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A GREAT VALUE: Electricity enhances the quality of life for its users, and contributes to the progress and success of our nation.

Photo Courtesy: National Academy for the Performing Arts (NAPA)
ANNUAL PRICE ADJUSTMENTS

Are they a necessary feature of incentive regulation?

SHOULD ANNUAL PRICE ADJUSTMENTS BE ABOLISHED?

It is generally accepted that incentive regulation seeks to mimic the discipline of a competitive market. In a competitive market the presence of competitors leads firms to seek efficiency gains which are passed to customers in the form of lower prices in an effort to gain increased market share. Prices can therefore change frequently. Hence, theoretically, if the regulated sector were achieving the same productivity gains as other competitive sectors in the economy (as well as the same level of input price inflation) the discipline of competitive forces could be replicated by limiting the growth rate of regulated prices to the economy-wide rate of inflation. These assumptions of course do not hold in every instance and hence the X-factor or productivity adjustment, in practice, is set by a variety of methods.

An important feature of incentive regulation is that once the pricing principle/formula is established, the regulator does not adjust the pricing principle/formula within the regulatory control period, to reflect any changes between the actual and forecast revenue requirements. Service providers have to manage any differences between forecast costs, determined by the regulator, and actual costs during the regulatory control period. To the extent that costs differ, the service provider retains the benefits or bears the loss. This is one of the central tenets of incentive-based regulation and it provides service providers with an incentive to efficiently control their costs.

The above underlies the fact that in seeking to replicate a competitive market, the methodology favours more frequent rather than less frequent price movements. Indeed, annual price adjustments hold two important advantages:

1. The first being, in instances where upward price adjustments are needed these can be phased in gradually and thereby allow customers to make small incremental adjustments to their budgets rather than having to cope with larger, though less frequent adjustments. Indeed, the aim to achieve full cost reflectivity with a one off increase can lead to price shocks for customers, even leading to significant increases for some customer classes. This is why some customers may prefer a 5% increase each year rather than a 30% increase every five years. Similarly, for some a 5% increase each year may be much more desirable than a 10% every other year. Rate increases are not popular. However, most rate payer seem to understand and accept small increases much better than large increases, even though the small increases are more frequent.

2. The second advantage rests with the service provider. Annual adjustments can stabilize a service provider’s financial footing by allowing it to better cope with increases in input prices. It improves cash flows and the service provider is less likely to face financial hardships as a result.

On the other hand service providers may argue that biennial price increases make it easier to align price adjustments to quality of service improvements which may take a longer time to achieve. However, from a regulatory standpoint quality of service improvements and the time-frame for implementing same are invariably taken into account when price controls are being reviewed.

The RIC notes that while regulators in other jurisdictions have made adjustments to the length of the regulatory period, to date, none has deviated from annual price adjustments. The RIC also understands that even though the first price control is almost at a close, the overall methodology, inclusive of annual price adjustments, is still new. Moreover, in a sector in which a general price review had been long outstanding prior to the RIC’s review for the 2006-2011 price control period, the idea of annual price adjustments is still novel. The RIC would also like to highlight the fact that the service provider had not implemented annual adjustments for all classes as and when due, leading in some cases to two adjustments being implemented simultaneously. This may have actually impacted negatively on certain customer classes. In fact, this has led some customers to believe that they were being subjected to a large one-off increase. The RIC understands that the service provider may have had good intentions for delaying some of these adjustments but believes that customers would have coped much better with smaller annual adjustments.

The RIC therefore welcomes views on the need for annual price adjustments.

FAST FACTS: SMART METERS

A smart meter is usually an electric meter that tracks how much electricity you use and when you use it and communicates this information back to the Service Provider for monitoring and billing purposes. A smart meter provides information concerning your electricity consumption which can help you manage your electricity costs. By automating the meter-reading function, smart meters deliver a number of benefits. Smart Meters:

- Help service providers identify power theft and respond to meter failures and outages more quickly;
- Provide greater operational efficiencies in distribution, which ultimately help to lower electricity distribution costs overall; and
- Contribute towards creating a conservation culture.
1. What exactly is a Standards Engineer?

