



# **Review of Guaranteed Customer Service Standards and Operating Statistics**

**Submission to the  
Independent Pricing and  
Regulatory Tribunal**

**23 May 2003**

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## 1. Introduction

In response to a request from the Minister for Energy, the Independent Pricing and Regulatory Tribunal of NSW (IPART) is conducting a review of the Guaranteed Customer Service Standards and operating statistics for gas and electricity businesses.

On 1 April 2003, IPART released an Issues Paper, "Review of Guaranteed Customer Service Standards and Operating Statistics", as part of the consultation process and has sought stakeholder views on four key issues:

- What aspects of service quality should be measured through Guaranteed Customer Service Standards (GCSSs) and/or operating statistics?
- At what level should service standards 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?

Integral Energy as a licenced electricity distributor and retailer has a vital interest in ensuring that any service standard framework takes account of the interests of both Integral and its customers. It is also important, as IPART points out in their Issues Paper, that the total costs of administering any GCSS scheme should not outweigh the benefits.

This submission has been developed to address the issues raised by IPART in its Issues Paper dated April 2003. The submission is set out as follows:

- The existing service standard framework and a summary of the key principles for establishing a GCSS scheme;
- Brief discussion on Integral's proposal for the service quality incentive mechanism;
- What should be measured;
- At what level should standards be set;
- When should compensation be payable; and
- How often should operating statistics be published?

## 2. Service Standards and Incentive Frameworks

### 2.1 Service Standard Incentive Framework

Before responding to the particular issues raised in IPART's Issues Paper it is important to understand the service standard framework that currently exists and to establish a number of key principles which will assist in reviewing any changes to the existing framework.

In NSW each of the businesses operating in the electricity distribution and retail sectors are licenced by the State Government. As part of the licence requirements each licence holder is required to comply with a number of Acts, Regulations, Market Operations Rules and reporting requirements. Also, as part of this framework, each

licencee has to meet what are defined as Guaranteed Service Levels (GSLs) which in some instances require the licensee to pay compensation to customers when they don't meet the GSL.

As a licence holder Integral believes that the various licences establish the minimum levels of service that customers should expect and puts in place the minimum customer protection measures. The various reporting schemes in place from IPART and the Ministry of Energy and Utilities (MEU) are meant to show compliance with the licence conditions and provide both the MEU and IPART with information to demonstrate that the licence conditions are working in the desired manner. Failure to comply with the licence conditions can expose a licence holder to fines and other actions.

Some of the current GSLs are just minimum standards that are required to be met under the licence and don't in fact require any compensation to individual customers. In the strictest definition, Integral believes that these GSLs are not actually GSLs but rather licence conditions re-badged.

GCSSs in Integral's view are essentially a way of compensating individual customers for failure to meet certain of the minimum standards. GCSS will only be effective if:

- Customers value the aspect of service that is incorporated into the GCSS scheme;
- The GCSS target that is set is a reasonable measure of the customer's expectations;
- The GCSS payment is made to the individual customer who is the recipient of a level of service below the target;
- The reason for failing to meet the GCSS is within the control of the licence holder; and
- The licence holder has systems in place capable of accurately identifying individual customers affected by a failure to meet the service standard.

There is also a need to differentiate the different parts of any service standards framework based on the purpose for which the GCSS or reporting is implemented. For example, MEU reporting is driven by the need to understand the underlying performance of the network. The measures used reflect this and the reporting is not necessarily based on outcomes delivered to individual customers. GCSSs however, are designed to provide some form of protection to customers where Distribution Network Service Providers (DNSPs) and Retailers fail to meet certain standards and should be driven by the customer outcome expectation.

In general terms, the view proposed by Integral in this paper is that while certain GCSSs may continue to be appropriate for distribution services, the requirement for the regulation of GCSSs on retail services should diminish as the retail market continues to evolve. Within a competitive market, customers have the ability to exercise choice, which is the ultimate test of a customer's satisfaction with the level of service being provided.

## **2.2 Service Quality Incentive Mechanism**

As stated in its submission to IPART's 2004 Electricity Network Review, Integral supports the principle of establishing a link between price and quality of service. Integral believes that an appropriate service quality mechanism can provide a win for customers, regulators and distributors alike.

However, setting of regulated service standards is a complex matter. Consistent and comparable information is required in relation to both cost and service quality to appropriately measure the performance of the regulated businesses.

