

4 November 2003

Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Re: Review into Guaranteed Customer Service Standards and Operating Statistics

AGL Energy Sales and Marketing (AGL ES&M) welcomes the opportunity to provide comments on the Independent Pricing and Regulatory Tribunal's (IPART) Draft recommendations on the "Review into Guaranteed Customer Service Standards (GCSS) and Operating Statistics (OS)".

In our previous submission we expressed the view that in reviewing the level and type of GCSS it is important to take into consideration:

- Competition in the provision of retail services where service levels are a point of differentiation between retailers;
- The current relationship structure that exists between the network operator, retail supplier and the customer in establishing service levels to ensure arrangements facilitate responsibility for the service to be assigned to the service provider; and
- That any incentives associated with the failure to meet service levels reflects the value placed on that service by customers to ensure that such incentives do not unnecessarily add to the overall cost of energy.

AGL ES&M believes that these matters should be given greater consideration within the draft recommendations. We have concerns with the level of analysis and reasoning behind some of the GCSS proposals. For example the draft recommendations do not:

- provide an assessment of the adequacy of current service levels,
- indicate the value customers place of different standards of service,
- assess the costs and benefits of maintaining or improving service levels,
- consider the most cost effective option for providing incentives to service providers to achieve the service level targets,
- indicate the GCSS that will involve GCSS payments and the amounts that will be involved,
- consider how the responsibility for compensation will be assessed or allocated, or
- outline arrangements for managing the responsibilities between different market participants.

The draft recommendations do not adequately cover item 3 of the terms of reference issued by the Minister which requires an assessment of costs and benefits of the recommendations. It would appear that the recommendations are based on anecdotal evidence and on a desire to achieve inter fuel and jurisdictional consistency (which AGL ES&M supports). However in the absence of proper analysis the recommendations appear arbitrary.

AGL ES&M supports the provision of information which will aid improved customer service and industry performance. The proposed requirement for reporting operating statistics are difficult to assess because the requirements have not been fully defined (for assessment of costs) nor any explanation provided as to how the specific measures will provide incentives to improve performance (to enable an assessment of benefits).

AGL ES&M notes the Tribunal's view that it will allow the recovery of costs associated with the management of the recommended GCSS (and any associated payments). AGL ES&M considers that such costs should be kept to the lowest possible level in the context of future pricing arrangements. Provision should be made to ensure that the costs of reporting information do not exceed the benefit to customers and retailers. For example it is possible that a system change costing \$50K to manage GCSS payments to customers worth \$5K annually may not be considered prudent expenditure.

AGL ES&M's detailed comments on the draft recommendations and issues outlined above are attached.

If you have any questions relating to this submission please contact Shaun Ruddy, Retail Regulation Manager NSW on (02) 9922-8467 or email sruddy@agl.com.au

Yours Sincerely,

Sandro Canale
General Manager Customer Services
AGL Energy Sales & Marketing

Review of Guaranteed Customer Service Standards and Operating Statistics.

AGL ES&M is of the view that where services are subject to competition market forces should be relied upon to the maximum extent possible to ensure that appropriate levels of service are achieved. Where services are provided by regulated monopolies, we accept that cost effective service levels are desirable together with regulatory arrangements to ensure that retailers are able to recover their costs.

2.1 Current GCSS do not cover all key aspects of service.

The draft recommendations state. "There are no guaranteed minimum standards relating to the number or duration of interruptions to supply." and that " Although a comprehensive survey of customer preferences has not been conducted in NSW in recent years, what information is available suggests that maintaining (but not in all cases improving) service reliability is important to customers"

AGL ES&M believes that further investigations are required to determine appropriate measures of service reliability to customers and the cost effectiveness of service levels.

2.2 Some GCSS ineffective or inappropriate.

The Tribunals draft recommendation comments on the issue that some of the current GCSS are ineffective or inappropriate. In assessing the appropriateness of any GCSS consideration must be given to services that customers deem to be of the most importance. A value test needs to be conducted (costs v benefits) when determining which service levels require a GCSS.

