



**CONSULTATIVE
DOCUMENT**

Document Reference: 2026/001/CD-02

**Cost-of-Service
and
Revised Rate Proposal
for
Dominica Electricity Services LTD (DOMLEC)
*SECOND ISSUE OF CONSULTATIVE DOCUMENT, WITH
COMMENTS ON RESPONSES TO THE FIRST
CONSULTATIVE DOCUMENT***

May 2026

CONSULTATION PROCESS

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

**Executive Director
Independent Regulatory Commission
42 Cork Street
P.O. Box 1687
Roseau
Commonwealth of Dominica**

Tel No: 767-440-6635, 767-440-7247, 767-440-6634

Responses, clearly showing the Document Reference identification, may be sent by mail to the address above or by e-mail to: admin@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 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 planned timetable for this consultation are:

Document Ref No: 2026/001/CD-02 of May 2026

Document Title: **DOMLEC's Cost-of-Service/Revised Rate Proposal - SECOND ISSUE OF CONSULTATIVE DOCUMENT, WITH COMMENTS ON RESPONSES TO THE FIRST CONSULTATIVE DOCUMENT Ref No: 2026/001/CD-01.**

EVENT	PLANNED DATES
Publication of First Issue of Document	2 nd April 2026
Public Consultation and Outreach Programs (In-person AND virtual)	9 th to 30 th April 2026
Responses Closed – <i>End of Phase 1 of Consultation</i>	8 th May 2026
Comments on First Response and Publication of Second Issue of Document	18 th May 2026
Responses Closed - <i>End of Phase 2 of Consultation</i>	29 th May 2026
Statement of Results and Commission's Decision	5 th to 12 th June 2026

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Introduction and Background

DOMLEC informed the Commission of its need to initiate a tariff review in 2021, and the process of the tariff review was initiated later that year.

The Commission believes that the timely completion of any tariff application submitted by DOMLEC should be preceded by addressing and validating certain key issues in separate proceedings leading to the conclusion of the tariff review process.

These issues, which are critical inputs to the tariff determination, are:

- Depreciation Study (*Completed April 2024*)
- Weighted Average Cost of Capital - WACC (*Completed October 2024*)
- The Revenue Requirement and Rate Base (*Completed January 2025*)
- 5-Year Investment Plan (*Completed January 2025*)
- Cost of the Service Study
- Revised Rate Proposal

The Commission will, when requested by DOMLEC, conduct its review of and make determinations on these issues prior to the final submission of the Rate Proposal.

The Depreciation Policy was addressed and completed in April 2024, as per the Commission's "*Decision Document Ref: 2024/001/D – Depreciation Policy for Dominica Electricity Services Ltd*". The Approval of the Weighted Average Cost of Capital (WACC) Study was completed in October 2024 as per the Commission's "*Decision Document Ref 2024/002/CD-02/D – Weighted Average Cost of Capital (WACC) for Dominica Electricity Services Ltd*". The Conditional Approval of the Revenue Requirement and Rate Base was completed in January 2025 as per the Commission's *Conditional Decision Document Ref 2025/002/D*. The Conditional Approval of Capital Investment Plan was completed in January 2025 as per the *Commission's Conditional Decision Document Ref 2025/001/D*.

DOMLEC submitted its letter of *Intent-to-File* to the Commission on March 6th, 2026, on the presumption and condition that the Commission's Decisions on these issues will be final.

Consequently, DOMLEC submitted its revised tariff proposal for the Commission's consideration. This *Consultation Document* sets out the Commission's thinking in response to DOMLEC's submissions.

The Commission's objective in this proceeding is to consider and decide on the revised tariff proposal that appropriately recovers the required revenue, considering energy kilowatt hour (kWh) sales level across all customer categories.

The Commission is interested in receiving stakeholders' views in this regard.

