



## **Annex “A”**

### **GUIDELINES FOR PREPARING INTERIM PERFORMANCE INCENTIVE SCHEMES**

**for Performance Based Revenue Applications for the  
Second Regulatory Period**

March 2, 2009

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## 1. INTRODUCTION

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Clause 4.18 of the Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities entering Performance Based Regulation (RDWR) requires the Energy Regulatory Commission (ERC) to implement a performance incentive scheme (PIS) as part of its performance based regulation (PBR) for the second regulatory period. The scheme is required to reward regulated entities for exceeding target levels of performance and penalizing regulated entities for failing to achieve target performance levels. Further the PIS must include both a price linked incentive component and a guaranteed service level (GSL) component.

Under the price linked incentive component, the maximum average price (MAP) is permitted to rise above the level indicated by the PBR approved price path if a regulated entity exceeds its target service performance level. However, should the target service performance level not be achieved, the regulated entity will be penalized in that it will not be permitted to charge the maximum prices indicated by the PBR approved price path. The magnitude of the incentive or penalty will be determined by the magnitude of the difference between the achieved performance and the target performance.

For the GSL component, the regulated entity is required to set a threshold minimum standard of service that it guarantees customers will receive. When the service provided to one or more customers falls short of the guaranteed standard of service the regulated entity must make a payment for the customers concerned.

The ERC has already issued a PIS Framework<sup>1</sup> that describes in some detail the PIS that will apply to investor owned regulated entities from the third regulatory period and it is therefore not the purpose of these Guidelines to review or describe this scheme in detail. The ERC recognises, however, that many regulated entities do not have the systems in place to allow this PIS to be fully implemented for the second regulatory period. A particular problem is that the performance indicators described in the PIS Framework have not been historically measured and it is therefore not always possible to set targets in the manner set out in the PIS framework.

Hence, for the second regulatory period the ERC will allow each regulated entity to design and establish its own simplified interim scheme. It is envisaged that this interim scheme will rely on available historical performance data and be based on performance indicators that are already able to be accurately measured by the regulated entity<sup>2</sup>. Regulated entities are required to submit details of their proposed interim PIS with their revenue applications for the second regulatory period.

Section 9.1 of the Group B Position Paper (footnote 2) states that the ERC will assess the PIS proposed by each regulated entity and will accept it for implementation during the second regulatory period if considered appropriate. If, however, the PIS is found to be inadequate then the regulated entity will be requested to revise it or to expand it, but if no satisfactory resolution is achieved in a reasonable time then the ERC will design and implement a scheme at its own discretion.

Apart from stating that interim PIS schemes must include both price linked incentive and GSL components, the Position Paper contains few details on the criteria that the ERC proposes to use in determining whether or not an interim scheme is likely to be considered appropriate. These Guidelines are therefore intended to assist regulated entities design interim PIS schemes in accordance with the ERC's requirements.

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1 *Performance Based Regulation of Privately Owned Distribution Utilities. Framework for the Performance Incentive Scheme to apply from the Third Regulatory Period (Revision 2).* Energy Regulatory Commission, March 5 2008.

2 See Section 9.1 of the Group B Position Paper: *Regulatory Reset for the October 2008 to September 2012 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based Regulation.* Energy Regulatory Commission, March 14 2007.

## 2. GENERAL REQUIREMENTS FOR INTERIM PIS SCHEMES

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As interim PIS scheme should meet the following general requirements:

- It must contain both a price linked incentive component and a GSL component.
- The total PIS should put 3% of the annual revenue requirement at risk in any one year. Of this 2.5% should normally be allocated to the price linked incentive component while 0.5% should be allocated to the GSL component<sup>3</sup>.

### *Price Linked Incentive Component*

- The price linked incentive component should include both network performance measures and service performance measures. Network performance measures relate to the technical performance and reliability of the network while service performance measures relate to the manner in which the regulated entity deals with its customers.
- Where practical, performance measures should be the same as (or similar to) the performance measures used in the ERC's PIS for the third regulatory period.
- Performance targets should be set to reflect a regulated entity's actual historic performance. This means that if a regulated entity's actual performance in a measurement year is consistent with the average performance in previous years then no incentives would be accrued and no penalties would be paid.
- Ideally performance targets should be based on at least five years' historical data. In practice this data is not always available and for the interim schemes approved by the ERC for the first entry point regulated entities, where insufficient historic data was available to allow performance targets and performance bands to be determined in the manner described in the PIS Framework, performance targets and bands were based on a more limited set of historic measurements. However, to maximise the available reliability data, the ERC expects regulated entities that will enter PBR at the third and fourth entry points to immediately commence measuring the performance indicators described in the PIS Framework.

