

A Closer Look at the Fuel Clause Adjustment

Printed in the Business Monday newspaper on June 6, 2011

For all of us our electricity bill is rising despite our attempts to conserve electricity. The unit price of the Fuel Clause Adjustment (FCA) component of the electricity bill - often referred to as the fuel charge, fuel surcharge, fuel adjustment charge - is the reason for the overall increase in the bill although your total power usage might have declined. The FCA is on an apparent upward path, with the FCA for May at 48.4401 μ /kWh, up from 45.3897 μ /kWh in April. This article will attempt to discuss the purpose and operation of and contributing factors to the FCA of the Barbados Light & Power Company Limited (BL&P).

The FCA is utilised by utility regulators in many jurisdictions including Jamaica, Florida, Louisiana, Arkansas and Tokyo. It was approved by the Public Utilities Board (PUB) for use by the BL&P in Barbados in 1965 for commercial and industrial customers and extended to the domestic and secondary voltage power customer classes in 1973. On average, fuel constitutes more than 50 per cent of a Caribbean electric utility's costs. Fuel prices rise and fall frequently and unpredictably based on, among other things, demand and the political climate in oil supplying countries. In 1983 the PUB approved the BL&P's modification of the methodology for calculating the FCA so as to minimise large spikes in any one given month. In 2009 the Fair Trading Commission (which replaced the PUB) approved a further modification of the FCA to capture all of the fuel costs by transferring the small portion that was in the energy charge.

The FCA is a mechanism that is intended to allow the company to recover the cost of fuel used in the generation of electricity. In its simplest form the unit value of the FCA is the cost of fuel used divided by the kWh sales. 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 reconciled. It is a direct pass-through charge, which allows the company to recover the amount that was expended on fuel only. In 2007 the Commission undertook a study on the fuel adjustment charge which confirmed, among other things, that the company does not make any profit on this charge.

The actual unit price of fuel oil is outside the control of the BL&P as it is required to purchase fuel from the Barbados National Oil Company Limited, the sole direct supplier of fuel oil on the island.

In order to ensure continuity of service the BL&P is required to maintain adequate reserves, this means purchasing fuel months before it is used and maintaining an inventory. The price of fuel being used to generate electricity would therefore not correspond directly to the current price. Furthermore, in order to be assured of a reliable source of supply the utility purchases its fuel under contract and that price may not correspond to the current market price. Thus, it usually takes several months for changes in fuel prices to be reflected in the FCA.

The combination of generating plant used to produce electricity significantly affects the FCA as the different types of generating plant use different fuel types which vary in cost. The Commission is also satisfied that the BL&P is efficiently managing this process as Barbados's minimum electricity requirement (base load) is normally generated using the plant with the lowest operating cost first, and the others utilised when demand exceeds the maximum output of the least expensive plant type. The most recently (2005) installed plant uses the least expensive fuel, Bunker C, although this price has climbed significantly in recent times. However, from time to time plant will be taken out of operation for maintenance or repair and would therefore warrant the greater use of generating plant that uses more expensive fuel. In

general the BL&P will minimise such use for efficient operation.

The Commission requires the company to demonstrate that in planning its generation plant additions, its choice of generation technology is such that the type of plant purchased will allow the load to be supplied by the most economical combination of plant. It must be stated that it would be unwise for the company to invest in a single plant type as this would mean being completely dependent on a single fuel type which would put the operations of the company at risk should there be a shortage. This is one reason why modern electric utilities diversify their generating plant.

The FCA continues to be an appropriate instrument as it alleviates the need for frequent and costly rate hearings which invariably will lag behind market changes. The expense of a rate hearing that is ultimately borne by the consumer is also avoided. The Fair Trading Commission reviews the fuel mix to assess the efficiency of fuel use and actively monitors the FCA on a monthly basis to ensure that inefficiencies are not passed on to the consumer. Consumers should therefore, where possible, continue to decrease the amount of electricity used as this will lessen the impact of the fuel charge.