

Draft Decision

Ausgrid Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Attachment 12 Customer Service Incentive Scheme

September 2023

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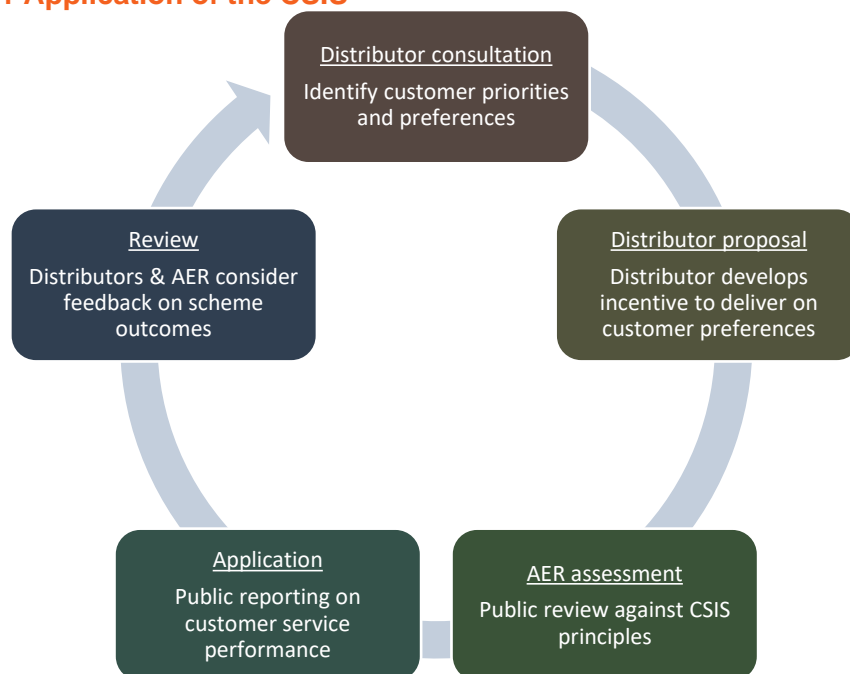
12 Customer Service Incentive Scheme

The Customer Service Incentive Scheme (CSIS) is designed to encourage electricity Distribution Network Service Providers (DNSPs or distributors) to engage with their customers and provide customer service in accordance with their preferences. The CSIS allows us to set targets for DNSP customer service performance and require DNSPs to report on performance against those targets. Under the CSIS DNSPs may be financially rewarded or penalised depending on how they perform against their customer service targets.

DNSPs are 'natural' monopolies, which means that they do not face competition from other networks.¹ In the absence of economic regulation, distributors do not face the same incentives to deliver price and quality of service outcomes that customers prefer.² The CSIS creates an incentive for distributors to maintain and improve customer services not covered by the Service Target Performance Incentive Scheme (STPIS), or other mechanisms, when desired by customers.

The CSIS is a flexible 'principles based' scheme that can be tailored to the specific preferences and priorities of a DNSP's customers. This flexibility will allow for the evolution of customer engagement and adapt to the introduction of new technologies. The principles of the scheme target it at customer preferences and provide safeguards to ensure penalties/rewards under the scheme are commensurate with improvements/detriments to customer service. Figure 12.1 illustrates how the CSIS works in practice.

Figure 12.1 Application of the CSIS



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

¹ Productivity Commission, *Electricity Network Regulatory Frameworks, inquiry report no. 62*, 2013, p. 65.

² AER, *Customer Incentive Scheme*, July 2020, clause 3.1(d).

Under the principles-based approach, the CSIS has principles that must be met by distributors for the scheme to be applied. These principles are targeted at improving customer experience. Distributors can identify, in consultation with their customers, incentive designs that would meet those principles. This allows us to apply different parameters to different distributors. Importantly, we will not apply an incentive design unless a DNSP can demonstrate that its customers support the incentive design through genuine engagement.