### *GSL Component*

- The GSL component should be designed so that the total forecast payment based on historic customer service levels equals 0.5% of the average annual revenue requirement<sup>4</sup>.
- In designing the GSL component a balance needs to be struck between the guaranteed level of service and the amount of each individual payout<sup>5</sup>. The ERC will only approve a payout level that it considers sufficient to be meaningful to a poorer residential customer but at the same time not excessive. As a guide, a payout between PhP 80 and PhP 150 would normally be considered reasonable.

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3 After calculating the annual allowed revenue, the ERC will increase this by 0.5% to fund the GSL scheme and ensure that it remains revenue neutral. GSL payments in excess of 0.5% of annual revenue would however be funded by the regulated entity itself.

4 This does not imply that the funds must be spent on customer payment. A regulated entity may use the funding to improve its performance in comparison to historic levels in order to reduce the total payout to customers.

5 If the guaranteed level of service is high, there will potentially be a large number of payouts. Hence the size of each payout must be low to keep within the 0.5% cap. Conversely, if the guaranteed level of service is low there will be fewer payouts but each individual payout will be higher.

- For the interim PIS approved by the ERC for the first entry point regulated entities, like the price linked incentive component, the ERC favored an interim GSL component that replicates to the extent possible the GSL scheme set out in the PIS Framework. Hence, regulated entities that will enter PBR at the third and fourth entry points should immediately commence measuring the GSL performance indicators described in the PIS Framework.
- The ERC requires that a regulated entity proactively identify and notify customers entitled to a GSL payment. Regulated entities are not permitted to require that a customer make an application before a payment is made. [Payments can be made as cash, or as a credit on electricity accounts wherein payment should apply immediately after GSL breaches have occurred, however for cumulative indices payments shall be done at end of the year.](#)

### 3. PRICE LINKED INCENTIVE COMPONENT

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#### 3.1 NETWORK PERFORMANCE INDICATORS

##### 3.1.1 SAIFI, CAIDI

The ERC expects all regulated entities to be able to measure distribution reliability in accordance with Section 3.3 of the Distribution Code. Hence it is expected that the sustained system average interruption frequency index (SAIFI) and customer average interruption duration index (CAIDI) will be included in interim performance incentive schemes<sup>6</sup>. In order to measure SAIFI and CAIDI regulated entities must, as a minimum, monitor the occurrence and duration of all unplanned trips of zone substation feeder circuit breakers and must also record the number of customers connected to each feeder.

The guidelines below relate to the basic measurement of reliability for an interim scheme.

- As a minimum requirement for the interim PIS, all total feeder outages need to be considered. The ERC however encourages regulated entities, where practicable, to take a more sophisticated approach to the measurement of outages. Enhancements could include the measurement and inclusion of outages affecting a major feeder lateral and also recognition of the partial restoration of supply by back feeding through a normally open interconnection with an adjacent feeder.
- Feeder outages with duration of five minutes or less may be ignored as these shorter outages are classified as momentary by the ERC<sup>7</sup>.
- Outages during excluded events, as described in Section 2.1.6 of the PIS Framework should not be included. However, the exclusion of outages under this criterion requires the prior application and approval of the ERC.

The main difficulty likely to be experienced by regulated entities in the use of SAIFI and CAIDI as performance indicators in a price linked incentive scheme is the availability of accurate historic data for the establishment of targets and performance bands. At least five data points are necessary before a standard deviation can be calculated from the data set. If insufficient data is available, two approaches to dealing with this problem are suggested.

- It may be possible to retrospectively estimate the network SAIFI and CAIDI if the tripping and reclosure of feeder circuit breakers has been accurately recorded in the past. If the number of affected customers is not known, then the historic indicators could be estimated using the current number of customers on each feeder<sup>8</sup>, although adjustments will be necessary if there have been material changes to the normal operating configuration of the network over the historic measurement period. It may be possible to estimate the impact of these adjustments without introducing major errors into the analysis. While the PIS Framework requires targets to be set on the basis of data measured over a four-year historic period and performance bands to be set on the basis of data covering a ten-year historic period, the ERC is likely to agree to data being based on measurements over shorter periods, should that be all that is available.

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6 Exceptions may be made where regulated entities have not historically measured SAIFI and CAIDI but have historic data available on an alternative measure of network reliability.

