Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers

STATEMENT OF RESULTS AND FINAL DECISION

ES: 06/2021

Issue Date: 1 July 2021

CONTENTS

ACRONYMS, ABBREVIATIONS AND DEFINITIONS

AMI	**Advanced Metering Infrastructure**
Base Year -	The latest twelve months of operation of the Licensed Business for which there are audited accounts adjusted to reflect: 1) Normal operation conditions, if necessary; 2) Such changes in revenues and costs as are known and measurable with reasonable accuracy at the time of filing and are demonstrated as part of the Business Plan. The Base Year shall represent the first year of the Business Plan
Business Plan -	The five (5) or three (3) year plan incorporating, among other things, the Final Supply and Demand forecast analysis and Financial forecast and analysis which forms the basis for the Rate Review Process to establish the non-fuel rates.
CAIDI -	Customer Average Interruption Duration Index
CAPM -	Capital Asset Pricing Model
CCGT -	Combined Cycle Gas Turbine
CIS -	Customer Information System
CPI -	Consumer Price Index
CAIDI	Customer Average Interruption Duration Index
CWIP -	Construction Work In Progress
EA	Electricity Act, 2015
PESL	Public Electricity Suppliers Licence
PES	Public Electricity Supplier
GoB	Government of The Bahamas
IPP -	Independent Power Producer
IRP -	Integrated Resource Plan
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	Kilowatt-hour

MW	Megawatt
MWh	Megawatt-hours
NEP	National Energy Policy
O&M	Operating and Maintenance
OPEX	Operating Expenses (prudently incurred)
PBRM	Performance Based Rate-Making Mechanism
PPA	Power Purchase Agreement
PPE	Property Plant and Equipment
Project Model	A file in Excel format, which specifies, inter alia, all costs and costing assumptions used in determining the projects that are being proposed in the Business Plan
RAB	Regulatory Asset Base
RE -	Renewable Energy
Rate Review Process	The 3 to 5 year rate setting process of URCA to determine the non-fuel rates to be charged by the Licensee as well as the targets related to the Licensee's performance.
Rate Review period	The 3 - 5 year period being considered in the Rate Review Process.
Regulatory Accounts	The reports on the financial and operational performance of the Licensee in such detail and format as designed by URCA.
ROE	Return on Equity
ROI	Return on Investment
ROR	Rate of Return
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
T&D	Transmission & Distribution
TOU	Time of Use
WACC	Weighted Average Cost of Capital
URCA	Utilities Regulation and Competition Authority

1 INTRODUCTION

The Utilities Regulation and Competition Authority ("URCA") issues this Statement of Results and Final Decision (SoR) further to its "**Consultation on Proposed Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers" (ES 02/2021) ("the Consultation Document")[1], published on the 10 March 2021.**

One of the primary roles of URCA is the regulation of the Electricity Sector (ES) in accordance with the goals, objectives and principles underpinning the National Energy and Electricity Sector policies.[2] Accordingly, it is important that URCA effectively monitors and evaluates Licensees' performance to ensure that the most appropriate and beneficial charge structure is implemented

URCA's objective is to build a methodology, procedure and guidelines for negotiating and establishing tariffs that both accords with the Public Electricity Supply Licence (PESL) and meets standards for good regulatory practice.

URCA is issuing this SoR in accordance with section 20 of the Electricity Act, 2015 (EA). URCA's position is that rates are to be based on, among other things, revenue, demand and, where necessary, a detailed plan with justification for investment in necessary systems upgrades. Consequently, the Licence stipulates that BPL shall develop any expansion plans in consultation with the Government and submit to URCA for approval, when satisfied that the plan represents the least economic costs for the electricity supply system expansion. To ensure consistency for tariff setting across the Islands, URCA will proportionally apply the same principle to the other Public Electricity Suppliers (PES) in accordance with the requirements of their respective licenses.

1.1 CONSULTATION PROCESS

URCA considers Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers to be of public significance, with potentially far reaching impact on the ES; therefore, URCA initiated the public consultation process and published the Consultation Document on 10 March 2021., URCA invited Licensees to provide written responses on the Consultation Document on or before 15 April 2021. The Consultation Document sought respondents' views on several questions relating to the methodological framework, tariff principles, guidelines and procedures.

URCA acceded to a request from BPL and afforded them extra time to respond to the Consultation Document. In this regard, the submission period was extended to 23 April, 2021. URCA received comments from BPL and other key industry stakeholders.

URCA recognizes the importance of an open and robust consultation process and is satisfied that it has discharged its statutory duty under the EA 2015 by permitting all stakeholders with interest in the subject matter of the Consultation Document a reasonable opportunity to make submissions.

1.2 RESPONSES TO THE CONSULTATION

The period for submission of written responses and comments to the consultation document closed on 23 April 2021. During the consultation period, URCA received written responses from:

[1]https://www.urcabahamas.bs/wp-content/uploads/2021/03/Proposed-Tariff-Review-Framework-Guidelines-and-Procedures-for-Public-Electricity-Suppliers-ES-02-2021-1.pdf

[2] Electricity Act 2015, section 37(1)

- The Bahamas Power and Light Company Limited (BPL)
- RAV Bahamas
- and David McGregor President, Grand Bahama Power Company

URCA extends thanks to all the Respondents for their participation in this public consultation process and the submissions proffered.

URCA has summarised the comments submitted by the Respondents in this Statement of Results and issued its Final Position. Interested parties can obtain the full text of the Respondents' comments from URCA's website at www.urcabahamas.bs .

In this document, URCA has sought to provide a summary of the responses considered and a discussion of URCA's position on those responses.

1.3 Purpose of this Statement of Results and Final Decision

In this Statement of Result and Final Decision, URCA:

(i) Outline the Legal and Regulatory Framework;

(ii) Summarizes the written submissions received in response to the Public Consultation Document. However, it is noted that URCA may not have reproduced all matters considered. The lack of direct response to a comment or any issue raised by a Respondent does not signify URCA's agreement in whole or in part with the comment, nor should it be taken to mean that URCA has not considered the comment or that the comment was considered and dismissed;

(iii) Provides URCA's analysis of the submissions made by the Respondents; and

(iv) Sets forth URCA's review and Final Decision subsequent to the Public Consultation.

1.4 STRUCTURE OF THE REMAINDER OF THIS DOCUMENT

Section 2: Outlines URCA's authority to conduct BPL's Rate Review Process;

Section 3: Summarises the general comments received and outlines URCA's responses;

Section 4: Summarises the comments received to the consultation questions and outlines URCA's responses and Final Decisions; and

Section 5: Outlines URCA's conclusions and next steps.

2 REGULATORY FRAMEWORK

The Electricity Act empowers URCA as the Regulator for the ES in The Bahamas with implementing the ES policy, implementing provisions of the Electricity Act, and enforcing compliance with Licensees' licence conditions.

The following section sets out comprehensively the legal and regulatory remit of URCA as encapsulated by the EA and the PES Licences.

Under various provisions of the EA and additional legislations, URCA may develop and enforce regulations and conditions with respect to rates, tariffs, and other charges for the provision of utility services.

URCA is tasked under the EA to carry out various duties and functions as the Regulator of the ES in The Bahamas. Pursuant to section 74 of the EA and Condition 24 of the PESL, URCA may specify the framework as it relates to the procedures and guidelines for a Public Electricity Supplier (PES) to furnish such information and to submit such returns in relations to their operations and at such intervals, as URCA may require. Additionally, section 20 of the EA outlines URCA's role in determining the rates and scales of charges for electricity by BPL and Part G, Condition 52 of the BPL Licence outlines URCA's role in determining the Price Controls Mechanism and Tariffs.

2.1 GOVERNMENT POLICY

The Government of The Bahamas (GoB) National Energy Policy (NEP) sets out the strategic aims for meeting the electricity sector policy objectives. The strategic aims include but are not limited to:

- Plans for the efficient use and supply of safe, least cost, reliable and environmentally sustainable electricity.

Consistent with the aims and goals of the NEP, shall be, among others, the:

(a) Provision of safe, least cost electricity supplies to all consumers.
(b) Advancement to The Bahamas' economic growth and development and international competitiveness.
(c) Enhancement of the energy security of The Bahamas.
(d) Encouragement of competition in the generation of renewable electricity.
(e) Introduction of a structure for the sector that is overseen by an independent Regulator.

