Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Quality of Service Incentive Mechanisms

to apply during the 2006-2010 price control period

for ESB PES (Public Electricity Supplier) &
ESB DSO (Distribution System Operator)

CONSULTATION PAPER

CER/06/016
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1 Executive Summary

The Commission for Energy Regulation ("the Commission") considers quality of customer service a key priority in regulating the ESB supply (ESB PES) and ESB networks (ESB DSO) businesses. To this end, the Commission will impose two separate 'Quality of Service' Incentive Mechanisms to apply to the levels of customer service provided by the ESB National Customer Contact Centre (NCCC) and the guaranteed service levels set out in the PES Customer Charter respectively.

This paper describes how each proposed Incentive Mechanism will operate, including the use of separate metrics to evaluate the level of customer service provided by the NCCC and PES Customer Charter. An explanation of how each of these metrics will operate within each Incentive Mechanism is provided, including proposed weightings and performance targets for each measure. Finally, the application of each mechanism in respect of financial rewards and penalties is described. This will set out the potential impact on the Allowable Revenue for each business in a particular year.

In respect of the NCCC, separate incentive mechanisms are proposed to apply to ESB Supply (ESB PES) and the ESB Networks (ESB DSO), both of which separately provide retail-related and networks-related customer services via the NCCC. Each mechanism will incorporate four separate measures to evaluate the level of customer service provided by the NCCC:

- Speed of Telephone Response
- Call Abandonment Rate
- Customer Call-Back survey results
- Mystery Caller survey results

Specific targets will be set against each of these measures and a financial penalty/reward will apply if ESB's performance is below/above the target. The penalty/reward will be capped at certain percentage (1.0% for PES, 1.5% for DSO) of each business's Allowed Revenue each year.

Under the Customer Charter Incentive Mechanism, the Commission proposes to impose financial penalties based on the number of compensation payments made to individual customers for failure to meet a charter guarantee. The volume of payments made in 2006 will form a base level (and set at 100%). Each year thereafter, PES will be penalised if the volume of payments made is *greater* than the target volume (set at specific percentage of the 2006 volume, which will decrease year on year), thereby incentivising PES to improve the level of customer service underlying each guarantee. The penalty will be capped at 0.1% of PES's Allowed Revenue each year.

These incentive mechanisms will form part of each business's regulatory revenue control and will apply for a 5 year period from 2006 to 2010 (i.e., the PES and DSO revenue control period).

The Commission, following consideration of comments received, will issue a decision on both the NCCC and PES Customer Charter 'Quality of Service' Incentive Mechanism to apply over the 2006 to 2010 period.

2 Introduction and Consultation Process

2.1 Introduction

The Commission for Energy Regulation ("the Commission") considers quality of customer service a key priority in regulating the ESB supply (ESB PES) and ESB networks (ESB DSO) businesses. To this end, the Commission will impose 'Quality of Service' Incentive Mechanisms on each business to incentivise ESB to continue to improve the quality of customer service provided by ESB to electricity customers.

Regulating ESB involves creating incentives to improve both productive efficiency and customer service performance levels. These incentives are found within separate regulatory 'revenue' controls imposed by the Commission on the ESB supply and networks businesses.

In responding to incentives to reduce costs, however, the Commission must ensure ESB does not compromise on the quality of customer service provided. Additionally, the Commission seeks to ensure each business delivers a high level of customer service and is incentivised to improve performance. To this end, the Commission will impose performance improvement incentives and targets on ESB on two key areas of its customer service[1]:

- ESB National Customer Contact Centre ('NCCC') [2]
- ESB PES Customer Charter

This consultation document sets out the Commission's proposed 'Quality of Service' Incentive Mechanism to apply to the levels of customer service provided by the ESB National Customer Contact Centre. Also presented is the Commission's proposed incentive mechanism to apply to the guaranteed service levels set out in the PES Customer Charter.

In respect of the NCCC, separate incentive mechanisms will apply to ESB Supply (ESB PES) and the ESB Networks (ESB DSO), both of which separately provide retail-related and networks-related customer services via the NCCC. The incentive mechanism will form part of each business's regulatory 'revenue' control and will apply for a 5 year period from 2006 to 2010 (i.e., the PES and DSO 'revenue' control period). The PES Customer Charter Incentive Mechanism will apply only to PES and will cover the 5 year period from 2006 to 2010.

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[1] An incentive for the ESB DSO Customer Charter has already been put in place by a previous Commission decision (see CER/05/138).

[2] Note that the National Customer Contact Centre is run by ESB PES, but also provides services to the ESB DSO.

2.2 Responding to this consultation

Interested Parties are invited to comment on the proposals and issues raised in this paper by 5pm on 23rd March 2006. The Commission requests that respondents structure their comments to address the specific proposals outlined in the document. Where possible, reference to the section number should be made with specific comments. The Commission regrets that it cannot undertake to provide individual responses to submissions on this paper.

Responses may be published in full on the Commission's website, therefore respondents should clearly identify any confidential information in a separate annex.

Submissions on this paper should be forwarded, preferably in electronic format, to:

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Final Decision by the Commission

The Commission, following consideration of comments received, will issue a decision on both the 'Quality of Customer Service' Incentive Mechanism to apply to the customer service provided by the ESB National Customer Contact Centre ('NCCC') and the 'PES Customer Charter' Incentive Mechanism to apply to the guaranteed service levels set out in the PES Customer Charter over the 2006 to 2010 period.

3 Background

3.1 Regulating ESB (Revenue and Non-Revenue controls)

As stated above the Commission imposes separate revenue controls on each of ESB regulated businesses, namely, Power Generation ('PG'), Transmission System Operator and Asset Owner ('TSO' and 'TAO'), Distribution System Operator ('DSO') and Public Electricity Supply ('PES'). This paper relates to the customer service provided by the NCCC and therefore concerns only the PES and DSO revenue controls.

The first 5-year price control imposed on PES and the DSO commenced in 2001 and concluded at the end of December 2005. Earlier in 2005, the Commission undertook to develop separate revenue controls to apply to each of these regulated businesses for the next 5-year period, from 2006 to 2010. This involved a thorough analysis of PES's and DSO's submission on costs of supplying and distributing electricity to customers over this period. This analysis culminated in the Commission's proposed and, following a consultation period, final decision on 'allowable' costs and *form of revenue control* to apply for each business over this 5 year period[3].

The *form of revenue* control determines the nature of control placed on the business (e.g., a cap on revenues recovered from customers or a cap on prices charged to customers). It also sets out an efficient level of revenues (made up of allowed operating costs, capital expenditure, depreciation charges and an allowable margin) that can be recovered by the business from its customers in a particular operating period (usually a calendar year). Both the PES and DSO revenue controls incorporate incentives to improve both productive efficiency[4] and customer service performance levels.

The incentives on customer service performance levels take the form of an 'Incentive' term (INCENTt[5]) within both PES's and DSO's revenue control formula.

