

Consumer

Challenge

Panel

Small Scale Incentive Scheme for Customer Service (Customer Service Incentive Scheme - CSIS)

CCP17 response to the AER Explanatory Statement for a
Draft Customer Service Incentive Scheme (December 2019)

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Introduction

Consumer Challenge Panel Sub-Panel CCP17 was formed in November 2017, to advise the AER on:

- Whether the Victorian Electricity Distribution businesses' proposals for the period 2021-26 are in the long-term interests of consumers; and
- The effectiveness of the businesses' engagement activities with their customers, and how this is reflected in the development of the network businesses' proposals.

As part of this process, CCP17 has had an ongoing involvement with each of the Victorian businesses, as well as with the AusNet Services Customer Forum. The CSIS has been proposed by the Customer Forum, which is a significant part of the NewReg trial of a negotiation-focused approach to consumer engagement. The CSIS proposal is therefore a proposal which, in our view, has arisen from a highly consumer-centric process.

CCP17 has consistently supported the Customer Forum's proposed approach to the introduction of a CSIS, through its submission to the AusNet Services Preliminary Framework and Approach in 2018¹, response to the AusNet Customer Forum's Interim Engagement Report in 2019², and submission to the AER Small Scale Incentive Scheme for Customer Service Issues Paper in 2019.³

CCP17 therefore welcomes the opportunity to provide comments in response to the CSIS Explanatory Statement. We commend the AusNet Services Customer Forum on taking the initiative to promote the scheme and we look forward to observing the implementation of the CSIS.

In this submission we consider issues raised by the AER's Explanatory Statement for a Draft Customer Service Incentive Scheme (CSIS).⁴

Section 1 considers "what" are the key aspects of the CSIS.

Section 2 considers "how" the scheme can be implemented.

We consider these two aspects of the CSIS sequentially in order to understand more clearly the intent of both aspects of design of the scheme.

¹ https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20Victorian%20Preliminary%20Framework%20and%20Approach%202021-25%20-%2012%20November%202018_0.pdf

²

<https://www.aer.gov.au/system/files/CCP17%20Ausnet%20CF%20Interim%20Eng%20Report%20Response%20-%20Final%201%20May%202019.pdf>

³ <https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20the%20Customer%20Satisfaction%20Incentive%20Scheme%20Issues%20Paper%20-%2029%20August%202019.pdf>

⁴ <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/customer-service-incentive-scheme>

Section 1: WHAT are the key aspects of the CSIS?

Earlier rounds of this process have identified widespread acceptance for a CSIS that is able to deal with contemporary consumer preferences, rather than be locked in a prescribed set of measures, some of which have declining utility. The current customer incentive scheme is the Service Target Performance Incentive Scheme (STPIS), which includes parameters including speed of answering telephone calls, while customers are increasingly communicating with network and other businesses through different media and newer technologies. While the speed of answering the telephone is very important for some customers, other customers have different preferences.

In August 2019, CCP17 made a submission in response to the AER's Issues Paper that provided initial thinking about the potential role of the CSIS, and made the following comments as an overview of our opinions:

"In our opinion, incentives set by a regulator should not be the main driver of the provision of quality services for customers. The commitment to attaining and maintaining a "social licence to operate" should be the primary incentive for businesses to "do the right thing". The notion of "ethical regulation" is the ideal on which network businesses and regulators should be focused, because it is the right thing to do. The launch of the Energy Charter this year indicates a desire by Australian energy networks to "do the right thing" for individual customers and for communities more broadly.

Given this perspective, the place for incentive schemes, including the CSIS, should be to help guide businesses to focus on the priorities that they are gleaning from their engagement with their consumers and with consumer groups.

Incentive schemes should act as signalling and supporting functions to a business' customer responsiveness, rather than being the primary motivator of consumer centric business practice."⁵

Following the Issues Paper, input from stakeholders, and stakeholder workshops, the AER has developed its draft position on a CSIS, which the AER has summarised as follows:

Our draft decision is to make a principles-based CSIS. We consider this approach is likely to deliver the best value for customers, by adapting to their needs and selecting the most relevant available parameters. This will better achieve the Scheme objectives.⁶

The AER also proposes that the draft CSIS objectives are that it:

⁵ <https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20the%20Customer%20Satisfaction%20Incentive%20Scheme%20Issues%20Paper%20-%2029%20August%202019.pdf>, 29 August 2019, page 3

⁶ AER Draft CSIS Explanatory statement, 17 December 2019 section 4.1, page 9

1. *Is consistent with the national electricity objective in section 7 of the National Electricity Law,*
2. *Is consistent with clause 6.6.4 of the NER,*
3. *Accomplishes objectives 1 and 2 by aligning the incentives of distributors with the customer service preferences of their customers, and*
4. *Promotes transparency and understanding throughout the NEM regarding a distributor's customer service initiatives.*⁷

CCP17 is supportive of the direction of the AER draft for a CSIS and supports the objectives proposed, but we suggest that there is a missing objective which would tie in with our first submission on a CSIS where, as quoted above, we commented that a key driver for a network business should be maintaining its “social licence to operate”. We also noted that the Energy Charter, a shared commitment from a majority of Australia’s energy businesses that gained momentum during 2019, identifies the importance for energy businesses of gaining the trust of customers, and building on what we have referred to as the “social licence to operate”.

