



FINAL DECISION

AusNet Services Distribution Determination 2021 to 2026

Attachment 12 Customer service incentive scheme

April 2021

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AER reference: 63599

Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to AusNet Services for the 2021–26 regulatory control period. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

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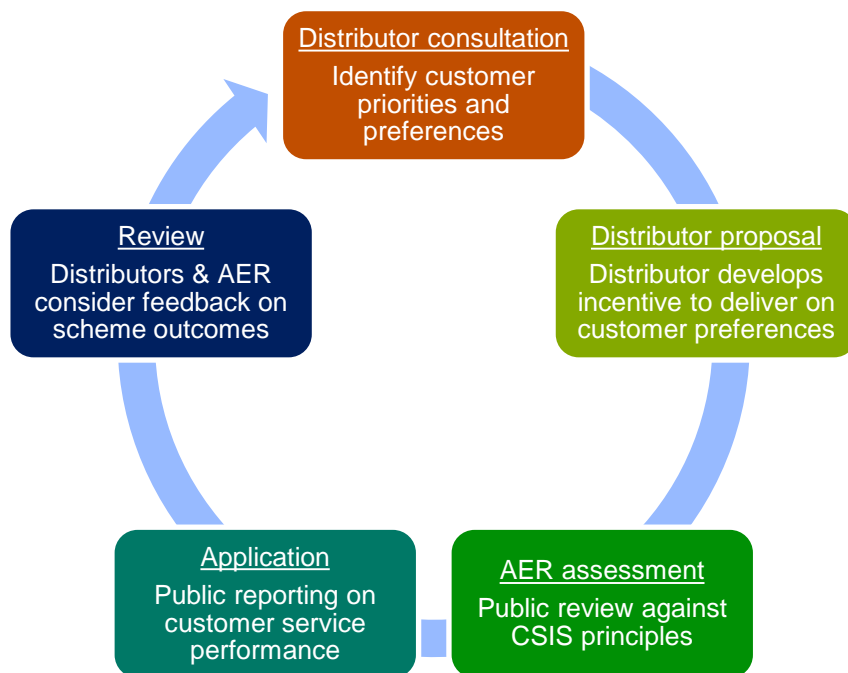
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12 Customer Service Incentive Scheme

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

The CSIS is a flexible 'principles based' scheme that can be tailored to the specific preferences and priorities of a distributor'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 rewards/penalties under the scheme are commensurate with improvements/detriments to customer service. Figure 1 illustrates how the CSIS works in practice.

Figure 1 Application of the CSIS



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

Under the CSIS, distributors may propose different 'incentive designs'. For the CSIS to be applied, incentive designs must meet the scheme's principles. Importantly, we will not apply an incentive design unless a distributor can demonstrate that its customers support the incentive design through genuine engagement.

We consider that AusNet Services' customers will benefit from the application of the CSIS. Overall, the incentives target areas of service that customers want improved. We have set performance targets under the CSIS at the level of current performance. This will ensure that AusNet Services is only rewarded for genuine performance

improvements. The incentive rates have been tested with customers to confirm that they align with the value that customers place on the performance improvement. This means that, even if AusNet Services is able to easily beat the targets, customers will still benefit. Further, if distributors seek to apply the CSIS in subsequent regulatory control periods, the targets under the scheme will be set in accordance with any improved level of customer service.

To ensure that the CSIS is working as intended, we will publicly share performance data on our website. We will also review the application of the CSIS within our performance reports (as illustrated in Figure 1). Feedback received on the application of the scheme to AusNet Services may be used to guide other distributors in designing their proposals.

During 2021–26 regulatory control period, we may also decide to suspend the application of the CSIS to AusNet Services, if we are satisfied that the incentive design is no longer compliant with the CSIS principles.¹

12.1 Final decision

Our final decision is to uphold our draft decision and apply AusNet Services' proposed incentive design.² Final targets for AusNet Services have been updated following the receipt of performance data for 2019–20.

The total revenue at risk for customer service performance will be 0.5 per cent of total annual revenue.

12.2 AusNet Services' revised proposal

AusNet Services has trialled a new process to develop its regulatory proposal called 'New Reg' under which it negotiated elements of its regulatory proposal with an independent, expert Customer Forum.³ As part of the negotiations, AusNet Services negotiated to apply customer service incentives with its Customer Forum.

The Customer Forum engaged extensively in consultation in the development of AusNet Services' proposed incentive design. A comprehensive list of the Customer Forum's engagement activities is provided in Appendix B of the Customer Forum's Final Engagement Report.⁴

¹ AER, *Final Customer Service Incentive Scheme*, July 2020, Section 4.3.