In essence, it is Integral's view that the service quality incentive mechanism proposed as part of the 2004 Electricity Network Review should deliver the minimum standards required under the licence and the penalty/reward mechanism would provide DNSPs with an incentive to either maintain these minimum standards or, if cost effective to do so, provide improved service standards. Integral submits that a service quality incentive mechanism should be introduced when the DNSPs have introduced their proposed information systems and that this would be appropriate for the 2009 Determination. Integral proposes that IPART introduce a "zero dollar S-factor" (that is a paper trial) in the 2004 regulatory period to ensure that incentives and measures are well understood for a full S-factor implementation in the subsequent period.

On 16 May IPART released an Issues Paper, "Providing Incentives for Service Quality in NSW Electricity Distribution". This paper seeks stakeholders' views on the linking of price to service quality. Integral will provide a separate response to this Issues Paper.

## **Conclusion**

In summary Integral submits that:

The respective licences establish the minimum standards for the licencees to meet.

GCSSs essentially compensate individual customers for failure to meet certain of the minimum standards.

GCSSs will only be effective and should only be implemented where:

- Customers value the aspect of service that is incorporated into the GCSS scheme;
- The GCSS target that is set is a reasonable measure of the customer's expectations;
- The GCSS payment is made to the individual customer who is the recipient of a level of service below the target; and
- The reason for failing to meet the GCSS is within the control of the licence holder.
- The licence holder has systems in place capable of accurately identifying individual customers affected by a failure to meet the service standard.

A service quality mechanism can establish a link between price and quality of service which ensures that certain other of the minimum standards are delivered and in effect compensates all customers should the minimum standards not be met.

## **3. What should be measured?**

### **3.1 What aspects of service quality should be measured?**

The Tribunal seeks comments on whether all three aspects of service quality (reliability, quality of supply and customer service) should be reflected in GCSS and operating statistics arrangements.

As per the principle outlined above it is important that those aspects of service incorporated into a GCSS scheme are reflective of the expectations of customers and the value customers' place on those aspects of service.

All other aspects of service should be incorporated into the minimum service standards required to be delivered under the relevant licence. Accordingly, these aspects would then be subject to reporting through the licence framework either as a licence condition compliance report or as an operating statistic.

With particular reference to the three aspects identified in IPART's Issues Paper:

### **Service reliability**

Network reliability is a fundamental aspect of electricity distribution services that is becoming increasingly important for customers. However, it should be noted that this aspect of service is an outcome of both the performance of the DNSP and the level of resources allocated. As a result, the regulatory determination currently underway has the ability to significantly impact on network performance.

Integral believes that this aspect of service quality could be incorporated into a service quality incentive mechanism but not be part of any GCSS scheme as, while it is valued by customers, the network prices are generally set to deliver a set of average reliability standards. It is not appropriate to compensate individual customers when these average standards are not met. Rather, it is more appropriate to compensate all customers through the service quality incentive mechanism. However, were some aspect of reliability to form part of the GCSS scheme it will be necessary for the DNSPs to have systems in place that will allow them to correctly identify the individual customers affected by a breach of any reliability standard. As quoted in the PB report neither Integral nor any of the other NSW DNSPs have systems in place capable of doing this.

Integral uses the currently reported reliability data in analysis of system performance including identifying weak or poor performing sections of the network and it also assists in system planning and maintenance scheduling. The reported reliability forms an important part of the "Base Case" proposed by Integral in its submission to the 2004 Electricity Network Review and the expenditure identified in that submission has been identified as necessary to deliver on the reliability strategy in the "Base Case".

Given that the reported data tends to be at a system or aggregated level it would require significant time and expenditure, both capital and operating, to make any substantial changes in the reported performance. This essentially lends itself to long term plans, which would suit the service quality incentive mechanism rather than GCSS.

### **Quality of supply**

Integral does not currently monitor and analyse the quality of the electricity supply throughout the low voltage network. However, when customers lodge a complaint regarding the quality of their electricity supply these are fully investigated and appropriate action taken to correct any identified problems.

Integral is considering the installation of a small number of monitoring devices at key locations within the network. The objective for installing these devices is to provide an insight into the quality of the electricity supply at these locations, identify any

matters that need to be corrected and then feed this information through into the capital and operating expenditure programs. The data will also assist with voltage control, reactive power control, post fault analysis and loss calculations.

The estimated cost of this project is \$200,000 comprising purchase of 6 dedicated power quality meters and associated software and hardware and installation and commissioning costs. These meters will provide a more extensive suite of power quality parameters than can be obtained from statistical meters.

This monitoring will not necessarily help in identifying problems faced by individual customers. The customers are generally only interested in the performance of the network and the quality of the electricity supply at their point of connection to the network. If the network appears to be causing problems in a customer's installation then monitoring and recording equipment can be installed at the connection point to verify if this is the case and to assist in identifying possible causes of any problems. How a feeder performs at its extremities is useful information to a DNSP but may be of little value to a customer connected at some point along a feeder and nor would it necessarily assist in resolving any complaints from customers connected to the feeder.

