



30 November 2023

Ausgrid's 2024-29 Revised Proposal

Attachment 7.1: Proposed 2024-29 CSIS

Empowering communities for a resilient,
affordable and net-zero future.



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1. Overview

An important element of the regulatory framework is the application of various incentive schemes to distribution network service providers (**DNSPs**). The purpose of these schemes is to balance DNSPs' incentives to undertake efficient capital and operating expenditure (**capex** and **opex**) across a regulatory period while maintaining appropriate levels of reliability and customer service. Under these schemes, the benefits that flow from more efficient investment and operation of the network are shared with customers via lower prices in future regulatory periods. Incentive schemes help drive efficiencies and improvements to our reliability and customer service that will ultimately benefit our customers.

The National Electricity Rules (**NER**) require that our proposal contain a description, including relevant explanatory material, of how we propose to apply any incentive scheme that has been specified in the framework and approach paper.¹ The Australian Energy Regulator's (**AER**) Draft Decision found that our proposed Customer Service Incentive Scheme (**CSIS**) met the AER's CSIS objectives and design criteria. However, the AER requested that we further consult with our Reset Customer Panel (**RCP**) on our CSIS for our Revised Proposal.

This attachment sets out our Revised Proposal CSIS. We have further developed the CSIS with the RCP and the Voice of Community (**VoC**) Panel in response to the AER's Draft Decision and customer feedback. Our proposed CSIS aims to drive improvements in our service delivery performance and to focus on areas of service that our customers have told us they value most.

Under this scheme, we would place at risk up to \$43 million in regulated revenue over the 2024-29 period if our performance deteriorates in key service areas over the period, or could be rewarded for up to \$43 million in regulated revenue if we improve our performance. **Figure 1.1** below provides a summary of our proposed CSIS metrics.

Figure 1.1 Proposed Customer Service Incentive Scheme metrics

Initial Proposal				Revised Proposal		
Metric	Target	Revenue at risk	Incentive rate	Target	Revenue at risk	Incentive rate
Planned outage service ease – Urban	63.7%	0.125%	0.025	64.4%	0.083%	Non-linear ranging from 0.001000 to 0.007833
Planned outage service ease – Regional	69.2%	0.125%	0.025	69.1%	0.083%	
Connection project timeframe	177 days ²	0.125%	0.0125	215 days	0.167%	Non-linear ranging from 0.000500 to 0.008083
Website satisfaction rate	41.2% + 8.8% deadband	0.125%	0.025	44.1% + 5.9% deadband	0.167%	Non-linear ranging from 0.001000 to 0.016167

¹ NER, cl 6.1.3

² This was based on a different methodology with a later start date than the revised methodology outlined later in the document. Under the same methodology, this metric would have been 195 days.

2. Addressing AER and customer feedback

The AER’s Draft Decision applies our proposed CSIS, as our proposed incentive design achieves the CSIS objectives and meets the incentive design criteria. However, the AER noted that it expected Ausgrid to further consult with its customers on its CSIS prior to submitting its revised revenue proposal.

We have made changes to our proposed CSIS since our Initial Proposal to address customer feedback and the AER’s Draft Decision, as shown in **Figure 2.1**.

Figure 2.1 Preparing our revised CSIS proposal

	AER’s Draft Decision	What we heard from customers	How we’ve responded
Proposed CSIS metrics	Ausgrid’s proposal meets the incentive design requirements as set out in section 3.3.1 of the CSIS	Our VoC Panel (residential customers) and RCP were supportive of the inclusion of all four of Ausgrid’s proposed metrics in the CSIS. Accredited Service Providers (ASPs) and commercial and industrial (C&I) customers also were supportive of measures around connections and outage notifications.	We have retained the CSIS metrics set out in our Initial Proposal in recognition of customer support for the proposed range of measures. ³
Measurement methodology / setting targets	Ausgrid’s proposed measurement methodology meets the CSIS measurement methodology principles. The performance targets set by Ausgrid incentivise genuine improvement and the targets refer to baseline performance	Our VoC Panel raised concerns over the targets that trigger the maximum reward/penalty. Specifically residential customers raised concerns around the website satisfaction rating.	Our Revised Proposal sets fixed performance targets for each metric based on average historical performance against each metric, consistent with our proposed approach in our Initial Proposal. ⁴ We have updated our targets with more recent performance data, and have retained a performance deadband for the website satisfaction rate metric, in response to customer feedback that our website performance was too low. Our Revised Proposal updates the starting milestone and source of

