



Fair Trading Commission

TERMS OF REFERENCE

Engagement of Technical Assistance for the
Review of the Barbados Light & Power Co. Ltd. Rate Application

Dated: 2 January, 2018

1. INTRODUCTION

The Terms of Reference presented in this document relate to the engagement of short term technical assistance prior to and during the hearing of an application for review of the Barbados Light & Power Co. Ltd.'s (BL&P) electricity tariffs.

2. TECHNICAL ASSISTANCE OBJECTIVES

The Fair Trading Commission (the Commission) expects Barbados Light & Power Co. Ltd. to submit the Depreciation Study by February 2019 and the formal Rate Application in the second quarter of 2019. Technical Assistance is required to support the Commission to undertake the following:

- 1) Review of the depreciation study
- 2) Execution of a regulatory audit
- 3) Review of the rate application
- 4) Analysis of issues raised in the application
- 5) Research of relevant matters
- 6) Preparation of interrogatories (written questions seeking clarification of matters)
- 7) Drafting of Decision

3. 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 economic and standards of service regulator of the supply of electricity, domestic and international telecommunication services and water and wastewater services.

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 BL&P is a vertically integrated utility and although it operates under a non-exclusive license and independent power producers are permitted under the Electric Light & Power Act, 2013, there has been no utility scale market entrants to date. The BL&P is an affiliate of Emera (Caribbean) Inc. which also has interest in a few other electric utilities across the region. The company has been in existence since 1899 and at the end of 2017 supplied 129,112 customers made up of 112,054 domestic customers and 17,058 commercial customers with a peak demand of 159.1 MW. The company has an installed capacity of 249.1 MW. Generation is provided by gas, diesel, steam turbines and solar photovoltaics (10 MW) with battery storage (5MW). The fuels used are mainly heavy residual fuel oil (Bunker C), diesel and A1 Jet fuel. This dependency on imported fossil fuel leaves the country highly vulnerable to global oil price fluctuations which impact the Barbadian economy both at the macroeconomic level and at the retail level.

The BL&P is regulated through a rate of return mechanism. The last rate hearing was held in the latter part of 2009. At that hearing, the Commission determined the permitted rate of return on rate base and continued to allow the BL&P to pass through the fluctuating costs of fuels to all customers through a mechanism known as the fuel clause adjustment (FCA). This charge varies monthly and is based on the historical cost of fuels and sales for the month in question. It also took the opportunity to address cross-subsidisation to facilitate tariffs that are more reflective of the cost of service of each customer class.

There are 6 classes of customers: domestic; employee; general service; small voltage power; large power and streetlights. The domestic, employee and general service classes all have ascending block energy charge structures, while there is a flat per kWh rate for secondary voltage power and large power. Domestic, employee, general service and streetlight classes do not attract demand charges, while secondary voltage power and large power classes do. A customer charge is applicable to all classes except the employee class. The FCA is applicable to all classes.

Barbados is an island state that is on the cusp of transitioning from 100% fossil fuel thermal electricity generation to full generation from renewable energy sources. The 2017 Barbados National Energy Policy (BNEP) articulates a target of 75% of all electricity being generated from renewable sources by 2037. This target has since been revised to reflect 100% electricity generation from renewable sources by 2030. Running in parallel with this national objective, the sole electricity utility on the island (BL&P) has set its company goal as 100% renewable energy/100% electrification by 2045.

A Renewable Energy Rider for distributed generators has been in place since 2010 and has since been modified to expand the programme's capacity cap to 500 kW and offer stable resource cost based rates to participants. This has led to a 9% cut in generation from thermal plants in 2016, compared to 2010 levels.

