

Draft Decision

TasNetworks

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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Contents

12 Customer Service Incentive Scheme	1
12.1 Draft decision.....	2
12.2 TasNetworks' proposal	3
12.3 Assessment approach	3
12.4 Reasons for draft decision	3
Shortened forms.....	10

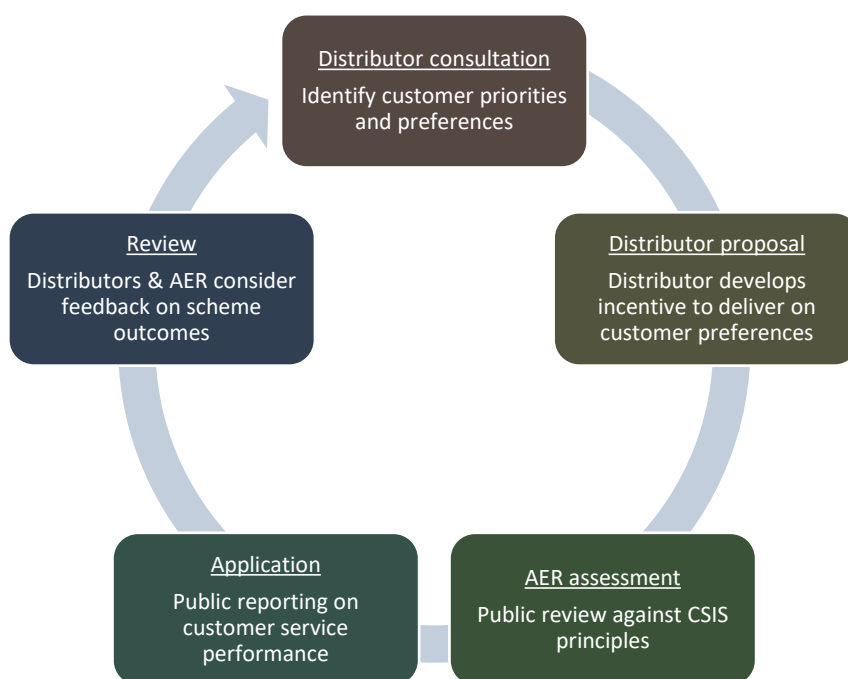
12 Customer Service Incentive Scheme

The Customer Service Incentive Scheme (CSIS) is designed to encourage electricity Distributed Network Service Providers (DNSPs) to engage with their customers and provide customer service in accordance with their preferences. The CSIS allows us to set targets for DNSPs' 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, DNSPs do not face the same incentives to deliver price and quality of service outcomes that customers prefer. The CSIS creates an incentive for DNSPs 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 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. 12.

Under the principles-based approach, the CSIS has principles that must be met by DNSPs in order for the scheme to be applied. These principles are targeted at improving customer experience. DNSPs can identify, in consultation with their customers, incentive designs that would meet those principles. This allows us to apply different parameters to different DNSPs. 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 TasNetworks' 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.

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

TasNetworks' proposed scheme replaces the current STPIS telephone answering parameter with a more holistic incentive that addresses its customers' preferences, as identified through a genuine and thorough engagement process. The scheme has been approved by TasNetworks' Customer Panel and Customer Council.²³

Table 12.1 presents our draft decision on the applicable performance targets and incentive rates that will apply to TasNetworks for the 2024–29 period. The maximum penalties or rewards under the scheme (the revenue at risk) is capped at ± 0.5 per cent of TasNetworks' total revenue.

Table 12.1 Draft decision - Management of planned outage parameters⁴

Measure	Baseline target	Incentive rate
Customer satisfaction with complaints handling	6.41	0.010%
Customer satisfaction with outage management (planned and unplanned)	7.82	0.005%
Customer satisfaction with new connections.	7.61	0.010%

Source: AER analysis.

² TasNetworks, *Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, pp. 3-4.

³ TasNetworks PRWG & CC workshop, *R24 Engagement activity outcomes summary*, 19 July 2023.

⁴ TasNetworks, *Response to IR#49*, August 2023.

We note that TasNetworks is required to submit the latest up to date CSIS data in its revised revenue proposal for us to re-calculate its CSIS targets and incentive rates for our final decision.

12.2 TasNetworks' proposal

TasNetworks' CSIS was developed over a twelve month period based on direct feedback from customers and stakeholders that was captured using a variety of methods and different audiences including:⁵

- TasNetworks Annual Customer Survey
- TasNetworks Customer Panel
- TasNetworks Customer Council.

