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Office of Utilities Regulation

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# **Quality of Service Standards for Electric Utilities**

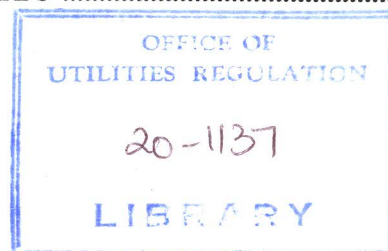
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## **A CONSULTATIVE DOCUMENT**

1999 December

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## **Abstract**

One of the responsibilities of the Office of Utilities Regulation (OUR) is to establish service standards for the utility companies. This is particularly important because the utilities do not face the normal competitive pressures that would otherwise ensure the provision of services to consumers. This document sets out specific proposals for two categories of service standards for Jamaica Public Service Company. These are guaranteed and overall service standards. The OUR has substantially completed negotiations with Jamaica Public Service Company Limited (JPS) for the introduction of guaranteed service standards which will form the basis for measuring the company's performance in respect of Quality of Service to the consumer. Failure to meet the guaranteed standards will result in JPS making a payment to the customer who has suffered a substandard level of service. A minimum compensatory payment level has not yet been agreed with JPS. However, the OUR is proposing a minimum compensatory payment of J\$200.00 and J\$1, 000.00 to residential and commercial customers respectively for failure to meet a guaranteed standard. Overall standards will be monitored as a measure of JPS' performance, but failure to satisfy the standard will not result in a penalty payment. On completion of the consultation process, the OUR proposes that the scheme for compensatory payments to consumers commence in mid 2000.

Comments from interested parties are invited on these proposals (see the next page for details).

Additional copies of this document may be obtained by contacting the OUR's library (Tel:968 6053; Fax: 929 3635). The document may also may be downloaded from the OUR's web site at <http://our.org.jm>

## **Comments from Interested Parties**

All persons who wish to express opinions on this Consultative Document are invited to submit their comments in writing to the OUR. Electronic versions of comments will also be accepted. Comments are invited on all aspects of the issues raised, but especially the specific questions identified in Chapters 2,3,4, 5 and listed together in Chapter 6. Responses to this Consultative Document should be sent by post, fax or e-mail to :-

Calvin Dixon  
P.O. Box 593  
36 Trafalgar Road,  
Kingston 10  
Fax: (876) 929 3635  
E-mail: [caldixon.our@cwjamaica.com](mailto:caldixon.our@cwjamaica.com)

Responses are requested by 2000 January 23. Any confidential information submitted should be put in a separate Annex and clearly identified. In the interest of promoting transparent debate, respondents are requested to limit their use of confidentiality markings as far as possible. Respondents are encouraged to supply their responses in electronic form so that they can be posted on the OUR 's Web site (or a link included if the respondent wishes to post his response on his own web site).

## **Comments on Responses**

As in all of the OUR's consultation periods, there will be a specific period for respondents to view other (non-confidential) responses and to make comments on them. The replies may take the form of either correcting a factual error or putting forward counter-arguments. Comments on responses are requested by 2000 February 7

Those who wish to view the responses that the OUR has received should make an appointment by contacting Granville Newell, Communications Manager, by one of the following means:-

Telephone: (876) 968 6053 (or 6057)  
Fax: (876) 929 3635  
E-mail: [granewell.our@cwjamaica.com](mailto:granewell.our@cwjamaica.com)

At the pre-arranged time the individual should visit the OUR's offices at:-

3<sup>rd</sup> Floor, PCJ Resource Centre, 36 Trafalgar Road, Kingston 10

The individual will be able to request photocopies to be made of selected responses at a price, which just reflects the cost to the OUR of its photocopying facilities. Copies may also be ordered by post by sending a cheque made payable to "Office of Utilities Regulation" (the contact above should be used to find out the correct amount).

