



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Quality of Service Incentive Mechanisms

During the 2006-2010 price control period for

ESB PES & ESB DSO

**RESPONSE &
DECISION PAPER**

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1 Executive Summary

The Commission for Energy Regulation is of the view that electricity customers should expect and should be provided with a quality level of service. With this in mind, the Commission in February consulted on proposals to incentivise ESB to improve two key areas of its customer service. Namely, the levels of service that should be provided by ESB National Customer Contact Centre (NCCC) and the levels of services included in ESB Public Electricity Supplier's Customer Charter. This paper summarises comments received from interested parties together with the Commission's responses and final decisions on these subjects.

ESB's NCCC is a point of contact for electricity consumers that are looking for information, have queries or who wish to complain about different electricity related issues. In general all customer contacts are either about ESB Public Electricity Supplier (PES) or the distribution network that is operated by the Distribution System operator (DSO). Customers of other suppliers in the market contact the NCCC about network related issues.

The Commission has decided to incentivise both PES and the DSO to provide a quality service to all electricity consumers that contact the NCCC. The Commission has also decided to update PES's Customer Charter to reflect these incentives.

The NCCC incentive mechanism will incorporate four separate measures to evaluate the level of customer service provided:

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

Specific targets are 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 a certain percentage (1.0% (penalty); 0.25% (reward)) of each business's Allowed Revenue each year.

Under the Customer Charter Incentive Mechanism, the Commission has decided on a number of service guarantees that PES will offer to its customers together with compensation payments to customers where these guarantees are not met. In addition, the Commission will impose incentive arrangements on PES to manage the number of compensation payments made to individual customers for failure by PES to meet a charter guarantee.

All incentive arrangements placed on PES and DSO will apply for each year in the period 2006 to 2010. This is the current five year revenue review period for each business.

2 Background

2.1 Consultation Background

On the 23rd February 2006, the Commission published for consultation 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 (CER/06/016). This consultation paper provided detail on how each proposed Incentive Mechanism would operate, including the use of separate metrics to evaluate the level of customer service provided by the NCCC and PES Customer Charter.

The Commission received responses from two parties:

- ESB PES (Customer Supply)
- ESB DSO (Distribution System Operator)

Each of these responses is published along with this document. Comments received that are outside of scope of, and/or do not directly relate to the issues raised in the consultation paper are not addressed in this document but will be published.

This document is structured as follows. Section 2 provides the background to the Commission's decision. Sections 3 and 4 set out the Commission's final decision on the NCCC and PES Customer Charter Incentive Mechanisms respectively. Section 5 summarises comments received and the Commission's response. Appendices 1 and 2 contain the PES and DSO Revenue Control Formulas respectively. Appendix 3 presents a more formal definition and calculation of the 'Telephone Service Factor' (TSF) metrics (used to measure the call response times). Finally, Appendix 4 sets out the Calculation of the 'Speed of Telephone Response' Targets.

2.2 Legislative Basis

The functions of the Commission 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.

3 The Commission's Decision – NCCC Incentive Mechanism

This Section sets out the Commission's Decision on the 'Quality of Service' Incentive Mechanisms to apply to the levels of customer service provided by the ESB NCCC. Separate Mechanisms will apply for PES and DSO. This section defines each measure, how each will operate and incentive arrangements. The section concludes by outlining the 'next steps' in respect of implementing the incentive mechanism. Appendices 3 and 4 precisely define and calculate the various measures described in this section.

3.1 Key Quality of Service Measures

Four specific measurements will be incorporated in the NCCC Incentive Mechanism. These are:

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

The 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 will continue with these measures as they are internationally accepted and objective measures of the level of customer service provided by a Call Centre.

For 2006, combined Networks and PES 'Speed of Telephone Response' and 'Call Abandonment' measures will be reported and used in the PES and DSO's Incentive Mechanisms. As software will be installed that provides for separately recording of supply and network queries during 2006, separate data will be available for each business from 2007.

The Customer Call-Back and Mystery Caller Surveys will be conducted by an independent organisation approved by the Commission, funded by PES and DSO 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.

3.1.1 Speed of Telephone Response

Two separate TSF metrics will be used in the NCCC Incentive Mechanism. They are defined as follows:

- **TSF 20 (incl IVR)** is the percentage of calls to the Call Centre answered (either by an Agent or IVR) within 20 seconds
- **TSF 30 (excl IVR)** is the percentage of calls that are in a queue waiting to speak to an Agent (after being placed in the queue either via the IVR or by an Agent) that are answered by an Agent within 30 seconds

IVR answered calls are those calls that enter the IVR that do not default to a 'queue' to speak to an Agent (e.g. when a caller submits a meter reading and completes the automated transaction). These calls are deemed to be answered within 2 seconds and are, therefore, always within the service level target of 20 seconds. This creates an incentive for ESB to improve the level of service provided within the IVR thereby increasing the number of IVR 'answered' calls, to the benefit of customers.

The second 'TSF30 (excl IVR)' metric places particular emphasis on the time spent by callers in a queue waiting to speak to an Agent (after being placed in the queue either via the IVR or by an Agent). The clock starts when the call 'hits' the queue to speak to an Agent and stops when the call is answered by an Agent. It creates a strong incentive for ESB to reduce this wait time, which can be the cause of much frustration for customers.

These metrics shall be combined and expressed as a percentage, with a score of 100 representing a perfect rating. The Speed of Telephone Response measure will apply under all conditions, including storms, to ensure PES and the DSO are always incentivised to improve performance. However, each business may, by application to the Commission, request that certain periods that exhibit extreme and exceptional storm conditions be excluded from this measure. The Commission will consider these on a case-by-case basis, however, does not expect that exclusions will be applied, or granted, for 'normal' annual storms.

3.1.2 Call abandonment rate

This measure will record the number of calls that are abandoned while a caller is waiting in a queue to speak to an Agent.