In conjunction with the University of Wollongong, Integral currently has a project underway to investigate survey and monitoring techniques for power quality in the Australian electricity distribution industry. This project should assist in determining where, when and how power quality should be monitored in the network. This together with the installation of power quality monitors at key locations should assist our understanding of power quality monitoring, statistical analysis and reporting in the future.

Given that the benefit to customers of continual monitoring is questionable Integral does not believe that quality of supply can be part of a GCSS scheme.

### **Customer service**

Integral considers that the two key criteria for determining aspects of a GCSS are:

- (i) that they must be valued by customers; and
- (ii) they must be within the control of the licensee.

Integral's views on the current GSLs are detailed in the following section.

### **Conclusion**

Service reliability and quality of supply more readily lend themselves to the service quality mechanism. For these aspects of service to form part of any GCSS scheme it will require systems to be implemented capable of identifying the individual customers affected by any failure to meet a set standard. None of the NSW DNSPs have such systems in place at the moment.

Aspects of customer service can form part of a GCSS scheme but the aspects chosen must be valued by customers and must be within the control of the licensee.

### **3.2 Which aspects should be measured as GCSS and which as operating statistics?**

The Tribunal invites comments on the appropriate split of measures between GCSS and operating statistics. For example, is the current split appropriate, or should any adjustments be made?

Integral does not believe that the current split is appropriate as a number of so-called GCSS are actually minimum standards imposed under the relevant licence. Integral's preferred view is summarised in the following tables.

### Electricity Retailers

Area of Service	GCSS	Penalty Payable to Customer	Integral's preferred view
Telephone hotlines	Requirement for provision of information and operation of hotline	No	Not a GCSS.
Punctuality in keeping appointments	Requirement to pay compensation if more than 15 minutes late for an appointment	\$25	Should be removed as a GCSS.
Disconnections of supply	Procedural and notice requirements	No	Not a GCSS.
Supply reconnections	Requirement for prompt notification to service provider if customer requests reconnection and is entitled	No	Not a GCSS.
Complaints	Not a GCSS	No	Not a GCSS.
Security deposits	Not a GCSS	No	Not a GCSS.
Payment methods	Not a GCSS	No	Not a GCSS.

**Telephone hotlines** – The provision of these hotlines is a minimum standard under the retail licence and as such it is appropriate that operating statistics be reported as part of the licence compliance reporting regime. As no customer penalty is applicable and nor is it appropriate then Integral believes that this aspect of the GCSS should be removed but operating statistics as currently reported under the licence should continue. Integral is currently required to report on:

- Total number of calls;
- Number of calls dropped out or abandoned; and
- Number of calls answered within 30 seconds.

It should be noted that the reported statistics relate only to the hotline required under the retail licence.

**Punctuality in keeping appointments** – As full retail contestability is now in place Integral believes that this GCSS should be removed. Customers now have a choice as to their retailer and their ability to keep appointments will influence the customer's decision as to their retailer of choice. The Essential Services Commission of South



Australia (ESCOSA)<sup>1</sup> has also indicated that this aspect of customer service is not highly valued and hence it is questionable as to whether the cost of putting systems in place to record appointments is warranted. If it is decided to keep this a GCSS then there is a need to more accurately define the “appointments” to which the GCSS applies and to allow the retailers to recover the costs of any system required to track and monitor performance.

**Disconnections of supply** – The provisions relating to the procedures to be followed for a disconnection are contained in the regulations to the Electricity Supply Act and appear in the Standard Form Customer Supply Contract. These provisions establish the minimum standard and compliance with them is a licence compliance matter.

Integral is satisfied with the current operating statistic reporting, that is:

- Number of disconnections;
- Number disconnected for non payment;
- Number disconnected on a Friday, weekend or public holiday etc.

Integral does not currently have a system in place to record the number of disconnections reconnected in the same name. Integral would require further evidence of the value of this statistic from both a retailer and regulator point of view.

It should be noted that, for Integral, there are significant Occupational Health and Safety issues in complying with the current procedures where customers do not have a telephone. In these instances the procedures require the licence holder to personally visit the customer after hours. In a number of locations this presents a substantial risk to the safety of the licence holder’s employees and Integral recommends that this procedure be amended.