2.2 THE ELECTRICITY ACT, 2015 (EA)

2.2.1 RATES AND SCALES OF CHARGES FOR ELECTRICITY BY BPL

Section 20 of the Electricity Act, 2015 (as amended by the Electricity (Amendment) Act 2018) states:-

(1) Subject to subsections (6), BPL shall in accordance with an approval granted by URCA impose fixed charges for electricity sold in bulk or direct to customers, and for additional services rendered by BPL, having regard to reasonably incurred operating and fuel costs.

(2) UCRA shall, in determining the tariff rate, have regard to –
   (a) The requirement of a rate reduction bond fee; and

   (b) The need for revenue derived by BPL from sales, services and other sources to be sufficient to pay –

      i. all other expenses and obligations of BPL properly chargeable to income;

      ii. payments due to be made in respect of interest or principal of money borrowed by BPL, whether or not there is a continuing economic return on the money borrowed;

      iii. sums required for redemption of securities issued by BPL under section 21;

      iv. such sums as may be required for a reserve fund, extensions, renewals, depreciation, loans and other like purposes.

(3) Subject to the approval of URCA, BPL may, where no undue preference is given to any class of customer or locality, fix the charges under this section at different rates and scales for different classes of customers, including residential, commercial, general service and other service categories.

(4) BPL may submit to URCA, where necessary, a detailed plan and justification for investments in necessary system upgrades that include, for URCA's consideration proposals for cost recovery through the tariff rate.

(5) URCA may modify the tariff rate for electricity supply services by BPL to take account of significant and unforeseen increases or decreases in costs occurring during any twenty-four month period.

(6) Without prejudice to subsection (5), URCA shall for a period of three years adopt and apply the tariff rate for electricity supply services recommended by BPL.

(7) BPL shall within three months of the date of the commencement of this Act file with URCA the tariff rate for electricity supply services.

2.2.2 ROLE OF URCA[3]

The primary role of URCA is the regulation of the electricity sector in accordance with the goals, objectives and principles underpinning the national energy and electricity sector policies.

URCA in regulation of the electricity sector shall… "Provide for and carry out periodic rate review" among other things.

[3] 1Electricity Act, 2015, section 37 (1) and (2)(m)

2.2.3 FUNCTIONS AND POWERS OF URCA

Section 38(1)(a) of the EA states that-

"The functions and powers of URCA are to-

> (a) review and determine that the rates and scale of charges comprising the tariff rate for electricity supply services proposed by a public electricity supplier are reasonable, reflect efficiently incurred costs and are not inconsistent with or in contravention of the Act or any other law and allow an opportunity for public input."

Subsection 38(3)(i)-(j) states that URCA may issue regulatory and other measures, including without limitations, as follows: –

"

(i) requiring any licensee to furnish such information and submit such returns in relations to the operations at such intervals as it may require;

(j) conducting market investigations and market reviews and publishing regular information and reports."

2.2.4 CONSUMER PROTECTION

Section 40 (9) states that a licensee shall –

"

(a) Monitor its performance against such key performance indicators as may be set out in its licence or in any regulatory measures issued by URCA; and

(b) Pursuant to a written request made by URCA, publish and provide in a manner required by URCA its performance results against the relevant key performance indicators."

2.2.5 DETERMINATION BY URCA

Section 64 of the EA gives URCA the remit to make determinations where URCA deems it necessary relating to the terms and conditions of a licence, including obligations in licence conditions, regulatory and other measures, standards or technical rules.

2.2.6 POWER TO REQUEST INFORMATION

Section 74 of the EA gives URCA the power to request information. Subsection (2) states that when requesting information, URCA shall inter alia –

(a) state the legal basis and purpose of the request;

(b) specify what information is required;

(c) fix the time limit within which information is to be provided; and

(d) state that a person who fails to provide information as and when lawfully requested to do so, or supplies incorrect or misleading information, commits an offence.

2.3 Licence Conditions

2.3.1 General Conditions

The general conditions of the Public Electricity Suppliers Licence (PESL)[4] states that the licensee shall comply with the EA and any other Act of the Commonwealth of The Bahamas that has application to it in the discharge of its performance under their Licence.

The general conditions further state that "*the Licensees shall comply with regulatory and other measures including any directive, order, rule, decision or approval issued, made or granted by URCA in accordance with their duties and functions under the Act or their Licence*".

Condition 5.1 of the PESL and APESL outlines the role and duties of URCA. It states that the Licensee shall be subjected to the regulatory supervision of URCA. URCA shall perform its functions and carry out its duties pursuant to the URCA Act, the EA and any other relevant laws, the licence and have regard to relevant Government policy.

2.3.2 Reporting Obligations

Condition 24 of the Licence outlines BPL's reporting obligations. In particular, Conditions 24.2, 24.3 and 24.8 respectively state:

24.2 "URCA may require the Licensee to maintain separate Regulatory Accounts for regulatory reporting and tariff analysis."

24.3 "The Licensee shall furnish to URCA without delay such information, documents and details related to the Licensed Business, as URCA may reasonably require in order for it to fulfil its functions and discharge its obligations under the Act."

24.8 "The Licensee shall, annually, provide URCA with its capital investment plan and updated five year capital investment plan."

2.3.3 Engaging in other business

26.1 "The licensee may engage in other business activities and shall keep separate accounts for its different activities. The licensee's profits and losses from such other business activities shall not be considered for the purpose of setting tariffs."

2.3.4 Price Controls mechanism and tariffs

Part G, Condition 52 outlines the Tariff Principles - "URCA shall determine the Licensee's rates for electric power pursuant to URCA's powers under the Act as amended from time to time and on the principles set out therein."

Conditions 53.1 and 53.2 of the BPL licence stipulates the respective tariff reviews as follows:

"53.1 URCA shall conduct a tariff review for the Licensee in accordance with the procedure set out under section 20 of the Act," and

"53.2 The Licensee shall comply with the process and timelines established by URCA for tariff reviews."

[4] Includes Authorised Public Electricity Suppliers Licence

3 URCA's Summary of Responses to Comments Received on the Consultation

URCA sought the views from all interested parties in relation to its Proposed Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers. URCA hereby publishes a summary of the responses to the Consultation Document, its analysis and comments on the responses, and its final decision. URCA has duly considered all written submissions proffered. However, URCA has not included every consideration in this Statement of Result and Final Decision. The absence of a response by URCA to any comment raised by a Respondent does not indicate URCA's agreement in whole or in part with the comment, nor does it suggest URCA's lack of consideration or finding that the comment was without merit.

3.1 General Comments on the Consultation

URCA thanks BPL, RAV and David McGregor President, Grand Bahama Power Company for the responses to the Consultation on Proposed Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers (ES: 02/2021) ("the Consultation Document").

In this section, URCA summarizes and responds to the General comments received on the consultation.

3.1.1 BPL's Introductory Comments

In its response to the consultation on Proposed Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers (ES: 02/2021) BPL commented that it is in agreement with URCA's stated objectives in undertaking the tariff review, namely, building a methodology, procedure and guidelines for negotiating and establishing tariffs that are aligned with the Public Electricity Supplier License (PESL) and good regulatory practice.

As it relates to separated accounts BPL questioned whether Transmission and Distribution can be combined, as complete separation may present internal challenges for BPL.

Additionally, BPL requested further clarification on the elements included in "Supply Services".

BPL stated its agreement that the Rate Review Process will be rigorous and time consuming and added that the components of the Integrated Resource Plan (IRP) and Cost of Service Studies can take longer than 12 months as the initial studies have not been done before. Consequently, BPL has suggested that a period of 18 months, may be more appropriate and should be considered by URCA. Additionally, BPL posited the view that the processes proposed by URCA will require significant regulatory, financial and operational reporting and analysis which will require steps to be taken by BPL, and possibly URCA to ensure that the resources and expert support are in place in order to properly facilitate the review process.

BPL advanced that it is important to clarify that the rates ought not be based, inter alia, on the requirement of a rate reduction bond fee, having regard to the 2018 Amendment to the Electricity Act 2015, which repealed the requirement of a rate reduction bond fee as a determining factor for URCA.

3.1.2 URCA's response to BPL's introductory comments

URCA notes BPL's general comments on the Consultation Document and thanks BPL for its overall support of the objectives of the tariff review Framework, Guidelines and Procedures.

