19 March 2009

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Attention Mr Chris Pattas

Dear Mr Pattas

Australian Energy Regulator's Proposed Amendment to the Service Target Performance Incentive Scheme

ENERGEX Limited (ENERGEX) is pleased to make a submission to the Australian Energy Regulator's (AER's) proposed amendment to the Service Target Performance Incentive Scheme (STPIS) published on 4 February 2009.

This response is specific to the STPIS Version 1.1. ENERGEX's application of the scheme will be outlined in its regulatory proposal for the 2010-15 regulatory control period in accordance with the AER's decision as stated in its Framework and Approach – Stage 2 (Application of Schemes).

ENERGEX generally supports the AER's proposed amendments to simplify the STPIS and particularly welcomes the clarification provided regarding the operation of the scheme. However, ENERGEX has concerns about the timing of the proposed changes to the scheme in the context of the Queensland and South Australian Distribution Network Service Providers (DNSP'S) development of their Regulatory Proposals for 2010/15.

The AER stated that the amended scheme (Version 1.1) will be finalised in time for the Queensland and South Australian DNSPs to prepare and submit their Regulatory Proposals. However, given the 31 May 2009 submission date, ENERGEX's Regulatory Proposal has already been substantially progressed. As a result, the amended STPIS will necessitate an additional review for the Regulatory Proposal using service performance sensitivity analysis to understand the potential revenue impacts of the revised scheme on ENERGEX's business. This, in turn, will impact on associated Regulatory Proposal sign-offs through ENERGEX's internal governance processes.

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In amending the scheme, the AER must have regard to the alignment of the revenue at risk with the Weighted Average Cost of Capital, the controllable operating costs of the business and the impact on prices and shareholder returns. On this basis, ENERGEX proposes that the current annual cap for revenue at risk of +/- 3 percent be retained with a follow-up review of the operation of the scheme after a period of 3 years.

ENERGEX's more detailed response to the proposed STPIS Version 1.1 and accompanying Explanatory Statement is outlined in the attached submission document.

If you have any questions in relation to any of the matters raised, please contact either myself on (07) 3223 1703 or Sue Lee (07) 3223 1976.

Yours sincerely

Kevin Kehl
Director Revenue Strategy

ENERGEX's Service Target Performance Incentive Scheme Submission

to the

Australian Energy Regulator

19 March 2009

ENERGEX LIMITED
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positive energy

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1 ENERGEX's detailed response to the proposed Service Target Performance Incentive Scheme (STPIS) amendments

Proposed Amendment	ENERGEX Response
Applying S factor to control mechanism (section 5.1.1)	
The S factor is incorporated into the general form of a control mechanism as another multiplier alongside the CPI minus X adjustment.	Supported.
Amended S factor calculation (section 5.1.2)	
S factor to be calculated on basis of deviations in annual service performance relative to targets established at the start of a regulatory control period.	ENERGEX notes the change in emphasis of the amended scheme where the difference between actual and targeted performance in each year of the regulatory control period will drive reward/penalty payments. As a result, target setting will generally take on greater importance and meaning in the amended scheme.
Remove 5 year carry forward mechanism for S factor revenue adjustments.	ENERGEX is supportive of the removal of the carry-forward mechanism which will reduce the potential for large revenue adjustments to accumulate under the STPIS because S factor adjustments will no longer be retained for a five year period.
Maximum revenue at risk to be increased from +/- 3% to +/- 5% to offset potential weakening in power of incentive to improve service due to removal of the carry-forward mechanism.	However, ENERGEX has strong concerns about the increase in the revenue at risk limit to +/-5%. It has significance for the alignment of the revenue at risk with the Weighted Average Cost of Capital (WACC), the controllable operating costs of the business and the impact on prices and shareholder returns. With the exception of the uncapped Victorian service incentive scheme, this level of revenue at risk is well above Australian energy regulatory precedent, including the Australian Energy Regulator's (AER) existing electricity transmission STPIS, which has a revenue at risk limit of +/- 1% for service components. Other features of the proposed STPIS already increase the sensitivity of S factor