4. ISSUES TO BE CONSIDERED

4.1 Likely issues to be raised by the BL&P Rate Application

In advance of the official filing of the rate application, the BL&P has advised that it will be asking the Commission to consider matters relating to:

1. The adoption of a forecasted test year;
2. Full recovery of costs associated with the provision of service;
3. A rate of return sufficient to provide the Utility with the opportunity to maintain its financial integrity and attract capital;
4. A flexible rate mechanism (i.e. cost trackers) that would facilitate the timely recovery of costs associated with the transition to its 100% renewable energy/ 100% electrification vision;
5. A review of the BL&P's existing tariff structure and riders and investigate new structures that would improve the efficiency of cost recovery. Consider the establishment of riders and cost trackers;

6. Consideration of performance based incentives/earnings sharing mechanisms; and
7. Establishment of community solar programmes.

5. RATE HEARING PROCEEDINGS

The Rate Hearing Procedures are guided by Utilities Regulation (Procedural) Rules 2003, "Rules". A copy is available at: http://www.ftc.gov.bb/library/2003-08-20_ura_pro_rules.pdf

The Consultants will be expected to provide the Commission with assistance in carrying out the proceedings in the manner as detailed in these Rules.

These rules state that the Commission may employ persons (such as Consultants) having professional technical or other knowledge to assist its staff in preparing the Staff Analysis which summarises the issues and provide a preliminary assessment of the application.

Section 61 (3) of the Rules gives guidance on the Staff Analysis.

Section 61 (3) states:

"(3) The Staff Analysis may contain the following

- (a) a review of the service provider's accounting system to ascertain whether it complies with the code of account prescribed by the Commission or proposed by the service provider as part of the service provider's reporting requirements, and whether it is otherwise reasonable and appropriate;*
- (b) an examination of the methods used by the service provider for estimating revenues, expenditures and earnings;*

- (c) a review of the reasonableness and prudence of expenses incurred and a review of the reasonableness of the method used for allocating those expenses;*
- (d) a comparison of capital expenditures, revenues, operating expenses and net income estimated by the service provider during the last rate review, and the actual values of these parameters over the period between the last rate review and the present;*
- (e) a review of the calculations of the rate of return on assets;*
- (f) an examination of the service provider's method of calculating the energy adjustment charge, where applicable, and comment on its actual impact on revenue requirements*
- (g) a check on the calculations of the proposed rates to determine whether they are necessary to meet the service provider's revenue requirements; and*
- (h) any additional matters relating to the rate base, operating costs, rate of return, or schedule of maximum rates deemed necessary by the Commission.*

6. DELIVERABLES

It is expected that the technical assistance would be provided by a team of consultants who will provide assessment, evaluation, support and advisory services to the Commission by:

- 1) Reviewing the depreciation study;
- 2) Undertaking a regulatory audit before commencement of the Rate Hearing;
- 3) Reviewing the rate application and analysing issues raised therein;
- 4) Researching matters relevant to the application;
- 5) Preparing interrogatories; and
- 6) Making recommendations as is warranted.

In addition, the Consultant (s) will be required to submit the following:

1. Preliminary Report on the Rate Application – This report is due within 15 business days of the notification of application and will form a significant part of the Staff Analysis;
2. Report evaluating the Depreciation Study due within 15 business days of receipt of the study;
3. Report at the conclusion of hearing, summarising the critical and contentious issues for consideration and providing information which would be useful to the Commission in its deliberations.
4. Report on Weighted Average Cost of Capital (WACC) applied in other jurisdictions to obtain a “zone of reasonableness” for the rate of return to be applied, when compared to the rate of return proposed by the BL&P. This would be based on assessment of examples from other jurisdictions with utilities capitalised in a manner similar to Barbados. Once the data is available, an appropriate risk factor would also then be taken into account to provide a broader comparison.

As the actual date of submission of the rate application is unknown, the Consultant will be expected to start the project within two weeks of notification.

The Consultants are expected to provide the opportunity for an effective transfer of knowledge and expertise to Commission Staff, by facilitating their involvement throughout the duration of the project.

7. DURATION

The technical assistance which may span over several months would have six stages as follows:

1. Review of the depreciation study
2. Execution of a regulatory audit
3. Review of Rate Application
4. Assistance in Pre - Hearing Proceedings
5. Assistance during the Hearing
6. Post - Hearing Analysis

It is expected that there may be administrative procedures to be executed between these stages and these will be dealt with by the Commission.