The Call Abandonment Rate measure will apply under all conditions, including storms, to ensure PES and the DSO are always incentivised to improve performance. However, each business may, by application to the Commission, request that certain periods that exhibit extreme and exceptional storm conditions be excluded from this measure. The Commission will consider these on a case-by-case basis, however, does not expect that exclusions will be applied, or granted, for 'normal' annual storms.

3.1.3 Customer call-back survey

A customer will be contacted within two days of calling the call centre. 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 (so that results taken from the sample is representative). The sample of call-backs will include both Networks and PES calls. The calls will be selected randomly; subject to the (reasonable) inclusion of calls by:

- Time of day when call was made (morning, afternoon, evening, night)
- Purpose of call (e.g. bill query, supply problem, meter reading)
- Handling of call (on-call resolution, requiring call back, requiring referral)

Customers will be asked to score their call centre experience on a scale of 1 (very dissatisfied) to 5 (very satisfied) on:

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)

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.

3.1.4 Mystery Caller

This measure involves a third party, in the guise of a genuine caller, making calls to gain an assessment of various aspects of customer service provided. Aspects of the Call Centre Agent's approach and disposition will be evaluated, including helpfulness, responsiveness, tone and style of the Agent. Aspects of information delivered will also be rated, including correctness, completeness, coherence and pace of call.

A list of customer query scenarios will be drawn up by PES and DSO and submitted to the Commission. From this list, a number of scenarios will be selected by the Commission each quarter to be assessed under the survey. 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. The third party carrying out the mystery shopping calls will be given sight of the list of 'selected' scenarios to be surveyed each quarter. 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. Every 6 months, two new scenarios will be added to the suite of four while simultaneously two existing scenarios will be dropped. Each call made 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.

3.2 Financial Rewards and Penalties

The weighting of the four measures, discussed above, to the overall financial incentive will be linked to what is important to customers. For example, the time taken to answer calls 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 currently more important to customers. Each quality of service measurement is multiplied by a weighting to produce an overall quality of service performance. This performance is set against the overall performance target.

The business is incentivised to reach a high level of performance as the financial impact on the business will depend on the distance between the performance and the target (capped at a percentage of the annual revenue allowed to that business). Targets will be set out in advance for each of the five years.

3.2.1 PES – Performance Targets

The following table sets out the Commission's targets and weightings to apply to PES for each of the four 'Quality of Service' measures for 2006 to 2010.

| Year | | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------|---------|---------|------|------|------|------|
| | Weights | Targets | | | | |
| Speed of Tel Response | 30% | 70% | 75% | 80% | 83% | 83% |
| Abandonment Rate | 30% | 5% | 5% | 5% | 5% | 5% |
| Mystery Caller | 20% | 67% | 72% | 75% | 80% | 80% |
| Callback Survey | 20% | 77% | 78% | 80% | 80% | 80% |
| | 100% | | | | | |
| ESATRAT (Performance Target) | | 78% | 81% | 84% | 85% | 85% |

The Commission has decided to cap the maximum penalty at 1.0% and maximum reward at 0.25% of PES Allowed Revenue (adjusted for k factors) each year. The Commission's decision in respect of the payment to be made to or by the PES (in €) per 1 percentage point deviation between actual and target performance is set out below for each year under the PSATRAT term.

| Year | | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------|-------------|--------------|--------------|--------------|--------------|
| 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. Penalty (€m) | 1.00% | €720,000 | €1,193,973 | €1,213,785 | €1,250,623 | €1,304,686 |
| Max. Reward (€m) | 0.25% | €180,000 | €298,493 | €303,446 | €312,656 | €326,171 |
| SATRAT at which max penalty paid | | 71% | 73% | 75% | 77% | 77% |
| SATRAT at which max reward paid | | 80% | 83% | 86% | 87% | 87% |

Note: The figures for 'Allowed Revenue' (in 2006 values) from 2007 onwards are provisional figures and for illustrative purposes only. (They will be replaced with actual figures when revenues are adjusted on an annual basis). Thus the 'Max Reward/Penalty' and the percentage scores at which the maximum penalty and reward will be paid from 2007 onwards are also all for illustrative purposes only.

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

3.2.2 DSO Performance Targets

The following table sets out the Commission's targets and weightings to apply to DSO for each of the four 'Quality of Service' measures for 2006 to 2010. They are exactly the same as those set for PES as all customer queries are dealt by the same Call Centre.

| Year | | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------|---------|---------|------|------|------|------|
| | Weights | Targets | | | | |
| Speed of Tel Response | 30% | 70% | 75% | 80% | 83% | 83% |
| Abandonment Rate | 30% | 5% | 5% | 5% | 5% | 5% |
| Mystery Caller | 20% | 67% | 72% | 75% | 80% | 80% |
| Callback Survey | 20% | 77% | 78% | 80% | 80% | 80% |
| | 100% | | | | | |
| ESATRAT (Performance Target) | | 78% | 81% | 84% | 85% | 85% |

The Commission decided to cap the maximum penalty at 1.0% and maximum reward at 0.25% of DSO Allowed Revenue (adjusted for k factors) each year. The Commission's decision in respect of the payment to be made to or by the DSO (in €) per 1 percentage point deviation between actual and target performance is set out below for each year under the PSATRAT term.

| Year | | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------|-------------|-------------|-------------|-------------|-------------|
| PSATRAT (Reward/Penalty per % point from Target) | | €650,000 | €650,000 | €650,000 | €650,000 | €650,000 |
| Allowed Revenue (€m) | | €61,754,631 | €95,810,603 | €18,177,066 | €31,899,752 | €46,135,644 |
| Max. Penalty (€m) | 1.00% | €617,546 | €958,106 | €1,817,711 | €3,189,998 | €4,613,566 |
| Max. Reward (€m) | 0.25% | €1,404,387 | €1,489,527 | €1,545,443 | €1,579,749 | €1,615,339 |
| SATRAT at which max penalty paid | | 70% | 72% | 74% | 76% | 75% |
| SATRAT at which max reward paid | | 80% | 83% | 86% | 88% | 88% |

Note: The figures for 'Allowed Revenue' (in 2006 values) from 2007 onwards are provisional figures and for illustrative purposes only. (They will be replaced with actual figures when revenues are adjusted on an annual basis). Thus the 'Max Reward/Penalty' and the percentage scores at which the maximum penalty and reward will be paid from 2007 onwards are also all for illustrative purposes only.