**Reconnections of supply** – As with disconnections, Integral believes that this aspect should be part of the minimum licence requirements and as such is not a GCSS. There should be some room to negotiate an agreed time for the reconnection with the customer affected and there is a need to clarify or at least differentiate in the reporting between reconnections after disconnection and reconnections of a recently vacated premise. Integral would also like to see a differentiation made between pole top reconnections in dangerous situations from normal reconnections particularly with respect to the time frames involved as it can be both difficult and time consuming to make pole top reconnections.

As stated under disconnections Integral does not currently record the number of reconnections in the same name.

**Complaints** – The existing reporting of complaints is done through the licence compliance reports. Integral believes that there is little benefit (if any) to be gained from any changes to these arrangements. Integral is currently modifying its system to provide breakdowns into “small” ie less than 160 MWh customers, residential and non-residential customers.

**Security deposits** – The requirements concerning security deposits are found in IPART’s Determination on Regulated Retail Prices for Electricity to 2004. Compliance with these requirements is a licence matter and hence this aspect is not a GCSS.

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<sup>1</sup> ESCOSA, Electricity Distribution Price Review: Service Standard Framework Initial Thoughts, April 2003; p 3

The reporting of the operating statistics associated with this aspect should continue although Integral believes that the requirement for security deposits will diminish over time with the implementation of payment plans and alternative payment methods.

**Payment methods** – The requirements concerning payment plans are found in the regulations to the Electricity Supply Act. As such they are a licence compliance matter and not a GCSS.

### Electricity Distributors

Area of Service	GCSS	Penalty Payable to Customer	Integral's preferred view
Timely provision of services	Requirement to pay compensation if connection service delayed.	\$60 per day (maximum \$300)	GCSS
Planned interruptions to supply	Requirement to provide prior notice of planned interruptions and the expected duration of any planned interruption.	\$20	GCSS
Telephone hotlines	Requirement for provision of information and operation of hotline	No	Not a GCSS
Repair of streetlight faults	Requirement to pay compensation for failure to complete repairs of faulty street lights by an agreed time	\$15	GCSS
Punctuality in keeping appointments	Requirement to pay compensation if more than 15 minutes late for an appointment	\$25	Should be removed as a GCSS
Disconnections of supply	Procedural and notice requirements	No	Not a GCSS.
Reconnections of supply	Procedural requirements	No	Not a GCSS
Complaints	Not a GCSS	No	Not a GCSS.
Security deposits	Not a GCSS	No	Not a GCSS.
Payment methods	Not a GCSS	No	Not a GCSS.
Reliability of supply	Not a GCSS	No	Operating statistical reporting appropriate. Unable to identify individual customers affected.
Safety	Not a GCSS	No	Not a GCSS.

**Timely provision of connection services** – Agreed that this is and should remain a GCSS but only for those jobs where the Distributor is responsible for the connection. Where an Accredited Service Provider is responsible for the connection then the Distributor should not be responsible for any GCSS payments.

**Planned interruptions to supply** – Agreed that this is and should remain a GCSS.

**Telephone hotlines** – The provision of these hotlines is a minimum standard under the distribution licence and as such it is appropriate that operating statistics be reported as part of the licence compliance reporting regime. As no customer penalty is applicable and nor is it appropriate then Integral believes that this aspect of the GCSS should be removed but operating statistics as currently reported under the licence should continue. Integral is currently required to report on:

- Total number of calls;
- Number of calls dropped out or abandoned; and
- Number of calls answered within 30 seconds.

It should be noted that the reported statistics relate only to the hotline required under the distribution licence.

**Repair of streetlight faults** – Agreed that this is and should remain a GCSS but only while the Distributor is responsible for street light repairs and maintenance. If this work forms part of an excluded service and is made contestable then the Distributor should not be responsible for any GCSS payments if it is not involved in the repair and maintenance of street lights.

**Punctuality of keeping appointments** - As stated earlier ESCOSA has indicated that this aspect of customer service is not highly valued and hence it is questionable as to whether the cost of putting systems in place to record appointments is warranted. If it is decided to keep this as a GCSS then there is a need to more accurately define the “appointments” to which the GCSS applies and to allow the distributors to recover the costs of any system required to track and monitor performance.

**Disconnections of supply** - The provisions relating to the procedures to be followed for a disconnection are contained in the regulations to the Electricity Supply Act and appear in the Standard Form Customer Connection Contract. These provisions establish the minimum standard and compliance with them is a licence compliance matter.

Integral is satisfied with the current operating statistic reporting, that is:

- Number of disconnections;
- Number disconnected for non payment;
- Number disconnected on a Friday, weekend or public holiday etc.

Integral does not currently have a system in place to record the number of disconnections reconnected in the same name. Integral would require further evidence of the value of this statistic from both a retailer and regulator point of view.

