



REGULATED INDUSTRIES COMMISSION

RICNEWS

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REGULATED INDUSTRIES COMMISSION

10 Years of Looking Forward

Happy 10th Anniversary to the Management & Staff

Protecting YOUR Interests

10th
ANNIVERSARY
10 Years of Looking Forward

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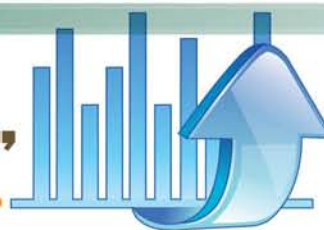
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"APPROACH TO SETTING OPERATING EXPENDITURE"



In its determination of the efficient level of Opex (forecasted efficient operating expenditure) that T&TEC would be allowed to recover through tariffs, the RIC had to give careful consideration and due weight to the need and ability of T&TEC to fund its operational activities, the needs of customers in terms of required service levels, and their ability to pay for such services. In the process of establishing efficient Opex, the RIC made a number of assumptions regarding the associated expenditure items. Therefore, as the RIC prepares for the second review of prices in the sector, it must examine its approach to the setting of Opex to determine whether any changes are necessary.

RIC's Current Approach to Assessing Opex

The overall objective of assessing the service provider's Opex is to determine whether the proposed Opex is efficient, necessary and to be funded within the price limits. There are a number of methods that can be used by regulators to determine an efficient level of Opex that will be charged to the revenue requirement of service providers. In this process, regulators would separate "controllable" from "uncontrollable" costs. The former are those costs over which the utility has the ability to exercise some level of control. Such costs may be controlled by management. On the other hand, there are costs that may be determined by mechanisms outside of the purview of the service provider, over which management has little or absolutely no control. These costs might include license fees, fuel costs or obligations/payments under Power Purchase Agreements (PPAs). Such costs are said to be "uncontrollable" and are usually passed directly to the overall efficient level of Opex determined.

Operating costs cover the day-to-day costs of running the entity and typically include all the staff costs, repairs and maintenance, generation, fuel, overhead costs, etc. They amount to about 90% of the overall revenue requirement. The allowance for Opex is usually assessed by reference to a range of different sources of evidence including: historical performance of the service provider; the service provider's own Opex projections; various types of benchmarking exercises (internal, process or international); and evidence as to what efficiencies have been achieved in other utilities. Additionally, the nature of incentive-based regulation, where the service provider is permitted to retain the benefits of out-performance (or suffer the consequence of under-performance) against the allowances, means that significant weight will usually be placed on the most recent actual performance of the service provider.

Equally, as demand grows, the nature of the service provided may change and further (previously unconsidered) opportunities for efficiencies may arise. Therefore, new factors may influence the appropriate allowances for operating costs. It is important to note here that T&TEC is a State-owned utility. This can have important implications for the incentives that management faces and how it responds to incentive-based regulation. It may therefore affect the approaches that are most appropriate.

The objective for the regulator is to understand what represents a reasonable allowance for operating costs, which is usually a level of costs that can realistically be expected to be incurred if the entity is run efficiently within the constraints it faces. Most regulators utilize a broadly similar approach to setting Opex, based on reviewing historical expenditure and considering whether future activities justify an increase in expenditure. The service provider is usually incentivised to reduce costs by being allowed to

keep any underspend (or bearing the risk for any overspend) for a limited time period.

In assessing controllable Opex, the RIC utilized the following process/steps:

- ***Determining the baseline operating costs;***
- ***Reducing baseline costs through efficiencies;***
- ***Specifying a generalized efficiency factor for the reduction of forecast (allowed) costs for future "unidentified" efficiencies; and***
- ***Including an efficiency carryover mechanism for Opex.***

Baseline Opex

The assessment of Opex begins with an in-depth assessment of the service provider's reported actual expenditure, as provided in its audited financial statements, in a base year (the base year for the price review, i.e. the starting point for setting forward allowances). The baseline should reflect the normal operating costs of the service provider, from which it is possible to assess the impact of future cost changes. Consequently, one-off costs and savings that are considered to be atypical of the service provider's normal Opex are removed. In the case of T&TEC, the assessed baseline also excluded generation and fuel costs, as these are uncontrollable costs, based on contractual arrangements, and as such cannot be influenced by T&TEC. The assessment at this stage does not take into consideration future improvements in efficiency, as this is considered separately.

