REGULATED INDUSTRIES COMMISSION

REGULATING QUALITY OF SERVICE – Service Incentive Mechanisms

ELECTRICITY TRANSMISSION AND DISTRIBUTION SECTOR

February 2018

This document is a summary of the RIC's consultative paper on its approach to regulating quality of service for the electricity transmission and distribution sector.

Summary Document

Background

An important feature of the first price review for the **Electricity Transmission and Distribution Sector** was to clearly establish the level of performance and the quality of service standards that the Trinidad and Tobago Electricity Commission (T&TEC) was expected to meet during the control period. The service standard framework normally comprises three types of service incentive mechanisms. These being:

- Public Reporting against average performance targets;
- Guaranteed Service Level Scheme (GSS); and
- Service Incentive Scheme (inclusive of an "S-Factor").

The RIC implemented the first two mechanisms[1] but decided against adopting a Service Incentive Scheme, specifically the S-factor, for the first regulatory control period. However, the RIC also indicated that it would revisit this decision and investigate the potential benefits of the introduction of such a scheme in the future.

Purpose of Document

The purpose of the document is to set out the issues relevant to the development of a Service Incentive Scheme for the second rate review period and to discuss the potential benefits that may result from its introduction.

Responding to this Document

All persons wishing to comment on the main document available from the RIC's website at **www.ric.org.tt.** are invited to submit their comments via post, fax or e-mail to:

Executive Director
Regulated Industries Commission
Furness House – 1st & 3rd Floors
Cor. Wrightson Road and Independence Square
Port-of-Spain, Trinidad

Postal Address: P.O. Box 1001, Port-of-Spain, Trinidad

[1] The Guaranteed Service Level Scheme was implemented prior to the commencement of the first Price Review for the Electricity Transmission and Distribution Sector.

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All responses will normally be published on the RIC's website unless there are good reasons why they must remain confidential. Any requests for confidentiality must be indicated. **All responses must be submitted by March 2, 2018.**

Service Incentive Scheme

International experience has shown that while the GSS is effective in ensuring that a minimum level of service is attained, it provides little incentive for the service provider to improve beyond that threshold level. As such, other Service Incentive Mechanisms[2] may be introduced into the quality of service framework to motivate or incentivize the service provider to improve its level of service by increasing the link between service levels and revenues. These mechanisms make adjustments to revenue via either a Direct Revenue Adjustment or by adopting an 'S' factor.

Direct Revenue Adjustment	S-factor
• Rewards or penalizes the service provider by directly adjusting allowed revenue. • Based on a few key indicators. • Not captured within the pricing formula. • Less complex to implement.	• Provides a direct financial incentive to service providers. • Quality component introduced into the price cap formula. • Complex implementation. • Linked to customers' willingness to pay for incremental service improvements.

Considerations for the use of S-factor Scheme

- What form of S -factor to use? – target based or performance based.
- What is the desired performance level?

[2] Service Incentive Mechanisms include: Public Reporting Scheme (performance monitoring), Guaranteed Standard Scheme and a Service Incentive Scheme

- How often should targets be adjusted to incentivize and sustain improvements?
- How many and what types of indicators should be used? e.g. Reliability indicators, customer service indicators, quality of supply indicators.
- Will the scheme be symmetrical? That is, would penalties and rewards be applied at the same rate?
- How will risks due to revenue volatility be handled?

RIC'S Proposal

Use of a Direct Revenue Adjustment mechanism

Based on its analysis, the RIC is reluctant to introduce the S-factor scheme at this time due to the complexity associated with the implementation, but proposes the use of a Direct Revenue Adjustment mechanism.

- The targets to be considered for the Direct Revenue Adjustment mechanism will be based on two indicators:
    - the "**percentage of telephone calls responded to within 30 seconds**", and
    - the "**number of customer interruptions below a certain target level**".
- The RIC will set target levels for each year and the monetary rate to be applied to the differential between actual and target levels. The adjustment will be made year-to-year to continuously incentivize T&TEC to improve performance.
- The penalties associated with these performance indicators will be capped at a level that does not endanger the service provider's continued operation.

The RIC welcomes comments on the proposals contained in this document