The Commission issued its first Consultative Document (CD) Reference 2026/001/CD-01 on the Cost-of-Service Study and Revised Rate Design for DOMLEC on April 2nd 2026, and held a series of hybrid public consultations in Roseau on April 10th, 14th and 17th. In person public consultations were held in Portsmouth, Marigot, Castle Bruce, Grand Bay and La Plaine during the period April 20th to 30th, 2026. The consultation held at St. Joseph was cancelled due to extremely low attendees. Comments on the first response and publication on the second issue of the Consultative Document ended on May 18^h, 2026.

The Cost-of-Service Study is a well-established framework commonly used by regulators to ensure that costs allocated are cost-reflective, transparent, and consistently applied across all customer classes. It serves as a baseline for setting fair and equitable electricity rates and ensures that rates align with the actual costs of providing service to each customer's class. The study helps in identifying and optimizing cross-subsidization between customer categories.

The *Tariff Decision Document* supports that the Rate Design be based on the Cost-of-Service Study. It includes, among other elements, the functionalization, classification, and allocation of costs, as well as the allocation of revenue and the restructuring of customer classes. It also considers the classification of customers into standard and Time-of-Use tariff.

This new document sets out the Commission's response to stakeholders' feedback and comments received from the first round of consultation and the Commission's Proposed Decision that flowed from this consideration. These Proposed Decisions will replace those, if and where appropriate, that were indicated in the previous Consultative Document.

The Commission's key objective in this proceeding is to consider and decide on:

The revised rates proposal for DOMLEC for the 3-year tariff period be determined from the Cost-of-Service Study and the restructuring of the customers classes into domestic and small business standard and Time-of-Use for domestic, commercial, industrial, hotel, high voltage and streetlight customers.

Policy and Legal Framework

Legal Framework

The Commission's duties and functions related to setting tariffs are outlined in three (3) main legal instruments:

- (i) the Electricity Supply Act #10 of 2006 referred to as the Act or ESA
- (ii) the Licence and;
- (iii) Commission's Determination as per its Decision Document *i.e.* "**Tariff Regime for Dominica Electricity Services Ltd Document; Ref: 2009/004/D**" referred to as "**The Determination**".

The Act provides:

At Section 18

The Commission shall be independent in the performance of its functions and duties under this Act and shall not be subject to the direction and control of the Government or of any person, corporation or authority, except that the Commission shall have due regard to the public interest and overall Government policy, as embodied in legislation.

At Section 19

The Commission shall have sole and exclusive authority to regulate all electricity entities that are subject to this Act and shall have full powers to regulate all licensee with regard to all economic and technical aspects of regulation in accordance with this Act especially with regard to the determination of tariff or electricity charges.

At Section 20

(1). The Commission shall, without limiting the generality of this section, have a duty to perform and exercise its functions and powers under this Act in the manner which it considers best calculated to:

- a) Encourage the expansion of electricity supply in Dominica where this is economic and cost effective and in the public interest;*
- b) Encourage the operation and development of a safe, efficient and economic electricity sector in Dominica.*
- c) Facilitate the promotion of sustainable and fair competition in the electricity sector where it is efficient to do so.*
- d) Protect the interests of all classes of consumers of electricity as to the terms and conditions and price of supply; ensure that the financial viability of efficient regulated electricity undertakings is not undermined.*

The Procedure for the setting and review of tariffs for electricity supply is provided at *Sections 23 and 24 of the ESA.*

Section 23:

- (1) An electricity service provider shall not –
 - (a). Offer service unless it has, prior to offering such services, filed its proposed tariffs with the Commission and such tariff rates and charges have come into effect pursuant to section 24;*
 - And*
 - (b) Make changes on tariffs, or other terms of the service after proposed tariffs have been filed with the Commission, except as authorized under this section.**
- (2) An electricity service provider shall submit tariff proposals in conformity with this section in writing to the Commission with respect to the tariffs it intends to apply for the use of its systems, facilities and services.*
- (3) Proposed tariffs filed under subsection (2) shall contain all relevant information concerning rates and charges for services, including deposits, nonrecurring charges and monthly charges as well as terms and conditions applicable to the provision of services, including disputes or claims over billing or provision of services.*
- (4) A Licencee shall make tariffs available to the public by publishing such tariff in the Gazette and two local newspapers.*
- (5) All proposed tariffs filed with the Commission shall be kept complete, accurate and up to date.*
- (6) After a proposed tariff has been filed with the Commission and has come into force and effect, no changes may be made in the rates, charges or other terms of service relating to all the services provided under the tariff, except upon the filing and review of tariffs as provided in this Act.*
- (7) Proposed Tariffs shall:
 - (a) Be accompanied by all accounting and cost information as the Commission may require;*
 - and*
 - (b) Comply with all the other requirements and conditions as shall be applicable to the licensee concerned.**

Section 24:

- (1) All tariffs proposed by a licensee shall conform with the principles and provisions governing tariff formulation established by the Commission pursuant to the legislation for the time being and shall be submitted to the Commission for review as to their conformity with such principles and provisions.*

(2) *The Commission shall within 60 days of the submission of the tariff proposed under subsection (1), make a determination to:*

(a) *approve the tariff without amendment.*

(b) *conditionally approve the tariff subject to amendments specifically proposed by the Commission being accepted by the licensee; or*

(c) *reject the tariff proposal outright, stating clearly in writing the reasons for such rejection, which reasons may include a determination that the tariff is not ripe for review.*

(3) *In the event that the Commission makes a determination under subsection (2) (b) the licensee may submit a revised tariff within thirty (30) days of the determination; and the Commission shall make a new determination in accordance with one of the three options specified in subsection (2) within 30 days of such submission.*

(4) *In the event of an outright rejection of the proposed tariff under subsection 2 (c), the Licencee may file a new tariff at any time; or may file a petition to the Commission for reconsideration of such rejection.*

(5) *A petition shall be filed within thirty (30) days of the rejection and shall state the Licencee's basis for reconsideration, which may include fundamental change in circumstances from the conditions that prevailed when the tariff was originally rejected by the Commission.*

(6) *In the event that the Licencee files a petition for reconsideration under subsection (4), the Commission shall act upon such petition within thirty (30) days and make a determination in accordance with one of the three options set forth in subsection (2).*

(7) *If the Commission fails to act on a tariff submission pursuant to this section within the timeframes for determination specified in subsections (2), (3) and (6), the tariff shall be deemed approved until such time as the Commission makes a determination.*

The Act gives the **Commission full authority to act independently** in the performance of its duties – specifically having regard to public interest considerations and government policy, as embodied in legislation.

In providing for its functions, *the ESA (S20)* mandates the Commission to act in a manner which it considers best calculated to achieve several policy objectives and in this regard clauses (a), (b), (d), (e) and (g) of S20, reproduced above, are instructive.

Furthermore, *Section 20. (1) (c) of the Act* provides a duty for the Commission to “ensure the security and efficiency of the supply of electricity in Dominica, through the conduct of an efficient long term planning process with due regard for future potential generation sources such as geothermal and wind energy”.

The determination sets out in detail the methodology and process for determining the tariff for DOMLEC.

Regulatory Policy Objectives

*The Commission's regulatory policy is to establish a tariff which balances the interests of the consumers and investors alike where the investors have the opportunity to realize a fair return on investment while customers can expect an efficient, responsive and economic service in an environment where the rights of all stakeholders are preserved. The Commission will not guarantee a rate of return to investors but will seek to create a regulatory environment where the incentives are such that the company, through **efficient operational practices and continual efficiency improvements**, will have the opportunity to achieve the desired rate of return during any tariff period.*

Tariff Principles

There are basically two models for a tariff structure which could apply in the Dominica situation:

- 1. A tariff which includes all the costs including the costs of fuel, based on a projected cost of fuel over the tariff period; or*
- 2. A two-part tariff comprises (i) a non-fuel base rate and (ii) a fuel charge, which fully recovers the cost of fuel (subject to efficiency factors) and no more.*

Both methods use the same techniques and parameters for estimating revenue requirements, the exception being that in the first case fuel is included in the revenue requirements while it is not in the second case. The options for dealing with fuel costs are discussed separately.