The objective of accounting separation is to ensure fairness in the attribution of cost, transparency in record keeping, and consistency in the application of the method used in establishing the cost.

There are several key issues that must inform the development and construct of an accounts separation framework. These include inter alia:

- The cost allocation methodology
- The principles upon which the framework rests
- The scope of the accounts separation obligations

As it relates to BPL's question of whether Transmission and Distribution can be combined, as complete separation may present internal challenges for BPL, URCA is of the view that since the overarching regulatory criteria that is required to guide the cost allocation and separation is not in place at this time., it would not be fair nor realistic to require BPL to provide complete separation for Transmission and Distribution. However, URCA expects that BPL will demonstrate fairness in the attribution of cost, transparency in record keeping, and consistency in the application of the method used in establishing the cost in any tariff submission.

Additionally, accounts for Supply Services are just as important. Supply Services, which can also be referred to as the generation cost, is the cost of actually generating power – think of the cost to operate a Diesel plant, the cost of building solar and wind farms, etc.

URCA will initiate and develop Accounts Separation Guidelines for PES as part of its remit commencing the third Trimester of this year and is projected to carryover into the second trimester of 2022.

URCA is in general agreement with BPL's comments on the processes requiring significant regulatory, financial and operational reporting and analysis. URCA supports the view that PES will be required to take steps to ensure that the resources and expert support are in place in order to properly facilitate the review process. URCA is committed to taking all necessary steps in accordance with the Utilities Regulation and Competition Authority Act (the Act) and the EA to ensure it discharges its duties to facilitate the review process. Additionally, URCA is of the view that it is imperative that the PES in its submission of a tariff proposal should ensure that the required supporting data justifying its submission also forms part of that submission. To this end, URCA is not averse to affording a PES sufficient time to complete its cost of service study and analysis to ensure its submission is fair, credible and reflects its true cost of service. URCA is of the view that the resources and initiative required to prepare and submit a credible tariff proposal are entirely dependent on the PES.

Further, as outlined in its consultation document URCA agrees that the rates ought not to be based on, inter alia, the requirement of a rate reduction bond fee. However, in setting the rates PES should be cognizant of the RRB requirements.

3.1.3 URCA'S DECISION

URCA is not opposed to affording a PES sufficient time to complete its cost of service study and analysis to ensure its submission is fair, credible and reflects its cost of service. URCA further reiterates that the resources and initiative required to prepare and submit a credible tariff proposal are entirely dependent on the PES management decisions.

3.1.4 BPL'S COMMENTS ON THE LEGAL AND REGULATORY FRAMEWORK

BPL commented that URCA has clearly outlined the legal and regulatory framework providing for URCA's authority to conduct the proposed Rate Review Process. However, BPL reiterated that URCA, in the exercise of its responsibility for determining the tariff rates, ought not to consider the requirement of a rate reduction bond fee, having regard to the 2018 Amendment to the EA which repeals Section 20 (2) (a) of the EA. BPL considers that it is important to note this change and for URCA to reflect the same in setting out its Legal Framework and the extent of its remit. BPL states further, as the rate reduction bond charge is to be recovered as a separate line item/charge on customer's bills, there is no need for this to be included in URCA's consideration and determination of the rates.

3.1.5 URCA'S RESPONSE/ DECISION

URCA notes the change having regard to the 2018 Amendment to the EA as follows

"6. Amendment of section 20 of the principal Act. Section 20 of the principal Act is amended —

(a) in subsection (1), by the deletion of the words "Subsections (6), (7) and (8)" and the substitution of the words "Subject to subsection (6)";

(b) in subsection (2), by the repeal of subparagraph (1);"

URCA accepts that the RRB fee is governed by legislation that places the RRB outside of its remit. For completeness, URCA has deemed it prudent to incorporate such legislative amendments in its legal and regulatory framework in the Consultation Document. URCA has never indicated nor is expressing any action of responsibility for determining the RRB charges. However, URCA is of the view that since the RRB charges will have a direct impact on the Revenue Requirements of BPL in particular and indirectly on the PES in general, it becomes an important element in the deliberation of any tariff setting, notwithstanding the RRB fee is to be recovered as a separate line item on customers' bills.

3.1.6 BPL'S COMMENTS ON TARIFF SETTING PRINCIPLES AND PROCEDURES

BPL notes URCA's comments regarding cost of service studies. BPL advanced the view that URCA has not discussed cost of service in the context of subsidizing of Family Islands or in circumstances where large commercial customers are subsidizing small residential customers. BPL further stated that the Company supports a cost of service study but is concerned about the level of detail needed. BPL is of the view that a cost of service study will take some time, and will require significant funds and has therefore proposed that URCA seeks to agree on the process and major principles but also rely on mutually agreed assumptions. Additionally, BPL submitted that at the very least, the initial cost of service study be at a high level with customer load shapes largely estimated until statistically valid load shapes by customer class are developed by BPL.

BPL further commented that in this first rate filing, URCA should keep it simple and proceed with the Rate of Return Regulation. BPL's view is that the introduction of performance based incentives will require a good understanding of the key performance indicators such as system loss, heat rate, etc. in circumstances where BPL is still in the early stages of ensuring that they are capturing and measuring these correctly. BPL has requested that URCA considers introducing a few performance measures during this first filing, but that they are used for monitoring as both BPL and URCA work out the kinks and not as part of the initial tariffs. Once established then the incentive/performance based targets can be considered in subsequent rate filings. As the initial filing will have many moving parts, BPL is concerned that it will be tasked with more than its system can handle.

In reference to URCA's proposed determination of the Revenue Requirement, BPL offered that there are pros and cons to both historic and future methods. BPL argued that while the historic cost method would provide certainty on sales and costs, BPL is of the view that it would also lag on needed investments in times of growth. BPL further posited that conversely, a future cost method is subject to uncertainty in the forecasts and assumptions that would be factored into the calculations. Using either method would require an annual Revenue Requirement (over/short) calculation that would protect the company and customer from unexpected over/under recovery due to a variety of factors. This mechanism would be in terms of over or under recovery of the Rate of Return established, being outside of an agreed upon parameter.

As it relates to URCA's comparison of the proposed ROE methodologies, however, BPL stated that they are in agreement with the general principles outlined in the Consultation Document[5] because of the very small capital markets that exist in The Bahamas. BPL posited that the proposed approach can lead to the possibility of making assumptions to compensate for any over/under recovery of Revenue Requirement. BPL also proposed that as it relates to the calculation of WACC and the resulting Return on Investment BPL would prefer that the process reflects that BPL would likely contract a consultant to perform a ROI study that would be considered along with the URCA study.

3.1.7 URCA'S RESPONSE

URCA does not agree with BPL's view that URCA has not discussed cost of service in the context of subsidizing of Family Islands or in circumstances where large commercial customers are subsidizing small residential customers. URCA submits that the context in which the Cost of Service Study (COSS) is discussed in the Consultation Document[6] makes allowance for PES to incorporate potential subsidization options in their COSS. To add clarity, cost of service studies provide useful information to a utility not only in a rate review process but also as part of the traditional planning process. These studies provide detailed cost information necessary for designing rates, showing cost differences among rate classes, unbundling rates into separate functional components, pricing special services, developing economic development incentives, and responding to customer rate enquiries. URCA is of the view that a COSS is a study in which the company's total cost to provide electricity service is spread or allocated to the customer classes to achieve desired revenues and socio-economic objectives.

More particularly, the COSS is an analysis based on historical costs during a 12 month test period, which allocates the utility's costs to its customer classes as fairly as possible based on their consumption patterns. Customer consumption pattern data can be obtained from load characteristics data gathered and measured by load research smart meters. The COSS process starts with overall expenses and revenues, in total and for each rate class, as well as plant in service and depreciation data, and then calculates the rate of return on rate base. In short, the COSS (a) takes all of the utility expenses and shows how those costs are attributed to the various customer rate classes, and (b) takes the rate class revenues and shows how much each rate class contributes to the overall utility revenue requirements.

