



## **Consultation on Distribution Revenue 2011-2015**

**CER/10/103**

### **ESB Networks Response**

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## 1 EXECUTIVE SUMMARY

ESB Networks (ESBN) welcomes the opportunity to respond to CER proposals contained in the Consultation paper on the 2011-2015 Distribution Revenue (CER/10/103).

Under regulation, ESBN has achieved significant cost efficiencies over the period 2000-2010, and is now comparable with the efficient operation levels of Distribution Network Operators (DNOs) in the UK.

There are a number of areas of particular concern to ESBN in CER's proposals, specifically around the Cost of Capital, and the use of HICP for adjusting revenues for inflation.

### 1.1 Opex:

ESB's forecast of operating costs was on basis of sustaining the cost reductions and efficiencies achieved in PR2 and achieving further stretching cost reductions during PR3.

CER's OPEX allowance assumes an immediate 5% reduction in payroll costs followed by a 2.5% per annum productivity improvement over the PR3 period with no increase in wages/salaries in real terms.

CER's assumptions result in an allowance for operating costs which is almost €150m lower than ESBN's forecast over the PR3 period. Excluding the cost components which are recognised as uncontrollable e.g. local authority rates, the allowed costs are 14% lower than ESB's forecasts. Given the efficiencies already delivered in PR2, this cut represents a severe challenge for ESBN especially as it is expected that service levels will be maintained and in some aspects improved.

## **1.2 Capex**

ESBN welcomes the broad approval of its capital investment programme plans following the review by SKM (CER's Engineering advisors). The approved Capex programmes will ensure the continued improvement in network condition and reliability of supply. The allowed costs are lower than ESB's forecast despite a benchmarking study indicating that ESB's unit costs compare favourably to GB unit costs for similar work. Ultimately outturn CAPEX costs will largely depend on material and contractor prices which will be influenced by economic conditions and market prices for metals etc.

## **1.3 Incentives**

ESBN broadly welcomes the proposals around incentive mechanisms. This includes the continuation and refining of existing mechanism, as well as proposals for new incentives in the areas of Worst Served Customers, Customer Satisfaction Surveys, and the Connection of Renewable Generation. This will drive ESNB to increase performance levels in these areas to the benefit of the customer.

## **1.4 Cost of Capital**

The proposed rate of return of 5% is not acceptable. ESB as asset owner is submitting a detailed response to CER on the cost of capital.

## **1.5 Use of Harmonised Index of Consumer Prices (HICP)**

ESBN notes CER's proposal to depart from the internationally accepted practice of using the Consumer Price Index (CPI) as the basis of indexation instead of the Harmonised Index of Consumer Prices (HICP). CPI is the generally accepted index in regulation for adjusting for inflation and is the most widely used by all other regulators in Ireland and elsewhere. It is unclear as to why HICP might be considered a more appropriate choice.

ESBN believes that the CER's argument that the recent volatility in CPI in a single year in the current exceptional economic conditions does not justify such a radical step. Indeed, it is inconsistent with CER's own reasoning for its introduction in the Bord Gais determination in 2007, which was explicitly on the following basis: "the inflation allowed in BGN's revenue calculations is Irish HICP which is less than the inflation of operating costs which are driven by the CPI. This incentivises BGN to make efficiencies in its operating costs as revenues are inflated at a lower rate than operating costs".

Even if one was to accept the use of HICP rather than CPI as a legitimate initiative by a regulator to incentivise cost reductions, and accepting that this is not the appropriate price inflator for ESNB costs, it would be unfair to impose this implicit cost efficiency mechanism on top of the separate, explicitly specified, cost reductions proposed by CER for ESNB. Using both mechanisms is not appropriate. ESNB would urge the CER to retain CPI as the basis of indexation in its revenue formula.

## **1.6 Conclusion**

In conclusion, CER's overall cost reduction proposals for PR3 will be very challenging to achieve. While ESNB welcomes the broad approval of the Capex programme, ESNB reiterates that a 6% rate of return is appropriate for the proposed level of investment. If the concerns around the rate of return are addressed, ESNB will then be able to focus on commencing the PR3 work programmes and delivering an excellent service - and finding further efficiencies in order to once again stay within the tight cost envelope proposed and deliver value for money for the Irish electricity customer.

## 2 INTRODUCTION

ESBN welcomes the opportunity to respond to CER's "Consultation on 2011 to 2015 distribution revenue for ESB Networks Ltd".

