REGULATED INDUSTRIES COMMISSION

Determining the Length of the Regulatory Control Period

December

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This document is a summary of the Length of the Regulatory Control Period consultative paper which is published for the information of all stakeholders, as part of the second Price Review for T&TEC.

Summary Document

PURPOSE OF THIS DOCUMENT

To explore the impacts of shortening or extending the length of a price control period and to assess the merits of a five-year control period. Given that the RIC is constrained by its legislation to a period of five years or shorter, the paper examines what is best suited for the local electricity transmission and distribution sector for the next regulatory control period.

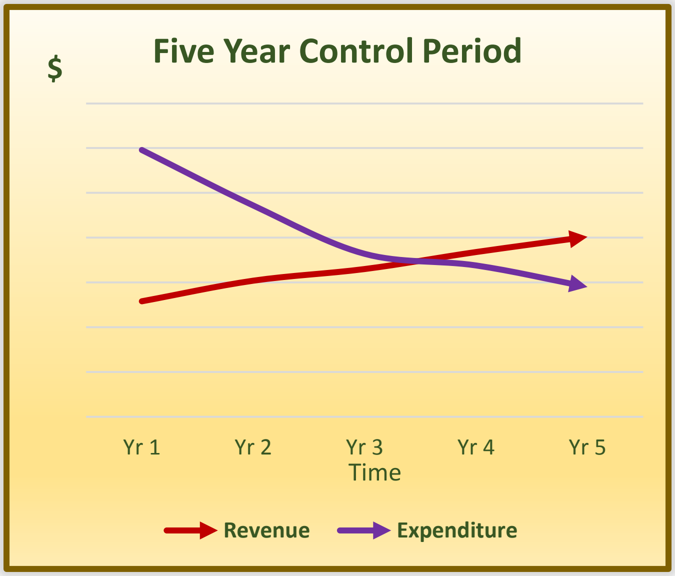
DETERMINING THE LENGTH OF THE PRICE CONTROL PERIOD

The price control period is the specified time over which the utility is expected to execute what has been set out in its business plan which is submitted to the regulator for price setting purposes, for the relevant period. Over this period, the utility will be allowed to recover sufficient revenue such that it provides quality service to its customers and has the ability to charge rates that the regulator has determined is suitable, for the utility to meet its efficient costs.

A regulator must weigh the advantages of a longer term price control over a shorter period when setting the length, giving consideration to the particular utility sector and the local context. There has been a trend among regulatory bodies in the electricity sector to move to a longer period after conducting a number of price reviews. The table below captures some of the pros and cons of a longer period of price control.

ADVANTAGES	DISADVANTAGES
Promote value for money over the longer term	Risks of windfall profits / losses for the utility
Greater incentives to improve performance	Longer wait time before cost savings can be passed to customers
Lower administrative costs	Greater scope for prices to become out of line with costs
Lower regulatory risk	Possibility of price hikes / falls following price reviews
Encourages innovation and promote dynamic efficiency	Risks of reopening the price control
Greater stability for investment planning	Reduced adaptability of the regime

RIC'S EXPERIENCE WITH A FIVE-YEAR PRICE CONTROL



The RIC had established a five-year control period for the electricity transmission and distribution sector for the period June 1, 2006 to May 31 2011. The RIC's position then was that the five-year control period provided adequate opportunity for the service provider to earn profit by reducing expenditure through efficiency improvements. In essence, it represented the RIC's commitment to the service provider that it could keep any gains that it made for five years.

Overall the RIC considers that its forecasts over the first control period were reasonable and there was no cause to reopen the price controls that were in effect. T&TEC's financial performance improved over the period of the first price control and the length of the price control period posed no risks in this regard.

IS A SHORTER OR LONGER CONTROL PERIOD SUITABLE IN THE LOCAL CONTEXT

The RIC's own experience in regulating state-owned and controlled entities has demonstrated that such firms make little attempt to anticipate customer needs and to deliver value for money through innovative cost cutting efforts. Thus, the RIC is not inclined to believe that the benefits, in terms of innovation and value for money, resulting from longer term controls will materialize.

The RIC is also concerned that longer term controls also pose many of their own risks. For example, if outputs are not achieved and appropriate safeguards are not built into the regime then recourse could be delayed for a longer period. Also, implementation of controls that are greater than five years will also require major changes to the legislative and regulatory framework, thereby increasing the complexity of the regulatory regime.

CONCLUSION

The RIC is constrained by its Act to a period of five years or shorter. Based on its consideration of the pros and cons of longer vs shorter price controls and its own legislation, the RIC considers that a five year price control period strikes an appropriate balance between risks and the ability to undertake costs savings. The RIC therefore is inclined to continue the use of a five year price control.

The RIC seeks comments on the appropriate length of the next regulatory period.

RESPONDING TO THE DOCUMENT

All persons wishing to comment on this and the main document are asked to submit their comments by post, fax or email to:

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A copy of the main document is available from the RIC's website at www.ric.org.tt.