The text box on the following page provides some further perspective about the meaning of “social license” as described by the Australian Ethics Centre, we consider this to be a helpful summary, and is what we mean in using the term.⁸

⁷ AER Draft CSIS Explanatory statement, 17 December 2019 section 3.4, page 6

⁸ The Ethics Centre is a not-for-profit organisation developing innovative programs, services and experiences, designed to bring ethics to the centre of professional and personal life. See <https://ethics.org.au>.

Social License, as explained by The Ethics Centre

Social license – or social license to operate – is a term that has been in usage for almost 20 years. At its simplest, it refers to the acceptance granted to a company or organisation by the community.

It's useful to understand that the term "social license to operate" first came into the world in reference to the mining and extractive industries. In an era of heightened awareness of environmental protection and sustainability, the legitimacy of mining was being questioned. It became apparent that the industry would need to work harder to obtain the ongoing broad acceptance of the community in order to remain in business.

To give a simple example: a mining company may be properly registered with all appropriate agencies; it may have a mining license, it may be listed with ASIC and be paying its taxes. It may meet every single obligation under the Fair Work Act. But if the mine is using up precious natural resources without taking due care of the environment or local residents, it will have failed to gain the trust and confidence of the community in which it operates.

Over time, the social license terminology has crossed into the mainstream and is now used to describe the corporate social responsibility of any business or organisation. A whole industry has flourished around Sustainability and Corporate Stakeholder Engagement. And there's a growing view that social responsibility can be good for long-time financial performance and shareholder value.

The social license to operate is made up of three components: legitimacy, credibility, and trust.

1. **Legitimacy:** this is the extent to which an individual or organisation plays by the 'rules of the game'. That is, the norms of the community, be they legal, social, cultural, formal or informal in nature.
2. **Credibility:** this is the individual or company's capacity to provide true and clear information to the community and fulfil any commitments made.
3. **Trust:** this is the willingness to be vulnerable to the actions of another. It is a very high quality of relationship and takes time and effort to create.

The rise of social license can be traced directly to the well-documented erosion of community trust in business and other large institutions.

There's a growing expectation that businesses – and business leaders – should take a more active role in leading positive change. There's a belief that business should be working to eliminate harm and maximise benefits – not just for shareholders or customers, but for everyone. To do this, business would be actively engaging with stakeholders, including the most outspoken or marginalised voices; they should be prepared to listen, and reflect, on the concerns of these often powerless individuals.

<https://ethics.org.au/ethics-explainer-social-license-to-operate/>

We suggest a fifth objective, though we would make it the number one objective, which “provides incentives to energy distribution businesses to build and extend their social licence to operate”.

Thus, the CSIS objectives should be that it:

1. Provides incentives to energy distribution businesses to build and extend their social licence to operate,
2. Is consistent with the national electricity objective in section 7 of the National Electricity Law,
3. Is consistent with clause 6.6.4 of the NER,
4. Accomplishes objectives 1, 2 and 3 by aligning the incentives of distributors with the customer service preferences of their customers, and
5. Promotes transparency and understanding throughout the NEM regarding a distributor's customer service initiatives.

The AER said further in its December 2019 Explanatory Statement:

“Information gathered from stakeholders supports adapting to the unique preferences of distributor customers, rather than pursuing the one-size fits all approach currently adopted under the STPIS. Additionally, customer preferences are likely to continue changing over time. We consider an approach that responds to this change is likely to deliver greater customer benefits. Therefore, a principles based approach is more likely to achieve the CSIS objectives.”⁹

The recognition that energy markets are constantly changing, particularly at the moment, and that consumer preferences also change as technology, expectations and opportunities change, is particularly germane to the ongoing development of consumer responsive energy network businesses.

Past regulatory practice, in general has tended to apply incentive schemes that are prescriptive. Such an approach would not meet the proposed CSIS objectives, and therefore would be inappropriate as it would not be able to adjust adequately with changing service environment and opportunities for better customer outcomes. A prescriptive approach would also hamper the capacity of individual networks to develop customer service initiatives that were most pertinent to the circumstances of their network customers, and potentially a subgroup of customers.

