

ENERGY REGULATORY COMMISSION
OF THE REPUBLIC OF MACEDONIA



***QUALITY REGULATION
AND
COMPLIANCE MONITORING***

NARUC Energy Regulatory Partnership Program

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- ▶ *IN A COMPETITIVE MARKET, COMPANIES MUST MEET CUSTOMER'S EXPECTATIONS*
 - *with regard to the quality that they are initiating as a preference; and*
 - *with regard to the price that they are willing to pay.*

- ▶ *THOSE WHO ARE NOT SUCCESSFUL AT THIS ,*
 - *will lose customers; and*
 - *will lose market shares.*

- In a *competitive market*, competition contains its own self correction performance mechanisms – either correcting poor quality or adjusting prices (providing an efficient mix of price and quality).
- In a *monopoly industry*, such as electricity or natural gas, where the main attribute is the commonality of the networks for serving customers, there are more limited choices for quality/price combination (therefore customers are very often constrained to accept the lower quality of product or service).
- *The intention of the ERC is to provide conditions which will ensure that the quality of products or services in the energy sector are adequate in meeting the needs and expectations of the customers and that the price/quality mixture is appropriate.*

WHAT CRITERIA SHOULD BE CONSIDERED FOR QUALITY REGULATION ?

➤ Important to the customer

- Determine a set of standards and indicators in each dimension of service quality important to the customers

➤ Controllable by the regulated firms

- Set of standards and indicators should be controllable by firms with regard to managing service performances and responding to a service quality

➤ Measurable by ERC

- Service quality monitoring will largely rely on data collected by the firms, because of what they will be measured by the ERC in order to define whether service performance is in line with quality regulations

WHAT DIMENSIONS OF QUALITY OF SERVICE ARE AVAILABLE ?

Different dimensions of “quality” are available to meet indicated criteria. They focus on:

- Reliability of service
- Quality of product
- Customer service

QUALITY DIMENSIONS

■ *Service reliability*

- This aspect of quality is generally measured by:

- Frequency of interruptions
- Duration of interruptions

■ *Product quality*

- Refers to quality of energy provided, or to:

- Technical and other characteristics of the product (electricity, gas, heat)

■ *Customer service*

- Refers to the quality of contact between customer and company, or to:

- Quality of transactions between companies and customer

WHAT QUALITY MEASUREMENTS WILL BE PROVIDED WITHIN DIFFERENT QUALITY DIMENSIONS ?

Quality dimensions	ELECTRICITY	GAS	HEATING
Reliability of service	Duration of interruption Number of interruptions	Time to restore supply Time needed to prevent gas escape	Time to restore supply Duration of interruption Number of interruptions
Quality of product	Voltage variations Frequency variations	Fuel consumption (heating value, gas composition) Gas pressure	Delivered water temperature Max. temperature variations
Customer service	Notice of planned interruption Telephone response time Responding to customer's written queries/complaints Appointment scheduling (time band)	Notice of planned interruption Telephone response time Response to emergencies	Telephone response time Notice of planned interruption Time to respond to claim about the quality

INSTRUMENTS (MECHANISMS) WHICH WILL BE USED FOR QUALITY REGULATION

▶ ***A wide range of mechanisms for quality regulation will be applied:***

- **GUARANTEED PERFORMANCE STANDARDS (MINIMUM STANDARDS)** – which set a minimum quality threshold to each single customer. In the case of service performance below the standard, compensation at fixed rates will be payable to the affected customers.
- **OVERALL STANDARDS (AVERAGE STANDARDS)** – which set a quality threshold as an average across all customers. These standards will not carry penalty payments in the initial period, but will be fundamentally used in promoting quality of service.
- **YARDSTICK COMPETITION** - comparative publication of quality performance between companies will be used in some cases in order to promote quality of service.