7 Momentary interruptions will still need to be recorded for the reporting of MAIFI under the ERC's information disclosure regime.

8 If there has been no significant network reconfiguration or material change in the relative number of customers on each feeder, this will not cause a major error as customer numbers are used in both the numerator and denominator of the analysis.

- If historic data on feeder outages is not available then measurement of monthly SAIFI and CAIDI should commence immediately. By the time the revenue applications for the Group C regulated utilities are submitted, sufficient data points would be available to allow targets and performance bands based on monthly data to be derived. Under such a scheme one twelfth of the weighted annual allowed revenue for each performance indicator could be at risk each month.

Once source of error in this approach could be a failure to adjust the historic data to allow for the impact of excluded events. However, if one or more data points show a reliability significantly worse than indicated by the other points in the data set, the ERC is likely to assume that this is due to the impact of one or more extreme events and require these data points to be treated as outliers and either to be omitted from the data set or to be replaced with a data point more representative of the rest of the data.

### 3.1.2 Planned SAIDI

Inclusion of planned SAIDI in the interim performance incentive scheme may be difficult for some regulated entities if historic data on planned outages is not available, since measurements of planned interruptions over a short time period may not produce data that is sufficiently reliable to be used for setting targets and performance bands even for a price linked incentive scheme<sup>9</sup>.

Planned outages impacting a full distribution feeder may be relatively rare where it is possible to ensure that supply to part of a feeder is maintained during the outage, due either to the ability to maintain supply between the zone substation and a disconnecter closer to the location where work is being undertaken, or to the ability to back feed part of a feeder from an adjacent feeder by closing a normally open interconnection. In order to be meaningful, the planned SAIDI performance indicator should capture all planned outages impacting the high voltage distribution network, including transformer outages. Planned outages impacting only the secondary network need not be included (unless all customers supplied from a single distribution transformer are affected) if these outages would not normally have a material impact on planned SAIDI.

If regulated entities do not have reliable historic data on planned outages, this performance indicator need not be included in the interim PIS. However regulated entities should put processes in place to capture the data that will be needed to allow this performance indicator to be used for the PIS in the third regulatory period.

This will involve:

- Recording each planned outage. The records should include (i) the date and start time of each outage, (ii) the duration of the outage and (iii) the section of the distribution network affected.
- Recording the number of customers affected by each outage. The ability of a regulated entity to determine this accurately will depend on the quality of its information systems, but it is envisaged that most regulated entities should be able to estimate the number of customers affected by each outage reasonably accurately using customer metering data, if a more accurate information system is not yet available. Even if such estimates are necessary initially, all regulated entities should put systems in place to measure and record the number of customers affected by any planned outage so that historic data is available to allow this performance indicator to be included in the PIS for the third regulatory period.

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<sup>9</sup> One issue is whether the number of planned outages over a short time period is likely to be sufficient to be used as the basis for an interim scheme. A further issue is whether the pattern of outages over a short period is likely to be representative of the pattern that will be experienced over the second regulatory period.

### 3.1.3 Voltage Regulation

The voltage regulation performance indicator is described in Section A2.4 of the PIS framework document. The measurement of voltage regulation performance involves taking a minimum of 97 random measurements a month of its secondary voltage level at different parts of the network and at different network loadings. Because of the large number of measurements, a statistically valid data set can be established relatively quickly. This should allow all regulated entities to include a voltage regulation performance indicator in their interim price linked incentive schemes.

Regulated entities should therefore immediately establish a voltage measuring program in order to develop a historic data set of voltage measurements. This will allow a performance target (expressed as a probability of voltage violation) and performance bands to be set based on the actual historic network performance.

To set up a voltage measuring program the regulated entity should establish 100 different low voltage measuring points on its network. The measuring points should be chosen to include (i) a range of feeders and feeder types (rural, urban, residential, commercial) and (ii) a range of different locations on each feeder. Some measuring points should be close to the zone substation supplying the feeders, some should be mid-way along the feeders or close to the electrical load center and some should be at the end of the different feeders. The voltage at each measuring point should be read every month. However the time of the day when readings are taken should vary – on some months the voltage should be read at times of peak load while on other months readings should be taken over periods of low load.

Regulated entities may vary the measurement positions over time, or may use fixed measurement points, where readings are taken at different parts of the load cycle. Fixed measurement points must however be sufficiently dispersed throughout the network to ensure that a truly representative sample of voltage levels across the network is obtained.

