

Combined Proposal 2024-2029

Attachment 14 Customer service incentive scheme



Outline: This attachment to TasNetworks' Combined Proposal sets out how the new Customer Service Incentive Scheme will apply during the 2024-2029 regulatory control period.

Note

This attachment forms part of TasNetworks' Combined Proposal for the 2024-2029 regulatory control period and should be read in conjunction with the other parts of the proposal.

TasNetworks' Combined Proposal is made up of the documents and attachments listed below, as well as the supporting documents that are listed in Attachment 23.

Document	Description
	Combined Proposal overview
Attachment 1	Customer and stakeholder engagement summary
Attachment 2	Annual revenue requirement
Attachment 3	Regulatory asset base
Attachment 4	Rate of return
Attachment 5	Regulatory depreciation
Attachment 6	Capital expenditure
Attachment 7	Contingent projects
Attachment 8	Operating expenditure
Attachment 9	Corporate income tax
Attachment 10	Efficiency benefit sharing scheme
Attachment 11	Capital expenditure sharing scheme
Attachment 12	Service target performance incentive scheme
Attachment 13	Demand management incentives and allowance
> Attachment 14	Customer service incentive scheme
Attachment 15	Classification of services
Attachment 16	Control mechanisms
Attachment 17	Pass through events
Attachment 18	Alternative control services
Attachment 19	Negotiated services framework and criteria
Attachment 20	Distribution connection pricing policy
Attachment 21	Tariff structure statement
Attachment 22	Tariff structure explanatory statement
Attachment 23	List of supporting documents
Attachment 24	Glossary

Contents

14.1 Introduction	2
14.2 Customer and stakeholder engagement	2
14.3 Proposed application of the CSIS	5
Appendix 1: CSIS requirements assessment	8

14 Customer service incentive scheme

14.1 Introduction

The Customer Service Incentive Scheme (CSIS) is a new incentive scheme released by the Australian Energy Regulator (AER) in July 2020 that provides an incentive for distribution network service providers (DNSPs) to pursue service improvements identified by their customers. It is a flexible 'principles-based' scheme that allows TasNetworks to tailor the scheme to the specific preferences and priorities of customers.

Similar to the Service Target Performance Incentive Scheme (STPIS), DNSPs receive financial rewards for improving their customer service, or financial penalties if service deteriorates. Financial rewards (or penalties) are added to (or subtracted from) the annual revenue requirement as part of annual pricing processes.

Clause 3.3 of the *Final Customer Service Incentive Scheme*¹ lists the incentive design proposal requirements. The AER will not apply an incentive scheme design unless a distributor can demonstrate that its customers support the incentive design through genuine engagement.

TasNetworks proposes to adopt the CSIS for the 2024-2029 regulatory control period. This position is supported by customers and stakeholders and the proposed parameters and targets have been identified through engagement with customers and stakeholders. We will retest this with customers and stakeholders in 2023 when CSIS targets have been updated with additional performance data for the 2022-2023 financial year.

If adopted, the CSIS will replace the customer service component of the distribution STPIS.

14.2 Customer and stakeholder engagement

14.2.1 How we sought customers' views

The CSIS was developed over a twelve month period based directly on feedback from customers and stakeholders, captured using a variety of methods and different audiences:

- TasNetworks Annual Customer Survey: open to customers and the general public, the survey captures sentiment and satisfaction with TasNetworks' services and future plans
- TasNetworks Customer Panel: a deliberative panel of individual customers from across the state
- TasNetworks Customer Council: an existing customer representative group.

Engagement included empowering the Customer Panel and Customer Council to decide whether TasNetworks should propose the CSIS in the 2024-2029 regulatory control period. Following strong support received from customers and stakeholders to propose the CSIS, engagement focused on the detailed design of the CSIS with the Customer Council.

Table 1 outlines the engagement activities TasNetworks has undertaken with respect to CSIS.

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

Table 1. CSIS engagement snapshot

Activity metrics	Phase 1 Research + planning Nov 2020-Sep 2021	Phase 2 Context + capability building Oct-Dec 2021	Phase 3 Deep dives Jan-Jul 2022	Phase 4 Reporting back Jul-Oct 2022	Phase 5 Closing the loop Nov 2022-Jan 2023	Totals
Individuals <i>directly</i> engaged	0	0	22	11	18	51
Total activities completed	0	0	4/4	1/1	1/1	6

Presentations and activity summaries for all engagement activities can be downloaded from Talk with TasNetworks.²

14.2.2 Customer Panel outcomes

An independent third party recruited 18 distribution customers from across Tasmania to participate in a series of three online engagement sessions dedicated specifically to CSIS. A total of 13 customers participated in all three sessions. Each session was facilitated by an independent engagement consultant, with the final activity also observed by members of the AER’s Consumer Challenge Panel (CCP).