³ Ausgrid (2023), 2024-29 Regulatory Proposal, [Attachment 7.1 – Proposed 2024-29 Customer Service Incentive Scheme](#). See section 3.1 and 3.2 for the rationale supporting the selection of these metrics.

⁴ Ausgrid (2023), 2024-29 Regulatory Proposal, [Attachment 7.1 – Proposed 2024-29 Customer Service Incentive Scheme](#). See section 3.3 for the proposed measurement approach.

	AER's Draft Decision	What we heard from customers	How we've responded
			<p>data used for the connections project timeframe metric to address an issue identified with the data following an audit of our baseline data.</p> <p>See section 3.1 for the updated performance targets, and proposed measurement methodology for the connections project timeframe metric.</p>
Evaluating performance against the targets	Ausgrid's incentive design meets the assessment principles as it establishes a direct relationship between identified parameters and its performance.	No comments were provided on how we proposed to evaluate our performance against the targets in our Initial Proposal.	Our Revised Proposal retains the proposed approach to evaluate our performance against our targets set out in our Initial Proposal. ⁵
Revenue at risk	Ausgrid's proposed incentive rates (including the 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) meet the financial component of the CSIS principles.	The RCP and VoC Panel are happy for us to consider amending the weighting given to the metrics, there was no strong preference for either an equal split across metrics, or an equal split across focus areas	<p>Our Revised Proposal updates our approach to split our revenue at risk equally across our three focus areas.</p> <p>See section 3.2.1 for our revised split of revenue at risk.</p>
Incentive rates	Ausgrid's proposed incentive rates (including the 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) meet the financial component of the CSIS principles.	The RCP and VoC Panel raised some concerns over the incentive framework. Customers would like us to move from a linear approach to one where the rewards/penalties for smaller improvements/declines are lower, and greater rewards/penalties for larger improvements/declines.	<p>Our Revised Proposal updates our approach to setting incentive rates to address the feedback we received from our customers. Our proposed incentive rates will be non-linear, and will increase (or decrease) as our performance improves (or declines).</p> <p>See section 3.2.2 for our revised incentive rates.</p>

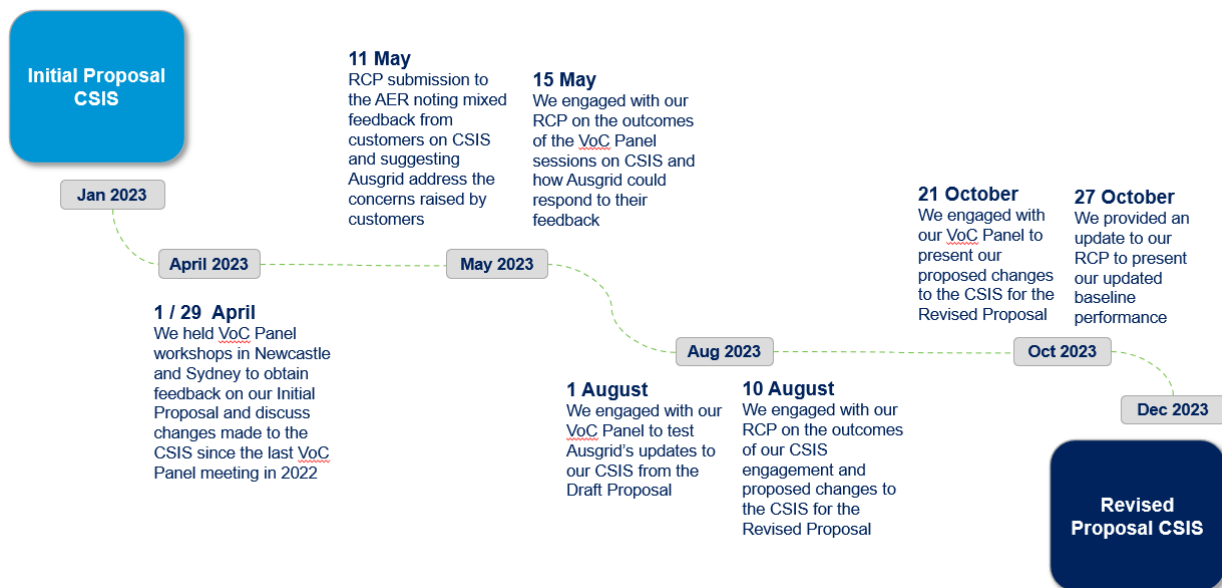
2.1 Voice of Community and Reset Customer Panels' input