The RIC's assessment of the normalized baseline costs focussed on the breakdown of Opex into categories (the "bottom-up" approach) and sought justification from the service provider, with a more probing review. This was undertaken by analyzing expenditure by function, i.e. the cost to provide a particular service, and by activity, i.e. the cost of each activity comprising a service. The costs for meeting new demand from customers and for the effects of annual inflation were also allowed. The RIC also identified particular significant cost items where it felt that a more detailed review would have been instructive, and was guided by the outcomes thereof. The assessment process also considered the extent to which the initial results should be adjusted to take account of any special factors that may have been relevant to T&TEC at that time.

Assessed Scope for Efficiencies

As a next step, the RIC also considered wider information and identified a few cost items where it felt that comparison with other utilities (the "top-down" approach) would have been useful. Therefore, T&TEC's overtime expenditure, absenteeism rate, etc. were benchmarked against "best practice" targets. Benchmarking cannot be exact, and requires careful interpretation and accurate information. Therefore, benchmarking requires comparisons to be like-for-like. The RIC recognized circumstances where it was appropriate to adjust results to account for local factors and to account for unavoidable statistical uncertainties in the comparisons. As indicated above, the RIC also distinguished costs that the utility's management could influence or control, from those that are driven purely by external factors. The RIC had also set prescriptive annual targets for cost reduction for a limited number of cost items (e.g. heat rate), given the limitations of benchmarking.

Specification of Generalized Efficiency Factor

The RIC also utilized a generalized efficiency factor of 2.8% per year to reflect the efficiencies T&TEC was expected to achieve in costs of service

provision and hence in prices for services. The RIC utilized the “rate of change” as one of the techniques for arriving at an “efficient” level of Opex for the first regulatory control period. The rate of change is the year-to-year change in Opex for a number of factors such as, expected productivity improvements in labour and other costs. The rate was established by examining the productivity achieved by T&TEC in Opex for a number of past years and thereafter, calculating future cost reductions on the assumption that the same rate of change (i.e. productivity improvement) will continue in the future. Consequently, T&TEC’s Opex was further reduced by \$53.3 million over the regulatory control period.

Efficiency Carryover Mechanism

A tenet of the incentive-based approach is to reward good performance. An efficiency carryover mechanism is the means by which the incentive for a service provider to make efficiency gains is enhanced by permitting it to carry over gains from one regulatory period to the next. Customers benefit from lower prices when efficiency gains are passed to them at the end of the period. In this regard, the RIC had implemented a five-year rolling efficiency carryover mechanism for Opex, in order to further supplement incentives for achieving efficiencies within the regulatory control period.

In summary, the analysis to determine the level of efficient Opex that would be recovered by tariffs comprised:

The RIC’s current approach to setting the allowed level of efficient Opex is depicted in figure 2 below.

FIGURE 2
RIC’s Current Approach to Setting Opex



- **Examining T&TEC's historical Opex and Opex profile (1999 – 2004), identifying trends and removing any non-recurrent or one-off type costs in the process;**
- **Comparing T&TEC's forecast Opex against its historical Opex (1999 – 2004);**
- **Collating and examining data for other electricity utilities in order to compare particular measures with T&TEC's proposed Opex, in order to establish a reasonable profile;**
- **Considering a number of scenarios that were relevant to determine and account for any level of future changes to be considered in establishing the efficient level of Opex;**
- **Reviewing T&TEC's potential to improve efficiency, thereby arriving at efficiency savings to be applied to the allowed Opex; and**
- **Establishing the overall allowed efficient level of Opex based on all of the above considerations, and the inclusion of uncontrollable Opex, namely T&TEC's generation (fuel and conversion) costs.**

Having followed the process and approach outlined, the RIC, in its determination of efficient Opex, reduced T&TEC's proposed Opex by \$905.74 million over the first control period and made a number of adjustments, some of which included the following:

- **Employee Costs** – Given the review of data for the period, 1999 – 2004, and subsequent submissions for 2005, the RIC increased Employee costs by 10.6% over 2004 costs, for the first year of the control period (2006), and thereafter applied even increases of 5% per annum to account for any new bargaining agreements, etc. Overall, the RIC reduced T&TEC's proposed Employee costs by \$124 million.
- **Administration and General Expenses** – The RIC allowed 82.5% of proposed costs in this category. Overall, \$10.9 million was disallowed for promotions/promotional activity. The RIC also made provisions for Cess payments, provided \$200,000 per annum for payments towards breaches of the Guaranteed Electricity Standards, and removed one-off expenditure items from the base year Opex.
- **Repairs and Maintenance** – These costs were adjusted to keep in line with internationally accepted best practice of a total that represents 1.5% of gross fixed Transmission assets and 2.5% of gross fixed Distribution assets.
- **Conversion and Fuel Costs** – Given revised energy forecasts submitted by T&TEC, the RIC allowed over 96% of conversion costs, and in order to provide appropriate incentives to move towards combined cycle plants and save on fuel costs, over 85% of proposed fuel cost was allowed.
- **Efficiency Savings** – Based on analysis of productivity changes in Opex for T&TEC over the period, 1999 – 2003, the RIC included a non-compounding efficiency factor of 2.8% per annum, thereby reducing Opex, and Transmission and Distribution Costs, in particular, by \$53.3 million, overall.