It is not necessary to use a voltage recorder or other sophisticated measuring instrument to take the measurements. A simple hand held voltmeter that provides a true RMS reading will suffice. As a long duration voltage measurement is needed, at least five voltage readings should be taken at 15 second intervals and the average of the five readings should be used. For each voltage measurement, it is necessary to record the time and date of the reading, the position where the reading was taken, the long-duration voltage level recorded, and the identity of the person taking the reading.

For most regulated entities it will be sufficient to take only one set of 97 monthly measurements for its whole distribution network. However, for larger entities, or those operating networks that have largely differing operating characteristics, it will be necessary to expand on the number of monthly measurement taken or to report separately on the voltage regulation for different parts of its network.

In establishing a voltage measuring program, three other points should be noted:

- The Philippines Distribution Code does not prescribe a standard nominal voltage. However clause 3.2.3 of the Distribution Code requires that the long duration voltage<sup>10</sup> at each connection point should be no higher than 110% and no lower than 90% of the nominal voltage. For the purposes of the performance incentive scheme the ERC will consider the nominal phase-to-earth voltage to be 231 volts<sup>11</sup>, unless a regulated entity can provide compelling evidence that another voltage level should be used.
- Readings taken at a time when the transmission supply voltage supplying the feeder is outside the limits allowed by the Grid Code may be normalized (or

10 A long duration voltage is defined as lasting more than one minute and is the voltage to be measured for this performance indicator.

11 Equivalent to 400 volts phase to phase.

corrected). Clause 3.2.3.4 of the Grid Code requires the long duration nominal voltage at any connection point to be between 95% and 105% of nominal. Hence if the transmission supply voltage is frequently outside these limits then a regulated entity may want to check that any voltage reading outside the regulatory limits is not the consequence of a transmission supply voltage deviation. This may mean installing a voltage recorder at points of connection to the grid.

- Section A2.4 of the PIS Framework requires that, where a reading is found to be out of limits because of a transmission supply voltage deviation, the reading must not be ignored but should be normalized for the transmission voltage fluctuation. However the PIS Framework does not specify a normalization algorithm. It is suggested that, where a normalization correction is required, the regulated entity should correct its reading by the percentage that the transmission voltage was outside its allowed envelope at the time the reading was taken. Hence a reading taken at a time when the transmission voltage was 110% of nominal may be reduced by 5% (since a transmission voltage of 105% of nominal is within allowed limits).

### 3.1.4 System Loss

All regulated entities have data on system losses and the ERC will therefore expect the system losses performance indicator to be included in all interim price linked performance incentive schemes. Two points should be noted:

- The formula for calculating system losses is given in Section A2.5 of the PIS Framework [purposes](#)<sup>12</sup>.
- The target level of losses should be based on a regulated entity's actual historic losses rather than the maximum level of losses allowed by the ERC for rate setting purposes<sup>13</sup>. The PIS Framework does not specify the basis on which the target level of losses is determined but it is suggested that it be the average annual losses over the past five years. These historic annual losses should be calculated using the formula in Section A2.5 of the PIS Framework

## 3.2 SERVICE PERFORMANCE MEASURES

### 3.2.1 Time to Process Service Applications

A service application is an application by a customer for the provision of a distribution service that cannot be immediately satisfied at the time the application is made. The measurement is intended to apply to any valid customer request, excluding applications for new service connections, or re-connection of services. This would include, for example, a customer initiated meter test, investigation of a low voltage complaint or repair of a streetlight (where this is the responsibility of a regulated entity).

Measurement of the time to process service applications requires regulated entities to have a system in place whereby the day that a service application is made is recorded, as is the day that any required action has been fully completed. All service applications should be logged together with their initiating and completion dates, and performance can be measured from an analysis of this log.

The PIS Framework does not provide a fully prescriptive definition of a "service application". Discretion may sometimes be required as to whether or not a particular

12 To be consistent with ERC Resolution No. 17, Series of 2008 "A Resolution Adopting a New System Loss Cap for Distribution Utilities"

13 If the historical losses are higher than the current system loss cap, the ERC may still decide to set the target level of losses at the current system loss cap for its final determination on the price control arrangements for a regulated entity.

application should be included in the log and regulated entities are expected to act with integrity on this matter.

There is also a “stop the clock” provision in the PIS Framework, whereby delays outside the control of the regulated entity, such as when access to a site is prevented, need not be counted. The service application management and measuring system should be designed to accommodate this and, again, the ERC expects regulated entities to act with integrity when taking advantage of this provision.

