



**FINAL DECISION**  
**CitiPower, Powercor**  
**and United Energy**  
**Distribution**  
**Determination**

**2021 to 2026**

**Attachment 12**  
**Customer service incentive**  
**scheme**

April 2021

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## Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to CitiPower, Powercor and United Energy 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

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Customer Service Incentive Scheme

Attachment 13 – Classifications of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment A – Negotiating framework

# Contents

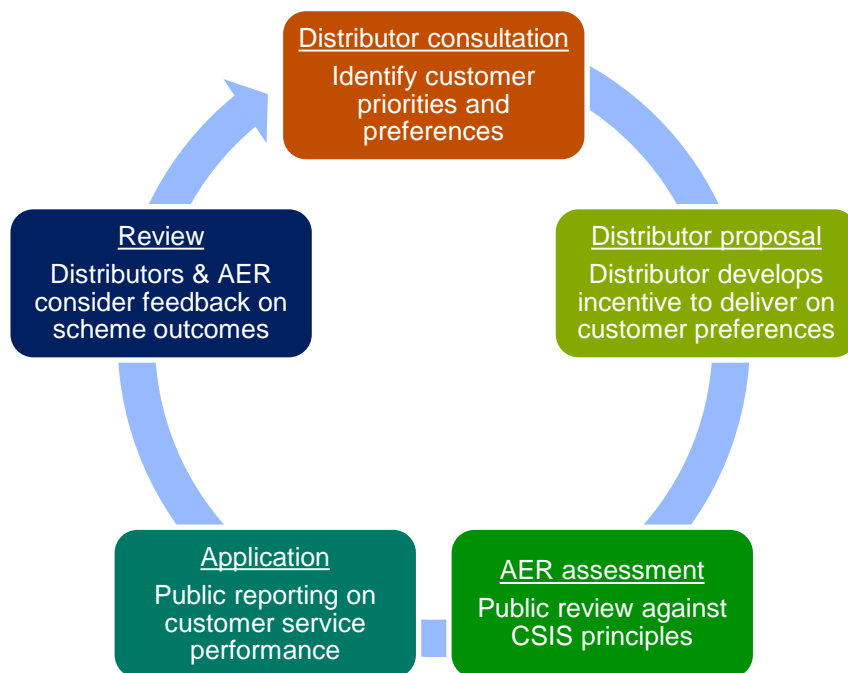
<b>Note</b> .....	<b>12-2</b>
<b>Contents</b> .....	<b>12-3</b>
<b>12 Customer service incentive scheme</b> .....	<b>12-4</b>
<b>12.1 Final decision</b> .....	<b>12-5</b>
<b>12.2 CitiPower, Powercor and United Energy's proposal</b> .....	<b>12-5</b>
12.2.1 SMS communication for Unplanned Outages .....	12-6
12.2.2 Frequency and duration of Planned Outages .....	12-7
12.2.3 Customer service in telephone answering .....	12-8
<b>12.3 Assessment approach</b> .....	<b>12-9</b>
<b>12.4 Reasons for final decision</b> .....	<b>12-10</b>
12.4.1 The National Electricity Objective .....	12-10
12.4.2 The CSIS objective .....	12-10
12.4.2.1 Incentive Design Criteria.....	12-11
12.4.2.2 Performance Parameters.....	12-11
12.4.2.3 Measurement Methodology .....	12-13
12.4.2.4 Assessment Approaches .....	12-14
12.4.2.5 Financial Component.....	12-15
<b>Shortened forms</b> .....	<b>12-16</b>

## 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 their 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 schemes' 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 CitiPower, Powercor and United Energy's 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 CitiPower, Powercor and

United Energy 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 CitiPower, Powercor and United Energy are 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 CitiPower, Powercor and United Energy may be used to guide other distributors in designing their proposals.

During the regulatory control period, we may also decide to suspend the application of the CSIS to CitiPower, Powercor and United Energy, if we are satisfied that the incentive design is no longer compliant with the CSIS principles.<sup>1</sup>

## 12.1 Final decision

Our final decision is to apply CitiPower, Powercor and United Energy's proposed incentive design.<sup>2</sup>

CitiPower, Powercor and United Energy's proposed scheme replaces the current Service Target Performance Incentive Scheme (STPIS) telephone answering parameter with a more holistic incentive that addresses its customer's preferences, as identified through a genuine and thorough engagement process. The scheme has been approved by CitiPower, Powercor and United Energy's Customer Advisory Panel, and external stakeholders have also expressed support for the scheme in submissions.