The Standards Engineer in the RIC is an individual with a professional engineering background, preferably with at least five to seven years sector specific experience. He/she should possess a degree from a recognized University in any of the following disciplines: Mechanical; Electrical; or Civil Engineering.

2. What specific role does a Standards Engineer have at the RIC?

The Standards Engineer performs many duties at the RIC. He/she is a member of the Technical Operations Department and contributes to several of the department’s functions. A major role is to establish and monitor the technical standards, which govern the quality of service provided by the utility to its customers. He/she also assists with the investigation of complaints and the enforcement of compliance by the utilities to the technical standards through inspections and investigations. The work of the Standards Engineer usually becomes accessible to members of the public after he/she has prepared various reports and research papers which are then disseminated for consultation or publication.

3. How does a Standards Engineer go about gaining and maintaining the confidence and cooperation of those contacted during the course of work?

By treating each and every relationship in the same way by:
• Being consistent in my actions regardless of the other party’s standing relative to mine.
• Gaining their trust by keeping my promises and honoring commitments.
• Being able to empathize and understand why the person requires my best performance.

4. What three main attributes and/or competencies does a Standards Engineer need in order to be efficient?

I think the three main things are:
• THOROUGHNESS – From the initial contact with either internal or external clients, the Engineer has to ensure that their needs/requirements are properly assessed through active listening and discussion. This in turn minimizes the time spent in providing them with an optimal response.
• PERSEVERANCE – At times it is difficult to obtain information and perseverance goes a long way in ensuring that all avenues are explored in order that an accurate assessment is conducted in a prompt and efficient manner.
• ADAPTABILITY – Although there are aspects of the job that are routine, the Engineer must always be able to respond to situations that challenge you to broaden your area of expertise quickly.

5. What’s your personal credo and how does it strengthen your role and responsibility here at the RIC?

My personal credo is, that “each person should be afforded respect”. I believe that by treating everyone I come in contact with at work in a professional and fair manner that I support the RIC in upholding its mandate of service to the wider community of Trinidad and Tobago.
On June 1, 2006 the Regulated Industries Commission (RIC) released its Final Determination for the electricity transmission and distribution sector for price controls that would apply from 1 June 2006 to 31 May 2011. The release was preceded by extensive consultation and analysis by the RIC, the aim of which was to ensure that the final determination took into consideration the views of all the relevant stakeholders as well as all pertinent information.

This approach was in keeping with the RIC’s policy of transparency and openness and its mandate under Section 6(2) of the RIC Act, Chapter 54:73, to consult with interested parties in matters before the Commission, it was important for everyone to be able to participate and have the opportunity to express their opinions on the formulation of recommendations. Therefore, an integral part of the RIC’s methodology had been to engage in broad-based consultation with key stakeholders and the general public so as to ensure that the rate review process was meaningful and effective. It was also felt that public consultation would assist the RIC in identifying and balancing competing interests before arriving at a preferred approach. The RIC therefore sought to:

- Facilitate and encourage input from all stakeholders;
- Inform stakeholders of the key issues, the overall review process and next steps in the review process; and
- Inform stakeholders on how to participate in the review.

The consultative process adopted utilized consultation and information papers, public/open forums, appearances on radio and television, publication of newspaper supplements, hosting of press conferences and establishment of a dedicated area on the RIC’s website.

**The Price Review Process**

In the RIC’s Framework and Approach document (2005) it noted that the price review would be conducted in four broad phases as follows:

- **Phase 1**: Developing the rate review framework and establishing service standards;
- **Phase 2**: Identifying and resolving detailed issues, that is, resolving detailed issues identified in the rate revision framework;  
- **Phase 3**: Undertaking the rate determination, that is, the process leading up to the final rate determination; and
- **Phase 4**: Implementing the rate determination, which relates to the introduction and monitoring of the final rate determination.