The AER has proposed a principles-based form of regulation applying to the CSIS, with four ‘principles’, these being: Performance Parameters, Measurement, Assessment, and Financial matters.

CCP17 supports a principles-based incentive scheme that provides incentives for network businesses to engage in ongoing discussion with a fair representation of their customers to

⁹ AER Draft CSIS Explanatory statement, 17 December 2019 section 4.1, page 9

identify and consider the measures that will improve customer service and increase the efficiency of the business.

The rest of this submission focuses on aspects of implementation of a principles-based CSIS, because we consider that there is merit in providing some guidance within the architecture of the scheme for both consumers and network businesses.

In describing a principles-based approach, the AER says *“under a principles-based approach the CSIS would outline criteria. Distributors could then identify, in consultation with their customers, parameters that would meet those criteria. This allows us to apply different parameters to different distributors.”*¹⁰

Language

We accept the intent of this statement, and consider that there is some scope for fine tuning of language from the Explanatory Statement relating to the four “principles” proposed, to develop greater clarity regarding key words used and the hierarchy or layers of application of the CSIS.

Keywords used are “objectives”, “principles”, “criteria” and “parameters.” We found that some of these words are used interchangeably, thus creating confusion.

Section 5 of the Explanatory Statement is headed “What principles will we assess incentive design proposals against?”

The Explanatory Statement then includes:

“in our workshops we proposed preliminary principles ...

Figure 2 summarises these principles. The draft CSIS divides the principles into four elements:

- 1. Performance parameters: the areas of performance that will be subject to the incentive (e.g. customer satisfaction in relation to new connections),*
- 2. Measurement methodology: how to measure performance in relation to each performance parameter (e.g. a customer satisfaction survey to customers who recently received a new connection),*
- 3. Assessment approach: how the incentive design will set targets and rate distributor performance against the parameters, and*
- 4. Financial component: how the incentive design translates distributor performance into a penalty or reward.”*

¹⁰ AER Draft CSIS Explanatory statement, 17 December 2019, section 4.1, page 7

Figure 2 Draft CSIS principles

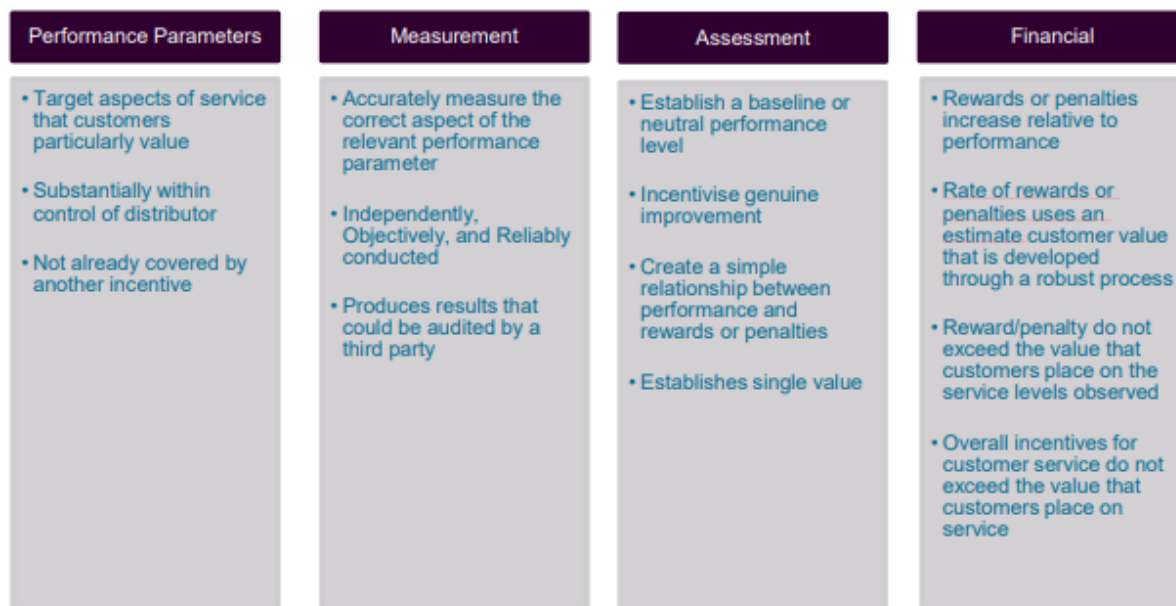


Diagram 1, Source AER Explanatory Statement, given as Figure 2 in the Explanatory Statement Page 16 in section 5.1.1, part of the draft CSIS decision Explanatory Statement states:

“Our draft decision is to require each performance parameter to be an aspect of the customer experience component...”