Across CitiPower, Powercor and United Energy, we have capped the maximum penalties or rewards under the scheme (the revenue at risk) at 0.5 per cent of total revenue.<sup>3</sup>

## 12.2 CitiPower, Powercor and United Energy's proposal

We are considering CitiPower, Powercor and United Energy's proposal together as the businesses jointly consulted on and developed its incentive designs. The businesses executed a five-stage engagement approach involving 914 total customers to develop elements of its proposed incentive design. As part of the engagement process, CitiPower, Powercor and United Energy tested customer service incentives with its

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<sup>1</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, Section 4.3.

<sup>2</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020.

<sup>3</sup> Based on the [proposed revenue](#) across CitiPower, Powercor and United Energy for 2021–26; CitiPower, Powercor and United Energy, *Victorian electricity determination 2021–26 - virtual public forum presentation*, April 2020, pp 16, 25, 37.

Customer Advisory Panel, the Consumer Challenge Panel, sub-panel 17 (CCP17) and Energy Consumers Australia (ECA).<sup>4</sup>

The Customer Advisory Panel is a five-member panel with representatives of the 'average customer, vulnerable customers, commercial customers, small and large renewables and the Victorian Government',<sup>5</sup> reflecting CitiPower, Powercor and United Energy's diverse customer base.

Forethought was engaged as an independent body to survey customer service performance and develop its CSIS proposal in the initial stages of customer engagement, including:

1. Preliminary research to gather customer feedback over 2017–19.
2. Online discussion forums and interviews to explore customers' relationship with CitiPower, Powercor and United Energy.
3. Quantitative research of customer preferences and values.
4. Customer workshops and Commercial and Industry (C&I) interviews on CSIS design.<sup>6</sup>

In its CSIS incentive design, CitiPower, Powercor and United Energy proposed three 'performance parameters' to be incentivised across the distribution businesses (with the exception of the planned outages parameter to CitiPower). These are:

1. SMS communication on unplanned outages;
2. Frequency and duration of planned outages; and
3. Customer service in telephone answering.

Below we outline each of these parameters in further detail.

### **12.2.1 SMS communication for Unplanned Outages**

The SMS notifications parameter provides an incentive for CitiPower, Powercor and United Energy to improve the speed and reach of its SMS communication to customers concerning unplanned outages across its three distribution businesses.<sup>7</sup>

This requires all businesses to send an 'aware message' to customers that includes the estimated time of restoration and provide a website link to a network outage map where more information, including customer service contact details, is made available. Where known, messaging will also include the cause and location of the unplanned

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<sup>4</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, p. 3.

<sup>5</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, p. 7.

<sup>6</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, p. 3.

<sup>7</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, p. 3.

event, or indicate likely possibilities to provide the best available information to customers.<sup>8</sup>

Customers across CitiPower, Powercor and United Energy expressed a desire for their unplanned outage experiences to be improved through more effective and efficient communications.<sup>9</sup> SMS notifications were identified as the preferred method of communication during unplanned outages,<sup>10</sup> and customers placed high value on the speed and quality of information.<sup>11</sup>

Based on CitiPower, Powercor and United Energy's independent assessment of historical data from 1 January 2019 to 30 June 2020, the 'aware message' was sent in eight minutes or less from the start of the unplanned outage to customers:

- 63 per cent of the time for Powercor;
- 57 per cent for CitiPower; and
- 9 per cent for United Energy.

CitiPower, Powercor and United Energy, and its Customer Advisory Panel agreed on a reward/penalty of 0.04 per cent of revenue for every 1 per cent improvement on baseline targets with a time stretch target of six minutes or less, which is two minutes faster than current performance.

## 12.2.2 Frequency and duration of Planned Outages

Planned outages are not currently incentivised under the STPIS or the Guaranteed Service Level scheme.

Customers placed high value on reducing the frequency and duration of planned outages across Powercor and United Energy, but considered that CitiPower exceeded customer expectations. The planned outages parameter therefore will not apply to CitiPower.<sup>12</sup>

Based on the July 2015 to June 2020 period, the System Average Interruption Duration Index (SAIDI)<sup>13</sup> and System Average Interruption Frequency Index (SAIFI)<sup>14</sup> figures were 65.97 and 0.32 for Powercor, and 73.81 and 0.23 for United Energy (the baseline targets).

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<sup>8</sup> CitiPower, Powercor and United Energy have provided this feedback to the AER in relation to our discussion on concerns that the SMS notification performance parameter would simply be an automated process.

<sup>9</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, p. 3.

<sup>10</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, p. 10.

<sup>11</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 19.

