

## Information Note to CER on analysis of 2017 Distribution Revenue.

### Summary

Table 1 below highlights the movement between the Distribution revenue allowed by the CER in it's determination of December 2015, ESNB's 2017 revenue submission and the revised 2017 revenue as allowed by the CER. A more detailed analysis of each item is given in the following notes.

### 2017 Revenue Calculation

€m Nominal	Note	K <sub>2015</sub>	K <sub>2016</sub>	K <sub>2017</sub>	Total
<b>PR4 Allowed Revenue 2017</b>					<b>835.72</b>
<b>ESBN Submission</b>					
Higher (Lower) Customer Numbers	1	-	0.06	0.14	<b>0.20</b>
Incentives	2	4.36	-	-	<b>4.36</b>
Actual HICP higher (lower) than forecast	3	(3.92)	(21.10)	-	<b>(25.02)</b>
Actual revenue (higher) lower than forecast	4	3.73	0.0	-	<b>3.73</b>
CER Safe Electric Promotion & Public Awareness Campaign	5	-	0.35	-	<b>0.35</b>
PR3 Operational Expenditure	6	13.50	-	-	<b>13.50</b>
PR2 Clawback Error	7	1.10	-	-	<b>1.10</b>
PR3 Net Present Value Adjustment	8	1.35	-	-	<b>1.35</b>
Network Capital spend	9	(0.11)	(0.22)	(0.22)	<b>(0.55)</b>
Non-Networks Capital spend	10	0.82	1.60	1.57	<b>4.00</b>
Interest relating to under / over recovery	14	(0.06)	0.05	-	<b>(0.01)</b>
<b>ESBN Submitted K-Factors</b>		<b>20.77</b>	<b>(19.26)</b>	<b>1.50</b>	<b>3.02</b>
<b>ESBN 2017 Revenue Submission</b>					<b>838.74</b>
<b>CER Decisions</b>					
PR3 Operational Expenditure	11	(6.75)	-	-	<b>(6.75)</b>
Non-Networks Capital spend	12	(0.29)	(0.57)	(0.56)	<b>(1.41)</b>
Smart Metering Capital spend	13	-	(7.49)	(15.04)	<b>(22.52)</b>
Interest relating to under / over recovery	14	0.02	0.02	-	<b>0.04</b>
<b>CER Decision K-Factors</b>		<b>(7.02)</b>	<b>(8.03)</b>	<b>(15.59)</b>	<b>(30.65)</b>
<b>Revised 2017 Revenue Allowed</b>					<b>808.09</b>

**Table 1**

**2017 Revenue Formula Assumptions**

<b>Key Assumptions</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
HICP	0.0%	0.6%	1.7%
Euribor	0%	(0.3%)	
GWh			
2015-2017 allowed	22,498	22,801	23,018
2015-2017 forecast	22,570	23,015	23,549

**Table 2**

**ESBN Submission**

**1. Higher (Lower) Customer Numbers.**

ESBN's forecast of customer numbers are 20,500 for 2016 and 24,500 for 2017. These are higher than PR4 Determination of 17,000 for 2016 and 19,000 for 2017 and results in an adjustment of €0.20m to the 2017 revenue requirement.

**2. Incentives:**

- I. Customer Minutes Lost: The 2015 CER target for CMLs was 123.80. When adjustments for the work volumes completed were made the revised target was reduced to 112.11 CMLs. ESBN's actual out-turn was 156.06 CMLs which translates into a penalty of €10.88m
- II. Customer Interruptions: The 2015 CER target was 128.70 CIs. When adjustments for the work volumes completed were made the revised target was reduced to 124.41 CIs. ESBN's actual out-turn was 127.78 CIs which translates into a penalty of €0.71m.
- III. Customer Satisfaction: DSO is incentivised to improve and maintain the quality of the service provided to customers in the National Customer Contact Centre (NCCC). Performance is assessed in five specific measures, the results of which are then weighted to reach an aggregate performance figure. The five specific measurements are:
  - Speed of Telephone Response
  - Call Abandonment Rate
  - Mystery Caller
  - Customer Call Back Survey
  - First Contact Referral

ESBN overall weighted performance figure for 2015 was 89.8% versus a target of 85.3% resulting in a payment of €1.81m.

- IV. A RedC Customer Satisfaction Survey is carried out each month to assess customer

satisfaction with the range of services provided by DSO. In a twelve month period, a total of 5,000 independently sampled customers who have recently interacted with DSO services, are interviewed. In 2015, ESNB scored 80.1% against a CER target of 74.0%, resulting in a payment of €1.64m.

