

REGULATED INDUSTRIES COMMISSION

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STRENGTHENING TIES IN TOBAGO: participants at the recently held Working Lunch hosted by the RIC with representatives of key bodies in Tobago including the Division of Infrastructure and Public Utilities (THA), Chamber of Industry & Commerce, Consumer Affairs Division, Consumer-interest groups and NGO's.



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STRENGTHENING TIES IN TOBAGO

In keeping their mandate, to consult with stakeholders, utility regulators in general utilize various channels and techniques to create opportunities for stakeholder engagement and involvement. In the past, the range of involvement techniques included largely passive approaches such as, press advertisements and newspaper supplements, with community meetings interspersed. However, the turnout and the level of stakeholder participation continue to be particularly disappointing especially in the case of the latter.

As a means of strengthening ties between the RIC and our stakeholders in Tobago, on Thursday 15th September 2011, the RIC hosted a Working Lunch at the Kariwak Village Holistic Haven & Hotel. In attendance were key officials and opinion leaders including representatives of the Division of Infrastructure and Public Utilities, Chamber of Industry & Commerce, heads of active Consumer-interest groups, and Non-Governmental Organisations.

Recognizing the differences in culture, the objective of the meeting was very simple: give Tobago residents the opportunity to spell out their preferences for public engagement. In the past, approaches adopted in Trinidad were simply exported to Tobago wholesale and expected to be just as effective in garnering stakeholder involvement. However, stakeholder engagement implies understanding

Tobagonians' unique cultural perspectives and their views and taking them into consideration, being accountable to them when accountability is called for, and using the information gleaned from them to drive innovation.

In discussions, it was acknowledged that the complexity of the decision-making process, coupled with the fact that customers may not understand the costs and benefits associated with alternative approaches plus a feeling of being insufficiently informed to participate effectively, may all contribute to the lack of involvement. In light of this, specific methods for improving engagement were discussed which included:

- **Determining appropriate ways to engage with customers and other stakeholders;**
- **Simplifying the price setting process, reducing the amount of technical information involved and making information more accessible and easier to understand; and**
- **Identifying core issues that require customers/stakeholders engagement.**

With these deliberate efforts to involve and engage Tobagonian stakeholders, it is hoped that their participation would increase the legitimacy and the effectiveness of the consultative process.



Mr. Hilton Sandy - Secretary of Infrastructure & Public Utilities makes a point.



Customer Services Manager, Mohan Chadee, delivers his presentation.

The RIC welcomes three new recruits to the Commission, all of whom are eager to adopt the superior work ethic and dedication that the RIC values. All three are poised to make a valuable contribution to the RIC and we are proud to have them as part of our team.



Rishi Maharaj
Assistant Executive Director,
Economics & Research

Rishi Maharaj brings to the RIC experience gained from working in the field of Regulatory Policy as an Economist with one of this country's telecommunication services provider for cellular services and has a wealth of experience in utilizing economic techniques and research principles in the analysis of costing and pricing models. As a former Part-time Lecturer at the University of the West Indies and a Management and Research Consultant with a local Trade Union, his efficiency at managing teams was acquired. His qualifications include: Bachelor of Science, Economics (Major), Management Studies (Major) with First Class Honours and Master of Science in Economics, (2004) and (2006) respectively, both from the University of the West Indies. He is currently pursuing a Master of Philosophy Degree with concentration in Regulatory Policy and Labour Markets.



Nadia Joseph
Administrative Assistant

Nadia Joseph has joined the RIC as the Administrative Assistant in the Customer Services Department. Prior to this, she served quite competently in an administrative capacity at DirecTV Trinidad Limited. This avid reader is pursuing a Diploma in Human Resource Management at SBCS Limited, is an active member of her church choir and enjoys cooking.



Darcel Silva
Administrative Assistant

Darcel Silva joined the Corporate Communications Department of the RIC on Monday August 8th 2011. She holds a BA (Hons) in Business Management from the Anglia Ruskin University (UK). Darcel previously worked with the Corporate Communications Department of the Ministry of Science, Technology and Tertiary Education. This seasoned Communications Assistant is accustomed to the demanding environment of Communications and has without difficulty blended into this department, and with the RIC family.