Following support received from customers and stakeholders, TasNetworks proposed the following performance parameters for its CSIS:⁶

- customer satisfaction with complaints handling
- customer satisfaction with outage management (planned and unplanned), and
- customer satisfaction with new connections.

TasNetworks' customers and stakeholders prioritised these customer service parameters in order of perceived value and expressed preferences for a three-parameter model for the 2024-29 period.⁷

12.3 Assessment approach

Under Section 2.1 of the CSIS, we will apply a DNSP's proposed incentive design to a distribution determination 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 TasNetworks' proposed incentive design against these criteria.

We also assess any submissions received on the CSIS proposal.

Our assessment is set out in more detail below.

12.4 Reasons for draft decision

12.4.1 CSIS objectives

The objectives for the CSIS are that it:

⁵ TasNetworks, *TasNetworks Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, p. 2.

⁶ TasNetworks, *Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, p. 5.

⁷ TasNetworks, *Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, p. 5.

- Is consistent with the national electricity objective in section 7 of the National Electricity Law (NEL)⁸
- 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.⁹
- 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.

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

TasNetworks' proposed incentive design will reward or penalise it for improving, or degrading, its customer service. To ensure that only efficient customer service performance improvements are delivered, penalties and rewards under the scheme align with the value that customers place on the customer service. As this value has been identified through customer engagement, the scheme aligns TasNetworks' 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 TasNetworks is currently subject to.

It is proposed that the CSIS will replace the TasNetworks' customer service component of the distribution STPIS.¹⁰

⁸ NEL, S.7.

⁹ NER, cl. 6.6.4.

¹⁰ TasNetworks, *Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, p. 2.

We have had regard to the capital¹¹ and operating expenditure objectives¹² in applying the CSIS. In particular we note the objective to "maintain the quality, reliability and security of supply of standard control services". By setting targets at or above historical performance TasNetworks has an incentive to at least maintain its current levels of customer service.

TasNetworks' engagement across its Customer Panel and Customer Council from February 2022 to July 2023 has promoted an understanding of its customer service initiatives. In the Consumer Challenge Panel (sub-panel 27) advice to us on the TasNetworks Proposal, it was noted that "TasNetworks' further discussions with the Customer Council on targets and incentive rates were inconclusive and were not completed before TasNetworks lodged its Proposal".¹³ On 19 July 2023 TasNetworks presented an update on the CSIS at a workshop held with its Policy and Regulatory Working Group and Customer Council. At this workshop TasNetworks received more conclusive customer endorsement after outlining the updated targets and proposed incentive rates, as well as providing a comparison of CSIS against the current STPIS.¹⁴ TasNetworks ongoing application and reporting on the CSIS will further enhance customer understanding of the scheme.

As TasNetworks 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 a product of Policy and Regulatory Working Group, Customer Panel and Customer Council outcomes.

By reflecting customer preferences, the TasNetworks' scheme contributes to promote consumer understanding and the aims of the National Electricity Objective, in satisfaction of CSIS requirements.

12.4.2 Incentive design criteria

Under Section 3.1 of the CSIS, the incentive design criteria include a number of principles.

We have considered TasNetworks' proposal against these principles.

The CSIS's principles are split into four different 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.

¹¹ NER, cl.6.5.7.

¹² NER, cl.6.5.6.

¹³ CCP27, *Advice to AER, TasNetworks Combined Revenue Reset Proposal (Transmission and Distribution)*, 7 May 2023, p. 20.

¹⁴ TasNetworks, *R24 Engagement activity outcomes summary, Revenue Reset (R24)*, 19 July 2023.

We separately considered each of these components of TasNetworks' proposed incentive design below. We also consider TasNetworks' incentive design as a whole 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 substantially 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 a number of different consultation processes to reflect views across vulnerable household customers, small business and commercial and industrial businesses.¹⁵ Customers should also be provided with more than one opportunity to provide input.¹⁶

TasNetworks' proposed incentive design has been underpinned by genuine engagement with its customers through its annual customer survey and engagement with its Customer Panel and Customer Council.

This engagement has been documented in TasNetworks' proposal with parameters being agreed upon after extensive engagement. Following a Customer Council engagement activity in July 2023, a high percentage of the Council expressed support for adoption of the CSIS with the proposed parameters.¹⁷

TasNetworks' 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 as they directly relate to the services TasNetworks provides.

