

GREATER CHAGUANAS CHAMBER OF INDUSTRY AND COMMERCE

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COMMENTS ON TTEC APPLICATION FOR A RATE INCREASE

As a follow up to the Business Community's meeting with the RIC on Thursday, June 16, at CARA Suite, Claxton Bay to consider TTEC's Case for a rate increase, the GCCIC submits its comments and recommendations on the issue, as requested. Sorry for the delay.

1. The GCCIC recognizes that the RIC is empowered in law, the Regulated Industries Act No. 26 of 1998, to consider an application for any adjustment in rates.
2. However, We note that no specific request was indicated for the increase but instead TTEC apparently painted several scenarios that will require funding to give effect to their plans
3. However, TTEC must determine its priorities taking account of the demand for a larger supply of electricity over the long term and make a specific request on the best option that is available
4. In the meantime, We commend the RIC on the professional manner that it is seemingly using to pursue the exercise by way of research, development of an appropriate methodology, consultations with many stakeholders geographically distributed throughout T&T; circulation of papers; presentations by your Technical Staff; answering queries, etc.
5. Your presentations have been quite useful. We have taken note of the Power Point presentations which have helped to navigate us through the 7 Documents that were circulated.
6. External Pressures on the RIC. We have also observed, in the interim, that while TTEC's application is before the RIC, pressure apparently is being brought on the RIC to give the increase. First, TTEC Senior Staff headed by its CEO has gone on TV to subtly lobby its case providing its justification. This was strengthened by the Line Minister, P. Beckles, stating publicly in Parliament that TTEC needs a rate increase and, as a provisional measure, GOTT has provided \$123 million from the \$3 billion Supplementary Budget for 2005, for debt payments. Unfortunately, the statements and the case being made out are premature. They should allow the RIC to do its work by the due process.
- 7.. Both the RIC and TTEC may have to go through an adjustment period as this approach is different from the PUC's
- 8.. The RIC may have to appoint an Investigator or Auditor to determine whether the figures submitted by TTEC are correct or are there padding. Fixed costs seem to be quite high. One cannot automatically accept TTEC's figures without independent verification

9.. For Rural Electricity Supply, the State may or should subsidize because that supply may not be viable and you may want the citizens to continue to reside in rural areas for very good reasons. The recent grant funding by the European Union for rural electrification in T&T is a case in point. The State for decades has had a rural electrification programme. This however may be insufficient to provide what is necessary

10.. For street lighting, the central government should foot the whole bill rather than ask regional corporations, Borough and City Councils. This is also a good effort in assisting crime fighting. Nevertheless, there are too many lights on the streets, roads and highways which are not functional and these need restoration very quickly.

11.. To what extent the Public Relations, social and community based programmes of TTEC should be paid for by consumers in its attempt to be a good corporate citizen. Those aspects perhaps should be underwritten by the GORTT and not passed unto the consumers.

12.. There is a serious social, financial and economic problem in the country and that is, close to 50% of the population lives below the poverty line or close to it. How can a State monopoly justify an application for a rate increase? Electricity is a basic commodity that affects more than 95% of the nation in a fundamental way, so that any increase will affect the cost of living.

13.. Therefore why an increase? Why the State cannot use its windfall from the energy sector that now stands at billions to finance the capital development programme of the country?

14.. A progressive rate or "tax" to partially offset wide disparities in income has been acceptable for a long rather than one based on equality. To ensure consumers are not overcharged some degree of cross subsidization may need to be maintained for the short term but should be replaced in the longer term, or by the next round application. Notice of intent should be given in advance to all and reinforced periodically.

15.. At present, the supply of electricity is not very reliable. When areas are shut down for repairs and maintenance there is a high cost to consumers. TTEC has to examine critically cost cutting measures without compromising the quality of supply. Consumers carry a high cost when there are outages and low voltages. Who pays for this? Certainly, the businesses and other consumers! To obviate that and to improve the reliability of that service, generators should be permitted on very reasonable terms.

16.. The present system of having a standby generator is an anachronism that perhaps needs review if not dismantling. Business should be allowed to own generators without having to pay penalties. Why do they still have to get a Ministers Licence to install one? Plus there are substantial charges incurred to TTEC. Given trade liberalization, firms must be competitive if they are to operate in the Regional, Hemispheric and International Markets. Generators will mitigate down time. If there is to be a monopoly then the State must meet that portion of the cost. To reduce cost, it will have to improve its technology to improve its reliability; outsource more of its services; and negotiate better prices for major inputs such as gas. Also, you need better controls to contain or minimize the geographical size of the area being shut down for repair/maintenance

17.. Perhaps, there is need for some Transitional Arrangements before the new process and methodology of the RIC kick in.

18.. The 70% or so exogenous cost that TTEC has no control over should be looked at carefully. The State may have to get involved and renegotiate some of those arrangements. It appears that power generation is

more lucrative than distribution. It may well be required for the short to medium term that some sort of grant is provided by GOTT to TTEC as a subsidy. The market is not always the best determinant of price.

19.. The accounts of TTEC must be restructured or disaggregated to show all costs centres. Given the type of computer software currently available, that should be easy to do.

20.. Given the economic development taking place in the country, and recognizing the time lag in bringing in additional generation capacity on stream, it is incumbent that additional capacity in discrete economic size units be phased in so that economic and social developments are not frustrated. The State may need to consider grants for capital investment as its part in contributing to the social and physical infrastructures for national development.

21.. Since retro-activity may not be an option, it may be useful for the Utilities to submit their application 12 months in advance of the due date to permit adequate processing time until the RIC gets its act together for efficient delivery of decisions

22.. The RIC may need to set up an Intelligence Gathering System to always have up to date information for close monitoring of the Utilities. This has to be more advanced than what currently exists.

23.. There is a need to set International Standards in all or most areas of the corporation's activities to deliver quality service.

24.. There is no good reason why some costs are automatically passed on to the consumers e.g. exchange rate and fuel costs. That is monopoly pricing for private enterprise. This must change. On the other hand sharing the increase is desirable otherwise efficiencies may not be derived.

25.. Consideration may be given to encourage competition

26.. For a fully owned state entity it should not receive a return on equity because it is taxpayers moneys that were used

Recommendation

Taking account of the above, our recommendations are as follows:

1. Follow the procedures as laid down in the RIC Act and review the rates and charges every 5 years. Some flexibility may be required from time to time.

2. Agreeing that electricity is a basic commodity and that there are more than 350,000 consumers, any increase in rates will be pervasive throughout the economy and therefore increase the cost of living

3. Given the limited information currently available in the public domain, and having regard to the fact that the RIC is still consulting stakeholders across the country to get information and data to make a decision, the GCCIC recommends a decision be delayed until a comprehensive review of the case is made. Nevertheless, a reasonable time frame for the decision should be given.

4. If any interim relief is being considered, it should not exceed the inflation rate as published by the CSO

5.. There must be no retro-activity in the RIC's decision for a rate increase. Any adjustments must be prospective because of cost implications.

6.. Trade-offs. Any decision must be fair and reasonable and must take account of the interests of all Parties in terms of the financial viability of TTEC; protection of the interests of consumers on the basis of price, quality and reliability of services; and efficiency of operations by service providers, according to Sections 48 and 67 of the RIC legislation. The Chamber does not envy your task.

7.. In making a decision on an issue of rate increase, the RIC may have to adopt the middle course and avoid displeasing too many stakeholders. This may not always be an easy decision given the nature and complexity of the exercise. We trust in the RIC's good judgment which in any event will need a public explanation.

Yours truly,

Alvin Seereeram

For President, GCCIC