At the completion of session three, it was clear the majority of participants supported TasNetworks proposing the CSIS in the 2024-2029 regulatory control period, along with providing clear direction on the design principles that should underpin the CSIS. Participants ranked customer satisfaction with complaints handling, outage duration and outage communication as the top three parameters.

Table 2 summarises the topics and outcomes of each engagement activity, as well as the International Association for Public Participation (IAP2) level of audience influence.

Table 2. Customer Panel engagement summary

	Activity 1 21 February 22	Activity 2 7 March 22	Activity 3 4 April 22
Number of participants	18	14	13
Topics covered	<ul style="list-style-type: none"> • Inform on TasNetworks • Inform on STPIS • Collaborate on value of customer service • Inform on customer survey results 	<ul style="list-style-type: none"> • Inform on Activity 1 • Inform on CSIS • Consult on design principles • Collaborate on potential customer service measures 	<ul style="list-style-type: none"> • Inform on Activity 2 • Collaborate on prioritised customer service measures and targets, potential impacts and trade-offs • Empower panel to select STPIS or CSIS as preferred customer service incentive framework
Outcomes	<ul style="list-style-type: none"> • List of important aspects of customer service 	<ul style="list-style-type: none"> • Prioritised customer service measures for further assessment 	<ul style="list-style-type: none"> • Short list of prioritised customer service measures for CSIS • Support to proceed with CSIS framework and design

² TasNetworks 2023, Engagement activity materials, Revenue Reset (R24)

14.2.3 Customer Council outcomes

TasNetworks established the Customer Council in 2015 to enable ongoing conversations about issues that matter to Tasmanian energy users. The key purpose of the Customer Council is to:

- evaluate current customer policies, procedures and services
- provide ongoing customer feedback on services, regulations, policies, and procedures
- identify opportunities for new processes that would improve customer engagement.

Customer Council membership includes a diverse range of stakeholder segments, including:

- individual customers – who are recipients of TasNetworks services and connected to the electricity and/or communications networks
- business – small, medium and large business customers who represent a group or individuals impacted by, or with an interest in, TasNetworks operations. This also includes transmission customers
- regulators – those responsible for shaping and monitoring the energy sector
- partners – customers who we work with in a collaborative manner to meet connected customers' needs and to achieve best possible outcomes for all involved.

TasNetworks held three activities with the Customer Council in which CSIS was discussed.

Activity 1 was an in-person workshop, facilitated by the same independent engagement consultant used for the Customer Panel. The Customer Council supported TasNetworks proposing the CSIS in the 2024-2029 regulatory control period and the design principles underpinning the CSIS. Participants ranked customer satisfaction with planned and unplanned outages, overall customer satisfaction and customer satisfaction with new connections as their top three parameters.

Activity 2 was an online workshop, facilitated by TasNetworks. Participants were presented with a number of potential options for the CSIS based on the prioritised customer service measures before gauging their level of support for the proposed CSIS models, measures and targets. The responses from this session were considered in the proposed CSIS for submission.

Activity 3 was conducted via email and online survey to consult on the proposed CSIS and confirm that CSIS remains the preferred customer service incentive framework. There was insufficient feedback from Customer Council members to confirm TasNetworks' approach before submission of the Combined Proposal. TasNetworks will engage with the Customer Council on the CSIS in detail in 2023 to confirm the approach prior to submission of the Revised Proposal.

Table 3 summarises the topics and outcomes of each engagement activity, as well as the IAP2 level of audience influence.

Table 3. Customer Council engagement summary

	Activity 1 7 April 22	Activity 2 13 July 22	Activity 3 November 22
Number of participants	9	11	18
Topics covered	<ul style="list-style-type: none"> • Inform on STPIS and CSIS • Collaborate on potential customer service measures • Inform on Customer Panel results 	<ul style="list-style-type: none"> • Inform on Activity 1 • Consult on design principles • Consult on combined Customer Panel and Customer Council short listed customer service measures • Inform on historical performance of short listed customer service measures • Collaborate on number of customer service parameters, potential targets and weighting 	<ul style="list-style-type: none"> • Inform on Activity 2 • Consult on design principles and proposed CSIS framework for submission • Confirmation of CSIS as preferred customer service incentive framework
Outcomes	<ul style="list-style-type: none"> • Short list of prioritised customer service measures for CSIS • Support to proceed with CSIS framework and design 	<ul style="list-style-type: none"> • Confirmed design principles • Agreed number of customer service parameters and approach to target setting • Further assessment of incentive rates 	<ul style="list-style-type: none"> • Insufficient feedback (one survey response)