Quarterly Complaints Report

JULY - SEPTEMBER 2011

COMPLAINTS REPORT FOR 3RD QUARTER for 2011

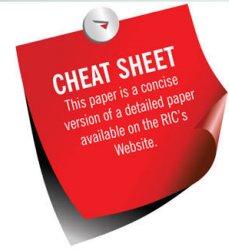
STATUS	JULY '11	AUG '11	SEPT '11	TOTAL
Number of complaints received	166	241	220	627
Number of complaints resolved	106	172	145	423
Number of complaints unresolved	60	69	75	204
Number of complaints withdrawn	0	0	0	0
RESOLUTION RATE FOR COMPLAINTS RECEIVED	64%	71%	66%	67%
No. of outstanding complaints resolved	62	72	103	237
Total number of complaints resolved	168	244	248	660

REBATE/COMPENSATION AWARDED TO CUSTOMERS BETWEEN JULY 1st 2011 - SEPTEMBER 30th 2011

\$453,858.00



PERFORMANCE MONITORING & REPORTING



Introduction

The duty of the Regulated Industries Commission under the RIC Act, Chapter 54:73, Section 6, is to prescribe standards for services, to monitor the service providers, and conduct checks to determine their compliance with the standards, as well as to carry out studies of efficiency and economy of operation and of performance by service providers and publish the results thereof. Additionally, in Section 56, the Act empowers the Commission to collect and compile any information which may be of assistance in the exercise of its functions. Against this background, the RIC published the Performance Monitoring and Reporting (PMR) framework for the electricity sector.

It was indicated in the PMR that performance monitoring and reporting can be a significant performance driver and a useful tool for:

- **Informing customers and other interest groups about the level of service they are receiving;**
- **Providing information and data for developing regulatory standards where required and for on-going assessment of compliance with such standards;**
- **Informing the decision-making processes of regulators; and Identifying baseline performance of service providers as well as comparing relative performance with other utilities.**

The performance indicators are grouped in the following categories:

- **Baseline explanatory data**
- **Quality of supply**
- **Network reliability and efficiency**
- **Customer responsiveness and service**
- **Financial performance**
- **Affordability**

Monitoring T&TEC's Performance

During the first regulatory control period, the RIC provided templates that T&TEC used to supply the data needed to calculate the performance indicators. The RIC collected data from T&TEC at regular intervals and produced annual Performance Monitoring Reports. The RIC indicated that it would publish these reports on its website to facilitate access by the media and other interested parties. It was expected that the reports would highlight T&TEC's performance for the respective period, bringing it under the scrutiny of the various stakeholders, and thereby motivating performance improvements and efficiency gains in T&TEC's operations. Analyses were done on T&TEC's performance with respect to the quality



of service standards and specific directives outlined in the Determination and two reports were produced for the periods 2006 to 2008 report and 2008/2009. The reports produced thus far have provided much detailed and in-depth analyses of T&TEC's performance.

Issues Encountered

From inception, there have been problems with obtaining all the data specified by the PMR. In the initial stages of implementation, T&TEC indicated that some of the data requested were more pertinent for the electricity generators. In some cases, data were not available in the format indicated in the PMR, because the basis on which T&TEC collected the data differed from what was specified. Some data were also unavailable because of technical issues with T&TEC's data collection system, such as breakdowns and computer virus infection. There were also issues with the integrity of data submitted by T&TEC. Some data were inaccurate, and unreliable because of the basis on which they were determined. Additionally, data were not consistently supplied by T&TEC in a timely manner.

Conclusions & Proposals

The RIC intends to continue monitoring the performance of T&TEC using the relevant performance indicators. However, the RIC will initiate a number of measures to improve its monitoring and reporting activities. Among these are:

- *Reviewing the templates used to collect data from T&TEC and making adjustments where necessary, to ensure greater relevance in the data reported by the service provider. Since T&TEC is fully responsible for the operation of the Cove Estate Power Station, as well as electricity generating units in Scarborough, Tobago, the RIC intends to include the appropriate operational indicators in its monitoring of the service provider;*

Table - List of Major Indicators

- The requiring of the service provider to employ an independent audit of its data collection and dissemination system to verify that the data and computations used to derive the values of the indicators are both valid and reliable. The RIC will also ensure that the independent auditor's report is made public;
- The employment of all its enforcement powers contained in the RIC Act, to obtain timely and reliable information from the service provider, including: caution letters, publication of Non-compliance Orders in the media and any other action necessary to achieve compliance;
- Reporting on an abbreviated list of major indicators semi-annually to give a snapshot of the performance and financial health of the service provider. In order to create a broad picture, indicators were chosen to cover financial health, electrical efficiency, reliability, operational efficiency and customer responsiveness. The rationale behind the list of indicators chosen is to depict the overall health and performance of the service provider using no more than six indicators that may be of interest to customers and easily understood by them (see Table below); and
- The inclusion of the above "traffic signal" indicators in the electricity bills of customers.