We continued to engage with our customers on our proposed CSIS following the submission of our Initial Proposal in January 2023. This included close engagement with the VoC Panel and RCP to further refine and test the detailed design of the proposed CSIS in response to the AER's Draft Decision and customer feedback.

⁵ Ausgrid (2023), 2024-29 Regulatory Proposal, [Attachment 7.1 – Proposed 2024-29 Customer Service Incentive Scheme](#). See section 3.4.2 for the proposed approach to evaluating our performance against the targets.

Our overall engagement pathway since submitting our initial proposal is summarised in **Figure 2.2** below.

Figure 2.2 Engagement on our proposed CSIS since the Initial Proposal



2.1.1 What have we heard from our customers

In developing our CSIS for the Initial Proposal, we sought feedback from our customers and stakeholders, including commercial customers and other stakeholders. Large customers were particularly supportive of the connections metric as new connection delivery speed is extremely important to them. Small business groups were supportive of the planned outage service ease metrics, as they expect clear and prior information on planned outages. More detail on earlier engagement on the CSIS metrics is summarised in Attachment 7.1 of our Initial Proposal.⁶

In further refining our proposed CSIS for this Revised Proposal, we specifically engaged with and sought feedback from our customers and stakeholders on the proposed CSIS as part of our ongoing consultation.

Voice of Community Panel engagement

In addition to our engagement on the CSIS for the Initial Proposal, between April and August 2023 we held three meetings with our VoC Panel on our proposed CSIS, as well as an update at our 21 October 2023 meeting.

At the April 2023 sessions, we presented our CSIS metrics with two customer groups, the Hunter/Central Cost based VoC Panel, and the Sydney equivalent VoC Panel. In total this was approximately 90 customers. Members are representative of our network area, demographically and socio-economically, across Ausgrid's 33 Local Government Areas and included some of our VoC panellists from 2022.

⁶ Ausgrid (2023), 2024-29 Regulatory Proposal, [Attachment 7.1 – Proposed 2024-29 Customer Service Incentive Scheme](#). See section 2.2 for the engagement we undertook to inform the CSIS for our Initial Proposal.

We received mixed feedback on our CSIS metrics, as shown in **Figure 2.3**. There was no material challenge on the proposed metrics themselves but some concerns were raised over the targets that trigger the maximum reward/penalty. The concept of an incentive framework that financially rewards Ausgrid for improving customer service was also questioned. Further, Sydney residential customers saw less need compared to regional and business customers for Ausgrid to materially lift customer service levels. These are understandable perspectives driven by underlying cost of living pressures and vastly differing needs of Ausgrid for city and regional customers. Key feedback provided is summarised in **Figure 2.4**.