2.3 Inconsistencies with arrangements in other jurisdictions.

AGL ES&M is of the view, that while consistency between jurisdictions in relation to GCSS is desirable it is important that GCSS reflect customers expectations on service levels. GCSS should be attached to services that are ranked as important by the customers.

We need to be careful when aligning service levels to other jurisdictions and alignment should not occur for alignment sake. Jurisdictional differences may in fact place a different value on service levels. For example customers in Victoria, given the high penetration of gas for heating, may assign a higher importance to service reliability in winter whilst customers in Sydney would not.

2.4 Disparity between GCSS for electricity and gas.

It is not unreasonable to expect that customers may assign different values to gas and electricity services given the differences in the manner in which the two fuels are used. As a result there is likely to be a disparity between gas and electricity GCSS. Gas and electricity GCSS should not be aligned for alignment sake.

2.5 GCSS payment levels may not be appropriate

In assessing the appropriate level of GCSS payment it is necessary to assess the priority and importance placed on that service by the customers. If some existing GCSS payment levels are considered to be inappropriate they should be reviewed and adjusted appropriately. Any

review should include a cost benefit analysis of the GCSS, including an assessment of the costs associated with managing the GCSS payments.

2.6 Payments on application may not be appropriate.

The draft recommendations suggest that a system where payments are made automatically might be preferable. A system where payments are made automatically will add additional costs to the administration of GCSS.

Some GCSS issues will require an assessment of the contributing factors to a failure in meeting GCSS. For example, a failure to meet a reconnection appointment may be due to:

- a service provider not being able to attend a customer on an agreed time,
- customer not being home at the agreed time to provide access, or
- other circumstances beyond the service provider's control.

These types of claims can be best assessed through an application for payment.

Another issue is the rationale behind the GCSS payments. The question is whether the payment is to compensate a customer who has "suffered a loss or inconvenience" through a failure, or to provide an incentive to a service provider to maintain a service standard regardless of whether customers suffer a loss or inconvenience. For example, a customer who is not at home during the day will not be impacted by a supply interruption. An automatic compensation arrangement will require all customers to be paid a GCSS payment regardless of whether they were affected. Our view is that payments should only be made to customers who suffer loss or inconvenience.

Minimum automatic payments in our view add unnecessary costs to service providers and will reduce the service provider's capacity to offer a larger payment to customers who may be affected disproportionately.

Finally, the level and manner in which the GCSS payments are made should take into account other incentives on service providers to maintain acceptable levels of service:

- corporate image/brand and loss of business from bad publicity, and
- costs of rectifying and error (for example retailers have to incur costs to correct erroneous transfers, including compensating the customers and the previous retailer, or compensations arising from damage to equipment as a result of a power surge),

3 Assessment of current operating statistics

The Tribunal's draft recommendation includes the issue of publishing operating statistics. Operating statistics are collected and provide the regulator and the Minister with potentially useful information on where a utility may be performing poorly and to provide incentives to service providers to improve performance.

AGL ES&M agrees that where appropriate statistics are published, they can provide incentives for utilities to maintain or improve their performance. However, such statistics need to be interpreted with caution. In a competitive market there may be a deliberate price and service level trade-off as part of a product offering. For example, internet service providers offer a range of service levels - a full service dial up internet costs in the order of \$30 per month, and a limited service support dial up service can be as low as \$4.95 per month.

It would be useful if the requirements for operating statistics were fully defined (for assessment of costs) and an explanation provided as to how the specific measures will provide incentives to service providers to improve performance (to enable an assessment of benefits).

4.3 Draft recommendations on GCSS for electricity and gas retail

4.3.1 Appointment keeping

The Tribunal's draft recommendation is that the appointment keeping GCSS should be removed for both electricity and gas retailers.

Agree ES&M supports this recommendation.

4.3.2 Other GCSS requirements.

Electricity and gas retailers currently have a range of other GCSS in relation to:

- telephone services
- no disconnection except after due notice
- notice to be given to customer after disconnection
- recommencement of supply.

The Tribunal's draft recommendation is that these requirements should be retained as minimum standards, either as GCSS or as licence conditions.

AGL ES&M supports that the current GCSS should be maintained subject to further review with monetary penalties only attached on a cost/benefit basis.