The Commission has accepted Option No. 2 and will allow a 100% pass-through of fuel costs.

The average tariff that will be in effect from time to time shall be consistent with the following:

$$RR = OC + FC + GO$$

Where:

RR = Revenue Requirement

OC = Operating Cost

FC = Financing Cost

GO = Government Obligations- A provision to recover or return the cost of obligations imposed by government, which were not known or anticipated at the tariff review.

The “Average Rate” then becomes the Revenue Requirement (\$) divided by the forecast sales (kWh).

$$\text{Average Rate} = \text{Revenue Requirement (\$)} / \text{Sales (kWh)}$$

Revenue Requirements

The Utility’s Revenue Requirement is calculated as the sum of its estimated costs of providing service, where a fair return is included as one of those costs. These forecasted funding levels have to be sufficient to get the required work done without adversely impacting quality of service, or compromising reliability, customer service or safety: any disallowance resulting in a deferral of projects or work activities must be carefully considered and weighed against these criteria.

The Revenue Requirement consists of the sum of Operating Costs and Financing Costs required for providing electricity services.

$$\text{RR} = \text{Operating Costs} + \text{Financing Costs}$$

Where:

$$\text{RR} = \text{Revenue Requirement}$$

Operating Costs = Costs of labour, non-generation fuel, depreciation, income taxes, deferred costs

Financing Costs = Cost of capital which includes cost of debt and equity.

The critical exercise is to determine the forecast of the Revenue Requirements based on a sustainable and defensible estimate of the expenses for the base year. One approach is where the base year is the year for which the most recent published annual reports and audited financial statements are available and from which the Test Year (the forecasted year), representing a forecasted statement of expenses and costs that are known and measurable is derived.

In any event, in all cases, the expenses that are ultimately approved for inclusion will be those that are determined by the Commission to be prudent.

The Non-Fuel Revenue Requirement is developed based on a combination of demonstrated historic costs and forecast costs. The Fuel Revenue Requirement is a 100% pass-through of actual cost and will change monthly according to an agreed-to formula.

The Revenue Requirement for the Base Rate is then:

$$\text{Base Rate RR} = \text{NFOC} + \text{FC} + \text{GO} + \text{RF}$$

Where:

$$\text{RR} = \text{Revenue Requirement}$$

NFOC = Non-Fuel Operating Costs (this includes non-generation fuel)
FC = Financing Costs
GO = Government Obligations, and
RF = Regulatory Fees

DOMLEC has carried out and completed its work on the proposed tariff design as part of the tariff review process initiated in 2021. The company has submitted the application and supporting schedules for the final tariff design to the Commission for consideration.

The completed tariff design with supporting schedules is now available to the public and relevant stakeholders for review and comments, with consultation questions to facilitate the process.

Filing Requirements

The *Determination* provides DOMLEC’s “*application for the intend-to-file for revised rates*” and “*application for approval of the Cost-of-Service Study*” along with the supporting shared dataset for DOMLEC.

Following a comprehensive review, the Commission has determined that DOMLEC has satisfied the filing requirement as contained in the “*Application for the intend –o-file for Revised Rates and the Cost-of-Service Study.*”

Summary of DOMLEC’s Proposal

DOMLEC’s conclusions are presented below:

- The request to consider the reclassification of customer classes
- The proposed Time-of-Use rates during peak and off-peak hours.
- The proposed 4% increase in base revenue over the Test Year
- The proposed standard tariff for vulnerable or low-income households.
- The proposed tariff design be based on the Cost-of-Service Study for DOMLEC
- The request to consider whether the tariff process is executed in a transparent manner.