In this document the RIC has made additional proposals for the assessment of Opex in the future, based on the performance of Opex outturn. The paper explored new approaches to expenditure and incentives that might deliver better outcomes.

THE RIC INVITES COMMENTS ON THE IDEAS AND APPROACHES/PROPOSALS PRESENTED IN THIS PAPER.

REGULATED INDUSTRIES COMMISSION



10th ANNIVERSARY

10 Years of Looking Forward



Speech delivered by Dr. Anne-Marie Mohammed, Chairman of the Board of Commissioners, at the RIC's 10th Anniversary & Long Service Awards Celebration held at the Trinidad Hilton & Conference Centre – Thursday 15th December 2011.

"Never doubt that a small group of thoughtful committed citizens can change the world; indeed it is the only thing that ever has." These are the powerful words of a noted anthropologist and indeed, in the case of the Regulated Industries Commission they certainly hold true. Over the last decade, the RIC through its adoption of a novel approach to regulation has literally been changing the face of regulation locally. Through the RIC's efforts, key stakeholders have been compelled to challenge their assumptions and set aside their preconceived notions and follow the RIC's lead in embracing new and unexpected ways of thinking.

As you may know, the RIC was established under the RIC Act no. 26 of 1998 when it superseded the Public Utilities Commission. The first board meeting was held in April 2001, and even then, its vision was very clear – become a world class regulator. Focused on this goal, the Regulated Industries Commission is irrefutably charting its course and pursuing its vision of becoming a world class regulator, a veritable 'umpire' in a regulated environment that sets standards which drive the improvement of the water, wastewater and electricity sectors in Trinidad and Tobago.

Through the wealth of experience it has acquired, the RIC has earned its unrivalled position as one of the leaders in shaping the utilities sector and over the years has made many strides by adopting innovative approaches which challenge popular assumptions and introduce new and unexpected ways of doing things. In fact, in 2008 the RIC received global recognition in the areas of transparency and accountability and recently pioneered the introduction of transparency & accountability measures which would make public utilities more accountable for their performance and more transparent in their operations – thus making the RIC a true pioneer in regulatory governance.

With a high-performance culture, supported by its exemplary core values, the RIC continues to have a positive impact on all its stakeholders. Recognizing the importance of stakeholder involvement as a vital component of good regulatory policy-making, the RIC aims to make its processes even more open and accountable thus enhancing consumer confidence in the legitimacy of the process.

The RIC's most outstanding asset is its human resource - a cadre of industrious, dedicated and meticulous individuals who continue to show initiative as they test the quality, soundness and value of regulatory approaches in the local context by challenging or pointing out any weaknesses in the structure. It is exactly this mind-set that has earned the RIC the reputation over the years of being forward-thinking in its approaches.

For any organization, reaching its tenth year of operations is a milestone. But for the Regulated Industries Commission, it is an even greater achievement when one considers the steady climb of the ladder of progression to arrive at this point. From the Standards of Service developed, to the tariffs reviewed and tariff adjustments granted, to the policies and standards developed to protect the interests of consumers - the accomplishments have been noteworthy.

It gives me tremendous pleasure to congratulate the RIC on achieving this landmark anniversary. To the management and staff of the RIC and the stakeholders who have helped us to arrive at this milestone, I extend heart-felt congratulations on the achievement of 10 years of excellence. Ever conscious of the need to balance the interests of both service providers and consumers, the RIC continues to embrace the philosophy that has guided its approach to regulation for the past 10 years – indeed, the RIC continues to be centered on 'Protecting Your Interests'.



800-4RIC (4742)



10th Anniversary & Long Service Awards Celebration

Photos Courtesy: Benedict Cupid

To mark the RIC's 10 year milestone, a special evening of appreciation and celebration was planned with all members of staff being given commemorative awards and tokens in recognition of their diligent effort and dedicated service over the years. From the onset, the evening held lots of promise when guests were greeted by the titillating sounds of saxophonist Joseph Bishop whose music set the tone for things to come. As the evening progressed, our rich cultural uniqueness was celebrated by a leading exponent of the oral traditions, Mr. Paul Keens-Douglas who delivered a motivational discourse entitled "Getting Ahead & Staying Ahead: Facing the Challenges - A look at regulating people in T&T".