*All terms stated in this table are defined in Appendix 2.

3.2.3 Next Steps

The Commission will engage with ESB PES and ESB DSO to develop and agree the monitoring & reporting structure of performance against the NCCC Incentive Mechanisms respectively.

In relation to the Customer Call-back and Mystery Caller Surveys, ESB has commenced a tendering process in respect of securing the services of an independent research organisation to conduct these surveys. The Commission will engage with the relevant organisation once appointed.

4 The Commission's Decision - 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.

This Section sets out the Commission's Decision on the PES Customer Charter Incentive Mechanism by describing how the mechanism will operate, including performance targets and financial incentives. The section concludes by outlining the 'next steps' in respect of implementing the incentive mechanism.

4.1 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. It sets out a number of performance guarantees and offers compensation payments to customers for failure to meet the guarantee. A new Charter is expected to be approved in 2006 to reflect additional customer service and protection provisions required by Statutory Instrument 60¹.

4.2 Incentive Mechanism

The Commission has decided to introduce a financial arrangement to encourage ESB PES to continue improving the level of service provided to its customers. Under this arrangement, PES will earn less revenue when the volume of compensation payments made under each Customer Charter guarantee increases on the previous year. A large number of compensation payments made under a particular guarantee strongly indicates a poor performance in the underlying service.

This type of 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 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 2007 volume of payments made by PES under each guarantee (included in 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 will be new and historic payment volumes do not exist. For each year during the 2008 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 2007 level of

¹ SI 60 European Communities (Internal Market in Electricity) Regulations 2005

100%. For example, 95% of the recorded 2007 volume in 2008; this target percentage will decrease by 5% each year thereafter.

4.3 Financial Incentives

The weightings of each customer service guarantee, when setting up the financial incentive, will be linked to what is important to customers. The 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, PES will be required to forego an amount of revenue the magnitude of which 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. The annual amount will be capped at a percentage of the annual revenue allowed to PES.

The Commission will set annual targets in advance, for the period 2008 to 2010 inclusive, that are adjusted each year to take account of any variation in PES customer numbers. In setting targets, the Commission will take account of the volume of compensation payments made in the context of the number of customers served by PES in that year.

4.3.1 Performance Targets

The following table sets out the Commission's targets and weightings in respect of the compensation payment volumes made under each of the Charter guarantees to apply to PES for 2008 to 2010:

| PES Customer Charter Guarantees | | Percentage of 2007 compensation payments volume | | | |
|---|---------|---|------|------|------|
| Year | Weights | 2007 Targets | 2008 | 2009 | 2010 |
| The Billing Accuracy Guarantee | 15.0% | Set 2007 compensation payment volume at 100% | 95% | 90% | 85% |
| Payment Query Guarantee | 15.0% | | 95% | 90% | 85% |
| The Refund Guarantee | 14.0% | | 95% | 90% | 85% |
| The Customer Complaint Guarantee | 14.0% | | 95% | 90% | 85% |
| The Marketing Code of Conduct Guarantee | 14.0% | | 95% | 90% | 85% |
| Vulnerable Customer Guarantee | 14.0% | | 95% | 90% | 85% |
| The Billing & Payments Code of Practice Guarantee | 14.0% | | 95% | 90% | 85% |
| | 100% | | | | |
| TARGET VOLUME | | | 95% | 90% | 85% |

Note: This Mechanism will reflect the guarantees set out in the new Customer Charter which is expected to be approved by the end of quarter 2 2006.

Weightings are provided for each guarantee, which when multiplied by the compensation payment target volumes (defined as a percentage of 2007 volumes) and summed provide the overall performance *target volume* for each year. PES's actual performance is then measured against these targets.

The maximum payment paid by PES will be capped at 0.1% of PES's annual allowed revenue (adjusted for k-factors) for the years 2008 to 2010. The Commission's decision in respect of the payment to be made by the PES (in €) per 1 percentage point

deviation between actual and target performance is set out below for each year under the PCC term.

| PES Customer Charter Guarantees | | Percentage of 2007 compensation payments volume | | |
|---|-------|---|--------------|--------------|
| | | 2007 | 2008 | 2009 |
| Year | | | | |
| PCC (Penalty per % point from target) | | €10,000 | €10,000 | €10,000 |
| Allowed Revenue (€m) | | €121,378,540 | €125,062,275 | €130,468,551 |
| Max. Penalty (€m) | 0.10% | €121,379 | €125,062 | €130,469 |
| ACTUAL VOLUME at which max penalty paid | | 107% | 103% | 98% |

Note: The figures for 'Allowed Revenue' are provisional figures and for illustrative purposes only. (They will be replaced with actual figures when revenues are adjusted on an annual basis). Thus the 'Max Penalty' and the percentage scores at which the maximum penalty will be paid from 2007 onwards are also all for illustrative purposes only.

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

4.3.2 Next Steps

The Commission will engage with PES to develop and agree the monitoring & reporting structure for the PES's performance against the PES Customer Charter Incentive Mechanism.

4.4 Compensation Payments

The Commission believes that customers should be compensated where PES fails to meet the service level guarantees set out in its Customer Charter. The Commission has decided to revise the current compensation payment values to €40 (for 2006) in line with inflation (Consumer Price Index). Similar to the Customer Charter Incentive Mechanism set out 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. The revised levels of the compensation payments will be published when the new PES Customer Charter is issued.

4.5 Educating Customers

Customers need to be fully educated of the service level guarantees made by PES under the Customer Charter. To this end, the Commission will require PES to send its Customer Charter to each of its customers (perhaps via a bill insert) and to clearly publish this document (and all relevant Codes of Practice) on its website.