	revenue adjustments to network-wide service performance including: no performance dead-bands to recognise inherent variability in year by year performance due to storms and random failures; no account for inherent forecasting risk which arises when setting performance targets based on historical and proposed capital and operating improvement programs to meet Code based minimum service standards; and inability to tailor rewards/penalties to recognise existing areas of good performance. As a result, relatively large revenue adjustments could still occur under a single period scheme with a +/- 5% cap, introducing volatility to maximum allowable revenues and distribution prices. ENERGEX also has concerns whether a limit of 5% of revenue at risk is fully consistent with the AER's objectives for the STPIS. In particular, the willingness of customers or ends users to pay for improved performance in the delivery of services. In this regard, ENERGEX notes that the STPIS, as currently formulated, is applied to all customers regardless of existing service performance levels. Finally, given the +/- 5% revenue at risk limit is out of step with the majority of Australian regulatory precedent, it will pose high risks for the majority of Distribution Network Service Providers (DNSPs) operating under the scheme for the first time. While the AER has scope under the scheme to propose a revenue at risk limit for DNSPs below 5% on a case by case basis, ENERGEX is concerned about the relatively high default position. (It is acknowledged that a lower level would apply to ENERGEX for the 2010-15 regulatory control period under the AER's stated position in its Framework and Approach - Stage 2 (Application of Schemes). On balance, ENERGEX supports the change in focus of the STPIS from a cumulative revenue impact to an annual revenue impact. However, it does not support an amendment to increase the revenue limit from +/- 3% to +/- 5% given other features of the scheme already heighten revenue sensitivity to service performance.
The increased limit on revenue at risk associated with the removal of the carry forward mechanism, neither leads to an inconsistency between the STPIS and the efficiency benefit sharing scheme (EBSS) nor does it	In ENERGEX's view, the extent to which removal of the carry forward mechanism adversely affects incentives to improve service performance and the broader relationship between the STPIS and EBSS. These matters should be closely monitored and subsequently reviewed by the AER based on the evidence of

reduce the effectiveness of either scheme.	service performance outcomes that emerge once the STPIS and EBSS have been operating for a reasonable period.
Operation of S bank mechanism (section 5.1.3)	
Remove the (1 + pre-tax WACC) term from the s-bank equation and associated changes to formulas.	Supported on the grounds it simplifies the s-bank mechanism.
Revenue at risk (section 5.1.4)	
Inclusion of new equations to clarify how the revenue at risk caps for the reliability and customer service parameters will be applied.	Supported.
Major event day (MED) definition (section 5.2)	
The proposed amendments will: • remove additional step associated with establishment of MED boundary by aligning with IEEE definition; • update MED boundary on an annual basis; • apply the IEEE exclusion.	ENERGEX supports the proposed amendments. They remove uncertainty and are consistent with the MED boundary calculations used to calculate the reliability indicators for the Queensland Minimum Service Standards.

Value of customer reliability (VCR) (section 5.3)	
Revised VCR figures: • $95,700/MWh for CBD segments; and • $47,850/MWh for all other parameter segments	ENERGEX notes the proposed incorporation of CRA International's (CRA) 2007 composite Victoria state level VCR in the STPIS[1]. ENERGEX is concerned about the validity of applying data where the sample size for some of the groups was particularly small. However, ENERGEX seeks clarification about how the revised VCR for the CBD network segment has been derived given this matter is not addressed in the CRA report.
DNSPs still have the option of proposing an alternative VCR to the AER in their regulatory proposals pursuant to clause 3.2.2(d).	ENERGEX supports retention of the clause which allows a DNSP to propose an alternative VCR rate for a parameter segment in its Regulatory Proposal.
CPI used in Post Tax Revenue Model (PTRM) to roll forward a DNSP's asset base also to be used to escalate VCR to start of regulatory control period.	Supported.
Calculating incentive rates (section 5.4.1)	
Average annual energy consumption input used to calculate incentive rates for reliability parameters should be on network type not aggregate basis (clauses (3.2.2(h)(1) and 3.2.2(i)(1)).	ENERGEX supports the use of energy consumption data on a network type rather than an aggregate basis, noting its consistency with the setting of the performance targets and incentive rates. However, ENERGEX does not currently gather data or report energy consumption data on a network type basis. As a result, changes to existing internal procedures and systems will be required to accommodate this requirement. This will result in additional uncertainty regarding the construction of incentive rates for the STPIS