The PIS Framework provides for performance targets and performance bands to be determined on the basis of historic data measured over a four year period. However, for the interim price linked incentive scheme the ERC is likely to accept performance targets and bands measured over a shorter historic period. Regulated entities entering PBR at the third and fourth entry points should therefore design and implement a service application management and measuring system as soon as possible.

### **3.2.2 Time to Provide Connection**

The time to provide connection is a measure of the delay between the day on which premises are ready for connection to the network and the day that the new connection is finally made and customers can commence consuming electricity. In this context “ready for connection” includes the obtaining of all required local and national government approvals and the completion of all legitimate requirements of the regulated entity.

Like the time to process service applications, regulated entities must have a system in place to manage the completion of new connections and to measure the completion time. As similar “stop the clock” provisions apply the system should be designed to ensure that delays outside the control of the regulated entity are not included in the time to complete.

For the interim price linked incentive scheme, the ERC is likely to accept performance targets and performance bands measures over a shorter period than the four years indicated in the PIS Framework.

### **3.2.3 Time to Answer Telephone Calls**

The PIS Framework requires a performance indicator to measure the efficiency of a regulated entity’s response to incoming telephone calls to be included in the price linked incentive scheme for the third regulatory period. Two indices can be considered by regulated entities:

- the proportion of telephone calls to a regulated entity that are answered within 30 seconds (requiring regulated entities to put in place a system that measures the percentage of incoming calls that are not answered in this time), or
- the average time to answer incoming telephone calls (requiring regulated entities to put in place a system that measures the time it takes to answer an incoming call).

Normally these measurements would be limited to calls received at an entity’s fault reporting call centre, but it is recognised that many regulated entities do not have such facilities in place. It is however still necessary for regulated entities to have arrangements in place to ensure that incoming calls are answered at all times, including non-business hours, and also that the time to answer incoming calls is accurately measured and recorded. In order to meet this requirement it is not necessary for regulated entities to establish a formal call centre - computer based systems are now available to measure telephone call answering times. Alternatively, regulated entities can consider outsourcing their call centre arrangements, or establishing joint call centres with other entities.

The inclusion of this indicator in the price linked incentive scheme reflects the priority that the ERC is now placing on the provision of enhanced customer service and is intended to

signal to regulated entities that they may need to upgrade their existing telephone answering systems and arrangements. The ERC recognizes that this is likely to require additional new expenditure both for the provision of an enhanced telephone answering service and also for the installation of call measuring equipment. Regulated entities should estimate the amount of additional expenditure required and include it in their revenue applications.

The ERC also recognizes regulated entities cannot be expected to have upgraded systems and arrangements in place for the start of the second regulatory period and is therefore likely to approve interim price linked incentive schemes that do not include this performance measure. Indeed, some of the schemes approved at the first PBR entry point did not include a performance indicator related to the time to answer telephone calls. The PIS Framework also provides for related performance targets and performance bands for the PIS in the third regulatory period to be based on historic performance measured over a period of less than four years.

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## 4. GUARANTEED SERVICE LEVELS

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### 4.1 SUPPLY RELIABILITY SERVICE LEVELS

Two GSLs in the ERC's standard GSL scheme for the third regulatory period relate to the overall reliability of supply to individual customers over a twelve month period. These require payments to be made to:

- customers experiencing more than a prescribed total number of hours of sustained interruptions in a regulatory year (GSL 1); and
- customers in an urban or semi-urban part of the network that experience more than a prescribed total number of sustained interruptions in a regulatory year (GSL 2).

Both these service levels require individual customer outages to be tracked and aggregated over a full regulatory year. This is potentially a difficult information management issue. The number of customers affected by a fault is dependent on the fault location so, if these GSLs are to be fully implemented a regulated entity must have in place an information management system that tracks all outages experienced by each individual customer on the network. Individual customer tracking is required since some faults, such as a substation or feeder fault, will impact large numbers of customers whereas other faults, such as faults on the secondary network, may impact only a very small number of customers. However, from a customer perspective, the cause of the fault is not relevant.

The ERC will require that a regulated entity include GSL 1 and GSL 2 in its interim GSL scheme for the second regulatory period. However it will also allow regulated entities to modify the service level definitions to match the ability of an entity's information systems to track the reliability of supply provided to individual customers over an extended period.

