

# BALANCING INTERESTS:



## FACTS ON THE RIC'S APPROACH TO RATE SETTING

TOLL FREE: 800-4RIC (4742)  
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Protecting YOUR Interests



## *Mission Statement*

“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.

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); and
- Trinity Power.

# Q

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

# A

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 duty entails setting price limits/controls. The RIC utilises incentive regulation to set prices, which is in keeping with the RIC Act. Incentive regulation allows Service Providers (SPs) to reduce

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costs and improve efficiency. Since the method caps prices or revenues Service Providers (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).

## **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 all while delivering specified outputs, inclusive of meeting performance standards; and
- The interests of consumers are taken into account by enabling the highest quality of service at the lowest feasible costs. The prices that are set 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 the methodology the RIC would use to set rates for the SP. The RIC gives consideration to all views. However, its final decision will 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;
- Focus Groups and Community Meetings;
- Social Media; and
- Direct emails.

## **Q** *How do stakeholders benefit from the RIC's approach to consultation on 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 service provider is proposing to deliver and to judge for themselves whether they would receive value for money.

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- Greater certainty about what factors are taken into consideration when arriving at prices that they would be charged for the next five year period.
- Information to enable them to manage their own consumption more effectively.

## Q *How are low income and other vulnerable groups\* considered in the Price Review?*

A *\*(These groups include pensioners, the differently-abled, persons on disability and Public Assistance Grants, etc.)*

In setting rates, the RIC protects the interests of low income 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;
- By making recommendations on the structuring of targeted subsidies to ease the burden on these groups;
- By providing avenues of redress for poor service or for meeting special needs.
  - For example, Codes of Practice have been 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.



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

## **Q** *Why is there a need to consider 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 reviewed annually, so that the rate could more accurately reflect the cost to provide the service.

## **Q** *What is the consumer's responsibility?*

**A** As a customer you are within your rights to expect consistent and reliable service from the Service Providers. 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.



***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.***



**REGULATED  
INDUSTRIES  
COMMISSION** 

*Protecting YOUR Interests*

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