To further explain, the revenue control formula contains a number of terms that when added together determine the overall level of allowable revenue that can be recovered from customers via the tariffs in a particular year. Each term within the formula separately sets the level of revenue specifically attributable to, for example, operating costs, depreciation costs, allowable margin, under- or over-recovery adjustments. The 'Incentive' term in the formula will take the value of the financial reward or penalty based on the company's level of customer service performance measured against targets set within the Quality of Service Incentive Mechanisms.

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[3] *2006-2010 ESB Price Control Review – Public Electricity Supply – A Consultation Paper* (CER/05/112, published on 26 July 2005); *Direction to ESB PES (Public Electricity Supplier) on Allowable Costs 2006 – 2010 by the Commission for Energy Regulation* (CER/05/164, published on 9 September 2005); *2006-2010 ESB Price Control Review Consultation Paper on CER's proposed decision on Distribution System Operator Revenues* (CER/05/117, published on 26 July 2005); *2006-2010 ESB Price Control Review CER Decision Paper on Distribution System Operator Revenues* (CER/05/138, published on 9 September 2005).

[4] Under the revenue control, the business is allowed to retain any savings (allowable level of costs LESS actual costs incurred) made in the operating period and thus there is a strong incentive to reduce costs (perhaps through more efficient use of resources) to a level *below* the 'allowable' cap

[5] The INCENTt term is further defined in both Appendix 1 and Appendix 2.

Within the Commission's Directions[6] to PES and DSO on 'allowable' costs to apply for each business over the 2006-2010 period, the Commission stated that it would consult on the definition and application of Quality of Service Incentive term. In anticipation of this consultation by the Commission, both PES and the DSO submitted a proposed Customer Service Incentive Mechanism for the Commission's consideration.

This document presents the Commission's proposed Quality of Service Incentive Mechanisms to separately apply to the NCCC and the PES Customer Charter for comment by interested parties.

3.2 Legislative Basis

The functions of the Commission for Energy Regulation in relation to electricity are set down in Section 9 of the Electricity Regulation Act 1999 ("the 1999 Act"), as amended by subsequent Statutory Instruments. National regulatory authorities have been given additional functions under EU Directive 2003/54/EC. The recently enacted SI 60 (European Communities (Internal Market in Electricity) Regulations 2005) provides for the amendment of Section 9 of the 1999 Act for the purposes of assigning additional functions to the Commission.

Under Regulation 26 of SI No.60 of 2005, the Commission shall specify "standards of performance, including standards of quality, in connection with the provision of electricity supply services by the public electricity supplier, the distribution system operator…as the Commission determines ought to be achieved".

In addition, Regulation 3 of SI No. 60 provides the Commission with the power, following an examination of proposals from ESB in relation to underlying tariff costs, to issue directions to the Public Electricity Supplier in relation to such costs underlying any charge to final customers. Similar powers in relation to the Distribution System Operator are contained in Section 35 of the Electricity Regulation Act, 1999.

[6] See Footnote 3

4 Proposed NCCC Incentive Mechanism

This section presents the Commission's proposed Quality of Customer Service Incentive Mechanism to apply to the levels of customer service provided by the ESB National Customer Contact Centre ('NCCC'). Separate Mechanisms will apply for ESB PES and ESB Networks. ESB PES will be subject to an Incentive Mechanism in respect of retail-related customer service and ESB Networks in respect of networks-related customer service.

This section begins by describing the services provided by the ESB NCCC, including customer service initiatives and approved capital expenditure on a number of NCCC systems to improve performance. Four separate 'quality of service' measures of the call centre performance are then presented. An explanation of how each of these measures will operate within the Incentive Mechanism is provided, including proposed weightings and performance targets for each measure. Finally, the application of the 'Quality of Service' Incentive Mechanism in respect of financial rewards and penalties is described. This will set out the potential impact on the Allowable Revenue for each business (via the value of the 'Incentive' term within the control formula) in a particular year.

4.1 ESB National Customer Contact Centre

The NCCC is the primary point of contact for all ESB customers. The NCCC operates at two sites, at Wilton in Cork and Finglas in Dublin. However, it is managed and operates as a single virtual call centre.

The call centre handles calls for ESB Networks, ESB Customer Supply and general queries relating to ESB. It delivers a 6 day, 12 hour customer service to all ESB Customer Supply (PES) customers and a 7 day, 24 hour service for Networks customers. The call centre is managed by ESB Customer Supply (PES), with a Service Level Agreement (SLA) in place between Customer Supply and Networks for the provision of this service.

A number of initiatives to improve performance levels have been implemented by ESB. In addition, for the 2006 to 2010 period, the Commission has approved[7] capital expenditure on a number of systems related to the activities in the NCCC, including additional Interactive Voice Recognition (IVR) functionality, Call Recording System and ACD Upgrade. Each of these has been approved to allow ESB to deliver improved customer service from the NCCC. In particular, enhancements to the voice recognition software (in addition to touchtone), which include improved call routing and additional menus, is expected to make this software more customer friendly and easier to use. In addition, increased automation of calls will improve the number of calls answered by the NCCC within 20 seconds, to the benefit of customers. The Commission also approved additional funding for increased staffing levels and contractor costs for the call centre to allow ESB improve performance levels.

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[7] *Direction to ESB PES (Public Electricity Supplier) on Allowable Costs 2006 – 2010 by the Commission for Energy Regulation* (CER/05/164, published on 9 September 2005)

4.2 Key Quality of Service Measures

It is proposed that four specific measurements are incorporated in the proposed Incentive Mechanism. These are:

- Speed of Telephone Response
- Call Abandonment Rate
- Customer Call-Back survey results
- Mystery Caller survey results

The first two components (i.e., Speed of Telephone Response and Call Abandonment Rate) are both standard measures of call centre performance and have been in place since the first PES Price Control Review (2001 to 2005). The Commission proposes to continue with these measures as they are internationally accepted, effective, and objective measures of the level of service of response to answering customers' calls.

For 2006, global (combined Networks and Supply) 'Speed of Telephone Response' and 'Call Abandonment' measures will be reported and used in the PES and DSO's Incentive Mechanisms. The Call Centre systems do not currently have the functionality to separately differentiate and record supply queries from network queries. However, during 2006 software providing this additional functionality will be installed, and from 2007 separate data will be available for each business.

The Customer Call-Back and Mystery Caller Surveys will be conducted by an independent organisation approved by the Commission, funded by ESB under the Commission's direction. The research results will be made available to the Commission.

The following sections discuss each of these measures in more detail.

4.2.1 Speed of Telephone Response

This measure comprises two separate metrics of the speed of telephone response by the NCCC:

- Telephone Service Factor (TSF)
- Average Speed of Answer (ASA)

The 'Telephone Service Factor' (TSF) is defined as the time (in seconds) taken to 'initially' answer calls to the Call Centre (either by a Call Centre Agent or the Interactive Voice Recognition (IVR)). This is a standard metric used across Call Centres internationally and measures a key aspect of customer service, that is, the speed of telephone response.