**Reconnections of supply** – As with disconnections Integral believes that this aspect should be part of the minimum licence requirements and as such is not a GCSS. There should be some room to negotiate an agreed time for the reconnection with the customer affected and there is a need to clarify or at least differentiate in the reporting between reconnections after disconnection and reconnections of a recently vacated premise. Integral would also like to see a differentiation made between pole top reconnections in dangerous situations from normal reconnections particularly with respect to the time frames involved as it can be both difficult and time consuming to make pole top reconnections.

As stated under disconnections Integral does not currently record the number of reconnections in the same name.

**Complaints** – The existing reporting of complaints is done through the licence compliance reports. Integral believes that there is little benefit (if any) to be gained from any changes to these arrangements.

**Security deposits** – The requirements concerning security deposits are found in IPART's Determination on Regulated Retail Prices for Electricity to 2004. Compliance with these requirements is a licence matter and hence this aspect is not a GCSS. In Integral's view security deposits are a retail matter and should not form part of any GCSS or licence compliance issue for Distributors.

**Payment methods** – The requirements concerning payment plans are found in the regulations to the Electricity Supply Act. As such they are a licence compliance matter and not a GCSS. This requirement is only placed on standard retailers and hence this aspect is not associated with Distributors.

**Reliability of supply** - Service reliability is already reported to the MEU and IPART as an operating statistic but at either a system average or feeder level. As these measures are generally driven from the network point of view they would have little relevance to individual customers. As stated earlier Integral does not have a system in place that will allow it to correctly identify the individual customers affected by a breach of any reliability standard. Until such a system is in place then it would be impossible to implement a GCSS scheme based on reliability.

**Safety** – Safety forms a part of Integral's overall planning and operational standards both in relation to the safety of the network itself and also the safety of those who work on the network. Integral believes that the existing Occupational Health and Safety requirements are sufficient incentive to drive safety improvements in the workplace and that this has the added benefit of providing improved safety to members of the public. Integral believes that the reporting of the operational statistics is sufficient and that it would be difficult to implement a GCSS scheme around safety that satisfied the principles enunciated earlier.

## Conclusion

Integral submits that the existing GSLs applicable to retailers are not in fact GCSSs and should be removed as they are licence conditions.

Integral also submits that the majority of existing GSLs applicable to distributors are not in fact GCSSs and should be removed as they are licence conditions.

Integral submits that timely provision of services, planned interruptions and repair of faulty street lights should be retained as GCSSs.

### 3.3 What is measured in other jurisdictions?

The Tribunal invites comment on the extent to which examples from other jurisdictions can inform the choice of GCSS measures in NSW, and on the desirability of adopting particular measures used elsewhere. It also seeks comment on whether the number/proportion of erroneous transfers should be monitored in future, and whether compensation payments should be applied.

It is Integral's view that when considering examples from other jurisdictions that the regulatory framework in which they were developed and implemented needs to be considered. It is not a simple matter of just transplanting examples from other jurisdictions as the structure of the industry and the legislative framework in which it operates would be different to that operating in New South Wales.

At best the examples from other jurisdictions could be used to inform the debate on service standards but without due consideration of the context and framework in which they were set implementing such examples in NSW could lead to the imposition of inappropriate drivers on the businesses. This then has the potential to lead to inappropriate outcomes for customers.

Erroneous transfers can occur as the result of a number of actions by a number of the parties involved in the transfer. As an example, it could be the retailer of choice, the existing retailer or the distributor who cause an erroneous transfer. Given the number of parties involved it would be difficult to accurately identify the party that was most responsible for the erroneous transfer. Given these difficulties Integral does not believe that there should be any compensation paid to customers as a result of an erroneous transfer but rather the matter should be left to the parties involved to resolve and any adjustments required agreed between them.

If the number of erroneous transfers reaches a level considered inappropriate then action can be taken under the licence regime to activate corrective action to reduce the incidence of erroneous transfers. Integral considers that the threat of such public intervention under the licence regime should be sufficient to ensure retailers and distributors put systems and checks in place to ensure the level of erroneous transfers does not reach inappropriate levels.

## **Conclusion**

What is measured in other jurisdictions can inform the debate on GCSSs in NSW but they should not be transplanted into NSW without due consideration of the legislative framework which operates in NSW.

If the number of erroneous transfers reaches a level considered inappropriate then action can be taken under the licence regime to activate corrective action to reduce the incidence of erroneous transfers.

### **3.4 How can GCSS and operating statistics best reflect customer preference and reasonable expectations?**

The Tribunal invites comment on how the results of recent customer surveys might be used to help inform choice of measures for GCSS and operating statistics.