A possible approach is to monitor the aggregated duration and frequency of the outages of individual distribution transformers that result from faults on the subtransmission and high voltage distribution systems. This would require all high voltage faults to be identified and the fault durations recorded. The distribution transformers affected by a particular fault could then be identified and the outage occurrence and duration logged against each individual transformer. At the end of each regulatory year distribution transformers experiencing a total outage duration or total number of outages exceeding the GSL thresholds would be identified and GSL payments made to all customers supplied from these transformers.

An alternative approach would be to limit the measurement to faults affecting whole feeders or major parts of feeders. However the ERC may be reluctant to approve such a course measurement approach since, for some customers, the measured supply reliability is likely to be much better than the reliability of supply they actually experience. This means that customers deserving of a GSL payment would not receive it.

Revenue applications should include full details of which outages are to be included in GSL 1 and GSL 2 for the interim PIS and how these outages are to be measured.

### 4.2 SERVICE RESTORATION AFTER SECONDARY FAULT

GSL 3 of the ERC's standard PIS requires a payment to be made to a customer who loses supply as a result of a fault on the secondary network, including the service drop, and where restoration of supply does not occur within a prescribed time after the fault occurs.

This is easier to manage than either GSL 1 or GSL 2 since the impact of multiple faults does not have to be aggregated or accumulated to determine whether a GSL payment is due. It will, however, be necessary for regulated entities to record the time taken to restore supply after all secondary faults over an historic period in order to determine an appropriate threshold. [This should be consistent with the PIS framework.](#)

It may be appropriate for regulated entities operating distinct networks with largely different characteristics to provide more than one maximum time for restoration. For example, it is likely to take longer to restore supply to a customer located on an island that is separate from the main distribution network. In this case it would be reasonable to specify a longer maximum restoration time for customers on the island.

#### 4.3 FAILURE TO PROVIDE CONNECTION

GSL 4 of the ERC's standard PIS requires a payment to be made to a customer where a new connection is not made on the day promised. Cumulative payments also apply for every day that the supply remains unconnected after the day promised.

The ERC is open to the definition of this GSL being modified to require a connection to be made within a prescribed number of days after a regulated entity has been advised that all required approvals have been obtained, all other requirements have been met and that the premises are ready for connection. In this event, the penalty will accumulate for every day that the premises remain unconnected after the prescribed number of days.

#### 4.4 OTHER ISSUES

In designing a GSL scheme, a regulated entity not only has to define the GSLs but it also has to determine the appropriate GSL thresholds and the individual payments to be made for each breach.

The ERC expects the GSL scheme to be based on a regulated entity's current service levels and to be designed so that the expected total GSL payments amount to 0.5% of the average annual revenue for the second regulatory period. As noted in Section 2, the ERC's allowed revenue will include a separate provision for GSL payments.

In order to set the appropriate GSL thresholds regulated entities will therefore need to measure their performance in respect of the GSL indicators over an historic period before they submit their revenue applications, as this will enable estimates to be made of the probable number of payouts required for different GSL threshold levels. Generally the ERC would expect interim GSL schemes to be designed on the basis of at least twelve months actual measurement data. For the third regulatory period the scheme will need to be based on at least four years of measurement data.

To determine the GSL payment levels, a regulated entity therefore has to determine the number of customers that would likely be affected in a typical year with the GSL target level that it is considering. This number would be based on observations of historical performance levels. The GSL payment level would be based on the revenue available for each GSL index and the number of customers expected to be affected each year.

For example, if the GSL 1 target is set at 20 hours of cumulative outages per year, the regulated entity has to establish how many customers would on average have exceeded this figure each year and would therefore have been entitled to a GSL payment. By varying the GSL target, the number of affected customers would vary. Since the overall amount allocated for the GSL scheme is fixed, this varying number of affected parties would in turn cause the projected GSL payment levels to vary. Regulated entities are expected to model several such scenarios and select the appropriate GSL thresholds at a level that would result in appropriate GSL payments.

As noted in Section 2 the ERC considers individual payouts of between PhP 80 and PhP 150 to be appropriate. Section 2.2.2 of the PIS Framework indicates that regulated

entities can allocate a portion of the available GSL revenue to each performance indicator and on this basis determine an appropriate payout for each indicator. Alternatively it can standardize on a single payout amount for all GSL indicators and determine the appropriate threshold for each indicator on that basis.

Irrespective of the approach used, regulated entities should describe the approach used to the design of their interim GSL schemes in their revenue applications. This description should include tables showing the impact of different payments on the threshold levels for each GSL indicator.