



**TARIFF REGIME  
FOR  
DOMINICA ELECTRICITY SERVICES LTD  
CONSULTATION DOCUMENT**

Response to Comments on Consultation Document  
Tariff Regime For Dominica Electricity Services Ltd –  
Ref No: 2009/004/CD-02

**Document Ref: 2009/004/CD-04**

## CONSULTATION PROCESS

Persons who wish to participate in this consultation and to express opinions on this Document are invited to submit comments in writing to the IRC. Responses/Comments should be sent to:

Executive Director  
Independent Regulatory Commission  
P.O. Box 1687  
42-2 Kennedy Ave  
Roseau  
Commonwealth of Dominica

The Document is available from the IRC's offices at the address above or may be downloaded from its website at [www.ircdominica.org](http://www.ircdominica.org). Responses, clearly showing the Document Reference identification, may be sent by mail or fax to the address or fax number above or by e mail to: [comments@ircdominica.org](mailto:comments@ircdominica.org)

Confidential information provided with responses should be submitted as a separate document and clearly identified as such.

In order to stimulate debate, the IRC will place any responses received on its website at [www.ircdominica.org](http://www.ircdominica.org) immediately following the last date for receipt of responses. Comments on the responses will also be entertained by the IRC which should, likewise, be submitted by the date indicated.

The references and proposed time table for this consultation are:

**Document Ref No: 2009/004/CD-04.**

**Document Title: Tariff Regime for Dominica Electricity Services Ltd. - Comments on Responses to Consultation Document Ref: 2009/004/CD-02**

<b>Event</b>	<b>Proposed Date</b>
Publication of Document	December 13, 2009
Responses close	December 31, 2009
Comments on responses	With Decision
Decision by Commission on overall Consultation	March 17, 2010

# Tariff Regime For Dominica Electricity Services Ltd

Response to Comments on Consultation Document

Tariff Regime For Dominica Electricity Services Ltd - Ref No: 2009/004/CD-02

## Introduction

The Independent Regulatory Commission established pursuant to the Electricity Supply Act 10 of 2006 (the ESA, the Act) has responsibility for regulating the electricity sector in the Commonwealth of Dominica. Amongst its principal responsibilities is the duty to set tariffs that are cost reflective and balance the interests of consumers and the service providers alike.

The procedures for setting tariff are provided for in the Act and notwithstanding the provisions that previously obtained in the 1996 Act, the Commission determined on November 27, 2008 that it would not undertake further tariff adjustments under those arrangements. The Commission has been mindful that a new tariff regime ought to be established with some urgency and in January 2009 it signaled that it would be initiating a proceeding on the matter. The Commission has also been of the view that a new tariff regime must be cast as a long term arrangement, perhaps even in the context of a new Licence for DOMLEC and therefore it has been seeking to identify and address the critical issues that would inform the development of the tariff regime. The first consultation document, Tariff Regime For Dominica Electricity Services Ltd - Ref No: 2009/004/CD-01, was issued on August 6, 2009.

The Commission issued a second consultation document - Tariff Regime For Dominica Electricity Services Ltd - Ref No: 2009/004/CD-02, which offered responses to comments received on the first Document, on October 12, 2009 and invited comments to be submitted by November 15, 2009. The issue of tariffs is of such critical importance to all stake holders that the Commission has extended the consultation period to allow for further rounds of discussions and has therefore decided that it will target its March 2010 meeting for taking a decision on the tariff regime.

DOMLEC provided a second formal written response (the only response received) to the second Consultation Document, which is available on the Commission's website at [www.ircdominica.org](http://www.ircdominica.org). The Commission now sets out its comments on that response. The Commission wishes to thank DOMLEC for its participation in this important discussion.

**For ease of reference, the relevant response from DOMLEC is reproduced in *italics* and the IRC's comment is inserted immediately below.**

## Comments on DOMLEC's Responses

DOMLEC would like to thank the Independent Regulatory Commission for its response to our comments on the Consultation Document Ref: 2009/004/CD-01. We are encouraged to see that, in general, the Commission and DOMLEC appear to be in agreement on most of the high level issues regarding the tariff mechanism.

The one area where we feel there needs to be more discussion and dialogue is that of allowed Rate of Return on Rate Base (RORB). As you are aware, DOMLEC presented, in the form of an annex to our document, our opinions on how we believe that an allowed RORB should be established and we note the Commission's comments thereon. However, notwithstanding those comments, we still do not feel that we have moved any closer to establishing a mutually agreeable mechanism for calculating RORB and therefore what the target RORB should be. We believe that this topic must be addressed and fully resolved prior to the submission of the first rate filing. To further this matter, we believe it is more effective and productive for us to convene a meeting, or several meetings, to discuss and establish a mutually acceptable way to determine what the target RORB should be, and subsequently to fix that target for use in the tariff filing. We request that the Commission indicate its willingness to follow this approach and that it suggest a date on which we might convene such a meeting. There are a few additional items in the Commission's response where we feel additional comments may be useful or where the Commission has specifically requested a response. We address these below.