As part of the price review process, ESBN prepared an overview document explaining each key element of the submission. The plans for infrastructure reinforcement and maintenance as well as for customer service were set out. The Overview was published by the CER alongside the consultation paper and it follows a similar format for ease of use.

This response paper will therefore not comment on each and every area of the consultation paper, as this extra detail is available in ESBN's Overview document.

This response paper is arranged as follows:

### Section 3 – Capex and Opex

This section covers ESBN's views on CER's proposed OPEX and CAPEX allowances.

### Section 4 – Incentives

This states ESBN's overall view on the incentives proposed. More detailed points on the various incentives proposed are covered in Appendix A.

### Section 5 – Form of the Price Control

### Section 6 – Tariff Rebalancing

Headings in this document are cross referenced to the relevant section in CER's Consultation document.

### **3 PR3 – PROPOSED CAPEX AND OPEX ALLOWANCES**

This section contains ESNB's response to CER's proposals on Capex and Opex.

The efficiency targets set by CER, affecting both Capex and Opex, represent a major challenge to ESNB, bearing in mind the efficiencies that have been achieved from 2000 to the current date.

ESNB welcomes CER's approval of the overall scope and content of the network Capex programme for PR3 (excluding the new categories of expenditure). The efficient delivery of this complex suite of projects will further improve the performance of the network, to the benefit of all customers, and provide the necessary development of the electricity infrastructure to support future economic recovery.

#### **3.1 Payroll and efficiencies (Consultation Section 6.2.2)**

ESNB considers that its submission was prudent and the efficiencies in operating costs expected to come from network and IT investments were factored into the submitted costs.

CER's general efficiency and payroll proposals impact on both ESNB's Capex and Opex costs. ESNB notes that CER's allowances assume a reduction in payroll costs of 5% in 2011. Furthermore, a 2.5% year on year annual productivity improvement is assumed with no increase in wages/salaries.

The assumed year on year productivity appears to be based on a forecast by ESRI for the economy as a whole over the medium term. The same ESRI forecast projected an average increase in wages/salaries of 1.6% per annum in real terms over the medium term. In effect ESRI were forecasting a labour cost factor reduction of 0.9% per annum real terms.

ESNB considers that the 2.5% per annum reduction in labour cost/productivity improvement is extremely challenging, given the significant efficiencies already gained during PR2.

### 3.2 OPEX (Consultation Section 6)

ESBN notes the conclusion of CER's consultants that ESBN has improved its operating efficiency over the 5 years of PR2 to the point that identifying any remaining gap with DNOs in Great Britain is difficult and uncertain. This is a significant achievement during a time where costs across the Irish economy were trending upwards compared to our trading partners.

We believe the gap is, in fact, narrower than SKM's central estimate. However we are committed to further efficiency improvement within the constraint of maintaining the service quality improvements made during the last 5 years.

In its submission, ESBN sought an allowance of €1,043.3m for controllable OPEX for PR3. CERs draft determination reduces this to €896.9m, which represents an overall cut of 14.0% on the ESBN's submission. This cut of almost €150m is applied across all of the controllable OPEX categories with the cuts to planned maintenance, metering and provision of data being the most significant. The magnitude of these cuts pose ESBN an extremely testing challenge for PR3.

Planned maintenance is a major component of the Opex costs, and covers all activities associated with the on-going repair and upkeep of the distribution assets. ESBN's submission requested an allowance of €247.2 to undertake the planned maintenance activities across all network assets during PR3 and this was reduced to €198m by the CER. The allowance of €84.7m compared with a submission of €92.1m for network timber cutting is particularly disappointing given that SKM's benchmarking of this activity indicates that ESBN's costs are less than half of the GB DNO cost and ESB had already factored in further unit cost reductions in its forecasts. ESBN requests that CER reconsider this reduction.

### **3.3 Capex (Consultation Section 8)**

ESBN welcomes CER's approval of the overall scope and content of the network Capex programme for PR3.

This affirms the approach taken by ESBN in our submission where the capex programme was designed for a low-growth scenario, restricted to essential infrastructure reinforcement in order to minimise the impact on price. The content of the programme was rigorously reviewed to ensure a reduction on like-for-like expenditure when compared with PR2. ESBN welcomes SKM's endorsement of the necessity of almost all the proposed projects contained within ESBN's submission.

ESBN is disappointed that the allowed costs for the various programmes are less than ESBN's forecasts despite a benchmarking study indicating that ESB's CAPEX unit cost compare favourably with GB DNOs. However it is acknowledged that materials and contractors represent a much greater proportion of CAPEX costs. Ultimately the level of those costs will depend on economic conditions in Ireland and prices of materials on world markets.