The Commission's Considerations

1. Respondents commented on whether DOMLEC could adjust the off-peak hours to an earlier evening period and questioned the rationale for setting the off-peak period from 10:00 p.m. to 8:00 a.m. on weekdays and from 10:00 p.m. to 6:00 a.m. on weekends. Respondents noted that many people are already asleep by 10:00 p.m. and therefore may not be able to consume sufficient electricity during those hours to realize the meaningful cost savings on their electricity bills.
2. Respondents questioned whether consideration could be given to implementing a medium-sized tier for customers with energy usage up to 750 kWh or alternatively up to 1,000 kWh and noted that customers who have exceeded this threshold could transit to the large commercial category. The view expressed was that such an approach would provide a more equitable segregation of customer classes.
3. Some respondents questioned whether the proposed 10 MW geothermal plant would in fact deliver the anticipated cost savings reflected in the bill impact simulations, given the average energy usage levels shown. Additional comments were also raised regarding the injection of additional renewable energy into the grid in the future to further reduce dependence on fuel costs.
4. Respondents expressed concerns regarding the frequency of electricity outages across the island and questioned whether performance targets could be implemented to encourage DOMLEC to improve operational efficiency and reduce operating costs.

DOMLEC stated that they adhere to mostly technical performance targets. The Commission stated that additional key performance indices (KPIs) technical and non-technical will be agreed with DOMLEC and this will occur after the implementation of the approved revised tariff regime.

5. A respondent questioned what level of compensation could be provided to Customers in circumstances where DOMLEC exceeds the approved Weighted Average Cost of Capital (WACC).

Best regulatory practice would allow customers to be refunded upon DOMLEC, exceeding the returns that were allowed on the approved WACC. It is not a matter that regulations do not allow this approach. Instead, the Commission will seek to apply any standard and allowed regulatory approaches in resolving this issue with due consideration of fairness to all parties.

6. Some respondents commented that the expected cost savings in electricity under the revised rates proposal were rather disappointing but welcomed the implementation of Time-of-Use (TOU).
7. A respondent raised concern that all domestic and small business customers should fall under the category of Time-of-Use tariff. The respondent noted that this initiative is essential so that customers can fully understand energy management and conservation practices that will enable them to shift the load to off-peak period to attract lower rates.
8. The respondent noted that the off-peak rate is far too close to the on-peak rate with only an 8.65% difference. That the threshold assigned for small businesses 500 kWh and large commercial 1000 kWh per month, which equates to 16.66 kWh per day, is extremely low and is not realistic with today's use of electrical appliances.
9. Additionally, the respondent noted that no provision was made for the development of Electric Vehicle (EV) charging stations, which will hugely increase electrical consumption. The respondent also noted that the monthly fixed charge of \$5.00 is reasonable; however, raised concerns that the \$50.00 monthly charge and demand charge of \$12.50 per kWh is extremely high.

The Commission noted the comments from stakeholders and has taken them into account appropriately in its deliberations that follow as per each of the consultation questions raised for each Proposed Decision by the Commission.

Moreover, the Commission will evaluate the comments, concerns and questions raised and based on their merits will factor them in arriving at a fair and equitable Decision.

The Commission's Proposed Decisions, Consultation Questions and Respondents' Comments and Responses

Proposed Decision 1:

DOMLEC shall reclassify customers into standard- domestic, small business and streetlighting; Time-of-Use (TOU)- domestic, hotel, commercial, industrial, and High Voltage (HV) categories based on their level of consumption.

Consultation Question 1

Do respondents understand and agree to the reclassification of the customer categories to include domestic standard, domestic Time-of-Use (TOU), and small business, hotel, commercial, industrial (all considered to be large consumers), as well as High Voltage (HV) customers?

