



FAIR TRADING COMMISSION

TERMS OF REFERENCE

Engagement of Consultants to

Review of the Method of Application of the Fuel Clause
Adjustment of the Barbados Light & Power Company
Limited

Dated: January 18, 2012

1. INTRODUCTION

The Terms of Reference presented in this document relate to the engagement of consultants by the Fair Trading Commission of Barbados to:

- (i) Assess the method of application of the Fuel Clause Adjustment used by the Barbados Light and Power Company Limited; and
- (ii) Assess and provide recommendations for improving fuel efficiency of the Barbados Light and Power Company Limited.

The project will be implemented between March 5, 2012 and April 20, 2012.

Consultants are invited to respond with bids to the project.

2. BACKGROUND

The Fair Trading Commission (the Commission) was established by the Fair Trading Commission Act CAP 326B on January 2, 2001 and is the independent regulator of the supply of electricity. In addition, the Commission regulates some of the domestic and international telecommunications services of the dominant telecommunications provider.

Under Section 4 (3) of the Fair Trading Commission Act CAP. 326B the Commission is charged with the responsibility to inter alia, establish principles for arriving at the rates to be charged by service providers.

The Barbados Light & Power Co. Ltd. (BL&P) is the lone provider of electricity in Barbados and operates as a privately owned vertically integrated monopoly responsible for generation, transmission and distribution. The Company has been in existence since 1899 and at the end of 2010 supplied 121,462 customers, excluding

street lights. The aforementioned period concluded with a peak demand of 167.5 MW and 961.0 million kWh in sales.

The Company has an installed capacity of 255 MW after the installation of a 60 MW low speed diesel generator in May 2005. Generation is also provided by gas and steam turbines. The fuels used are mainly heavy residual fuel oil (Bunker C), diesel and Av-jet fuel. Small amounts of natural gas are used, when available, through the National Petroleum Corporation. Power is transmitted from the generating stations at 69,000 volts and 24,000 volts to substations across the island.

The BL&P divides its customers into domestic, employee, general service, small voltage power and large power classes. Domestic and general service classes have ascending customer and base energy charges. Customer charges and base energy charges are at flat rates for secondary voltage power and large power customers. There is a separate demand charge for the small voltage power and large power classes.

The BL&P is regulated through a rate of return mechanism. The most recent rate hearing for the Company was conducted in 2009. At this hearing the Commission allowed a 10% return on rate base and allowed the Company to continue to pass through the fluctuating costs of fuels to all customers through a mechanism known as the "Fuel Clause Adjustment" (FCA). The FCA was also amended to allow for this component to reflect all of the fuel related costs.

The FCA is a mechanism that is intended to allow the Company to recover the cost of fuel used in the generation of electricity. It is a direct pass-through charge, which allows the Company to recover the amount that was expended on fuel only. In view of the full pass through nature of the FCA, there is no specified incentive for the Company to be fuel efficient. This charge varies monthly and is based on the projected cost of fuels and projected sales for the month in question. Because of the requirement for some forecasting the Company may at times over or under-recover

but by the end of the year imbalances are expected to be reconciled. In 2006 the Commission undertook a study on the FCA which confirmed, among other things, that the Company was not systematically over-recovering.

A regulatory audit of the operations of BL&P was also undertaken in 2006. The Commission intends to also consult with the public on the FCA.

BL&P's purchase price of fuel has risen, on average, from \$164.83 to \$198.82 per barrel between October 2010 and December 2011. With fuel constituting more than 60% of the costs of BL&P's operations this increased expense is directly reflected in the bills of electricity consumers. The FCA has increased from 31.9795 ¢ in October 2010 to 45.8823¢ per kWh in December 2011. Given the current economic environment, the Commission is seeking to re-examine the basis of fuel cost recovery and explore whether a revision of the current approach to the recovery of fuel cost is warranted and whether the Company could be incentivised to optimally utilise fuel and generating plant to ensure that fuel cost is minimised.

3. OBJECTIVES

The objectives are to assess the method of application of the Fuel Clause Adjustment by BL&P and examine the feasibility of utilising alternative approaches for the recovery of fuel costs for improved efficiency and transparency.

