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19 August 2019

Mr Chris Pattas
General Manager, Distribution
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Pattas

Issues Paper – Small Scale Incentive Scheme for Customer Service

Essential Energy welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER) on the Issues Paper on a Small Scale Incentive Scheme for Customer Service (“CSIS”). We fully support the Energy Networks Australia submission in relation to this matter but provide our own submission to further highlight our specific feedback on the proposed CSIS.

Essential Energy endorses a measure of customer satisfaction that is broader than the current telephone answering parameter in the Service Target Performance Incentive Scheme (STPIS). Replacing it with a customer survey-based approach would provide a more meaningful measure of customer satisfaction and enable the capture of data on customer experience.

A flexible CSIS that has been informed by each distributor’s own customers and therefore reflects those individual characteristics, as well as having regard to the available data capture systems, would be welcomed by Essential Energy.

Further detail on our feedback is set out in **Attachment 1**, along with responses to the specific questions posed by the AER in the Issues Paper.

Essential Energy welcomes the opportunity to discuss these issues further. Please contact our Head of Regulatory Affairs, Natalie Lindsay on (02) 6589 8419 or natalie.lindsay@essentialenergy.com.au.

Yours sincerely

A handwritten signature in black ink that reads "Chantelle Bramley".

Chantelle Bramley
General Manager Strategy, Regulation and Corporate Affairs

Attachment 1: Essential Energy’s response to AER issues paper – Small Scale Incentive Scheme for Customer Service

Attachment 1

Essential Energy's response to AER issues paper

Small Scale Incentive Scheme for Customer Service

August 2019



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Executive Summary

Essential Energy acknowledges the importance of providing a high standard of customer service and welcomes the opportunity to provide feedback on the proposed trial of a customer service incentive scheme (CSIS). Essential Energy listened to what customers said during the recent 2019-24 regulatory proposal stakeholder engagement process and investment in customer service was one of the priorities that they voiced. As part of Essential Energy's current transformation journey, customer service forms a distinct work-stream which will ensure that it receives the necessary focus and improvements can be made. A customer experience strategy will be developed and will include prioritisation of key areas of improvement in process, data and technology.

Essential Energy supports a broader measure of customer satisfaction than the current telephone answering parameter in the Service Target Performance Incentive Scheme (STPIS), whereby electricity distributors are rewarded/penalised based on the percentage of calls answered within 30 seconds. Replacing it with a customer survey-based approach would provide a more meaningful measure of customer satisfaction and encourage distributors to strive for continuous improvement in this area.

A CSIS which allows for a degree of flexibility in approach to reflect the individual characteristics of each distributor's network and the available data capture systems would be welcomed by Essential Energy. The CSIS design should be informed by each distributor's customers to reflect what issues are important to them. The scheme would need to have clear measurement criteria to prevent any manipulation of data and there should be a recognition that customers experience of the energy supply chain can be impacted by parties other than distribution businesses.

Essential Energy favours an approach which incorporates the following measures of customer experience with a distribution business:

- Was the customer's issue resolved?
- Did the customer find it easy to do business with the distributor?
- How did the experience feel i.e. did the customer feel that the service they received during their interactions with the business matched their expectations?

1. Introduction

This submission is provided to the AER in response to their consultation request on assessing whether there is merit in using the small-scale incentive scheme framework in the National Electricity Rules (NER) to trial a customer service incentive scheme (CSIS).

2. Responses to consultation questions

Question 1: Do the AER's incentive schemes provide sufficient incentives for distributors to provide customer services as desired by customers?

Essential Energy recognises the importance of providing a high standard of customer service and the need to have this embedded in every touchpoint with its customers, regardless of the incentives available to encourage this. The telephone answering parameter of STPIS provides an incentive to encourage customer calls to be responded to in a timely manner but doesn't measure their level of satisfaction with the service they have received from the business.