Respondents' Comments and Responses:

This question is based on the understanding that the cost of supplying electricity to customers varies depending on the time of day and the level of demand that different customer classes place on the system. The disaggregation of customer classes into Standard and Time-of-Use (TOU) tariff categories is primarily grounded in the principles of cost causation principle, efficient electricity consumption, and fairness among customer classes.

The Commission informed stakeholders that Time-of-Use tariffs allow electricity companies to charge higher rates during peak periods and lower rates during off-peak periods. This approach ensures fairness in that customers who consume electricity during the periods when generation costs are higher pay more for the actual costs they impose on the system.

The Commission indicated that domestic, small business and streetlight customers will pay a standard rate for electricity consumption in the proposed tariff structure; whereas the TOU customers to include hotel, commercial, industrial, and high voltage, will be charged based on the time at which electricity is used. The Commission noted that comments raised by a respondent that Time-of-Use should be applied to all customers' classes on the merit that the public can better understand energy management and conservation practices to shift their load.

The Commission explained that the implementation of a Time-of-Use (TOU) tariff is intended to encourage positive behavioural changes among customers and contribute to enhanced grid stability. DOMLEC can benefit from the TOU tariff through lower operating costs, improved operational efficiency, and minimize the need for additional investments in generation, transmission and distribution, and customer service assets. Additionally, the Commission informed stakeholders that customers will have the option to shift part of their load to the off-peak period to take advantage of lower electricity rates.

The Commission notes that disaggregating customer classes into Standard and TOU categories promotes a more equitable allocation of costs and helps ensure that customers with different usage patterns do not unfairly subsidize other customer groups.

DOMLEC, in its deliberation, supports the need to disaggregate customer classes into Standard and Time-of-Use (TOU) tariffs. The company informed stakeholders that the implementation of a TOU tariff is necessary because the cost of generating electricity increases during peak periods, as additional diesel generating units must be brought online to meet the higher energy load. This results in increased fuel costs, which are ultimately passed on to customers through the fuel surcharge.

DOMLEC noted the comments expressed by some respondents regarding the time allotted for off-peak hours. The company explained that during off-peak periods, particularly at night when most customers are asleep, the cost of generating electricity is lower because the less efficient thermal generating units are turned off, leaving mainly hydro and more efficient generating plants in operation. Consequently, this results in a reduction in fuel consumption during these periods.

The company indicated that there is a daytime peak beginning around 2:30 p.m., when commercial and industrial activities remain high, and an evening peak around 6.30 p.m., when people return to their homes. DOMLEC informed respondents that during these times additional generation sets must be turned on to meet demand, as this comes at a cost.

DOMLEC alluded that TOU tariffs would provide greater flexibility to customers by allowing them to shift part of their electricity usage to off-peak periods to benefit from lower electricity charges. At the same time, the company noted that this approach would help flatten or reduce peak demand, thereby placing less strain on the electricity system and improving overall operational efficiency.

Proposed Decision 2:

DOMLEC shall implement Time-of-Use tariffs in the revised rate design and will set different electricity rates during peak and off-peak hours for domestic, commercial, industrial, hotel and streetlight customers.

Consultation Question No 2:

Do respondents understand and agree that the proposed tariff should adopt the Time-of-Use (TOU) approach that applies to different electricity rates for peak and off-peak hours for domestic, commercial and hotel customers?

Respondents' Comments and Responses:

The Commission informed stakeholders that the introduction of the new tariff structure, which is referred to as the modernization of DOMLEC tariff structure, is expected to replace the old volumetric tariff system that has been in existence for more than fifty years. The Commission indicated that the current electricity system consists primarily of high-speed diesel generating and hydro generation plants. The IRC noted that Dominica's energy system is evolving and that the tariff structure should change accordingly.

The Commission stated that the new tariff structure introduces Time-of-Use (TOU) pricing, which reflects periods when electricity costs more and periods when it costs less. In regulatory terms, this concept is referred to as “cost reflectivity,” whereby electricity prices more accurately reflect the cost to the utility for supplying energy at any given time. The TOU structure supports the modernization of the electricity grid by encouraging customers to align their electricity consumption with periods when renewable energy is more in abundance. This supports grid stability by allowing customers the option to shift part of their electricity usage to off-peak periods.