SANCTIONS

► *ERC will carefully asses what type of sanctions will be implemented in cases where service performance is below standard.*

- **Sanctions** should be applied in a manner so that the firm will have motivation to improve performance and try to operate in a manner that such occurrences will not be repeated in the future. At the same time penalty payments should have the following functions:
 - to give customers some compensation, when guaranteed standards are not met
 - to indicate to customers that commitments to quality service are effective

■ **Hierarchy of sanctions**

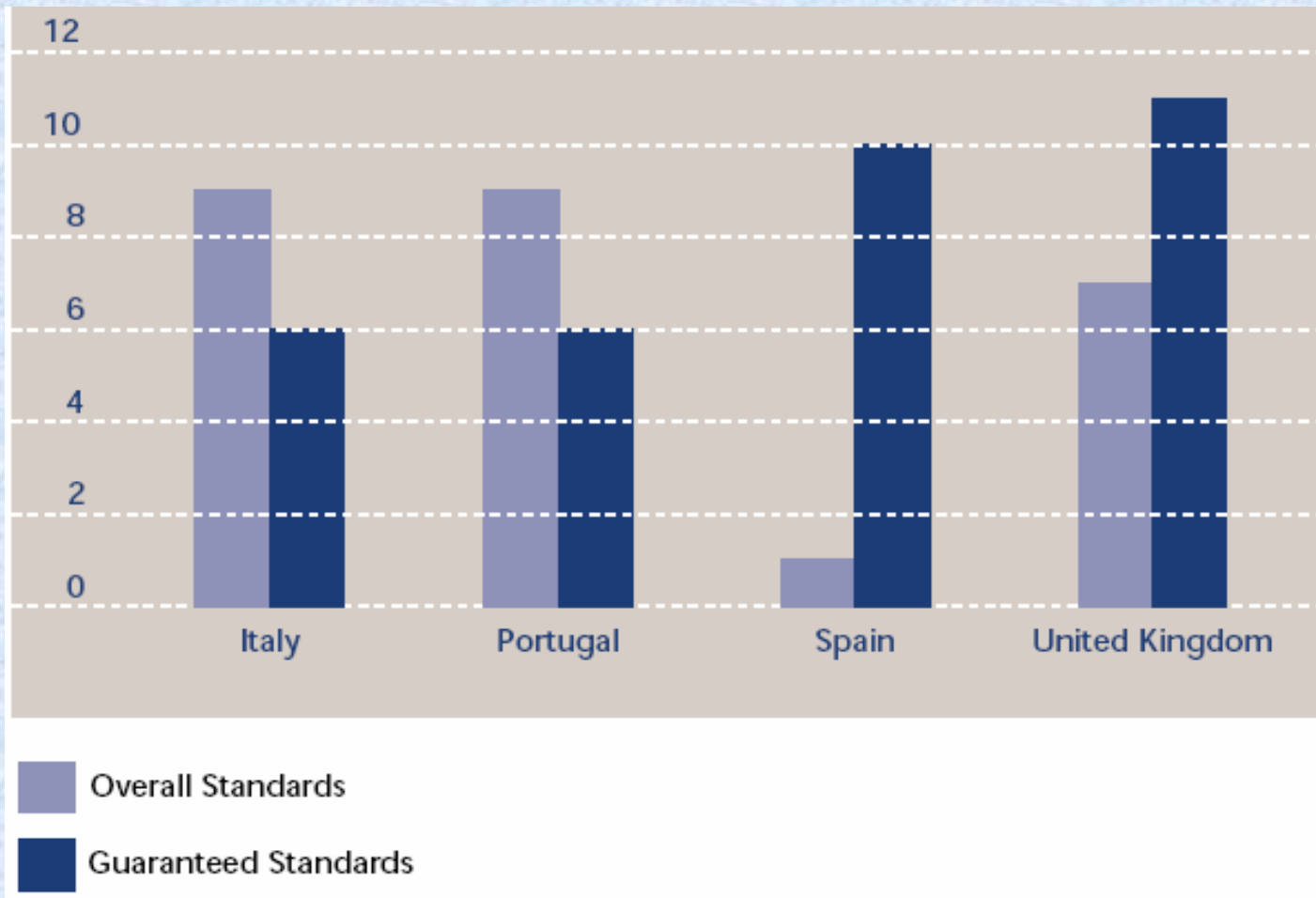
- Written warnings to companies
- Monetary fines/penalties
- License suspension/modification