14.3 Proposed application of the CSIS

With the support of customers and stakeholders, TasNetworks proposes to adopt the CSIS for the 2024–2029 regulatory control period. The following section summarises TasNetworks’ proposed application of the CSIS and how it meets the incentive design requirements. A detailed assessment of the proposed CSIS against section 3 of the AER’s Final Customer Service Incentive Scheme is provided at Appendix 1.³

14.3.1 Performance parameters

TasNetworks consulted with customers and stakeholders on a set of principles to underpin the design of TasNetworks’ CSIS. These agreed principles are:

- the CSIS should be easy to understand and measure
- a maximum of four performance parameters to allow for meaningful focus
- the cost to implement and administer the CSIS should be proportional to the incentive
- service parameter targets will be based on historical performance
- at least one parameter reflects end use customer preferences identified in the engagement process.

³ AER, Final Customer Service Incentive Scheme, July 2020

Customers and stakeholders engaged in discussions around services they valued and TasNetworks shared current customer service parameters that are measurable and controllable by the business. Customers and stakeholders prioritised these customer service parameters in order of perceived value and expressed preferences for a three-parameter model for the 2024–2029 regulatory control period.

The proposed performance parameters are:

- customer satisfaction with complaints handling
- customer satisfaction with outage management (planned and unplanned)
- customer satisfaction with new connections.

There was discussion with the Customer Council regarding whether customer satisfaction with new connections should be included, as it is not reflective of the day-to-day services that the entire customer base experiences and values. A further consideration is that connection services are not all standard control services and TasNetworks’ does not identify customers by forms of control as part of our monthly customer satisfaction surveys.

The Customer Council provided strong feedback regarding the value of connection services to customers, irrespective of the form of control. TasNetworks agrees with the Customer Council that new connections is an important interaction between networks and customers and proposes to include

customer satisfaction with new connections as a CSIS performance parameter. However, a lower incentive rate is proposed for the connections parameter compared to the other CSIS parameters to reflect the smaller customer base accessing this service.

Other prioritised measures were not selected as they were duplications of existing incentive schemes or parameters, such as outage duration and overall customer satisfaction, or TasNetworks does not currently have sufficient information on performance to ensure meaningful customer outcomes, such as outage communication.

Overall, TasNetworks considers that the three proposed performance parameters address the broad needs and preferences of customers than the current telephone answering parameter of the STPIS.

14.3.2 Measurement methodology

TasNetworks joined an energy benchmarking research program run by Customer Service Benchmarking Australia (CSBA) in 2020. The program tracks, measures and compares customer experiences across Tasmanian, South Australian and Victorian electricity distributors.

Contact details of customers that have experienced TasNetworks' services are made available to CSBA at the end of each month to conduct independent customer satisfaction surveys. Results are grouped by service type and are made available anonymously to TasNetworks via an online portal.

TasNetworks will continue to engage CSBA, or other appropriate equivalent entities, to conduct independent customer satisfaction surveys to allow for ongoing measurement of customer satisfaction performance against the proposed parameters.

14.3.3 Assessment approach

TasNetworks has adopted feedback from customers and stakeholders into the assessment approach and proposes that:

- baseline performance will be calculated as the average of the most recent three years of performance measurements available
- the performance target for each parameter will be determined using TasNetworks' average three year performance, or the CSBA industry benchmarked average three year performance, whichever average reflects a better customer outcome
- targets will be re-evaluated prior to submission of TasNetworks' Revised Proposal with the most recent data, to ensure any performance improvements are reflected in the final determination and include an additional year of performance for the outage management parameter
- financial rewards will be applied if TasNetworks outperforms against the performance target in a single year in the regulatory control period (customer satisfaction score greater than the target)
- financial penalties will be applied if TasNetworks underperforms against the performance target in a single year in the regulatory control period (customer satisfaction score lower than the target).

Table 4 details TasNetworks' historical performance and average three year performance, the average three year industry benchmark from CSBA and the proposed performance targets for each of the performance parameters. TasNetworks proposes to adopt the highest target of either the 3-year average of TasNetworks' historical performance or the 3-year industry average benchmark for each of the CSIS targets, whichever is more demanding.

