

29 August 2019



Andrew Ley  
Acting Director, Network Pricing, Policy and Compliance  
Australian Energy Regulator  
2 Lonsdale Street, Melbourne VIC 3000

Dear Mr Ley,

### **AER Customer Service Incentive Schemes**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Australian Energy Regulator's consultation on Customer Service Incentive Schemes.

We support the AER's desire to improve the customer service of network businesses and consider its plan to implement trial schemes a good method for doing so without burdening consumers with extra costs.

Our response to the issues paper questions are below.

#### **1. Do the AER's incentive schemes provide sufficient incentives for distributors to provide customer services as desired by customers?**

The existing scheme provides an incentive for distributors to provide a limited customer service outcome – answering phones within 30 seconds. It has no mechanism for testing whether this outcome reflects customer preferences and priorities. Evidence of what may be customers' current priorities can be seen in the concerns raised at AusNet's customer forum, where customers highlighted issues including:

- AusNet's inadequate understanding of how some customers rely on electricity
- generic service across different customer groups with different needs
- a reactive rather than proactive approach to customer service, and
- under resourcing of its customer service function.

Interestingly, none of the issues raised concerned phone answering times, although this may be because the current incentive scheme is working. Overall, the Customer Forum concluded that customer expectations and needs cannot be fully met if AusNet only satisfies the existing minimum regulatory performance targets.

For an incentive scheme to provide sufficient incentives for distributors to provide customer services as desired by customers, it must have a mechanism

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for finding out what customers want and a way of measuring the degree to which networks, under the scheme, are meeting those expectations.

## **2. What would be necessary preconditions for applying the trial CSIS? Is broad customer support a necessary prerequisite, and how could broad customer support be demonstrated?**

PIAC considers a number of conditions should be met before applying the trial CSIS to a network business. Most importantly, the AER should be reasonably confident the proposed CSIS will better achieve the long-term interests of consumers than the STPIS component it replaces. The customer service issues raised in AusNet's Customer Forum coupled with its narrow focus, suggest the current scheme may be inadequate to support customers' long-term interests. It is impossible to know which scheme will produce the best outcomes before testing them, however, the widespread use of customer satisfaction-based incentive schemes across major American and UK electricity networks provides some evidence that this approach warrants consideration.

Another precondition for applying the trial CSIS is that its performance can be reviewed and the scheme reversed or abandoned if it proves ineffective or inferior to what was there before. PIAC recommends the scheme be reviewed against predetermined performance measures at the end or during the trial and a case be made for whether the CSIS should remain and replace the current STPIS component. Whether this monitoring/assessment is undertaken by the network or AER is an important design feature that we would welcome further discussion on.

Before implementation the scheme should be designed with the following principles in mind:

- Incentives must be for things that are actually within the business' control
- Incentives must be for things that improve customer experience
- Incentives must be for performance above what would be good/logical business practice
- Incentive targets must be set at a level reflecting a concerted action by the business to achieve them (i.e. a stretch target) and not a 'gimme'
- Incentives must be balanced between encouraging positive behaviour and penalising negative behaviour
- Incentives must reflect consumer preferences with respect to the trade-off between cost and service/s or service levels.

PIAC considers if customer support is a precondition of the trial, the method for ascertaining it should ensure the requirements and expectations of different customer groups are reflected. For example, a distributor's rural customers may have different preferences to its city-based customers and each should be given consideration.

## **3. How should we determine the revenue at risk if applying a trial CSIS?**

The trial revenue at risk should be set so that it is enough to act as an incentive for participating businesses, allows comparison between schemes, and does not result in a big shock to customers. As such, PIAC considers it should remain the same as under the STPIS - at 0.5% of total revenue.

## **4. Are financial incentives alone sufficient to improve customer service outcomes? Should any CSIS also involve public reporting of customer service performance?**

PIAC considers a financial incentive scheme should be accompanied by public reporting of consumer satisfaction performance data. Reporting of this data contributes to overall transparency of the process and broadens the impact of the scheme by allowing customers and other members of the public to compare between businesses. Public reporting may also allow

businesses to publicise their improvement over the time, acting as a further incentive for better performance.

**5. 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?**

Cognitive bias is a feature of customer surveys, particularly on complex matters that involve trade-offs, such as financial incentives for networks. PIAC considers customer surveys alone are insufficient for understanding consumer preferences with respect to network incentives, and should be complemented by face-to-face, deliberative engagement processes, to understand how consumers value the service/s being incentivised.

Please refer to PIAC's submissions to the AER's 2019 Value of Customer Reliability determination for more information on appropriate approaches to engagement to understand consumer preferences.

PIAC also recommends that:

- Surveys should be conducted by an entity independent of the network business and guidelines should be in place for how information is shared between businesses and the survey provider
- Survey questions should strike a balance between appropriate detail and broad understandability.

**6. How could the AER decide what parts of a scheme should be consistent across all distributors and what parts of a scheme should be flexible?**

PIAC considers the Schemes should be flexible to the needs and priorities of different networks' customers but allow for comparability between business and schemes. To this end, recognising that not all distributors are participating in the trial phase, PIAC recommends keeping the amount of revenue at risk and the benchmark standard of customer service the same across participating businesses while allowing for flexibility in other areas, for example level of customer support for the trial scheme, type of customer service provided and the type of survey.

**Continued engagement**

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely

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