

# Essential Energy

## 6.02 Customer Service Incentive Scheme

November 2023



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## Attachment summary

- > In our 2024-29 Regulatory Proposal (Proposal), we included a Customer Service Incentive Scheme (CSIS) which was designed in conjunction with our customers, targeting highly valued aspects of customer service.
- > The three performance parameters covered by the scheme relate to:
  - communicating estimates for unplanned outage resolution times
  - resolving complaints in a timely way
  - improving customer satisfaction, as measured by a 'customer ease' score.
- > The AER's draft decision has approved the application of the scheme and accepted Essential Energy's amendment to its Proposal (which was supported by customers), to base its customer ease parameter on the Contact Centre post-interaction survey measure only.
- > The CSIS design has been updated in our Revised 2024-29 Regulatory Proposal (Revised Proposal) to reflect the most recent performance data available and the amendment to the customer ease parameter.

## Proposal

We worked with our customers and stakeholders to develop a proposed CSIS design that satisfies the objectives set out in the CSIS Final Guideline – namely that the scheme needs to be in the long-term interests of electricity consumers, and consistent with the electricity rules governing the development of a small-scale incentive scheme.

Our proposed scheme design focused on targeting three performance parameters:

1. **Percentage of unplanned outages that have an estimated time to restore (ETR) communicated to customers** – Unplanned outages can impact a large number of customers. Customers have highlighted that this is an area where Essential Energy can improve its communication.
2. **Time taken to resolve customer complaints** – Customers value timely resolution of their complaints.
3. **Customer ease score** – This is a score that reflects the degree of customer satisfaction with Essential Energy. The score reflects a broad range of customer views and experiences in dealing with us.

These are the aspects of performance that customers have indicated that they value, and for which there is no existing incentive scheme or jurisdictional arrangement.

This attachment is supported by our CSIS model, which can be found in **Attachment 6.03**.

In our Proposal, we committed to continuing to measure and monitor performance against our proposed CSIS parameters. We have used this information to update our performance targets and these changes have been explained in our Revised Proposal.

## Draft decision

The AER has approved our proposal to measure and target the three performance parameters (as set out above) and accepted Essential Energy's amendment to its Proposal (which was supported by customers), to base its customer ease parameter on the Contact Centre post-interaction survey measure only. The AER's draft decision has concluded that Essential Energy's CSIS design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS.

The draft decision notes the expectation that Essential Energy should further consult with its customers on its CSIS prior to submitting its Revised Proposal. Details of how we have further consulted with our customers is set out below. The draft decision also notes that the AER will set final CSIS targets and incentive rates based on updated performance data in Essential Energy's Revised Proposal and customer feedback to it.

## Revised Proposal

Since submitting our Proposal, we have undertaken further engagement with customers and stakeholders to:

- > seek their feedback on a change which has altered the methodology for a component of the customer ease score
- > share the results from our tracking of the scheme since submitting our Proposal and changes made to the targets to reflect this
- > confirm the revised weightings and targets (which mechanistically impact the incentive rates).

This is discussed in greater depth below, along with the detailed scheme design.

### Customer and stakeholder feedback on change to methodology for customer ease parameter

Our proposed customer ease parameter was made up of two components:

**Parameter 3(a):** Customer satisfaction as measured by the quarterly 'customer ease' score of between 1 and 5. A score of 1 represents best performance and a score of 5 represents worst performance.

**Parameter 3(b):** Customer satisfaction as measured by the Contact Centre post-interaction survey 'customer ease' score of between 1 and 5. A score of 1 represents the poorest performance and a score of 5 represents the best performance.

Since submitting our Proposal in January 2023, Essential Energy has changed from using the quarterly survey process, as managed by a third party and implemented a more timely and comprehensive in-house system of rolling surveys. A shorter survey is automatically sent to a random selection of customers within 48 hours of a customer interaction. This provides greater coverage of our customer base and gives a more robust sample on which to base customer satisfaction results. However, given this system was implemented only recently (September 2023) there is, as yet insufficient data history to establish a reliable baseline for target setting. This impacts how we measure Parameter 3(a).

