

Addressing Affordability of Regulatory Prices

**February
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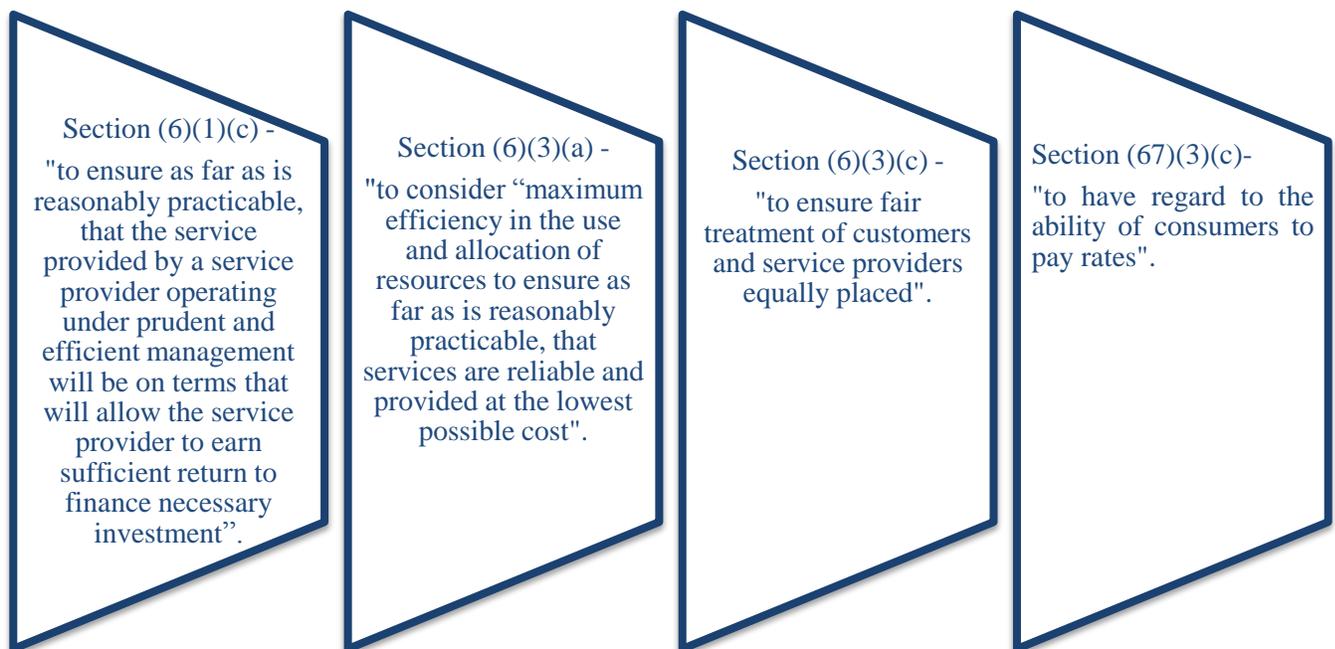
This document is a summary of the RIC's consultative paper on its approach to reducing the impact of increased electricity prices on low income and vulnerable groups in Trinidad and Tobago.

**Summary
Document**

Why Consider the Impact of Regulatory Prices on Affordability?

The RIC was established by the RIC Act, Chapter 54:73 of the Laws of Trinidad and Tobago and its functions, powers and duties are derived directly from its legislation. One of the RIC's core functions is to set price limits every five years. Alongside its price setting function the RIC Act imposes a social obligation as it mandates that the RIC must be concerned with social issues surrounding the services it regulates.

In setting price limits, the RIC's obligation to ensure affordability is imposed by the following sections of the RIC Act:



Working within this legal framework, the RIC has underscored the importance of assessing affordability of regulatory prices and have developed strategies to soften the impact of increased electricity prices on low income and vulnerable groups.

