration Collective (SCC) we added a third metric – complaint average resolution time. This is discussed in more detail below.

| Customer service metric | Customer ranking (%) | Factors considered when deciding whether to include metric in CSIS |
|--|----------------------|---|
| Percentage accuracy of estimated time to restore (ETR) for unplanned outages | 97 | Although ranked highest, we don't yet have a process for measuring the accuracy of ETRs for unplanned outages. The first step is to actually provide an ETR to customers for unplanned outages – see metric chosen below. |
| Accurate timeframe advised to customers for planned outages | 91 | Essential Energy already performs well on this metric so there is less scope for improvement than for other metrics. |
| Percentage of unplanned outages that have ETRs | 89 | Unplanned outages impact a large number of customers. Customers have highlighted this as an area where we could improve our communication. Communicating an ETR to customers is an important first step in improving customer service in this area. |
| Complaint average resolution times | 74 | Some aspects of customer complaints may be outside Essential Energy's control, which makes it challenging to achieve improvements. However, we decided to include this metric after listening to feedback from the SCC. |
| Reliability | 67 | Essential Energy already performs well on this metric so there is less scope for improvement than for other metrics. It is also reflected in the STPIS reliability metrics. |

| Customer service metric | Customer ranking (%) | Factors considered when deciding whether to include metric in CSIS |
|---|----------------------|---|
| Success or resolution | 66 | This is closely linked to customer ease. It can be difficult for Customer Resolutions to directly influence this metric as resolving some issues may rely on input from another area of the business. |
| Customer ease scores | 64 | Customer ease is a key component of Customer Experience measurement (success + ease + sentiment) and is an important focus area for Essential Energy. There is more room for improvement in customer ease than for overall customer satisfaction. |
| Customer satisfaction (CSAT) | 59 | Although customer satisfaction provides an overall picture of how our customers feel, customer ease scores give more specific feedback on the key touch points in the customer journey. The score for customer satisfaction is already quite high so there is less scope for improvement. |
| Connections – Design Information Packages | 59 | This metric doesn't provide broad coverage of the customer base as it is more specific to Accredited Service Providers (ASPs). |
| Connections – Design Certification | 59 | This metric doesn't provide broad coverage of the customer base as it is more ASP-specific. |

Note: Customer ranking has been derived from a combination of the scores from customer forums and the Customer Journey Mapping Survey.

Most participants across the engagement forums stated that internal data collection and customer survey feedback are equally important measures of customer service. This aligns with the metrics that we have chosen:

- > the percentage of unplanned outages that have ETRs and the average time taken to resolve customer complaints are based on internal data collection
- > the customer ease scores taken from our third-party quarterly customer feedback surveys and post interaction surveys.

We had initially planned to take the customer ease score from our quarterly customer feedback surveys, but customers suggested during Phase 1 engagement that it was also important to capture more timely feedback. We have recently implemented a new system to capture instant feedback, and we intend to combine the results with our quarterly survey feedback to determine our performance for the customer ease metric.

Stakeholder Collaboration Collective

We shared our proposed scheme design with the SCC in March 2022, after our customer forums, and explained our customer engagement process to date. Based on customer feedback from the forums, we proposed targeting just two measures of customer service – percentage of unplanned outages that have ETRs, and customer ease scores. SCC members highlighted customer complaints as an important area of customer service, and asked for more detail to help them understand how it was being managed by Essential Energy.

We took on board feedback from the SCC that even though we were proposing to target certain parameters in the 2024–29 regulatory period, we should also keep a 'to do' list of areas to target for future assessment. Although the CSIS incorporates limited measures, we monitor other important touchpoints with customers as part of business-as-usual practice. Our proposed ETR parameter for unplanned outages does not currently include accuracy, so we will track this over the 2024–29 period with the intention of potentially introducing it into the measures in the subsequent regulatory period. Our main focus for 2024–29 is the cultural and process change to get ETRs and updates in place.

We provided more detail on customer complaints to the SCC in May 2022, and asked the SCC members whether they thought that a third metric should be added to capture customer complaints. The SCC confirmed that they

would like to see this included and requested more detail on how performance in this area would be measured, which we provided in July 2022. The SCC raised concerns that longer-duration complaints may not be fully captured by the 'average time to resolve complaints' metrics, and that we should consider reporting the average in business days. We responded with a proposal to report the five oldest complaints each month through established mechanisms within the business (outside the CSIS scheme) and to maintain the 'average days to resolve' metric for the CSIS. This will incentivise us to focus on longer complaints to ensure the overall average is reduced. We noted the SCC's feedback that average business days should be used, but upon further reflection have decided to maintain calendar days, given complaints can be opened and resolved on weekends.