A feature reminiscent of our 10-year journey, a 'PhotoWalk from our Archives' presentation was prepared which showcased pictures of many of the memorable events and activities in the RIC's short history – beautifully capturing our 'work hard, play hard' culture. Accompanied by their live band, another highpoint of the evening was the appearance by the group H2O Phlo, a group well-known for their sweet harmonies and smooth soca grooves. Here we share a few pictures from the festive occasion for your enjoyment. Here's to 10 Years of looking forward.

800-4RIC (4742)

RIC participates in NTA'S SKILLS EXPO



Public expositions when combined with the appropriate marketing strategies can offer information seekers the opportunity to obtain information and advice, and companies the chance to share their latest developments while strengthening relationships with existing clients. In light of this, the **National Training Agency's (NTA) Skills Expo** which was held on 2nd & 3rd November 2011 at the Centre of Excellence provided an excellent opportunity for the RIC to create greater public awareness of our role and responsibilities. It provided an ideal setting for the RIC to interface with a 'targeted' public who can provide feedback which the Commission can use to help focus its work and continue to remain relevant to its stakeholders' needs. There was a lot of interaction, with visitors highlighting their issues and receiving feedback as to the way forward for obtaining redress.



ORGANISATION OF CARIBBEAN
UTILITY REGULATORS

9TH ANNUAL OOCUR CONFERENCE ACCRA BEACH HOTEL, BARBADOS

2nd - 4th November 2011

Based on the theme "Regulation and Competition: The Impact and Value in the Caribbean", the 9th Annual Conference of the Organisation of Caribbean Utility Regulators (OOCUR) was co-hosted by the Barbados Fair Trading Commission and held from November 2nd and 4th 2011 at the charming, Accra Beach Hotel & Spa. Set amidst the breathtaking views, just miles from the picturesque capital city of Bridgetown, the conference got off to a rousing start with a line-up of impressive speakers, all experts in regulation from varied sectors.

It being the first time in its nine year history that the OOCUR Conference was being held in Barbados, the conference featured a contingent of international speakers hailing from respected organisations such as the National Association of Regulatory Utility Commissioners (NARUC) and the Public Utility Research Centre (PURC). The conference also offered a broad multi-national perspective of regulation, convergence and the competitive environment. The topics were geared towards the Electricity, Water and Wastewater, Telecommunications & ICT sectors with regional representatives sharing the experience and best practices adopted in their jurisdictions.

Furthermore, the programme also featured discussions on the introduction of renewable energy technologies as viable alternatives to fossil-fuel electricity generation and energy efficiency. The conference attracted well over 70 regional participants including representatives from OOCUR's member countries of Barbados, Jamaica, Anguilla, the Bahamas, Belize, Guyana, Dominica and the US Virgin Islands. Topics included:

- **'The role of renewable energy sources in island electric systems' - Theodore Kury – Director of Energy Studies, PURC;**
- **'Improving energy efficiency at the Water and Sewerage Authority' – Garvin Alexander – Assistant Executive Director Technical Operations – RIC;**
- **'Renewable Energy in T&T – An assessment of the potential impacts of solar water heating & incentives for its deployment' – Gerard Emmanuel-Rodriguez – Tariff Analyst – RIC;**

Commenting on the value of the conference, Rishi Maharaj, Assistant Executive Director Economics and Research summed it up by pointing out that "the respective contributions of presenters from the various territories were quite thought-provoking, especially on how far ahead or regressed some countries are in regulating their respective utilities and that regulation itself is not cast in stone. What works in one system may fail in another." Recognising the importance of this perspective, he concluded that "the exigencies of each system require a mode of regulation that begins with standard practice, but is also informed by exogenous impacts, historical issues, social consciousness and the current political climate."

As a non-profit, member-driven organization serving as a catalyst for regulatory improvement in the Caribbean, OOCUR has for the past nine years been meeting its mandate in fostering transparent and stable utility regulation through independent regulators by undertaking research and engaging in training & development to facilitate the sharing of regulatory issues and experiences among member countries.

800-4RIC (4742)

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.



Kwylan Jaggassar
Tariff Analyst

Kwylan Jaggassar joins the Economics and Research Department as a Tariff Analyst. Kwylan received a Bachelor's degree in Mathematics with a concentration in Statistics as well as a Minor in Economics from the University of Massachusetts in Amherst. Subsequent to that she worked for a small security and surveillance firm in Manhattan in the accounting department before pursuing an MBA in Decision Science at St. John's University in Queens NY. While at St. John's, she worked in the Office of Institutional Research and Strategic Planning which provided the opportunity to validate program initiatives and derive strategic insights when presented with a comprehensive database.