Integral's view is that customer preference and reasonable expectations should be used to inform the decisions with respect to GCSS. Operating statistics are generally reporting performance against licence conditions and hence customer expectations and preference should not be used in determining the most appropriate statistics. Customer preference and expectations should be used to inform the development of the licence conditions but not the operating statistics themselves.

The use of recent customer surveys such as those undertaken by Aurora in Tasmania and the study by ESCOSA in South Australia would be of some benefit in

informing IPART as to those aspects of service that customers value. However, Integral believes that surveys of NSW customers should be used first of all to confirm the results from other surveys and also to measure how much they value the various aspects of customer service.

As detailed in Integral's submission to the 2004 Electricity Network Review<sup>2</sup>, Integral engaged KPMG to carry out a consumer research project to further understand customer's requirements for reliability performance. The survey found that customers in Integral's network area are satisfied with the current reliability service standards but that in certain areas, standards are below customer expectations.

The survey did not test customers' willingness to pay for improved service standards but did test their willingness to trade for improved reliability. The survey established threshold levels for reliability which were considered in Integral's reliability strategy under the "Base Case" submission. As the projects to address those situations where reliability exceeds the thresholds will take time to implement and their effect will be more longer term than short term Integral believes that it is not appropriate to use these thresholds in any GCSS scheme.

## Conclusion

Customer preferences and reasonable expectations should be used to inform decisions on those aspects of service that should be incorporated into a GCSS scheme.

Surveys of customer preferences have been used in other States to identify those aspects of service that customers' value and Integral would recommend similar surveys of NSW customers be undertaken, particularly in relation to the network business which will continue to operate in a regulated environment.

### 3.5 Is robust data available to measure service quality?

The Tribunal seeks comment on options for creating incentives to improve data quality and availability, and for overcoming the constraints that inadequacies in this area place on what can be measured as GCSS and operating statistics. It also welcomes views on how it might deal with any changes in a regulated company's measured performance due to improved data accuracy.

As stated in IPART's Issues Paper IPART commissioned PB Associates to review the quality of data available from DNSPs on network reliability. The report found that the systems and processes employed by each of the businesses are significantly different but that each business is implementing reliability and reporting improvements that will result in improvement to the capture and reporting of reliability information.

Integral is addressing data measurement initiatives through its Integrated Asset Management Information Strategy, referred to in Chapters 3, 6 and 7 of Integral's 2004 Electricity Network Review submission. This means that it will take some time before the necessary systems are in place to accurately and consistently measure network reliability. It should also be borne in mind that improved data recording and reporting can lead to reported reliability being worse than that previously reported due entirely to the improved measurement systems. Any such changes would need to be accounted for in any incentive framework.

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<sup>2</sup> Integral Energy, 2004 Electricity Network Review Submission, 10 April 2003, p75

As part of the PB Associates review it was also identified that Integral could not accurately link individual customers to particular outages. Until such a system was in place it would be difficult, if not impossible, to implement a GCSS scheme focussed on reliability.

In terms of customer service data and operating statistics these are normally reported as part of the licence compliance reporting requirements. These reports are subject to independent appraisal that ensures that the systems and processes behind the reported data can be relied upon. IPART are also proposing to have audits conducted of the reporting systems that should confirm the reliability of this data.

## Conclusion

It will take some time before the necessary systems are in place to accurately and consistently measure network reliability.

Customer service data and operating statistics are normally reported as part of the licence compliance reporting requirements that are subject to independent appraisal and may in the future be subject to audit.

### 3.6 Should the arrangements include provisions to exclude the impact of events outside the utility's control?

The Tribunal invites comment on whether any events should be excluded from GCSS and operating statistics, and if so, the way in which this might be done.

Integral would support the exclusion of events that are not within the control of either the retailer or the distributor. In particular, it is important that Integral's retail operation is not responsible for any aspects of network performance either within the Integral distribution area or other distribution areas. In a similar manner Integral's network operations should not be responsible for any problems arising "upstream" of Integral's distribution network, that is, in the transmission networks.

With respect to reliability, there are many circumstances that can affect reliability that are beyond the control of a DNSP. Uncontrollable events can include:

- Force majeure events, for example natural disasters, severe storms;
- Interruptions due to events in the transmission network;
- Interruptions due to the failure of customer's equipment;
- Directed load shedding events;
- Interruptions due to events associated with generation either at the transmission level or the distribution level.

As a starting point Integral would support the exclusions in terms of the Steering Committee on National Regulatory Reporting Requirements (SCNRRR) reporting for reliability.