### **3.4 Load Related Capex (Consultation Section 8.4)**

#### **3.4.1 New Connections**

In relation to the allowed unit cost for new connections, ESBN note that for scheme housing (G1), the allowed unit cost is based on 2009 costs with efficiencies. However for Non-scheme houses, the allowed unit cost is based on the 2005 unit cost, adjusted for readily identified cost factor changes relating to material and contractor prices and the mix of standard and higher capacity connections. This results in an allowed unit cost which is approximately 20% less than the unit cost currently being incurred.

Almost all non-scheme connections are in rural areas and are to one-off houses. The work required to make the connection can vary greatly depending on the proximity to existing network and other factors. In particular, changes in local authority planning practices can have an impact on the extent of new network to be built. Such changes over time are difficult to identify and quantify. ESNB believes a fairer approach would be to use 2009 actual unit costs as the starting point for the determination of allowed unit costs for PR3, especially as the unit cost benchmarking study indicated that ESNB's costs for overhead line construction are significantly lower than GB DNOs.

### 3.4.2 Generator Connections

ESNB reiterates its commitment to connecting the large numbers of generators due for completion during PR3. This delivery will be vital for national renewable energy targets to be met. Generators pay 100% of the connection capital costs and therefore do not impact on ESNB revenue allowance, ESNB welcomes the proposed introduction of an incentive mechanism for the timely delivery of generation connection projects.

### 3.4.3 Load Related Reinforcement

Despite significant expenditure on the networks over the PR1 and PR2 periods, major deficiencies in the network remain that contravene planning criteria and standards. This is due to the high load growth that occurred since the early nineties through to recent times, prior to the decline in the economy.

The investment in this area is substantial and will cover:

- 110kV : network enhancements and installation of new assets;
- 38kV : network enhancements and installation of new assets;
- MV/LV System Improvements;
- 20kV Conversion.

This programme of network reinforcements will address the breaches of the planning standards – some of the main features of the programmes include the following:

- Installation of 15 new HV Substations;
- Upgrading of 59 existing HV Substations;
- Provision of an additional 6 x 110kV and 34 x 38kV circuits;-

The delivery of the Reinforcement Capex plan will yield a number of benefits:

- Mitigation against the possibility of major outages in urban areas due to a single contingency;
- Enhancement in the security of supply in Dublin toward that afforded in other major European cities;
- Deferral of investments and costs from redistribution of load and assurance of load transfer capability following a network contingency.

As part of the 20kV Conversion project, 15,000 km of MV network will be converted to 20kV operation over PR3, bring the total length of converted MV network to 54,000 km. This programme will deliver increased capacity and improved quality of supply to rural customers, and will save energy, reducing carbon emissions and helping to defer the requirement for new generation capacity. ESNB aims to deliver these programs within the tight budget constraints proposed by CER.

### **3.5 Non Load Related Capex (Consultation Section 8.5)**

#### **3.5.1 Network Renewal Plans**

ESNB welcomes the broad acceptance by CER's advisors of the programme of network renewal and replacement. As the system and associated assets age, their condition deteriorates and thus instances of failure increase to a point where the asset poses an unacceptable level of risk to staff, members of the public or the environment. Carefully designed programs of work to maintain or replace assets are required in order to manage these risks. The PR3 network renewal programme will continue to improve the condition of the network, focussing especially on degraded components which present significant risks and whose replacement is overdue.

### 3.5.2 HV Overhead Lines, Cables and Substations

The majority of the expenditure in the HV assets will be on the HV substation equipment renewal. This includes the replacement of 5 Siemens HV substations (built in the 1920s and 1930s), and three very old HV substations supplying Dublin and Cork cities. In addition, the plans also include the replacement of poorly performing and/or environmentally damaging cables.

Overall, the various HV programs will reduce the risk of supply interruptions and increase public and employee safety.

### 3.5.3 MV Overhead Lines, Cables and Substations

ESBN notes the approval of the scope of work proposed, with the exception of some MV Cable replacement projects. For the disallowed MV Cable projects, ESBN will undertake further detailed tests to ascertain the ongoing performance of the cables and the appropriate schedule for their replacement.

As well as the replacement of poor performing cables, the MV programme also includes the cyclic refurbishment of overhead line through the annual inspection of poles on 1/9th of network and replacement where necessary.