² AusNet Services, *Electricity Distribution Price Review 2022–26*, January 2020, p. 233.

³ The AER, Energy Networks Australia and Energy Consumers Australia have developed "New Reg", a joint initiative to explore ways to improve sector engagement and identify opportunities for regulatory innovation. The goal of this initiative is to ensure that customers' preferences drive energy network businesses proposals and regulatory outcomes. Under the New Reg process the most significant departure from traditional practice is that a Customer Forum negotiates aspects of the regulatory proposal in advance of lodgement with the AER. The Customer Forum does not represent the perspectives of particular interests, instead conducting research and customer engagement to ensure it can effectively represent the perspectives of all the network businesses' customers.

⁴ AusNet Services' Customer Forum, *Customer forum final engagement report*, January 2020, pp. 63–79.

In its CSIS incentive design, AusNet Services proposed four 'performance parameters' to be incentivised. These are customer satisfaction with:

1. Communication on unplanned outages;
2. Communication on planned outages;
3. Customer service for new connections (basic and standard); and
4. Customer service in managing complaints.

For each parameter, customer satisfaction is measured using a survey where customers rate AusNet Services' customer service with a score between 0 and 10, where 0 is 'extremely dissatisfied' and 10 is 'extremely satisfied'. Below we outline each of these parameters in further detail.

12.2.1 Communication relating to Unplanned Outages

The unplanned outage parameter provides an incentive for AusNet Services to improve its communication on unplanned outages.⁵ After an unplanned outage, AusNet Services will ask its customers to rate its communications in respect to that unplanned outage. As unplanned outages impact a broader group of customers, improvements in this area are considered to have widespread impact.⁶

Based on AusNet Services' independent research gathering of monthly telephone surveys to residential and business customers, with a total sample size of 815 participants over the 2019–20 period for electricity and gas services, the average target for unplanned outages is 6.5.⁷

AusNet Services and its Customer Forum agreed on a reward/penalty of \$484 246 (0.08 per cent of revenue) for each 1-point improvement/degradation in satisfaction annually.⁸ The updated targets were communicated with the Customer Forum in October 2020.⁹

⁵ Unplanned outages are defined by AusNet Services as an unexpected interruption to supply that has a duration of at least one minute. See AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 235.

⁶ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 235.

⁷ AusNet Services, *Revised Regulatory Proposal ASD - CSIS - CSAT data, targets and reporting template*, December 2020.

⁸ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 238.

⁹ AusNet Services, *Revised Regulatory Proposal 2021–26*, December 2020, p. 142.

12.2.2 Communication relating to Planned Outages

Planned outages similarly affect all customers in specified regions, and have a widespread impact.¹⁰¹¹ Like unplanned outages, AusNet Services will ask its customers to rate its communication on planned outages.

Based on a total sample size of 1045 participants over the 2019–20 period, the average target for planned outages is 7.4 for electricity and gas services.

AusNet Services and its Customer Forum agreed on a reward/penalty of \$484 246 (0.08 per cent of revenue) for each 1-point improvement/degradation in satisfaction annually.¹²

12.2.3 New connections (basic and standard)

New connections affect a smaller group of customers, but is considered to be an important interaction stage with the customer, as delays may occur when seeking to occupy a premises.¹³ This parameter captures both basic and standard connections.¹⁴

Based on a sample size of 735 participants over the 2019–20 period, the current target for new connections is 6.6.

AusNet Services and its Customer Forum agreed on a reward/penalty of \$484 246 (0.08 per cent of revenue) for each 1-point improvement/degradation in satisfaction annually.¹⁵

12.2.4 Complaints

Complaints are brought by a small portion of AusNet Services' overall customer base, and may be indicative of a deficiency in service delivery.¹⁶ AusNet Services defines this parameter to capture escalated customer disputes that have not been resolved by a Resolutions Team member.¹⁷

¹⁰ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 234.

¹¹ Ibid. AusNet Services defines planned outages as pre-arranged interruptions to supply where affected customers are given advanced notification (including both short sustained and general interruptions), p. 235.

¹² AusNet Services, *Revised Regulatory Proposal ASD - CSIS - CSAT data, targets and reporting template*, December 2020

¹³ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 234.

¹⁴ AusNet Services defines a basic connection as including a meter hanger, without the need for network changes or upgrades. A standard connection however, requires a network change, and may include a new pole installation, line extension or upgrade, construction or technical changes. It, however excludes negotiated or more complex connections. Source: AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 235.

¹⁵ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 238.

¹⁶ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 234.

¹⁷ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 235.