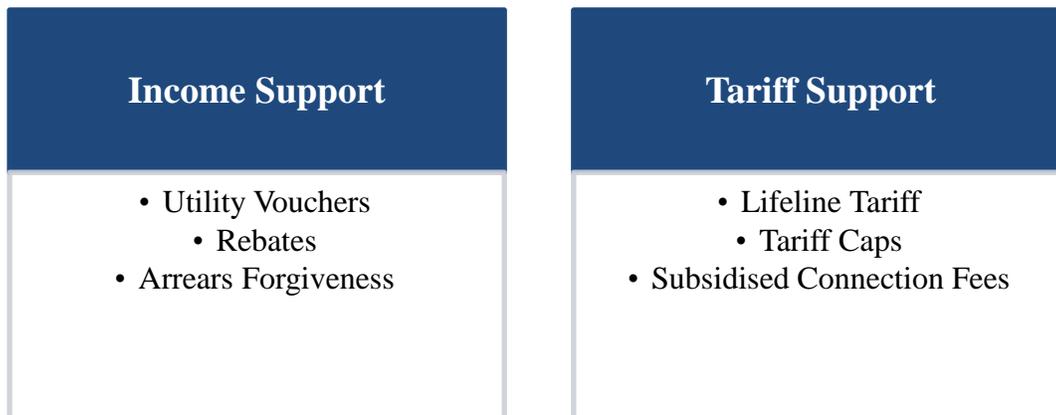
Defining Affordability

Affordability of a utility service can be broadly defined as the ability to pay for a subsistence level of the service within normal spending patterns¹. It is the social aspect of utility service provision that is most clearly and closely linked to pricing policies and is not solely determined by the level of the tariff. Other factors that may have an impact on affordability include:

- **Deposit requirements;**
- **Disconnection and reconnection policies;**
- **Access policies;**
- **Availability of rebates/concessions;**
- **Assistance offered in the event of payment difficulties; and**
- **Availability of payment methods.**

Classification of Affordability Instruments

Affordability instruments to protect low income consumers are often used to complement tariff reform and can be classified into income support provisions and tariff support provisions².