4. SCOPE OF WORKS

4.1 Fuel Clause Adjustment

In assessing the application of the FCA for the Commission, the Consultant should consider the impact of the charge from January 2008 to December 2011. The consultant should also assess the efficiency of operation of the BL&P with respect to fuel costs. The Consultant is required to:

- Evaluate the Company's present method of determining the FCA including the method used to project sales and cost;
- Assess whether the current method of determining the FCA provides adequate revenue to cover fuel costs without allowing the Company to earn additional revenue from this aspect of the tariff;
- Assess the impact of the current FCA volatility on both the Company and consumers. Compare this impact with that anticipated through suggested alternative methods, including the method used to project sales and costs;
- Suggest alternative formulae or methods which may incorporate efficiency factors and do not result in an over or under recovery of fuel revenue over an extended period ;
- Assess the impact of implementing a system where the FCA is maintained at a constant level over consecutive months, i.e. quarterly, bi-annually or annually;
- Evaluate the efficiency of the BL&P's historical dispatching of generation plant and make recommendations for improvement where applicable;

- Review heat rates and determine if they are within design specifications. Also propose a mechanism via which a targeted overall heat rate is incentivised.

The Consultant is also required to discuss and make recommendations on any other issues that are pertinent to the FCA and have been demonstrated to have an impact on fuel cost or fuel efficiency.

4.2 Involvement in Public Consultation

The Consultants report of this project will be shared in the public consultation. The responses to the consultation will then be provided to the Consultant. The Consultant would therefore be required to comment on these responses, as necessary.

5. DELIVERABLES

A Final Report emanating from this project shall include but not be limited to:

- An evaluation of the FCA method presently in place and whether or not the Company is over or under recovering;
- A review of the input fuel cost, and assessment of whether the Company is using the most economic and efficient generation mix;
- Discussion on the Company's heat rate and specific recommendations for a target heat rate. If warranted, the report should also include a proposed formula which incentivises the attainment of the targeted heat rate ;
- An assessment of possible alternatives to the current method of recovery of fuel cost indicating the benefits and limitations of each and tabling a specific recommendation, if warranted. Consideration must be given to fairness and balancing the interest of the consumers and the Company ; and
- Recommendations for the reporting and verification of relevant information to the Commission and the public.

6. DURATION

The project is expected to be completed between March 5, 2012 and April 20, 2012.

7. PROJECT PROPOSALS

7.1 Proposals

Consulting companies will be required to submit proposals to the Commission indicating the qualifications, expertise and experience in working on similar projects for each member of the team. The proposals should also state the expected contribution of each individual towards fulfilling the project objectives.

The Consultant team should have expertise in the areas of:

- economics of electricity utilities;
- energy markets;
- regulatory frameworks;
- accounting methods for utilities;
- electricity generation technology; and
- conventional and alternative fuel sources.

The proposals must contain a scope of work with a detailed work plan and Gantt chart demonstrating the methods and timelines through which the objectives will be achieved. Any matters which are considered pertinent to the work to be performed but which have not been included under the objectives provided in this document should be included in the proposal.

Consultants are required to provide the Commission with the contacts and addresses of three (3) local or international companies that the Consultant has performed tasks for that are similar to those outlined in the scope of works.

7.2 Fees

The Proposal should include a schedule of fees, and stages of payment, including details of consultation rates, travel, accommodation and other expenses related directly to the consultancy.

Consultants are asked to note that the Terms of Reference may be subject to amendment before commencement of work.

7.3 Submission of Proposals

Proposals should be submitted on or before February 10, 2012 by 4:00 p.m. to:

Chief Executive Officer
Fair Trading Commission
Good Hope, Green Hill
St. Michael, BB12003
Barbados.

Electronic copies of proposals may also be submitted to the Fair Trading Commission at info@ftc.gov.bb. Any queries may be directed to Sandra Sealy, Director of Utility Regulation at ssealy@ftc.gov.bb

Proposals will be evaluated based on the Consultants experience and the quality of proposals. The Commission is not bound to accept the lowest or any offer.

8. COMMISSION MEETINGS

Meetings with the Commission will be agreed at the commencement of the project. The Consultants are expected to provide the opportunity for effective transfer of knowledge and expertise to Commission staff, by facilitating the involvement and/or training of staff, throughout the duration of the consultancy.

The Consultants will be required to work with Commission staff during the process. The Consultants are expected to liaise with the Commission's Director of Utility Regulation regarding the progress of the project on an on-going basis.

9. REPORTS

The Consultants shall submit two (2) copies of the Final Report to the Commission on or before April 20, 2012. The report should also be copied to info@ftc.gov.bb.

10. PROVISION OF FACILITIES

The Commission will provide office space, local telephone service, facsimile and photocopying facilities for the Consultants.

11. SUMMARY OF KEY DATES

The Consultants should be aware of the following key dates/deadlines when submitting proposals.

<u>TASK</u>	<u>DATE</u>
Submission of Proposals	February 10, 2012
Expected date for award of tenders	February 28, 2012
Official commencement of project	March 5, 2012
Submission of Final Report	April 20, 2012

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