Two TSF measures will be used in the Incentive Mechanism. The first measure will record the percentage of calls answered within 20 seconds. The second measure will record the percentage of calls answered within 45 seconds.

These two TSF measures are proposed by the Commission to incentivise ESB to both increase the percentage of calls answered within 20 seconds *and* reduce the waiting time on ALL calls. The inclusion of the second measure is designed to ensure ESB do not focus solely on increasing the percentage of calls answered within 20 seconds, to the detriment of the average time taken to answer those calls *not* answered within 20 seconds.

The 'Average Speed of Answer' (ASA) is defined as the time a caller spends in a queue waiting to speak to Agent after being placed in the queue either via the IVR or by an Agent. That is, the clock will start when the call 'hits' the ACD (Automated Call Distribution) for agents.

Two ASA measures will be used in the Incentive Mechanism. The first measure will record the percentage of calls answered within 30 seconds. The second measure will record the percentage of calls answered within 60 seconds. As with the TSF measure, the inclusion of a second ASA measure is used to incentivise ESB to reduce the queuing time for ALL calls.

These metrics shall be combined[8] and expressed as a percentage, with a score of 100 representing a perfect rating.

This 'Speed of Telephone Response' measure will apply under all conditions, including storms, to ensure ESB is incentivised to improve performance at all times. In setting the performance target for this measure however, the Commission will make an allowance for conditions such as storms that cause a spike in call volumes.

4.2.2 Call abandonment rate

The call abandonment rate is another important metric in determining call centre performance. It is defined as the percentage of calls that are abandoned by the caller (i.e., the caller hangs up).

This measure will record the number of calls that are abandoned at any of the following stages of a call:

- when the caller first calls the Call Centre and is waiting to be answered by either the IVR or a Call Centre Agent
- when the caller is negotiating through the IVR menus
- when the caller is placed in a queue and is waiting to speak to Agent (after being placed in the queue either via the IVR or by an Agent)

The Commission recognises that there are circumstances in which a caller hang-up should not be interpreted in a negative light. For example, when ESB Networks identifies a fault on the electricity network a message is put on the IVR telling customers from the area that the fault has been identified and giving information

[8] The calculation of the targets for the 'Speed of Telephone Response' measure, using the TSF and ASA metrics, is detailed in Appendix 3

about the situation. Upon hearing this message many customers would hang up. Or a customer may hang up after entering its meter-read information. Such hang-ups would not be included in the call abandonment figures. In order for hang-ups to be excluded from the call abandonment measure ESB would need the approval of the Commission. In order to obtain such approval ESB would have to clearly define how the exclusion would operate.

4.2.3 Customer call-back survey

Customer call–back surveys are a method of collecting customer assessment of customer service provided by the Call Centre. It is a recognised standard practice for call centre management and performance measurement.

The call-back survey involves contacting a number of customers who recently made calls to the Call Centre to identify their satisfaction levels with their interaction with the Call Centre. A customer will be contacted within two days of the call being made to the call centre. This short timeframe will ensure the customer's experience with the call centre can be recalled easily and is 'fresh' and detailed.

The call-backs will be carried out by an independent research company engaged by ESB and reporting to both the Commission and ESB.

The Commission will consult with the appointed research company to determine the number of call-backs to be carried out per year. The sample size will be sufficiently large enough to provide the Commission with a high degree of confidence that the satisfaction ratings gleaned from the sample would be representative of the rating obtained *if* ALL customers who contacted the call centre were surveyed.

The sample of call-backs will include both Networks and Supply calls. The calls will be selected randomly (subject to the inclusion of calls from each of the dimensions outlined below) from the total call quota received by the Call Centre:

- The time at which the call was made (morning, afternoon, evening, night)
- The purpose of the call (e.g. bill query, supply problem, meter reading etc)
- The handling of the call (on-call resolution, requiring call back, requiring referral)

Satisfaction level of the call experience will be sought from the customer in respect of the following:

1. the politeness of the member of staff
2. their willingness to help
3. the accuracy of the information given (if information was given); and
4. the usefulness of the information given (if information was given)

Customers will be asked to score their call centre experience on a scale of 1 (very dissatisfied) to 5 (very satisfied). An overall performance score will be calculated for this measure.

This measure shall be expressed as a percentage, with a score of 100 representing a perfect rating.

4.2.4 Mystery Caller

“Mystery Caller" is a standard technique used to assess the overall quality of customer interactions with the Call Centre. It provides a more objective assessment of how calls are handled by the NCCC. Combined with the subjective measure of customer perception obtained from the customer call-back survey, a more complete assessment of the Call Centre performance will be obtained.

Mystery Caller involves making calls under the guise of a genuine caller to gain an assessment of various aspects of customer service provided under different scenarios and customer queries. Aspects of the Call Centre Agent’s approach and disposition will be evaluated, which include helpfulness, responsiveness, tone and style of Agent. Aspects of information delivered will also be rated, including correctness, completeness, coherence and pace of call.

Mystery Caller captures a different dimension of customer experience than customer call-backs. While call-backs base their feedback on customers perception of what happened during the course of a call, mystery caller is a clinical record of what actually took place. This measure also allows for an assessment of specific service components of the NCCC Agent’s response. The mystery caller will focus on areas central to the success of the call resolution and the satisfaction of the customer.

A list of customer query scenarios will be drawn up by the Commission and priority will be given to those queries that, if responded to effectively, provide the most benefit to customers. This list will include both typical and uncommon queries that range from simple to complex in nature.

Typical scenarios that may be used would be as follows:

PES

- What information is required for moving house?
- I am looking for tariff information
- If I get a bill with estimated readings, what do I do?
- What payment options are available to me?

DSO

- How do I apply for new connection?
- I need to get a meter moved, what do I have to do?
- I have no electricity power, when will supply be back on?
- What is ESB’s meter reading policy?

Only the independent organisation carrying out the mystery shopping calls will be given sight of this list of customer query scenarios and ESB personnel will not see this list.

A minimum of 50 calls per scenario will be made each quarter. A suite of 4 scenarios will be run quarterly; these scenarios will be run randomly throughout the quarter so that measurement is effectively spread across the period as opposed to having a scenario running over a particular week. It is proposed that every 6 months, two new scenarios will added to the suite of four while simultaneously two existing scenarios will be dropped. This will allow consistent evaluation of this measure year on year.

Each call made by the Mystery caller will be scored and an overall performance score will be calculated for this measure. It shall be expressed as a percentage, with a score of 100 representing a perfect rating.

4.3 Financial Rewards and Penalties

As set out above, the proposed Quality of Service Incentive Mechanism incorporates a mixture of measurable performance data (i.e. Speed of Telephone Response and Abandoned Calls) and survey information (i.e. Customer Callbacks and Mystery Caller).

Each of these 'quality of service' measures will be separately recorded and set against specific performance targets for that measure. These targets will be set out in advance.

