

Service Quality and Reliability Standards



NARUC Energy Regulatory Partnership Program

*The Energy Regulatory Commission of the Republic of Macedonia
and*

The Vermont Public Service Board

by

Randy Pratt

Vermont Public Service Board

June 21, 2004



Overview of Presentation

- ❖ Authority for setting service quality & reliability standards
- ❖ Purpose of standards
- ❖ Alternative means of setting standards
- ❖ Pros and cons of rules, generic standards, per company plans, litigated cases standards
- ❖ What to measure
- ❖ Enforcement



Authority for Regulating Service Quality

- ❖ Companies must “furnish reasonably adequate service, accommodation and facilities to the public.” (30 V.S.A. §219)
- ❖ Board has jurisdiction over “*the quality of any product furnished or sold*” by regulated companies and must ensure utility operation is “*reasonable and expedient*” and “*promote[s] the safety convenience and accommodation of the public.*” (30 V.S.A. §209)



Why Set Service Quality & Reliability Standards?

- ❖ Measurable standards give meaning to “reasonably adequate service” and thereby facilitate enforcement
- ❖ Prevent service deterioration in environment of cost-cutting pressure
- ❖ Focuses management on critical indicators
- ❖ Public accountability by publishing results of all companies on website. Companies also publicize their (good) results.
- ❖ Comparison across companies possible where standards are the same or similar



Means of Regulating Service Quality

- ❖ Statute – unusual, too specific
- ❖ Rules
 - e.g., PSB Rule 4.9 requiring electricity and reliability reporting
- ❖ Generic standards by industry
 - e.g., telephone standards in Docket 5903
- ❖ Per company service quality and reliability plans
 - 20 of 23 Vermont energy utilities have filed plans
- ❖ Litigation or negotiation of specific service quality problems or inclusion of SQ issues in rate cases



Standards Set by Formal Rulemaking

❖ Advantages

- Uniform across target industry or multiple industries
- Easily communicated

❖ Disadvantages

- Relatively inflexible for variations by company
- Relatively hard to adapt to changing conditions
- Many parties involved in adoption process so results may be less fine-tuned, weaker than other approaches

❖ Rule-making most effective for codifying well-established standards on distinct topics

- e.g., electric reliability reporting had years of collaboration between regulators and utilities in a well-defined area where national standards already existed



Standards Set by Generic Docket

- ❖ Generic docket in which all industry participants are invited as parties
- ❖ Advantages
 - Uniform within target industry
 - Relatively easy to communicate (one docket applies to all)
- ❖ Disadvantages
 - Relatively inflexible for variations by company
 - Relatively hard to adapt to changing conditions
 - Many parties may make lowest common denominator the result
- ❖ Example in Vermont is generic service quality standards and reporting for all telephone companies



Standards Set Through Individual Company Service Quality & Reliability Plans

- ❖ Plans negotiated or litigated on a company-by-company basis
- ❖ Advantages
 - Permits tailoring of standards to each company based on areas where improvement may be needed
 - Permits tailoring of measurement protocols to each company's systems reducing the need for costly system changes
 - Details of plans get down to a deeper level (data sources, measurement protocols) increasing confidence in data quality
- ❖ Disadvantages
 - Lack of uniformity unless efforts are made to develop consistency
 - Plans may need frequent amendment when companies make internal changes in systems
- ❖ Nearly all Vermont energy companies currently operate under individually negotiated service quality & reliability plans



Standards Set Through Rate Cases or Other Litigation

- ❖ Litigation of service quality problems either in the context of rate cases or as stand-alone cases. May be litigated or negotiated.
- ❖ Advantages
 - Highly targeted to specific, documented instances of poor service
 - Expedient (and efficient) means of solving specific problems
- ❖ Disadvantages
 - Most effective for narrow and specific issues rather than broad, systemic approach to general service quality
 - Generally a less collaborative approach than other models; companies may feel forced to come to the table by connection to rate issues



Deciding what to measure: principles

- ❖ Keep it simple
 - limit number of measures
- ❖ Select what is most important to consumers
- ❖ Close the back door
 - prevent improvement gained at the expense of something that isn't measured
- ❖ If possible work within existing systems of utilities to minimize costs of implementation
- ❖ Use industry accepted benchmarks where available and meaningful



Components of service quality measurement

- ❖ Performance area
 - what to measure?
- ❖ Performance threshold
 - where to set the bar?
- ❖ Sources of data:
 - what utility systems or procedures will provide the data to measure performance?



Considerations in setting performance targets

- ❖ Accepted national norms from industry groups like Edison Electric Institute
- ❖ Historical performance of individual utility
 - Where appropriate, standards can target service improvement over time
 - Cost of improving poor performance may be high and may be reflected in rates
 - Consumers don't necessarily want to pay for outstanding service. Standards are meant to guarantee "reasonably adequate" service. Utilities may have internal goals for excellence.
- ❖ Where utility is performing adequately, standards should be set to prevent deterioration



What Vermont measures

- ❖ **Customer service**
 - Customer service answer time, abandon rate, busy signals, outage call answering, blocked calls
 - Billing accuracy; timeliness of billing & payment posting
 - Meter reading limits on estimating bills
 - Field work (line extensions and other) completed as promised; length of delay when jobs are late
 - Customer satisfaction: transactional and overall measured by surveys; complaints to regulators
- ❖ **Reliability**
 - SAIFI: System Average Interruption Frequency Index
 - CAIDI: Customer average interruption duration Index
- ❖ **Worker safety**
 - Lost time incident rate: incidents causing injury
 - Lost time severity rate: number of employee days lost



Service guarantees

- ❖ Service quality & reliability plans also include service guarantees
 - Utilities must give credit or waive charges for service not delivered as promised or on time
 - Examples: \$10 payment for inaccurate bill; waiver of installation charges for missed appointment
 - Value of service guarantees is that consumer who suffered poor service gets compensated directly
 - Not all aspects of service quality are amenable to guarantees (e.g., call answering performance)



Examples of performance standards (CVPS)

- ❖ *75% of calls reach a company rep within 20 seconds*
- ❖ *99.9% of bills rendered within 7 days of scheduled billing date*
- ❖ *90% of meters read monthly*
- ❖ *95% of customer-requested work completed by promised date*
- ❖ *80% of customers satisfied or completely satisfied with utility (based on telephone survey of valid random sample)*
- ❖ *Lost time incident rate of ≈ 3.5*
- ❖ *SAIFI of ≈ 2.1 , CAIDI of ≈ 2.6*



How Vermont enforces service quality & reliability plans

- ❖ Self-reporting quarterly by utilities. Reliability reported annually. Regulators can audit any time.
- ❖ Compliance measured by 12-month rolling average to account for seasonal variation in performance
- ❖ Action plans required for severely deficient quarterly results
- ❖ 3 investor-owned utilities now have automatic penalty structure for annual results below baseline
 - Approximately .75% of annual revenue is at risk on sliding point scale.
- ❖ Waiver of penalties possible for good cause



Financial Penalties

- ❖ Investor-owned utility
 - Shareholders pay penalties
 - Service guarantees
- ❖ Publicly-owned utility
 - Service guarantees
 - Affected ratepayers compensated
 - Proposed reduction to management compensation



Other enforcement mechanisms

- ❖ Reduction in allowed return on equity
- ❖ Fines
 - Vermont law permits fines up to \$100,000 or .1% of gross VT revenue per violation
- ❖ Probation
- ❖ Imposition of performance conditions
- ❖ Revocation of Certificate of Public Good