The words “principles”, “elements” and “performance parameters” are each used as a collective term for: “performance parameters, measurement, assessment and financial”, as given in the AER Figure 2.

Principles

The Merriam-Webster dictionary defines a principle as “a comprehensive and fundamental law, doctrine or assumption”.

The proposed four “elements” of the CSIS are not principles using this definition. We suggest that there is value in exploring the idea of “principles”. We encourage the AER to reconsider the principles for the CSIS, and to standardise nomenclature for the concepts against which CSIS design proposals will be assessed.

In considering the remitted regulatory decisions for New South Wales, CCP10 proposed a set of principles as a basis for remaking these decisions. We identify this as an example of a previous attempt to develop principles that provide a comprehensive assumption. CCP10 wrote:

“There was no ‘roadmap’ for resolving the remitted decisions efficiently and effectively nor for the implementation of “AER 2.0.” In considering the aspects of the remitted decisions relating to operating costs and debt, both the subject of Issues Papers from the AER, CCP10 proposed the following principles, as a basis for seeking resolution and garnering goodwill:

1. *The focus must be on not only the National Energy Objective (NEO), but shorter-term impacts matter too (The short term can impact on the long term, interests of consumers)*
2. *Recognition of the uniqueness of the current situation*
3. *Use the best available evidence*
4. *Apply LMR and Federal Court directives, where they exist*
5. *The process is of transition from inefficient network businesses, to efficient businesses*
6. *Objective fairness between businesses*
7. *Sustainable Opex*
8. *Dealing with “A New Reality”*
9. *Trust and goodwill are needed to produce outcomes that work for all parties.”¹¹*

While some of the principles proposed for the remitted decisions are not relevant to the CSIS, some of these principles will have application to CSIS. Using this list as a base, and taking into account other considerations of the CSIS, we propose the following as principles for the development and implementation of the CSIS.

1. The focus must be on not only the National Energy Objective (NEO), but shorter-term impacts matter too. (The short term can impact on the long-term interests of consumers.)
2. Use the best available evidence
3. Objective fairness between businesses
4. Responsiveness for individual businesses
5. Adaptable to changing circumstances
6. Transparency
7. Fairness between different consumer groups
8. Trust and goodwill are needed to produce outcomes that work for all parties.

We now return to the question of how best to describe aspects that are listed as:

1. performance parameters,
2. measurement,
3. assessment and

¹¹ CCP10 Responses to AusGrid, Endeavour Energy and Essential Energy Revised Regulatory Proposals 2019-24 and AER Draft Determinations

4. financial.

We seek a collective term to describe these aspects.

The notes for workshops on 6th and 13th November 2019 state:

“4.2 What are the possible principles for the CSIS? In order to trial incentives for distributors to provide customer services in accordance with their customers’ preferences the scheme could have four components which:

- 1. Incentivise performance that customers want (Performance parameters)*
- 2. Accurately and transparently measure performance (Measurement)*
- 3. Assess performance against robust targets (Assessing performance)*
- 4. Reward/penalise in accordance with benefits/costs to customers (Financial).*

We suggest that this terminology is clearer than that used in the Explanatory Statement. We also suggest that the word “element” is used as the collective term for the group of four. The Merriam-Webster dictionary definition for “element” is simply “a constituent part”, which is consistent with its application to the CSIS.

This then gives the following as a revised language.

The draft CSIS applies the principles (using our list of principle from above) into four elements:

- 1. Performance incentives that customers want (replacing performance parameters)*
- 2. Accurate and transparent measurement (replacing measurement)*
- 3. Assessing performance (is retained) - against robust targets*
- 4. Financial rewards and penalties - in accordance with benefits/costs to customers (replacing financial).*

To complete the proposed lexicon, we suggest that the word “criteria” is used to describe the various components of the four elements, with the Merriam-Webster dictionary definition of criterion (plural criteria) being “a standard on which a judgement or decision may be based”.

In summary, we propose the following keywords:

Objectives: as used in the issues paper and the overarching concepts to be applied in the CSIS

Principles: a new set of principles is proposed

Elements: the four aspects of application of principles, with some adjustment of the language of the four described in the Explanatory Statement as *Performance Parameters, Measurement, Assessment, Financial*. We propose: *performance incentives, accurate and transparent measurement, assessing performance, financial rewards and penalties*.

Criteria: describe the ways in which the elements can be assessed.

For the sake of clarity, we suggest that the final CSIS use this language, and not use the term “parameters”, as we think this is conceptually covered by the word “criteria”, and helps to standardise language.

The following section considers the elements and their associated criteria (using our proposed terminology), from the explanatory statement.