We also submit that GCSS should not be a licence condition, consistent with our proposals to simplify suppliers' licences

In a competitive energy market it is in the best interests of a retailer to maintain a high level of customer service. If appropriate levels of customer service are not maintained, a retailer risks losing their customers to competitors.

4.4 Draft recommendations on GCSS payments.

AGL ES&M does not support the proposal that GCSS payments should be made automatically. AGL ES&M is of the view that in order for a customer to receive a GCSS payment it must be shown that the customer has been materially disadvantaged.

There will be instances where minimum service levels have not been maintained but customers are not affected. GCSS payments should not be made in these circumstances. AGL ES&M agrees that where payments are attached to GCSS, the level of payments should vary taking into account the importance customers place on that particular level of service.

In setting the base levels for any GCSS consideration must be given to a customer's willingness to pay (incur additional costs) for higher levels of service. Further investigation and customer consultation may find that customers are willing to accept a lower level of service quality if there are cost savings to the customer.

AGL ES&M believes that any payments should be in fixed dollar amounts and not as a percentage of a customer's bill. A percentage method would add undue complexity and costs to the administration of GCSS payments.

5 Draft recommendations for operating statistics

The draft recommendations include recommendations on the inclusion of additional operating statistics.

AGL believes that clear definitions and benefits of monitoring the specific statistics should be established before mandating a requirement on retailers to report the operating statistics.

A clear set of guidelines and definitions will enable retailers to fully assess the costs of monitoring and reporting the statistics and ensure that valid comparisons are made across the market.

An example of where a definition is crucial is the reporting of customer disconnections. For example a gas disconnection may include the following;

- Disconnection for debt,
- Disconnection and removal of the gas meter and isolation of supply at customers' request, or,
- Seasonal disconnections at customers request.

It is important that clear definitions are agreed to early so that service providers can start to collect the information required and make the necessary system changes to deliver the reports. Ad hoc information requests and system modifications, to comply with changes to data requests, add significant costs to the business.

Process for Management of GCSS levels and payments

The draft recommendations do not adequately consider the service delivery processes, customer relationships in the energy market and the allocation and mechanisms for the enforcement of responsibilities.

In the NSW energy market the retailers have the relationship with the customer. Network operators and distributors may not maintain the names and addresses of customers. In this context, we do not see how the network operators or distributors will make payments to customers for failure to meet GCSS.

It is possible that retailers could be the conduit for such payments, however we are concerned that the administration systems to monitor distributors failure to meet GCSS, obtaining confirmation that they will honour any payments by retailers on their behalf, making the payments and then dealing with issues arising could add significant costs to retailers. It may be more cost effective for the distributor service levels to be monitored and where service levels are not met, the distributors be required to present a plan to improve service. If the agreed plan is not implemented then a distributor may be penalised.

If retailers were to support the management of network operator/distributor service levels then regulatory arrangements need to be put in place to enable the retailers and distributors to agree on appropriate terms and conditions for that relationship. AGL ES&M notes unlike in other states and for NSW gas, the NSW electricity distributors are currently not required to enter into a Use of System Agreement directly with retailers. This would make it difficult to reach agreement on the terms and conditions for managing service levels.

Further consideration is required to define the circumstances under which a service provider will be liable to make GCSS payments and define circumstances in which a payment will not be required.

For example an erroneous customer transfer may be caused for the following reasons:

1. Customer provides the NMI of the previous address
2. Customer incorrectly transcribes the NMI of the correct address,

3. NMI discovery system operated by the market operator fails – either a system failure or contains incorrect information,
4. Retailer transcribes the customers NMI into its systems or in the market systems incorrectly,
5. Retailer deliberately churns a customer without consent (fraud).

The retailer is clearly responsible for the erroneous transfer arising from items 4 and 5. The responsibility for error is not so clear in the other cases.

Erroneous transfers should be examined in more detail before GCSS payments, process or system improvements are considered. Such consideration should also take into account the intent and remedies available under current regulations and the voluntary actions taken by retailers to remedy an erroneous transfer. An unreasonably low error rate target may add significant costs for market system enhancements and to retailer's costs with the risk of becoming a barrier to competition.