We also advised the SCC of our intention to exclude Energy Water and Ombudsman NSW (EWON) complaints as we have no control over the length of time that EWON will take to investigate and resolve complaints. At this meeting, we also outlined the proposed weighting for each metric within the scheme – that is, 50 per cent for ETRs, 25 per cent for customer ease and 25 per cent for time to resolve customer complaints.




The SCC asked us to ensure that our proposal made it clear that the proposed CSIS measures will be tracked over the coming months, that the business will re-engage on the measures ahead of the Revised Proposal, and would make any required design changes in conjunction with customers and stakeholders. We have noted this action point and will ensure that our Revised Proposal incorporates any necessary design changes after consultation with customers and stakeholders.

Once the three metrics were decided on, we developed a methodology to set targets, weightings for each target, and incentive rates. This methodology was presented to the SCC in October 2022, and no further changes were suggested.

Phase 4 engagement – Testing the proposed scheme design with customers

In our Phase 4 customer engagement forums, we shared our proposed scheme design to ensure that customers supported the three performance parameters and weightings we had settled on with the SCC. The outcome was that 81 per cent of participants either supported or strongly supported the proposed measures. Figure 3 shows our proposed weighting and the weightings that customers told us they preferred. A slightly higher weighting was given to the 'average time to resolve customer complaints' than 'easy to deal with'. In light of this feedback, we amended our proposed weighting to align with customer feedback – noting that for simplicity, we have rounded the customer ease weighting from 21 per cent to 20 per cent, and the complaints metric from 29 per cent to 30 per cent.

Figure 3: Weighting for CSIS Parameters

| | | Essential Energy's proposed weighting (%) | Customers' weighting (%) |
|---|---|---|--------------------------|
|  | Providing an estimated time to restore unplanned outages and giving updates | 50 | 50 |
|  | How easy it was to deal with us | 25 | 21 |
|  | Average time to resolve customer complaints | 25 | 29 |

We plan to re-engage with customers and stakeholders before submitting our Revised Proposal, to reconfirm the proposed metrics, weightings, targets and incentive rates. At that stage we will have a number of months' worth of data from our in-house trial of the CSIS to help inform the discussions.

CSIS design

This section provides the proposed CSIS design, including the definitions, performance targets and incentive rates for each performance parameter.

Parameter 1: Percentage of unplanned outages that have an ETR communicated to customers

This performance parameter incentivises improvement in the communication of restoration times to customers when the network experiences an unplanned outage.

Definition

Parameter 1 definition: The percentage of unplanned outages with an estimated time to restore (ETR) made available to customers before power is restored. Noting that outages that are excluded for the STPIS are also excluded for this parameter.

The communication channels that will be used to provide the ETR to customers are:

- the Essential Energy website, including an automated chat bot on the website
- automated contact centre phone solution
- phone calls between our contact centre team members and customers
- social media, using Facebook message channels (recently implemented in October 2022).

To further improve customer experience, additional projects are underway to communicate ETRs.

- We will communicate ETRs to life-support customers via automated SMS.
- We're considering a longer-term plan to introduce push notifications or subscription services via an app or portal where customers can register for updates – either for a specific outage or for updates when outages impact a particular NMI.

Weighting

As highlighted in consultation, this metric is an aspect of customer service that impacts the greatest number of our customers, and is an aspect of performance where significant improvement would be highly valued. Customers are better able to manage the impacts of an unplanned outage when they have an idea of the length of the outage, and when they can expect power to be restored.

As a result, it is proposed that this parameter will have a 50% weighting under the CSIS.

| Weighting | Revenue at risk |
|-----------|--|
| 50% | 0.25% of the annual revenue requirement |

Measurement and performance targets

Essential Energy collects data on the proportion of unplanned outages for which an ETR is issued within its field reporting systems.

We propose to set the baseline performance target based on the past three years' performance, which is as follows.

| | FY20–22 average | Proposed baseline target |
|---|-----------------|--------------------------|
| Percentage of unplanned outages with ETRs | 18.7% | 20% |

We propose to update the baseline target when we submit our Revised Proposal, based on the most current performance data at that time.