12.1 Draft decision

We consider that Ausgrid’s incentive design sets out each of the scheme elements (performance parameters, measurement methodology, assessment approach and financial component). Each of the scheme elements satisfy the required principles outlined in clause 3.2 of the scheme.

We expect Ausgrid to further consult with its customers on its CSIS prior to submitting its revised revenue proposal. We will set final targets for Ausgrid once it provides updated performance data for its CSIS based on customers’ feedback in its revised revenue proposal for the 2024–29 period.

These performance parameters are an aspect of the customer experience component of the DNSP standard control services that Ausgrid’s customers have indicated that they value and want improved. The measurement methodology complies with scheme requirements and the assessment approach baselines Ausgrid’s performance using historical data. The performance targets proposed incentivise genuine improvement in customer services.

Table 12.1 presents our draft decision on the applicable performance targets, revenue at risk and incentive rates that will apply to Ausgrid for the 2024–29 period.

Table 12.1 Draft decision — CSIS targets and incentive rates for Ausgrid for the 2024–29 period

Category	Sub-category	Baseline	Deadband	Incentive rates	Revenue at risk
Core services	Planned outage service ease (urban)	63.7%	0	0.025	0.125%
	Planned outage service ease (regional)	69.1%	0	0.025	0.125%
Customer care	Website satisfaction	41.2%	8.8%	0.025	0.125%
Enabling services	Connection timeframes days	177	0	0.0125	0.125%

Source: AER analysis. Ausgrid, *2024-29 Regulatory Proposal, Attachment 7.1: Proposed 2024-29 Customer Service Incentive Scheme*, 31 January 2023.

12.2 Ausgrid’s proposal

Ausgrid proposed to replace the service target performance incentive scheme (STPIS) telephone answering parameter with the CSIS. Ausgrid’s proposed CSIS consisted of 4 customer service metrics for improvement being:

- Planned outage service ease (urban customers)—This parameter measures the level of ease in the service experience for “urban” customers on a planned outage, which is a

prearranged interruption to supply where affected customers are given advanced notification. This interaction includes both short sustained and general interruptions to customers' electricity supply.

- Planned outage service ease (regional customers)—As above but for “regional” customers.
- Connection project timeframe—This parameter measures the median energisation time for all connections projects in each financial year for large customers.
- Website satisfaction rate—This parameter measures whether customers were able to achieve the intent of their visit to Ausgrid's website.

Ausgrid submitted that its revenue at risk for the CSIS is $\pm 0.5\%$ of annual allowable revenue per annum. This equates to Ausgrid either losing up to \$44 million in regulated revenue over the 2024–29 period if its performance deteriorates or it could be rewarded for up to \$44 million in regulated revenue if it improves its CSIS performance.³

Starting from February 2022, Ausgrid engaged with its customers and stakeholders on its proposed CSIS. This consultation process involved Ausgrid's reset Customer Panel (RCP), Ausgrid's large customers panel (LCP) and Voice of Community Panel (VCP).⁴

Ausgrid's RCP consists of six independent members of its ongoing customer consultative committee and an independent chair. Their primary purpose is to represent the long-term perspectives of Ausgrid's customers and to challenge the DNSP on key issues including the CSIS for the 2024-29 period.⁵

Ausgrid had initially achieved general customer acceptance of its CSIS incentive design.⁶ However, following changes to the composition of VCP⁷ – Ausgrid undertook further engagement on 1 August 2023 to seek further endorsement of its CSIS.⁸

In its meeting on 1 August 2023 with its VCP and customers, Ausgrid obtained overwhelming support for the inclusion of all four of its CSIS metrics.⁹

12.3 Assessment approach

We will apply a DNSP's proposed incentive design to a distribution determination under the CSIS if we consider it:

- will achieve the CSIS objectives,

³ Ausgrid, *2024-29 Regulatory Proposal, Attachment 7.1: Proposed 2024-29 Customer Service Incentive Scheme*, 31 January 2023, p. 9.

