



Networks

Report on the incentive regulation regarding the service quality of natural gas network operators and ERDF

Summary report 2011

July 2012

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The tariffs set by the French Energy Regulation Commission (CRE) for natural gas distribution system operators (DSOs), natural gas transmission system operators (TSOs) as well as for the electricity distribution system operator Électricité Réseau Distribution France (ERDF) include an incentive regulation regarding the quality of service.

This mechanism is an important element of the regulation framework implemented by the CRE to encourage operators to maintain or improve their quality of service while increasing productivity. Therefore, improving the economic efficiency of system operators would not jeopardise the quality of service provided to network users.

The CRE has defined indicators to monitor the performance of operators in several fields considered relevant to assess the quality of service. Some of these indicators, considered to have specific importance in ensuring that the market operates properly, are subject to a system of financial incentives: bonuses or penalties are given to operators depending on the attainment of objectives set by the CRE.

Other indicators, which do not carry financial incentives, complete the mechanism and ensure a broader surveillance of the operators' service quality. A financial incentive may be applied to these indicators at a later date if the CRE deems it necessary.

The quality monitoring indicators evolve based on the performance of operators and market expectations. In the gas sector, they can be updated each year of the tariff period. In the electricity sector, the indicators are set for the entire tariff period in progress, but may be updated at the next tariff revision.

Since the implementation of the service quality monitoring mechanism in 2008, the CRE has

observed a major improvement in the quality of service provided to network users, particularly in the key areas for the proper functioning of the market. For example, regarding GrDF, the rates of publication of consumption readings by the OMEGA suppliers portal were previously between 90% and 98% depending on the frequency of measures; today these rates are constantly about 99.8%. Given the very good performance of these indicators, room for improvement is very limited and therefore focus must be placed on maintaining this level of quality in the future. Moreover, the CRE has identified new means for improvement in GrDF's processes, for example concerning the relationship with end customers.

The analyses of the service quality monitoring indicators presented in this report cover the period from 1 July 2010 to 30 June 2011. They were used to inform the work conducted to develop the incentive regulation mechanism for service quality in GrDF's ATRD4⁽¹⁾ tariff. The conclusions of the report will also be used by the CRE for ERDF as part of the work on TURPE 4⁽²⁾ tariff, for natural gas local distribution companies (LDCs) to prepare their ATRD4⁽³⁾ tariff, as well as for GRTgaz and TIGF to define the future ATRT5⁽⁴⁾ tariff.

Implemented in 2009 with an initial annual follow-up report on gas network operators GrDF, GRTgaz and TIGF, the analysis of service quality integrated the electricity distributor ERDF and natural gas LDCs in 2010. This report presents a review of the service quality of the same operators and draws on a thematic approach placing

(1) A third-party access to natural gas distribution networks, scheduled to enter into effect on 1 July 2012.

(2) Tariff for the use of public electricity grids, scheduled to enter into effect during the third quarter of 2013.

(3) Entry into effect scheduled for 1 July 2013.

(4) Third-party access to natural gas transmission networks, scheduled to enter into effect on 1 April 2013.

emphasis on two essential processes for each energy:

- billing of end customers for natural gas DSOs,
- the connection of renewable energy systems for ERDF.

A cross analysis of both types of energy, introduced in the previous report, has been maintained and addressed considering the quality of the relationship between the DSOs and the end customers.

Given their importance for the proper functioning of the market, the indicators with financial incentives both in the gas and electricity sectors, are subject to a specific analysis.

Lastly, the Annex contains the definitions and results for all the indicators during the whole period of analysis.

Billing of end customers for natural gas DSOs

The quality of end customer billing is a key factor in the trust of customers in the opening of the energy market. This is a major concern for all market players: consumers, suppliers, infrastructure operators and the CRE.

The data transmitted by the natural gas DSOs show that almost one out of two claims currently received is directly related to the quality of billing, for example regarding the metering data. Therefore, it is important for the CRE to ensure that all efforts are made by the DSOs to improve their processes and tools and guarantee at all times accurate billing of end customers by their providers. This theme, which is a major component of the current service quality monitoring mechanism, may be analysed through four areas:

- the availability of the DSOs' supplier portals,
- the provision of metering data to suppliers,

- the quality of metering data transmitted to suppliers,
- the quality of management of suppliers' contract scope by DSOs.