■ **Monetary fines will be paid**

- To the customers
- Into a special fund

■ **Monetary fines should benefit the affected customers via compensation or tariff reduction (through price regulation)**

OVERALL AND GUARANTEED STANDARDS (INTERNATIONAL PRACTICE)



GUARANTEED STANDARDS

(INTERNATIONAL PRACTICE)

Standards	Netherlands	Italy	Spain	Portugal	UK
RELIABILITY OF SERVICE					
Max. number of interruption	Not used	Not used	12(LV) more than 3 min. each	12(LV) more than 3 min. each	3(more than 3 hrs each)
Max. duration of interruption	4 hrs	To be defined	None	4 hrs	3 hrs
CUSTOMER SERVICE					
Appointment scheduling	-	Within 3 hrs	-	Within 3hrs (15euro**)	AM or PM appointment, or timed if requested (35euro)
Notice of supply interruption	-	-	Within 24 hrs (30euro)	-	5 days notice (35euro)
Meter problems	-	-	Customers < 15 kW within 5 working days	Visit within 20 working days (15euro)	Visit within 7 days or reply with 5 days (35)
QUALITY OF PRODUCT					
Frequency	EN 50160*	EN 50160 (99,5 % of the year)	Not regulated	EN 50160	EN 50160
Voltage magnitude	EN 50160	EN 50160	22 kV; other levels not regulated	≤ 45 kV EN50160 < 45 kV; $U_c = \pm 5\%$ Un	LV & MV; $U_c = \pm 7\%$ Un > MV: n.a
Fluctuations of voltage magnitude	EN 50160	EN 50160	Not regulated	$U_c = \pm 5\%$	No explicit levels
Voltage dips	Not yet regulated	EN 50160	Not regulated	≤ 45 Kv EN 50160 >45kV: n.a	No explicit levels

*EN 50160 – EU voltage standard; ** - Compensation paid to customer

REPORTING OF QUALITY PERFORMANCE MEASURES

▶ ***ERC intends to establish a thorough and uniform data collection and reporting system. The reporting system will include:***

- Event reports upon the occurrence of significant service interruptions***
- Regular reports (yearly, quarterly, monthly)***

■ **The parameters that will be specified for regular reporting include:**

- frequency of reporting
- periodicity of reporting
- format of reporting and report details (including electronic reporting)

Ad-hoc investigations

- On the request of ERC- in cases where utilities are not responding and being managed properly.

OBJECTIVE OF COMPLIANCE MONITORING

- ▶ *TO ENSURE THAT A LICENSEE OPERATES IN ACCORDANCE WITH THE CONDITIONS OF THE LICENCE*
- ▶ *TO PROTECT THE INTERESTS OF CUSTOMERS*

■ *THE COMPLIANCE MONITORIN SYSTEM SHOULD BE:*

- *SIMPLE;*
- *EFFECTIVE;*
- *TIMELY; AND*
- *INEXPENSIVE.*

APPROACHES TO MONITORING OF COMPLIANCE

Depending on the licensees' obligations, two approaches may be applied:

▶ 1. PROACTIVE (*EX ANTE*)

- APPROACH AIMS TO AVOID LICENCE BREACHES (through asking licensees to demonstrate that they have a system / measures in place to prevent the occurrence of a breach)

▶ 2. REACTIVE (*EX POST*)

- APPROACH BASED ON THE ACTUAL PERFORMANCE OF A LICENSEE (through asking licensees to submit performance information for a given reporting period)

CLASIFICATION OF THE OBLIGATIONS OF A LICENSEE

- ▶ **1. TYPE A** – Obligations for which the compliance monitoring process involves an EX ANTE assessment (*EX ANTE compliance monitoring*) - in the cases where obligations breaches may have:
 - a severe impact on safety and customer protection, or
 - significant costs associated with correcting a breach
(*obligations related to a safety, technical and financial ability to operate, change in management and major shareholder...*)
- ▶ **2. TYPE B** – Obligations for which the compliance monitoring process involves a frequent EX POST assessment (*EX POST frequent compliance monitoring*) - in the cases where obligations breaches may have:
 - a high adverse impact on safety and customer protection, or
 - where earlier detection minimizes the costs caused by the breach, or
 - where more frequent reporting is necessary to meet the licensee's objectives
(*reliability supply obligations, market transparency, quality compliance...*)

continued...

