

Draft Decision

Essential Energy

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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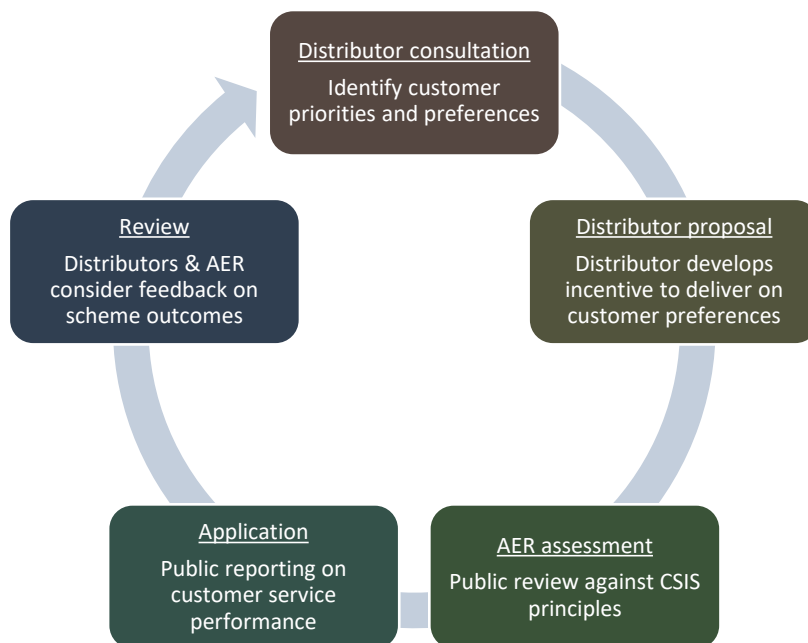
12 Customer Service Incentive Scheme

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 networks¹. 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 Service Incentive Scheme, July 2020*, cl. 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 Essential Energy'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 Essential Energy to further consult with its customers on its CSIS prior to submitting its revised revenue proposal. We will set final CSIS targets and incentive rates for Essential Energy 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 Essential Energy's customers have indicated that they value and want improved. The measurement methodology complies with scheme requirements and the assessment approach baselines Essential Energy's performance using historical data. The performance target proposed incentivise genuine improvement in customer services.

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

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

Parameter	Baseline target	Cap ^a	Floor ^b	Incentive rate	Revenue at risk
Percentage of unplanned outages with estimated time to restore	20%	30%	10%	0.05%	0.25%
Time to resolve customer complaints	13.2	12.2	14.2	-0.01%	0.15%
Customer ease (post-call survey score out of 5)	4.07	4.2	3.95	0.04%	0.10%

Source: AER analysis and Essential Energy, *8.03.01 Customer Service Incentive Scheme (CSIS) Reporting Model*, January 2023.

Notes: (a) best performance
(b) worst performance

12.2 Essential Energy’s proposal

Based on the preferences of customers and feedback from its stakeholder collaboration collective, Essential Energy proposed the following scheme design focusing on three performance parameters:³

- Percentage of unplanned outages that have an estimated time to restore communicated to customers.
- Time taken to resolve customer complaints.
- Customer ease score (customer satisfaction with Essential Energy).

Essential Energy engaged extensively with its customers to develop the parameters. A list of the customer engagement activities is provided in Essential Energy's Customer Service Incentive Scheme 2024–29 Regulatory Proposal.⁴ In its submission to us, the Consumer Challenge Panel 26, considered that:

Essential Energy's engagement on the CSIS had been robust, and that the proposed design of the scheme is supported by customers.⁵

Essential Energy has planned to re-engage with its customers and stakeholders before submitting its revised revenue proposal, to reconfirm its CSIS proposed metrics, weightings, targets, and incentive rates.⁶

Since its initial proposal, Essential Energy amended its customer ease parameter due to insufficient data. This is discussed below.

Below we outline each of these parameters in further detail.

12.2.1 Communication of estimated unplanned outages time

This parameter incentivises Essential Energy to improve its communication of restoration times to its customers when the network experiences an unplanned outage.⁷

To determine proposed target and incentive rate for this parameter, Essential Energy analysed data from 11,056 outages incidents from March 2020 to June 2022. The proposed targets are based the proportion of unplanned outages for which an estimated time to restore is issued within Essential Energy's field reporting systems.

³ Essential Energy, *8.03 Customer Service Incentive Scheme, 2024-29 Regulatory Proposal*, January 2023, p. 3.