5 Responses and Comments Received

This Section summarises comments received and sets out the Commission's responses.

5.1 NCCC Incentive Mechanism

5.1.1 'Speed of Telephone Response' measure

5.1.1.1 Proposed Metrics

Respondents' Comments

One Respondent proposed that the TSF45 and ASA60 measures should not be included in the mechanism. They are not required and do not increase the effectiveness of the proposed NCCC Incentive Mechanism. Further, the Respondent informed, although information on performance data against multiple service level thresholds is available to the Call Centre management ex post, this data is *not* available on a real-time basis. It is therefore impossible for the Call Centre to manage multiple service level thresholds on a real-time basis. The 'Speed of Telephone Response' metric should only comprise TSF20 (including IVR) and TSF30 (excluding IVR).

Commission's Position

The Commission accepts that management cannot assess Call Centre performance, on a real-time basis, against *each* of the service level thresholds. As management will not be in a position to manage resources to respond to each of these service level thresholds, the Commission will remove TSF45 and ASA60 from the Incentive Mechanism. However, the Commission requires ESB to report on the Call Centre's performance against these service level thresholds to the Commission on an annual basis. The Commission also has decided to redefine TSF20 and ASA30 as follows:

TSF 20 (incl IVR) is the percentage of calls to the Call Centre answered (either by an Agent or IVR) within 20 seconds

TSF 30 (excl IVR) is the percentage of calls that are in a queue waiting 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

5.1.1.2 Telephone Response Targets

Respondents' Comments

One respondent suggested the following composition and targets of the 'Speed of Telephone Response' metrics:

| Amended Appendix 3 - CER Document Ref. 06/016 | | | | | | |
|---|------------------|------------|------------|------------|------------|------------|
| Speed of Tel Response | | 2006 | 2007 | 2008 | 2009 | 2010 |
| | Weighting Target | | | | | |
| TSF20 | 60% | 65% | 72% | 80% | 80% | 80% |
| TSF45 | | | | | | |
| ASA/TSF30 | 40% | 65% | 72% | 80% | 80% | 80% |
| ASA60 | | | | | | |
| Overall Target | | 65% | 72% | 80% | 80% | 80% |

The exclusion of the TSF45 and ASA60 measures results in a lower 'Overall Target'. The Respondent supported this lower 'Overall Target' by arguing that a level of 85% (from 2008 onwards) proposed by the Commission is "approaching a premium service provider level which is not realistically attainable by a utility Call Centre".

Commission's Position

The proposed targets are based directly on performance levels anticipated by ESB to be achieved by its Call Centre². For this period, the Commission approved³ 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. The Commission also approved additional funding for increased staffing levels and contractor costs for the call centre to allow ESB improve performance levels. These approvals were given on the basis of ESB PES achieving the anticipated performance levels stated in its revenue submission.

Given the redefinition of the metrics, the Commission has decided the following targets and weightings will apply to the 'Speed of Telephone Response' measure:

| Final Decision | | | | | | |
|-----------------------|-----------|------------|------------|------------|------------|------------|
| Speed of Tel Response | | 2006 | 2007 | 2008 | 2009 | 2010 |
| | Weighting | Target | | | | |
| TSF20 (incl IVR) | 50% | 65% | 72% | 80% | 80% | 80% |
| TSF30 (excl IVR) | 50% | 75% | 78% | 80% | 85% | 85% |
| Overall Target | | 70% | 75% | 80% | 83% | 83% |

These targets compare similarly with standards of call centre response times set for utilities elsewhere.

² "Price Control Proposals for ESB Customer Supply" submitted by ESB on 21st April 2005 in the context of the 2006-2010 PES Allowed Revenue Review

³ 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)

5.1.1.3 Un-predictable Spikes in Call Volumes

Respondents' Comments

One Respondent requested clarity on any allowances that would be made in setting the performance target for conditions, such as storms, that cause a spike in call volumes. The Respondent suggested that an ex post adjustment should be made to performance calculations to exclude these types of event.

Commission's Position

After further researching international Call Centre incentive schemes, the Commission is of the view that no such allowance should be made and the 'Speed of Telephone Response' targets will apply under all conditions. However, each business may, by application to the Commission, request that certain periods that exhibit extreme and exceptional storm conditions be excluded from this measure. The Commission will consider these on a case-by-case basis, however, does not expect that exclusions will be applied, or granted, for 'normal' annual storms.

5.1.2 'Abandonment Rate' measure

5.1.2.1 'Abandonment Rate' Targets

Respondents' Comments

The Abandonment Rate target of 5% proposed by the Commission, one Respondent argued, is more reflective of the performance level required from, say, a bank or similar call centre where supply outages or similar disruptions to normal service are not experienced. The Respondent proposed the following target trajectory which reflects the Commission's Speed of Telephone Response target glide-path where a target of 5% is set from 2008 onwards (illustrated on bottom row of table below):

| Year | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------|------|------|------|------|------|
| Aban Rate CER | 5% | 5% | 5% | 5% | 5% |
| Aban Rate CS | 10% | 7% | 5% | 5% | 5% |

Commission's Position

The Commission's proposed Abandonment Rate targets are based directly on Call Abandonment Rate performance level anticipated by PES to be achieved by the Call Centre. PES stated in its 2006-2010 revenue submission that it anticipated "by the end of 2006 ... [an] abandonment rate of 5% will be attained"⁴. Additional capital and operational revenue was approved, by the Commission, to allow PES achieve such performance levels. The Commission does not propose to amend its proposals.

⁴ "Price Control Proposals for ESB Customer Supply" submitted by ESB on 21st April 2005 in the context of the 2006-2010 PES Allowed Revenue Review

5.1.2.2 Unpredictable Spike in Call Volumes

Respondents' Comments

One Respondent suggested that an allowance should be made to the 'Call Abandonment Rate' target to take account of exceptional events and that ex post adjustments should be made to the target to reflect these events.