Subsidization Among Rate Classes

A COSS will serve to identify the rate classes that are contributing more than their fair share of overall revenues, and those rate classes that are contributing less than their fair share. Any rate class with a revenue that is less than the overall cost of providing the service to that customer class is being subsidized by any rate class with revenue that is greater than the overall cost of providing the service to that customer class. This relative cost revenue ratio comparison allows the utility to adjust rates so that the *subsidized* rate classes can begin to pay more and the subsidizing rate classes can pay less – moving all rate classes closer to cost-based rates or maintain the subsidy as a matter of Government policy.

URCA agrees with BPL that the introduction of performance based incentives will require a good understanding of the key performance indicators such as system loss, heat rate, etc. The adoption of an incentives based approach to regulation will require a number of mechanisms designed for service providers to meet performance obligations. Mechanisms aimed at improving service quality or service delivery are vital because incentive regulation does not fully replicate a competitive market. Accordingly, URCA accedes to BPL's request that URCA considers introducing a

[5] Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers (ES: 02/2021)

[6] Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers (ES: 02/2021)

few performance measures during this first filing that will be used solely for monitoring purposes as both BPL and URCA work out the logistics. Consequently, these performance measures will not form a part of the initial tariffs. Once established then the incentive/performance based targets can be considered in subsequent rate filings.

As it relates to determination of the Revenue Requirement URCA reiterates its view on how this is determined in practice as follows:

The Regulatory process for tariff determination consists of two steps. The first step is the determination of revenue requirement of the utility. The second step is the design of the tariff elements which is usually informed by a COSS, when multiplied by sales, produce the allowed revenue that the utility can collect from customers. The allowed revenue should be equal to the Revenue Requirement to enable the utility to recover its costs. There are three general approaches for determining the Revenue Requirement:

a) Actual historic accounted for costs and sales volumes;

b) Estimated future costs and forecast loads; and

c) Estimated marginal costs (usual long-run incremental costs) and forecast loads

The main difference between the historical costs approach and the estimated costs approach is in the choice of a "test year," i.e., the period over which the utility's cost of supply and sales are measured.

Historic Test Year defines a specific 12-month period as the latest twelve month period for which audited financial statements are available as the historic test year, which may become the basis for assessing the costs of supply and sales of electricity. The costs and sales of the historic test year may then be adjusted for "known and measurable changes". Examples of known and measurable changes are an increase in power purchase cost due to a new Power Purchase Agreement (PPA), a change in tax laws, or a decrease in load due to an exit from the system of a major industrial customer. This approach is being traditionally used in the Caribbean and Indian power sectors and some jurisdictions in the United States.

Future Test Year defines as the projected twelve month period which may become the basis for assessing the costs of supply and sales of electricity. Future test years come from the utility's forecasted budget. The utility may not be able to produce forecasts with sufficient degree of reliability nevertheless, the costs and sales of the future test year may then be adjusted for "known and measurable changes".

The Tax Rate proposed in the Revenue Requirements framework does not represent the Value Added Tax (VAT) but is a representation of a Corporate Tax scenario. If there is no Corporate Tax regime then the Tax Rate will be zero as is currently the case for PES in The Bahamas. However, Government Tax policy may change in the future whereby there could be the need to implement a Corporate Tax policy. If this scenario is realized, then such Corporate Tax will have to be accounted for in rate setting.

URCA welcomes BPL's comments regarding the proposed ROE methodologies. BPL is in agreement with URCA on the general principles outlined in the consultation document[7] because of the very small capital markets that exist in The Bahamas. URCA can also appreciate the expressed view by BPL for the use of consultants to assist in the calculation of WACC.

[7] Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers (ES: 02/2021)

4 SUMMARY OF RESPONSES TO CONSULTATION QUESTIONS

In this Section, URCA summarises and responds to the comments received from the Respondents to the specific questions posed by URCA in the Consultation Document.

4.1 CONSULTATION QUESTION 1 –

Stakeholders are invited to comment on URCA's proposed cost of service framework in conducting the tariff review as outlined in this section. Which approach do you propose and why?

4.1.1 BPL'S COMMENTS:

BPL expressed its agreement with the average cost method approach to a cost of service study outlined in the Consultation Document. Further, as this is the first filing, BPL is of the view that there is merit in keeping the process as simple as possible. BPL stated that while it understands the nature and need for the study, the question that arose is, what will be done once the results are established? In this regard, BPL submitted the following comments:

(a) There is a need to understand the expectation with regards to the Family Islands and whether a study would be required for each island.

(b) BPL would like to have a clear understanding of the timeline for completion of the study as resources will have to be allocated to this project.

(c) While some measurements such as kWh by customer class will be readily available, BPL would like to understand the level of detail for all calculations. As an example, measuring Coincident Demand and being able to allocate it correctly to each customer class will require us to capture demand readings at specific times and that equipment is not currently in place. Significant time and effort will be needed to study and allocate Transmission and Distribution at the various service levels for each category.

(d) While the Cost of Service Study will be a useful exercise and the results are still to be determined, the concern is that this will be a cost and time intensive exercise and should there be the need to reallocate cost to Demand and Base Tariffs, BPL questions whether URCA is willing to make significant changes thatmay be required to each customer class and location.

Additionally, as it relates to the COSS BPL requested further discussion. BPL advanced the view that given the restrictions on availability of data and the need for further study, the practical approach may be to perform BPL's COSS at a higher level with agreed upon assumptions and then over time, evolve to a more detailed analysis once projects such as AMI are commissioned and can provide more accurate data.

4.1.2 RAV BAHAMAS COMMENTS

In its comments to the Consultation Question 1, RAV commented that URCA's proposed Cost of Service framework is consistent with regulatory practice in the region and regulated electricity markets in the US.

4.1.3 URCA'S RESPONSE TO BPL'S AND RAV'S COMMENTS

URCA welcomes BPL's and RAV Bahamas' support and agreement with URCA's proposed Cost of Service framework.

URCA provides responses to the questions raised by BPL, in alphabetic order as follows;

a. *There is a need to understand the expectation with regards to the Family Islands and whether a study would be required for each island.*

URCA considers that whilst a study for each island would be ideal in providing a greater level of details. URCA is of the view that it is not necessary since a global approach would satisfy the criteria of having the same rates for each category of consumers across the islands and hence all the islands should be treated as one.

b. *BPL would like to have a clear understanding of the timeline for completion of the study as resources will have to be allocated to this project.*

It is URCA's position that all PES are obligated to provide a COSS as part of their tariff review submissions, albeit with different details and complexities. To this end, the onus is on the PES to determine the timelines for the COSS so that it forms the basis of a tariff submission for URCA's review.

c. *While some measurements such as kWh by customer class will be readily available, BPL would like to understand the level of detail for all calculations. As an example, measuring Coincident Demand and being able to allocate it correctly to each customer class will require us to capture demand readings at specific times and that equipment is not currently in place. Significant time and effort will be needed to study and allocate Transmission and Distribution at the various service levels for each category.*

URCA believes that it behoves BPL to conduct a COSS that will be detailed enough to identify the cost drivers so that the rates charged for each category of customers are fair.

d. *While the Cost of Service Study will be a useful exercise and the results are still to be determined, the concern is that this will be a cost and time intensive exercise and should there be the need to reallocate cost to Demand and Base Tariffs, BPL questions whether URCA is willing to make significant changes that may be required to each customer class and location*

URCA will make its determination on a tariff submission based on the fairness of the costs allocation, the prudency in which those costs are incurred, and the extent to which those costs are known and measurable. URCA is also of the view that there should be revenue stability from year to year, stability of rates, with a minimum of unexpected changes seriously adverse to existing customers and the avoidance of undue discrimination in rate relationships.

Additionally, URCA is not averse to BPL and other PES addressing the need for further study to have a credible COSS to inform adequate and equitable tariff setting. URCA agrees that the practical approach may be to perform PES COSS at a higher level with agreed upon assumptions and then over time, evolve to a more detailed analysis once projects such as AMI are commissioned and can provide more accurate data. Furthermore, URCA is of the view that the PES ought to submit to URCA the proposed scope of their COSS with the assumptions and timeline for the higher level COSS as the starting point for discussions, agreements and determination.

4.1.4 URCA'S DECISION

URCA is not averse to BPL and other PES addressing the need for further study to have a credible COSS to inform adequate and equitable tariff setting. URCA agrees that the practical approach may be to perform PES COSS at a higher level with agreed upon assumptions and then over time, evolve to a more detailed analysis once projects such as AMI are commissioned and can provide more accurate data. Furthermore, URCA is of the view that it behoves the PES to submit to URCA the proposed scope of their COSS with the assumptions and timeline for the higher level COSS as the starting point for discussions, agreements and determination.

