



PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 632
Collins St West VIC 8007
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au



18 August 2016

Mr Chris Pattas
General Manager Network Investment and Pricing
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted via email: AERInquiry@aer.gov.au

Dear Chris

Re: Small Scale Incentive Scheme for Customer Service

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide input to the Australian Energy Regulator's (AER) Issues paper on the Small Scale Incentive Scheme for Customer Service.

Red and Lumo notes that the AER currently provides electricity distributors with incentives to reduce costs over time through the efficiency benefit sharing scheme (EBSS) and the capital expenditure sharing scheme (CESS). In some instances, these incentive schemes have the potential to erode service quality. As a result, the AER had added the Service Target Performance Incentive Scheme (STPIS) which provides incentives for distributors to maintain and improve the networks.

The incentives for distributors to enhance their customer service provided by distributors is minimal in the regulatory regime. Currently, the only customer service incentive that distributors are subjected to provides rewards and penalties for them to answer a sufficient portion of fault line telephone calls within 30 seconds. This incentives forms part of the STPIS which limits its penalties and rewards to up to +/- 5% of total revenue. The telephone call incentive only forms 0.5% of the total STPIS.

Red and Lumo consider that the current range of customer service incentives that are applied to distributors may be inadequate. Therefore, we agree with the AER and AusNet that it may be worthwhile to investigate broadening the customer incentives currently applied to distributors. To this end, we consider that:

- The AER should further investigate replacing the current incentive for distributors to answer telephone calls within 30 seconds with a broader customer service incentive scheme
- A revised CSIS should still be set with +/- 0.5% of its revenue at risk. This value is consistent with the current level of revenue at risk under the current incentive for distributors to answer telephone calls within 30 seconds.
- A revised CSIS may potentially include a broader range of customers parameters that the AER should assess every year. This could include planned outages, unplanned outages, new connections and complaints.
- If the AER decided to introduce a revised CSIS with 0.5% of revenue at risk then we would expect it to abolish the current fault line telephone call incentive. In our view

there should never be more than 0.5% of revenue at risk under a CSIS that applies to distributors.

Importantly, while we support the expansion of networks' incentive scheme in principle, any expansion of scope must reflect consumers' preferences and their willingness to pay for a specific level of service. There is little point introducing more specific performance measures if consumers simply end up bearing additional costs for levels of service they do not want or value highly.

Therefore, we recommend the AER and AusNet undertake further consultation with consumers to better understand their preferences before introducing additional incentive measures. The AER would then be better placed to introduce the right measures and also amend existing measures. For example, the penalties for failing to meet targets for planned or unplanned outages could differ depending on the time of day or year.

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland, and electricity in the ACT to over 1 million customers. Should the AER have any enquiries regarding this submission, please Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou".

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (Australia) Pty Ltd