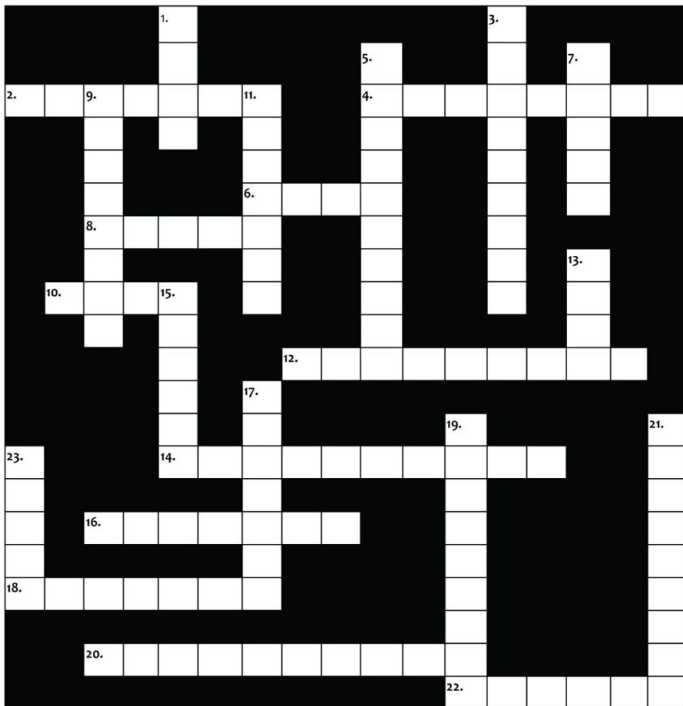
The RIC will continue to produce the detailed report, and make it available on the RIC's website. The in-depth analysis of the report provides a rigorous level of scrutiny of the service provider's operation which is beneficial to the RIC's role as the regulator. In addition to the in-depth report, a more reader-friendly version of the report will be prepared for the purposes of engendering public and media discussions. This report will also be published using various other media, including newspapers, the internet (allowing readers to post their comments), and social networking technologies such as Facebook and Twitter.

INDICATOR	WHAT IT MEASURES
Total System Losses <i>(Transmission & Distribution)</i>	The amount of electrical energy that is lost in the system
Current Ratio	Financial Health – Liquidity
% Net Profit	Financial Health – Profitability
SAIFI <i>(System Average Interruption Frequency Index)</i>	Reliability
Customers per Employee Ratio	Operational Efficiency of the company
Written Complaints Response Rate	Customer Responsiveness

The RIC invites comments on the abbreviated list of indicators chosen, method of publication proposed and any other comments.



Crossword Puzzle



DOWN

- When disconnecting an extension cord, pull from this.
- For high wattage appliances _____ extension cords should be used.
- A type of item that should not be handled when wet.
- In a polarized plug one prong is said to be _____.
- A damaged extension cord should be _____.
- Lightning hits the _____ object, so get down if you're outdoors.
- To homeowners, an inspection certificate of approval is valid for these amount of years.
- The feeling an electrical shock gives you.
- These should be kept away from children to eliminate the risk of an accidental fire.
- This is about to strike if you are outdoors and feel a tingling sensation.
- When not in use, all small electrical appliances should be?
- Stay away from these if you are outdoors during a storm.

ACROSS

- This can be overloaded by plugging in too many items in the same outlet.
- To avoid a power line you must first be aware of its _____.
- The build up of this can cause a fire. Found in your dryer.
- To be safe you must first be _____.
- It's advisable that you keep 10 of these away from a power line.
- One prong in the plug of an extension must be this.
- It is best to do this to candles as soon as you are finished with them.
- Fallen power lines should not be _____.
- If your electrical system makes unusual sounds like _____, it is a warning sign of a home wiring electrical hazard.
- An action taken in advance to protect against danger.
- Heavy duty extension cords should have 3 prongs or conductors, one of which is a _____ wire.