[1] CRA International, Assessment of the VCR, August 2008.

	applied to ENERGEX in the 2010-15 period. For its Regulatory Proposal, ENERGEX will use estimated energy consumption data on a network type basis.
Average of smoothed annual revenue requirement taken from PTRM is to be used to calculate incentive rates for reliability parameters (clauses (3.2.2(h)(2) and 3.2.2(i)(2)) Average of annual unplanned SAIFI & SAIDI performance parameters to be used as inputs for calculating incentive rates for applicable unplanned SAIFI parameters (clause 3.2.2(i)(4)).	Using smoothed annual revenue for the regulatory control period simplifies the scheme and is supported. Constant incentive rates for SAIDI and SAIFI parameters over the course of a regulatory control period simplify the scheme and are supported.
Deletion of clauses (section 5.4.2)	
Clauses 1.8(b) & 1.8(d) unnecessarily restrict both the AER's and DNSP's ability to amend and apply the scheme and are potentially inconsistent with the National Electricity Rules (Rules). Amendments to the scheme should be in accordance with the distribution consultation procedures.	ENERGEX does not support deletion of these clauses, which provide a degree of regulatory certainty for DNSPs in preparing their Regulatory Proposals for a specific regulatory control period. In ENERGEX's view, clauses 1.8(b) and 1.8(d) represent good regulatory practice, reducing regulatory costs and enhancing regulatory certainty. In practice, the STPIS Version 1.1 is likely to come into effect in late May early June (assuming the AER requires the maximum 80 business days to make its final decision), with ENERGEX's Regulatory Proposal due to be submitted on or before 31 May 2009. This places ENERGEX in a very difficult position which requires the signing off on a Regulatory Proposal with an important element of the regulatory framework for 2010-15 potentially not yet finalised. However, ENERGEX recognises that additional flexibility may be of benefit to both the AER and DNSPs in certain circumstances. ENERGEX supports amendments to the STPIS being made in accordance with the distribution consultation procedures as proposed by the AER. However, it does not consider that the 19

	month cut off date in the existing STPIS is inconsistent with these procedures, which are silent on how close to the start of a regulatory control period changes to AER Guidelines can be made. Moreover, the AER's Electricity Transmission STPIS (Version 2) incorporates a comparable 15 month cut off period. ENERGEX considers that if the clauses are to be amended, they should provide for changes to AER Guidelines only where agreed between the AER and affected DNSPs (those DNSPs whose regulatory control period falls within the 19 month cut off period). Such an amendment would provide a reasonable balance between promoting regulatory certainty and allowing flexibility where it is in the interests of the AER and affected DNSPs.
Insertion of additional clauses - Adjustment to future targets where revenue art risk breached (Section 5.4.3)	
Clauses 3.2.1(a)(1A). 5.3.1(b)(1A) and 5.3.1(b)(1B) have been added to provide for the AER to take account of whether a DNSP breached the revenue at risk caps during the current regulatory control period when setting performance targets for the next regulatory control period.	ENERGEX acknowledges the need to consider breaches of revenue at risk caps in setting future performance targets. However, it will be important to distinguish between breaches over a number of years compared to single year breaches within a regulatory control period. While a series of breaches is likely to be indicative of sustained under/over performance against targets, an occasional breach may be due to severe weather events or other force majeure-type events beyond a DNSP's reasonable control. In ENERGEX's view, it is difficult to meaningfully adjust a future performance target based on a single year's historical out-performance. In contrast, frequent historical over/under performance against targets suggest that the targets for the next regulatory control period should be adjusted accordingly. As a result, ENERGEX considers that the clauses should be amended to refer to a frequent occurrence of breaches of revenue at risk, over the course of a regulatory control period.