The AER says “Our draft decision is to require that customers agree that an incentive design achieves the CSIS objectives by satisfying the principles (discussed in Chapter 5).”¹²

We support this concept, but in the light of the discussion above, tweak this statement to read: *“Our draft decision is to require that customers agree that an incentive design achieves the CSIS objectives by satisfying the principles and elements.*

Performance Parameters (we suggest performance incentive is the label for this element)

Our draft decision is to require each performance parameter to be an aspect of the customer experience component of the distributor's provision of standard control services:

- 1) Which is particularly valued by the customers of the distributor,*
- 2) Is substantially within the control of the distributor, and*
- 3) For which the distributor does not already have another incentive.*

We support these criteria, which we regard as being consumer focused, functional and able to be applied.

(Accurate and transparent) Measurement

Our draft decision is to require measurement approaches to:

- 1) measure accurately the aspect of the performance addressed by the relevant performance parameter,*
- 2) be sufficiently independent,*
- 3) be compiled in an objective and reliable manner, and*
- 4) produce results that could be audited by an independent third party.*

CCP17 is happy with these four criteria, and suggests an additional two:

- 5) be replicable meaning that the methodology is clear and that the results achieved could be repeated by another party applying the same methodology,*
- 6) be published in a manner that is timely and readily accessible to consumers, consumer representative groups and other relevant stakeholders.*

Assessment (Assessing Performance)

¹² AER Draft CSIS Explanatory statement, 17 December 2019, section 4.2, page 11

Our draft decision is to require that the proposed assessment approaches meet the following principles:

- 1) Establish a baseline or neutral level of performance, which in normal circumstances should be at least equal to the historical performance of the distributor,*
- 2) Set a performance target for each performance parameter that
 - a) provides incentives for genuine improvement,*
 - b) is based on the neutral or baseline level of performance,**
- 3) Express the result of the assessment of measured performance against each performance target as a single value, and*
- 4) Create a clear relationship between
 - a) outperformance of the performance target resulting in a reward under the incentive design, and*
 - b) underperformance of the performance target and receiving a penalty under the incentive design.**

Regarding the third criterion, we agree with the principle of performance measurement being clear, unambiguous and readily understood by relevant stakeholders. However, we would accept the proposition that there are times when an index or composite measurement indicator may add value for both the business and their customers, so we propose changing that criterion as follows:

3) Express the result of the assessment of measured performance against each performance target as a single value. A composite measure or index that has been developed with and accepted by strong consumer interests, may be accepted

CCP17 also proposes an additional criterion

- 5) Set realistic targets for improvement over an agreed timeframe.*

Financial (rewards and penalties)

Our draft decision is to require that rewards or penalties provided under an incentive design:

- 1) Will increase relative to the degree of outperformance or underperformance, commensurate with the identified value of the service improvement to customers of the distributor,*
- 2) Are commensurate with the service improvements or degradations observed in respect of the distributor's distribution system,*
- 3) Are not likely to exceed the value that customers attribute to the level of service improvement or degradation observed,*
- 4) Are not likely to, when considered in aggregate with all incentives applied to the DNSP for customer service, (including incentives external to the incentive design),*

result in the incentives available to the DNSP relating to customer service exceeding the value customers attribute to that component of service, and

5) In satisfying the requirements of (2) and (3), establishes the rate of the incentive using a reasonable process that identifies the value that customers attribute to the level of service improvement or degradation observed, in that the process is:

a) transparent, and

b) involves genuine consultation with the distributor's customers.

CCP17 is happy with these criteria and proposes the following additional criteria:

6) are applied equitably across the distributors range of customer groups, including vulnerable household customers, small business, and C&I businesses.

This proposed additional criterion is in recognition of the diversity of the range of customers served by different distribution businesses. It would require businesses, consumers and the regulator to consider the financial distribution aspects of any incentive measures.

While many issues are pertinent to all customers, geography and demographics mean that there is some diversity that distribution businesses need to take into account. It is critically important that no one group of customers is significantly disadvantaged through the CSIS, compared to other groups. However, we recognise that it may be appropriate in some circumstances for a proactive program to be implemented to benefit a specific group of customers, to a greater extent than customers taken in aggregate. The customer base of CitiPower is quite different from that of AusNet Services. As another example, we have observed Powercor actively engaging with specific dairy communities about particular local issues. We suggest that it would be appropriate, where there is broader community support, for a CSIS to include particular measures that assist customers on poorer performing feeders, customers and specific geographic locations and quite possibly communities with high proportions of people from different cultural backgrounds. It is critical that broader customer engagement is undertaken to support elements of an incentive scheme that are more targeted and more bespoke.

Strength of Incentive

Another aspect of financial considerations for the CSIS is the “strength of the incentive”, which is the amount of money that is at stake for network businesses and for customers.