<sup>12</sup> CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, p. 18.

<sup>13</sup> The sum of the durations of all the sustained interruptions (in minutes) divided by the customer base.

<sup>14</sup> The total number of sustained interruptions, divided by the customer base.



Following submissions received on the specificity of the planned outages definition,<sup>15</sup> CitiPower, Powercor and United Energy further revised the CSIS to apply the definition set out in AER's Distribution Reliability Measure Guideline. This revision addresses clarity requested on the geographic range and reference period of the planned outage, to ensure that the measure covers 'the whole of network and excludes monetary interruptions'.<sup>16</sup> This results in a slight change to 65.98 (0.01 variation) for Powercor's SAIFI.

Powercor and United Energy have further built-in a revenue at risk cap of 0.15 per cent for the sum of SAIDI and SAIFI, rather than 0.15 per cent for SAIDI and SAIFI respectively.<sup>17</sup>

Powercor and United Energy propose a reward/penalty of 50 per cent of AER's Values of Customer Reliability for each one per cent change in targets, as customers identified planned outages to be approximately half as inconvenient as unplanned outages.<sup>18</sup>

### 12.2.3 Customer service in telephone answering

While customers across CitiPower, Powercor and United Energy placed a lower value on further improving telephone answering, customer engagement identified that retaining performance in the number of fault line calls answered was still important,<sup>19</sup> particularly as it provided a safety net in ensuring accessibility across different customer groups.<sup>20</sup>

From the July 2015–June 2020 period, fault line calls were answered within 30 seconds 82.3 per cent, 87.4 per cent and 75.2 per cent of the time respectively for Powercor, CitiPower and United Energy.<sup>21</sup>

CitiPower, Powercor and United Energy and its Customer Advisory Panel agreed on a reward/penalty of 0.04 per cent of revenue for each one percent improvement/degradation from the historical baseline targets.<sup>22</sup>

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<sup>15</sup> Consumer Challenge Panel, *Advice to Australian Energy Regulator – Application of CSIS to CPU*, November 2020, p. 8.

<sup>16</sup> CitiPower, Powercor and United Energy, *CSIS – Response to Stakeholder Submissions*, February 2021, p. 7.

<sup>17</sup> CitiPower, Powercor and United Energy, *CSIS – Response to Stakeholder Submissions*, February 2021, p. 7.

<sup>18</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 19.

<sup>19</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 9.

<sup>20</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 12.

<sup>21</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 20.

<sup>22</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 20.

## 12.3 Assessment approach

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

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

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 their *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 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 complementary, and that the overall scheme will deliver on this, including the national electricity objective.

We have therefore assessed CitiPower, Powercor and United Energy's proposed incentive design against these requirements. Our assessment is set out below.

## 12.4 Reasons for final decision

We consider that CitiPower, Powercor and United Energy's proposed incentive design achieves the CSIS objectives and meets the incentive design criteria, having regard to the principles of the CSIS.

We consider that the businesses have therefore satisfied the requirements under Section 2.1 of the CSIS and our final decision is to apply CitiPower, Powercor and United Energy's proposed incentive design. Our reasoning for this is set out below.

### 12.4.1 The National Electricity Objective

We consider that CitiPower, Powercor and United Energy's proposed incentive design gives effect to the National Electricity Objective. The incentive for CitiPower, Powercor and United Energy to maintain and improve its customer services, in line with the interests of its customers, gives effect to the long term interests of consumers.<sup>23</sup> Our detailed review below of CitiPower, Powercor and United Energy's proposed application of the CSIS, against the CSIS objective and principles has informed this opinion.

### 12.4.2 The CSIS objective

CitiPower, Powercor and United Energy's proposed incentive design will penalise or reward the businesses for improving, or degrading, 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 CitiPower, Powercor and United Energy's 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.

The CSIS does not duplicate any other incentive schemes that CitiPower, Powercor and United Energy is subject.<sup>24</sup> We note that, given we are applying the CSIS, we will not be applying the customer service component of the STPIS.

We have had regard to the capital<sup>25</sup> and operating<sup>26</sup> 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 CitiPower, Powercor and United Energy with an incentive to at least maintain its current levels of customer service.

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<sup>23</sup> National Electricity Law, Section 7.

<sup>24</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 5.

<sup>25</sup> National Electricity Rules, cl.6.5.7.

<sup>26</sup> National Electricity Rules, cl.6.5.6.

CitiPower, Powercor and United Energy's consumer engagement processes have promoted an understanding of customer service and the interests of customers. CitiPower, Powercor and United Energy's ongoing application and public reporting on the CSIS will further this understanding.