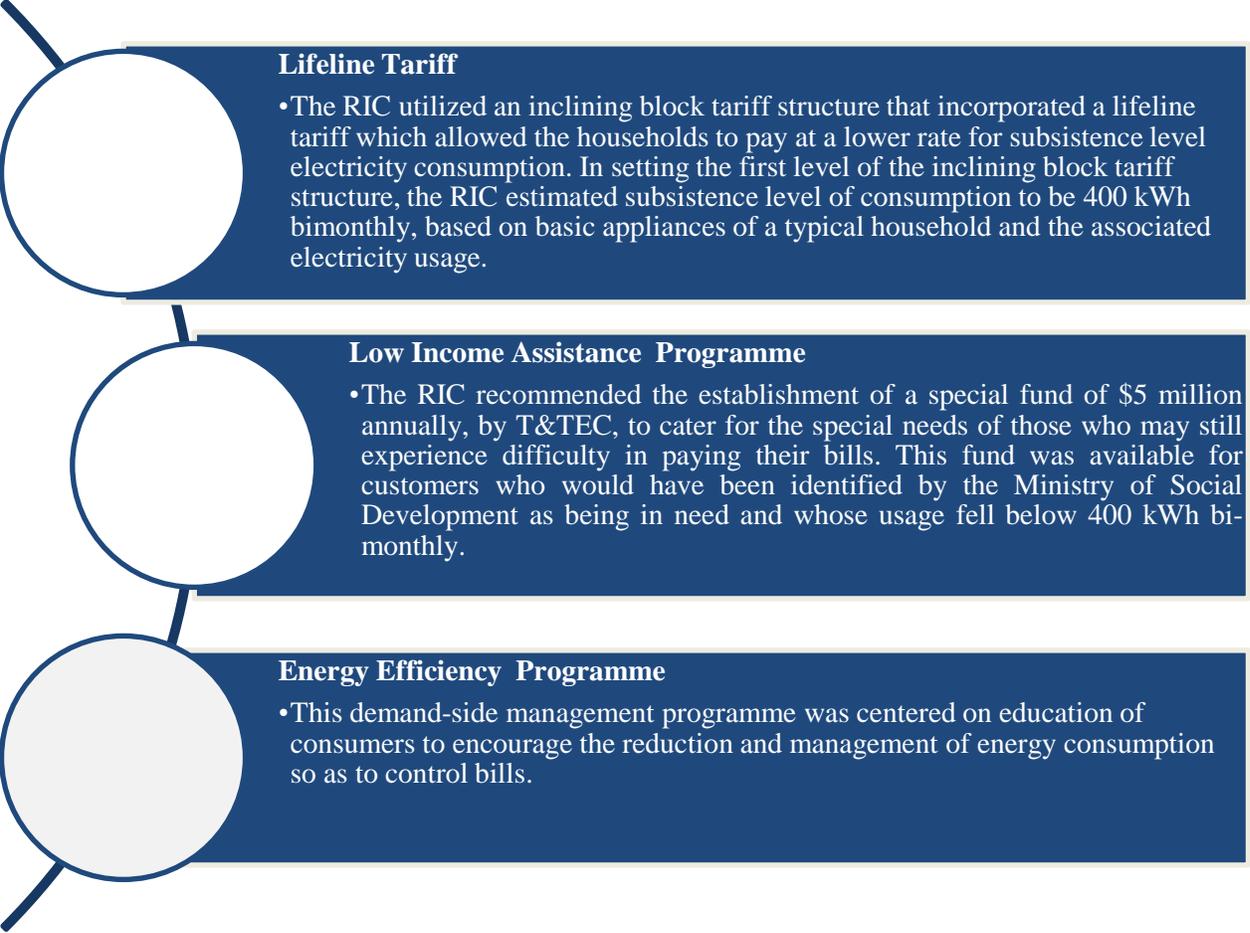


¹ Florence School of Regulation, Affordability of Basic Public Utilities: Regulation and Poverty Policies, 2008

² The classification is based on the paper “Social Issues in the Provision and Pricing of Water Services”, Organization for Economic Co-operation and Development (OECD), 2003

The RIC's Affordability/Pro-Poor Measures for the Electricity Sector

With respect to low income and vulnerable groups, the RIC's main strategies for reducing the impact of increased prices in the first year of the first control period were:



Lifeline Tariff

- The RIC utilized an inclining block tariff structure that incorporated a lifeline tariff which allowed the households to pay at a lower rate for subsistence level electricity consumption. In setting the first level of the inclining block tariff structure, the RIC estimated subsistence level of consumption to be 400 kWh bimonthly, based on basic appliances of a typical household and the associated electricity usage.

Low Income Assistance Programme

- The RIC recommended the establishment of a special fund of \$5 million annually, by T&TEC, 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.

Energy Efficiency Programme

- This demand-side management programme was centered on education of consumers to encourage the reduction and management of energy consumption so as to control bills.

Further considerations and strategies for affordability in the second Regulatory Period

There are several factors for the RIC to consider in arriving at strategies for affordability of electricity rates in the second control period. These include the length of time between the first control period and the forthcoming period, the economic climate and also utility-bill support mechanisms which have been implemented by the government and other agencies. The RIC will also deepen its focus on energy efficiency as part of its efforts towards addressing affordability.

Regulatory Lag

- Given that the forthcoming price review for T&TEC follows a seven year lag after the expiry of the first control period, the regulator must determine an appropriate price path through the application of a cap on the size of annual increases in tariffs, that is, by imposing side constraints. The RIC must also look at the issue of inter-generational equity and ensure that there is consistency between the generation paying for the benefit and the generation receiving the benefit as well as providing accurate pricing signals to promote efficiency and achieve cost recovery.

Affordability Measures of the Government

- Subsequent to the RIC's first rate determination for the electricity sector, the Government introduced two measures to provide assistance to vulnerable customers for electricity bills, namely, the Utilities Assistance Programme (UAP) and the Low Income Measure. The RIC will examine the impact of Government's measures on affordability to determine the need for further assistance.

Energy Efficiency

While energy efficiency initiatives pay little attention to income levels of customers it presents an opportunity for all customers to reduce their usage and eventually their bills. A major part of the RIC's thrust in this regard is towards customer education on measures residential customers can employ in order to reduce their household usage. The RIC will continue to utilize various platforms to educate on energy efficiency and encourage more responsible use of electricity by all users.

Economic Climate

- As part of its forthcoming tariff review, the RIC will make assumptions about the state of the affairs in the country and particularly future income growth, including those for low income households. The analysis will involve looking at the trends in key economic variables such as Gross Domestic Product, average monthly income and unemployment rates. The latest indicators of poverty and percentage of the population receiving social welfare payments will also be analyzed to ascertain the extent of poverty and vulnerability within the society.

The RIC has proposed a number of measures and considerations to address affordability issues that can arise as a result of its pricing decisions. As a regulator, the RIC can pursue general affordability by establishing tariffs at levels no greater than necessary for the recovery of efficient costs and a reasonable rate of return. Effective monitoring and reporting are also essential in enabling the RIC to track progress on social issues and identify possible additional areas for future action to address affordability of vulnerable customers.

The RIC invites comments and views on all the ideas presented in this paper

Responding to the Document

All persons wishing to comment on the main document are invited to submit their comments by February 28, 2018 by post, fax or e-mail to:

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