Daniel Ramsepaul
Messenger/Driver

A dedicated employee of British American Insurance for the past twelve years, **Daniel Ramsepaul** joins the RIC as the Messenger/Driver in the Human Resource Department. This happily married father of two, brings to the RIC a passion for what he does and a good-natured spirit that will serve him well as he interfaces with the RIC's stakeholders.



Leah Goddard-Pierre
Tariff Analyst

Leah Goddard-Pierre has joined the RIC as Tariff Analyst in the Economics and Research Department. Leah has successfully completed a Masters degree in Petroleum Engineering at the University of Trinidad and Tobago and a Bachelor of Science degree in Economics at the University of the West Indies. Prior to joining the RIC, she was employed at the Ministry of Energy and Energy Affairs. Her stint at the Ministry of Energy has afforded her invaluable experience in Economic and Financial Modeling in the risk dominated energy sector. She feels privileged to be part of a team that provides the basis for informed decision making and welcomes the opportunity to expand her knowledge and capabilities at the RIC.

We warmly welcome all three new employees to the RIC as they each take on their new roles.

WHEN THE WELL IS DRY, WE KNOW THE WORTH OF WATER. CONSERVE IT!

Water Conservation Crossword Puzzle



DOWN

1. No Leaky _____.
3. Instead of a bath.
4. _____ your lawn once a year so that water can reach the roots rather than run off the surface.
5. When doing this, match the water level with the size of the load.
7. While washing your car, turn off water or use a hose with an attached _____.
9. _____ water from your roof to water your garden.
11. Instead of using a hose to water plants use a _____.
13. Minimize this in your plant bed, as they compete for water.
15. When planting this, group vegetables/ fruits that need more water in the together.
17. _____ water from cooked or steamed vegetables to make a nutritious soup.
19. Use this type of material for walkways and patios to keep water and help prevent wasteful run-off.
21. Periodically check your pipes for this.

ACROSS

2. Turn off faucets _____.
4. Apply water only as fast as soil can _____ it.
6. While you lather, don't let the water _____.
8. _____ your shower time.
10. Don't forget to check outdoor sprinklers and faucets for _____.
12. Turn this off when brushing teeth.
14. Monitor your water bill and water _____. These are tools that can help you regulate your water usage.
16. Bathe young children _____.
18. Place this around plants to retain moisture.
20. Use this type of hose when watering grass on a steep slope to prevent wasteful run-off.
22. Use this instead of a hose to clean your driveway and sidewalk.
24. _____ young children about the importance of conserving water.
26. Only use this for watering a large area of grass.



BUILDING BRIDGES: On Tuesday 8th November 2011 the RIC's Customer Service Manager, Mohan Chadee (second from right) and Corporate Communications Manager, Denise Caesar (far right) visited Tobago to meet with (L-R) David Wong - Chairman, Selby Leslie - Vice Chairman, and Committee Member Diane Hadad of the **Tobago Division of the Chamber of Industry & Commerce** to discuss ways of expanding the Tobago Chamber's input in regulatory matters.

RATE SETTING SIMPLIFIED

BALANCING INTERESTS: FACTS ON THE RIC'S APPROACH TO RATE SETTING



Regulation can be complex and technical at times so in this new brochure, we explain our simplified approach to rate setting. As an independent regulator, 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 ensuring Service Providers have sufficient funds to provide a high quality of service. Collect your copy of this brochure at our office today or read a copy online at www.ric.org.tt.

WATT U NEED TO KNOW

'Knowledge is Power' and as informed consumers, you should be aware of the average wattage and the approximate number of kilowatt-hours (kWh) consumed in **two months** by some common appliances. Remember, these are just averages but this useful guide can assist in adjusting your consumption and usage accordingly.

APPLIANCE	Average Wattage	Estimated Hours Used	Est. kWh Consumed	Bi-Monthly Cost
▪ Kettle	1500	20.0	30	\$8.10
▪ Iron	1200	2.2	3	\$0.71
▪ Blowdryer	1875	7.0	13	\$3.54
▪ Television (Flat screen 27")	180	370.0	67	\$17.98
▪ Computer Laptop	50	75.0	4	\$1.01
▪ Shower Heater	3000	27.0	81	\$21.87

NOTE: 1. Please note that the bi-monthly cost excludes VAT and customer charge.

2. The bi-monthly cost is calculated based on the price at the lowest tier of 26 cents per kWh.



T&TEC

Consumption and Usage
information courtesy T&TEC.



Water
Conservation
Crossword
Puzzle
ANSWERS

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