The results are very positive for the period under analysis: the good levels already observed for the previous period are confirmed. For indicators with financial incentives, the objectives defined are regularly reached or even exceeded, generating bonuses for the operators concerned.

The detailed analysis of indicators reveals both the proper functioning of DSOs supplier portals, the good conditions under which metering data are made available to suppliers on these portals, and the very high quality of management of suppliers' contract scope by GrDF.

There is still however the possibility of improving the quality of metering data. Although the performance of the relevant indicators is good, it can still be improved.

It is this observation that led the CRE to develop the incentive mechanism regarding the quality of GrDF's service when the operator's ATRD₄ tariff was defined. This resulted in particular in the implementation of new financial incentives regarding the quality of metering data and the strengthening of the financial incentives that already exist in this field.

This proactive approach, that will also be adopted for the definition of the ATRD₄ tariff of the natural gas LDCs, contributes to the implementation of a favourable environment for the improvement of the quality of billing of natural gas end customers.

The connection of renewable energy systems for ERDF

The connection of renewable energy systems has represented one of the main challenges in terms of ERDF's service quality over the past

few years. Electricity generation facilities using renewable energy sources – in particular photovoltaic energy – have been booming since 2006 due to a particularly favourable purchase obligation regime, which has led to a significant rise in the number of grid connection requests for ERDF.

Since the end of 2009, several decisions have been taken to contain the influx of requests to benefit from the purchase obligation. In January and August 2010, two cuts in the feed-in price for photovoltaic electricity were decided. In December 2010, a moratorium on the installation of photovoltaic systems with a capacity of over 3 kVA was introduced, followed by a new decision to decrease tariffs in March 2011. In the short term, each decision to cut tariffs was preceded by an influx of connection requests, as producers had anticipated their requests in order to take advantage of better feed-in tariffs. In the longer term, since the feed-in tariffs had become less appealing, connection requests decreased. Activity therefore varied considerably over the period under review, which tested ERDF's capacity to adapt.

In order to measure ERDF's performance, the two key steps in the connection process were analysed:

- waiting time for connection offers,
- completion time for connection work.

Analysis of the results provided by the indicators available for these two steps shows that the changes in regulation affected ERDF's performance. With regard to the waiting time for connection offers, there was an increase in the number of offers that exceeded the waiting time deadline, with the highest levels occurring in the first and fourth quarters of 2010, i.e. after each influx of grid connection requests preceding the decision to reduce feed-in tariffs. As for completion time for connection work, ERDF managed to maintain a good level of performance for the simplest operations: low voltage (≤ 36 kVA) grid connection without extensions. However, the completion times for more complex connection

work, in particular, that which required extensions or grid reinforcements, were longer.

The evolution of ERDF's performance should be followed closely over the next few quarters in order to analyse the consequences of the drop in the number of connection requests on its performance after the introduction of less appealing feed-in tariffs.

Furthermore, changes to the incentive mechanisms for connections may be envisaged in the frame of TURPE 4, particularly with regard to the waiting time for connection offers and the completion time for connection work.

The quality of the relationship between the natural gas and electricity DSOs and end customers

The cross analysis of gas and electricity mainly covers the relationship between the DSOs and end customers. Even though, because of the single contract, the supplier is the end customer's main contact, some operations or situations involve a direct relationship between the DSO and the end customer. Indicators to assess the quality of the service provided to users by DSOs include:

- the number of scheduled appointments missed by the DSOs,
- the number of claims received by the DSOs,
- DSOs response rate to claims within the deadline set,
- the accessibility rate of call centres.

The results for these indicators reflect a good overall performance. However, over the period under analysis, there was a slight deterioration in some indicators, for example, an increase in the number of claims received by ERDF and GrDF.

Also of note is the particularly low number of appointments not honoured by the DSOs, giving rise to the payment of a financial compensation, compared to the total number of interventions

carried out by each operator. This result does not necessarily reflect a good performance by the DSOs, since only missed appointments for which suppliers filed a claim are recorded for this indicator. This observation led the CRE to develop the mechanism related to this indicator in the frame of GrDF's ATRD₄ tariff and base it on an automatic detection of appointments missed by the operator as from 1 July 2013. This change is also being considered for natural gas LDCs and for ERDF as part of the new distribution tariffs.