The weightings of each measure will be based on the likely benefit customers will derive from an improvement in the performance of the service provided. For example, the time taken to answer calls ('Speed of Telephone Response' measure) will be weighted more heavily than the call-back survey measure as the Commission believes an improved performance on the speed of telephone response is more important to customers at this stage. Further, the Commission considers the current TSF performance levels are below an acceptable level.

Each quality of service measurement is multiplied by the weightings to produce an overall quality of service performance. This performance is set against the overall performance target. If the performance is above the target, the business will be financially rewarded. Similarly, if the target is not met, a financial penalty will apply. The magnitude of the financial reward or penalty will depend on the distance between the performance and the target. Each percentage point difference will equate to a monetary amount that will be calculated and set out in advance. A maximum penalty or reward to apply each year will be capped at a percentage of the annual revenue allowed to the business.

Targets will be set out in advance for each of the five years. However, given the absence of historic NCCC performance for a number of the proposed measures, the Commission recognises that there is a potential that some targets may be set at inappropriate levels. Setting targets too high or too low could have the undesirable effect of removing the incentive for ESB to improve performance on such measures. The Commission therefore proposes, at the conclusion of 2006, to review targets set for years 2007 to 2010 (in light of actual performance recorded in 2006) and correct for any targets if necessary. In respect of 2006, targets are based on best available data to the Commission at the writing this consultation paper[9].

Allowing for the targets/weightings to be amended in this way is NOT designed to prevent ESB achieving (and possibly surpassing) targets for the years 2007 to 2010. To do so would effectively remove the incentive for the business to improve performance.

[9] The Commission may consider revising the targets set out in this paper subject to evidence being submitted during the consultation period that would sufficiently support any proposed change(s).

4.3.1 PES NCCC Incentive Mechanism – Performance Targets

The following table sets out the Commission's proposed targets to apply to PES for each of the four Quality of Service measures for 2006 to 2010. These proposed targets are based directly on, and are achievable within, the approved level of allowed revenue (payroll, contractor costs, operating costs, capital expenditure for the NCCC) detailed in the Commission's Decision on 2006 – 2010 Allowable Revenue for ESB PES (CER/05/164).

Year		2006	2007	2008	2009	2010
	Weights	Targets				
Speed of Tel Response	30%	75%	80%	85%	85%	85%
Abandonment Rate	30%	5%	5%	5%	5%	5%
Mystery Shopper	20%	80%	80%	80%	80%	80%
Callback Survey	20%	80%	80%	80%	80%	80%
	100%					
ESATRAT *(Performance Target)*		83%	85%	86%	86%	86%
		Actuals				
Speed of Tel Response		74%	76%	80%	82%	86%
Abandonment Rate		15%	10%	8%	6%	5%
Mystery Shopper		75%	78%	80%	82%	85%
Callback Survey		60%	65%	75%	80%	82%
SATRAT *(Actual Performance)*		75%	78%	83%	85%	88%
PSATRAT *(Reward/Penalty per % point from Target)*		€95,000	€150,000	€150,000	€150,000	€150,000
Allowed Revenue (€m)		€72,000,000	€119,397,326	€121,378,540	€125,062,275	€130,468,551
Max. Reward/ Penalty (€m)	1.0%	€720,000	€1,193,973	€1,213,785	€1,250,623	€1,304,686
Actual Penalty (Reward)		**€720,000**	**€915,000**	**€510,000**	**€120,000**	**-€255,000**
SATRAT at which max **penalty** paid		75%	77%	78%	78%	77%
SATRAT at which max **reward** paid		91%	92%	94%	94%	95%

Note: The figures for 'Actual' performance and 'Allowed Revenue' values (in 2006 values) from 2006 onwards are provisional figures (except for *2006* Allowed Revenue) for illustrative purposes only. (They will be replaced with actual figures when revenues are adjusted on an annual basis). Thus the 'Max Reward/Penalty', the 'Actual Reward/Penalty', and the percentage scores at which the maximum penalty and reward will be paid from 2006 onwards are also all for illustrative purposes only.

*All terms stated in this table are defined in Appendix 1.

Proposed weightings are provided for each measure, which when multiplied by the 'targets' and summed provide the proposed **overall performance '*target*'** ('ESATRAT') for a particular year. For example, in 2006, the overall performance target is calculated to be 83%.

Similarly, multiplying the weightings by the 'actual' performances recorded for each measure and summing provides the **'*actual*' overall performance** ('SATRAT') achieved by the business. For example, in 2006, the actual overall performance is calculated to be 75%. (Note, the 'actual' performance values for each measure provided in the table are for illustrative purposes only.)

The $PSATRAT_t$ term is defined as a value in € per percentage point deviation of the **'actual'** overall performance ($SATRAT_t$) from the **'target'** overall performance ($ESATRAT_t$). For example, in 2006, *if* the 'actual' overall performance achieved by the business in 2006 is 82%, one percentage point *below* the overall 'target' of 83%, the applicable penalty would be €95,000. Similarly, *if* actual performance is 81%, two percentage points below the target, the applicable penalty would be €190,000 and so on.

The maximum penalty/award is capped at 1.0% of annual allowed revenue (adjusted for k-factors) each year. For example, in 2006 this equates to €720,000 (2006 values)). This amount will be payable if actual performance is 8 percentage points or more *below* the target of 83% (i.e., actual performance of 75% or less). Similarly, the business will be rewarded this amount if performance is greater than 8 percentage points *above* the target of 83% (i.e., actual performance of 91% or greater). As explained above, if *actual* performance is within this spread (75% to 91%), the applicable penalty/reward is calculated by multiplying the value of the PSATRAT (€) by the percentage point deviation of the **'actual'** from the **'target'** (83%) performance.

The resulting penalty/award will take the value of the $NCCC_t$ term within the PES Incentive term ($INCENT_t$):

$$INCENT_t = \left(NCCC_{t\,+}\;\; CHARTER_t\right)$$

where:

$NCCC_t$ is the value of the reward/penalty resulting from the application of the PES Call Centre Incentive Mechanism

The composition of this $INCENT_t$ term is further defined in Appendix 1

The impact of all incentives will be limited to 1.1% of the PES's allowed revenue in each year.

The overall value of the $INCENT_t$ term, and thus impact on annual Allowed Revenue, will be placed into the PES Revenue Control Formula:

$$R_i = B_o * \prod_{j=2005}^{t}\left(1 + CPI_j - X\;\;\right)/100\;\; + M_t + U_t + INCENT_t + K_t + K_{t-1}$$

Where R_t is the maximum level of revenue allowed in year t and the revenues on which the next year's tariffs are based. The other terms in this formula are defined in Appendix 1.