Commission's Position

For reasons similar to those outlined in Section 5.1.1.3, the 'Call Abandonment Rate' targets will apply under all conditions. However, each business may, by application to the Commission, request that certain periods that exhibit extreme and exceptional storm conditions be excluded from this measure. The Commission will consider these on a case-by-case basis, however, does not expect that exclusions will be applied, or granted, for 'normal' annual storms.

5.1.3 'Customer call-back survey' measure

5.1.3.1 80% Target

Respondents' Comments

A respondent suggested that a customer satisfaction target of 80% could not be achieved before 2008 because there is a lag between the current investment programme in the call centre (which spans 2006 to 2010) and the improvement in customer experience. Second, the expected rate of improvement over the period is out of line with other industry experience. Finally, there is a limited initial window to address areas of improvement. Experience in other industries shows that, upon receipt of customer satisfaction metrics, a period of mobilisation is required in order to refine and roll out an improvement action plan.

The Respondent proposed setting a gradual path (presented in bottom row of the table below) to a target of 80% by 2008:

| Year | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Callback - % CER | 80% | 80% | 80% | 80% | 80% |
| Callback Supply – average mean | 3.87 77% | 3.92 78% | 4.00 80% | 4.00 80% | 4.00 80% |

In addition, a respondent commented that the 80% target translates into an average response of 4 based on a satisfaction scale ranging from 1 (very dissatisfied) to 5 (very satisfied). The Respondent proposed that the 'average' or mean of the survey satisfaction scores is used to calculate ESB's performance for this measure as distinct from measures that focus on only 'very satisfied'/'satisfied' and disregard the potentially significant movement between 'neutral', 'dissatisfied' and 'very dissatisfied'.

Commission's Position

The NCCC capital investment programme, approved by the Commission, commenced in June 2005 and will be completed in December 2006. It does not span the full 5

years of the control period. Therefore, the Commission would expect any lag in improved customer experience to be minor. However, given both ESB's 'starting point' of a 75% customer satisfaction result achieved in a recent pilot survey and the resource changes that may need to be implemented to address and respond to a context of new Call Centre metrics, the Commission accepts the Respondent's revised Customer call-back survey targets.

Finally, for clarification, the average of the survey satisfaction scores will be used to calculate ESB's performance for the 'Customer call-back survey' measure.

5.1.3.2 'Professionalism' metric

Respondents' Comments

One Respondent proposed that separate assessments of the call centre agent in respect of "the politeness of the member of staff" and "their willingness to help" be replaced by one "Professionalism" metric. This Professionalism metric will include, but not be limited to, the 'politeness' and 'willingness to help' of a staff member.

Commission's Position

The Commission accepts that a "Professionalism" metric would include measures of the 'politeness' and 'willingness to help' of a staff member. However, 'Professionalism' is a broad descriptive term. It may be understood to include aspects of an Agent's performance that are not limited to disposition or manner. There is a danger that asking a caller to rate their satisfaction level in respect of an Agent's professionalism a caller may incorporate an assessment of information that is not related to an Agent's manner or disposition in their score. For example, some callers may consider provision of inaccurate information as unprofessional. Given that the 'Accuracy of information given' by an Agent is separately evaluated within the Customer Call Back Survey this aspect of an Agent's performance may be assessed twice. The specific and 'narrow' assessments of the 'politeness' and 'willingness to help' of a staff member would avoid such duplication and, the Commission believes, should therefore be retained.

5.1.3.3 "Usefulness of information given" metric

Respondents' Comments

In cases of typical calls to the Call Centre, such as a supply interruption or bill query, the Respondent explained that the information may be correct but "may not be acceptable to the customer". Therefore, "usefulness" of response may become confused with acceptability of the response to the caller. On this basis, the Respondent proposed that the "the usefulness of the information given" metric proposed by the Commission is replaced with a "Knowledge of staff member" metric which, the Respondent argued, effectively captures the underlying intent of the proposed metric without the subjective implications.

Commission’s Position

The ‘Customer call-back survey’ is designed to assess specifically a customer’s satisfaction with their call centre experience and is by definition a subjective assessment. The Commission does not agree with the proposed change. It is possible that an Agent may be highly knowledgeable but may not provide information that is useful to the customer’s specific query. In addition, the assessment of the “Knowledge of staff member” is already captured under the less subjective ‘Mystery Caller’ survey and as such including it in the Customer call-back survey would duplicate the assessment of this measure. However, the Commission appreciates the concern and will ensure the survey question is carefully posed to ensure the customer makes the distinction between ‘usefulness’ and ‘acceptability’ of the information provided.

5.1.4 ‘Mystery Caller’ measure

5.1.4.1 80% Target

Respondents’ Comments

Achieving a target of 80%, one Respondent strongly argued, was not achievable until 2010 for the same reasons put forward to support a downward revision of the “Customer call-back survey” measure under section 5.1.3.1 above. Instead the Respondent proposed setting a gradual path (presented in bottom row of the table below) to a target of 80% by 2010:

| | | | | | |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Mys Caller CER - % | 80% | 80% | 80% | 80% | 80% |
| Mys Caller Supply – average mean | 3.33 67% | 3.61 72% | 3.79 76% | 3.90 78% | 4.00 80% |

As with the Customer call-back survey measure, the same Respondent proposed that the ‘average’ or mean of the Mystery Caller scores is used to calculate ESB’s performance for this measure.

Commission’s Position

As set out above, the approved NCCC capital investment programme commenced in June 2005 and will be completed in December 2006. It does not span the full 5 years of the control period. The Commission would expect any lag in improved customer experience to be minor. However, given ESB’s ‘starting point’ of a 58% Mystery caller result achieved in a recent pilot survey, the Commission will amend the Mystery caller targets within the Incentive Mechanism as follows:

| CER Revised Targets - Final Decision | | | | | |
|--------------------------------------|---------|------|------|------|------|
| Year | 2006 | 2007 | 2008 | 2009 | 2010 |
| | Targets | | | | |
| Mystery Caller - CER Proposed | 80% | 80% | 80% | 80% | 80% |
| Mystery Caller - ESB Proposed | 67% | 72% | 76% | 78% | 78% |
| Mystery Caller - CER Revised | 67% | 72% | 75% | 80% | 80% |

Finally, the Commission notes that the average of the survey satisfaction scores will be used to calculate ESB's performance for the 'Customer call-back survey' measure.