⁴ Essential Energy, *8.03 Customer Service Incentive Scheme, 2024-29 Regulatory Proposal*, January 2023, pp. 5-8.

⁵ Consumer Challenge Panel (CCP) Sub-Panel CCP26, *CCP26 Advice to AER re 2024-29 Essential Energy Regulatory Proposal and AER Issues Paper*, 12 May 2023, p. 11.

⁶ Essential Energy, *8.03 Customer Service Incentive Scheme, 2024-29 Regulatory Proposal*, January 2023, pp. 5-8.

⁷ Essential Energy, *8.03 Customer Service Incentive Scheme, 2024-29 Regulatory Proposal*, January 2023, pp. 5-8.

12.2.2 Time taken to resolve customer complaints

This parameter incentivises Essential Energy to minimise the amount of time taken to resolve customer complaints excluding those that have been referred to the Energy and Water Ombudsman NSW for resolution.⁸

To determine the proposed target and incentive rate, Essential Energy analysed data from 6702 complaints from 1 July 2020 to 30 June 2022.⁹

12.2.3 Customer ease

This parameter incentivises Essential Energy to improve the experience of its customers' interactions with the company.

Essential Energy initially proposed the customer ease performance parameter in two parts:¹⁰

- 3(a) was based on a quarterly customer survey conducted by an independent research firm, and
- 3(b) was to be based on Essential Energy's post-interaction survey.

Withdrawal of customer ease parameter 3(a)

In March 2023, we identified that the third-party quarterly survey may not have been supported by sufficient data. Essential Energy consulted on this with its Stakeholder Collaboration Collective (SCC) who considered that the parameter should be left until Essential Energy had 'sufficient data to put into the target – however long it takes'.¹¹

Essential Energy has now withdrawn parameter 3(a). Further detail regarding Essential Energy's proposal to revise the customer ease parameter is outlined in section 12.4.2.2 below.

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,
- 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 Essential Energy's proposed incentive design against these criteria. In doing so, we also assessed any submissions received on the CSIS proposal.

⁸ Essential Energy, *8.03 Customer Service Incentive Scheme, 2024-29 Regulatory Proposal*, January 2023, p. 11.

⁹ AER, *Response to IR#021*, 28 April 2023.

¹⁰ Essential Energy, *8.03 Customer Service Incentive Scheme, 2024-29 Regulatory Proposal*, January 2023, pp. 12–14.

¹¹ Essential Energy, *email to the AER re: CSIS*, 21 July 2023.

As outlined in Table 12.1, the submission from the Consumer Challenge Panel praised Essential Energy on its CSIS engagement.

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)¹²
- 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.¹³
- 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.

Essential Energy's incentive scheme design is consistent with the CSIS objectives. The incentive for Essential Energy to maintain and improve its customer services, in line with the interests of its customers, gives effect to the long-term interests of consumers.

Essential Energy'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 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 Essential Energy's interests with those of its customers. We

¹² NEL, s.7.

¹³ NER, cl. 6.6.4.

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 Essential Energy is currently subject to. Essential Energy's current customer service metric for the STPIS is based on the percentage of calls answered within 30 seconds. Essential Energy 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.¹⁴

We have had regard to the capital¹⁵ and operating expenditure objectives¹⁶ 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,¹⁷ Essential Energy has an incentive to at least maintain its current levels of customer service.

Essential Energy's engagement with its SCC from December 2021 until its revised revenue proposal may promote an understanding of its customer service initiatives. Essential Energy's ongoing application and reporting on the CSIS may further enhance this understanding.

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

¹⁴ Essential Energy, *8.03 Customer Service Incentive Scheme, 2024-29 Regulatory Proposal*, January 2023, pp. 9–15.

¹⁵ NER, cl.6.5.7.

¹⁶ NER, cl.6.5.6.

¹⁷ Deadlands are levels of performance around the target that do not lead to any penalties or rewards.

We separately considered each of these components of Essential Energy's proposed incentive design below. We also considered Essential Energy's incentive design against the objectives of the CSIS.

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.¹⁸ Customers should also be provided with more than one opportunity to provide input.¹⁹

Essential Energy's proposed incentive design has been underpinned by genuine engagement with its customers through its customer research and engagement with its SCC and customers.

This engagement has been documented in Essential Energy's proposal with parameters being agreed upon after extensive engagement with its SCC and its customer groups. Essential Energy's SCC supported the proposed parameters.²⁰

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

Essential Energy's incentive design meets the performance parameter principles as the parameters were developed through genuine consumer engagement, do not duplicate other incentives and are in its control.