Based on a total sample size of 295 participants over the 2019–20 period, the average target for planned outages is 3.8.¹⁸

AusNet Services and its Customer Forum agreed on a reward/penalty of \$242 123 (0.04 per cent of revenue) for each 1-point improvement/degradation in satisfaction annually.¹⁹

However, unlike the above parameters, a deadband ('minimum threshold') is applied for customer complaints. As the current performance is stipulated as 3.8 out of 10, with industry leading performance 5.8 out of 10, the Customer Forum expressed concern that AusNet Services would be rewarded for improving complaints from a low baseline.²⁰ AusNet Services agreed to a proposed deadband of 5 out of 10, and will therefore only receive incentive payments if performance exceeds this threshold.²¹

12.3 Assessment approach

Under Section 2.1 of the final CSIS, we will apply a distributors' proposed incentive design to a distribution determination if we consider it:

- (a) will achieve the CSIS objectives;
- (b) meets the incentive design criteria, which includes CSIS principles; and
- (c) is accompanied by a proposal that meets the incentive design proposal requirements.

We have therefore assessed AusNet Services' proposed incentive design against this criteria.²² The objectives for the CSIS are that it:

- 1) Is consistent with the *national electricity objective* in section 7 of the *National Electricity Law (NEL)*,
- 2) 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;
 - (a) *Distributors* should be rewarded or penalised for efficiency gains or losses in respect of its *distribution systems*,
 - (b) 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;
 - (c) 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

¹⁸ AusNet Services, *Data Targets and Reporting Template*, December 2020.

¹⁹ AusNet Services, *Data Targets and Reporting Template*, December 2020.

²⁰ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 237.

²¹ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 237.

²² AER, *CSIS Explanatory Statement*, July 2020, section 2.1.

result from efficiency losses in respect of a distribution system should warrant the penalties provided under the *scheme*

- (d) The interaction of the *scheme* with other incentives that distributors may have under the rules, and
 - (e) The *capital expenditure objectives* and the *operating expenditure objectives*.
- 3) Achieves clauses 1.4(1) and 1.4(2) by aligning the incentives of distributors with the customer service preferences of their customers.
 - 4) Promotes transparency and understanding throughout the *National Electricity Market* (NEM) regarding a *distributor's* customer service initiatives.

We consider that these objectives are complimentary, and overall the scheme will deliver on these and the national electricity objective. An incentive for AusNet Services to maintain and improve its customer services, in line with the interests of its customers, gives effect to the long term interests of consumers.²³ Our assessment is set out below.

12.4 Reasons for final decision

The reasons for our final decision are consistent with those in our draft decision.²⁴ We consider that AusNet Services' design achieves the CSIS objectives and meets the incentive design requirements, having regard to the principles of the CSIS.

We consider that AusNet Services has therefore satisfied the requirements under Section 2.1 of the CSIS. We set out our reasoning below.

12.4.1 CSIS objectives

AusNet Services' proposed incentive design will penalise AusNet Services for degrading, or reward AusNet Services for improving 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 AusNet Services' 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 AusNet Services is currently subject to. AusNet Services intends that the CSIS replaces the current service target performance incentive scheme (STPIS) call answering parameter, as it achieves broader consumer objectives, while matching the overall revenue at risk.²⁵

²³ NEL, Section 7.

²⁴ AER, *AusNet Services Distribution Determination 2021–26 – Draft Decision*, September 2020.

²⁵ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, pp. 233, 237.

We have had regard to the capital²⁶ and operating²⁷ expenditure objectives 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 we are providing AusNet Services with an incentive to at least maintain its current levels of customer service.

AusNet Services' public negotiation with its Customer Forum has promoted an understanding of customer service. AusNet Services' ongoing application and reporting on the CSIS will further this understanding.

As AusNet Services is incentivised to maintain at least current levels of performance through rewards and penalties, the proposed scheme meets the objectives of a small scale incentive scheme. These incentives are aligned with customer preferences, as parameters and targets were identified through consumer engagement processes, and approved by the Customer Forum.

By requiring AusNet Services to report on its performance, the scheme contributes to promote consumer understanding in accordance with the CSIS objectives.

12.4.1.1 Incentive design criteria

Under Section 3.1 of the CSIS, the incentive design criteria include a number of principles. We have considered AusNet Services' 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.

We separately consider each of these components of AusNet Services' proposed incentive design below.

12.4.1.2 Performance parameters

The relevant principles for performance parameters are that each performance parameter must be an aspect of the customer experience component of the distributor's standard control services;

²⁶ NER, cl.6.5.7.

²⁷ NER, cl.6.5.6.