5.1.4.2 Mystery Caller Scenarios

Respondents' Comments

One Respondent disagreed with the proposal that only the independent organisation carrying out the mystery shopping calls is "given sight of the list of customer query scenarios". This approach does not provide transparency of measurement and there is a potential that the scenarios may not provide a representative snapshot of the full set of activities at the call centre.

Commission's Position

To clarify the Commission's approach, a full list of scenarios will be drawn up by ESB and submitted to the Commission. From this list, four scenarios will be 'selected' by the Commission and executed each quarter by the independent research company. ESB will not be given sight of these "selected" scenarios.

5.1.4.3 NCCC Processes

Respondents' Comments

One Respondent pointed out the NCCC processes can change within a relatively short time period and as a result a mechanism will need to be introduced to incorporate such changes.

Commission's Position

The Commission agrees that any changes to how the Call Centre 'answers' specific scenarios must be updated immediately to the Mystery Caller survey. To the end, the Commission requires notification from ESB of any such changes as early as possible to ensure the Mystery Caller survey is accurately assessing Agent performance.

5.1.4.4 PES penalty/reward

Respondents' Comments

One Respondent was firmly of the view that a cap of 1% should be applied to allowed operating expenditure exclusive of margin and exclusive of upstream k-factors as these two elements are extraneous to PES's operating costs.

Commission's Position

The Commission does not agree with the Respondent's point of view. The maximum penalty will be capped at 1.0% and the maximum reward at 0.25% of PES Allowed Revenue (adjusted for k factors and inclusive of allowable margin) each year. The maximum level of the payment/penalty has no direct relationship the PES's costs. Rather it is linked to the benefit a customer would derive from receiving an improved level of customer service. The fact that the value of the maximum penalty/payment is calculated as a percentage the business's allowed revenue simply serves as a proxy for

a value that, in the Commission's opinion, would sufficiently incentivise ESB to improve customer service.

The Commission accepts that valuing such benefits and costs, which can be somewhat intangible, is an inexact science; however, in arriving at this value the number of customers (over 1.9 million) which PES serves was taken into account. Although at an individual customer level, the value of, for example, the cost to a customer of receiving a low level of service may be small (especially for residential customers); at an aggregate level the value is considerably larger.

5.1.4.5 DSO penalty/reward

Respondents' Comments

Another Respondent argued that the level of the DSO Incentive Mechanism penalty/reward is not appropriate for the reasons outlined directly below and should be re-considered:

- The level of the incentive/penalty is disproportionate to the total cost of the service. It is more appropriate that the incentive bears a relationship to the cost of providing the service as opposed to the total DSO allowed revenue.
- It is out of line with similar incentives which apply in other jurisdictions .
- The disparity between the amounts proposed under the PES and DSO schemes may incentivise behaviour which is not in the best interests of the customer.
- A reduction in the scale of the call centre incentive could be adopted without having any effect on the 4% cap on revenue for all incentives.
- the proposed incentives/penalties are, unlike other DSO incentives, not linked to costs incurred. Although it is difficult to determine the cost to the customer it is unlikely to be of the order of €8m.
- The scale of investment required to improve performance is very different to the scale of the incentive itself and could result in a disproportionate focus on call centre performance to the detriment of others.

Commission's Position

The Commission has decided to cap the DSO's maximum penalty at 1.0% and maximum reward at 0.25% of DSO Allowed Revenue (adjusted for k-factors) each year. This penalty/reward structure is similar to that employed by Ofgem in Great Britain and ensures that ESB is incentivised to improve customer service performance to reach the target level and that performance in excess of this level is rewarded appropriately. Performance below the target is penalised to a maximum of 1.0% of revenue, reflecting the Commission's valuation of the cost to the customer of poor performance. Performance exceeding the target is rewarded, but to a lesser extent than the maximum potential penalty, reflecting the costs and benefits of exceptional performance.

The Commission also has a number of observations to make on the points raised by the respondent. The Commission disagrees that the incentive should be proportionate to the cost of providing the service. As stated directly above, the magnitude of the payment/penalty is linked to the benefit a customer would derive from receiving an improved level of customer service. The value of the maximum penalty/payment is calculated as a proxy for a value that, in the Commission's opinion, would sufficiently incentivise ESB to improve customer service.

The Commission acknowledges the Respondent's comment that there is large difference in the magnitude of the maximum penalty/payment applicable under the PES and DSO Incentive Mechanisms. However, the Commission does not accept that such a difference will necessarily incentivise the Call Centre management to behave in such a way that "is not in the best interests of the customer". Unlike PES, the DSO is a natural monopoly and is operating in a non-competitive market. As a result, it is appropriate that the incentive to improve customer service is stronger.

5.2 PES Customer Charter Incentive Mechanism

5.2.1 Penalty Only Mechanism

Respondents' Comments

One Respondent believed the Incentive Mechanism was flawed "as it offers no reasonable inducement other than to avoid further penalties based on the percentage of base year compensation payments volume"

Commission's Position

The Commission does not accept that PES should earn payments for reducing its failure rate on particular 'guaranteed' standards of customer service. Given that one of the stated main elements of ESB Customer Supply's business strategy over the next five years is "to ensure that a quality customer service is delivered to our customers"⁵ the Commission believes an 'inducement' to improve service to their customers is not required.

5.2.2 Billing Code of Practice

Respondents' Comments

One Respondent pointed out that PES recently submitted a draft Billing Code of Practice to the Commission and the associated Charter guarantee is absent from the Customer Charter table in section 5.3.1 of the consultation paper.