Figure 2.3 What we heard from our Voice of Community Panel in April 2023

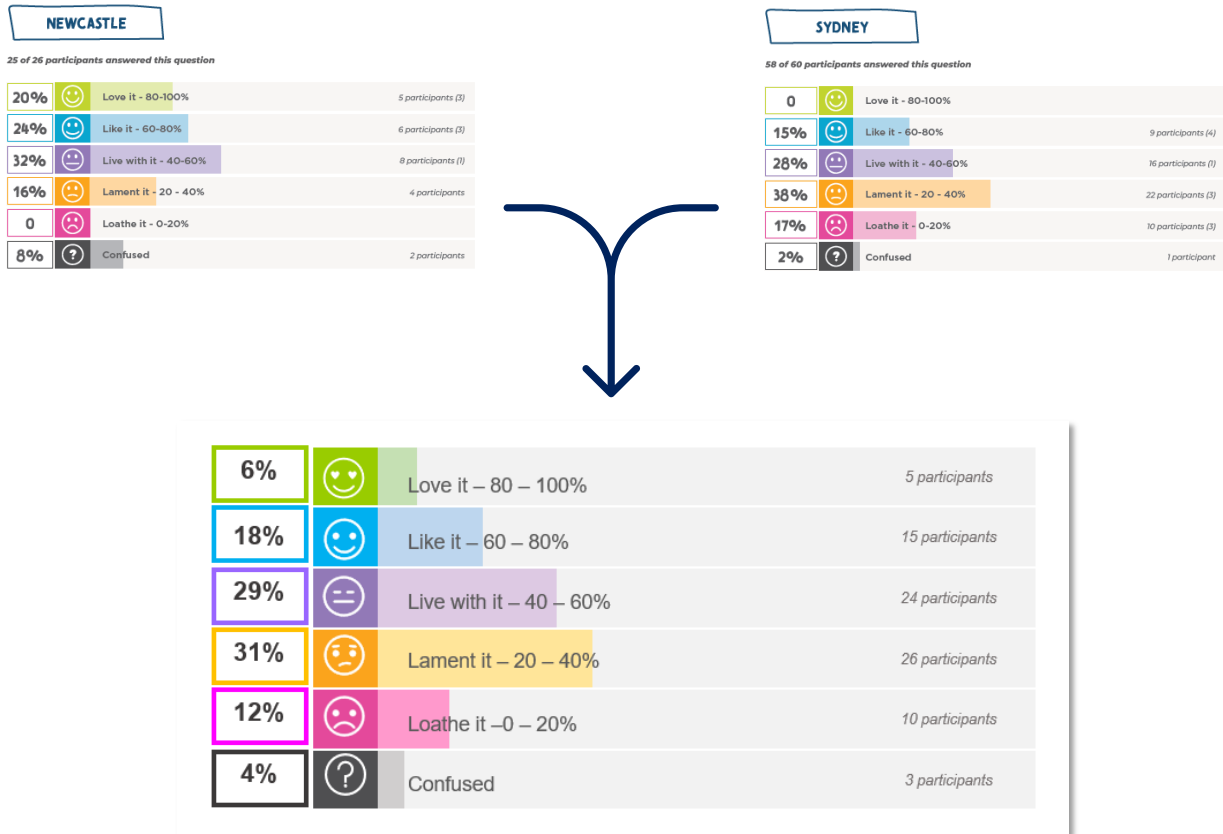


Figure 2.4 Feedback themes from the Voice of Community Panel in April 2023

CSIS element	VoC Panel feedback
General	<ul style="list-style-type: none"> Service improvements should be business as usual, it should not require incentives Service levels for residential customers are generally considered good There is too much revenue at stake – the reward is too big
Website satisfaction	<ul style="list-style-type: none"> 50% satisfaction is too low for an incentive payment Incentive payments should be scaled to recognise that improvements become more difficult the better the service is
Connections	<ul style="list-style-type: none"> Concern that customer service investments and incentive payments are 'double-dipping' Cross subsidies i.e. residential customers paying for C&I are a concern

We took on board the VoC Panel's feedback and developed potential changes to the CSIS relating to weighting of CSIS metrics and incentive rates.