4.2 CONSULTATION QUESTION 2

Stakeholders are invited to comment on URCA's proposed WACC in the determination of Revenue Requirement as outlined in this section. Which approach do you propose and why?

4.2.1 BPL'S COMMENTS

With regards to WACC, BPL provided comments as follows:

a. BPL submits that it should have an opportunity to provide input on the utilities that URCA considers "comparable" as the region has a wide variety of jurisdictions with utilities of many sizes.
b. BPL proposes that as a part of the Rate Filing it will commission a WACC study that can then be used for reasonableness.

In relation to the Rate Base, BPL provided the following comments:

a. BPL requested further clarity on the formula used to calculate this item, specifically, 'Working Capital' lists various balance sheet accounts but omits other accounts that make up the balance sheet. BPL's expectation is that we would include all assets minus liabilities (not including debt). Further, the formula includes "short term loans" and BPL's understanding is that debt should be excluded from Revenue Requirement.

4.2.2 URCA'S RESPONSE TO BPL COMMENTS

With regards to WACC, URCA's response is as follows:

URCA welcomes BPL's acceptance of the proposed guideline and framework for the estimation of WACC in the determination of Revenue Requirement. URCA has no objection to BPL providing input on the utilities that URCA considers "comparable" in any benchmarking methodology to calculate WACC. Additionally, URCA has no objection to BPL's decision to commission a WACC study that can then be used for determining reasonableness as a part of the Rate Filing.

With regards to Working Capital in the Rate Base, URCA's response is as follows:

The Rate Base is the value of the net investment in the Licensed Business. Normally Utility Rate Base includes the assets that are in use, will be expected to be in use over the Rate Review period, and are deemed useful in providing electricity services to its customers. The Rate Base shall be based on the approved net book value of the utility's assets for the review period as informed by the Business Plan.

Working Capital is just one component of the Rate Base. As a general rule from a regulatory standpoint and to ensure against double counting, it is accounted for by verifying the addition and subtraction of the following financial variables:-

The working capital (i.e. accounts receivable + cash & short term deposits + tax recoverable + inventory – account payable – customer deposits – bank overdraft – short term loans deployed)

The working Capital proposed in the Consultation Document[8] and which is outlined above is not at variance with BPL's understanding.

4.2.3 RAV BAHAMAS' COMMENTS

With regards to WACC, RAV Bahamas provided comments as follows

Q2.a) RAV commented that the company has financed the acquisition of its generating assets using a non-traditional technique. The capital cost of the units is being financed by RAV's fuel supplier and the cost is being recovered via an added component to the purchase price of the LNG supply. RAV presented the question as follows: How will URCA's proposed revenue requirement calculation take account of non-traditional financing schemes like this?

Q2.b) Further, RAV noted that in the Consultation Document URCA has proposed the use of a comparable group of regional utilities as the basis for determining WACC, RAV questioned how will this calculation account for the differences in risk and financial market structure between the various Caribbean islands?

Q2.c) Lastly, RAV suggested that in the determination of WACC, it may be useful for URCA to determine a range of acceptable returns on equity. The high end of the range may be used during the tariff review process to provide an incentive for utilities to achieve higher service standards whereas the bottom of the range may be used by utilities to trigger an interim tariff review if their actual ROE falls below that floor.

4.2.4 URCA'S RESPONSE TO RAV BAHAMAS' COMMENTS

With regard to RAV's question on how will URCA's proposed revenue requirement calculation takes account of non-traditional financing, URCA's response is as follows;

The costs of debt and equity determine the return the energy companies are allowed to earn on their rate bases. This is determined by the following:

– The respective costs of debt and equity allowed by URCA; and

[8] Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers (ES: 02/2021)

– The mix of debt and equity financing used.

As the occasion arises, URCA believes that the use of a “cash needs” approach for calculating the revenue required to cover debt service for specific large investments financed on concessional terms. When this approach is taken, investments financed from concessional loans are recovered through an annual debt service charge and not included in the rate base. Similarly, the capital cost of the units that are being financed by RAV’s fuel supplier and the cost is being recovered via an added component to the purchase price of the LNG supplier will be considered for analysis to be included in the revenue requirement. For example, URCA proposes not to use a rate base in estimates of the revenue requirement for investment in plants, if the plants have been 100 percent financed with a concessional loan and capital costs are therefore recovered through an explicit debt service charge. It must be noted however that URCA will not allow RAV to recover its capital costs via the Fuel Charge.

With regards to Comparable group of regional utilities as the basis for determining WACC, URCA’s response is as follows:

On the question of using a comparable group of utilities as the basis for determining WACC, this is one of three options that URCA proposed in its Consultation Document. URCA is of the view that the criteria for choosing comparable utilities ought to be based on geography, size, annual revenue, financial structure (debt/equity ratio), but not limited to these criteria. Performance will be measured by comparing the metric for the PES to the average for a peer group. The accuracy of this indexing approach to benchmarking hinges on the degree to which the cost pressures faced by the peer group resemble those faced by the subject PES.

With regard to the suggestion that URCA determine a range of acceptable returns on equity and reset ROE as return on equity falls out of this range, URCA’s response is as follows:

URCA does not foresee that a reset of the PES equity will necessarily incentivise the utility to improve efficiency and service standard commensurate with any guaranteed ROE, in fact quite the opposite is observed to be true in other jurisdictions[9]. Hence the move to incentive based regulation such as Price Cap or a Hybrid approach described in the Consultation Document. When the utility is guaranteed a ROE they will have very little incentive to adopt a least cost approach to the management of their cost.

4.2.5 URCA’S DECISION

URCA considers that the PES shall have the option of using any one of the following to calculate its ROI or its WACC.

Costs of debt and equity. The costs of debt and equity determine the return that energy companies are allowed to earn on their rate bases. This shall be determined by the following:

– The respective costs of debt and equity allowed by URCA; and

– The mix of debt and equity financing used.

As the occasion arises, URCA will allow PES to use a “cash needs” approach for calculating the revenue required to cover debt service for specific large investments financed on concessional terms. When this approach is taken, investments financed from concessional loans are recovered through an annual debt service charge and not included

[9] Jurisdictions such as UK, Australia, Jamaica

in the rate base. For example, URCA will agree not to use a rate base in estimates of the revenue requirement for investment in plants, if the plants have been 100 percent financed with a concessional loan, and capital costs are therefore recovered through an explicit debt service charge.

Alternatively, URCA believes that a PES shall be allowed to recover its revenue requirement by applying a deemed or benchmark WACC to the value of its net investment. URCA proposes that a PES be allowed to earn a Return on Investment (ROI). Thus, the rate base value will be a key variable in the determination of a PES's revenue requirement. URCA proposes to use comparative utilities in the Caribbean region as the basis of benchmarking WACC.

Alternatively, URCA believes that a PES shall be allowed to recover its revenue requirement by applying a deemed or benchmark capital structure[10] and an estimated Cost of Equity using CAPM[11] method and international benchmark data. The WACC derived from this alternative is then applied to the appropriate Rate Base. URCA proposes to adopt the method of comparative utilities in the Caribbean region as the basis of estimating WACC.

Rate Base shall be based on the approved net book value of the company's assets for the tariff review period and should be informed by the PES's Business Plan.

For vertically integrated electric utilities such as BPL, rate base generally includes generation, transmission and distribution infrastructure; but when it comes to valuing rate base, there can be many other items that are included in, or used to offset, the net value of the utility's plant and equipment.

4.3 CONSULTATION QUESTION 3

Stakeholders are invited to comment on the extent to which the elements making up the RR is adequate and appropriate.

4.3.1 BPL'S COMMENTS

In its comments on this particular Consultation question, BPL stated that throughout the Consultation Document reference is made to non-fuel operating costs being "operating costs of generation, transmission and distribution and supply facilities". BPL argued that it is necessary that URCA clarify whether supply services include areas such as IT, Accounting, Customer Service, etc., and whether this should be revised to reflect "support services" and defined as "all other operating costs except for Generation and Transmission & Distribution".