- V. SLA #14 (Meter Reading Incentives): CER published a set of Service Level Agreements (SLAs) for the provision of certain services by the DSO under its licence obligations. The SLAs include incentivised targets relating to metering. These are:
- Meters should have 1 reading per annum. In 2015, ESNB scored 97.8% against the CER target of 98.0%, resulting in no penalty payment as there is a deadband of 0.2% within which no payments are made.
  - Meters will not have back to back block estimates. In 2015, ESNB scored 99.65% against the CER target of 99.00%, resulting in a payment of €0.51m.
- VI. Losses: A basis for an incentive around system losses has been agreed however the data required to calculate the business performance is currently not readily available. In view of this, no amount has currently been included in relation to this incentive.
- VII. Capex Delivery: It was agreed with the CER in the 2014 revenue Submission that the Capex Incentive/Penalty is no longer relevant based on the original work programme and would be discontinued.

As part of the PR4 Determination a penalty amount of €12m was included for 2015. For 2015 ESNB incurred a total penalty of €7.63m. This results in an adjustment of €4.36m to 2017 revenue.

### **3. Actual HICP higher (lower) than forecast**

A forecast of 0.5% HICP for 2015 was used in the PR3 adjustment calculation included in the PR4 Determination. The actual HICP in 2015 was 0.0%. This results in a K<sub>2015</sub> decrease of €3.92m to 2017 revenue.

2016 revenue as forecast in 2015 was based on a forecast HICP of 1.7% for 2015 and 1.7% for 2016. The actual HICP in 2015 was 0.0% and the current forecast for 2016 is 0.6%. This results in a K<sub>2016</sub> decrease of €21.10m to 2017 revenue.

### **4. Actual revenue (higher) lower than forecast**

ESNB's forecasted DUOS revenue for 2015 in the PR4 Determination was €739m versus an amount of €735.3m actually collected. This resulted in €3.73m of uncollected allowed revenue in relation to 2015 being added to the 2017 revenue requirement.

### **5. CER Safe Electric Promotion & Public Awareness Campaign**

ESNB have been requested to undertake an additional advertising campaign in 2016 on

behalf of the CER – “*the Safe Electric Promotion & Public Awareness Campaign*”. The cost of the campaign is estimated at €0.35m.

#### **6. PR3 Operational Expenditure**

There was a variance between the Operational Expenditure forecast for 2015 included in the PR4 Determination and the actual outturn of €13.5m. This has been added to the 2017 Revenue requirement.

#### **7. PR2 Clawback Error**

An error was noted in the calculation of the PR2 Clawbacks / K-Factor that was included in the PR3 Determination. The correction of this error has resulted in an increase of €1.1m in the 2017 revenue requirement.

#### **8. PR3 Net Present Value Adjustment**

The Net Present Value (NPV) of the allowed revenue and the collected revenue over a price review must balance. After adjusting the PR3 allowed revenue for actual 2015 outturns an adjustment is required to ensure the NPV of the allowed and collected revenue for PR3 balances.

#### **9. Network Capital spend**

There was a variance between the forecast for 2015 included in the PR4 Determination and the actual outturn of (€3.1m) in Network Capital. This results in a decrease of (€0.55m) in the 2017 revenue requirement.

#### **10. Non-Networks Capital spend**

There was a variance between the forecast for 2015 included in the PR4 Determination and the actual outturn of €10.8m in Non Network Capital. This results in a increase of €4.00m in the 2017 revenue requirement.

### **CER DECISIONS**

#### **11. PR3 Operating Expenditure**

There was a variance between the Operational Expenditure forecast for 2015 included in the PR4 Determination and the actual outturn of €13.5m. The CER have decided to include half the variance in the Allowed revenue for 2017 with the full amount subject to further review, the format of which is to be agreed with the CER. This has resulted in a decrease of (€6.75m) to ESNB's 2017 revenue submission. Any adjustments required after further review will be made to the 2018 revenue requirement.

## **12. Non-Networks Capital Spend**

There was a variance between the forecast for 2015 included in the PR4 Determination and the actual outturn of €10.8m in Non Network Capital. The CER have decided to allow €7m of the Non Network Capital variance in the allowed revenue for 2017. This results in a decrease of (€1.41m) to ESNB's 2017 revenue submission. The Non Network Capital spend will be subject to further review, the format of which is to be agreed with the CER. Any further adjustments will be made to the 2018 revenue requirement.

## **13. Smart Metering**

The CER have decided to reverse the 2016 Capital Allowance for Smart Metering of €100.6m. This results in a decrease of (€22.52m) to the 2017 allowed revenue.

## **14. Interest**

Interest based on 2015 and 2016 Euribor of 0% and (0.3%) has been added / (subtracted) to the above adjustments.