⁴ RCP consisted of 6 independent members, LCP consisted of 11 participants, VCP consisted of 45 residential customers.

⁵ Ausgrid, *2024-29 Regulatory Proposal*, 31 January 2023, pp. 28–29.

⁶ Ausgrid, *Reset Customer Panel - Independent report on Ausgrid 2024-29 revenue proposal*, January 2023, pp. 46–47.

⁷ Ausgrid, *Response to IR#018*, 4 May 2023.

⁸ Ausgrid, *email to the AER: re: CSIS customer consultation outcome*, 2 August 2023.

⁹ Ausgrid, *email to the AER: re: CSIS customer consultation outcome*, 2 August 2023.

- meets the incentive design criteria, which includes the principles of the CSIS, and
- is accompanied by a proposal that meets the incentive design proposal requirements.

We have therefore assessed Ausgrid’s proposed incentive design against these criteria. In doing so, we also assess any submissions received on the CSIS proposal.

Our assessment is set out below.

12.4 Reasons for draft decision

12.4.1 CSIS objectives

The objectives for the CSIS are that it:

- Is consistent with the national electricity objective in section 7 of the National Electricity Law (NEL),¹⁰
- Is consistent with clause 6.6.4 of the National Electricity Rules (NER), which requires that, in developing a small-scale incentive scheme the AER must have regard to the following matters:
 - DNSPs should be rewarded or penalised for efficiency gains or losses in respect of their distribution systems
 - The rewards and penalties should be commensurate with the efficiency gains or efficiency losses in respect of a distribution system, but a reward for efficiency gains need not correspond in amount to a penalty for efficiency losses
 - The benefits to electricity consumers that are likely to result from efficiency gains in respect of a distribution system should warrant the rewards provided under the scheme and the detriments to electricity consumers that are likely to result from efficiency losses in respect of a distribution system should warrant the penalties provided under the scheme
 - The interaction of the scheme with other incentives that DNSPs may have under the rules, and
 - The capital expenditure objectives and the operating expenditure objectives.¹¹
- Achieves clauses 1.4(1) and 1.4(2) [of the scheme objectives (detailed above)] by aligning the incentives of DNSPs with the customer service preferences of their customers.
- Promotes transparency and understanding throughout the National Electricity Market (NEM) regarding DNSPs’ customer service initiatives.

Ausgrid’s incentive scheme design is consistent with the CSIS Objectives. The incentive for Ausgrid to maintain and improve its customer services, in line with the interests of its customers, gives effect to the long–term interests of consumers.

Ausgrid's proposed incentive design will penalise or reward it for improving, or degrading, its customer service. To ensure that only efficient customer service performance improvements

¹⁰ NEL, s.7.

¹¹ NER, cl. 6.6.4.

are delivered, penalties and rewards under the CSIS align with the value that customers place on the customer service. As this value has been identified through customer engagement, the scheme aligns Ausgrid's interests with those of its customers. We are therefore satisfied that the benefits (detriments) to consumers that are likely to result from efficiency gains (losses) warrant the rewards (penalties) provided under the scheme.

We do not consider that the CSIS duplicates any other incentive schemes Ausgrid is currently subject to. Ausgrid's current customer service metric for the STPIS is based on the percentage of calls answered within 30 seconds. Ausgrid is proposing to replace the current customer service metric with performance measures that its customers value, and for which there is no existing incentive scheme or jurisdictional arrangement.

We have had regard to the capital¹² and operating expenditure objectives¹³ in applying the CSIS, and in particular the objective to "maintain the quality, reliability and security of supply of standard control services". By setting targets at or above historical performance and by using dead bands, Ausgrid has an incentive to at least maintain its current levels of customer service.

Ausgrid's engagement with its RCP, LCP and VCP from February 2022 and until its revised revenue proposal, may promote an understanding of its customer service initiatives. Ausgrid's ongoing application and reporting on the CSIS may further enhance this understanding.