CLASIFICATION OF THE OBLIGATIONS OF A LICENSEE

- ▶ **3. TYPE C** - Obligations for which the compliance monitoring process involves an annual EX POST assessment (*EX POST annual compliance assessment*) - in the cases where obligations breaches have:
 - a little or no adverse impact on safety and customer protection, or
 - early detection does not significantly increase the impact of the breach or the costs of its correction(*license fee, accounting requirements, legal compliance, etc.*)

REPORTING REQUIREMENTS

- **A licensee should know in advance**

- What to report
- When to report

In order to be sure that the information they are collecting through their internal compliance monitoring system is relevant and will meet reporting requirement of ERC

- **ERC will prepare a Reporting Guideline for each license , with regards to:**

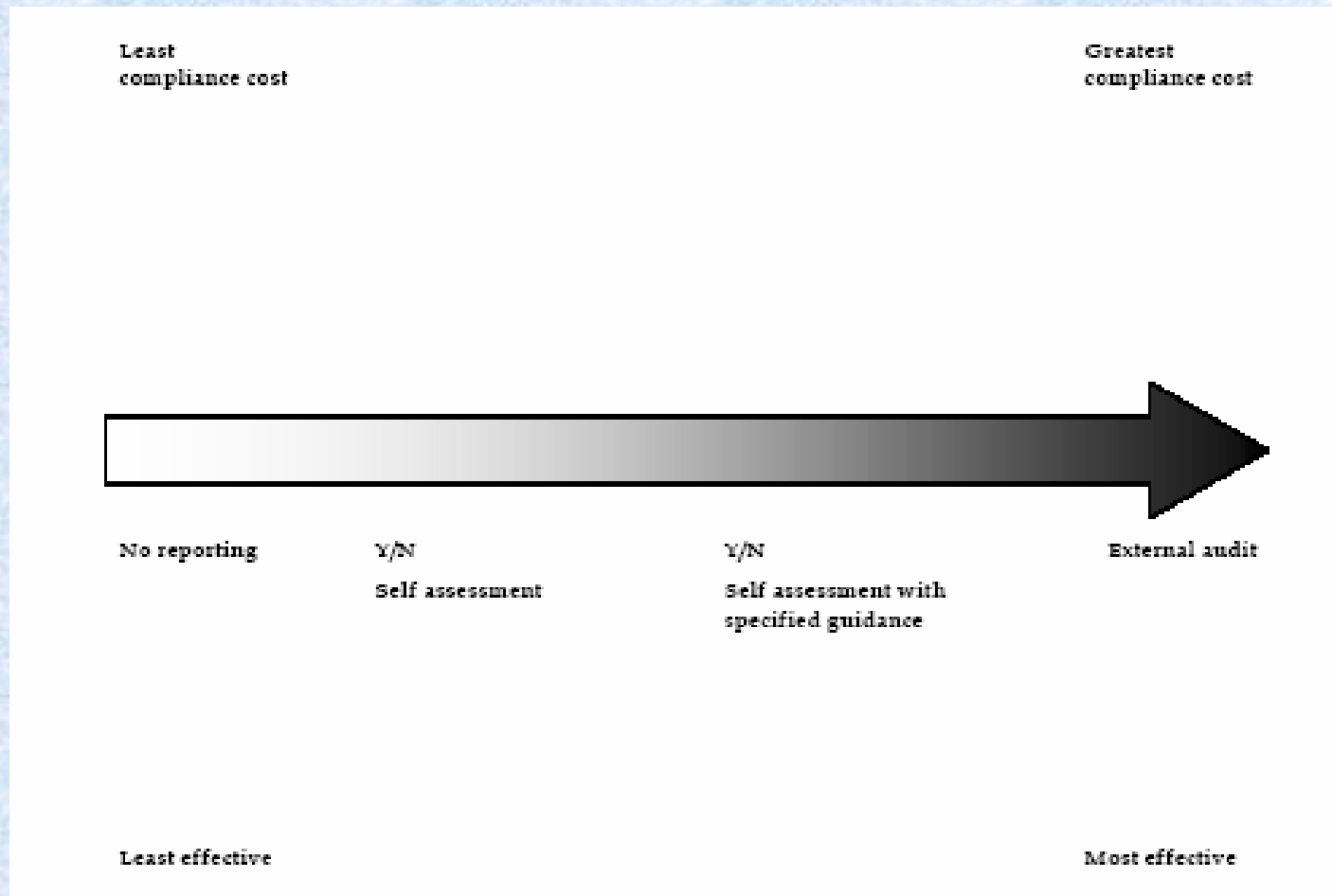
- Content of reporting, and
- Frequency of reporting