### 3.5.4 LV Urban and LV Rural Renewal

The continuation of these work programmes will deliver improved network performance for customers on both networks. On the Urban network, the continuation of LV Overhead network refurbishment commenced in PR2 will see a further 35,000 spans refurbished in PR3. The rural network will see the completion of the refurbishment programme commenced in PR1, with the refurbishment of the final 42% of LV Rural network.

### 3.5.5 Continuity and System Control

ESBN welcomes the proposed approval of its Continuity improvement programme, which is designed to deliver reductions in the number and duration of supply interruptions largely through the addition of a various types of remotely controllable switches to the network and other improvements.

The CER's advisors have commented that previous investment in IT and communications to support control centre applications have been beneficial. ESBN will invest in the approved programmes which will enable the increased penetration of embedded generation and which will also benefit customer service through faster service response and through the provision of better information.

## 3.6 Non-Network Capex (Consultation Section 8.6)

### 3.6.1 Smart Metering and Electric Vehicles

With regard to the new areas of Smart Metering and Electric Vehicles, ESBN will work with CER to ensure that these projects are developed within an appropriate framework. ESBN's agrees with CER's approach of including a revenue allowance for Smart Metering that can be adjusted if and when the exact costs are approved.

ESBN believes that the Electric Vehicles (EV) infrastructure can be developed within the existing legislative framework. ESBN will work with CER, electricity suppliers and other stakeholders, including the Department of Communications, Energy and Natural Resources, to develop a suitable framework for EV infrastructure in Ireland.

### 3.6.2 IT systems

IT systems are a necessary and critical part of the networks business, and constantly need to be maintained and improved to allow the efficient operation of all parts of the business. The proposed approval of the IT projects put forward by ESBN is welcomed, and ESBN will continue to engage with the Commission to monitor their progress.

### **3.7 Dismantling and Line Diversions (Consultation Section 8.7)**

ESBN agrees with CER's proposal to classify Line Diversions as Capex, as is the case with Dismantling costs.

### **3.8 Sustainability & RD&D (Consultation Section 6.4.9)**

ESBN welcomes the inclusion of a budget for Sustainability and Research, Development and Demonstration (RD&D) projects over PR3. ESBN believes that RD&D will be very important in addressing the various new types of challenges that will be faced over the period, specifically with regard to the connection of renewable energy and smart networks. ESBN is confident that it can identify and deliver RD&D projects which will provide benefits to customers and contribute to the development of a low carbon energy system.

#### **4 INCENTIVES**

ESBN welcomes CER's proposals for adding to the range of incentives for PR3. The incentive mechanism has led to improved performance from ESNB in the range of areas where incentives have been in place. Expanding the scope of incentive schemes will drive ESNB to focus even more closely on those areas that CER believes deserve special attention.

The appendix to this document contains ESNB's comments and proposals on the details of the various schemes proposed.

## **5 THE FORM OF THE CONTROL**

### **5.1 Revenue Calculation – PR3 vs. PR2 modelling changes**

ESBN notes that there have been changes made in the revenue control model around the assumptions of the timings of payment. The change in the assumptions has led to a change in the calculation of the overall revenues, due to changes in the discounting treatments of different revenue line items when compared to the revenue model used for PR2.

This change in methodology has a real impact on revenue streams and financial projections, and ESBN is seeking clarification from CER on the financial calculations. The overall effect of the changes may be to reduce the overall revenue, compared to the revenue that would result had the discounting methodology used in PR2 been employed. ESBN is concerned at the lack of clarity around the financial modelling methodology. Any revenue reductions that may arise from a change in modelling assumptions require an explanation as to how equivalent cost reductions can be achieved to support such a revenue reduction.

ESBN believes any changes in calculation methodology that impact on the annual revenue stream should be brought to light at a much earlier stage, and be adjoined by a revenue impact assessment.

### **5.2 Indexation (Consultation Section 11.2.2)**

ESBN notes the CER's proposal to depart from the internationally accepted practice of using the Consumer Price Index (CPI) as the basis of indexation instead of the Harmonised Index of Consumer Prices (HICP). CPI is the generally accepted index in regulation for adjusting for inflation and is in universal use by all other regulators in Ireland and elsewhere.

We believe that the CER's argument that the recent volatility in CPI in a single year in the current exceptional economic conditions does not justify such a radical step. Further, were a case for a change to be established, the CER have mustered no arguments as to why HICP might be considered a more appropriate choice. This gap is remarkable considering the truly exceptional step this proposal represents in the world of regulation.