As the businesses are 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 thorough consumer engagement processes, and approved by the CCP17 and ECA.

By reflecting customer preferences, the scheme contributes to promote consumer understanding and NEL aims, in satisfaction of CSIS objectives.

#### **12.4.2.1 Incentive Design Criteria**

Under Section 3.1 of the CSIS, the incentive design criteria include a number of principles. We have considered CitiPower, Powercor and United Energy's 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 CitiPower, Powercor and United Energy's proposed incentive design below.

#### **12.4.2.2 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:

- (a) that the customers of the distributor 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.<sup>27</sup>

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<sup>27</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 8.

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.<sup>28</sup> Customers should also be provided with more than one opportunity to provide input.<sup>29</sup>

CitiPower, Powercor and United Energy's proposed incentive design has been underpinned by genuine engagement with its customers through extensive research and consultation to identify customer preferences.<sup>30</sup> Views were gathered during three stages of consumer engagement involving online discussion boards, quantitative online surveys, CSIS workshopping and interviews, with multiple opportunities to provide input.<sup>31</sup> These processes reflected the views of different groups of customers – residential,<sup>32</sup> small business<sup>33</sup> and C&I<sup>34</sup>, with a 'fair representation across socio-economic regions'.<sup>35</sup>

Submissions from the CCP17<sup>36</sup> and Victorian Community Organisations considered the parameters to be identified through sound consumer engagement, and a likely reflection of customer priorities.<sup>37</sup> ECA further supported the incentive rates applied to each element of the scheme.<sup>38</sup>

The CCP17 also noted our comment<sup>39</sup> that the CSIS may not be readily accessible to representative groups and other stakeholders.

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

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<sup>28</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 9.

<sup>29</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 9.

<sup>30</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 6.

<sup>31</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 6.

<sup>32</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 6.

<sup>33</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 6.

<sup>34</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 6.

<sup>35</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 7.

<sup>36</sup> CCP17, [CCP17 Advice - Application of Customer Service Incentive Scheme for Citipower, Powercor and United Energy](#), p. 15. See also CCP17, [Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26](#), January 2021, p. 68.

<sup>37</sup> Victorian Community Organisations, [Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26](#), January 2021, p. 26.

<sup>38</sup> ECA, [Submission and attachment on the Victorian EDPR Revised Proposal and draft decision 2021–26](#), January 2021, p. 29.

<sup>39</sup> CCP17, [Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26](#), January 2021, p. 68.

the information in a meaningful way.<sup>40</sup> 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.

The proposed performance parameters are substantially within the control of CitiPower, Powercor and United Energy,<sup>41</sup> as they relate directly to the services it provides. There are no duplicate incentive schemes or jurisdictional arrangements covering these parameters.<sup>42</sup> We note that the CSIS will be applied in place of the STPIS telephone answering parameter. The cap on revenue at risk under the STPIS has been reduced to 4.5 per cent from 5 per cent as we are applying the CSIS. So the total revenue placed at risk will remain 5 per cent.

In summary, CitiPower, Powercor and United Energy's incentive design meets the performance parameter principles as the parameters were developed through genuine consumer engagement, do not duplicate other incentives and relate to services within its control.

#### **12.4.2.3 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.

For all parameters across CitiPower, Powercor and United Energy, Forethought was engaged to survey its performance for the CSIS and develop an independent methodology.<sup>43</sup> CitiPower, Powercor and United Energy's proposed approach accurately measures the features of the identified performance parameters, and research was conducted through quantitative measurements, with optimum sample sizes to ensure results are statistically robust and within acceptable margins of error.

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<sup>40</sup> CCP17, *Submission on the Victorian EDPR Revised Proposal and draft decision 2021–26*, January 2021, p. 68.

<sup>41</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 8.

<sup>42</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 8.

<sup>43</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement – Qualitative Research Findings*, June 2020, p. 8.