This approach was followed and the RIC incorporated a number of strategies for achieving successful and meaningful consultation with all interested parties in the price review. These strategies are reviewed in detail in the following sections.

**Consultative Process**

Underlying the RIC’s consultative process was its mandate to be transparent in the determination of tariffs, at the heart of which was taking into account the view of stakeholders and representatives of consumer interest groups and any other interested parties. Furthermore, the RIC believes that, in making its determinations/decisions, it must publish full and reasonable details of the basis of and rationale for the determinations/decisions including but not limited to the following:

- The qualitative and quantitative methodologies applied including any calculations and formulae; and
- Options considered and decisions exercised that have a material bearing on the outcome of the determination/decision.

To pursue these objectives, the RIC sought ways to maximize its interaction with stakeholders and all other interested parties and improve the effectiveness of the consultative process.

Generally, in undertaking consultations, the RIC’s process involves the prior release of consultation documents and hosting public information sessions and discussion forums. In the case of the electricity transmission and distribution review, the RIC’s consultative process comprised the three stages:

**STAGE 1** - The RIC released its Consultative Document, “Information Requirements: Business Plan 2004-2008 (November 2004)”, which provided guidance to the service provider on the preparation of its price review submission. The aim of this document was to have the service provider present its submission and other information in a consistent format. This document was placed on the RIC’S website for public scrutiny.

**STAGE 2** - The RIC released eleven consultative documents, including a methodology paper, “Setting Price Control: Framework and Approach (April 2005)”, which presented the RIC’S initial thinking on the methodology that would be used to arrive at the service provider’s price controls. This was followed by the first consultation which was held in Port-of-Spain on May 10, 2005. Public notices for this consultation were issued in the daily newspapers. Eight open house consultations were also held in different parts of the country to enable the public to express their views. The RIC also engaged a consultant (Kenesay Systems Limited) to provide advice on the investment programme of T&TEC and on an appropriate asset valuation methodology. Round table discussions on the preliminary views of the consultant’s work were also held. The RIC received approximately 93 objections/comments from the public. The public meetings also provided a forum for participants to ask questions, air their concerns and issues, and obtain clarification on the RIC’s processes. The RIC considered all the comments/responses provided by the public and T&TEC in finalizing its Draft Determination.
**STAGE 3** - The RIC held a Press Conference and released its Draft Determination on January 18, 2006 during which a PowerPoint presentation was made and a hard copy of the Executive Summary and a soft copy of the full document were distributed. The Draft Determination was also placed on the RIC's website (www.ric.org.tt) on the same day. A supplement summarizing the RIC's Draft Determination was published in the daily press on January 19, 2006 and the public was given until February 17, 2006 to submit their written comments. The RIC staff appeared on three television stations as well as on radio talk shows. Additionally, the RIC organized five (5) public consultations which were organised to garner the views of a wide cross section of consumers, as well as give the stakeholders an opportunity to be heard and make representations to the RIC. At these meetings, the RIC elaborated its tariff proposals via a PowerPoint presentation and the public was given an opportunity to present suggestions, pose questions and to express their concerns.

The consultations were held as follows:
- **Port-of-Spain - February 06, 2006**
- **Arima - February 06, 2006**
- **Chaguanaas - February 07, 2006**
- **San Fernando - February 09, 2006**
- **Tobago - February 10, 2006**

**Key Strategies**

As noted above, the RIC employed a number of strategies to achieve its aims for the consultative process, which included the following:

- **Consultative and information papers** aimed at informing stakeholders of all the pertinent issues surrounding the price review.
- **Public/open forums** that provided key stakeholders and customers in particular with opportunities to share their views/comments and discuss the issues involved in the price review.
- **Appearances by key staff on radio and television programmes** to share important information with the public as well as to answer questions posed by members of the public in the call-in segments of these programmes.
- **Publication of newspaper supplements on key issues and decisions concerning the price review in widely circulating newspapers.**

- Hosting of press conferences to ensure that the public at large was kept informed at each stage of the price review process.
- The RIC also established a dedicated area on its website (www.ric.org.tt/T&TECpriceReview) for T&TEC's price review. At this site, stakeholders were able to view and download copies of all consultative documents, any submissions received in response to those papers, updates on the progress of the review, and information on how to participate in the various stages of the review.