## Timetable

The timetable for the consultation is summarized below:

Event	Date
Responses to this document	2000 January 23
Comments on Responses	2000 February 7
Statement	2000 March 31

## CHAPTER 1: INTRODUCTION

1.1 This is the second Consultative Document to be issued by the Office of Utilities Regulation (OUR) on the electricity sector. This paper seeks to provide an overview of the principles on which Jamaica Public service Company Ltd (JPSCo.) should be required to meet service quality standards. The OUR has already agreed upon a specific set of service standards with JPS. These were introduced internally by JPS in 1998 April and are currently being monitored by the company. It is proposed that in mid 2000, some or all of these standards will be converted to guaranteed standards, at which time, a scheme for compensatory payments to customers will be introduced.

1.2 The main purpose of this consultation is to:

- a) see whether there is any major objection or omission to the standards that have been agreed with JPS;
- b) firm up the provisional standards for the initial years;
- c) decide the appropriate approach to implementation including the level of compensatory payments;
- d) consider the adequacy of the review period;
- e) put forward new proposals for overall standards (which will carry no specific financial penalties);
- f) invite comments from the general public and from other interested parties, such as consumers, service providers, businesses, professionals and academics.

1.2 On completion of the consultation, the OUR will publish a Statement outlining the results of the consultation and hence, the decisions made regarding quality of service standards for the electricity sector.

1.3 Chapter 2 explains the reasons why service standards are necessary for the electricity sector and the relevant areas of service for which performance should be measured. Chapter 3 will give a detailed description of the Guaranteed Service Standards whilst Chapter 5 discusses the proposed Overall Standards.

## CHAPTER 2: REGULATION OF SERVICE QUALITY

### Background

2.1 Jamaica Public Service Company Ltd (JPS) enjoys a monopoly and is currently the sole distributor of electricity in Jamaica. At 1999 March it had a customer base of 456,506 customers. Customer service is provided through a network of 21 service centres dispersed through the Island. Its customers are categorized through its tariff structure as:

- Rate 10- Residential
- Rate 20- General Service
- Rate 40- Power Service
- Rate 50- Large Power
- Rate 60-Street Lights and Traffic Signals

2.2 The Company's Mission Statement reads as follows 'Through a highly motivated staff, provide a first-class energy service which is safe, reliable and reasonably priced, thereby achieving a high level of customer satisfaction; supporting the preservation of the environment; making a reasonable rate of return for shareholders, while being good corporate citizens'.

2.3 The Office of Utilities Regulation (OUR) has a responsibility to safeguard the interest of electricity consumers with regard to the quality of service provided by Jamaica Public Service Company. In this document the OUR is proposing a series of standards against which the company's performance in terms of quality of service will be measured (see Chapters 3,4 and 5). Also, to encourage commitment to customer service by JPS, OUR and the company have agreed on a number of customer

service standards (see chapter 4). The OUR Act of 1995 failed to provide the OUR with statutory authority over the main utility companies including JPS. This deficiency has been brought to the attention of the government but to date has not been corrected. Until this deficiency is corrected the regulator for the electricity sector will continue to be the Minister Mining of and Energy. In these circumstances the OUR will operate in an advisory capacity to the minister.

2.4 JPS is currently operating under a form of price cap embodied in a Performance Agreement with the National Investment Bank of Jamaica (NIBJ). Details of this price control are as follows:

- a) JPS computes the rates charged to its customers on the basis of a tariff structure which provides for the following:
    - i) a constant base average tariff in US\$ ;
    - ii) a base average fuel charge;
    - iii) energy cost
    - iv) applicable efficiencies in relation to heat rate and system losses;
    - v) a fuel charge adjustment to reflect changes in the actual cost of fuel; and
    - vi) an exchange adjustment to reflect changes in the base exchange rate
- NB. The average energy cost at base fuel and exchange rates is 12.50 US cents per KWh.



- b) JPS shall not make any application to the OUR for an adjustment in the said tariffs before 2000 April 1.