4.3.2 URCA'S RESPONSE TO BPL'S COMMENTS

URCA agrees with BPL's comments that the RRB fees need not be part of the Revenue Requirement in this instance as the RRB will be determined exogenously in accordance with and is subject to the requirements of the Electricity Amendment Bill, 2018 and the Electricity Rate Reduction Bill, 2019.

Generally, regulators see O&M costs as all prudently incurred costs which are not directly associated with investments in capital plant and other operating costs, which shall include but not be limited to,

[10] Represents the amount of debt relative to the equity shareholding. Capital structure is the proportion of each source of funding used to support the utility's rate base

[11] is a popular pricing model that describes the relationship between systematic (market) risk and expected return and that is used to calculate the required rate of return for any risky asset.

- salaries and other costs related to employees;
- operating costs of generation, transmission and distribution and supply facilities;
- power purchase costs and other related costs including but not limited to working capital and credit support charges incurred under approved PPAs, fuel supply agreements and other related infrastructure arrangements;
- interest and other financial costs on other borrowings and working capital requirements not associated with capital investment; foreign exchange results loss/(gain); rents and leases on property associated with the Licensed Business;
- taxes which the Licensee is required to pay other than income taxes of the Licensee; and
- other costs which are determined to be reasonably incurred in connection with the generation, transmission and distribution and supply of electricity.

The elements described above are requirements prescribed by section 20 of the EA. It is URCA's view that the non-fuel operation cost/expenses include all prudently incurred expenses to run the licensed business including IT, Accounting, Customer Service, etc.

4.3.3 RAV BAHAMAS COMMENTS

RAV has commented that it seems prudent for each utility to establish reserves for the anticipated cost of recovering from hurricanes, which are common to The Bahamas. RAV believes that Revenue Requirements should include the annual cost of establishing an appropriate reserve based on the size of the utility's service area.

4.3.4 URCA'S RESPONSE TO RAV'S COMMENTS

URCA agrees with the concept of "Self-Insurance" for the PES, especially against the background of the difficulty of obtaining Insurance for Transmission and Distribution and if available the attendant cost makes it prohibitive. However, URCA is of the view that the requirement to establish such reserves for the anticipated cost of recovering from hurricanes will require more comprehensive study to determine the appropriate level of reserve and the establishment of rules governing such funds. The level of reserve and the rules as to how these funds will be regulated may differ. Also, the benefit/cost of establishing such reserve funds when compared to available options will have to be examined for each PES. This exercise is best done outside of this tariff framework.

4.3.5 URCA'S DECISION

URCA determines that the extent of the elements making up the RR as proposed in the Consultation Document, in the context of the Framework, Guidelines and Procedure, is adequate and appropriate.

4.4 CONSULTATION QUESTION 4 -

(a) Do stakeholders believe that the foundation of rate design should necessitate a Cost of Service Study (COSS) results? If not, why not?

(b) Do stakeholders agree with URCA's proposed rate structure and proposed tariff categories? If not, explain why. Do stakeholders believe that the Lifeline block rate of 0 - 200 kWh is adequate for vulnerable customers, explain?

4.4.1 BPL's Comments

In response to this question concerning Cost of Service Results, BPL submitted the following comments:

a. *Fundamentally BPL agrees on the COS Study forming the foundation of the rate design, however, from a practical standpoint the concern is how will the resulting adjustments based on the existing subsidies be addressed. Further clarification is requested in this regard. BPL repeats its comments under Consultation Question 1.*
b. *With regards to Rate Structure, BPL posited it is in general agreement with what is being proposed. However, BPL considers that further discussions are needed with some categories currently in place such as Large and Small commercial customers. Additionally, BPL is of the view that time of use rates would need to be considered after the AMI metering infrastructure is in place and the data has been studied.*
c. *As to standby rates, BPL requests further discussions to understand the context against the background of renewables and subsidies.*
d. *With regards to the Lifeline Block, BPL submits that it is in agreement with this proposal however, BPL is of the view that further study would be needed to determine if 200 kWh is adequate and how it would impact the other billing tiers.*

4.4.2 URCA's Response to BPL's Comments

URCA welcomes BPL's acceptance that the foundation of rate design should necessitate a COSS result. Additionally, BPL is in support of having a clearly defined rate structure and tariff categories, albeit with some additional comments as outlined above.

In response to the additional comments that BPL made seeking clarity on the granularity of the tariff design and structure, URCA hereby reiterates that the purpose of this Consultation is for all stakeholders to agree on the framework and procedures. In this regard the granularity and extent of details will depend on the COSS the PES will conduct themselves.

Additionally, URCA supports the view that PES will be required to take steps to ensure that the resources and expert support are in place in order to properly facilitate the review process. URCA is committed to taking all necessary steps in accordance with the Utilities Regulation and Competition Authority Act (the Act) and the EA to ensure it discharges its duties to facilitate the review process. Additionally, URCA is of the view that it is imperative that the PES in its submission of a tariff proposal should ensure that the required supporting data justifying its submission also forms part of that submission.

It is URCA's position that it behoves BPL to conduct a COSS and tariff design that will be detailed enough to identify the cost drivers so that the rates charged for each category of customers are fair.

4.4.3 RAV Bahamas

RAV expressed their support for the objectives URCA proposed as the basis for rate design. However, since the mix of customers and the components of their cost structure may differ for each utility, URCA should retain some flexibility in allowing each utility to determine how the objective of ensuring simple, equitable rates may be most easily achieved for its specific customers.

Q4.b) RAV has no specific comment on the adequacy of the 0 – 200 kWh Lifeline block.

4.4.4 URCA's Response to RAV's Comments

URCA believes that all PES are obligated to provide a COSS as part of their tariff review submissions, albeit with different details and complexities. To this end, it behoves the PES to design the rates and the extent of the rate structure so that its forms the basis of a tariff submission for URCA's review.

URCA believes that it behoves PES to conduct a COSS and tariff design that will be detailed enough to identify the cost drivers so that the rates charged for each category of customers are fair.

4.4.5 URCA's Decision

URCA determines that the foundation of the PES rate design should necessitate a Cost of Service Study (COSS) result.

URCA is not averse to affording a PES sufficient time to complete its cost of service study and analysis and to ensure its submission is fair, credible and reflects its cost of service. URCA further reiterates that the resources and initiative required to prepare and submit a credible tariff proposal are entirely dependent on the PES management decisions.

4.5 Consultation Question 5 –

Do you agree with URCA's proposed regulatory options for adjusting rates? Stakeholders are invited to comment on the URCA's proposed regulatory options for adjusting rates between rate review periods, giving reasons for your agreement and/or disagreements.

In its comments, BPL submitted that it considers this a very important part of the framework and would like further discussions. BPL submitted that the Company is mindful that given this is the initial filing and despite the degree of study and analysis that will be undertaken, there will be a steep learning curve for both BPL and URCA. Additionally, BPL desires to have continuous development of the process and fine tune certain elements along the way. For these reasons, BPL suggested that URCA consider a reduction in the proposed rate review period, namely that the initial filing should be for a period of 3 years to allow for a deeper understanding of the factors involved and then a 5-year interval thereafter. Further, given the frequency of significant storm events and the sensitivity of the Bahamian economy to exogenous shocks, a shorter 3-year cycle may prove better and will allow adjustments to be made more frequently.

BPL proposed starting with Rate of Return model that would have a return, that once established, would be set and in between rate filings, an upper and lower limit would be set so that, if BPL were to earn more than the upper limit or fall below the lower limit there would be a mechanism to share that between the company and its customers. BPL submits that this mechanism would maintain a balance due (to/from) and then would be incorporated into the next rate filing.

4.5.1 URCA'S RESPONSE TO BPL'S COMMENTS

URCA welcomes BPL's comments and believes that taken in their entirety the comments have merit, and URCA is open to further examine such proposal in the context of an interim three (3) years Tariff Review submission. However, URCA's longer term objective is to have a regulatory process built around an incentive based mechanism.

Rate of Return regulation ensures that prices are aligned with costs each year. However, since all costs can be passed on in price, the PES would have little incentive to become more efficient. URCA could review costs to ensure that they are reasonable, as has happened in the US, but this is a demanding task as information asymmetry will make a fair assessment by URCA most difficult. That is to say, the PES holds all the information and can mislead URCA.