- (a) that the customers of the distributors particularly value and want improved, as evidenced by genuine engagement with, and support from, the distributor's customers,
- (b) that is substantially within the control of the distributor, and
- (c) for which the distributor does not already have an incentive under another incentive scheme or jurisdictional arrangement.²⁸

Genuine engagement with, and support from a distributor's customers is necessary for us to apply an incentive design under the CSIS. We expect that customer support would be demonstrated by distributors through broad consultation, using a number of different consultation processes to reflect views across vulnerable household customers, small business and commercial and industrial businesses.²⁹ Customers should also be provided with more than one opportunity to provide input.³⁰

AusNet Services' proposed incentive design has been underpinned by genuine engagement with its customers through its customer research and negotiations with its Customer Forum.³¹ This engagement has been documented in the Customer Forum's engagement report and on AusNet Services' website.³² The parameters were agreed upon after extensive negotiations with the Customer Forum,³³ and reflected 'key areas of concern amongst customers'.³⁴ Submissions from the Victorian Community Organisations and Energy Consumers Australia considered that AusNet Services' metrics are reasonable and a likely reflection of customer priorities,³⁵ and focused on areas that customers value.³⁶ The Consumer Challenge Panel, sub-panel 17 (CCP17) also submitted that it was supportive of the CSIS, but noted that the CSIS may not be readily accessible to representative groups. To address this the CCP17 encouraged us to give consideration as to how this challenge might be addressed through 2021, potentially by consulting with customer representatives and other stakeholders to understand how best to analyse and present the information in a meaningful way.³⁷ Through our network performance reporting, and the upcoming review of incentive schemes, we will work with stakeholders to present timely, clear and informative reporting on incentive scheme payments and outcomes. We will also regularly revisit how we present data in the ongoing development of our performance reports.

²⁸ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

²⁹ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

³⁰ AER, *CSIS Explanatory Statement*, July 2020, p. 9.

³¹ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

³² AusNet Services' Customer Forum, *Customer forum final engagement report*, January 2020, pp. 63–79.

³³ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 232.

³⁴ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 234.

³⁵ Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 26.

³⁶ Energy Consumers Australia, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 18.

³⁷ CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, p. 68.

Regarding the second principle, we consider that the performance parameters are substantially within the control of AusNet Services,³⁸ as they relate directly to the services it provides. There are no duplicate incentive schemes or jurisdictional arrangements covering these parameters.³⁹ We note that the CSIS replaces the existing STPIS telephone answering parameter.

AusNet Services' 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.

12.4.1.3 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:

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

AusNet Services' proposed approach accurately measures the features of the identified performance parameters,⁴⁰ and is based upon an independently developed methodology.⁴¹

AusNet Services has engaged Customer Service Benchmarking Australia (CSBA) to survey its performance for the CSIS. This is the same firm which gathered historical performance data used to set targets for the CSIS.⁴²

AusNet Services has applied ISO 20252 (Market & Social Research) standards in collecting its survey data. The data is thus compiled in an objective and reliable manner.⁴³ CSBA retains the data in a secure and logically indexed database,⁴⁴ which is capable of being audited.⁴⁵

CSBA conducts its research through quantitative measurements, with optimum sample sizes to ensure results are statistically robust and within acceptable margins of error.

³⁸ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

³⁹ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴⁰ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴¹ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴² AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 235.

⁴³ CSBA, *Quality Management System - Quality Management Population Statement*, p. 4.

⁴⁴ AER, *CSIS Explanatory Statement*, July 2020, p. 8.

⁴⁵ AER *CSIS Explanatory Statement*, July 2020, p. 8.

Where relevant, weightings are used to enhance the representations of samples to reflect the target population. Consistent rating scales are adopted and indexed against industry norm.⁴⁶

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

12.4.1.4 Assessment approaches

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. These principles establish a baseline or neutral level of performance against which performance is assessed.

For each of its parameters AusNet Services has proposed average historical performance as the target. This will ensure that AusNet Services is only rewarded if it improves on its historical performance.⁴⁷ However, for the complaints parameter, the Customer Forum considered that the target of 3.6 out of 10, as based on average historical performance, was not considered acceptable. Under the revised targets based on 2019–20 historical performance, the target is 3.8 out of 10, and remains low. Using historical targets would incentivise performance off a low baseline, noting that industry leading performance is 5.8 out of 10.⁴⁸ A deadband has therefore been applied for the complaints threshold to be set at 5 out of 10, ensuring that AusNet Services is only rewarded for material improvements to customer service.⁴⁹

AusNet Services' historical performance in respect of the identified parameters has been quantified as a single value between 1 to 10,⁵⁰ ensuring that actual performance can be compared to the performance targets to calculate the applicable penalty/reward.