REGIMES OF COMPLIANCE REPORTING

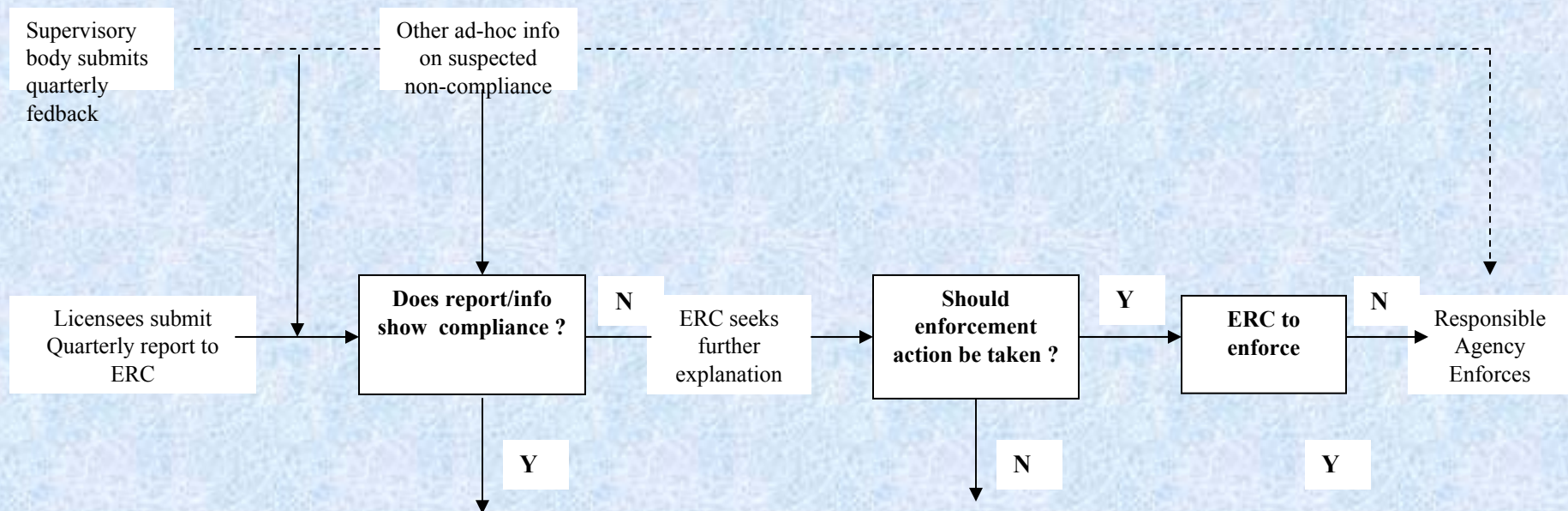
Different regimes of compliance reporting by licensees may be applied:

- ***NO REPORTING*** (by obtaining information from other bodies)
- ***SELF ASSESSMENTS*** (a licensee submits a compliance report in the form of 'yes/no' statements following self assessments)
- ***SELF ASSESSMENTS WITH GUIDANCE*** (a licensee submits a compliance report in the form of 'yes/no' statements with quantitative information for each license condition)
- ***EXTERNAL AUDIT*** (involves external party for compliance assessment)