8. PROPOSAL

Consultants will be required to submit a proposal which should at least include:

- A statement of your understanding of the project. This would include a narrative summarizing the expected tasks and activities, with a description of the analysis, reports and participation, which the Consultant expects to provide pertaining to each activity. It should also outline the steps to be completed to accomplish the scope of work, approaches to the project, methodology and dates for the completion of

tasks to meet the deadlines. Any event which may affect the Consultants' ability to meet deadlines may be discussed with the Commission.

- A work plan upon which the estimate for the total contract price should be based. This should demonstrate an understanding of the issues and subjects which will be addressed and act as a reference document for the Commission's Staff and the Consultant throughout the project.
- The project schedule. This shall include the estimated time required to complete each step in the scope of work, including estimated start and completion dates (non-binding). The number of hours allocated to each individual by task should be indicated with a project schedule-type display, showing each activity in the proposed work plan. The plan must include an appropriate number of kick-off and regular meetings, information gathering and disseminating sessions, and updates with key Commission personnel to understand and discuss the Commission's issues and concerns. The consultants are expected to become acquainted with key Staff, and identify persons who will provide data.
- A sufficient number of meetings with Commission Staff to provide Staff with preliminary findings and strategies based upon the available data. This shall include providing feedback to Staff regarding phasing, intentions, rate suggestions, revenue sources and the like. Consultants shall meet with Staff to identify potential changes to projects and/or phasing of projects, to present findings, to demonstrate the effect(s) of various scenarios on the comprehensive plan and rate structures, and to obtain consensus on the scenario(s) to present to the Commission.
- The names and positions of the individual consultants anticipate to participate in each Schedule of Work Identify tasks assigned to each individual and percentage of time each individual is intended to serve on the project. This requirement also applies to sub-consultants. Provide a resume, including education and experience, for key team members. This should include summary of work on similar projects, approximate dates, and individual's responsibility in the assignment. This requirement also

applies to sub-consultants. The Consultants should demonstrate expertise and experience in utility regulation, especially in the electricity sector. Previous work in the Caribbean or other developing countries would be considered an asset.

- Three to five project references including contact name, telephone number and email addresses for projects of comparable scope and size performed by the key personnel listed above. Also provide an example of a recently completed rate study.

Any matters which are considered pertinent to the work to be performed but which have not been expressly stated in this Terms of Reference should be included in the proposal.

The Commission will assist with data collection whenever possible. The appropriate Staff will be made available for interviews and to gather data the Consultant determines is essential to complete the cost of service analysis, rate study models, and final reports. The proposal must be clear in addressing what the Commission will be expected to assist with. Therefore, please provide a description of required documentation and estimated time and effort required by Commission Staff to assist in the preparation of the work plan and study.

The deadline for the receipt of proposals is 28 January, 2019.

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

9. EVALUATION

Proposals will be evaluated based on Consultants' experience, qualifications, and the quality of the proposals. The Commission is not bound to accept the lowest or any offer. Proposals and/or queries should be submitted by 4.00 p.m. on 28 January, 2019.

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

An electronic copy should also be submitted to the Fair Trading Commission at: info@ftc.gov.bb.

The Commission will evaluate the proposals and will advise parties of its decision by 15 February, 2019.

10. PROVISION OF FACILITIES

The Commission will provide physical office accommodation.

11. SUMMARY OF KEY DATES

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

TASK	DEADLINE
Submission of Proposals	28 January, 2019
Selection of Consultants	15 February, 2019
Submission of Depreciation Study Report	15 business days after Consultant's receipt of Depreciation Study
Submission of Regulatory Audit Report	19 April, 2019
Start of Rate Review	Within two weeks of BL&P's submission of the Rate Review Application
Preliminary Report	15 business days after receipt of Application
Post Hearing and WACC Reports	10 business days after conclusion of Rate Hearing