Commission's Position

The PES Customer Charter Incentive Mechanism will reflect the guarantees set out in the final PES Customer Charter approved by the Commission.

⁵ *ESB Customer Supply Response to CER Consultation Paper*

5.2.3 Deriving 2006 Base-Year Volume

Respondents' Comments

Given that the new Customer Charter will not be publicly launched until May 2006, one Respondent expressed a concern in relation to how the 2006 volume target, which will be the base target for remaining years, will be derived.

Commission's Position

The Commission acknowledges the Respondent's concern that using the volume of compensation payments made over a 6 or 7-month period in 2006 to derive a volume for the full 2006 calendar year is open to inaccuracies. Therefore, the volume of payments made by PES over the 2007 calendar year will form a base level and set at 100%. The targets for 2008 to 2010 will be set in reference to this 2007 base-year level.

5.2.4 Taking Account of Customer Numbers

Respondents' Comments

The same Respondent sought clarification on how the targets for 2007 to 2010 will be adjusted to take account of any variation in PES customer numbers year on year.

Commission's Position

Targets for 2008 to 2010 are set as a percentage of the 2007 base-year volume of compensation payments. The 2007 base-year volume of compensation payments made under the Charter will be set against the number of customers served by PES in that year. That is, the volume of payments made will be divided by the number of customers served to arrive at a base level of 'compensation payments made per customer'. It is in reference to this base year *per customer* level of payments that the targets for 2008 to 2010 are set. For example, if, in 2007, 3000 compensation payments are made by PES while supplying 1.854 million customers, the base level compensation payments per customer will be $3000/1.854\text{m}$ (0.001618). The target volume of compensation payments for 2008, set at 95% of the 2007 base-year volume, would be calculated as follows:

2008 target volume = $((3000/1.854\text{m}) * (0.95)) * 2008$ forecast customer numbers

The same adjustment for customer numbers would be made in setting the target volume of 2009 and so on.

5.2.5 Implementation of Charter Incentive Mechanism

Respondents' Comments

One Respondent argued for a deferment on any decision relating to Charter incentives until early 2007 in order to allow implementation of the new customer charter "to bed in" and ensure that a proper analysis can be undertaken "to allow realistic targets to be set".

Commission's Position

As noted above, the Commission has decided the volume of payments made by PES over the 2007 calendar year will form a base level and targets for 2008 to 2010 will be set in reference to this 2007 base-year level.

5.3 Charter Compensation Payments

5.3.1 Levels of Payment

Respondents' Comments

A compensation payment of €35, one Respondent commented, is equivalent to 4.5 years allowed margin on a typical domestic customer. This is sufficient, the Respondent argued, to drive ESB PES to ensure that they meet their charter guarantees "without a further mechanism being imposed on top of it".

Commission's Position

The key question is whether this payment is high enough to incentivise PES to improve its performance. On an aggregate level, the total compensation paid out to customers during 2004 equates to 0.01% of PES's allowed revenue in that year. It is the Commission's view that this does not provide a strong incentive to reduce the failure rate on guarantees by improving level of service to customers. Further, the value of each compensation payment has not been revised upwards, over time, to take account of increases in inflation. This lessens PES's financial incentive to meet its guarantees to customers. Therefore, the Commission has decided to adjust the value of the compensation payments to €40 for 2006 in line with inflation (CPI).

5.3.2 Annual adjustment of Charter compensation payment value

Respondents' Comments

The Commission's proposal to adjust the compensation payments for inflation each year will result in additional cost for PES due to the need to update their literature, web forms and systems annually. The Respondent suggested a 2-yearly adjustment instead.

Commission's Position

The Commission accepts the Respondent's point in respect of additional costs and a 2-yearly adjustment will be made to the value of the compensation payments under the Charter.

5.3.3 Estimated Bills

Respondents' Comments

In 2005, one Respondent noted, PES received over 5 million estimated readings which equates to a rolling average of 43% per month. Given that estimated meter reads are a source of customer complaints and additional queries in bill adjustments, the Respondent urged the Commission to immediately review issues arising out of estimated reads (as outlined by the Commission in CER/05/138) as it is critical to delivering on PES's commitments under the Customer Charter.

Commission's Position

The Commission notes the respondent's concern however feels it is outside the scope of this paper.

5.3.4 Position of ELCOM

Respondents' Comments

The Commission's proposal to revise the compensation payments upwards to take account of electricity price inflation, the same Respondent commented, does not take into account the fact that "customers may take a complaint to ELCOM (or its replacement service) seeking further compensation nor indeed that customers could resort to legal action against ESB".

Commission's Position

The Commission notes the respondent's concern however feels it is outside the scope of this paper.

5.3.5 Decision on ELCOM

Respondents' Comments

A Respondent stated that there is a lack of clarity as to the future of ELCOM (which provides an arbitration service for unresolved customer disputes) and any possible replacement body. This lack of clarity could impact severely on PES and its customers, the Respondent argued, if a void develops which could result in unresolved disputes becoming more protracted with resulting possible legal action and negative publicity.

Commission's Position

As set out by legislation, the Commission currently resolves disputes referred to it by various parties (including suppliers and customers). At the same time the Commission is developing a dedicated consumer service team to deal with, amongst other matters, these types of disputes. In the meantime, ELCOM is providing an important role in dealing with consumer complaints.

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:

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

B_o 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 $j \leq t$ 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 1.00% of the PES's allowed revenue in 2006 and 2007 and limited to 1.10% for each year from 2008 to 2010. The Call Centre term is individually limited to 1.00% in respect of the maximum penalty and limited to 0.25% in respect of the maximum reward. The Customer Charter incentive is individually limited to 0.1% from 2008 to 2010.

