

REGULATED
INDUSTRIES
COMMISSION



**BALANCING
INTERESTS:**

FACTS

ON THE RIC'S
APPROACH TO

**RATE
SETTING**

www.ric.org.tt

CALL FREE: 800-4RIC (4742)

Protecting YOUR Interests

VISION:

To be a World Class Regulator

MISSION:

To ensure the promotion of the highest quality of utility services at fair and reasonable rates while building a credible regulatory regime that responds adequately to stakeholders' concerns and also to ensure fairness, transparency and equity in the provision of utility services throughout the country.

The **Regulated Industries Commission (RIC)** is a statutory body established under the Regulated Industries Commission Act No. 26 of 1998. As an independent regulatory institution, the RIC is mindful of its primary obligations which are to protect customer interests through enabling the highest quality of service at the lowest feasible cost and to ensure Service Providers (SPs) have sufficient funds to provide a high quality of service.

The RIC regulates the Water, Wastewater and Electricity sectors. The Service Providers that fall under the purview of the RIC include:

- WATER AND SEWERAGE AUTHORITY (WASA)
- TRINIDAD AND TOBAGO ELECTRICITY COMMISSION (T&TEC)
- POWER GENERATION COMPANY OF TRINIDAD AND TOBAGO (POWERGEN)
- TRINITY POWER LIMITED



Q: What is the RIC's function where rates are concerned?

As part of its regulatory functions, the RIC Act mandates the RIC to:

- *Establish the principles and methodologies by which service providers determine rates [Section 6 (1) (h)]; and*
- *Review the principles for determining rates and charges for services every five years (Section 48).*

In setting out principles for determining rates, Sections 6 and 67 of the Act require the RIC to have regard to the:

- *Funding and ability of the service provider to perform its functions;*
- *Ability of the consumer to pay rates;*
- *Results of studies of economy and efficiency;*
- *Standards of service being offered by the service provider;*
- *Rate of inflation in the economy for any preceding period as may be considered appropriate; and*
- *Future prospective increases in productivity by the service providers.*

Q: What is the RIC's approach to Rate Setting?

A: The RIC's regulatory duty entails setting price limits/controls. The Act gives clear support for the use of Incentive Regulation (using a price cap) in shaping the RIC's approach to rate reviews. Incentive or Performance-based regulation refers to a system or form of control that provides incentives to SPs to reduce costs and improve efficiency. Within the established price limits, SPs are free to earn as much as they can by operating efficiently. To ensure that SPs do not increase profits by lowering the quality of service, the RIC establishes and enforces performance standards (Quality of Service Standards) together with rigorous monitoring.

Incentive Regulation uses rewards and penalties as a means of inducing SPs to achieve desired goals.

Q: What guides the RIC in any Rate Setting exercise?

A: In setting rates, the RIC must ensure that:

- *SPs are able to finance efficient investment, cover efficient operating costs and earn an appropriate return on investment while delivering specified outputs, inclusive of performance standards; and*
- *The interests of consumers are taken into account by enabling the highest quality of service at the lowest feasible costs while also ensuring that prices provide appropriate signals about the cost of providing service.*

RIC ACT SECTION 6

According to the RIC Act

“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”

Q: How are stakeholders engaged during the RIC’s rate setting exercise?

A: To educate and empower stakeholders, particularly consumers, the RIC engages in a Consultative Process that entails seeking public comments on documents addressing the methodology and approaches it would use to evaluate the rate review application and set rates for the SP. The RIC gives consideration to all views. However, its final decision must balance the interests of all stakeholders.



The RIC utilizes several involvement strategies to afford stakeholders a clear understanding of how decisions are reached.

The methods include:

- *National and Public Consultations*
- *Workshops, Presentations and Outreach Activities*
- *Newspaper Advertisements, Press Releases, Newsletters and Brochures*
- *Website for online consultation/ Web-based discussion forum*
- *Focus Groups and Community Meetings*
- *Stakeholder Open Days – open meetings and Workshops*

Q: How do stakeholders benefit from the RIC's approach to rate setting?

A: The RIC's approach affords stakeholders:

- *More direct opportunities to participate, explain their positions and share their viewpoints.*
- *The ability to understand and influence what the SP is proposing to deliver and to judge for themselves whether they would receive value for money.*
- *Greater certainty about the prices that they would be charged for the next five-year period and enables them to manage their own consumption more effectively.*

Q: Why is there a need to apply a Rate Adjustment annually?

A: The RIC uses a 5-year forecast of revenue and expenditure to design rate adjustments rather than implement large rate increases. Annual rate adjustments (increases or decreases) serve as a more transparent and predictable price-setting mechanism and benefits consumers as it provides rate stability.

For this reason, the projects undertaken by SPs and the capital and operational expenditure associated with these projects are adjusted annually so that the rate could reflect the cost to provide the service.

Q: How are low income and other vulnerable groups* considered in the Rate Review?

**(These groups include pensioners, the differently-abled, persons on disability and public assistance allowances etc.)*

VULNERABLE GROUPS



A: In its setting rates, the RIC protects the interests of customers and vulnerable groups:

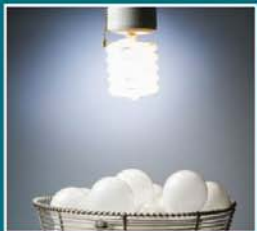
- Through consideration of **lifeline tariffs** which allow for **affordable rates** for a minimum amount of a utility service that is accessed;
- Through the application of **subsidies** - economically efficient mechanisms to structure subsidies;
- By providing avenues of redress for poor service or for meeting special needs.
 - *For example, Codes of Practice are implemented - these Codes are essentially a set of customer-related standards, policies, procedures and practices that SPs should consistently apply in dealing with specific consumer issues.*

Q: What is the customer's responsibility?

A: As a customer you are within your rights to expect consistent and reliable service from the SPs. The RIC has established Quality of Service Standards (QSS) and it is up to you to monitor the quality and the delivery of these services to ensure that the SPs comply with the QSS and are held accountable for any breaches of these standards.

It's your responsibility to get involved, take charge and ensure you get what you pay for.

LOOK FOR WAYS TO REDUCE YOUR ELECTRICITY AND WATER CONSUMPTION BY FOLLOWING CONSERVATION TIPS WHICH CAN ASSIST YOU IN USING ELECTRICITY AND WATER MORE EFFICIENTLY.



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