We have also addressed the feedback on our website target and customer service investments:

- We understand that our current performance against the website satisfaction rate, despite improvements made over recent years, is not where we nor our customers would want us to be as we begin this incentive. As such, we have proposed a performance deadband as a stretch target for this metric so that we are only rewarded for demonstrating a material improvement for this service. This target was agreed with the RCP as the minimum acceptable level of customer satisfaction in the context of our current performance levels. Further, it was also recognised that it is difficult to achieve high rates of satisfaction for the website as the largest driver of volumes to the website is outages.
- In response to the concern about “double-dipping”, the customer service investments we are proposing in the 2024-29 period are not directly targeted at improving performance in the CSIS. The majority of our customer information systems program is targeted at services not included in the CSIS, i.e. the 60,000 to 80,000 basic connections Ausgrid manages each year. Our connections investments are intended to improve the connections application experience for all customers to reduce the effort to deal with us, including by automating progress updates, and simplifying how they provide us information. This is in contrast to the connections timeframe metric in the CSIS which is targeted at the approximately 1,000 complex connection projects Ausgrid manages each year.

We consulted on the potential changes with the VoC Panel in August 2023, to inform the design of our CSIS for the Revised Proposal. In this session we confirmed that the VoC Panel:

- Supported including all four of our proposed CSIS metrics;
- Were in favour of moving from a linear approach to setting incentive payments to something that scales, where the rewards for smaller improvements/declines are lower, larger improvements/declines are greater; and
- Were comfortable with amending the weightings given to the individual metrics, although there was no strong preference for either an equal split across the metrics, or an equal split across the focus areas.

Reset Customer Panel engagement

We engaged with our RCP following each of the VoC Panel sessions in May, August and October 2023 in further developing our proposed CSIS.

In our May 2023 session, we discussed the feedback provided by the VoC Panel in the April 2023 sessions, and options for how Ausgrid could amend the CSIS to address these concerns. We agreed with the RCP that further work was required on our proposed CSIS to address VoC Panel concerns, and that we would continue to engage with the VoC Panel to inform the final CSIS design.

In the August 2023 session, we discussed the outcomes of the CSIS engagement with the VoC Panel as well as changes to our CSIS we were proposing as a result of our customer engagement.

Our RCP are supportive of the technical detail of our proposed CSIS, as set out in **Attachment 7.4 – Report on CSIS engagement**.

In the October 2023 session, we discussed the change in our measurement method for the connections metric due to data issues and provided an update on our baseline performance to the end of September 2023. The RCP are comfortable with the proposed change in measurement methodology.

3. Application to the 2024-29 regulatory period

3.1 Measurement methodology and baseline targets

Ausgrid is proposing fixed performance targets for each metric, as set out in **Figure 3.2**, based on a mix of customer surveys and operational data to measure our performance for each metric. For all metrics, this is based on the average historical performance against the metric, consistent with the previous customer service metric under the Service Target Performance Incentive Scheme (**STPIS**). We have also proposed a performance deadband for the 'website satisfaction rate' metric because our current performance delivers less than 50% satisfaction. These targets have been updated from our Initial Proposal to incorporate the most up-to-date information on Ausgrid's performance. For the planned outage service ease and website satisfaction rate measures the methodology is the same as outlined in our Initial Proposal.⁷

We are proposing a change to the measurement methodology for the connection project timeframe measure. The change responds to data issues identified in an internal audit of the baseline performance data for our metrics during July 2023. Preliminary findings were shared with Ausgrid in early August.

The auditors noted that the start date for measurement of the construction period by using the 'Received date' in Ausgrid's ASP Compliance database may not be accurate. This is because when a customer appoints an ASP, the connections team notifies the compliance team via email. Administrative staff in the compliance team manually enter this into the database. The manual handling of data means there is a risk that the date used to trigger the start of the connections period may not accurately reflect when the customers actually appointed the ASP. The auditor's view was that a more reliable milestone and data source was one where the updates were triggered directly by the customer without intervention by Ausgrid.