4.3.2 DSO NCCC Incentive Mechanism – Performance Targets

The operation of the DSO Incentive Mechanism, including the proposed weightings and targets for each of the four Quality of Service measures, is exactly the same as that set out above for PES above. However, as the following table shows, the value of the PSATRAT and the Allowed Revenue (and thus the maximum penalty/reward) differs:

Year	Weights	2006	2007	2008	2009	2010
		Targets				
Speed of Tel Response	30%	75%	80%	85%	85%	85%
Abandonment Rate	30%	5%	5%	5%	5%	5%
Mystery Shopper	20%	80%	80%	80%	80%	80%
Callback Survey	20%	80%	80%	80%	80%	80%
	100%					
ESATRAT *(Performance Target)*		83%	85%	86%	86%	86%
Speed of Tel Response		74%	76%	80%	82%	86%
Abandonment Rate		15%	10%	8%	6%	5%
Mystery Shopper		75%	78%	80%	82%	85%
Callback Survey		60%	65%	75%	80%	82%
SATRAT *(Actual Performance)*		75%	78%	83%	85%	88%
PSATRAT *(Reward/Penalty per % point from Target)*		€1,000,000	€1,000,000	€1,000,000	€1,000,000	€1,000,000
Allowed Revenue (€m)		€561,754,631	€595,810,603	€618,177,066	€631,899,752	€646,135,644
Max. Reward/ Penalty (€m)	1.5%	€8,426,319	€8,937,159	€9,272,656	€9,478,496	€9,692,035
Actual Penalty (Reward)		**€8,300,000**	**€6,100,000**	**€3,400,000**	**€800,000**	**-€1,700,000**
SATRAT at which max penalty paid		75%	76%	77%	77%	76%
SATRAT at which max **reward** paid		91%	93%	95%	95%	96%

Note: The figures for 'Actual' performance and 'Allowed Revenue' (in 2006 values) from 2006 onwards are provisional figures (except for 2006 Allowed Revenue) for illustrative purposes only. (They will be replaced with actual figures when revenues are adjusted on an annual basis). Thus the 'Max Reward/Penalty', the 'Actual Reward/Penalty', and the percentage scores at which the maximum penalty and reward will be paid from 2006 onwards are also all for illustrative purposes only.
*All terms stated in this table are defined in Appendix 2.

The above table shows, the value of the PSATRAT and the Allowed Revenue (and thus the maximum penalty/reward) differs from those for PES. This may have the effect of slightly changing the percentage point deviation from the target at which the maximum penalty or reward will be reached.

The Incentive term ($INCENT_t$) within the DSO control formula set out in the Commission's DSO revenue decision (CER/05/138) is defined slightly differently to that in PES's formula. Along with the Call Centre incentive, it contains a number of other incentives on, for example, customer minutes lost, customer interruptions and losses[10]. Each one of these incentives is individually limited to 1.5% of the DSO's

[10] These incentives are set out in CER/05/138 and reproduced in Appendix 2.

allowed revenue in each year. Thus, the maximum penalty/award for the DSO Call Centre incentive is capped at 1.5% of annual allowed revenue. For 2006, this equates to approximately €8.4m as shown in the table above.

The value of the penalty/reward under the NCCC Quality of Service Incentive Mechanism (as shown with illustrative figures in the table above) will be input into the INI_{it} term within the DSO Incentive term ($INCENT_t$)):

$$INCENT_t = \min(\sum_i INI_{it} + CHARTER_t, 0.04 * R_t)$$

The composition of this $INCENT_t$ is further defined in Appendix 2.

The impact of all incentives will be limited to 4% of the DSO's allowed revenue in each year. (However, for 2006 the limit is set at 2.5% as a transition step to the 4% limit which will apply from 2007 to 2010.)

The overall value of the $INCENT_t$ term, and thus impact on annual Allowed Revenue, will be placed into the DSO Revenue Control Formula:

$$R_t = \prod_{2005}^{t}[(1 + CPI_j - X)/100] * B_0 + \prod_{2005}^{t}[(1 + CPI_j)/100 * [INCENT_t + PCust_t * (FCust_t - Cust)_t]$$
$$+ \Delta P_t + \Delta U_t + K_{t-1} + K_{t-2}$$

Where R_t is the maximum level of revenue allowed in year t and the revenues on which the next year's tariffs are based. The other terms in this formula are defined in Appendix 2.

5 Proposed PES Customer Charter Incentive Mechanism

Another key area of ESB's customer service is provided through the ESB PES Customer Charter. As with the customer service provided by the NCCC, the Commission believes an Incentive Mechanism should apply to the service levels provided under the PES Customer Charter.

5.1 PES Customer Charter

The PES Customer Charter is a written commitment made by ESB PES to its customers to deliver a high level of customer service and meet its customers' needs. It sets out a number of customer service performance guarantees and offers compensation payments to customers for failure to meet the guarantee.

Currently, an 'interim' Customer Charter exists as ESB is currently developing a new Customer Charter with the Commission to fully reflect the additional customer service and protection provisions set out in Statutory Instrument 60. It will encompass the supply business licence obligations, new Codes of Practice and reflect the changing nature of the electricity industry following full market opening.

It is expected that the new PES Customer Charter will be approved by the end of quarter 1 2006.

5.2 Incentive Mechanism

To incentivise ESB to continue to improve the level of service provided under each of the Customer Charter guarantees, the Commission proposes to impose financial penalties based on the number of compensation payments made under each guarantee. This metric is used as it has a direct relationship with the service level performance underlying each guarantee. That is, a large number of compensation payments made under a particular guarantee strongly indicates a poor performance in the underlying service.

Such an incentive mechanism depends on the payment of compensations to be automatic and reliable. To this end, the Commission will require PES to demonstrate that all payments are automatic (perhaps by providing sight of the NCCC system logic/rules or a manual procedure within the payments teams) and do *not* require a request from the customer before the payment is made. Otherwise, the link between the volume of compensation payments made and the performance of the underlying service would be distorted.

In order to set payment volume targets each year, the 2006 volume of payments made by PES under each guarantee (under the new Charter) will form a base level and set at 100%. This is necessary as many of the guarantees in the revised PES Customer Charter (to be implemented in 2006) will be new and thus historic payment volumes (at which a base level could be set) do not exist. For each year during the 2007 to 2010 period, the Commission will expect the level of service underlying each guarantee to improve and correspondingly the volume of compensation payments to decrease year on year. Therefore, the Commission will set payment volume targets under individual guarantees to a level below the 2006 level of 100%. For example, 95% of the recorded 2006 volume in 2007; this target percentage will decrease by 5% each year thereafter.

5.3 Financial Penalties

As explained above, the volume of compensation payments made under each guarantee will be separately recorded and set against specific compensation volume targets (defined as a percentage of 2006 volume) for that guarantee. These targets will be set out in advance.

The weightings of each customer service guarantee will be based on the likely benefit customers will derive from an improvement in the performance of the service underlying the guarantee.

The recorded volume of payments made under each guarantee is multiplied by the weightings and summed to produce an overall quality of service performance. This performance is set against the overall performance target. If this target is not met, a financial penalty will apply. The magnitude of the financial penalty will depend on the distance between the performance and the target. Each percentage point difference will equate to a monetary amount that will be calculated and set out in advance. A maximum penalty to apply each year will be capped at a percentage of the annual revenue allowed to the company.