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:

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

¹⁹ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

²⁰ Woolcott Research and Engagement, *Customer and Stakeholder Engagement for the 24-29 Regulatory Proposal – Phase 4 Research report prepared for Essential Energy*, October 2022, pp. 44–49.

- 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.

Essential Energy's proposed approach accurately measures the features of the identified performance parameters and is sufficiently independent as:²¹

- for an unplanned outage with an estimated time to restore, Essential Energy collects data on the proportion of unplanned outages for which an estimated time to restore is issued within its field reporting systems.
- for customer complaints data is captured in its internal IT system.
- for the customer ease parameter, a survey is offered to Essential Energy's customers after each interaction with its call centre, and customers can provide feedback across three different questions via an automated survey. The survey data is captured and managed by Essential Energy's internal IT system.

The data for these parameters is compiled in an objective and reliable manner. Essential Energy retains the data in a secure and logically indexed database, which is capable of being audited.²²

Robust data oversight is a vital component of the CSIS. We expect that Essential Energy 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.²³

Re-establishment of customer ease parameter

The CSIS requires performance parameters to accurately measure the features of that parameter (clause 3.2.(3)(a)). In our early engagements with Essential Energy, we raised our concerns that its proposal to measure customer satisfaction via quarterly 'customer ease' survey may not yield sufficient data to form a robust target.²⁴ Following this consultation, Essential Energy proposed to substitute the "quarterly survey" parameter with a "post experience survey" but this also was considered to have insufficient data to form a robust target.²⁵

²¹ Essential Energy, *Response to IR#021*, 4 May 2023.

²² Essential Energy, *Response to IR#021*, 4 May 2023.

²³ Essential Energy, *Response to IR#021*, 4 May 2023.

Consequently, after taking its customers feedback into account, Essential Energy, proposed that the customer ease metric continue to reflect a 20% weighting but that it be based only on the Contact Centre post-interaction survey.²⁶

We accept Essential Energy's proposal that the customer ease parameter should only include the post interaction survey measure (3b) because its customers accepted this proposal. As outlined above, we also consider the customer ease parameter meets the measurement methodology principles.

In its revised revenue proposal, we expect that Essential Energy will seek customer support on the change in the weighting of the customer ease parameter to 20%.

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.²⁷

Across all parameters, Essential Energy has proposed historical performance as a baseline target and dead bands to measure rewards or penalties. This will ensure that Essential Energy is only rewarded if it improves on its historical performance. Essential Energy's proposed dead bands are designed to account for the natural variation of data within the comparative year-on-year performance. Performance within these range should therefore neither be rewarded, nor penalised because this would be contrary to the primary objective of providing an incentive for performance improvement. This also ensure that only significant improvements relative to current performance are rewarded and the DNSP will be penalised for only moderate performance improvements.

Essential Energy's incentive design meets the assessment principles as it establishes a direct relationship between identified parameters and its performance— ensuring that Essential Energy is correctly rewarded or penalised. The performance targets set by Essential Energy incentivise genuine improvement and the targets refer to baseline performance.

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

We consider that Essential Energy's incentive design gives effect to the financial component principles as the business is rewarded or penalised financially in proportion to its change in performance, as calculated by the identified value of the service improvement. The value that

²⁷ AER, *Customer Incentive Scheme*, July 2020, clause 3.2(4).

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

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.

Essential Energy collaborated with its SCC on an appropriate range of customer service improvements over the course of the 2024–29 period compared to the baseline performance.²⁹

We will review the financial component in our final decision to account for changes in Essential Energy's revised revenue proposal due to data and customer consultation.

12.4.3 Conclusion

Essential Energy's design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS. Essential Energy's revenue proposal was accompanied by a CSIS application that meets the incentive design proposal requirements. We consider that Essential Energy has therefore satisfied criteria under section 2.1 of the CSIS. Our draft decision is to apply Essential Energy' proposed incentive design.

²⁹ Woolcott Research and Engagement, *Customer and Stakeholder Engagement for the 24-29 Regulatory Proposal – Phase 4 Research report prepared for Essential Energy*, October 2022, pp. 44–49.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
CCP26	Consumer Challenge Panel, sub-panel 26
DNSP	distribution network service provider
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
SCC	Essential Energy's Stakeholder Collaboration Collective
STPIS	service target performance incentive scheme