**The Commission has argued that it will not be guaranteeing a Rate of Return on Rate Base to DOMLEC as explained in its first Consultative Document entitled; Tariff Regime For Dominica Electricity Services LTD, Document Ref: 2009/004/CD-01. The Commission intends to derive a fair rate of return in the tariff making process and to facilitate an environment where the company has reasonable opportunity to earn the RoR so derived. If the company derives returns through efficiency gains, while delivering efficient and high quality service, it will be allowed to keep these gains through the tariff period. This reinforces the reasonableness of the Commission's position that in exposing the company to some risk in not guaranteeing the RoR it should be allowed to keep any excess earned for the duration of the tariff period.**

*Page 2, paragraph 4*

DOMLEC is in general agreement with the proposal of the Commission to adopt the approach set out in the 1996 Electricity Supply Act with respect to the collection of monies from customers to cover third party energy purchases. While the exact formula will need some modification we believe that the principle is sound. What has not been addressed is the setting of the price to be paid by DOMLEC, and subsequently passed on to the customer, for such purchased energy. We have met already to discuss this with the Commission and will be presenting a position paper on the matter in due course. However, we feel that it is incumbent on the Commission to set this price rather than DOMLEC given that it would have no impact at all on DOMLEC's net income.

**The Commission has proposed a 100 percent pass through of the fuel and IPP costs to consumers. The pricing mechanisms for IPPs will be fixed in the Power Purchase Agreements (PPA), which must be approved by the Commission. The Commission is amenable to discussing any position paper submitted by DOMLEC which speaks to the principle for setting the pricing mechanisms in the PPAs.**

*Page 7, paragraph 2*

*DOMLEC is unsure as to which comment the Commission is referring to when it states "...this comment is not germane or relevant to this proceeding." With due respect, the Commission raised the issue of the discount factor on fuel in the original Consultation Document and described it as being "...an unfair penalty and one which should be discontinued as soon as possible." Furthermore, since the recovery of fuel cost is part of the tariff mechanism, we contend it most certainly is relevant to this proceeding. In its response to the original comment, DOMLEC was merely stating its opinion that the Commission could make a decision on this matter immediately. As you are aware, DOMLEC formally requested, in March 2009, that the Commission take action on this matter and were advised that the opinion of the Attorney General was being sought. To date, some seven months later, we have received no formal response on this matter, either from the Commission or the Attorney General.*

**The Commission in its last response to DOMLEC's comments on this particular item stated this, "The Commission is of the view that this comment is not germane or relevant to this proceeding." The point is that the matter is the subject of another proceeding which, as DOMLEC correctly points out, has been referred to the Attorney General.**

*Page 10, paragraph 2*

*DOMLEC believes that the discretionary sum should be EC\$1,000,000. Setting this as the level for discretionary capital expenditure would allow DOMLEC to proceed with normal minor capital expenditures associated with its day to day business without seeking the Commission's approval.*

**The Commission notes DOMLEC's suggestions and comments. It is, however of the view that there ought to be some analysis to justify the amount prescribed for the discretionary sum.**

*Page 14, paragraph 3*

*Firstly, DOMLEC assumes that the any sum agreed to for the Government Obligation (GO) component of the tariff would be cumulative. In other words, if several Government Obligations were imposed within the effective rate period, then once the cumulative total of these obligations exceeded the threshold DOMLEC could collect the whole amount via the GO component of the tariff. DOMLEC believes that the threshold should be significantly less than the EC\$500,000 suggested by the Commission and we therefore propose the sum of EC\$100,000. Any more than this would, in our opinion, significantly affect the company's profitability and cash flow and*

would constitute an unfair use of company resources to effectively finance a Government imposed obligation.

**The Commission disagrees that EC \$500,000 is oppressive. The Commission, however, is not averse to considering a lesser amount and anticipates that DOMLEC will be submitting further arguments/analyses to support its proposals.**

*Page 15, paragraph 1*

*Can the Commission give any indication as to when a decision by Cabinet on regulatory fees might be forthcoming?*

**The Commission has not submitted a proposal to the Minister on regulatory fees. It anticipates that such a proposal will be made at an appropriate time during the tariff review with the expectation that a response would be received before the tariff review is completed.**

*Page 16, paragraph 2*

*DOMLEC believes that the concepts alluded to in the original Consultation Document on page 34, paragraph number 7 is important and relevant and that "withdrawing" this paragraph further confuses the issue. We believe that it is important to establish the correct framework for both interruptible rates and net metering, among others, and we therefore request further discussion and dialogue on these issues.*

**The Commission agrees that it would be useful to conclude consideration of the concepts. It does not agree that withdrawal of the paragraph confuses the issue; it merely defers consideration to another time. The Commission is therefore quite prepared to consider proposals from DOMLEC in these regards.**

*Page 18, paragraph 4*

*DOMLEC is unsure of what Consultations are being referred to and the intended timetable of these Consultations. We request that the Commission provide more details on this.*

**It should be evident that the consultations alluded to are a reference to DOMLEC's comment "DOMLEC requests that IRC and DOMLEC staff meet to provide this further necessary detail."**