Therefore, for the long term, URCA is of the view that the adoption of a hybrid regime is generally justified by the mechanism of allowing costs such as Fuel costs that are outside the control of the PES to be an automatic pass-through while incentivising the PES to keep its cost down so as to realise its targeted rate of return and ensuring that the consumers are not burdened with the pass-through cost of inefficient use of the fuel. The more volatile or unpredictable these uncontrolled costs are, the more important the need to adopt a regime that reduces the risks for the operator. The specific hybrid regime design decides how much of the risk can be passed on to users while ensuring the PES is given the best opportunity to realise its Return. URCA agrees with BPL that the introduction of performance based incentives will require a good understanding of the key performance indicators such as system loss, heat rate etc. The adoption of incentives based approach to regulation will necessarily involve a number of mechanisms designed for service providers to meet performance obligations. URCA believes that setting an appropriate Heat rate and losses target within a hybrid regime will provide the right incentives for efficiency.

URCA's remit and primary objective are to preserve the efficiency incentives of a price cap while keeping prices related to costs in the longer term. URCA believes in a hybrid approach of elements of Rate of Return and Price Cap combined, whereby prices are initially set to allow the PES to recover its cost of service. The PES rate of return measured by its WACC is determined and set at the review period but never adjusted until the next review. Thereafter, on an annual basis prices are adjusted on average at the rate of inflation, less an offset, namely

$$\%\ \text{adj.} \leq \text{CPI} - X;$$

where % adj is the average percentage change in prices allowed in a year, CPI is the inflation index, and X is the offset or efficiency factor.

Additionally, URCA believes that the offset, X which represents the X-factor in price cap regimes remains zero until a comprehensive study on X factor is established. By implication also an adjustment for inflation will be postponed until the X-factor is established.

URCA believes that the Rate of Return Model proposed by BPL would remove the incentive for PES to operate efficiently by minimising cost. While URCA is inclined to allow for this model in transitioning to a Hybrid approach, it does not provide the best regulatory option in the longer term.

4.5.2 RAV Bahamas

RAV believes that URCA's proposal to adjust rates by an inflation index between rate review periods could result in the over collection of revenue requirements and lead to public opposition (particularly since this has not historically been a feature of Bahamian electricity pricing). Instead, A utility that believes that an adjustment to rates is needed prior to the next scheduled rate review should be allowed to request an interim review based on its actual return on equity having fallen below an agreed upon acceptable range.

Utilities should also be able to opt out of the proposed 5-year review cycle if they believe their prevailing rates are adequate.

4.5.3 URCA's Response to RAV's Comments

URCA considers that the Return on equity Model proposed by RAV would remove the incentive for PES to operate efficiently by minimising cost. While URCA is inclined to allow for this model in transitioning to a Hybrid approach it does not provide the best regulatory option in the long term.

URCA believes that a hybrid Rate of Return /Price Cap model such as the one outlined in the Consultation Document, and reiterated in URCA's response to BPL comments above, will provide the best regulatory option in the long term.

PES would also be able to opt out of the proposed 5-year review cycle under a hybrid regulatory approach if they believe their prevailing rates are adequate.

4.5.4 URCA's Decision

URCA's objective is to have a regulatory process built around an incentive based regime and therefore believes that the hybrid mechanism of having elements of rate of return and price cap combined supports this goal.

URCA is open to further examine each PES proposed Rate of return approach in the context of an interim three (3) year Tariff Review submission. However, URCA's long term objective is to have a regulatory process built around an incentive based regime. This to give the PES sufficient time to consult and prepare for a hybrid price cap regulatory regime by 2025.

URCA's remit and primary objective are to preserve the efficiency incentives of a price cap while keeping prices related to costs in the longer term. URCA believes in a hybrid approach of elements of Rate of Return and Price Cap combined, whereby prices are initially set to allow the PES to recover its cost of service. The PES rate of return measured by its WACC is determined and set at the review period but never adjusted until the next review. Thereafter, on an annual basis prices are adjusted on average at the rate of inflation, less an offset, namely

$$\% \text{ adj.} \leq \text{CPI} - X;$$

where % adj is the average percentage change in prices allowed in a year, CPI is the inflation index, and X is the offset or efficiency factor.

URCA believes that setting an appropriate Heat rate and losses target (heat rate factor) within a hybrid regime will provide the right incentives for efficiency. The X-factor will be determined around the magnitude of the variance of the actual heat rate factor and targeted heat rate factor.

Additionally, URCA believes that the offset, X which represents the X-factor in price cap regimes remains zero until a comprehensive study on X factor is established. By implication also an adjustment for inflation will be postponed until the X-factor is established.

URCA believes that the Rate of Return Model proposed by PES would remove the incentive for PES to operate efficiently by minimizing cost. While URCA is inclined to allow for this model in transitioning to a Hybrid approach it does not provide the best regulatory option in the longer term.

4.6 CONSULTATION QUESTION 6 –

Stakeholders are invited to comment on the URCA's proposed list of information and supporting documents in support of the Tariff Review. Do you believe the items outlined are adequate or not? Explain.

4.6.1 BPL'S COMMENTS

BPL believes the items outlined are adequate, however, BPL commented that the Company would need further discussion to determine whether the infrastructure is in place to provide the data for all the required documents. Additionally, BPL commented that the company will probably need time to make investments and allocate resources to collect and compile the data and request that URCA remain mindful of this. Financial items such as regulatory accounts and forecasting data will need programming resources to generate the reports.

4.6.2 URCA'S RESPONSE TO BPL

URCA supports the view that PES will be required to take steps to ensure that the resources and expert support are in place in order to properly facilitate the review process. URCA is committed to taking all necessary steps in accordance with the Utilities Regulation and Competition Act (the Act) and the EA to ensure it discharges its duties to facilitate the review process. Additionally, URCA is of the view that it is imperative that the PES in its submission of a tariff proposal should ensure that the required supporting data justifying its submission also forms part of that submission. To this end, URCA is not averse to affording a PES sufficient time to complete its cost of service study and analysis and to ensure its submission is fair, credible and reflects its cost of service. URCA further reiterates that the resources and initiative required to prepare and submit a credible tariff proposal are entirely dependent on the PES.

4.6.3 RAV BAHAMAS COMMENTS

RAV believes the list of documents is unnecessarily long, potentially burdensome to the utility, and goes outside the scope of information that is required for a tariff review. URCA will have access to financial and operational information from every regulated Bahamian electric utility. This information could be used to create benchmarks or standards that may be used during the review process instead of requiring each utility to provide a "Business Plan" validating their own strategic and operational decision making. For example, since BPL is expected to continue being the main supplier of electricity, other utilities could be incentivized to provide equivalent or better service at a rate below BPL's.

4.6.4 URCA'S RESPONSE TO RAV'S COMMENTS

URCA is of the view that it is imperative that the PES in its submission of a tariff proposal should ensure that the required supporting data justifying its submission also forms part of that submission. To this end, URCA is not averse to accommodating a PES enough time to complete its cost of service study, analysis and information requirements to ensure its submission is fair, credible and reflects its cost of service. The information requirements stipulated by URCA are necessary to evaluate and validate a tariff submission complying with the framework outlined in the Consultation document. URCA further reiterates that the resources and initiative required to prepare and submit a credible tariff proposal are entirely dependent on the PES. The financial and operational information that will be used to support a tariff review ought to be specific to the PES seeking the tariff review.

4.6.5 URCA'S DECISION

URCA is of the view that it is imperative that the PES in its submission of a tariff proposal should ensure that the required supporting data justifying its submission also forms part of that submission. To this end, URCA is not averse to accommodating a PES enough time to complete its cost of service study and analysis and to ensure its submission is fair, credible and reflects its cost of service. URCA further reiterates that the resources and initiative required to prepare and submit a credible tariff proposal are largely dependent on the PES management decisions.

4.7 CONSULTATION QUESTION 7-

What comments, if any, do you have as a stakeholder pertaining to the proposed service standard reviews? Stakeholders are invited to comment on the proposed service standard review.

4.7.1 BPL'S COMMENTS

BPL is in general agreement but requested that the company be provided with further detail into all of the inputs that will go into measuring the various standards and agreement on methodology.

4.7.2 URCA'S RESPONSE TO BPL'S COMMENTS

In accordance with section 40 of the EA, URCA will review current service standards and determine appropriate service standards to be applied in the future. This data will be used to establish the level of service for a PES's customers and assist URCA in determining the level of service currently being achieved.