In response to the audit findings, we are proposing to measure our performance using the median energisation time for connection projects (the median timeframe within which all connections projects in each financial year are energised), between:

- The 'connection offer accepted' field being triggered by a customer in our Customer Relationship Management (**CRM**) portal; and
- The energisation date in SAP Enterprise Resource Planning (**ERP**) program.

We further propose to exclude projects where there has been a:

- Suspension of an ASP 1 company, suspension of ASP 1 staff and/or suspension of a work site for a safety breach or breaches; or
- Change in an appointed ASP 1 by the connecting customer or their representative.

⁷ Ausgrid (2023), 2024-29 Regulatory Proposal, [Attachment 7.1 – Proposed 2024-29 Customer Service Incentive Scheme](#), section 3.3, pp. 14 – 16.

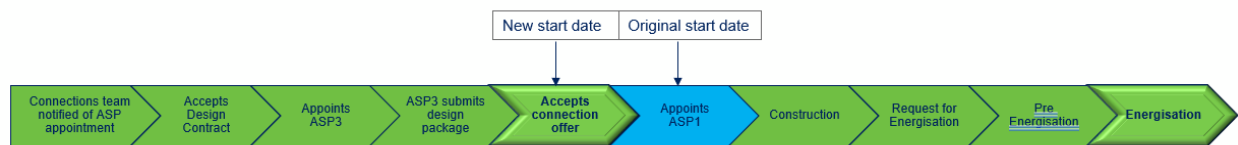
These projects will be identifiable by a flag in our systems, will be auditable and meet the data reporting requirements in clause 3.2.3 of the AER's CSIS.⁸

The exclusion on safety grounds is to avoid conflicting incentives between safety requirements and the CSIS. For example, if we pause a connection project on safety grounds it would affect our performance against this metric, potentially creating incentives to overlook minor safety concerns. Resolution of the safety issue is the responsibility of the ASP and therefore outside of Ausgrid's control, but would affect performance against this metric.

The exclusion regarding changes to ASPs relates to ASPs becoming insolvent or customers changing ASPs for unsatisfactory work thereby requiring the procurement of new service providers. Again, these are outside of Ausgrid's control but such delays can take months to resolve, affecting performance against these metrics.

There were 51 projects in the baseline data that were impacted by these exclusions, which amounts to 2.2% of all connection projects.⁹ As such, this exclusion will not significantly reduce the total number of projects subject to CSIS performance metrics.

Figure 3.1 Change to connection timeframe



The change to our measurement for the 'connection project timeframe' metric means that the measurement for this metric begins at an earlier project milestone compared to our Initial Proposal (see **Figure 3.1**). The change increases the baseline timeframe from 177 days (or 195 days on a like for like basis) to 215 days.

The earlier milestone introduces greater risk to Ausgrid because the time between acceptance of a connection offer and appointment of an ASP 1 is within the control of the customer, not Ausgrid. However, the metric meets the requirement to be substantially within the control of Ausgrid because the connection offer acceptance represents only one activity or milestone which occurs over the course of a connection project. The construction period, once an ASP is appointed, presents opportunities for us to improve our performance in areas that are within Ausgrid's control like:

- Speed and first time right service to connecting customers;
- Closer collaboration with ASPs; and
- Proactive management of unforeseen network issue.

The proposed changes to our measurement methodology meet the CSIS criteria.¹⁰ Specifically:

⁸ AER (2020), [Customer Service Incentive Scheme](#), p. 5.

⁹ Of these 51 projects, 36 were as a result of a customer changing ASP and 15 were as a result of a site and/or an ASP employee being suspended for a safety breach.