We have proposed as an objective that developing and strengthening a social licence to operate for network businesses is vitally important. Ultimately, a well-established social licence would largely make this question irrelevant, as businesses would only act as their customers wanted. However, some guidelines are important in the establishment phase, so that there is transparency about the extent of the incentive for all parties.

The AER has proposed “As a default, the cap is 0.5% of the relevant distributor’s annual revenue. However, if distributors can provide strong evidence that 1% of annual revenue will

provide an incentive in line with customer preferences, we may consider approving such an incentive design.”¹³

We consider this to be a sensible approach, with the following provisions.

The overarching priority in developing an incentive scheme should be for win-win situations where both customers and network business shareholders benefit. We consider the simple trade-off of options for more revenue for the network business in return for better service to customers is an inadequate focus for a CSIS scheme, although there may be situations where a trade-off of this nature is agreed. The AER has acknowledged this consideration as stated by John Herbst who said that *“paying more than the prudent and efficient level for customer service is a negative outcome for customers.”¹⁴* We agree.

The further provision is that monetary incentives must be a two-way consideration. This means that customers can benefit financially from a continuing or diminished service standard that is supported by a broad enough range of customer interests. In other words, it is not only the network business that should be able to earn a financial benefit.

The strength of a CSIS incentive scheme should also take into account the strength of other incentive schemes. (We consider this topic further in the next section.)

The proposed strength of the CSIS incentive scheme of 0.5% is generally in line with other customer service incentive schemes from other jurisdictions as indicated in Appendix 1 of the Explanatory Statement.

We also recognise that sound engagement with customers and consumer groups can lead to situations where, as trust grows, there is more interest in proactive measures, and so the capacity to negotiate an increased strength to a maximum of 1% of distribution business revenue is very much in keeping with the objectives of the CSIS.

CCP17 supports the default CSIS financial strength of 0.5% of network business revenue, with capacity to increase the strength to 1%, where businesses have a well-established social licence, have developed trust with a range of customer interests and where there is strong agreement in the merits of a higher than 0.5% strength of incentive.

¹³ AER Draft CSIS Explanatory statement, 17 December 2019, section 5.4.1, page 21

¹⁴ John Herbst, Submission to AER customer Service Incentive Scheme Issues Paper, 22 July 2019, page 1

Section 2: HOW will the CSIS be applied?

The processes for application of the CSIS are at least as important as the considerations of “what” the scheme is.

The Explanatory Statement provides the following diagram, which outlines “steps in the application” of the proposed CSIS.

Figure 1 Steps in the application of a principles-based scheme

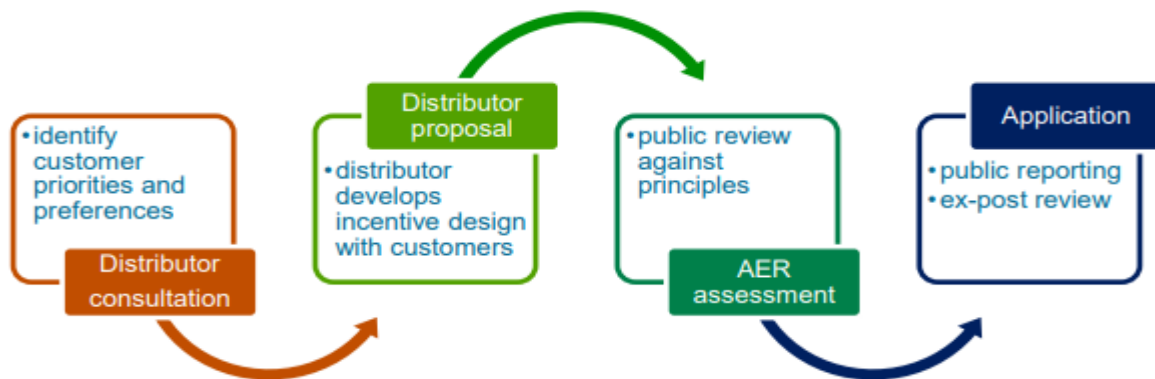


Diagram 2, Source AER Explanatory Statement, given as Figure 1 in the Explanatory Statement

We agree with the AER that it is essential that the methodology is not prescriptive, and we consider that the steps proposed in the AER’s figure 1 are pertinent and highly relevant. We strongly support the steps as outlined, which we consider to be specifying methodologies in line with the “involve” and “collaborate” levels of the IAP2 spectrum of public participation. Various CCP subpanels have found that network businesses are comfortable operating at these levels of the spectrum, and have developed strong “inform” and “consult” processes which can form a basis for these higher levels of engagement.