Amendment to clauses 5.1(e) and 6.2(e)(4)	
Alignment of STPIS terminology with the Rules terminology.	Supported.
Insertion of Appendix E	
A worked example of the S factor calculation is incorporated in the STPIS.	Supported.
Other issues – Telephone call answering parameter	
The STPIS uses the Grade of Service (GOS) measure to assess the percentage of telephone calls answered within 30 seconds.	ENERGEX proposes average speed to answer (ASA) as an additional measure to the GOS measure of call centre telephone answering performance to give DNSPs the opportunity to choose either measure. The ASA measure is a national measure endorsed by the Australian Teleservices Association calculated as; $\frac{\text{Total time waiting in queue}}{\text{Number of calls answered.}}$ Justification for this additional performance measure is attached.
Clause 5.4 (a) – exclusion of the impact of an event from the telephone answering parameter	ENERGEX supports the principle of aligning exclusions of specified event impacts under the reliability of supply and customer service parameters (clauses 3.3 and 5.4 of the STPIS). However, the MED methodology used for the reliability parameters does not necessarily apply neatly to the telephone answering parameter. This is because the MED definition is measured on a 24 hour basis, with the day determined by the time of the initial outage. However, contact centre call volumes impacts commence at the time of an outage but can continue for anywhere from a

	few hours to several days. As a result, the full impact of outages which occur late in a particular day are not fully captured in the MED exclusions. In Queensland, the typical timing of summer storm events suggests that most potential outage events will occur in the late afternoon or evening. Given this potential problem, ENERGEX proposes an alternative excluded event definition in relation to the telephone answering parameter. The event would continue to be linked to the MED definition, however the period of exclusion would be defined as from one hour before an event is called to when the event is closed by the DNSP in line with existing reporting parameters. ENERGEX's systems are unable to distinguish between general loss of supply calls and those associated with the event. Hence it will be necessary to adjust (downwards) the total number of calls associated with that event by the average non-event (business as usual) totals for the purpose of calculating performance. ENERGEX also proposes an exclusion event in relation to telephone answering due to an outage or material fault caused by the call centre's telecommunications service provider. This exclusion event would be in addition to the exclusion events for reliability parameters identified in clause 3.3(a) of the STPIS.

2 Proposed alternative measure for telephone answering

2.1 Overview

The purpose of this short paper is to set out arguments in support of an additional telephone answering performance indicator, the Average Speed of Answer (ASA), in the AER's STPIS.

The ASA performance indicator would be an alternative measure of telephone answering performance to the existing GOS measure, which records the percentage of calls to the DNSP's fault line answered in 30 seconds.

Both measures are used widely in the Australian contact centre sector to assess the timeliness of telephone answering. However, different DNSPs may prefer one measure over the other having regard to their business objectives, any relevant legislative requirements and the nature of service offerings of their contact centres.

It is proposed that the existing incentive rate for telephone answering in the STPIS be applied to both the GOS and ASA measures with DNSPs given the option of choosing the measure that best reflects the operation of their contact centre.

2.2 Existing STPIS telephone answering performance measure

The existing definition of telephone call answering under the STPIS is based on the percentage of calls to the fault line answered in 30 seconds, where the time to answer a call is measured from when the call enters the telephone system of the call centre to when the caller speaks with a human operator. However, time that the caller is connected to an automated interactive service which provides substantive information is excluded.

In addition, the measure is not to apply to:

- calls to payment lines and automotive interactive services; or
- calls abandoned by the customer within 30 seconds of the call being queued for response by a human operator. Where this time is not recorded, an estimate of the number of calls abandoned within 30 seconds is determined by taking 20% of all calls abandoned.