The exclusion of any events whether at the retail or distribution level must be unambiguous in its application. There would need to be a clear and transparent process for excluding any events but the process should not be administratively burdensome on any party.

Integral would not support a process similar to that currently in place in Victoria between the ESC and the DNSPs with respect to the exclusions from the “S” factor in the weighted average price cap form of regulation. This process seems to be a long drawn out process that consumes a lot of resources both of the ESC and the DNSPs and Integral believes it would fail the requirement that the total costs of administering any GCSS scheme should not outweigh the benefits.

## **Conclusion**

Integral would support the exclusion of events that are not within the control of either the retailer or the distributor.

The exclusion of any events whether at the retail or distribution level must be unambiguous in its application.

Integral would not support a process similar to that currently in place in Victoria between the ESC and the DNSPs with respect to the exclusions from the “S” factor in the weighted average price cap form of regulation.

## **4. At what level should standards be set?**

The Tribunal invites comment on the ways in which standard levels should be set.

The setting of regulated service standards is a complex matter. Consistent and comparable information is required in relation to both cost and service quality to appropriately measure the performance of the business.

The setting of inappropriate service standards will provide perverse incentives in that if they are set too high there will be no incentive for improved standards as no business would have breached the standard. On the other hand if the standard is set too low the business will be spending inordinate amounts of time and resources just compensating customers and not focussing on putting long term solutions in place to improve service standards.

Other factors to be considered in setting standards should include:

- Recent company performance;
- Recent changes to company measurement and reporting systems;
- Customer preferences.

Integral submits that it is important to set standards based on adequate historical data. Assuming that such data exists, Integral believes that it would be inappropriate to set standards without knowing the current level of service and that given the volatility of some data sets it would require a minimum of three years data to be able to set reasonable service standards.

Integral also considers that it should be customer preferences that drive the setting of standards together with their willingness to pay for improvements in current standards to move them closer to customer preferences. Because of the trade off between cost and service quality there is a need to be careful about suggesting that higher service is a desirable end in itself. It is inappropriate to improve service quality unless the value placed on the improvement by customers exceeds the cost of delivering the improvements.



The need to differentiate service standards between rural and urban customers and between business and residential customers can only be established through customer surveys of their preferences. For example in the KPMG study of reliability in Integral's distribution area there was a clear difference between the threshold levels for urban and rural customers in terms of the unplanned SAIDI they were willing to trade. The higher threshold point for rural customers than for urban customers indicates that rural customers are willing to tolerate a slightly longer interruption. In addition, rural customers had a slightly higher threshold for frequency of interruptions. The KPMG survey only surveyed residential customers and hence no conclusions were possible on any differentiation between business and residential customers.

It may also be appropriate to have different standard levels between DNSPs that would reflect more closely the different operating environments and characteristics that are applicable to individual DNSPs. The requirement to have different standard levels between DNSPs would need to be considered in the light of their customer preferences and their respective recent performance.

These requirements would need to be balanced against the requirement to keep the costs of administering a GCSS to a reasonable level and to ensure that the costs don't outweigh the benefits.

## Conclusion

Integral submits that it is important to set standards based on adequate historical data and that given the volatility of some data sets it would require a minimum of three years data to be able to set reasonable service standards.

Integral also considers that it should be customer preferences that drive the setting of standards together with their willingness to pay for improvements in current standards to move them closer to customer preferences.

## 5. When should compensation be payable?

The Tribunal invites comment on whether compensation should be payable on certain measures, as it currently is, and if so, which ones.

Integral believes that it is appropriate for some form of compensation to be payable for some of the existing customer service GCSSs. These are shown in the following table and relate only to the distribution licence.

Area of Service	GCSS	Penalty Payable to Customer
Timely provision of services	Requirement to pay compensation if connection service delayed.	\$60 per day (maximum \$300) <sup>3</sup>
Planned interruptions to supply	Requirement to provide prior notice of planned interruptions and the	\$20

<sup>3</sup> Integral notes that most new connections are performed by Accredited Service Providers. Integral is not aware of the customers' requirements as the arrangement is between the customer and the ASP. This GCSS therefore needs to be better defined by IPART in order to confirm whether it also relates to ASPs (and how this would be administrated) or to only reconnections that DNSPs undertake.

	expected duration of any planned interruption.	
Repair of streetlight faults	Requirement to pay compensation for failure to complete repairs of faulty street lights by an agreed time	\$15

It should be noted that these measures could be just as effective without compensation being payable to customers provided there was public reporting of performance by DNSPs as part of the licence compliance reporting. The system could be established so that if an inappropriate number of breaches of the service standard were reported then a fine could be imposed. This would have the advantage of benefiting all customers as it would require the DNSP to implement changes to its systems and processes to ensure that further breaches and hence fines did not occur.