We discussed this change with participants in our Essential People's Panel and Stakeholder Collaboration Collective (SCC) and asked for feedback on how we should manage this change. There were mixed opinions from the Essential People's Panel on how many months survey data was required to set the baseline, but at least 6 months' worth of data was viewed as the minimum required. The majority of participants favoured omitting Parameter 3(a) from the CSIS given the issue of insufficient data and there was support for reallocating the weighting of this parameter to Parameter 3(b). Some views that we heard were:

*"Leave it until they have sufficient data to put into the target – however long it takes."*




*"Just use the contact centre measure for the whole customer ease - 20% until we can get some data."*

*"Keep them as they are. If you start reallocating to the outage or complaint one, then it will become messy when you do introduce the new measure. It is 'cleaner' to just keep the 20% in the ease metric."*

The SCC highlighted the importance of keeping the metrics stable across regulatory periods and noted that we should avoid constant change so the metrics could be of value to customers and to the business.

Based on what we heard from our Essential People's Panel and SCC participants, we have amended our CSIS design to keep the customer ease weighting at 20% and have based it entirely on the Contact Centre post-interaction survey. The Revised Proposal weightings are shown in Figure 1.

Figure 1: Weighting for CSIS Parameters

		Proposal weighting (%)	Revised Proposal weighting (%)
	1. Providing an estimated time to restore unplanned outages and giving updates	50	50
	2. Average time to resolve customer complaints	30	30
	3. How easy it was to deal with us		
	3(a) Post-Interaction Survey quarterly survey	10	0
	3(b) Post-Interaction Survey from Contact Centre	10	20

## Closing the feedback loop with customers and stakeholders

We have continued to track our performance for the proposed CSIS measures and have used data up to the end of September 2023, to update our targets and incentive rates for the Revised Proposal. To close the loop on our engagement process for the CSIS, we shared the updated targets with customers at the Customer Webinar and SCC, which were both held in October 2023.

## CSIS design updated for our Revised Proposal

This section provides the revised CSIS design, including the definitions, performance targets and incentive rates for each performance parameter.

### Parameter 1: Percentage of unplanned outages that have an ETR communicated to customers

This performance parameter incentivises improvement in the communication of restoration times to customers when the network experiences an unplanned outage.

#### Definition

**Parameter 1 definition:** The percentage of unplanned outages with an estimated time to restore (ETR) made available to customers before power is restored.

In our January Proposal, the definition of this parameter excluded outages that would also be excluded for the purpose of the Service Target Performance Incentive Scheme (STPIS), such as Major Event Days. This definition has been amended to include all outages. This is an improvement to customer service as Essential Energy will measure performance on communicating ETRs for all unplanned outages without any exclusions.

The communication channels that will be used to provide the ETR to customers may include:

- > Via the website, including an automated chat bot on the website
- > Automated contact centre phone solution

- > Phone calls between our contact centre team members and customers.

To further improve customer experience, additional projects are underway to communicate ETRs.

- > ETRs will be communicated to life-support customers via automated SMS.
- > A longer-term plan to introduce push notifications or subscription services via an app or portal where customers can register for updates is being considered – either for a specific outage or for updates when outages impact a particular national meter identifier (NMI).

### Weighting

As highlighted in consultation, this metric is an aspect of customer service that impacts the greatest number of our customers and is an aspect of performance where significant improvement would be highly valued. Customers are better able to manage the impacts of an unplanned outage when they have an idea of the length of the outage, and when they can expect power to be restored.

As a result, it is proposed that this parameter will have a 50 per cent weighting under the CSIS.

Weighting	Revenue at risk
50%	0.25% of the annual revenue requirement

### Measurement and performance targets

Essential Energy collects data on the proportion of unplanned outages for which an ETR is issued within its field reporting systems. A monthly average is collected.

We propose to set the baseline performance target based on the average of monthly performance over the period from July 2020 to September 2023. Based on average historical performance, the proposed baseline target is 19 per cent.

	Average of monthly averages: July 2020 to September 2023	Proposed baseline target
Percentage of unplanned outages with ETRs	18.08%	19%

### Incentive rate

The incentive rate has been based on changes in performance relative to the baseline performance target. A maximum and minimum performance range is defined for the 2024–29 period.