As Ausgrid is incentivised to maintain at least current levels of performance through rewards and penalties, the proposed scheme meets the objectives of a small-scale incentive scheme. These incentives are aligned with customer preferences, as parameters and targets were identified through consumer engagement processes and approved by Ausgrid's customers. By reflecting customer preferences, the scheme contributes to promote consumer understanding and the National Electricity Objective (NEO) in satisfaction of CSIS objectives.

12.4.2 Incentive Design Criteria

Under Section 3.1 of the CSIS, the incentive design criteria include several principles and we have considered Ausgrid's proposal against them.

The CSIS's principles are split into four distinct categories that relate to each of the necessary elements of an incentive design, being:

- performance parameters – what customers want to be incentivised under the scheme
- measurement methodology – how performance is measured
- assessment approach – how performance is rated
- financial component – how penalties/rewards are calculated and applied.

¹² NER, cl.6.5.7.

¹³ NER, cl.6.5.6.

We separately considered each of these components of Ausgrid’s proposed incentive design below. We also considered Ausgrid’s incentive design against the objectives of the CSIS.

Submissions

We received a submission from an Ausgrid customer questioning the measurements of Ausgrid’s incentive parameter and the reason Ausgrid had not proposed a consumer energy resources CSIS parameter in its incentive design.¹⁴ We respond to this in paragraph 12.4.2.1.

We also received a submission from Ausgrid’s RCP outlining its finding about Ausgrid’s customer consultation on the CSIS in April 2023. The RCP submission encouraged Ausgrid to respond to its VCP concerns. We discussed how Ausgrid had resolved this issue in section 12.2 above.¹⁵

The Consumer Challenge Panel 26 (CCP26) submitted that best practices should be used in implementing the CSIS. CCP26 did not comment on the specific aspects of Ausgrid’s CSIS proposal.¹⁶

12.4.2.1 Performance parameters

The relevant principles for performance parameters are that each performance parameter must be an aspect of the customer experience component of the DNSP’s standard control services:

- that the customers of the DNSP particularly value and want improved, as evidenced by genuine engagement with, and support from, the DNSP’s customers,
- that is within the control of the DNSP, and
- for which the DNSP does not already have an incentive under another incentive scheme or jurisdictional arrangement.

Genuine engagement with, and support from a DNSP’s customers is necessary for us to apply an incentive design under the CSIS. We expect that customer support would be demonstrated by DNSPs through broad consultation, using several different consultation processes to reflect views across vulnerable household customers, small business, and commercial and industrial businesses.¹⁷ Customers should also be provided with more than one opportunity to provide input.¹⁸

Ausgrid’s proposed incentive design has been underpinned by genuine engagement with its customers through the RCP and VCP.

¹⁴ Stakeholder submission, *Submissions on Issues Paper, Ausgrid’s 2024–29 Regulatory proposal*, 16 May 2023.

¹⁵ Reset Customer Panel, *Response to AER Issues Paper on Ausgrid’s 2024-29 regulatory Proposal*, 11 May 2023, pp. 2–4.

¹⁶ Consumer Challenge Panel Sub-panel 26, *Submission to the Australian Energy Regulator Issues Paper: Ausgrid Electricity Distribution Determination 1 July 2024 to 30 June 2029*, May 2023, p. 14.

¹⁷ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

¹⁸ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

This engagement has been documented in Ausgrid's proposal with parameters being agreed upon after extensive engagement with its RCP, LCP and VCP. All three panels over the consultation period have expressed their support for the proposed parameters.¹⁹

These parameters are within the control of Ausgrid, as they relate directly to the services it provides and controls. Thus, ensuring the incentive designs do not reward or penalise Ausgrid for outcomes that are outside its control. There are no duplicate incentive schemes or jurisdictional arrangements covering these parameters.