In response to stakeholders’ comment regarding the addition of renewable energy to reduce fuel cost, the Commission informed that DOMLEC usage of diesel is projected to decline by approximately 80%. This will transit into renewable sources to include geothermal and hydro of up to 80% on the grid.

The Commission explained that Dominica’s National Energy Plan objective is to have 100% of renewable energy on the grid by 2030. In support of this initiative, the Commission noted that there are plans to explore additional Distributed Renewable Energy Systems in the future, but this is based on the load growth.

Additionally, the Commission stated that a study was conducted for the installation of rooftop Solar PV systems; that customers would have the option to install Solar PV systems on their properties for their own electricity consumption and sell the excess electricity to the grid. Customers could participate under a “buy-all, sell-all” arrangement, whereby all electricity generated from the Solar PV system would be sold directly to DOMLEC. Another option is to allow customers to rent their rooftop space to DOMLEC for the installation of Solar PV systems. The Commission noted that these plans are intended to support the expansion of Distributed Renewable Energy Generation (DREG) thereby reducing the dependence on diesel.

In response, DOMLEC mentioned that the Time-of-Use is primarily intended for customers who consume more than 150 kWh per month, as these customers generally spend more on electricity and have a greater ability to shift their electricity usage. The company explained that such customers may use appliances to include air-conditioning units or may have smart appliances that could be programmed to operate during the off-peak periods.

DOMLEC informed stakeholders that there are over 4,300 commercial customers. Under the proposed tariff structure, commercial customers will be divided into small businesses and large commercial customers. Accordingly, small business standards will include all businesses including retail shops, guest houses, hotels with less than twelve (12) rooms and manufacturing businesses with energy usage less than 500 kWh per month. The Company noted that over 3,500 establishments will benefit from the proposed flat rate and will realize some cost savings in their bills. Overall, 500 large commercial customers with energy usage of over 500 kWh or more will be categorized as Time-of-Use and will benefit from a reduction in their electricity bill due to the off-peak rate.

In response to the comment made by a respondent that domestic and small business standard customers be included under the category of TOU customers. DOMLEC stated *“The introduction of Time- of- Use billing on such a large scale is new for DOMLEC and it is*

prudent to make such widespread changes gradually. So, we will keep most of our customers on fixed block rates for this initial tariff period. Expansion will be based on the data aggregated over the coming three years. The larger consuming classes in the two broad categories of Residential and Business were selected because it was assessed that they had a greater capacity and incentive to shift load to off peak hours."

DOMLEC noted the comment raised by a respondent that the Time-of-Use (TOU) off-peak tariff is too close to the on-peak tariff, with only an 8.45% differential between the two rates. In response to this concern, DOMLEC indicated that the differential is driven by the cost of generation between peak and off-peak. The Company explained that implementing a higher differential would not be justified based on the findings of the Cost-of-Service Study. DOMLEC further stated that any additional adjustments to the tariff structure can only be made after gathering sufficient data to assess the impact of the proposed changes in this tariff cycle.

In reference to the statement made by a respondent regarding the implementation of Electric Vehicle (EV) charging stations, DOMLEC informed stakeholders that the development of EV charging infrastructure will be considered during the next tariff review process.

Proposed Decision 3:

DOMLEC shall implement the revised tariff that is based on a 4% increase in base revenue over the 2023 Test Year financial data for the upcoming 3-year tariff period.

Consultation Question No 3:

Do respondents agree that the 4% proposed revenue increase over the chosen Test-Year is reasonable and strikes a fair balance between what customers pay and what the company needs to remain financially viable?

