

## Electricity Bills – Frequently Asked Questions

Q: How did the Commission's Decision on the BL&P Rate Application affect rates?

A: In its January 2010 Decision, the Commission granted the Barbados Light & Power Company Limited (BL&P) a 10% rate of return on its rate base at December 31, 2008. The rate base is the value of the BL&P's plant that is used and useful in providing the electricity service. In order to facilitate this return and the other elements of the Decision, the Commission approved a new rate schedule in March 2010 which has different increases (and decreases) depending on the customer class and the amount of electricity used. The rate changes in the schedule were applied to the Energy Charge, the Customer Charge and the Demand Charge.

Q: Why does it seem that my bill is higher every month?

A: The fuel charge has increased by over 30% during the first six months of this year due to the increased cost of the fuel used by the BL&P to generate electricity. This means that your bill may increase even if you are using the same or even less electricity. If the cost of fuel decreases then the fuel charge and possibly your overall bill will decrease.

Q: Why does the fuel charge vary?

A: The Commission does not set a specific rate for the fuel charge. The Fuel Clause Adjustment (FCA) component of the electricity bill is a direct pass-through charge whereby the consumer is charged for the cost of the fuel used by the BL&P in producing electricity. The Commission approved the methodology for calculating the FCA which determines the fuel charge on your bill. This varies monthly based on the projected cost of fuel and the projected amount of electricity to be sold by the BL&P. Any under or over recovery in a given month is adjusted in a subsequent month.

Q: Why can't there be a fixed fuel charge?

A: Some jurisdictions have a fuel charge that varies monthly while others have a fixed fuel charge. If the FCA was at a fixed rate and the fuel costs increased significantly the Company would experience an increase in the cost of service which may adversely affect their income to the extent that they may have to approach the Commission on a regular basis for rate adjustments to address that increase in the cost of supplying the service. Rate review proceedings are expensive and time consuming. If the FCA was at a fixed rate and the fuel costs decreased then consumers would be paying more than required. The FCA is intended to be profit neutral and the Commission has not found that the Company makes any profit from the FCA.

Q: What is the Commission's view on the Company's reported profit?

A: Based on the Company's financial statements for the year ended December 31, 2010, the rate base was approximately \$525 million and the operating income was approximately \$42 million so the Company realised a rate of return on rate base of about 8%. This figure means that the rate of return on rate base is less than the 10% which was approved by the Commission.

Q: How often does the Commission check the fuel charge?

A: The Commission routinely checks the monthly reports submitted by the BL&P on the fuel charge which identifies the projected cost and sales and the amount the company has under or over-collected. This occurs because of the use of projections and the fact that the Company attempts to distribute any increase over several months so that the changes are less dramatic to the customer.

Q: How does the Commission assess if the Company is using fuel efficiently?

A: The reports from the Company provide the Commission with, among other things, information on the cost and use of the different types of fuel as well as the electricity produced by the various types of generation plant used. This allows the Commission to assess if the Company is using fuel efficiently. The Commission analyses the BL&P's reports to check whether BL&P optimally utilises the most efficient generation plant whereby the units that use Bunker C fuel are preferentially used before the gas turbines which use more expensive Av-jet fuel. The price difference between the

cheaper Bunker C and the Av-jet fuel is not as great as it used to be however, and this has also contributed to the increase in fuel cost.

Q: Is a fuel charge used elsewhere?

A: Several jurisdictions including Jamaica, St. Lucia and Florida have a fuel charge also referred to as fuel cost recovery clause, fuel adjustment charge or fuel surcharge. Not all jurisdictions have a separate fuel charge but several regulators around the world allow costs pass-through where the regulated company faces significant costs that are both uncertain and outside of its control. Fuel is a significant input so fluctuations in prices impose a significant risk on electricity companies. Efficiency targets may also be set which constrain the level of fuel costs that may be recovered from consumers. Some jurisdictions have a fixed fuel charge which is reset on an annual basis. In other jurisdictions where there isn't a separate fuel charge the cost of fuel tends to be included in the general energy charge. Significant fluctuations in fuel cost may then lead to more frequent rate proceedings.

Q: Is there anything that the Commission can do?

A: The Commission frequently checks bills for consumers and our checks indicate that the BL&P is billing customers in accordance with the Decision. The impact on consumers is however as important to the Commission as it was in the 2010 Decision. The large increase due to rising fuel cost is a concern and we will be considering the various factors related to this. As long as the existing FCA approach is applied consumers will continue to see fluctuations in their bills as fuel costs vary.

Q: Can the public request a rate review?

A: Yes, under the Utilities Regulation Act (URA) a consumer may submit an application to the Commission to review the BL&P rates. The application has to be accompanied by the relevant detailed information and necessary evidence to justify the request. The URA Procedural Rules are mainly directed to a rate review application made by the Utility Company. The Commission would have to decide if the application made by the public meets a certain threshold before proceeding with a review.

Q: What do I do if I think that my bill is wrong?

A: Customers should check with the BL&P if they believe that their bill is incorrect. If not satisfied with the BL&P response you may bring your complaints and bills to the Commission for our assessment.

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