Table 4. Historical performance and proposed targets

Parameter	TasNetworks performance				3 year industry benchmark	Proposed CSIS target
	2019-20	2020-21	2021-22	3 year average		
Customer satisfaction rating of complaints handling	6.55	6.78	6.65	6.66	5.40	6.66
Customer satisfaction rating of planned and unplanned outages*	No data	No data	7.85	7.85	7.43	7.85
Customer satisfaction with new connections	7.34	7.27	7.95	7.52	7.74	7.74

*TasNetworks currently has only one year of data for this parameter and will update with two years for the Revised Proposal

14.3.4 Financial component

14.3.4.1 Revenue at risk

TasNetworks proposed to customers and stakeholders that, if adopted for the 2024-2029 regulatory control period, the CSIS will replace the customer service component of the existing STPIS, which in the current regulatory period has been measured by the number of calls to the fault service centre answered in less than 30 seconds. This position was not disputed by customers and stakeholders. Therefore, TasNetworks proposes that +/- 0.5 per cent (or around \$1.5 million) annual revenue at risk be applied to the CSIS. This is the same revenue at risk under the existing customer service parameter in the STPIS and ensures customers are not exposed to greater variations in revenue than is the case in the current regulatory control period.

14.3.4.1 Incentive rate calculations

TasNetworks engaged with the Customer Council on the incentive rates to apply for the CSIS. Table 5 presents what we heard and TasNetworks' responses to the Customer Council's feedback, while Table 6 presents the proposed incentive rates.

Table 5. Feedback from Customer Council on incentive rates

What we heard	What we are doing
Good customer service should be part of standard operations and incentives/penalties should sit within the business, not with customers.	TasNetworks has a commitment to caring for customers and making their experience easier, irrespective of financial incentives/penalties available. Not proceeding with the CSIS means the call service component of the STPIS would remain in place and while the answering of calls to TasNetworks' fault service centre is important, this single performance parameter does not capture other services that customer's value and want improved.
The incentive/penalty framework provides poorer outcomes for customers because if TasNetworks underperforms, customers experience poorer service outcomes but if TasNetworks performs, customers pay for "better" service.	Incentive schemes are part of the AER's approach for regulating monopoly electricity and gas networks in Australia to incentivise Network Service Providers to run efficient businesses so that customers pay no more than necessary for the services that they value the most. TasNetworks operates to the best of its ability within this framework, to ensure customers receive the best service TasNetworks can deliver.
Members of the Customer Council were not certain that an incentive rate within the ± 0.5% of revenue at risk would be sufficient to encourage TasNetworks' to improve its performance.	Under the proposed CSIS, TasNetworks will only receive an incentive payment when it makes measurable improvements in service areas that customers have told us that they value. Further, TasNetworks is not seeking additional funding to meet the proposed new performance targets. Consequently, we consider that the incentive rates reasonably balance the interests of customers with TasNetworks' commitment to target improvements in performance in the designated service areas.

Table 6. Proposed CSIS incentive rates

Parameter	Proposed Incentive rate (%)	Estimated financial incentive*
Customer satisfaction rating of complaints handling	0.01	\$30,963
Customer satisfaction rating of planned and unplanned outages	0.01	\$30,963
Customer satisfaction with new connections	0.005	\$15,481

*For 0.01 improvement in customers satisfaction

Appendix 1: CSIS requirements assessment

3. Incentive Design

3.1 Incentive Design Criteria	TasNetworks response
<p>1) The incentive design criteria are:</p> <ul style="list-style-type: none">a) The incentive design must calculate any revenue adjustment using the method set out in Appendix A unless the AER is satisfied that another approach will better achieve the scheme objectives.b) The incentive design must set out each of the scheme elements, which are:<ul style="list-style-type: none">i) <i>Performance Parameters</i>, consisting of the metrics of customer service performance subject to the incentive designii) <i>Measurement Methodology</i>, consisting of a description of how performance against the performance parameters will be measured and the assurance arrangements that will apply to the measurementiii) <i>Assessment Approach</i>, consisting of a performance target and a method for evaluating measured performance against performance targetsiv) <i>Financial Component</i>, consisting of an overall revenue at risk, an amount of revenue at risk for each performance parameter, and a means of setting the incentive rate for each performance parameter.c) Each of the scheme elements must satisfy the corresponding principles outlined in clause 3.2.d) Customers of the DNSP strongly support the application of the incentive design.e) The incentive design must not continue beyond the end of the DNSP's next regulatory period. For clarity, the AER may, at a regulatory determination, make a decision to apply an identical incentive design for a second time to a DNSP.f) The incentive design must place a valid amount of revenue at risk. The revenue at risk will be valid if, by default, the maximum revenue increment or decrement (the revenue at risk) for each performance parameter in aggregate for each regulatory year within the regulatory control period is 0.5% of the DNSP's annual revenue requirement or less. That is, the sum of the H-factors associated with all performance parameters must lie between +0.5% (the upper limit) and -0.5% (the lower limit).	<p>TasNetworks' does not propose to vary from the method set out in Appendix A.</p> <p>Each of the scheme elements of the incentive design has been set out in section 14.3 of this attachment.</p> <p>The following section outlines how TasNetworks has satisfied the principles in clause 3.2.</p> <p>Customers and stakeholders expressed a preference for the CSIS when presented the choice of the CSIS or the existing customer service component of the STPIS.</p> <p>The CSIS outlined in this attachment is proposed to apply for the 2024-2029 regulatory control period.</p> <p>TasNetworks CSIS Model demonstrates the sum of the H-factors associated with all performance parameters are between +0.5% and -0.5%.</p>