12.4.2.2 Measurement methodology

The measurement methodology¹⁸ 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

¹⁵ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

¹⁶ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

¹⁷ TasNetworks, *R24 Engagement activity outcomes summary, Revenue Reset (R24)*, 19 July 2023.

¹⁸ AER, *Final Customer Service Incentive Scheme*, July 2020, p.5

- 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.

TasNetworks' proposed approach accurately measures the features of the identified performance parameters and is based upon an independently developed methodology.

TasNetworks joined an energy benchmarking research program run by Customer Service Benchmarking Australia (CSBA) in 2020. The program measures and compares customer experiences across Tasmanian, South Australian and Victorian electricity DNSPs.¹⁹

TasNetworks has indicated that it will continue to engage CSBA, to conduct independent customer satisfaction surveys to allow for ongoing measurement of customer satisfaction performance against the proposed parameters.²⁰

CSBA is accredited under ISO 20252:2019 “Market, opinion and social research, including insights and data analytics”. To maintain accreditation, CSBA is required to participate in regular auditing which covers various elements of the ISO 20252:2019 standard.²¹

TasNetworks confirmed that its CSIS data will be audited as part of its annual Regulatory Information Notice (RIN) process prior to submission to the AER.²²

Robust data oversight is a vital component of the CSIS. We expect that TasNetworks 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 measure methodology principles have been met.

12.4.2.3 Assessment approach

The assessment approach principles²³ 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. These principles establish a baseline or neutral level of performance against which performance is assessed as a single value. The incentive design must set a performance target for each performance parameter that incentivises genuine improvement in line with the value of the identified service improvement and makes reference to the baseline or neutral level of performance.

TasNetworks has adopted feedback from customers and stakeholders into the assessment approach and proposes that:

¹⁹ TasNetworks, *Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, p. 6.

²⁰ TasNetworks, *Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, p. 6.

²¹ TasNetworks, *Response to AER IR#016*, 18 April 2023.

²² TasNetworks, *Response to AER IR#025*, 12 May 2023.

²³ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

- baseline performance will be calculated as the average of the most recent three years of performance measurements available
- the performance target for each parameter will be determined using TasNetworks' average three-year performance, or the CSBA industry benchmarked average three-year performance, whichever average reflects a better customer outcome
- targets will be re-evaluated prior to submission of TasNetworks' Revised Proposal with the most recent data, to ensure any performance improvements are reflected in the final determination and include an additional year of performance for the outage management parameter
- financial rewards will be applied if TasNetworks outperforms against the performance target in a single year in the regulatory control period (customer satisfaction score greater than the target)
- financial penalties will be applied if TasNetworks underperforms against the performance target in a single year in the regulatory control period (customer satisfaction score lower than the target)

TasNetworks' incentive design meets the assessment approach principles as it establishes a direct relationship between identified parameters and TasNetworks' performance, ensuring that it is correctly rewarded or penalised. The performance targets set by TasNetworks incentivise genuine improvement and its targets make reference to baseline performance.

12.4.2.4 Financial component

The relevant principles²⁴ for the financial component include that the incentive design provides rewards or penalties that increase relative to performance, are commensurate with service improvements or degradations and reflect the value the customers attribute to service level improvements. 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.

TasNetworks is rewarded or penalised financially in proportions relative to the degree of performance, as calculated by the identified value of the service improvement.

We consider that the financial component principles have been met based on the incentive rates proposed in Tables 12.1 and assessment of TasNetworks' proposal. TasNetworks 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. TasNetworks engaged with its Customer Council on the incentive rates to apply for the CSIS.²⁵ These incentive rates will reward (or penalise) TasNetworks if customer satisfaction improves (declines).

12.4.3 Incentive Design Proposal Requirements

TasNetworks' proposal meets the incentive design requirements as set out in Section 3.3.1 of the CSIS.

²⁴ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

²⁵ TasNetworks, *Combined Proposal Attachment 14 Customer service incentive scheme*, January 2023, p. 7.

12.4.4 Conclusion

TasNetworks' design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS. Following a Customer Council engagement activity in July 2023, we consider that TasNetworks satisfies the criteria under Section 2.1 of the CSIS. Our draft decision is to apply TasNetworks' proposed incentive design.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
CSIS	Customer Service Incentive Scheme
DNSP	Distribution Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
STPIS	Service Target Performance Incentive Scheme
