



FAIR TRADING COMMISSION

BARBADOS

FTCUR/REVFCA-2013-01

FAIR TRADING COMMISSION

IN THE MATTER of the Fair Trading Commission Act, Cap. 326B of the Laws of Barbados;

AND IN THE MATTER of the Utilities Regulation Act, Cap. 282 of the Laws of Barbados;

AND IN THE MATTER of the Utilities Regulation (Procedural) Rules, 2003 and the Utilities Regulation (Procedural) (Amendment) Rules, 2009;

AND IN THE MATTER of the Motion to Review the Fuel Clause Adjustment pursuant to Section 16 of the Utilities Regulation Act, CAP.282 of the Laws of Barbados.

BEFORE:

Sir Neville Nicholls
Mr. Gregory Hazzard
Mr. Andrew Brathwaite
Mr. Andrew Willoughby
Dr. Philmore Alleyne

Chairman
Commissioner
Commissioner
Commissioner
Commissioner

NOTICE OF MOTION TO REVIEW

TAKE NOTICE THAT the Fair Trading Commission will be moved on the 29th day of May 2013 to commence a Motion to vary the 1983 Decision and Order of the Public Utilities Board and the Fair Trading Commission's Barbados Light & Power Company Limited Rate Review Decision and Order dated January 28, 2010 regarding the determination of the Fuel Clause Adjustment.

MOTION TO REVIEW

1. In accordance with Section 16 of the Utilities Regulation Act, Cap. 282 of the Laws of Barbados (URA) where the Commission has not fixed a period of time in accordance with Section 15(1), the Commission may on its own initiative or upon an application by a service provider or consumer review the rates, principles and standards of service for the supply of a utility service.
2. Further, in accordance with Section 36 of the Fair Trading Commission Act, Cap. 326B (FTCA) of the Laws of Barbados the Commission may on application or on its own motion review and vary or rescind any Decision or Order made by the Commission and where under this Act a hearing is required before any decision or Order is made, such Decision or Order shall not be altered, suspended or revoked without a hearing.
3. The Fuel Clause Adjustment (FCA) was approved by the Commission as a principle (formula) that the Barbados Light & Power Company Limited (BL&P) is permitted to use to pass through the cost of fuel used to generate electricity for use by its customers.
4. Following the Commission's review of the FCA which included the consultation conducted in April 2012 and the Findings Report issued on April 19, 2013, the Commission proposes that the FCA should be revised.

5. The Commission has the authority to initiate the proceedings by way of Motion. The Commission is therefore bringing this Motion for review of the FCA in accordance with Section 16 of the URA and Section 36 of the FTCA. The Motion will be heard by way of a written hearing. If warranted, the Commission will convene a one-day oral session to hear the oral submissions of the parties.

The Present Fuel Clause Adjustment (FCA)

6. The present FCA is calculated by dividing the projected fuel cost (taking into consideration any over/under recovery of fuel cost from previous months) by the projected sales. The BL&P prepares a forecast for both the cost of fuel and sales when calculating the fuel clause adjustment for any particular month. For example if the BL&P is calculating the FCA for the month of December, then at the start of the month the BL&P will make a projection of both the fuel cost as well as the sales figures for December.
7. For example, if the fuel revenue collected in November was less than the projected fuel cost for November (that is, there is an under recovery), then the projected fuel cost for December is adjusted by adding this under recovery to the projected fuel cost for December. If however the fuel revenue collected in November was more than the projected fuel cost for November (that is, there is an over recovery), then the projected fuel cost for December is adjusted by subtracting this over recovery from the projected fuel cost for December.
8. In the instances where the month-to-month change in the FCA is significant, the BL&P engages in a process of smoothing to avoid rate shock to consumers. In other words, if the calculated December FCA is much greater than the FCA in November, the BL&P may apply an FCA in December that is less than that calculated from the formula. This shortfall will then be recovered in the following month.

9. This method of calculating the FCA relies heavily on projections which make the process less transparent than it should be. Moreover, the difference between projected fuel cost and actual fuel cost may be significant because of the volatility of the fuel market. This volatility often results in unexpected changes in the fuel market thereby making it more difficult to accurately predict fuel costs. The Commission is of the view that the use of fuel costs and electricity generated from the previous month, that is, a historic approach, would provide a formula that is easier to calculate as the necessary inputs have already been recorded. Based on the foregoing, the Commission is of the view that the FCA should be revised.

10. This Motion is therefore focusing on the use of historic fuel cost versus projected fuel cost and smoothing.

Proposed Historic Approach

11. The Commission proposes that the FCA should be calculated by taking the historic fuel cost that was actually incurred for the preceding month and dividing this figure by the energy generated in the previous month adjusted for estimated system losses incurred and the auxiliary consumption. For example when calculating the FCA for December, the BL&P would utilise November's actual fuel cost and divide this figure by the energy generated in November after it is adjusted for system losses and auxiliary consumption.

12. Actual energy generated in the previous month adjusted by auxiliary consumption and system losses represents the previous month's electricity sales. Auxiliary consumption is specific to a particular power generating unit and depends on its configuration, age and related technical parameters. Auxiliary

power is required for BL&P's internal equipment such as feed pumps, cooling water pumps, air fans etc. of the generating station.

13. System losses occur naturally and consist mainly of power dissipation in electricity system components such as transmission and distribution lines, transformers, and measurement systems. System losses are estimated from the discrepancy between energy produced (as reported by power plants) and energy sold to end customers; the difference between what is produced and what is consumed constitute transmission and distribution losses. System losses are expressed as a percentage of gross energy generated.
14. The benefit of this formula is that it reduces the BL&P's reliance upon projected figures especially as it relates to the fuel cost.
15. This proposed formula is reflected as follows:-

$$FCA_n = \frac{FuelCost_{n-1}}{EnergyGeneration_{n-1} \cdot (1 - Aux_{n-1}) \cdot (1 - losses)} \left[\frac{BD\$}{kWh} \right]$$

where FCA_n factor would be applied to electricity bills in month n .

16. Fuel cost _{$n-1$} will include adjustments for any over/under recovery from the previous month. It is possible that the *fuel revenue recovered* from the FCA may be different from the *actual fuel cost of the previous month*. This may be due to monthly variations in electricity sales which will affect the revenue recovered from the FCA. It is therefore important to note that any under or over recovery would be added to the fuel cost incurred in the current month when the calculation of the FCA is undertaken for the next month.

Smoothing

17. Smoothing is a technique that is used by the BL&P to reduce the impact on customers of significant fluctuations in the FCA from one month to the next. After calculating the FCA for the current month, if there is a significant difference from the previous month the Company applies the smoothing technique resulting in an adjusted FCA which is applied to customer's bills. Without incorporating smoothing, the Commission acknowledges that the customer will be more exposed to the vagaries of the fuel market. As such, smoothing carries with it benefits to customers. The Commission wishes to have more robust oversight of the process by enhancing reporting. The Commission therefore proposes to require the BL&P to advise whether and to what extent the FCA was smoothed. The latter must include calculation of the FCA (actual) and FCA (smoothed) that will be applied to the electricity bills. The Commission reserves the right to request any additional information on the smoothing process.

18. Such further and other Order that the Commission considers appropriate.

Dated the 29th day of May 2013

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Kim Griffith-Tang How
General Legal Counsel/
Commission Secretary