In undertaking an assessment of the performance of a PES against a number of other comparable island utilities, URCA will seek to establish whether there is scope for improvement on key indicators for electricity supply standards. A comparison of a PES's performance against that of similar utilities, taking into account differences in the operating environment between the PES and the selected benchmarked utilities. Key indicators that will be benchmarked include, but are not limited to the following: – Complaints per 1,000 customers – Customer average interruption duration index (CAIDI) – System Average Interruption Duration Index (SAIDI) and Average Interruption Frequency Index (SAIFI).

URCA will establish baseline indices for selected service standards in consultation with the PES and quality of service falling below the baseline will trigger an automatic compensation to the consumer's bill. The level of compensation will be determined in consultation with the PES after each tariff review period. PESs are required to submit these indices as part of their tariff submission.

4.7.3 RAV Bahamas' Comments

RAV agrees that a measurement of service standards, including the indicators proposed, should be an important aspect of the tariff review process. However, RAV stated that it is not clear how the results of this process will be accounted for in the tariff review process.

4.7.4 URCA's Response to RAV

See URCA response to BPL Comments above

4.7.5 URCA's Decision

URCA shall establish baseline measures of service interruption indices for selected service standards beginning with SAIFI, CAIDA, SAIDI and Customer Complaint per 1,000 customer. This will be done in consultation with the PES and quality of service falling below the baseline will trigger an automatic compensation to the consumer's bill. The level of compensation will be determined after each tariff review period and shall be an automatic credit to consumers' bills. PES shall be required to submit these indices on quarterly and annual basis in accordance with their Reporting Obligations Requirements[12] and also as part of their tariff submission.

4.8 Consultation Question 8 –

Stakeholders are invited to comment on the proposed Rate Review Procedure

4.8.1 BPL's Comments

Again, BPL generally agrees with what is being proposed. BPL further submitted that the company is interested in URCA's views relative to the public interaction as Rate Filing involves complex issues and terminology and there may be a need to consider an independent body to provide context and explanations surrounding the filing.

BPL stated the following as a matter the company would like to discuss further as the same was not addressed in the Consultation Document in the context of the proposed framework.

- BPL questions whether URCA will consider approving Regulatory Assets/Liabilities. This would enable what would normally be an operating expense to be amortized over a period of time rather than having a significant impact in the year it occurred.

- Additionally, BPL notes that the Consultation Document did not address a Hurricane Recovery Mechanism for non-insurable assets. BPL is of the view that this is a significant exposure to the

---

12 https://www.urcabahamas.bs/wp-content/uploads/2020/08/Statement-of-Results-and-Final-Decision-on-PESL-Reporting-Obligations-26-Aug-2020.pdf

company and we would like consideration for a Hurricane Fund to be established that would build up over time and be used when needed. BPL can provide further details as discussions progress.

4.8.2 URCA'S RESPONSE TO BPL'S COMMENTS

URCA is of the view that all Regulatory Assets/Liabilities must be treated in the conventional way that these assets/liabilities are treated in tariff setting. The Consultation Document[13] clearly sets out the framework for the Regulatory Asset which is commonly referred to as the Rate Base. The document also sets out the framework for the Operating Expenses. As it relates to BPL's question regarding whether URCA will consider approving Regulatory Assets/Liabilities, URCA is of the view that once BPL or any PES provide sufficient data regarding its assets and liabilities and in so far as it conforms to the stated framework, URCA will evaluate any such proposal from PES on its merit.

On the question of URCA's position on Hurricane Recovery Mechanism for non-insurable assets, URCA agrees with the concept of "Self-Insurance" for the PES. This especially against the backdrop of the difficulty of PES obtaining Insurance for Transmission and Distribution and if available the attendant cost makes it prohibitive. However, URCA believes that the requirement to establish such reserves for the anticipated cost of recovering from hurricanes will require more comprehensive study to determine the appropriate level of reserve and the establishment of rules governing such funds. The level of reserve and the rules governing how these funds will be regulated may differ for PES. Also, the benefit/cost of establishing such reserve funds when compared to available options will have to be examined for each PES. This exercise is best done outside this tariff framework. In this regard, URCA will welcome BPL's proposal on how BPL proposes to insure its assets.

4.8.3 RAV BAHAMAS COMMENTS

In its comments RAV posited as follows:

"URCA's proposal for utilities to directly make their case "through the appropriate medium" to the public for any tariff review which is initiated by the utility seems naïve and fraught with potential problems. The general public will instinctively be averse to potential price increases, regardless of the justifiability of any increase, and will unlikely be equipped to objectively evaluate the technical and financial parameters involved in the tariff review process. RAV agrees that the review process should be transparent, but transparency can be achieved by having the process (hearings, documents, etc.) open and accessible to the public. URCA could also encourage the participation of consumer advocacy groups who may have the right to "intervene" in the review process by presenting information for URCA's consideration which may either support or contest the case being made by the utility."

4.8.4 URCA RESPONSE TO RAV COMMENTS

URCA is of the view that the PES ought to make the case to their consumers as to why they are seeking URCA's approval for such a tariff. URCA will evaluate the proposal based on the merit of the proposal and in accordance with the framework and URCA's remit as it relates to the EA and the PES Licenses. URCA agrees that the PES can make their case through hearings, documents, etc.

[13] Tariff Review Framework, Guidelines and Procedures for Public Electricity Suppliers (ES: 02/2021)

4.8.5 URCA's Decision

i. URCA believes that all Regulatory Assets/Liabilities must be treated in the conventional way that these assets/Liabilities are treated in tariff setting and as was further outlined in the Consultation Document.

ii. URCA agrees with the concept of "Self-Insurance" for PESs.

   URCA believes that the requirement to establish such reserves for the anticipated cost of recovering from hurricanes will require a more comprehensive study to determine the appropriate level of reserve and the establishment of rules governing such funds. The level of reserve and the rules governing how these funds will be regulated and administered may differ for PES. Also, the benefit/cost of establishing such reserve funds when compared to available options will have to be examined for each PES. This exercise is best done outside this tariff framework. In this regard, URCA will welcome BPL's proposal on how BPL proposes to insure its assets.

iii. URCA is of the view that the PES ought to make the case to their consumers as to why they are seeking URCA's approval for such a tariff.

5 CONCLUSION AND NEXT STEPS

The document represents URCA's assessment and Final Decision of the comments and responses received on the **Proposed Tariff Framework, Guidelines and Procedures for Public Electricity Suppliers** (ES:02/2021).

URCA thanks the Respondents for their involvement in the **Proposed Tariff Framework, Guidelines and Procedures** for PES. The responses received were valuable to this Statement of Results and Final Decision.

Comments and responses from the PES generally support URCA in its establishment of a framework and procedure for a tariff review. While the PESs have expressed understanding and appreciation for URCA's Framework, Guidelines and Procedures, URCA is of the view that the results and decision herein represent the most significant first step in the consultation leading up to a fulsome tariff review. As the PES commences the preparation for submission of a tariff review, URCA welcomes further consultation on specific issues that may arise and which may not have been addressed in the Framework, Guidelines and Procedures. URCA does not claim that the results and decisions contain herein are exhaustive.

On the question of URCA's position on Hurricane Recovery Mechanism for non-insurable assets, URCA agrees with the concept of "Self-Insurance" for the PES. Especially against the backdrop of the difficulty of PES obtaining Insurance for Transmission and Distribution and if available the attendant cost makes it prohibitive. However, URCA believes that the requirement to establish such reserves for the anticipated cost of recovering from hurricanes will require more comprehensive study to determine the appropriate level of reserve and the establishment of rules governing such funds. The level of reserve and the rules governing how these funds will be regulated may differ for PES. Also, the benefit/cost of establishing such reserve funds when compared to available options will have to be examined for each PES. This is best done outside this tariff framework. In this regard, URCA will welcome BPL's proposal on how BPL proposes to insure its assets.

URCA is open to further examine each PES's proposed Rate of Return approach in the context of an interim three (3) years Tariff Review submission. However, URCA's longer term objective is to have a regulatory process built around an incentive based regime. This to give the PES adequate time to consult and prepare for a hybrid price cap regulatory regime by 2025.