Incentive rate

The incentive rate has been based on changes in performance relative to the baseline performance target. A maximum and minimum performance range is defined for the 2024–29 period.

The upper-bound target is set at 30 per cent (that is, 30 per cent of unplanned outages have an ETR made available). This reflects a strong performance stretch target that would be challenging to meet in the 2024–29 period.

The lower-bound target is symmetric and provides the scope for penalties to apply over a significant range of lower performance levels. In addition, penalties would apply for any reduction in performance below what has been achieved in recent years.

The incentive rate reflects the slope of the reward line. The incentive rate is set with reference to the upper and lower bounds of performance that would be rewarded or penalised, and the maximum amount of revenue at risk under this performance parameter (which is 0.25 per cent of Essential Energy’s annual revenue requirement).

| Maximum performance target | Minimum performance target | Incentive rate |
|---------------------------------------|---------------------------------------|----------------|
| 30% of unplanned outages with ETRs | 10% of unplanned outages with ETRs | 0.25% |

Parameter 2: Time to resolve customer complaints

This performance parameter incentivises Essential Energy to minimise the amount of time taken to resolve customer complaints. This can be a complaint of any kind, excluding those that have been referred to the EWON for resolution.

Definition

Parameter 2 definition: Annual average number of calendar days to resolve all customer complaints, excluding complaints that have been referred to EWON for resolution. Calendar days are used as complaints can be opened and closed on weekends, as well as on weekdays. The time taken by EWON is excluded as it is outside of Essential Energy's control and can be significant as these are more complex matters.

Weighting

As preferred by customers, it is proposed that this parameter will have a 30 per cent weighting under the CSIS.

| Weighting | Revenue at risk |
|-----------|--|
| 30% | 0.15% of the annual revenue requirement |

Measurement and performance targets.

Complaints data is captured in Essential Energy's Customer Interaction System (ServiceNow). ServiceNow captures data on all types of customer complaints, and these are all included for the purposes of measuring performance under this parameter.

The measure of the time taken to resolve the complaint includes all time, and hence may include time periods that are within and outside Essential Energy's control. For example, the measured complaints resolution period includes the time taken by customers to provide additional information where relevant to resolve the complaint.

We have set the baseline performance target with reference to average performance over the past three years. However, the proposed baseline target represents a slight improvement on this performance, which we consider represents a suitable baseline for the 2024–29 period.

| | FY20–22 average | Proposed baseline target |
|---------------------------------|-----------------|--------------------------|
| Average number of calendar days | 13.57 | 13.2 |

Incentive rate

The incentive rate has been based on changes in performance relative to the baseline performance target. A maximum and minimum performance range is defined for the 2024–29 period. Under this parameter, a reduction in the average number of calendar days relative to the baseline target represents an improvement in performance.

The upper-bound performance target, which is set at 12.2 (that is, 12.2 annual average number of calendar days), would represent a significant performance improvement in the 2024–29 period.

The lower-bound target is symmetric and provides the scope for penalties to apply over a significant range of lower performance levels. In addition, penalties would apply for any reduction in performance below what has been achieved in recent years.

The incentive rate reflects the slope of the reward line. The incentive rate is set with reference to the upper and lower bounds of performance that would be rewarded or penalised, and the maximum amount of revenue at risk under this performance parameter (which is 0.15 per cent of Essential Energy's annual revenue requirement).

| Maximum performance target | Minimum performance target | Incentive rate |
|----------------------------|----------------------------|----------------|
| 12.2 | 14.2 | -0.02% |

Parameter 3: Customer ease

The customer ease performance parameter is divided into 3(a) and 3(b) to reflect the two different sources of data for its measurement. Parameter 3(a) is based on a quarterly customer survey conducted by an independent research firm, whereas 3(b) is based on Essential Energy's post-interaction surveys.

Definition

Parameter 3(a) definition: Customer satisfaction as measured by the quarterly 'customer ease' score of between 1 and 5. A score of 1 represents best performance and a score of 5 represents worst performance.

Weighting

As agreed with customers, it is proposed that this parameter will have a 10 per cent weighting under the CSIS.

| Weighting | Revenue at risk |
|-----------|--|
| 10% | 0.05% of the annual revenue requirement |

Measurement and performance targets

An independent research company conducts quarterly customer surveys on behalf of Essential Energy, which tests customer satisfaction, brand and reputation. The survey is issued to 600 residential and 200 small to medium business customers each quarter.