Survey outcomes were significance tested between CitiPower, Powercor and United Energy and other suppliers at the 5 per cent level of significance.<sup>44</sup>

The data is compiled in an objective and reliable manner. CitiPower, Powercor and United Energy retains the data in a secure and logically indexed database,<sup>45</sup> which is capable of being audited.<sup>46</sup>

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

#### 12.4.2.4 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.

Across all parameters, CitiPower, Powercor and United Energy has proposed historical performance as a baseline target to measure rewards or penalties. This will ensure that the businesses are only rewarded if they improve on its historical performance.<sup>47</sup> However, for the SMS notifications parameter, CitiPower, Powercor and United Energy has proposed to adopt a stretch target of two minutes less than its historical average performance, so that future performance is measured against a shorter time period. Within the proposed six-minute timeframe, there is at least a 30 per cent improvement required before the businesses are rewarded.<sup>48</sup> This acts as a stretch-goal to ensure that only significant improvements relative to current performance are rewarded and CitiPower, Powercor and United Energy will actually be penalised for only moderate performance improvements.<sup>49</sup>

CitiPower, Powercor and United Energy's historical performance in respect of the identified parameters has been quantified as a percentage or SAIDI/SAIFI decimal, which is expressed a single value.<sup>50</sup> This ensures that actual performance can be compared to the performance targets to calculate the applicable penalty or reward.

There is a clear relationship between the performance and determination of an incentive or penalty,<sup>51</sup> with improvements to the parameters resulting in relative increases in rewards or penalties.<sup>52</sup> Incentive rates are provided on page 51 of

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<sup>44</sup> CitiPower, Powercor and United Energy, *CSIS Customer Engagement: Phase 3*, October 2020, p. 15.

<sup>45</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 8.

<sup>46</sup> AER, *CSIS Explanatory Statement*, July 2020, p. 8.

<sup>47</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

<sup>48</sup> CitiPower, Powercor and United Energy, *CSIS – Response to Stakeholder Submissions*, February 2021, p. 3.

<sup>49</sup> CitiPower, Powercor and United Energy, *CSIS – Response to Stakeholder Submissions*, February 2021, p. 3-4.

<sup>50</sup> AER, *Final Customer Service Incentive Scheme*, Section 3.2 (4)(c).

<sup>51</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

<sup>52</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, p. 5.

CitiPower's *Revised Regulatory Proposal 2021–26*,<sup>53</sup> page 48 of *United Energy's Revised Regulatory Proposal 2021–26*,<sup>54</sup> and page 62 of *Powercor's Revised Regulatory Proposal 2021–26*.<sup>55</sup>

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'.<sup>56</sup> Whether the targets are 'easy to achieve' remains to be seen. However, we note that CitiPower, Powercor and United Energy will only be rewarded if it improves on historical performance and will only be rewarded to the extent that customers consider is appropriate for the service improvement. Thus we consider that customers will benefit regardless of how easily the businesses are 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.

CitiPower, Powercor and United Energy's incentive design meets the assessment principles as it establishes a direct relationship between identified parameters and the businesses' performance to ensure that it is correctly rewarded or penalised.

#### 12.4.2.5 Financial Component

We consider that CitiPower, Powercor and United Energy's incentive design gives effect to the financial component principles as the businesses are rewarded or penalised financially in proportion to its change in performance, as calculated by the identified value of the service improvement.<sup>57</sup> The performance targets have been fixed based on historical performance, with rewards or penalties determined depending on how well CitiPower, Powercor and United Energy performs against the target.<sup>58</sup> The revised revenue adjustment formula further ensures that rewards or penalties are commensurate with service improvements or degradations.<sup>59</sup>

CitiPower, Powercor and United Energy have proposed a minor amendment to the control formula to apply a two year lag rather than a three year lag between performance measurement and revenue adjustment. We have accepted this approach, as it is consistent with how the CSIS is intended to operate and, we consider it will better achieve the scheme objectives. The revenue control formula under the CSIS is not prescribed. We consider that CitiPower, Powercor and United Energy's proposed alternative application gives effect to the scheme's objective.

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<sup>53</sup> CitiPower, [Revised Regulatory Proposal 2021–26](#), December 2020.

<sup>54</sup> United Energy, [Revised Regulatory Proposal 2021–26](#), December 2020.

<sup>55</sup> Powercor, [Revised Regulatory Proposal 2021–26](#), December 2020.

<sup>56</sup> Victorian Community Organisations, *2021–26 Victorian EDPR*, p. 61.

<sup>57</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, Section 3.2 (5)(a).

<sup>58</sup> See generally CitiPower, Powercor and United Energy, *Customer Service Incentive Scheme*, October 2020, Section 4, (pp. 16-20).

<sup>59</sup> AER, *Final Customer Service Incentive Scheme*, July 2020, Section 3.2 (5)(b).



## Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
C&I	Commercial and Industry
CCP17	Consumer Challenge Panel, sub-panel 17
CSIS	Customer Service Incentive Scheme
ECA	Energy Consumers Australia
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
STPIS	Service Target Performance Incentive Scheme
SAIDI	System Average Interruption Duration Index
SAIFI	System Interruption Frequency Index

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