The question of whether compensation should be paid to individual customers through penalties as outlined in the table or whether groups of customers should be compensated through adjustments to the weighted average price cap needs to be considered in terms of the type of service to be delivered. As outlined earlier Integral believes that this aspect of service quality should be incorporated into a service quality incentive mechanism but not be part of any GCSS scheme. As also outlined in Integral’s submission to the 2004 Electricity Network Review, Integral proposes that a zero dollar (or paper trial) be implemented in the 2004 regulatory period. This will have the advantage of testing both the measurement and reporting systems but also the levels at which the standards are set.

**Conclusion**

Integral believes that it is appropriate for some form of compensation to be payable for some of the existing customer service GCSSs. It should be noted that these measures could be just as effective without compensation being payable to customers provided there was public reporting of performance by DNSPs as part of the licence compliance reporting.

**5.1 What level of compensation should be payable?**

The Tribunal invites comment on appropriate levels for compensation, if applied, including comments on the most appropriate methodologies for determining compensation levels.

In determining the compensation levels for a GCSS scheme it is important to first identify the intent of the compensation. Is the compensation intended to “reward” the customer because of the failure of the licence holder to meet the agreed level of the GCSS or is the compensation intended to provide an incentive for the licence holder to ensure that it does not breach the GCSS or to improve its service so that it meets the GCSS?

In the first case it may be appropriate to set the compensation at a level that reflects the value the customer places on having the service delivered to the required standard.

In the second instance the level of compensation would need to be set taking account of the costs to the licence holder of not breaching the service standard.

However, there could be additional costs faced by the licence holder if it breaches any service standard. For example, there could be licence fines or adjustments to the weighted average price cap through a service incentive factor that would need to be considered when determining the level of any compensation.

## 5.2 How should compensation be paid?

The Tribunal invites comment on whether compensation payments should be made automatically wherever possible, or whether customers should be required to apply for compensation, as is currently the case.

The question of whether compensation should be paid automatically or on application would need to be considered along with the provision of robust data. In order for compensation to be paid automatically it will require systems to be able to accurately identify customers affected by any breach of a service standard.

Integral would not support the payment of compensation to all customers that might have been affected by a service standard breach. Such a system could lead to a rise in the number of complaints from customers who think they should be compensated and would leave the licence holder with very few grounds on which to reject claims.

The system in Victoria where the ESC requires distributors to compensate all customers on a low voltage feeder if a single phase of a 3 phase system fails would still require a robust data set to identify the customers connected to the low voltage feeder. This may not yet be possible with the current systems in place in NSW.

Another aspect of the payment of compensation is the need for consistency between both electricity and gas and between licence holders. It is critical for both customers and the licence holders that, whatever is agreed as the most appropriate way of paying compensation, it is paid in the same way by all licence holders in both gas and electricity. The current system does not specify how compensation is paid and hence different licence holders can choose how they will pay.

This can be confusing for customers and makes comparisons between the payments of the various licence holders totally meaningless.

Also of concern is the way in which payments are made. For instance it is quite common to credit the customer's account with the amount of the penalty for a particular service standard. In the case of a breach of a network GCSS the customer's network account would be credited with the amount of the penalty. Integral is not aware of any requirement on the customer's retailer to actually pass on the credit to the customer

Integral submits that until such time as a robust data set is available that accurately identifies individual customers affected by a service standard breach then payment based on customer application is the most appropriate methodology.

## Conclusion

The question of whether compensation should be paid automatically or on application would need to be considered along with the provision of robust data. In order for compensation to be paid automatically it will require systems to be able to accurately identify customers affected by any breach of a service standard.

Integral submits that until such time as a robust data set is available that accurately identifies individual customers affected by a service standard breach then payment based on customer application is the most appropriate methodology.

Another aspect of the payment of compensation is the need for consistency between both electricity and gas and between licence holders.

## **6. How often should operating statistics be published?**

The Tribunal invites comment on the most appropriate frequency for the publication of operating statistics, including the option for this to vary depending upon the statistic in question.

Integral supports the annual publication of operating statistics as the current licence reporting is subject to an annual independent appraisal and hence the numbers reported have been subject to outside scrutiny.

It would be possible to report say, on a six monthly basis but it is Integral's view that these would be unaudited numbers as the cost of undertaking audits at six monthly intervals would be high and for little, if any, demonstrable benefit.

### **Conclusion**

Integral supports the annual publication of operating statistics as the current licence reporting is subject to an annual independent appraisal and hence the numbers reported have been subject to outside scrutiny.