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Submission regarding the AER's Draft Customer Service Incentive Scheme

The Brotherhood of St Laurence (BSL) welcome the opportunity to respond to the Australian Energy Regulator's (AER) consultation on the proposed Customer Service Incentive Scheme (CSIS) for electricity distributors.

The CSIS is a proposed customer incentive scheme that would reward or penalise electricity distribution companies for the level of customer service they deliver. It is intended to replace the current system, which uses a narrow measure for customer service (the average time before customer phone calls are answered.) Incentive schemes are developed to safeguard service levels, given that electricity customers aren't able to choose their distributor.

The BSL supports the development of an improved scheme, which should be designed to safeguard customers, deliver good service and avoid increasing energy costs. It is important that this scheme be underpinned by independent data, and that the performance of different distributors can be easily compared over time. We also feel that a reasonable level of good customer service should be adopted as the baseline, with rewards only applying to service exceeding these standards, and penalties for substandard service. Also, we note that a scheme that provides high rewards for service levels exceeding useful levels will particularly disadvantage customers for whom energy is difficult to afford by increasing the cost of electricity. This should be avoided in the program's design.

The Brotherhood also appreciates the points raised by the AER in the issues paper, regarding the importance of robust and independent data to underpin any scheme, and we agree with the AER's statement that "it is important to ensure that the distributor does not have the power to influence the sample taken or the responses received."¹ We feel that the broad principles-based format of the draft

About the Brotherhood: The Brotherhood of St Laurence is an independent non-government organisation has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the BSL continues to fight for an Australia free of poverty. We undertake research, service development and delivery, and advocacy with the objective of addressing unmet needs and translating the understandings gained into new policies, new programs and practices for implementation by government and others. The BSL's Energy, Equity and Climate Change program has been undertaking research, advocating for equitable policies and delivering programs to low income households since 2007.

¹ <https://www.aer.gov.au/system/files/D19-104399%20Customer%20Service%20Incentive%20Scheme%20Issues%20Paper%20for%20release.pdf>

scheme, underpinned by the outcomes of a flexibly-defined consumer engagement process, will not guarantee the robustness that the AER has highlighted as being essential.

Comments on specific aspects of the proposed CSIS

This section presents the Brotherhood's views on specific aspects of the proposed scheme. The clauses in our headings refer to those in the AER's draft Customer Service Incentive Scheme document.

Revenue at risk (Clause 3.1.1f)

The draft rules suggest that $\pm 0.5\%$ be adopted as a default for this process, with 1% allowed by agreement between the Distribution Network Service Providers (DNSPs) and the AER. We suggest that a $\pm 0.5\%$ limit would be a more appropriate cautious approach, maintaining an incentive level equal to the scheme being replaced.

BSL recommends that limiting the scheme to a maximum of $\pm 0.5\%$ of revenue at stake is an appropriate, cautious approach to designing a new scheme.

Performance Parameters (Clause 3.2.1)

Clause 3.2.1a) requires that the distributor, through their engagement process, identify parameters that are 'particularly valued by the customers of the DNSP'.

We feel this is a good principle. However, the scheme would be most effective if it also targeted the aspects of service that customers feel are currently inadequate and in need of improvement.

For the scheme to be most useful, we also suggest a focus on areas that are identified by customers as needing improvement, and that represent a current source of dissatisfaction.

BSL recommends that the scheme should target improvement where customers feel it is needed.

Unique DNSP scheme design (Clause 2.3)

The draft scheme defines a process whereby businesses design a customer service incentive program, based on the results of their engagement program. Distributors have significant flexibility in designing their scheme, and schemes will differ between businesses and between periods.

We recommend that there would be better value for all consumers in developing a scheme that measured performance against standard metrics, between distributors and over time.

Standard metrics would inform benchmarks that would allow incentive schemes to be more accurately targeted over time. They would also allow the possibility to develop competitive incentive schemes in future (such as Ofgem and Ofwat's incentive schemes referenced by the AER in the Issues Paper), or public ranking systems (such as Ofgem's league table, cited in the CCP17's submission.)²

BSL recommends that the scheme should be designed to provide consistent and comparable metrics between distribution businesses.

² <https://www.aer.gov.au/system/files/CCP17%20-%20Submission%20on%20the%20Customer%20Satisfaction%20Incentive%20Scheme%20Issues%20Paper%20-%2029%20August%202019.pdf>

DNBP-instigated scheme design based on customer engagement (Clauses 2 and 3)

The Draft scheme recognises the importance of independent and “genuine” customer engagement, given that the distributors’ engagement processes will be referenced as the basis for the schemes they will propose. However, due to the specialist technical nature of the energy market, and the lack of public awareness of the distributors’ role within it, fully independent customer engagement is difficult to achieve even where ‘best-practice’ principles are applied.

The Draft scheme specifies that independence is maintained through the process, through measures such as engaging a third party to design or conduct the engagement process. However, these measures will not guarantee the level of independence required for an scheme that safeguards customer interests. Private market research contractors are also dependent on information provided by the distribution businesses to develop their engagement processes, requiring collaboration in developing an engagement scheme.

For these reasons, although the draft scheme specifies that methodologies be conducted so that they can be audited, we feel that even a ‘best practice’ engagement process might allow room for influence by the distributor. For example, distributors are allowed significant flexibility in how to balance the competing priorities of their market segments in interpreting engagement results.

The customer engagement processes undertaken by Victorian distributors as part of the current EDPR process have demonstrated multiple ways that engagement with customers can lead to improvements in service, that deliver value that benefit all parties. However, in recognition of the difficulty of achieving truly independent engagement, we recommend that the results of engagement be used to inform, rather than to directly shape, the rules that determine revenue.

BSL recommends that an independent external customer survey, or set of measures, be used to develop the scheme’s service metrics, rather than distributor-led customer engagement processes.

Please contact Emma Chessell (Emma.Chessell@bsl.org.au) for further information about this submission.

Yours sincerely,

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Brotherhood of St Laurence