We received one submission from an Ausgrid customer questioning why Ausgrid has not proposed a consumer energy resources (CER) CSIS parameter in its incentive design.²⁰

The CSIS creates an incentive for distributors to maintain and improve customer services not covered by the STPIS, or other mechanisms. Accordingly, Ausgrid has proposed a set of parameters to reflect service improvements that its customers value.²¹ Should customers preference a CER metric in the future, then our expectations are that Ausgrid would propose that parameter in future iterations of its CSIS.

12.4.2.2 Measurement methodology

The measurement methodology principles govern how performance under the scheme is measured. The relevant principles for measurement methodology are that for each performance parameter, the proposed measurement:

- accurately measures the features of the performance parameter,
- is sufficiently independent, in that it is either conducted by an independent third party or based upon an independently developed methodology,
- is compiled in an objective and reliable manner with data retained in a secure and logically indexed database, and
- produces results that could be audited by an independent third party.

Ausgrid's proposed approach accurately measures the features of the identified performance parameters and is sufficiently independent as:

- For planned service outage ease (urban and regional), Ausgrid intends to collect survey data of its customers' satisfaction with how it engaged with them about the outage. These surveys are sent to Ausgrid's customers via SMS after a planned outage occurs. Responses are measured separately for Urban and Regional customers. It also intends to measure performance using the Service Ease Score (the percentage of customers that answer 'Strongly Agree' or 'Somewhat Agree' to the survey question). Ausgrid's

¹⁹ Reset customer panel, *Report on Ausgrid's draft plan for 2024–29*, January 2023, pp. 41–43; Reset customer panel, *Independent report on Ausgrid's 2024–29 revenue proposal* (CONFIDENTIAL), January 2023, pp. 43–46; Ausgrid, *email to the AER: re: CSIS customer consultation outcome*, 2 August 2023.

²⁰ Stakeholder submission, *Submissions on Issues Paper, Ausgrid's 2024–29 Regulatory proposal*, 16 May 2023.

²¹ Reset customer panel, *Report on Ausgrid's draft plan for 2024–29*, January 2023, pp. 41–43; Reset customer panel, *Independent report on Ausgrid's 2024–29 revenue proposal* (CONFIDENTIAL), January 2023, pp. 43–46.

current targets (to be updated in its revised revenue proposal) is made up of 20,557 surveys collected between 21 January 2021 until 31 November 2022.

- For its connection project timeframe, Ausgrid collects and tracks the milestone dates for connection offer acceptance, the appointment of an accredited service provider and energisation for all connection projects. Project timeframe data is captured and stored in its internal IT system. Ausgrid's current target (to be updated in its revised revenue proposal) is made up of 3053 large customer connections collected between 21 January 2021 until 31 November 2022.
- For the website satisfaction rate, customers visiting Ausgrid's website will be asked, via a pop-up survey, whether they consider Ausgrid's website met their needs. The survey data is captured and reported in the cloud based Qualtrics platform. Ausgrid's current target (to be updated in its revised revenue proposal) is made up of 43,252 surveys collected between 21 January 2021 until 31 November 2022.

The data for these parameters is compiled in an objective and reliable manner. Ausgrid retains the data in a secure and logically indexed database, which is capable of being audited.²² Ausgrid also stated that it intends to audit its baseline data prior to our final decision.²³

Robust data oversight is a vital component of the CSIS. We expect that Ausgrid will provide a report from an independent expert on its annual CSIS performance in accordance with the relevant annual compliance reporting requirements.

