

22nd May 2003

Dr TG Parry
Chairman
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVS Post Office
Sydney NSW 1230

Dear Dr Parry

Review of Guaranteed Customer Service Standards and Operating Statistics

AGL Energy Sales & Marketing (AGL ES&M) appreciates the opportunity to provide comments on the Independent Pricing and Regulatory Tribunal's (IPART) issues paper titled "Review of Guaranteed Customer Service Standards (CGSS) and Operating Statistics" (DP6 I). Our comments reflect AGL ES&M's operations as a retailer in both the gas and the electricity markets in NSW.

It is our 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 reflect 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 to the extent possible market forces should be relied upon to ensure high levels of service so far as the retail services are concerned. To the extent the services are provided by regulated monopolies, we accept that cost effective service levels are desirable in conjunction with regulatory arrangements to ensure that the retailers are able to recover costs from the regulated service providers.

AGL's comments on the Issues Paper are attached.

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

Yours sincerely



Sandro Canale
General Manager Customer Services



Review of Guaranteed Customer Service Standards and Operating Statistics

Key Issues:

IPART has identified a number of key issues in relation to Guaranteed Customer Service Standards (GCSS) and has requested comment on these issues. These issues include;

- What aspects of service quality should be measured through GCSS and / or operating statistics?
- At what level should GCSS be set?
- When should compensation be paid if the standard is not met, and how much compensation is appropriate?
- How often should operating statistics be published?

GCSS

GCSS arrangements would include requirements to provide a minimum standard of service to customers in a range of areas. These areas focus primarily on customer service aspects, such as service quality, telephone answering, timeliness of appointments, provision of supply, repairs and maintenance and arrangements for the disconnection for non-payment of bills etc.

AGL ES&M believes that consideration needs to be given to the fact that the energy market is now competitive. In a competitive energy market and in the absence of significant opportunity for price differentiation, retailers will compete to establish a point of differentiation based on service levels.

AGL ES&M accepts that where there is limited competition in the provision of services there may be need to ensure a minimum and cost effective service level.

Further, the value placed on the services by customers will differ between energy sources, for example between gas and electricity. Gas is a discretionary energy source whilst electricity is an essential service. We would expect that the service levels and any incentives for gas and electricity to be different if the cost and benefits to customers are to be fully reflected.

Consideration also needs to be given to arrangements to ensure that the responsibility for meeting service levels and associated incentive charges for services provided by third parties can be assigned to those parties. In the NSW energy market with a linear relationship the retail suppliers have the relationship with the customers. Retailers provide packaged services to customers relying upon third parties such as the network operator and electricity distributors for some services. Therefore to place a GCSS on a retailer alone for the provision of a service that they do not have direct control over may not achieve the desired outcomes.

When determining which services should have GCSS attached to them the responsible party for ensuring the GCSS are met should be established. In addition regulatory arrangements to assign responsibility to the relevant service providers should also be established. This may be achieved by regulations that facilitate business-to-business arrangements in the form of Use of System Agreements and Transportation Agreements that reflect the GCSS.

What should be measured?

The Tribunal seeks comment on which services should have GCSS attached to them. The paper sets out three (3) aspects of service quality that could potentially be measured through GCSS and / or operating statistics, which are;

- Service Reliability
- Quality of Supply
- Customer Service

AGL ES&M believes that consideration needs to be given to the party responsible for the provision of the service.

- Service Reliability;

This relates to the flow of electricity / gas to a customer and is normally measured in terms of the frequency and duration of service interruptions experienced by a customer.

If there were to be a GCSS placed on “Service Reliability” with financial penalties attached to it, then the responsibility for service reliability should be assignable to the distributors or network operators.

The level of financial compensation (if any) may differ between the energy sources due to the essential and discretionary nature of electricity and gas.

- Quality of Supply;

This relates to whether the energy is fit for the purpose. This aspect of supply can be measured by voltage and frequency fluctuations in electricity and delivery pressure and fuel composition in gas.

With respect to for reliability of supply the quality measures relate to services provided by the distributors and network operators. Therefore the responsibility for meeting service levels should be assignable to the distributors and network operators and any incentives for failure to meet service standards ought to reflect the value placed on those services by the customers.

- Customer Service;

This relates to the quality of contact between customer and the company, mainly the retailers. These would be services that the retailer controls and uses as a point of

differentiation with other retailers. This aspect can be measured in many ways, but may differ between customers as they have varying views of what is important to them.

For example, passengers in the Australian aviation market have a choice between two airline companies, one that provides a “no frills” service where you pay only for the travel while the other provides full service, including meals, and business lounges etc. Customers make the choice in accordance with the preference and affordability when selecting the airline to travel with. In recent times both the key operators are moving from two quite different service levels towards a middle ground which, through competition, reflects the true value placed on services by their customers.

In an energy market that is becoming increasingly competitive AGL ES&M believes that to the extent that there is competition in the provision of services (eg retail energy services), the market forces should be relied upon to establish and provide the incentives for meeting service levels. A GCSS if not carefully designed is not likely to be efficient or cost effective.

Operating Statistics;

AGL ES&M understands that the intention with respect to operating statistics is to publish performance against certain performance indicators. In the Victorian market some of the operating statistics that are reported include:

Distributors/network operators

- Number of outages;
- Customer interruptions from unplanned outages;
- Number of hours of supply lost; and
- Response to customer calls

Retailers

- Typical \$ bills
- Disconnection rates for non payment
- Instalment plans; and
- Customer complaints.

In the case of distributors and network operators, provided the characteristics of areas in which services are provided are similar, there is merit in publishing operating statistics. Such statistics would provide a benchmark for the lower performing operators to aim at.

It is more difficult to make valid comparisons with respect to the retail services unless these can be made in the context of the full product package. For example, a retailer that offers payment plans widely may have lower disconnection rates but higher prices. Higher disconnection rates may indicate a different credit management strategy that reduces bad debts and thus ensures a lower price. However higher disconnection rates may result in a higher number of customer complaints.

Further, average bills if reported across the whole market may not be reflection of high retail tariffs, but rather a reflection of the network prices applicable in the areas that a retailer provides services in.

Whilst AGL ES&M sees merit in reporting retail operating statistics, it is our view that the usefulness of such statistics should be fully examined to ensure that the recording and reporting of statistics do not impose unnecessary costs to businesses. Secondly, we must also ensure that pursuit of any benchmarks derived from the statistics does not lead to outcomes that in fact result in a lower value outcome for customers.

Setting Minimum Levels of Customer Service Standards;

The Tribunal asks the question of the level at which minimum standards for customer services should be set. AGL ES&M believes that in a competitive market the level for customer service would be determined by customer expectations and their willingness to pay for those service levels. Retail suppliers will be competing for customers and will win or lose customers based on the services and products they can offer. If a customer is not happy with the levels of service provided by a retailer they will change to retailers who are able to meet their expectations thus providing a market based valuation to those services. The level of customer services should be allowed to be set by the retailers operating in the competitive market. Customers may be happy to accept levels of service that are lower than the normal if there are significant cost savings to them.

Compensation Payment Methods;

AGL ES&M is of the view that compensation payments for GCSS are not required for retail services where there is effective competition given the customers ability to change retail suppliers if they are not happy with the levels of service provided by their retail supplier.

Any compensation payments, if they are to be put in place should only be available following a customer request. Automatic compensation payments would place additional costs on a retailer in terms of establishing an ongoing service monitoring system to generate the payments. Any compensation payments will also add to the operating costs of retailers given that these are not paid currently.