Targets will be set out in advance for each year from 2007 to 2010 inclusive but will be adjusted each year to take account of any variation in PES customer numbers year on year. In setting targets, the volume of compensation payments made by the business in a particular year must be placed in the context of the number of customers served by the business in that year. To do otherwise may cause a particular year's target to be unfairly difficult to achieve (in the case of an increase in PES customer numbers) or 'automatically' achieved *without* improvements made to guaranteed service levels (in the case of a decrease in PES customer numbers).

5.3.1 PES Customer Charter Incentive Mechanism – Performance Targets

The following table sets out the Commission's proposed targets in respect of the compensation payment volumes made under each of the Charter guarantees to apply to PES for 2007 to 2010.

PES Customer Charter Guarantees						
			Percentage of 2006 compensation payments volume			
Year		2006	2007	2008	2009	2010
	Weights	Targets				
The Billing Accuracy Guarantee	15%		95%	90%	85%	80%
Payment Query Guarantee	15%	Set 2006	95%	90%	85%	80%
The Refund Guarantee	14%	compensation	95%	90%	85%	80%
The Customer Complaint Guarantee	14%	payment	95%	90%	85%	80%
The De-energisation Guarantee	14%	volume at	95%	90%	85%	80%
The Marketing Code of Conduct Guarantee	14%	100%	95%	90%	85%	80%
Vulnerable Customer Guarantee	14%		95%	90%	85%	80%
	100%					
TARGET VOLUME			95%	90%	85%	80%
		Actual				
The Billing Accuracy Guarantee			98%	92%	92%	75%
Payment Query Guarantee		Set 2006	95%	90%	85%	45%
The Refund Guarantee		compensation	95%	85%	90%	80%
The Customer Complaint Guarantee		payment	110%	90%	70%	90%
The De-energisation Guarantee		volume at	120%	100%	115%	80%
The Marketing Code of Conduct Guarantee		100%	86%	60%	85%	110%
Vulnerable Customer Guarantee			80%	130%	70%	65%
ACTUAL VOLUME			98%	92%	87%	78%
PCC (Penalty per % point from target)			€10,000	€10,000	€10,000	€10,000
Allowed Revenue (€m)			€119,397,326	€121,378,540	€125,062,275	€130,468,551
Max. Penalty (€m)	0.10%		€119,397	€121,379	€125,062	€130,469
Actual Penalty			**€26,900**	**€24,000**	**€17,500**	**€0**
ACTUAL VOLUME at which max penalty paid			107%	102%	98%	93%

Note: The figures for 'Actual' performance and 'Allowed Revenue' values (in 2006 values) from 2007 onwards are provisional figures for illustrative purposes only. (They will be replaced with actual figures when revenues are adjusted on an annual basis). Thus the 'Max Penalty', the 'Actual Penalty', and the percentage scores at which the maximum penalty will be paid from 2007 onwards are also all for illustrative purposes only. Also, the Guarantees stated in the table are for illustrative purposes *only*. This Mechanism will reflect the guarantees set out in the new Customer Charter which is expected to be approved by the end of quarter 1 2006.

Similar to the NCCC Incentive Mechanism, proposed weightings are provided for each guarantee, which when multiplied by the compensation payment target volumes (defined as a percentage of 2006 volumes) and summed provide the proposed overall performance 'TARGET VOLUME' for each year. (Note, the *'actual'* compensation payment volumes shown in the table are provided for illustrative purposes only.)

The value of the penalty per percentage point deviation of the actual compensation volume (ACTUAL VOLUME) *above* the target volume (TARGET VOLUME) is set at €10,000. Thus, in 2007, *if* the overall 'actual' compensation payment volume paid by the business to customers in 2007 is 96% of the 2006 volume (adjusted for customer numbers), one percentage point *above* the overall 'target' of 95%, the applicable penalty would be €10,000. Similarly, *if* actual volume is 97%, two percentage points above the target, the applicable penalty would be €20,000 and so on.

The maximum penalty is capped at 0.1% of annual allowed revenue each year (in 2006 this equates to €119,397 (2006 values)). This amount will be payable if the ACTUAL VOLUME is 12 percentage points or more (i.e., 107% of 2006 volume or more) *above* the TARGET VOLUME (i.e., 95% of 2006 volume).

If the target is not met in a particular year, the resulting penalty will take the value of the $CHARTER_t$ term within the PES Incentive term ($INCENT_t$). (If the target *is* met, the value of the $CHARTER_t$ term will be set to zero).

$INCENT_t = (NCCC_{t} + CHARTER_t)$

Where:

$CHARTER_t$ is the value of the penalty resulting from the application of the PES Customer Charter Incentive Mechanism (this is detailed in section 5 of this paper)

The composition of this $INCENT_t$ term is further defined in Appendix 1.

The overall value of the $INCENT_t$ term, and thus impact on annual Allowed Revenue, will be placed into the PES Revenue Control Formula:

$$R_i = B_o * \prod_{j=2005}^{t} \left(1 + CPI_j - X\right)/100 + M_t + U_t + INCENT_t + K_t + K_{t-1}$$

Where R_t is the maximum level of revenue allowed in year t and the revenues on which the next year's tariffs are based. The other terms in this formula are defined in Appendix 1.

5.4 Proposed Revision of Compensation Payments

The Commission also believes that individual customers should be compensated for failures by PES to meet the service level guarantees set out in their Customer Charter. To the end, the Commission proposes to revise the compensation payment values.

The purpose of these payments is to incentivise PES to improve any ‘failed’ customer service or broken commitment. The value of the payments should be high enough to incentivise PES to reduce their failure rate in meeting the service guarantee, thereby improving the service to customers. To this end, the Commission propose to revise the payments and set each at an ‘effective’ level. Those services that are most beneficial to the customer will be weighted more heavily through larger compensation payments.

Compensation payments will also be adjusted for electricity price inflation each year. The value of each compensation payment has been decreasing in real terms over the last number of years (i.e. the amount has not been revised upwards to take account of increases in electricity prices charged to final customers). This lessens the strength of the incentive on PES to meet their guarantees to customers.

Similar to the Customer Charter Incentive Mechanism set about above, PES’s guarantee failure rates will be assessed annually. If PES’s failure rates on particular commitments do not improve, or equally do not demonstrate a high enough rate of improvement, the compensation payment will be increased accordingly. Perhaps, by 25% or 50% the payment will continue to be increased until such time as the service level improves.

The revised levels of the compensation payments will be published when the new PES Customer Charter is issued.

5.5 Educating Customers

Customers need to be fully educated of the service level guarantees made by PES under the Customer Charter. The more customers demand the level of service guaranteed in the Customer Charter the higher obligation on PES to meet the guaranteed level of service, and it follows, the more likely PES will have to pay compensation payments. The higher the compensation payments paid by PES, the stronger the incentive for PES to improve the underlying service, to the benefit of customers.

To this end, the Commission will require PES to send the Customer Charter to every PES customer (perhaps via a bill insert) in addition to clearly publishing their Customer Charter & ALL relevant Codes of Practice on the ESB website. The Commission will also publicise these Codes of Practice and new Customer Charter as part of the Commission’s Consumer Protection programme.