Review of the Approach to Capital Investment & Outputs



CHEAT SHEET
This paper is a concise version of a detailed paper available on the RIC's Website.

The RIC, according to Section (6)(1)(c) of the Act, has a duty “to ensure, 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”. Additionally, Section (6)(3)(a) requires the RIC to consider, “maximum efficiency in the use and allocation of resources to ensure as far as is reasonably practicable, that services are reliable and provided at the lowest possible cost”. It must also have regard to:

- **The ability of consumers to pay rates - Section (67)(3)(c); and,**
- **The replacement capital cost expended, least-cost operating expenses which may be incurred, annual depreciation, return on the rate base; Section (67)(4)(a) – (d).**

The Act outlines the duration of the regulatory control period, as Section (48) mandates the RIC “to review the principles for determining rates and charges for services every five years, or where the licence issued to the service provider prescribes otherwise, at such shorter interval as it may determine”. Additionally, under Section (47) of the Act, service providers cannot demand or receive a rate greater than:

- **The maximum rates permitted –**
- Under the principles established by Regulations made under this Act; or
- By a licence; or,
- **Any other rate determined by the Commission in accordance with this Act.**

Working within this legal framework, the RIC establishes prices that are expected to recover the efficient costs of providing service, by applying the building block approach to the determination of service providers' costs and expected revenue requirements. This is done by considering the components or “building blocks”, and is generally given by the following equation (Figure 1 shows the main elements of the building-block approach):

$$Rev = (WACC \times RAB) + Dep + Efficient Opex$$

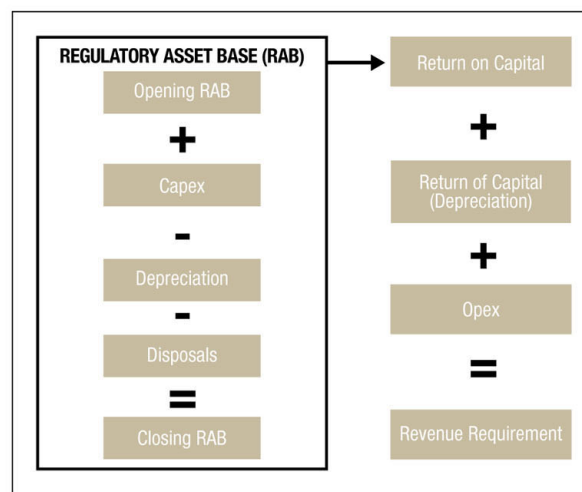
Where:

- *Rev is the allowed revenue requirement*
- *Dep is regulatory depreciation*
- *Opex is the forecast efficient operating expenditure*
- *RAB is the regulatory asset base*
- *WACC is the weighted average cost of capital*
- *WACC X RAB establishes the return on capital allowed over the same period.*

Capex enters the revenue requirement of service providers indirectly through the return on capital (WACC X RAB), which enables the recovery of costs related to the providers of equity and debt and through the return of capital or depreciation, which is based on the forecast RAB and enables the recovery of invested capital. More specifically, past Capex is included in the starting RAB and the forecast Capex is added to the forecast of the annual RAB in the forthcoming control period.

FIGURE 1

Building-block Approach to Revenue Requirement



The RIC engages in careful and thorough assessment of the service provider's proposed capital programme, to ensure that approved Capex is prudent, and consists of projects that are necessary to deliver a satisfactory and adequate level of service, that is provided at the most efficient cost. In fact, the assessment involves two steps:

- **Review of the actual Capex of the previous control period (ex-post assessment) - this is done in order to determine the prudent and efficient level of Capex that would be included in the opening value of the RAB, at the start of the next regulatory control period; and**
- **Review of the forecast Capex for the subsequent (future) regulatory control period to establish the efficient and necessary level of Capex that will be required for the provision of services. This Capex is included when the RAB is rolled forward, thereby establishing the values of the RAB for each year of the regulatory control period.**

The opening and annual RAB values determined by regulators are key inputs and determinants in the allowance for a return on assets and the allowance for a return of assets (depreciation). The RAB is in fact adjusted for additional Capex, depreciation and the disposal of assets. More specifically, new, efficient (approved) Capex is added to the forecast RAB and the return provided on this forecast RAB, is based on the application of a calculated weighted average cost of capital (WACC). The WACC is one of the most commonly used methods that regulators employ to determine the allowed return on capital, and takes into account an appropriate rate of return to debt and equity.