### Why Regulate JPS' Quality of Service

- 2.5 The majority of Jamaican consumers of electricity receive their electricity service from the Jamaica Public Service Company. The few consumers who do not depend on JPS for their electricity supplies are businesses that generate electricity for their own consumption.
- 2.6 In competitive markets, the existence of more than one provider of particular goods or services creates an incentive for the firms to supply goods and service of the highest quality. This is so because a rational consumer will not normally tolerate a poor quality of service if he / she has a choice. Given a choice, consumers will switch from a provider of poor quality to one who provides a higher quality of service, all other things being equal. In monopoly markets however, consumers have no choice and monopolists therefore do not have as great an incentive, to maintain a high quality of service.
- 2.7 When companies are subject to price controls, such as price cap regulation, problems of quality degradation can arise. This happens as the price control encourages the firm to minimize its costs. In an effort to maintain or increase its profits, a price-regulated firm may reduce operating and maintenance costs to an extent, which can lead to degradation in the quality of its outputs. This decrease in service quality manifests itself in the form of customer complaints and general public expression of dissatisfaction.

2.8 The regulator has a duty to devise methods of monitoring service quality and providing prescriptions to specific improvements in performance. Mechanisms must exist to encourage the utility to maintain high standards and where there is consistent breach, for penalties to be imposed.

2.9 Quality of service issues for the electricity sector will generally revolve around the items indicated below:

a) **Reliability of Service** – For the purposes of this discussion electric system reliability has two components: **adequacy** and **security**. Adequacy is the ability of the electric system to supply customers at all times, taking into account scheduled and unscheduled outages of system facilities. Security is the ability of the electric system to withstand sudden disturbances, such as electric short circuits or unanticipated loss of system facilities.

b) **Customer Service** – This relates to the quality of the service which is provided and the manner in which it is delivered to the consumer by the electric utility.

### Standards of Performance for Electricity

2.10 There are two types of service standards which are being proposed. These are:

- (i) guaranteed standards and
- (ii) overall standards.

**Guaranteed Standards** set service levels that must be met in each individual case. In the case of guaranteed standards the utility is required to make a

compensatory payment to the affected customer. These standards are set to guarantee a level of service which it is reasonable to expect the utility to deliver in all cases.

**Overall standards** are designed to capture those aspects of good system management that will affect all customers. Overall Standards cover areas of service where a large number of customers are affected and it is not feasible to give individual guarantees. Nevertheless, it is appropriate to assure customers in general that the company will provide predetermined minimum levels of service. While there are no direct penalties involved if JPS fails to meet an overall standard, the company still has a duty to conduct its business in such a way as can reasonably be expected to lead to its achieving the standards. The company's performance in this regard will be taken into account at price reviews. Hence, while payments to individual customers will not be made, failure to meet Overall Standards could result in lower tariff settings or a customer rebate.

**Q 2.1 Is the concept of guaranteed and overall standards an appropriate mechanism for monitoring customer service at JPS?**

**Basis for Developing the Proposed Standards**

2.11 In developing the proposed standards set out in Chapters 3, 4 and 5, the OUR has relied upon :

- i) JPS' current performance regarding customer service quality issues and

- ii) information drawn from the United Kingdom, which has a well-established scheme of customer service quality standards.

**Overall versus Guaranteed Standards**

2.12 Overall Standards relate mostly to the reliability of service, which affects a group of customers. Examples of quality service issues which the OUR has classified as falling within the overall standards category are as follows:

- Number of annual outages per customer
- percentage of line faults repaired within a given time
- number of complaints
- total customer minutes lost split between generation, transmission and distribution
- number of minutes lost per customer
- advanced notice to customers of planned outages
- system losses (technical and non-technical)
- rate of connecting new supplies
- response time for reconnections
- frequency of meter reading.

2.13 Guaranteed standards relate to the relationship between the company and the individual customer. Examples of issues considered as falling under the guaranteed standards categories are:

- connection to supply within a specified time