A study by McKinsey & Company¹ suggests that call answering/reducing queue times does not have the most significant impact on customer satisfaction. In one McKinsey case study, a major carrier that spent a significant sum upgrading its telephone system to halve average wait times resulted in minimal improvement in customer satisfaction, as it was not a major pain point for the customer. Considering the main elements of a good customer experience are success (the degree to which customers can accomplish their goals), effort (the difficulty or ease in accomplishing their goals), and emotion (how the interaction makes customers feel), Essential Energy believes that lack of success in having a query resolved would have a much greater negative impact on customer satisfaction.

Replacing the current STPIS call answering parameter with a broader, more qualitative customer satisfaction survey approach should encourage improvements in the level of customer service provided.

Question 2: 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?

It will be important to engage with customers to gain their feedback on what the design of a trial CSIS would look like. Engaging with customers to find out what matters most to them in interacting with distribution businesses will provide a sound basis upon which to design and implement a trial CSIS. It will also offer an opportunity to communicate how the incentives will operate and help gauge customers' views on this.

Essential Energy would favour a 'paper trial' (where no revenue is placed at risk) over a two-year period.

Question 3: How should we determine the revenue at risk if applying a CSIS?

The current percentage of 0.5% of revenue at risk which is used for the telephone answering component of STPIS seems an appropriate percentage to apply. The target level of performance for each distribution business should consider their unique characteristics. A minimum level of performance could be established, and distributors should not be penalised if they are starting from a lower base than the industry benchmark. They would only be rewarded once they have performed better than the minimum standard.

Question 4: Are financial incentives alone sufficient to improve customer service outcomes? Should any CSIS also involve public reporting of customer service performance?

The focus of any CSIS should concentrate more on the quality and usefulness of the measures than the financial incentives. It should be inherent in a distributor's business culture that customer service is of high importance and the motivation to improve this should not be driven solely by the goal to derive further financial benefits or avoid financial penalties.

Public reporting of customer service performance should only be considered if it can be demonstrated that this will enhance customer service outcomes. A benchmarking report would only be useful if the benchmarking used is truly comparable between distribution businesses. If there are different methodologies or measures in place, then a benchmarking report will be of little value. However, an annual report showing customer service outcomes could be useful to monitor trends.

¹ McKinsey & Company, Customer experience: New capabilities, new audiences, new opportunities, Number 2, June 2017

Question 5: 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?

A well-designed customer survey which asks clear questions and focuses on whether customers' issues have been adequately resolved within an acceptable timeframe would provide a good basis for an incentive scheme. Using an independent survey company would ensure that surveys are carried out by individuals with the appropriate training in this area and would minimise the risk of data manipulation to alter results. Distribution businesses should be able to test the market and select the survey company which best meets their needs in terms of service offered and value for money.

An approach which focuses on customer success, effort and emotion, with a core relationship metric that tracks key attitudes, could form the basis for determining an incentive scheme. It would be important to have a large enough sample size in order to gain meaningful results and to have appropriate weightings between the qualitative and quantitative elements. A greater weighting towards the qualitative element of the survey would incentivise businesses to focus on improving customer service.

Customer surveys carried out on a quarterly basis would be preferable both from a practical operational standpoint and in terms of the meaningful nature of the results obtained. Aside from outages, other key service components could be factored into the measurement including customer interaction ease of contact and customer interaction query answered/resolved. Regard should be had to the impact of events outside of a distributor's control such as a prolonged outage caused by storms or transmission providers, as customers will answer less favourably in a survey carried out under these circumstances.

Question 6: 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?

Essential Energy favours a flexible approach to the development of any CSIS as this will better reflect the individual characteristics of each distributor and the different aspects of customer service that customers may value. This will ensure that each distributor has meaningful and achievable targets which reflect their individual circumstances. The AER should have regard to the customer survey contracts that distributors currently have in place as it is likely that the measures used will differ between distributors. A further consideration is the differing data capture capabilities of each distributor.