Use of HICP would be inconsistent with CER's reasoning for its introduction in the Bord Gais determination in 2007, which was explicitly on the following basis "the inflation allowed in BGN's revenue calculations is Irish HICP which is less than the inflation of operating costs which are driven by the CPI. This incentivises BGN to make efficiencies in its operating costs as revenues are inflated at a lower rate than operating costs"

Even if one was to accept the use of HICP rather than CPI as a legitimate initiative by a regulator to incentivise cost reductions, and accepting that this is not the appropriate price inflator for ESNB costs, it would not be sound regulatory practice to apply this implicit cost efficiency mechanism on top of the separate explicitly specified cost reductions proposed by CER for ESNB. Using both mechanisms is not appropriate.

ESNB believes the position to be straightforward. Over the medium term costs in the economy track CPI. This is generally accepted. ESNB inevitably faces these very costs in carrying out its licence obligations. CPI is the only valid index and no argument has been produced anywhere to challenge this.

ESNB would urge the CER to revert to its established price formula which uses CPI as the price index.

## **6 TARIFF REBALANCING**

### **6.1 Details regarding tariff rebalancing (Consultation Section 12.2)**

ESBN has worked closely with CER and Eirgrid to implement the Government decision, and will continue to do so. ESBN believes the implementation mechanism proposed is the most practical and will ensure that all LEU customers will benefit by a similar proportion, regardless of their connection type.

Any financing cost arising from changes in cash flows due to this mechanism will be advised to CER for addition to the allowable revenues.

## **Appendix A – INCENTIVES**

This appendix contains ESNB's comments and proposals on the various incentive mechanisms described in Section 9 – Performance & Incentives. ESNB will engage with CER to finalise the exact details and measurement metrics associated with the mechanisms that require further development after the PR3 consultation period.

### **A.1 Continuity (Consultation Section 9.1 )**

ESNB has dramatically improved the performance of the network during PR1 and PR2 in response to the CER-designed incentives for Customer Minutes Lost (CMLs) and Customer Interruptions (CIs). ESNB will continue to seek further improvements. These will be at a reduced rate as performance reaches ever higher levels. ESNB also believes that the adjustments to the CML and CI targets based on the volumes of certain types of work completed is appropriate to avoid windfall gains and undue penalties.

### **A.2 Worst Served Customer (Consultation Section 9.2**

ESNB welcomes CER's proposed agreement for a fund to improve the network performance experiences by the "Worst Served Customers". Without such a fund, ESNB cannot justify improvements to networks serving low numbers of customers, beyond any network capex programmes that may affect such networks.

ESNB looks forward to developing a clear framework with CER for proposing allowances for specific projects during PR3 that will result in improvements for worst served customers within the overall fund allowance.

### **A.3 Customer Satisfaction (Consultation Section 9.3)**

ESBN welcomes the continuation of the current metrics, with a number of additions, for customer satisfaction with the National Customer Contact Centre. During PR2 ESNB achieved excellent standards in customer satisfaction and intends to maintain such standards during PR3 within a reduced cost base.

CER has also proposed changes to this incentive mechanism:

#### **A.3.1 First Contact**

In relation to a first contact resolution (FCR) target metric, ESNB has not been systematically measuring this aspect of our activity. However ESNB records the number of calls to the Call Centre that require referrals to other parts of the business and considers this 'Call Referral Rate' to be an effective substitute measure in relation to establishing FCR rates. Calls that are not referred to other parts of the business and closed are considered as resolved during the first call, and ESNB proposes that this definition be used for this incentive mechanism. For clarity, the % will be expressed as the number of calls referred divided by the total number of agent handled calls. The current level of call referral rate is circa 15% when adjusted for storms. This has improved to this level during the PR2 period in line with the focus on contact centre improvements. ESNB proposes that the target level be set at 15% for each year of PR3, which will provide an appropriate target level. This is consistent with ESNB's intention to maintain high service levels with an extra emphasis on value for money and achieving the cost reductions proposed by the CER.

With the addition of this metric, ESNB proposes that the overall weightings for the KPIs for the Customer contact centre performance targets to be as follows:

Speed of telephone response	25%
Abandonment rate	25%
Mystery Caller	20%
Call back Survey	15%
Call Referral Rate	15%
ESATRAT (performance target)	85%

It will however be extremely challenging for ESNB to achieve a service level of over 85% for this Customer Satisfaction rating, within the lower overall opex cost envelope proposed by CER. ESNB therefore believes that with the addition of the new metric, and considering the 13% cost reductions proposed by the CER, that the appropriate dead band for rewards/penalties is over the range 82.5%-85%.