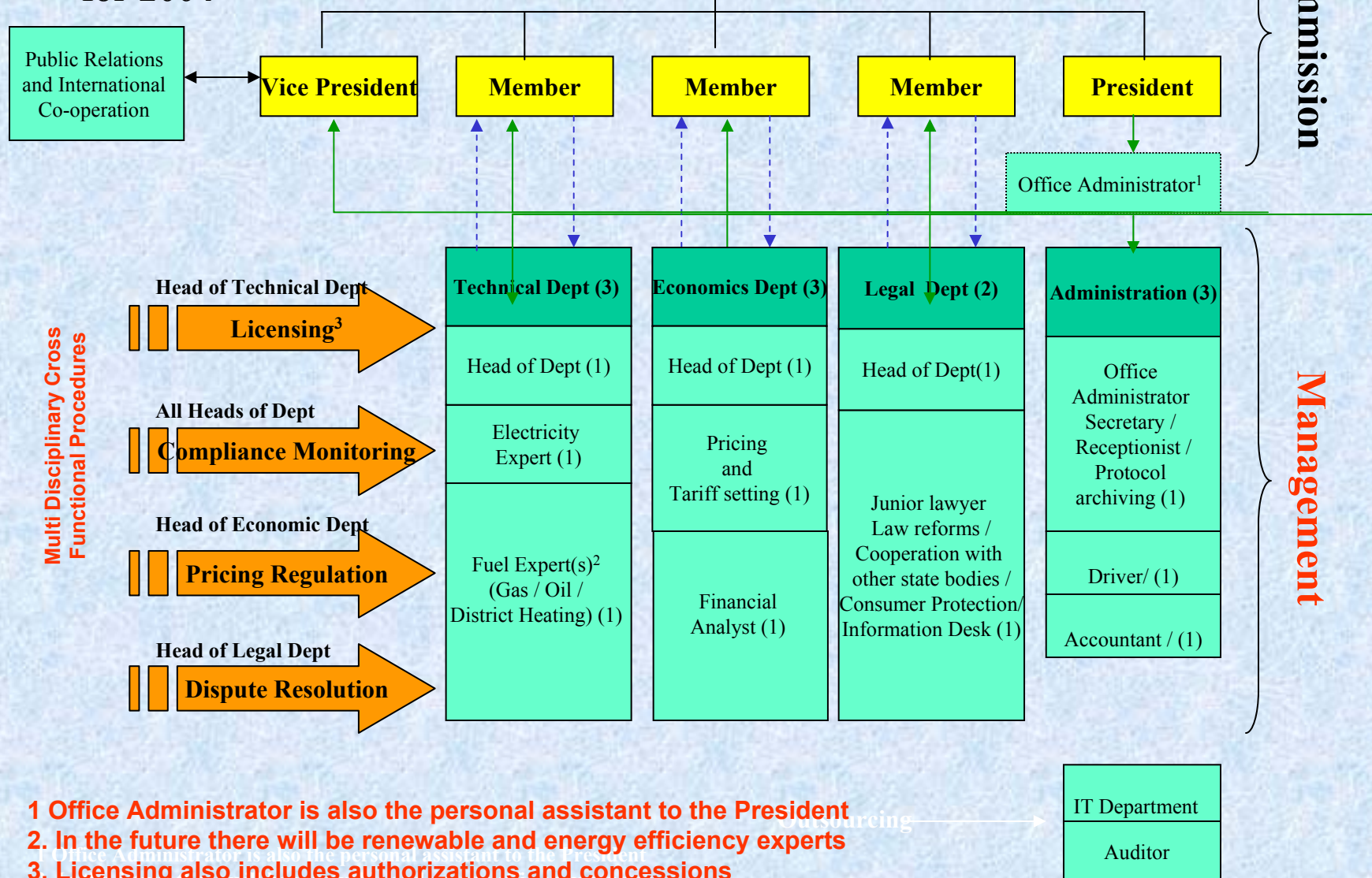
- **EFFECTIVENESS OF COMPLIANCE INCREASES WITH MOVING FROM NO REPORTING TO EXTERNAL AUDIT REGIME, CAUSING THE COST OF COMPLIANCE TO INCREASE AS WELL**



A Compliance Cycle



Structure of ERC for 2004



- 1 Office Administrator is also the personal assistant to the President
2. In the future there will be renewable and energy efficiency experts
3. Licensing also includes authorizations and concessions

3. Licensing also includes authorizations and concessions