¹⁰ AER (2020), [Customer Service Incentive Scheme](#), clause 3.2.3

- The change to the start date to measure the ‘connection project timeframe’ metric more accurately measures the performance parameter than our previously proposed measurement methodology, making it more objective and reliable, as it is not impacted by potential inaccuracies of manual data entry; and
- The measurement can be independently reviewed and audited by an independent third party.

We consulted with our RCP on the proposed change to the measurement methodology in August and October 2023. They were supportive of the change as it is a more objective approach.

Our Revised Proposal measurement methodology and baseline results in improved data quality and meets the audit threshold, consistent with Clause 3.2(3)(a) of the AER’s CSIS.

Figure 3.2 CSIS scheme targets

Proposed CSIS metrics			Unit	Baseline	Deadband	Data available
Core services	Planned outage service ease	Urban	%	64.4	0	Jan 21 – Oct 23 (34 months)
		Regional	%	69.1	0	Jan 21 – Oct 23 (34 months)
Enabling services	Connection project timeframe		Days	215	0	Jul 20 – Oct 23 (40 months)
Customer care	Website satisfaction rate		%	44.1	5.9	Jan 21 – Oct 23 (34 months)

3.2 Financial component

We propose that the financial component of the scheme is calculated in accordance with Appendix A of the AER’s CSIS.¹¹ We have attached our proposed model to calculate the adjustments to allowed revenue, which incorporates the updates to our split of revenue at risk across the individual measures, and incentive rates outlined below (see **Attachment 7.2 – Proposed CSIS metrics model**). Our proposed compliance approach is set out in **Attachment 7.3 – Proposed CSIS compliance model**.

3.2.1 Revenue at risk

The total value of the revenue we would risk is +/- 0.5% of our annual revenue for the 2024-29 period, consistent with the design criteria in the AER’s CSIS and our Initial Proposal. This equates to around \$9 million per year.

We have revised how this will be split across our proposed metrics from our Initial Proposal (see **Figure 3.3**). Our Revised Proposal is to split revenue at risk equally between the three focus areas rather than equally across measures. This is because:

- We want to signal to our staff that each focus area is of equal importance to the others; and
- The revised weightings align with how metrics are set and used elsewhere in the business, including our corporate scorecard, strengthening incentives on our staff.

¹¹ AER (2020), [Customer Service Incentive Scheme](#), pp 8-10.

Figure 3.3 CSIS scheme revenue at risk

Proposed CSIS metrics			Revenue at risk
Core services	Planned outage service ease	Urban	0.083%
		Regional	0.083%
Enabling services	Connection project timeframe		0.167%
Customer care	Website satisfaction rate		0.167%

3.2.2 Incentive rates

The incentive rates are derived by reference to the performance level that would achieve the maximum reward or penalty. We believe that our proposed CSIS incentive rates summarised in **Figure 3.5**, **Figure 3.6**, and **Figure 3.7** below reasonably reflect the reward or penalty that would be valued by customers for a one point change in the customers satisfaction, consistent with the CSIS design criteria.¹² Our approach reflects a qualitative view of overall value to customers, taking into account the number of customers impacted and our current performance levels.

We heard from our VoC Panel and RCP that incentive payments should be scaled to recognise that improvements become more difficult the better the service is. In response, we have revised our approach to setting incentive rates from the linear approach proposed in our Initial Proposal to a scaled approach that increases (or decreases) rewards (or penalties) as performance improves (or declines). This is demonstrated in **Figure 3.4**. The result of this change is that we will receive small rewards/penalties for incremental improvements/deterioration in our performance against each of the CSIS metrics, while significant improvements/deterioration receive bigger rewards/penalties. This results in higher incentives to achieve bigger improvements or avoid significant deterioration, which is consistent with the CSIS design criteria in clause 3.2(5).

The RCP was broadly comfortable with the proposed incentive rates, noting that it was important that they were applied symmetrically.