The definition is expressed in the following formula (assuming the timeliness of abandoned calls is not recorded):

Percentage of calls answered within 30 seconds =

$$\frac{\textit{Total calls answered within 30 seconds + 20\% of Total calls abandoned}}{\textit{Total calls offered}} * 100$$

2.3 Service quality reporting guidelines

ENERGEX currently reports the following telephone answering performance data to the Queensland Competition Authority (QCA) under the Authority's Service Quality Reporting Guidelines[2]:

- Total calls to the contact centre;
- Total calls to the contact centre answered by an operator;
- Calls to the contact centre answered within 30 seconds (the GOS measure) – general enquiry line;
- Average time waiting to speak to an operator (the ASA measure) - Loss of Supply (LOS) and Emergency Lines;
- Calls to the contact centre answered by the Interactive Voice Response (IVR) system – all lines;
- Number and percentage of abandoned calls – all lines
- Number of instances of capacity overload - all lines; and
- Number of missed calls when a capacity overload occurs -all lines.

ENERGEX does not report, nor measure internally, the calls abandoned by the customer within 30 seconds of the customer joining the LOS/fault line queue for a response by an operator. Rather, ENERGEX's abandoned calls are those reported as abandoned after transfer from the IVR.

In addition, ENERGEX's reported performance on its LOS/fault line is via the ASA which is the primary driver of performance in this area. This reporting is one of the outcomes of the Queensland Government's Electricity Distribution Service Delivery Review (2004). ENERGEX is required to meet ASA targets[3] of 40 seconds in 'business as usual' circumstances and 120 seconds in weather events such as storm or high winds.

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2 QCA, Electricity Distribution: Service Quality Reporting Guidelines Version 2, August 2005.

3 Department of Energy, Minimum Service Standards, Guaranteed Service Levels, Service Quality and Operations Reporting Guidelines for Distribution Networks Connected to the Main Grid Version 1.3, January 2009

In contrast, the reported performance against the GOS measure is applied to ENERGEX's general inquiry line.

2.4 Use of the ASA measure

2.4.1 Alternative measures of telephone answering performance

The widely accepted quantitative measures of telephone answering contact centre performance in Australia are:

- percentage of calls answered within a specified period; and
- average speed of answering.

2.4.2 ENERGEX's concerns with a GOS measure for LOS/fault line

ENERGEX's main concerns about using the GOS measure are:

- On the its LOS/fault line, the ASA measure is used to assess the contact centre's performance in relation to the LOS/fault line (as noted above);
- ENERGEX does not measure the number of call abandoned within 30 seconds. Hence, applying a GOS telephone answering measure would require an assumption that 20% of total calls are abandoned within 30 seconds. This would result in a potential distortion in the measure because an important element of the parameter formula would be based on an assumption, rather than actual reported data; and
- The existing GOS definition treats abandoned calls as a negative experience which does not reflect the experience of customers who phone the ENERGEX loss/fault line and abandon after hearing effective outage updates whilst waiting in the queue.

2.4.3 Arguments in support of the ASA measure for LOS/fault line

ENERGEX proposes use of the ASA as another measure for telephone answering on the LOS/fault line for the following reasons:

- ASA is a uniform measurement used by the Australian Call Centre industry and is calculated by the following formula:

  $$\text{Average speed of calls answered} = \frac{\text{Total time waiting in queue}}{\text{Total calls answered}}$$

- On ENERGEX's LOS/fault line, abandoned calls can reflect a positive customer experience - the ENERGEX LOS/fault IVR is structured to provide updated outage information to customers as it becomes available (including whilst customers are waiting for an operator). Due to this functionality, customers are encouraged to abandon "in queue" after receiving relevant outage information and before being answered by an operator. Therefore on this LOS/fault line,

"abandoned calls" are not classified as a traditional "negative" performance statistic.

- It indicates a level of experience for all customers answered from the LOS/fault line queue not just those answered within a specified number of seconds. In this sense it is a broader measure than the existing GOS telephone answering measure in the STPIS.