As the proposed methodology is quantified and external audits can be implemented to verify outcomes, we consider that the measurement methodology principles have been met.²⁴

12.4.2.3 Assessment approach

The assessment approach principles cover how performance is evaluated and then translated into an expression of improvement or deterioration which can be used to determine a reward or penalty. The incentive design should express the result of the assessment of measured performance against each performance target as a single value. These principles establish a baseline or neutral level of performance against which performance is assessed.²⁵

Across all parameters, Ausgrid has proposed historical performance (around 2 years) as a baseline target and a dead band to (website satisfaction parameter only) measure rewards or penalties. This will ensure that Ausgrid is not rewarded for achieving less than 50% customer satisfaction and only rewards Ausgrid when more than half of the customers surveyed about their website usage experience reported their satisfaction.²⁶

Ausgrid's incentive design meets the assessment principles as it establishes a direct relationship between identified parameters and its performance— ensuring that Ausgrid is

²² Ausgrid, *Response to IR#018*, 4 May 2023.

²³ Ausgrid, *Response to IR#005*, 29 March 2023.

²⁴ Ausgrid, *Response to IR#018*, 4 May 2023.

²⁵ AER, *Customer Incentive Scheme*, July 2020, clause 3.2(4).

²⁶ Reset customer panel, *Independent report on Ausgrid's 2024–29 revenue proposal*, January 2023, p. 43.

correctly rewarded or penalised. The performance targets set by Ausgrid incentivise genuine improvement and the targets refer to baseline performance.

Submission

We received one submission from an Ausgrid customer stating that Ausgrid's targets for planned outage and website satisfaction metrics are too low and should be higher.²⁷

The CSIS principles establish a baseline or neutral level of performance. As a default, the historical performance of the distributor should be set as the performance target.

Ausgrid's targets were derived using historical performance data (21 January 2021 until 31 November 2022) and its CSIS parameters are based on customers' feedback therefore adhering to the principles of the CSIS.

12.4.2.4 Financial component

The financial component covers how an incentive design delivers penalties or rewards for a given level of performance. That is, penalties and rewards under the CSIS are commensurate with customer benefits and do not provide an incentive for distributors to over-invest in customer service.²⁸

Ausgrid is rewarded or penalised financially in proportions relative to the degree of outperformance or underperformance, as calculated by the identified value of the service improvement. The value that customers attribute to service improvements or degradations must be established using a reasonable process that is transparent and involves genuine consultation with its customers. As outlined in Table 12.1 the financial component has been complied with which consisted of an overall revenue at risk, an amount of revenue at risk for each performance parameter, and a means of setting the incentive rate for each performance parameter.

Ausgrid collaborated with the members of the RCP and VCP on an appropriate range of improvement over the course of the 2024–29 period compared to the baseline performance.²⁹ We consider that the principles have been met based on the incentive rates proposed in Table 12.1 and our assessment of Ausgrid's proposal.

12.4.3 Incentive Design Proposal Requirements

Ausgrid's proposal meets the incentive design requirements as set out in section 3.3.1 of the CSIS. The proposal was submitted with Ausgrid's proposal and included each of the necessary items.

12.4.4 Conclusion

Ausgrid's design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS. It was further accompanied by a proposal that

²⁷ Stakeholder submission, *Submissions on Issues Paper, Ausgrid's 2024–29 Regulatory proposal*, 16 May 2023.

²⁸ AER, *CSIS Explanatory Statement*, July 2020, p. 10.

²⁹ Reset customer panel, *Report on Ausgrid's draft plan for 2024–29*, January 2023, pp. 41–43; Reset customer panel, *Independent report on Ausgrid's 2024–29 revenue proposal*, January 2023, pp. 43–46; Ausgrid, *email to the AER: re: CSIS customer consultation outcome*, 2 August 2023.

meets the incentive design proposal requirements. We consider that Ausgrid has therefore satisfied the criteria under section 2.1 of the CSIS. Our draft decision is to apply Ausgrid's proposed incentive design.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
CCP26	Consumer Challenge Panel, sub-panel 26
CER	consumer energy resources
CSIS	customer service incentive scheme
DNSP	distribution network service provider
LCP	Ausgrid's Large Customer Panel
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
RCP	Ausgrid's Reset Customer Panel
STPIS	service target performance incentive scheme
VCP	Ausgrid's Voice of Community Panel