### Quarterly Complaints Report

**APRIL - JUNE 2011**

**COMPLAINTS REPORT FOR 2ND QUARTER for 2011**

<table>
<thead>
<tr>
<th>STATUS</th>
<th>APR '11</th>
<th>MAY '11</th>
<th>JUN'11</th>
<th>TOTAL</th>
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<tbody>
<tr>
<td>Number of complaints received</td>
<td>186</td>
<td>232</td>
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<td>Number of complaints resolved</td>
<td>116</td>
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<td>Number of complaints unresolved</td>
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<td><strong>RESOLUTION RATE FOR COMPLAINTS RECEIVED</strong></td>
<td>62%</td>
<td>50%</td>
<td>65%</td>
<td>58%</td>
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<td>No. of outstanding complaints resolved</td>
<td>78</td>
<td>64</td>
<td>117</td>
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<tr>
<td>Total number of complaints resolved</td>
<td>194</td>
<td>180</td>
<td>229</td>
<td>603</td>
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</tbody>
</table>

**REBATE/COMPENSATION AWARDED TO CUSTOMERS FOR 2ND QUARTER 2011**

$215,050.00

**800-4RIC (4742)**
Addressing the Affordability of REGULATORY PRICES

In fulfilling its role as the economic regulator of the electricity sector, every five (5) years the RIC reviews the principles and methodologies for determining rates and charges for services under its jurisdiction. In setting price controls, there are a range of matters that the RIC is required to have regard to, including the ability of consumers to pay rates and the funding and ability of the service provider to perform its functions. This therefore presents a challenge:

- How does the RIC take into account the social impact of prices while ensuring that the service provider can carry out and finance its operations?

Well, an important first step in contributing to the promotion of social equity is for mechanisms designed to manage affordability issues be put in place. These mechanisms include: a lifeline block in the tariff structure for consumption-related tariff and explicit, targeted subsidies to low income and vulnerable groups in society.

AFFORDABILITY

In setting price limits, the RIC aims to strike the right balance and is guided by a range of matters, in particular:

- Ensuring, as far as is reasonably practicable, that the service provided by a service provider operating under prudent and efficient management will be on terms that will allow the service provider to earn sufficient return to finance necessary investment;
- Ensuring maximum efficiency in the use and allocation of resources and ensuring as far as reasonably practicable, that services are reliable and provided at the lowest possible cost;
- The ability of consumers to pay rates;
- Ensuring fair treatment of consumers and of service providers similarly placed; and
- The public interest.

Given the above factors, the RIC sets price limits to meet the service provider’s total revenue requirement, while setting tariffs for customers in a way that reflects the lowest possible cost of providing service to them. However, the established tariffs are likely to have a disproportionate impact on different customers’ ability to pay, thereby giving rise to the issue of the affordability of the service. Additionally, the affordability of the service is influenced by:

- Availability of rebates/concessions;
- Availability of payment options;
- Assistance offered for payment difficulties in the form of payment plans; and
- Restrictions for non-payment.

The affordability and equity of regulatory prices is of particular concern since the RIC must take into account the social impact of prices. The affordability of electricity may affect some or all customers and may be the result of the absolute price of the service or the rate of increase of the price of the service. The way the RIC treats with issues concerning the affordability of prices will depend on specific characteristics of the particular affordability issue. For a particular class of customers, for example pensioners and those who receive fixed incomes; electricity prices may be too high relative to their income levels. As electricity is an essential service and access to it is necessary for a basic standard of living and the general welfare of society, its affordability for these customers is of major concern to the RIC.