¹² AER (2020), [Customer Service Incentive Scheme](#), clause 3.2(4) and (5)

Figure 3.4 CSIS scheme increasing / decreasing rewards and penalties example

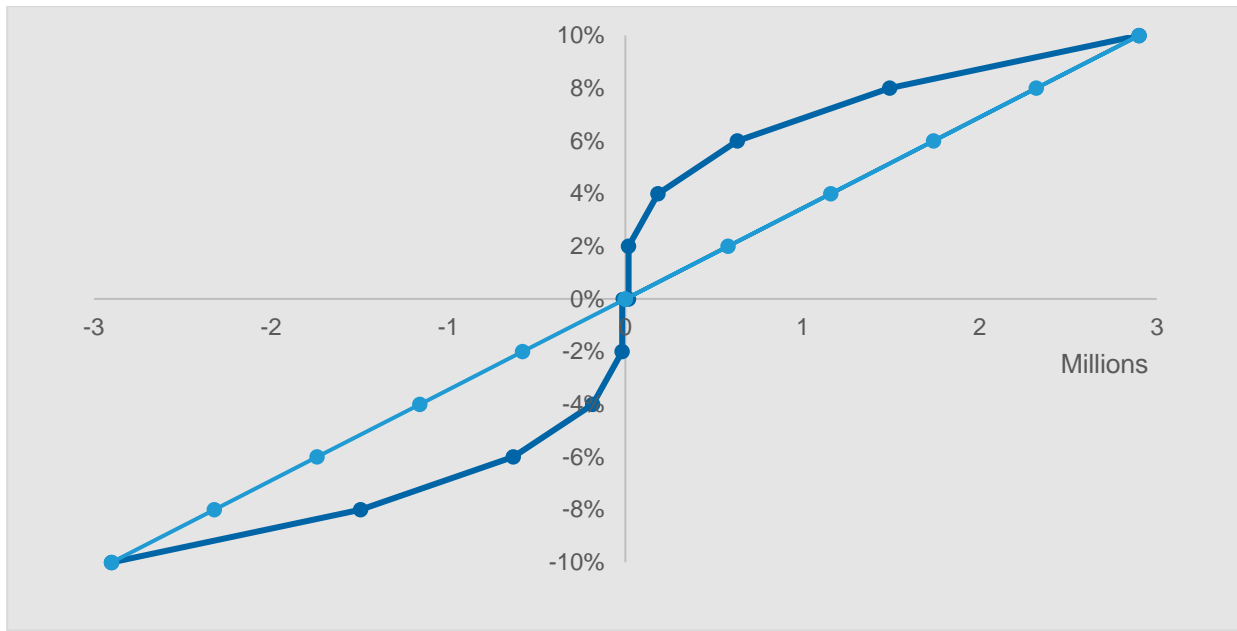


Figure 3.5 CSIS scheme incentive rates for 'connection project timeframe'

Low end	High end	Incentive rate	Incentive rate per %	Reward
0%	2%	0.000500	0.001%	17,400
2%	4%	0.002396	0.010%	166,750
4%	6%	0.004292	0.026%	448,050
6%	8%	0.006188	0.050%	861,300
8%	10%	0.008083	0.081%	1,406,500
Total				2,900,000

Figure 3.6 CSIS scheme incentive rates for 'planned outage service ease'

Low end	High end	Incentive rate	Incentive rate per %	Reward
0%	1%	0.001000	0.001%	17,400
1%	2%	0.002708	0.005%	94,250
2%	3%	0.004417	0.013%	230,550
3%	4%	0.006125	0.025%	426,300
4%	5%	0.007833	0.039%	681,500
Total				1,450,000

Figure 3.7 CSIS scheme incentive rates for 'website satisfaction rate'

Low end	High end	Incentive rate	Incentive rate per %	Reward
0%	1%	0.001000	0.001%	17,400
1%	2%	0.004792	0.010%	166,750
2%	3%	0.008583	0.026%	448,050
3%	4%	0.012375	0.050%	861,300
4%	5%	0.016167	0.081%	1,406,500
Total				2,900,000

Note: this applies after the deadband has been applied.