6 Invitation of Comments

Respondents are invited to comment on the proposals in this paper. If respondents consider the proposals should be amended or expanded, please provide specific suggestions and set out your reasons so that the Commission can fully consider your position

APPENDIX 1: PES Revenue Control Formula

As stated under Section 3.5 of the Commission's final decision on allowable costs 2006 – 2010 (CER/05/164), the Commission decided that the following price control formula shall apply to ESB PES from 2006 to 2010:

$$R_i = B_o * \prod_{j=2005}^{t} \left(1 + CPI_j - X\ \right)/100\ + M_t + U_t + INCENT_t + K_t + K_{t-1}$$

B_0 is the allowed base year revenue (i.e. for 2006), expressed in 2005 prices

R_t is the maximum level of PES revenue allowed in year t

CPI_j is the annual average percentage change in the Irish (all-items) Harmonised Index of Consumer Prices (HICP) for the 12-month period October to September in the year j. Where j>t, CPI_j is a forecast value. Where j<=t CPI_j is the value for Irish (all items) HICP published by Eurostat in *Eurostatistics for short-term economic analysis.*

X is the efficiency factor, set at [0].

U_t is the uncertain costs in € in year t, as approved by the CER, relating to additional costs arising that lie outside the PES's control

M_t is the allowed margin payment to the PES in € in 2005 prices, determined each year based on the following formula:

$$M_t = ETURNOVER_t * MRATE_t$$

Where:

$ETURNOVER_t$ is the expected PES upstream turnover in year t in €

$MRATE_t$ is the 1.3% allowed margin rate.

$INCENT_t$ is the value of incentive penalties in year t in €m in respect of the penalties or payments in respect of the incentives applied to the NCCC and Customer Charter. The impact of both incentives will be limited to 1.1% of the PES's allowed revenue in each year. The Call Centre and Customer Charter incentive terms individually limited to 1% and 0.1% respectively.

It is proposed that the $INCENT_t$ variable will be defined as follows:

$$INCENT_t = \left(NCCC_{t\,+}\ \ CHARTER_t\right)$$

where:

$NCCC_t$ is the value of the reward/penalty resulting from the application of the PES Call Centre Incentive Mechanism (as detailed in Section 4 of this paper)

$NCCC_t$ is defined as follows:

$NCCC_t$ = if ($PSATRAT_t$*| $ESATRAT_t$ - $SATRAT_t$| > 0.01* R_t, then (if ($ESATRAT_t$ > $SATRAT_t$, then 0.01* R_t, else -0.01* R_t)), else $PSATRAT_t$*($ESATRAT_t$ - $SATRAT_t$))

where:

$ESATRAT_t$ is the expected satisfaction rating for Customer Call Centre Services. This will be determined each year based on the PES's performance against defined measurable elements and on customer survey information, gained through surveys conducted by an independent organisation approved by the Commission, funded by the ESB under the Commission's direction. $ESATRAT_t$ shall be expressed as an index of performance, with a score of 100 representing a perfect rating.

$SATRAT_t$ is the result of the annual performance reporting and satisfaction rating for Customer Call Centre services conducted by an independent organisation approved by the Commission, funded by the ESB under the Commission's direction, consistent with the measurable elements and customer survey information contained within $ESATRAT_t$

$PSATRAT_t$ is the payment to be made to or by the PES defined as a value in € per 1 point deviation (or part thereof) between $SATRAT_t$ and $ESATRAT_t$

$CHARTER_t$ is the value of the penalty resulting from the application of the PES Customer Charter Incentive Mechanism (as detailed in Section 5 of this paper)

$CHARTER_t$ is defined as follows:

$CHARTER_t$ = if (PCC_t *($ACTUALVOL_t$ – $TARGETVOL_t$) > 0.001* R_t, then -0.001*R_t, else (if($ACTUALVOL_t$ < $TARGETVOL_t$, then 0, else PCC_t *($ACTUALVOL_t$ – $TARGETVOL_t$))))

where:

$TARGETVOL_t$ is the target volume of compensation payments (defined as a percentage of 2006 volumes) made under the Customer Charter in year t.

$ACTUALVOL_t$ is the actual volume of compensation payments (defined as a percentage of 2006 volumes) made under the Customer Charter in year t.

PCC_t is the payment to be made by the PES defined as a value in € per 1 point deviation (or part thereof) between *$ACTUAL\ VOL_t$* and *$TARGET\ VOL_t$*

K_t is the correction factor applying in year t to under or over recovery in year t-1 this amount to be determined by CER on an annual basis. The then three-month Euribor rate will be applied to the correction. The correction factor shall apply to both the determinants of the PES's own costs and to over or under recovery in respect of PES upstream costs. The correction factor shall also include adjustments for under or over recovery in respect of the components of $INCENT_t$. K_t shall be determined based on estimated or actual values for each component of R_t and the PES upstream revenue available at the time determined by the Commission for PES providing such information in year t in respect of year t-1.

K_{t-1} is the correction factor applying in year t-1 to under or over recovery in year t-2 this amount to be determined by CER on an annual basis. The then three-month Euribor rate will be applied to the correction. The correction factor shall apply to both the determinants of the PES's own costs and to over or under recovery in respect of PES upstream costs. The correction factor shall also include adjustments for under or over recovery in respect of the components of $INCENT_t$. K_{t-1} shall be determined based on estimated or actual values for each component of R_{t-1} and the PES upstream revenue available at the time determined by the Commission for PES providing such information in year t-1 in respect of year t-2.

APPENDIX 2: DSO Revenue Control Formula

The price control formula set out in the Commission's DSO revenue decision (CER/05/138) and reproduced below includes a number of incentives.

The formula is as follows:

$$R_t = \prod_{2005}^{t}[(1+CPI_j - X)/100]*B_0 + \prod_{2005}^{t}[(1+CPI_j)/100*[INCENT_t + PCust_t*(FCust_t - Cust)_t]$$
$$+\Delta P_t + \Delta U_t + K_{t-1} + K_{t-2}$$

Where:

Rt	is the maximum level of revenue allowed in year t and the revenues on which the next year's tariffs are based.
CPI	is the annual average percentage change in the Irish (all-items) Harmonised Index of Consumer Prices (HICP) for the 12-month period October to September in the year j. Where j>t, CPIj is a forecast value. Where j<=t CPIj is the value for Irish (all items) HICP published by Eurostat in Eurostatistics for short-term economic analysis.
X	is the efficiency factor, set at 0.
B_0	is the level of allowed revenues in real 2006 prices for the DSO in each year of the price control
PCustt	is the revenue earned (or foregone) by the DSO for each additional connection above or below forecasted levels. This value is based on the average allowed revenue per customer as determined as Rt/Custt in each year t.
FCustt	is the Forecast Number of Connections to the system in year t
Custt	is the Number of Connections to the system in year t assumed in the determination of B0.
PL	is the amount of revenue per GWh distributed that the Commission will allow ESB to retain (forego) for reducing (increasing) losses compared with allowed losses, in 2006 prices. From the end-user perspective the value of a lost unit is the end-user price he/she faces. This cost, which includes generation, transmission and distribution, is approximately 13 c/kWh (from 2006 supply tariff average unit price). This equates to €130,000/GWh. Consistent with CER's 2001 decision the CER has decided to set PL at a level lower than the end-user tariff as this ensures a balance between giving

an appropriate incentive to the DSO and providing a reasonable benefit to the customer. PL is therefore set at €65,000/GWh.

