Commission for Energy Regulation

24th March 2006

Re: Quality of service Incentive Mechanisms Consultation Paper

Dear Caroline

DSO welcomes this opportunity to comment on the "Quality of service incentive mechanisms" consultation paper.

We have a number of concerns in relation to CER's proposals regarding the actual measures and targets to be adopted. We would share the concerns which are outlined by our service provider, Customer Supply in their response submitted separately to CER.

There is one major issue previously highlighted to CER by DSO which we believe still needs to be addressed, namely the level of the DSO incentive penalty/reward. DSO believes that the level as outlined in CER's 2006-2010 Price Determination and this consultation paper is not appropriate for the reasons outlined below and should be re-considered.

- The level of the incentive/penalty is disproportionate to the total cost of the service. The total cost of the service is approximately €6m p.a. however the total penalty/incentive is approximately €8.3m. This is not in line with the level of penalty/incentive that would be included in any commercial contract. The commercial inequity would make it difficult to sign off on a realistic Service Level Agreement with DSO.

- It is significantly out of line with similar incentives which apply in other jurisdictions for this type of incentive e.g. the OFGEM incentive is capped at 0.05% -> -0.125% of revenue as opposed to 1.5%.

- The large disparity between the amounts proposed under the PES and DSO schemes may incentivise behaviour by staff and management 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.

- It is more appropriate that the incentive bears a relationship to the cost of providing the service as opposed to the total DSO revenue.

- We believe that there is a fundamental difference between this incentive and other DSO incentives. System losses and CMLs/CIs are valued more closely on the cost to the customer (for example CML is related to the value of lost load). Although it is difficult to determine the cost to the customer it is unlikely to be of the order of €8m.

- Under the other incentives for CML, CI and losses the scale of investment required to improve performance is vastly different to the scale of the incentive itself. Applying a 1.5% revenue figure to the call centre incentive results in quite a different incentive given the level of the call centre costs. This could result in a disproportionate focus on call centre performance to the detriment of others.

Regards,

Siobhán Wynne
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ESB Networks