### A.3.2 Speed of Telephone Response

ESNB proposes that no changes are made to the current metric measurement for the Telephone Service Factor (TSF). This will allow the continuation of comparisons with current service levels. We believe the change proposed in the consultation will not materially affect service experienced by the customer.

ESNB also proposed that the current treatment of storm days is continued. ESNB has invested significant sums, with CER approval, in Interactive Voice Recognition (IVR) systems. The IVR is an important tool to help handle the large number of calls that occur during storm days in a satisfactory manner. Any adjustment to the recording metrics based on storm days will mean a discontinuation of comparison with PR3 performance, and will also require adjustments to the treatment of recording metrics. ESNB can provide an overview of the IVR process that occurs during storm periods to ensure that customer calls are dealt with in a satisfactory and efficient manner.

### A.3.3 RedC Survey

The RedC survey is a survey commissioned by ESNB that covers a wide range of services, and is used as a means of getting valuable customer feedback and monitoring performance across many aspects of the business.

It measures the customers' perception of the service provided by ESNB in 6 areas, listed below.

- Investigation of Voltage Complaints
- Unplanned Outages
- Planned Outage
- New Connections – Domestic Scheme
- New Connections – Non-Domestic Scheme
- New Connections – Business

The survey measures how the issue was dealt with, rather than the nature of the issue itself. For example, the survey does not measure the type or length of an outage; it measures how ESNB communicated and dealt with the customer with regard to such outages.

The survey results have improved consistently over the PR2 period, and now have reached high satisfaction levels. The latest half yearly measurement for 2007 and 2008 were as follows: 70.7%, 75.8%, 73.9%, 75.7% - an average of 74%. Service levels prior to 2007 were at a lower level, while service levels in 2009 showed further improvement on these figures, which was reflective of a particularly high level of customer service delivery in a year of sharply slowing economic activity.

ESNB intends to maintain high service levels within the reduced opex cost envelope proposed by CER for PR3. ESNB proposes an overall target level of 74%, with this target level fixed for each year of the control period.

ESBN also proposes that this incentive is given equal weight to the NCCC Customer Satisfaction weighting, and therefore proposes the use of the same value per % difference against the target, e.g. €721,000 per % deviance, with a maximum penalty/reward of €1.6m. For clarity, ESNB proposes that equal value is given to over- and under- performance against the target level.

#### **A.4 Losses (Consultation Section 9.4)**

ESBN welcomes the endorsement of ESNB's proposed approach of using average three-year results. ESNB also agrees that any loss rewards/penalties should be based on real actions taken by DSO, and not due to any measuring inaccuracies. ESNB will continue to work towards a reliable system of calculating real losses, and will also continue to factor in the real cost of losses when assessing capital programme options.

#### **A.5 Connection of Renewable Generation (Consultation Section 9.5)**

In response to the references in CER's consultation ESNB will be proposing details of an incentive for the reaching of annual targets for the connection of renewable generation.

An incentive mechanism will reflect the value of timely connections to the connecting parties, as well as the general societal and environmental benefits that result from quicker connection and operation of renewable generation.

This incentive mechanism will complement the recent proposals whereby connecting generators can choose to pay a premium on the connection charge, and in return be compensated for any delay to their stated connection date. The points made in that consultation lead to the conclusion that the new incentive mechanism should place the same value on delays against the stated target time as in the premium approach. This will ensure that ESNB faces the same incentive on all generation connections,

regardless of whether the connecting generator has chosen to pay the premium or not. While generators who pay the premium may receive payments and will have distinct entitlements ESNB will be equally rewarded or penalised for early delivery or delays on either type of project.

#### **A.6 SLA (Consultation Section 9.6)**

ESBN agrees with the principle of incentivising the SLAs as proposed by the CER, and will seek to achieve further improvements in performance to achieve and beat the targets set by CER.

#### **A.7 Limits on Overall Incentive Rewards/Penalties**

With the proposed addition of new incentive mechanisms, ESNB believes that the overall limit on rewards/penalties needs to be adjusted accordingly. Therefore to ensure that the penalty/reward incentive remains strong, ESNB proposes that the maximum value of the total reward/penalty in any one year be increased to 5% of the annual allowed revenue. This will ensure that each individual performance area will most likely face real incentives throughout the PR3 period, and not be nullified due to the maximum/minimum ceiling being reached due to the combined results of all the incentive outturns.