2.1 RIC's Current Approach to Assessing Capex

The overall aim of assessing the service provider's Capex is to ensure that proposed investments are necessary and efficient. Therefore, the level of Capex and the associated capital programme that is allowed is generally determined utilising a number of tools and methods such as:

Regulatory Assessment and Testing;

- **The Bottom-Up Approach;**
- **The Top-Down Approach; and**
- **Benchmarking.**

All standard forms of incentive based regulation set an ex ante allowance for Capex as part of the process of calculating the price limits. The broadly standard approach is to review the service provider's submitted business plan, primarily through bottom-up expert analysis. An adjustment for achievable efficiencies is applied, generally via benchmarking. Additionally, consumers are given ample opportunity to comment on the service provider's proposed Capex.

In order to assess T&TEC's proposed Capex, the RIC adopted a relatively intensive ex ante review of projects and undertook a number of measures. These measures and other decisions pertaining to Capex included:

- **The retention of a consulting firm to independently advise on an appropriate method for the valuation of T&TEC's assets and on whether or not T&TEC's proposed Capex was reasonable. In the case of the latter, the consultant was required to perform:**
 - (i) *Efficiency Tests – this would determine if the proposed Capex was representative of the best way to meet customers' needs for services.*
 - (ii) *Prudency Tests – such tests seek to establish whether or not the decision to invest is prudent, given the particular and specific circumstances at the time.*
 - (iii) *"Used and useful" Tests – essentially examines whether or not the particular assets/equipment/plant etc. are utilised in and contribute to, the provision of the particular service.*
- **Discussions/correspondence with T&TEC so that full and complete information could be provided to the consultant to undertake the required assessment. This facilitated the bottom up assessment of the capital programme and supported the decisions taken concerning the selection and execution of the programme.**
- **The categorisation of Capex according to four major categories: Transmission, Distribution, Other Network Related and Non-Network Related projects, thereby allowing in-depth analysis of the level and the timing of the proposed investments.**
- **A decision by the RIC to undertake ex-post review and assessment of T&TEC's Capex (ex-post prudence review) prior to the beginning of the second control period, with a clear indication that adjustments may be made for divergences of the actual outturn from forecast Capex.**
- **Providing a financial incentive to T&TEC through the adoption of an efficiency carryover mechanism. Such financial incentive**

mechanisms are used to encourage utilities to incur efficient expenditures. The RIC sought to incentivise T&TEC to improve its efficiency in delivery of the capital programme by establishing a Rolling Carryover Mechanism, which would allow T&TEC to retain a share of efficiency gains, in the delivery of the capital programme, over a five year period.

- **The employment of a Capex monitoring programme that required quarterly and annual reporting by T&TEC on its capital expenditures.**

3.0 Actual Capex Outputs, 2006 -2011

The main objectives in the review of T&TEC's Capex are to assess whether the Capex has been incurred efficiently and the expected benefits have been achieved. Therefore, the RIC will examine the outturn expenditure with the allowed expenditure and the reasons for the differences between the allowed Capex and the outturn Capex.

T&TEC spent far in excess of the amount allowed in the Determination, on its capital programme. More specifically, the RIC approved a total of \$800 million to be spent over the entire control period, June 2006 - May 2011. However, by March 2011, T&TEC had utilised approximately \$1.9 billion for capital projects of which \$738.6 million was spent on Government projects which were ring-fenced by the RIC in its 2006 Price Determination, and for which Government only provided \$33.7 million. Thus project costs amounting to \$704.9 million which were to be funded by the State were in fact funded using tariff revenues. T&TEC's Capex for the five year period, on RIC approved projects was in excess of \$405 million over its allowed allocation. Further details are given in **table 1** below.

There has been no indication from T&TEC, of the root cause of the 50.7% increase in Capex above the RIC's allocation for the approved list of projects. In practice, increases of actual, over forecast expenditures, may be attributed to a number of reasons including: higher than anticipated prices of materials and or services used in the undertaking or delivery of projects; inappropriate or poor choice of forecasting methodology or inaccurate assumptions, resulting in an under-estimation of expected project costs; or poor implementation of the capital programme. In other instances, utilities have deliberately understated project costs in Capex forecasts, in order to have said projects included in the rate base, with full knowledge that in actuality such costs may be notably higher. Notwithstanding the particular reason(s) for T&TEC's overspending in this regard, it may be fair to assume that in an attempt to undertake both Government-directed and RIC-approved projects, notable competition for resources (financial and otherwise) may have resulted, which in turn could have led to a number of RIC-approved projects not being completed, and in other instances, not being started.