Significant differences were observed between certain gas and electricity indicators: the number of missed appointments, the number of claims and the rate of claim response within the deadline set. For the first two indicators, the differences are due partly to the fact that there are three times as many electricity clients compared to gas clients. For the last indicator, the tighter requirements in the gas sector are the main reason for the better performance achieved by ERDF.

An effort to improve the relevance of indicators relating to the quality of the relationship between DSOs and end customers will be continued in both energy sectors in order to better reflect the quality of the service offered by operators in this field.

Indicators with financial incentives: natural gas

Natural gas distribution operators

Twelve of the thirty-six indicators monitored by GrDF over the period under review have financial incentives. These indicators relate mostly to the following three fields:

- the relationship with suppliers,
- the information transmitted to TSOs,
- the metering and billing.

Excellent results were obtained over the period under analysis for these indicators, that are

essential for the proper operation of the market, generating a total bonus of €1,280 k for the operator, which breaks down as follows:

- a bonus of €1,498 k,
- penalties totalling €218 k.

The bonus obtained by GrDF was higher than for previous periods (€173 k for mid-2008 to mid-2009 and €1,099 k for mid-2009 to mid-2010). This reflects the constant improvement in the operator's performance, which is even more significant given that the objectives were gradually raised since the implementation of the service quality monitoring mechanism for GrDF on 1 July 2008.

This bonus is mainly related to the good performance of indicators concerning the metering publication rate (bonus of €380 k), the high quality of data transmission to TSOs for allocation calculations (bonus of €508 k) and the quality of management of suppliers' contract scope (bonus of €500 k).

The LDCs monitor between one (for operators to which a common tariff applies) to six indicators (for Régaz) that have financial incentives. The total bonus received by all of the LDCs over the period under analysis is €36 k, which breaks down as follows:

- a bonus of €38 k,
- penalties totalling €2 k.

The total amount (bonus or penalty) received by LDCs as part of financial incentives related to the quality of service over the period under analysis is considerably higher than the amount for the previous period. Régaz and Réseau GDS are the only two operators to have obtained bonuses (€17 k and €21 k respectively). The indicators that generated the highest bonuses for these two LDCs are the "the availability rate of the supplier portal" for Régaz (€10 k) and the "quality of readings for daily-metered customers transmitted to TSOs for daily allocations at transport distribution interface points (PITDs)" for Réseau GDS (€21 k).

Natural gas transmission operators

Since 2009, GRTgaz and TIGF have greatly improved their service quality. This improvement enabled GRTgaz and TIGF to receive bonuses in 2010 respectively in the amount of €3,880 k and €626 k. Higher goals were set for GRTgaz and led to almost a 50% decrease in the bonus between the first half of 2010 (€2,120 k) and the first half of 2011 (€997 k). As for TIGF, the raising of certain goals and the poor performance in June 2011 because of IT problems, led to a penalty of €34 k for the first half of 2011. The problem experienced by TIGF in June was quickly resolved and did not affect its performance in July.

The tariff update in April 2012 provides for a reassessment of the goals of certain indicators to take into account the recent performance of the TSOs. It also defines a financial incentive for GRTgaz for the indicator that monitors the quality of the consumption data for industrial clients connected to the transmission system, metered during the day. The next ATRT₅ tariffs, scheduled to enter into effect in April 2013, should integrate a similar indicator for TIGF and further strengthen the incentive regulation related to data made available to shippers to facilitate their balancing.

Indicators with financial incentives: electricity

Among the 21 indicators related to ERDF's quality of service, five have financial incentives:

- the number of scheduled appointments missed by ERDF,
- the rate of claim response within 30 days,
- the number of connection proposals not sent before the deadline,
- the time for transmission to RTE of half-hourly measurement charts of each balance responsible entity,
- the availability rate of the suppliers' portal.

Only the indicators related to the appointments missed by ERDF and the connection proposals sent after the deadline give rise to the direct payment of compensation to users. The financial incentive of the other indicators is paid into the expenses and revenues clawback account (CRCP). The incentive paid into the CRCP is calculated based on a calendar year.

For the period from 1 January to 31 December 2010, ERDF obtained a net bonus of €148 k. Only the indicator related to appointments missed by ERDF resulted in the payment of a penalty of €42 k. The other indicators – except the one for connection proposals which has only been monitored since 2011 – gave rise to the payment of a total bonus of €190 k, reflecting a good overall performance.



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