We suggest that the diagram be adjusted to simply reflect that this is an ongoing process.

AER Figure 1 Adjusted, Steps in the Application of a Principles-Based Scheme

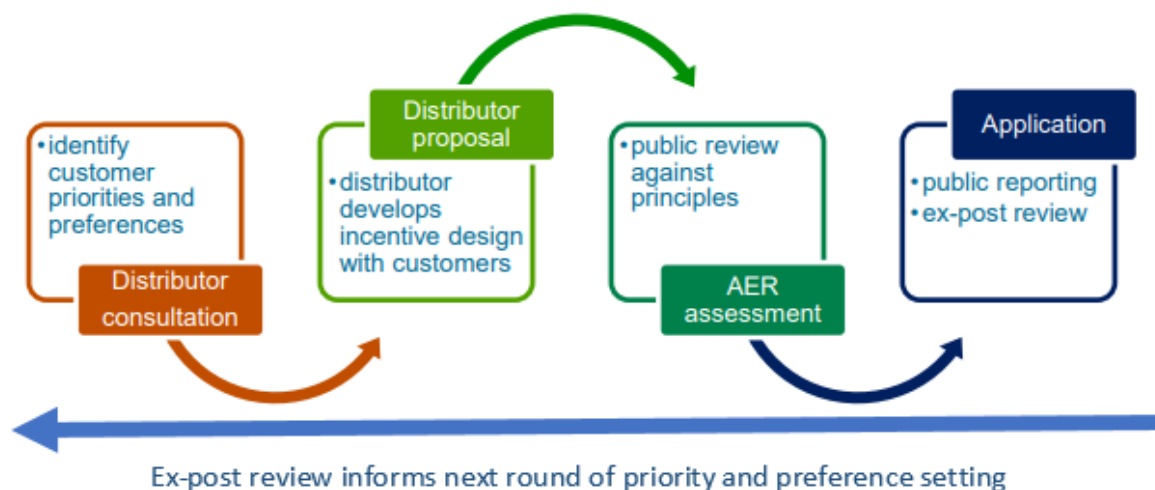


Diagram 2A, Source AER Explanatory Statement, given as Figure 2 in that statement

This minor adjustment reflects that the outcomes from the ex-post and other evaluation and review processes, which must be undertaken with consumer interests, under the heading of “application” in the diagram, start the next round of engagement as indicated by the heading “distributor consultation” in the diagram.

We stress the importance of the CSIS not specifying methodology for how aspects of engagement with customer interests are undertaken. We consider that the objectives and principles discussed earlier in this submission coupled with the process proposed in the AER diagram, Figure 1, provide adequate guidance and expectation. Added to this is widespread observation from CCP members, consumer groups, market bodies and network businesses themselves about the significant improvement in consumer engagement that has been achieved collectively by network businesses and by individual NSPs over recent years. We are very confident in the desire and capacity of energy network businesses to apply the proposed CSIS.

Our understanding of the methodology of implementing the CSIS is that a reasonable and diverse set of customer interests will be engaged in all aspects of development, implementation and review of the implementation of a specific network business CSIS, specifically:

1. customer interests will be actively included in the initial phases of development of a potential CSIS to identify customer priorities and preferences,
2. customer interests will be collaborators (with meaning consistent with the IAP2 Spectrum for Public Participation) in the development of incentive design arising from priorities and preferences previously developed,
3. customer interests will be collaborators in any public review of incentive proposals, including consideration of fairness across different customer interests,
4. customer interests will be directly engaged in reviewing progress in implementation of incentive measures,

5. a continuous improvement cycle will be applied to the process so that incentives evolve and improve.

“Mistakes”

In a rapidly changing energy market where many aspects of the future, including the near future, are uncertain, there will be actions undertaken that in hindsight were “wrong”. In implementation of a CSIS, some actions may be undertaken in good faith, which subsequently turn out to be “mistakes”. It is important that “mistakes” are identified as soon as practical, embraced and appropriate responses made. By ‘embraced’ we mean accepted as an opportunity to share learning and welcomed for the possibilities that can emerge. It is our expectation that the CSIS, along with processes including the Energy Charter and direct engagement between individual networks and customer representatives, creates an environment for this sort of continuous improvement to occur. The social licence provides an opportunity for parties to “do the right thing” rather than seek to lay blame when mistakes are made. Of course, poor performance and failure to act in the best interests of customers is not acceptable, but mistakes made in good faith, identified and remedied promptly are invaluable to customers and for business.

Role of Regulator

The role of the Regulator is important in overseeing incentive schemes, ensuring integrity and leaving scope for businesses and consumers to engage, negotiate and sometimes agree. The AER needs to set standards and set expectations for ongoing improvement, the Default Market Offer being a good current example of the AER setting a standard (maximum price) and strengthening the standard (lowering price ceiling) over time.