Transitional affordability issues may arise when prices increase quite suddenly, for example, after a long period of time. Prior to the electricity rate increases established/determined in June 2006, customers had not experienced an increase since 1992. Consequently, customers may not have planned for these increases and may have faced difficulties paying their electricity bills. Finally, an increase in prices may place an unfair burden on current customers due to infrequent, large capital investments. This increased capital expenditure is likely to give rise to equity issues between present and future customers, i.e. intergenerational equity issues, as an excessive burden will be placed on current customers to fund this “lumpy” investment from which future customers will also benefit.
DEFINING ELECTRICITY AFFORDABILITY

There are a number of methods that are used to assess electricity affordability. It is widely recognised that certain individuals are particularly vulnerable to energy poverty and affordability issues. For example, pensioners and disabled individuals are doubly affected, because in addition to being more likely to be at home for longer hours and hence likely to having higher energy costs, they are also likely to be more vulnerable due to their fixed income levels.

Classification of Affordability Instruments

According to the World Bank, affordability instruments are generally classified based on certain characteristics and the choice and implementation of affordability instruments will depend on the following criteria:

1. The instruments can be considered either supply side or demand side.
   a. Supply-side instruments are directly given to service providers, thereby reducing the prices to all customers.
   b. On the other hand, demand side instruments are directed towards customers or subsets of customers, thereby reducing the prices paid by customers without reducing the service provider’s cost.
2. Some affordability instruments fall within the purview of the regulator, while others are delivered via a government’s income support and social security benefits system or even through direct payment to the service provider.
3. Affordability instruments can either be funded by cross-subsidies or by taxpayers through government payments. Fourthly, an instrument can either be general or specific in its focus. General instruments reduce prices to all or most customers, while specific instruments reduce prices for particular customers.
4. Affordability instruments may be either on-going or transitional, where assistance is for a limited time.

TYPES OF AFFORDABILITY INSTRUMENTS

The instruments available to address affordability concerns include Supply-side Measures & Demand-side Measures.

Supply-side Measures

- Supply-side measures are normally general in nature as they cannot discriminate between different types of customers. Government-delivered supply-side measures such as operating subsidies, capital subsidies, etc., reduce the service provider’s cost, thereby reducing the tariffs to all customers.

Demand-side Measures

- Overall, demand-side measures facilitate customer choice and can be price-based (e.g. variable tariff structures, targeted price concessions), or non-price based, such as information services, grants to purchase energy-efficient appliances, etc.

RIC’S MITIGATION STRATEGIES

In its first control period, the RIC established the various tariff categories and the corresponding tariffs for the various consumer categories. The increases implemented varied across consumer categories with the lowest increase for lower income groups. With respect to low income and vulnerable groups, the RIC’s three main strategies for reducing the impact of increased prices in the first year of the first control period were:

(a) A Discount Plan/Tariff Mechanism: The RIC utilized an inclining block tariff structure that incorporated a life-line tariff which allowed the households to pay at a lower rate for a certain monthly consumption level, and the discount varied with customer’s usage, for example:
   - customers using up to 400 kWh bi-monthly enjoyed a discount of 44.9%;
   - customers using 401 – 1,000 kWh enjoyed a discount of 29.7%; and
   - customers using over 1,000 kWh enjoyed a discount of 19.1%.

The RIC also applied a fixed dollar discount on the residential customer charge and a fuel cost subsidy.

(b) A Low Income Assistance Programme: T&T was required to establish a special fund of $5 million annually to cater for the special needs of those who may still experience difficulty in paying their bills. This fund was available for customers who would have been identified by the Ministry of Social Development as being in need and whose usage fell below 400 kWh bi-monthly. T&T was also required to maintain a register of customers in need and the fund was to be used for:
   - customer bill assistance (that is, a maximum of 7% and 5% of customer’s bill for customers using less than 100 kWh and between 101 to 400 kWh respectively);
   - appliance repair assistance; and
   - arrears forgiveness.