FLt is the revised forecast distribution losses in year t expressed as a percentage of total GWh distributed (this will be converted to absolute terms as the incentive is stated in GWh terms]. This forecast is made before the end of year t-1 when determining the next year's allowed revenue.

Lt is the distribution losses in year t, expressed as a percentage of GWh distributed (this will be converted to absolute terms as the incentive is stated in GWh terms).

INCENTt is the value of incentive penalties in year t in €m in respect of the penalties or payments in respect of the incentives defined in table 10.4 of CER/05/138. The impact of all incentives will be limited to 4% of the DSO's allowed revenue in each year. (However, for 2006 the limit is set at 2.5% as a transition step to the 4% limit which will apply from 2007 to 2010.) Each individual incentive term (Customer Minutes Lost, Customer Interruptions, Losses, and Customer satisfaction rating for Call Centre Services) is limited to 1.5% of the DSO's allowed revenue in each year.

The variable is defined as follows:

$$INCENT_t = \min(\sum_i INI_{it} + CHARTER_t, 0.04 * R_t)$$

$$INI_{it} = if(P_{it} * |F_{it} - A_{it}| > 0.015 * R_t, then(if(F_{it} > A_{it}, then 0.015 * R_t, else -.015 * R_t)), else P_{it} * (F_{it} - A_{it}))$$

where: F_i and A_i are as follows:

$\mathbf{F_{it}}$	$\mathbf{A_{it}}$	$\mathbf{P_{it}}$
FCI_t	CI_t	PCI_t
$FCML_t$	CML_t	$PCML_t$
$ESATRAT_t$	$SATRAT_t$	$PSATRAT_t$
$FCust_t$	$Cust_t$	$PCust_t$
FL_t	L_t	PL

and where:

CI_t is the number of customer interruptions per 100 customers in year t and FCI_t the corresponding forecast value

PCI_t is the value applying to deviations from target levels of the number of customer interruptions, in € per unit of CI_t. This will be set in accordance with the values in table 10.4

CML_t is customer minutes lost in year t per customer and $FCML_t$ is the corresponding target value

$PCML_t$ is the value applying to deviations from target levels of customer minutes lost, in € per minute. This will be set in accordance with the values in table 10.4. It is based on estimating the value of a CML using a value of a lost MWh of €7000.

$ESATRAT_t$ is the expected satisfaction rating for Customer Call Centre Services. This will be determined each year based on the DSO's performance against defined measurable elements and on customer survey information, gained through surveys conducted by an independent organisation approved by the Commission, funded by the ESB under the Commission's direction. The Commission will develop the form of this measure in conjunction with the DSO. $ESATRAT_t$ shall be expressed as an index of performance, with a score of 100 representing a perfect rating.

$SATRAT_t$ is the result of the annual performance reporting and satisfaction rating for Customer Call Centre services conducted by an independent organization approved by the Commission, funded by the ESB under the Commission's direction, consistent with the measurable elements and customer survey information contained within $ESATRAT_t$

The detail of the ESATRAT and SATRAT mechanisms is currently being developed by the Commission and the final details will be published before the new tariff year commences.

$PSATRAT_t$ is the payment to be made to or by the DSO defined as a value in € per 1 point deviation (or part thereof) between $SATRAT_t$ and $ESATRAT_t$

$CHARTER_t$ is the value of any unmade payments under the Customer Charter, plus 10%.

PL is the amount of revenue per GWh distributed that the Commission will allow ESB to retain (forego) for reducing (increasing) losses compared with allowed losses, in 2006 prices. From the end-user perspective the value of a lost unit is the end-user price he/she faces. This cost, which includes generation, transmission, and distribution is approximately 13 c/kWh (from 2006 supply tariff average unit price). This equates to €130,000/GWh. Consistent with the Commission's 2001 decision the Commission has decided to set PL at a level lower than the end-user tariff as this ensures a balance between giving an appropriate incentive to the DSO and providing a reasonable benefit to the customer. PL is therefore set at €65,000/GWh.

FLt is the revised forecast distribution losses in year t expressed as a percentage of total GWh distributed (this will be converted to absolute terms as the incentive is stated in GWh terms]. This forecast is made before the end of year t-1 when determining the next year's allowed revenue.

Lt is the distribution losses in year t, expressed as a percentage of GWh distributed (this will be converted to absolute terms as the incentive is stated in GWh terms).

APPENDIX 3: Calculation of 'Speed of Telephone Response' Targets

The following sets out the calculation of the 'Speed of Telephone Response' measure targets for 2006 to 2010 used in the NCCC Incentive Mechanism and as described under Section 4.2.1 of this paper.

This measure comprises two separate metrics of the speed of telephone response by the NCCC:

- Telephone Service Factor (TSF)
- Average Speed of Answer (ASA)

As described in Section 4.2.1 a total of four metrics will be used (2 TSF and 2 ASA metrics); these are defined as follows:

TSF_{20} is the percentage of calls to the Call Centre 'initially' answered (either by an Agent or IVR) within 20 seconds

TSF_{45} is the percentage of calls to the Call Centre 'initially' answered (either by an Agent or IVR) within 45 seconds

ASA_{30} is the percentage of calls (that are waiting in a queue to speak to an Agent after being placed in the queue either via the IVR or by an Agent) that are answered within 30 seconds.

ASA_{60} is the percentage of calls (that are waiting in a queue to speak to an Agent after being placed in the queue either via the IVR or by an Agent) that are answered within 60 seconds.

The overall targets for the 'Speed of Telephone Response' measure for 2006 to 2010 (set out in Section 4.3.1 and 4.3.2) are reproduced below:

Year	2006	2007	2008	2009	2010
	Targets				
Speed of Tel Response	75%	80%	85%	85%	85%

These overall targets are derived using the following proposed weightings and targets for each metric:

Speed of Tel Response		2006	2007	2008	2009	2010
	Weighting	Target				
TSF20	30%	65%	72%	80%	80%	80%
TSF45	20%	90%	92%	93%	93%	93%
ASA30	30%	65%	72%	80%	80%	80%
ASA60	20%	90%	92%	93%	93%	93%
Overall Target		75%	80%	85%	85%	85%

The overall target for the 'Speed of Telephone Response' measure for each year is calculated by multiplying the proposed weighting for each metric by its percentage target and summing. The **TSF_{20}** and **ASA_{20}** metrics (i.e. call 'answered' within 20 seconds) are weighted more heavily to give ESB a stronger incentive to answer the bulk of calls quickly.