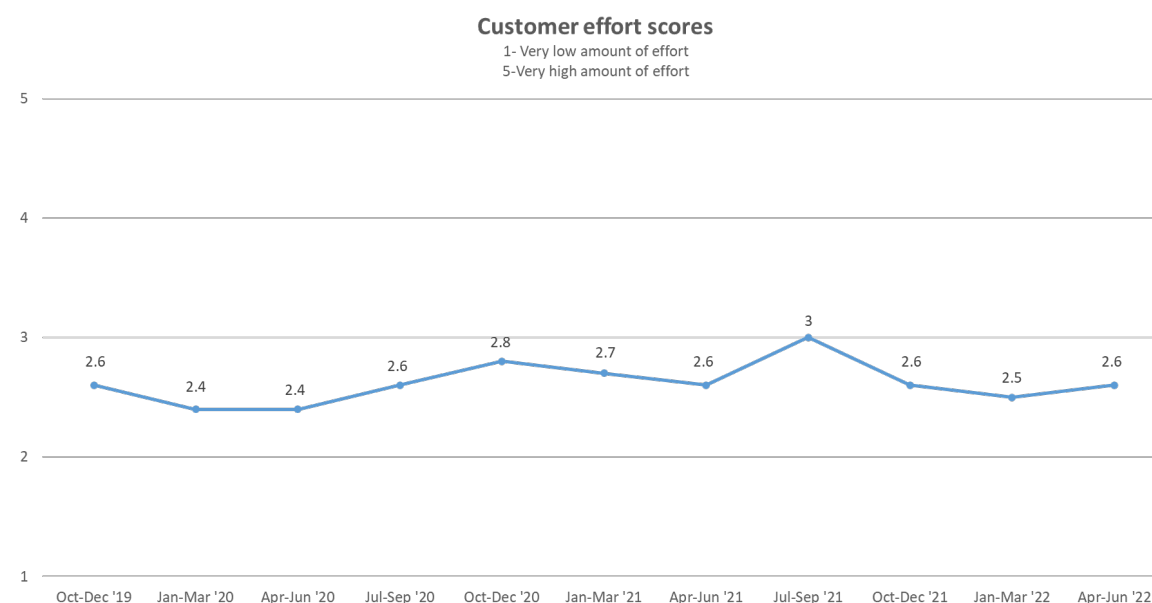
Among other things, the survey tests customer satisfaction with Essential Energy by asking customers to rate their experience of their interactions with the company. These interactions could have taken a number of forms and may be for a variety of reasons. The customer ease question asks:

How much effort did you personally have to put into this interaction?

Customers are asked to respond with a score from 1 (which represents low customer effort and best performance by Essential Energy) to 5 (which represents high customer effort and poorest performance by Essential Energy).

The proposed baseline performance target for the quarterly customer ease score is set at the average performance over the past eleven quarters, as shown in Figure 4.

Figure 4 Historical quarterly customer effort scores



Q. And overall, how much effort did you personally have to put into this interaction (call centre, email, webform, website)?

Bases: All residential and SME respondents who called the call centre, sent an email, filled in a webform, or visited the website

| | Average of past 11 quarters | Proposed baseline target |
|---------------------------------------|-----------------------------|--------------------------|
| Quarterly customer satisfaction score | 2.61 | 2.61 |

Incentive rate

The incentive rate has been based on changes in performance relative to the baseline performance target. A maximum and minimum performance range is defined for the 2024–29 period. Under this parameter, a reduction in the customer satisfaction score represents an improvement in performance.

The upper-bound performance target, which is set at 2.49 (that is, 2.49 out of 5, based on the quarterly survey question), would represent a significant performance improvement in the 2024–29 period.

The lower-bound target is symmetric and provides the scope for penalties to apply over a significant range of poorer performance levels. In addition, penalties would apply for any reduction in performance compared to what has been achieved in recent years.

The incentive rate reflects the slope of the reward line. The incentive rate is set with reference to the upper and lower bounds of performance that would be rewarded or penalised, and the maximum amount of revenue at risk under this performance parameter (which is 0.05 per cent of the annual revenue requirement).

| Maximum performance target | Minimum performance target | Incentive rate |
|----------------------------|----------------------------|----------------|
| 2.49 | 2.73 | -0.04% |

Definition

Parameter 3(b) definition: Customer satisfaction as measured by the post-interaction survey 'customer ease' score of between 1 and 5. A score of 1 represents the poorest performance and a score of 5 represents the best performance.