Other measures under the low income assistance programme included:
   - waiving of interest payments on outstanding accounts;
   - protection from service termination (some forms of non-payment were not to be tolerated i.e. illegal tampering of meters); and
   - extended payment arrangements i.e. the option of arranging alternative payment schedules and deferring payments.

(c) An Energy Efficiency Programme: This demand side programme was centered on education of consumers to encourage the reduction and management of energy consumption so as to control bills by wise usage.

The RIC invites comments on the issues discussed in this document.
## Stakeholder Responses - At-A-Glance

Since the beginning of this year the RIC has been inviting public comment on various consultative papers. A quick reference of the comments received so far is provided below.

<table>
<thead>
<tr>
<th>CONSULTATIVE PERIOD</th>
<th>PAPERS</th>
<th>COMMENTS RECEIVED</th>
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<tr>
<td>Start Date: January 10, 2011</td>
<td>Improving Transparency and Accountability in the Electricity and Water Sectors</td>
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<td>Stakeholder Involvement in Regulatory Decision-Making</td>
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<tr>
<td>End Date: February 25, 2011</td>
<td>Information Requirements: Business Plan - June 01, 2011 – May 31, 2016 - Trinidad &amp; Tobago Electricity Commission</td>
<td>Oilfield Workers Trade Union (OWTU) commented on all 4 papers</td>
</tr>
<tr>
<td>Start Date: May 9, 2011</td>
<td>Treatment of Pension Costs for Regulatory Decision-Making</td>
<td>Ann Mccarthy and David Renwick</td>
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<td></td>
<td>Regulating Quality of Service</td>
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<tr>
<td>End Date: July 1, 2011</td>
<td>The Treatment of Input Price Inflation in Price Control Reviews</td>
<td>Ann Mccarthy, David Renwick and Kevin Baldeesingh</td>
</tr>
<tr>
<td>Start Date: June 22, 2011</td>
<td>Po Adjustment - Passing Cost Savings to Customers</td>
<td>T&amp;T Association of Responsible Persons (TARP)</td>
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<td></td>
<td>Annual Price Adjustments - Are they a necessary feature of Incentive Regulation?</td>
<td>Peter Armani, T&amp;T Association of Responsible Persons (TARP)</td>
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<td>End Due Date: August 19, 2011</td>
<td>Determining the Length of the Regulatory Control Period</td>
<td>T&amp;T Association of Responsible Persons (TARP)</td>
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<td>Addressing the Affordability of Regulatory Prices</td>
<td>T&amp;T Association of Responsible Persons (TARP)</td>
</tr>
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**TAP into this...** **Water Conservation TIPS**

- Keep a bucket in the shower to catch water as it warms up or runs. Use this water to flush toilets or water plants.
- Wash your pets outdoors in an area of your lawn that needs water.
- Turn off the water while you wash your hair to save up to 150 gallons a month.
- Listen for dripping faucets and running toilets. Fixing a leak can save 300 gallons a month or more.
- Report broken pipes, open hydrants and errant sprinklers to the property owner or your water provider.

**TIPS COURTESY: www.wateruseitwisely.com**

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**save money on your next electricity bill**

**COMPUTERS:** Enable the “sleep mode” feature on your computer, allowing it to use less power during periods of inactivity. In Windows, the power management settings are found on your control panel.

**LIGHTING:** Turn off the lights when not in use or when leaving a room. Use “task lighting” rather than lighting the whole room unnecessarily for close work.

**ELECTRIC STOVES:** When buying a new stove, choose one with a convection oven. This type of oven uses less energy than conventional ovens and cooking time is substantially reduced.

**CLOTHES DRYERS (TUMBLE):** Clean the lint filter on the dryer after each operation to maintain full airflow and to maximize the drying efficiency.

**AIR CONDITION:** Clean or replace the air conditioner filter regularly to help it run more effectively.

**FREEZER:** The freezer should be kept as full as possible to prevent heavy icing.

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**REGULATED INDUSTRIES COMMISSION**

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