3.2 Scheme Element principles	TasNetworks response
<p>1) The relevant principles for performance parameters are that each performance parameter must be an aspect of the customer experience component of the DNSP's standard control services.</p>	<p>The two key performance parameters (customer satisfaction related to complaints handling and customer satisfaction related to planned and unplanned outages) are aspects of a customer experience of TasNetworks' standard control services. Customer satisfaction with new connections includes standard control services and alternate control services.</p>
<p>2) that the customers of the DNSP particularly value and want improved, as evidenced by genuine engagement with, and support from, the DNSP's customers:</p> <ul style="list-style-type: none"> a) that is substantially within the control of the DNSP b) for which the DNSP does not already have an incentive under another incentive scheme or jurisdictional arrangement. 	<p>Feedback from customers and stakeholder engagement supported that the selected performance parameters reflected services that customers value and are within TasNetworks' control. TasNetworks does not have an incentive under another incentive scheme of jurisdictional arrangement for the selected performance parameters.</p>
<p>3) The relevant principles for measurement methodology are that for each performance parameter, the proposed measurement:</p> <ul style="list-style-type: none"> a) accurately measures the features of the performance parameter identified in clause 3.2(1)(a) 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 d) produces results that could be audited by an independent third party. 	<p>TasNetworks engages an independent third party to conduct surveys with customers who have recently experienced TasNetworks' service.</p> <p>Customers are asked several questions, one of which is customer satisfaction - "how would you rate your satisfaction with the overall experience?"</p> <p>The results are compiled by the service provider and grouped by service type before being made anonymously available to TasNetworks via an online portal.</p>
<p>4) The relevant principles for assessment approaches are that for each performance parameter; the incentive design:</p> <ul style="list-style-type: none"> a) Establishes a baseline or neutral level of performance, which in normal circumstances should be at least equal to the historical performance of the DNSP b) Sets a performance target for each performance parameter that: <ul style="list-style-type: none"> i) incentivises genuine improvement in line with the value of the identified service improvement to the DNSPs customers ii) makes reference to the baseline or neutral level of performance established in clause 3(4)(a). c) Expresses the result of the assessment of measured performance against each performance target as a single value d) Creates a clear relationship between: <ul style="list-style-type: none"> i) outperformance of the performance target resulting in a reward under the incentive design ii) underperformance of the performance target and receiving a penalty under the incentive design. 	<p>TasNetworks CSIS Model demonstrates how the incentive design of the CSIS meets the requirements of this clause.</p>

- 5) The relevant principles for the financial component are that, the incentive design provides rewards or penalties that:
- a) will increase relative to the degree of outperformance or underperformance, commensurate with the identified value of the service improvement to customers of the DNSP
 - b) are commensurate with the service improvements or degradations observed in respect of the DNSP's distribution system
 - c) are not likely to exceed the value that customers attribute to the level of service improvement observed
 - d) 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
 - e) in satisfying the requirements of clause 3.2(4)(a) and (c), the value that customers attribute to service improvements or degradations is established using a reasonable process that identifies the value that customers attribute to the level of service improvement or degradation observed, in that the process:
 - i) is transparent
 - ii) involves genuine consultation with the DNSP's customers.
 - f) Will exclude in circumstances agreed between the distributor and its customers, giving effect to principles 4)a) to 4)e) inclusive.

TasNetworks CSIS Model demonstrates how the incentive design provides rewards or penalties that will increase relative to the degree of outperformance or underperformance.

The performance parameters selected were those that customers and stakeholders prioritised as most valuable during the engagement process. TasNetworks has undertaken a comparative value assessment of these performance parameters against the existing call service component of the STPIS and proposed incentives proportional to outcomes that may be expected under the STPIS.

We consider that the value attributed to these parameters reasonably balance the interests of customers with TasNetworks' commitment to target improvements in performance in the designated service areas and will continue to engage with customers and stakeholders on these in 2023.