Weighting

As agreed with customers, it is proposed that this parameter will have a 10 per cent weighting under the CSIS.

| Weighting | Revenue at risk |
|-----------|--|
| 10% | 0.05% of the annual revenue requirement |

Measurement and performance targets

A survey is offered to customers after each interaction with the call centre, and customers can provide feedback across three different questions via an automated survey. The customer satisfaction/ease question asks:

How easy is Essential Energy to do business with?

Customers are asked to respond with a score from 1 (which represents not easy at all and hence the worst performance by Essential Energy) to 5 (which represents very easy and hence the best performance by Essential Energy).

This is a new survey system which went live at the end of August 2022. Essential Energy answers approximately 250,000 calls each financial year and is achieving between five and eight per cent survey completion rate (around 80 surveys per day). Therefore an initial baseline has been quickly established. This baseline will be refined for our Revised Proposal using a longer period of response data.

The proposed baseline performance target is set at the average performance since the implementation of the post-interaction survey.

| | Current average | Proposed baseline target |
|--|-----------------|--------------------------|
| Post-interaction customer satisfaction score | 4.07 | 4.07 |

Incentive rate

The incentive rate has been based on changes in performance relative to the baseline performance target. A maximum and minimum performance range is defined for the 2024–29 period.

The upper-bound performance target, which is set at 4.2 (that is, 4.2 out of 5, based on the post-interaction survey question), would represent a performance improvement in the 2024–29 period.

The lower-bound target is symmetric and provides the scope for penalties to apply over a significant range of lower performance levels. In addition, penalties would apply for any reduction in performance below what has been achieved recently.

The incentive rate reflects the slope of the reward line. The incentive rate is set with reference to the upper and lower bounds of performance that would be rewarded or penalised, and the maximum amount of revenue at risk under this performance parameter (which is 0.05 per cent of the annual revenue requirement).

| Maximum performance target | Minimum performance target | Incentive rate |
|----------------------------|----------------------------|----------------|
| 4.2 | 3.95 | 0.02% |

CSIS design meets the scheme objectives and design criteria

The scheme objectives, defined in clause 1.4 of the CSIS, are that it should:

- > be consistent with the National Electricity Objective
- > be consistent with the requirements of a small-scale incentive scheme, including relating to efficiency gains or efficiency losses in respect of a distribution system
- > be separate to other incentive schemes and encourages efficient and prudent expenditure
- > align to customer preferences
- > promote transparency and understanding of Essential Energy's customer service initiatives.

The CSIS meets these objectives as it promotes the long-term interests of our customers, and is aligned to their preferences for areas of improvement in customer service outcomes. The CSIS design does not overlap with any other incentive arrangements and will provide modest incentives for efficient expenditure to achieve these outcomes in accordance with customer willingness to pay.

The CSIS design also complies with the incentive design criteria defined in clause 3.1 of the CSIS. In accordance with the criteria, the CSIS limits the revenue at risk to 0.5 per cent of annual revenue, clearly sets out the scheme elements, has an incentive design that is supported by our customers, relates to the 2024–29 regulatory period, and calculates the revenue adjustment in accordance with the AER's previously applied method.

Revenue adjustment H-factor calculation

The H-factor for each parameter is calculated by comparing a Distribution Network Service Provider's performance against its parameters and the performance targets and incentive rates included in its distribution determination for a regulatory year during the regulatory control period.

The raw H-factor is the sum of the H-factors for each parameter. Equation (X) ensures that the raw H-factor result cannot exceed the percentage of revenue at risk specified in clause 3.1(1)(f) or the relevant distribution determination.

$$H_t^{\%} = \min(\max(H_t', H-), H+)$$

where:

$H-$ is the lower limit of the revenue at risk

$H+$ is the upper limit of the revenue at risk

H_t' is the sum of the raw H-factors for all customer service parameters

The sum of the raw H-factors for all customer service parameters is calculated as follows:

$$H_t' = \sum_p ir^p \times [Act_t^p - Tar_t^p]$$

where:

H_t is the sum of the raw H-factors for all parameters

p is a performance parameter

ir^p is the incentive rate for parameter p

Act_t^p is the actual performance for parameter p in year t

Tar_t^p is the target performance for parameter p in year t

t is the regulatory year t .