The upper-bound target is set at 29 per cent (that is, 29 per cent of unplanned outages have an ETR made available). This reflects a strong performance stretch target that would be challenging to meet in the 2024–29 period.

The lower-bound target of 9 per cent is symmetric and provides the scope for penalties to apply over a significant range of lower performance levels. In addition, penalties would apply for any reduction in performance below what has been achieved in recent years.

The incentive rate reflects the slope of the reward line. The incentive rate is set with reference to the upper and lower bounds of performance that would be rewarded or penalised, and the maximum amount of revenue at risk under this performance parameter (which is 0.25 per cent of Essential Energy’s annual revenue requirement).

The incentive rate is equal for every percentage change in performance from the baseline target.

Maximum performance target	Minimum performance target	Incentive rate
29% of unplanned outages with ETRs	9% of unplanned outages with ETRs	0.05%

## Parameter 2: Time to resolve customer complaints

This performance parameter incentivises Essential Energy to minimise the amount of time taken to resolve customer complaints. This can be a complaint of any kind, excluding those that have been referred to the Energy and Water Ombudsman NSW (EWON) for resolution.

### Definition

**Parameter 2 definition:** Annual average number of calendar days to resolve all customer complaints, excluding complaints that have been referred to the EWON for resolution. Calendar days are used as complaints can be opened and closed on weekends, as well as on weekdays. The time taken by EWON is excluded as it is outside of Essential Energy's control and can be significant as these are more complex matters.

### Weighting

As preferred by customers, it is proposed that this parameter will have a 30 per cent weighting under the CSIS.

Weighting	Revenue at risk
30%	0.15% of the annual revenue requirement

### Measurement and performance targets.

Complaints data is captured in Essential Energy's Customer Interaction System (ServiceNow). ServiceNow captures data on all types of customer complaints, and these are all included for the purposes of measuring performance under this parameter.

The measure of the time taken to resolve the complaint includes all time, and hence may include time periods that are within and outside Essential Energy's control. For example, the measured complaints resolution period includes the time taken by customers to provide additional information where relevant to resolve the complaint.

We have set the baseline performance target with reference to average monthly performance over the period from July 2020 to September 2023. The proposed baseline target represents a slight improvement on this performance, which we consider represents a suitable baseline for the 2024–29 period.

	Average of monthly averages: July 2020 to September 2023	Proposed baseline target
Average number of calendar days	14.56	14.4

### Incentive rate

The incentive rate has been based on changes in performance relative to the baseline performance target. A maximum and minimum performance range is defined for the 2024–29 period. Under this parameter, a reduction in the average number of calendar days relative to the baseline target represents an improvement in performance.

The upper-bound performance target, which is set at 13.4 (that is, 13.4 annual average number of calendar days), would represent a significant performance improvement in the 2024–29 period.

The lower-bound target (of 15.4 days) is symmetric and provides the scope for penalties to apply over a significant range of lower performance levels. In addition, penalties would apply for any reduction in performance below what has been achieved in recent years.

The incentive rate reflects the slope of the reward line. The incentive rate is set with reference to the upper and lower bounds of performance that would be rewarded or penalised, and the maximum amount of revenue at risk under this performance parameter (which is 0.15 per cent of Essential Energy’s annual revenue requirement).

The incentive rate is equal for every percentage change in performance from the baseline target.

Maximum performance target	Minimum performance target	Incentive rate
13.4	15.4	-0.005%

### Parameter 3: Customer ease

In our Proposal the customer ease performance parameter was divided into 3(a) and 3(b) to reflect the two different sources of data for its measurement. Parameter 3(a) was based on a quarterly customer survey conducted by an independent research firm, whereas 3(b) is based on Essential Energy’s post-interaction surveys. As discussed above we will no longer be including 3(a) and the weighting and incentive rate for it will be reallocated to Parameter 3(b). Parameter 3(b) becomes Parameter 3 for the 2024-29 CSIS.

#### Definition

**Parameter 3 definition:** Customer satisfaction as measured by the post-interaction survey ‘customer ease’ score of between 1 and 5. A score of 1 represents the poorest performance and a score of 5 represents the best performance.

#### Weighting

As agreed with customers, it is proposed that this parameter will have a 20 per cent weighting under the CSIS.