There is a clear relationship between the performance and determination of a reward or penalty,⁵¹ with improvements/deterioration resulting in commensurate rewards or penalties.⁵² Incentive rates are provided in Table 9-1 of *AusNet Services' Revised Regulatory Proposal 2022–26*.

AusNet Services' incentive design meets the principles as it establishes a direct relationship between identified parameters and AusNet Services' performance ensuring that it is correctly rewarded or penalised.

⁴⁶ CSBA, *Quality Management System - Quality Management Population Statement*, p. 1-2.

⁴⁷ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁴⁸ AusNet Services, *Electricity Distribution Price Review 2022–26*, January 2020, pp. 236-7.

⁴⁹ See Section 12.2.4 of this paper.

⁵⁰ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁵¹ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁵² AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

12.4.1.5 Financial

AusNet Services is rewarded or penalised financially in proportions relative to the degree of performance, as calculated by the identified value of the service improvement.⁵³ The fixed performance targets are set using the average of the Customer Satisfaction data,⁵⁴ with rewards or penalties set for any 1 point change in performance.⁵⁵ While there is a subjective element in the agreement of these rates, it was agreed with the Customer Forum, through transparent and genuine consultation⁵⁶ that the level would not unduly reward AusNet Services.⁵⁷

The Victorian Community Organisation's submission noted that whilst it was supportive of the proposed CSIS, there was a concern that target measures may be 'too easily achievable'.⁵⁸ Whether the targets are 'easy to achieve' remains to be seen. However, we note that AusNet Services will only be rewarded if it improves on historical performance and only to the extent that customers consider is appropriate for the service improvement. Thus we consider that customers will benefit regardless of how easily AusNet Services is able to improve its performance. We also note that the total rewards are capped at 0.5 per cent of total revenue protecting customers from significant price increases.

AusNet Services considered that the proposed incentive rates would require a significant increase for the maximum reward to be achieved.⁵⁹ Irrespective of the difficulty of the targets, we note that customers will benefit from the application of the CSIS.

To ensure that the incentives do not exceed the value that customers attribute to the level of service improvement observed,⁶⁰ AusNet Services has applied a deadband to the complaints parameter. By applying a deadband at 5 out of 10, as opposed to being rewarded for any performance above 3.8 out of 10, it ensures that AusNet Services is only rewarded for material improvements to customer service.⁶¹

In its revised proposal, AusNet Services proposed higher targets for communication on planned outages, customer service for new connections and customer service in managing complaints. These targets have been set to reflect improved customer service and satisfaction levels in 2019–20,⁶² and aligns with our direction that targets use the most recent performance data.

⁵³ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 238.

⁵⁴ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 236.

⁵⁵ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 236.

⁵⁶ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 6.

⁵⁷ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 237.

⁵⁸ Victorian Community Organisations, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, p. 61.

⁵⁹ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 237.

⁶⁰ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

⁶¹ AusNet Services, *Electricity Distribution Price Review 2022–26 – part III*, January 2020, p. 236.

⁶² AusNet Services, *Revised Regulatory Proposal 2021–26*, p. 143.

We informed AusNet Services that a minor amendment is required to the control formula to apply a two year lag rather than a three year lag between performance measurement and revenue adjustment.⁶³ AusNet Services has agreed with this approach.⁶⁴ This revised approach is consistent with how the CSIS is intended to operate and, therefore we consider it will better achieve the scheme objectives. The revenue control formula under the CSIS is not prescriptive and we consider that AusNet Service's proposed alternative application gives effect to the scheme's objective.

The revised revenue adjustment formula further ensures that rewards or penalties are commensurate with service improvements or degradations.⁶⁵

When considered in aggregate, the incentives available to AusNet Services do not exceed the value customers attribute to the customer service.⁶⁶ The quantum of the incentives or penalties are therefore commensurate with any service improvement or deterioration, and hence satisfy the financial principles.

⁶³ Specifically we have altered the formula on page 10 of the CSIS to the following: $H'_t = \sum_p ir^p \times [Act_t^p - Tar_t^p]$.

⁶⁴ AusNet Services, Information request 92 – Q1 - CSIS Revenue Adjustment Formula, 3 March 2021.

⁶⁵ AER, *Final Customer Service Incentive Scheme*, July 2020, Section 3.2(5) (b).

⁶⁶ AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
CCP17	Consumer Challenge Panel, sub-panel 17
CSBA	Customer Service Benchmarking Australia
CSIS	Customer service incentive scheme
Distributor	Distribution network service provider
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
STPIS	service target performance incentive scheme