The $INCENT_t$ variable will be defined as follows:

$$INCENT_t = (NCCC_t + CHARTER_t)$$

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 3 of this paper)

$NCCC_t$ is defined as follows:

$$NCCC_t = \text{if } (SATRAT_t < ESATRAT_t, \text{ if } (PSATRAT_t * |ESATRAT_t - SATRAT_t| > 0.01 * R_t, \text{ then } -0.01 * R_t, \text{ else } -PSATRAT_t * (ESATRAT_t - SATRAT_t)), \text{ if } (SATRAT_t > ESATRAT_t, \text{ if } (PSATRAT_t * |ESATRAT_t - SATRAT_t| > 0.0025 * R_t, \text{ then } 0.0025 * R_t, \text{ else } PSATRAT_t * (ESATRAT_t - SATRAT_t)))$$

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 4 of this paper)

$CHARTER_t$ is defined as follows (for 2008 to 2010):

$$CHARTER_t = \text{if } (PCC_t * (ACTUALVOL_t - TARGETVOL_t) > 0.001 * R_t, \text{ then } -0.001 * R_t, \text{ else } (\text{if } (ACTUALVOL_t < TARGETVOL_t, \text{ then } 0, \text{ else } PCC_t * (ACTUALVOL_t - TARGETVOL_t)))$$

where:

$TARGETVOL_t$ is the target volume of compensation payments (defined as a percentage of 2007 volumes) made under the Customer Charter in year t.

$ACTUALVOL_t$ is the actual volume of compensation payments (defined as a percentage of 2007 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 $ACTUALVOL_t$ and $TARGETVOL_t$

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:

- R_t** 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, 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.
- B₀** is the level of allowed revenues in real 2006 prices for the DSO in each year of the price control
- PCust_t** 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 R_t/Cust_t in each year t.
- FCust_t** is the Forecast Number of Connections to the system in year t
- Cust_t** 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.

FL_t 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.

L_t 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).

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 defined in table 10.4 of CER/05/138. The impact of all incentives will be limited to 4.0% 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 individual incentive terms of Customer Minutes Lost, Customer Interruptions and Losses are individually limited to 1.5% of the DSO's allowed revenue in each year. The Call Centre term is individually limited to 1.0% in respect of the maximum penalty and limited to 0.25% in respect of the maximum reward.

The variable is defined as follows:

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

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

where: F_i and A_i are as follows:

| F_{it} | A_{it} | 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.

FL_t 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.

L_t 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: ‘TSF 20 (incl IVR)’ and ‘TSF 30 (excl IVR)’ Metrics

The following sets out a more formal definition and calculation of the ‘TSF 20 (incl IVR)’ and ‘TSF 30 (excl IVR)’ metrics used in ‘Speed of Telephone Response’ measure.

As described under Section 3.1.1 of this paper, this measure comprises two separate ‘Telephone Service Factor’ (TSF) metrics of the speed of telephone response by the NCCC:

TSF 20 (incl IVR) is the percentage of calls to the Call Centre answered (either by an Agent or IVR) within 20 seconds

TSF 30 (excl IVR) is the percentage of calls that are in a queue waiting 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

These metrics are more formally defined and calculated as follows:

| Name of Metric | Metric Calculation |
|--------------------------|--|
| TSF 20 (incl IVR) | (Total number of calls answered by Agents within 20 seconds + total number of IVR calls handled) / (Total number of calls handled by Agents + total number of IVR calls handled) |
| TSF 30 (excl IVR) | (Total number of calls answered by Agents within 30 seconds) / (Total number of calls handled by Agents) |

In the context of the ESB NCCC, 'Agent handled' and 'TVR handled' calls are defined as follows:

| Type of 'handled' call | Definition | Measurement of time taken to 'handle' call |
|-------------------------------|--|---|
| 'IVR handled' call | <p>When one of NCCC contact numbers⁶ is dialled, an IVR may begin with a message to caller "Thank you for calling ESB Customer Supply/Fault and Emergency line..." and a menu of options is presented to the caller.</p> <p>The call is considered to be 'handled' by the IVR when the call does NOT default to a queue to speak to an Agent.</p> <p>For example, in respect of the Customer Supply number (372), when a caller completes an automated transaction (e.g., account balance or submit a meter reading) within the IVR or when a caller presses option to use a service that is not provided through 372 (e.g., to report a fault or emergency)⁷.</p> | <p>For the purposes of calculating the TSF20(incl IVR) metric a value of 2 seconds is given as the time to 'answer' an 'IVR handled calls'</p> |
| 'Agent handled' call | <p>A call is considered to be handled by an Agent when a call is defaulted to a queue to speak to an Agent (when the caller either selects to do so within the IVR or fails to respond to the IVR options or when an IVR menu is not presented to a caller (such as the 1850 372 757 contact number at present).</p> | <p>The clock starts when the call is first placed in a queue to speak to an Agent (i.e., 'hits' the ACD for the Agent) and stops when the call is answered by an Agent.</p> |

⁶ 1850 372 372 – ESB Customer Supply; 1850 372 999 – ESB fault and emergency line; 1850 372 757 – ESB Networks

⁷ Call that are considered to be abandoned within the IVR (and thus do not default to a queue to speak to an Agent) will not be deemed 'as handled by the IVR' and thus will not be included in this measure.

APPENDIX 4: ‘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 3.1.1 of this paper.

This measure comprises two separate ‘Telephone Service Factor’ (TSF) metrics of the speed of telephone response by the NCCC:

TSF 20 (incl IVR) is the percentage of calls to the Call Centre answered (either by an Agent or IVR) within 20 seconds

TSF 30 (excl IVR) is the percentage of calls that are in a queue waiting 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

The overall targets for the ‘Speed of Telephone Response’ measure for 2006 to 2010 (set out in Section 3.2.1 and 3.2.2) are reproduced below:

| Year | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------|------------|------------|------------|------------|------------|
| | Targets | | | | |
| Speed of Tel Response | 70% | 75% | 80% | 83% | 83% |

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 (incl IVR) | 50% | 65% | 72% | 80% | 80% | 80% |
| TSF30 (excl IVR) | 50% | 75% | 78% | 80% | 85% | 85% |
| Overall Target | | 70% | 75% | 80% | 83% | 83% |

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.