Weighting	Revenue at risk
20%	0.10% of the annual revenue requirement

#### Measurement and performance targets

A survey is offered to customers after each interaction with the call centre, and customers can provide feedback across three different questions via an automated survey. The customer satisfaction/ease question asks:

*How easy is Essential Energy to do business with?*

Customers are asked to respond with a score from 1 (which represents not easy at all and hence the worst performance by Essential Energy) to 5 (which represents very easy and hence the best performance by Essential Energy).

This is a new survey system which went live at the end of August 2022. Essential Energy answers approximately 250,000 calls each financial year and is achieving between five and eight per cent survey completion rate (around 80 surveys per day).

The proposed baseline performance target is set just above the average of monthly average performance since the implementation of the post-interaction survey, that is, over the period from September 2022 to September 2023.



	Average of monthly averages: September 2022 to September 2023	Proposed baseline target
Post-interaction customer satisfaction score	4.38	<b>4.39</b>

### Incentive rate

The incentive rate has been based on changes in performance relative to the baseline performance target. A maximum and minimum performance range is defined for the 2024–29 period.

The upper-bound performance target, which is set at 4.51 (that is, 4.51 out of 5, based on the post-interaction survey question), would represent a performance improvement in the 2024–29 period.

The lower-bound target of 4.27 is symmetric and provides the scope for penalties to apply over a significant range of lower performance levels. In addition, penalties would apply for any reduction in performance below what has been achieved recently.

The incentive rate reflects the slope of the reward line. The incentive rate is set with reference to the upper and lower bounds of performance that would be rewarded or penalised, and the maximum amount of revenue at risk under this performance parameter (which is 0.10 per cent of Essential Energy’s annual revenue requirement).

The incentive rate is equal for every percentage change in performance from the baseline target.

Maximum performance target	Minimum performance target	Incentive rate
4.51	4.27	0.04%

## CSIS design meets the scheme objectives and design criteria

The scheme objectives, defined in clause 1.4 of the CSIS, are that it should:

- > be consistent with the National Electricity Objective
- > be consistent with the requirements of a small-scale incentive scheme, including relating to efficiency gains or efficiency losses in respect of a distribution system
- > be separate to other incentive schemes and encourage efficient and prudent expenditure
- > align to customer preferences
- > promote transparency and understanding of Essential Energy’s customer service initiatives.

The CSIS meets these objectives as it promotes the long-term interests of our customers and is aligned to their preferences for areas of improvement in customer service outcomes. The CSIS design does not overlap with any other incentive arrangements and will provide modest incentives for efficient expenditure to achieve these outcomes in accordance with customer willingness to pay.

The CSIS design also complies with the incentive design criteria defined in clause 3.1 of the CSIS. In accordance with the criteria, the CSIS limits the revenue at risk to 0.5 per cent of annual revenue, clearly sets out the scheme elements, has an incentive design that is supported by our customers, relates to the 2024–29 regulatory period, and calculates the revenue adjustment in accordance with the AER’s previously applied method.

## Revenue adjustment H-factor calculation

The H-factor for each parameter is calculated by comparing a Distribution Network Service Provider's performance against its parameters and the performance targets and incentive rates included in its distribution determination for a regulatory year during the regulatory control period.

The raw H-factor is the sum of the H-factors for each parameter. Equation (X) ensures that the raw H-factor result cannot exceed the percentage of revenue at risk specified in clause 3.1(1)(f) or the relevant distribution determination.

$$H_t^{\%} = \min(\max(H_t', H^-), H^+)$$

where:

$H^-$  is the lower limit of the revenue at risk

$H^+$  is the upper limit of the revenue at risk

$H_t'$  is the sum of the raw H-factors for all customer service parameters

The sum of the raw H-factors for all customer service parameters is calculated as follows:

$$H_t' = \sum_p ir^p \times [Act_t^p - Tar_t^p]$$

where:

$H_t$  is the sum of the raw H-factors for all parameters

$p$  is a performance parameter

$ir^p$  is the incentive rate for parameter  $p$

$Act_t^p$  is the actual performance for parameter  $p$  in year  $t$

$Tar_t^p$  is the target performance for parameter  $p$  in year  $t$

$t$  is the regulatory year  $t$ .