The Explanatory Statement raises the question of surveys with Appendix A being titled “Good Practice in Survey Design” and stating *“we consider that robust survey design is necessary in order to satisfy the principles of CSIS.”*

We are also aware that AusNet Services said that *“using an ongoing monthly survey conducted by a third-party provider will gauge the opinion of customers who have contacted the distributor.”*

The earlier Issues Paper asked:

Q5. Are customer surveys a good basis for an incentive? If so, what processes should be in place to ensure the robustness of the data used to calculate rewards / penalties under the incentive scheme?

Part of the CCP17 response to this question was:

“CCP17 is not particularly enamoured with customer surveys as a basis for expressing consumer sentiment in general, or for incentive scheme application. Consumer groups have seen too many examples of poor customer surveys that can provide very leading questions and amount to little more than “push-polling”.

Of course, well considered, independently reviewed customer surveys can be very effective, and no doubt will play a role in the CSIS. Qualitative survey metrics must be balanced with quantitative results.

Ofgem and Ofwat decisions not to calculate customer service incentive rates based on the customer's willingness to pay / willingness to pay surveys are sensible, and we would be very wary of any suggestion of using willingness to pay methodologies in association with the CSIS. The CCP has previously expressed concerns about the use of inappropriate willingness to pay (WTP) survey methodologies.

The three-stage evaluation process used for Ofgem's SECV incentive scheme comprised:

- 1. Assessment by Ofgem (internal assessment) against the minimum requirements;*
- 2. A consultant assessment of vulnerable customer approaches; and*
- 3. An assessment by an expert panel of stakeholder engagement.*

The use of an expert panel has particular merit, as the expert panel can include consumer representatives as well as people with relevant expertise from other industries. There is value in considering the development of an expert panel independent of network businesses and the AER to assist in the assessment of effectiveness of the CSIS. Using an independent auditor and an expert panel means that network businesses can collect data in support of their incentive scheme, which is cost and time efficient, but the veracity of the data is determined through peer / stakeholder review and by the AER."

We maintain this view that surveys, where they are to be used effectively, need to have a clear purpose and to be designed to meet the purpose intended. We consider that there is a broad suit of engagement tools available to network businesses to obtain consumer input at each of the 4 steps of implementation of a principles-based scheme given in diagram 2 / 2A. Approaches include focus groups, consumer advisory boards/councils, 'world cafes,' analysis of complaints, local community meetings, deliberative forums etc. Most network businesses are already applying a range of approaches to ascertain consumer perspective. So, we are wary about setting expectations of network businesses using surveys.

For the AER, there may be existing surveys /evidence that provide a reference point for considering network perspective gathering from customers. The ECA consumer sentiment survey is a substantial survey that is already undertaken, the AER's state of the energy market and other reports also provide valuable data on aspects of consumer expectations.

Relationship between CSIS and other incentive schemes, including STPIS

In our response to the Issues paper, we concluded with the following comment:

"CCP17 is concerned that there may be a potential for 'double dipping' if network businesses are allowed regulated revenue to fund the development and implementation of customer service systems (particularly IT systems), which would then equip them to qualify for CSIS benefits."

We maintain an interest in measures to ensure that there is no cross over of benefits between incentive schemes.

CSIS Evaluation

The Issues Paper framed the introduction of the CSIS as a ‘trial’ that we understood would be accompanied by trial objectives as well as formal assessment and review mechanisms to determine whether the CSIS scheme that was trialled met the objectives.

The Explanatory Statement does not explicitly identify CSIS trial objectives nor does it contain a review / evaluation process.

We recognise that the scheme objectives are proposed as being:

1. Provides incentives to energy distribution businesses to build and extend their social licence to operate,
2. Is consistent with the national electricity objective in section 7 of the National Electricity Law,
3. Is consistent with clause 6.6.4 of the NER,
4. Accomplishes objectives 1, 2 and 3 by aligning the incentives of distributors with the customer service preferences of their customers, and

And we have also proposed

5. Promotes transparency and understanding throughout the NEM regarding a distributor's customer service initiatives.

However, we do not consider that these scheme objectives are fully appropriate as the trial objectives that will be the basis of evaluation.

The Explanatory Statement states that *‘the incentive design must not continue beyond the DNSP’s next regulatory determination’* which we understand means that it can only be applied for 2 regulatory cycles, however this timing is too long to wait for review of the CSIS scheme.

We suggest that the AER develop a statement of CSIS trial objectives and specify a review and evaluation process that meets the principles that we have proposed and enables time for review, reflection and adjustment if preferable, during the course of the trial.