- Given the LOS/fault line will, by definition, be used at a time when many customers are experiencing a power outage and the contact centre is likely to be under most pressure in terms of call volumes, the ASA measure will provide a broader measure of the contact centre's performance in handling all calls to the LOS/fault line. In contrast, the GOS measure will only measure how many of the calls were answered within a 30 second period. Hence, all calls not answered within 30 seconds are excluded from the assessment of performance. In this sense, it is a partial measure of telephone answering performance compared to the more complete ASA measure.

2.4.4 ENERGEX's management of calls to the LOS/fault line

ASA has been used by ENERGEX as one of a number of measures of customer experience related to loss of supply events over the past five years.

The ASA measure forms a key element of ENERGEX's strategy for monitoring its performance in handling calls to its LOS /fault line. The process for handling calls to this line is as follows:

- calls to LOS/fault line divert to IVR message in the first instance;

- if the customer receives information he/she requires from the IVR message, the call will be terminated and reported as a call to the IVR line;

- if the customer does not receive the information he/she requires from the IVR message (or has additional information to offer ENERGEX in relation to their loss of supply or fault), they can elect to join the LOS/fault line queue and wait to speak to an operator;

- the average time to speak to an operator is based on the time from when the customer joins the LOS/fault line queue to when the call is answered by an operator; and

- having joined the queue, if the customer hangs up before speaking to an operator, the call is reported as an abandoned call.

2.4.5 Comparison of ENERGEX's GOS and ASA performance

Table 1 indicates ENERGEX's telephone answering performance for its LOS/fault line against the GOS and ASA measures for the financial years 2004-05 to 2007-08.

Table 1: Comparison of GOS and ASA measures

	2004-05	2005-06	2006-07	2007-08
% of calls answered in 30 secs	62%	61%	68%	71%
Average speed of answering (secs)	40	36	28	24

2008-09 data is excluded as it is an incomplete year

On ENERGEX's general enquiry line, GOS and ASA are inversely linked with GOS increasing as ASA decreases. The goal is a high GOS and a low ASA. If the ASA is low, more calls are answered within the specified number of seconds and as a consequence, there are less abandons in queue.

However, ENERGEX customers do abandon in the LOS/fault queue when there are short waiting times (speed of answer) after hearing and being satisfied with an outage message (positive abandons). This is evident in the data in Table 1, where both GOS and ASA are lower in 2005-06. Whilst the GOS result indicates a small decline in customer service performance, the ASA indicates improved performance. This highlights the inaccuracies associated with using GOS as an indication of service performance on the ENERGEX LOS/fault line, as it fails to take into account the effect of positive abandons.

The choice of measure should reflect the DNSP's management decision regarding the best measure for its contact centre to target reflecting business objectives, any legislative requirements and customer service expectations.

2.5 Incentive rate

In proposing the additional ASA measure for telephone answering, the issue of an appropriate incentive rate to apply arises. The existing call centre incentive rate (-0.04%) applies to a one percentage point improvement/decline in the number of calls answered within 30 seconds.

Applying the same incentive rate to a one second improvement/decline in the average time taken to answer a call is not strictly appropriate as the units of measurement are different (actual time compared to percentage points). (The negative sign for the incentive rate would also become a positive sign for the ASA measure as a lower number indicates better performance whereas for the GOS measure it indicates worse performance.)

Using the same incentive rate for both measures implies that a one percentage point improvement in calls answered within 60 seconds is valued by customers the same as a one second improvement in the average time taken to answer a call. The basis for this assumption is that customers are prepared to pay more for good call centre performance, as indicated in the KPMG study[4] undertaken for ESCOSA, and that

[4] KPMG, Consumer Preferences for Electricity Service Standards, September 2003.

the GOS and ASA measures are broadly comparable ways of measuring that performance, as indicated in the preceding section of this paper.

On these grounds, ENERGEX considers it reasonable to use the same incentive rate for the GOS and ASA measures.

2.6 Conclusion

Against this backdrop, ENERGEX proposes ASA as an additional measure of telephone answering performance for the fault line, which would be incorporated in the STPIS alongside the GOS measure. A DNSP could propose either of the two.