TABLE 1
T&TEC's Capital Expenditure 2006 - 2011 (TT\$ Millions)

	2006 - 2007	2007 - 2008	2008 - 2009	2009 - 2010	2010 - 2011	TOTAL 2006 - 2011
T&TEC's Total (Actual) Capex	228.00	385.00	268.00	204.00	859.04	1,944.04
T&TEC's Expenditure on RIC Approved Projects	100.90	134.60	90.20	120.80	758.94	1,205.44
RIC Approved Capex	153.20	191.40	169.40	137.80	148.20	800.00
Difference (T&TEC Expenditure on RIC projects – RIC Approved Capex)	-52.3	-56.8	-79.2	-17.0	610.74	405.44

Whilst the totals in the far right column are correct, the annual figures are to be adjusted, since inadequate information about the annual expenditure on ongoing projects, has been provided by T&TEC.

Utility Service Providers

AT YOUR SERVICE

CODES OF PRACTICES FOR T&TEC AS ESTABLISHED BY THE RIC:

PROVISION OF PRIORITY SERVICES FOR THE ELDERLY, DISABLED AND CHRONICALLY ILL



Modification of Buildings

► What T&TEC must do:

T&TEC must undertake the modification of all its buildings to facilitate easy access for the physically challenged and elderly persons by building ramps at the entrances as necessary. The provision of tactile signs for the visually impaired, bathroom facilities, etc. must also be provided.

Identification of Service Provider's Personnel

► What T&TEC must do:

Several methods of identification must be utilized when service provider personnel (or persons acting on behalf of the service provider) are on site visits, including identity cards, uniforms and use of vehicles carrying the name and logo of the company. Where possible, large prints substitutes for identity cards should be used in the case of customers who are visually impaired. The use of "passwords" for security purposes must also be included. Access must be sought at times convenient to customers.

Redirection of Bills

► What T&TEC must do:

Provide the option of redirecting bills to a nominated third party.

Large Print Needs

► What T&TEC must do:

Provide, on request by a customer, large print version of Customer Education Code (see Section 8), free of charge.

Advice on the use of Electricity

► What T&TEC must do:

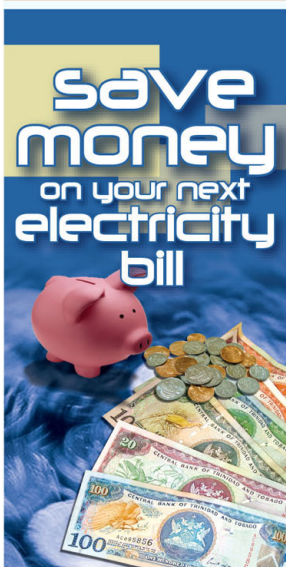
T&TEC must provide these customers on request and free of charge advice on:

- How these customers may reduce their electricity costs; and
- The typical running costs of major domestic appliances.

WHAT YOU CAN EXPECT:

The RIC will always protect consumers' interest by implementing and enforcing customer-related standards, policies, procedures (Codes of Practice) for the utility service providers to follow so that quality service is always delivered to you.

Ensuring You Get What You Pay For!



For residential customers, conserving electricity has become all the more important. To conserve energy, a customer can seek out ways to use electricity more efficiently. Here are some ways to reduce your electricity consumption and lower your bill without spending a lot of money:

- **FREEZER:** By keeping a list of the location of foods in the freezers, the freezer can be kept open for a minimum of time, preventing the loss of cold air.
- **ELECTRIC STOVES:** Use a pressure cooker to conserve energy when cooking foods that take a long time, such as beef and pork.
- **LIGHTING:** Use low energy lamps/lights for exterior lighting perhaps equipped with motion sensors
- **SMALL APPLIANCES:** A faulty appliance will not work efficiently and can waste energy. Repair or replace it promptly.
- **WASHING MACHINES:** Take advantage of special features on your washer that can save money. For example, soak cycles remove stubborn stains in one wash cycle.
- **CLOTHES DRYERS (Tumble):** Dry clothes in consecutive loads where possible. The dryer will be warm already and will save on initial energy consumption.



HOME
SAFETY INITIATIVE
Crossword
Puzzle
ANSWERS

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