Respondents' Comments and Responses

The rationale for this question reflects the Commission's findings based on the comprehensive review and analysis that informed the critical parameters of DOMLEC's tariff process. These include decisions on the *Weighted Average Cost of Capital (WACC)*, *Depreciation Study*, *Revenue Requirement* and *Rate Base*, *Capital Investment Plan*, and ultimately the review of the *Cost-of-Service Study* and *Revised Rate Proposal*.

The Commission explained to stakeholders that DOMLEC's 2023 Test-Year financial values were based on six months' actual and six months projected data. Accordingly, the test-year denoted an operating revenue of \$63M; while the 2023 Cost-of-Service dataset determined a Revenue Requirement of \$66.5M. This represented a revenue shortfall of \$2.6M, or 4%.

In response to stakeholders' comments regarding whether the proposed 10MW geothermal plant would help realize the projected electricity bill savings across customer classes, the Commission indicated that it conducted a comprehensive review and analysis of DOMLEC's bill impact

simulation and confirmed the accuracy of the dataset based on the average energy usage within the respective customer classes. However, stakeholders were advised to manage their energy usage to achieve the benefits.

Stakeholders were informed that the injection of the 10MW geothermal plant to the grid is the main contributor to the reductions in electricity bill under the Proposed Revised Rate Design. The 4% proposed tariff, with geothermal energy bill impact simulation, illustrated cost savings in electricity bills across all customer classes, ranging from 9.47% to 17.33%. The 4% proposed revised tariff without geothermal energy showed a significantly high electricity bill across all customer classes ranging from 21.18% to 23.50%.

DOMLEC explained to stakeholders that the last rate review was conducted in 2007 and resulted in a \$0.02 per kWh reduction in rates across all customer classes. In the proposed revised structure, all TOU Customers will realize a \$0.06 kWh reduction in the on- peak to off-peak rates. The company stated that the network was severely compromised following the passage of Hurricane Maria in 2017, and necessitated significant restoration works. The company has over the last ten years experienced significant net losses and is therefore not financially viable under the existing tariff structure.

DOMLEC further explained that a Pre-Tax Weighted Average Cost of Capital (WACC) of 9.82% had previously been agreed upon during previous public consultations. That applying the 9.82% WACC within the Cost-of-Service dataset resulted in a 5.5% increase in base rates. However, DOMLEC had taken into consideration the prevailing economic challenges in Dominica and has decided to adjust the Pre-Tax WACC to 9.2% to achieve a reasonable level of returns to shareholders while reducing the impact on customers. Accordingly, DOMLEC agreed to reduce the proposed increase from 5.5% to a 4% adjustment in base revenue.

In reference to the respondent comment that the fixed monthly charge of \$50.00 and demand charge of \$12.50 kWh is extremely high. DOMLEC stated *“the tariff design resulted in a revenue requirement which is satisfied by a 4% increase on base revenue. All rates including fixed monthly charges and base rate charges which will vary based on usage were calculated based on that 4% increase on base revenue. If the fixed monthly charge and demand charge decreases, then the base rates would have to increase to maintain the 4% increase required.”*

Additionally, in reference to the question raised by the respondent regarding the level of compensation that could be provided to customers in circumstances where DOMLEC exceeds the approved Weighted Average Cost of Capital (WACC), the Commission and DOMLEC informed stakeholders that the Proposed Revised Tariff Structure does not currently make provision for compensation to be granted to customers under such circumstances. However, due consideration may be given to this matter in future tariff design reviews.

Proposed Decision 4:

DOMLEC shall implement a standard tariff designed to protect vulnerable or low-income household consuming less than < 50 kWh.

Consultation Question No 4:

Do respondents consider that it is important to implement the proposed DOMLEC Standard tariff, designed to protect vulnerable or low-income households consuming less than < 50 kWh?

The Commission informed stakeholders that the proposed tariff design for domestic standards is based on a two-tier category. Accordingly, low- income domestic customers with energy usage less than < 50 kWh of electricity will realize an 8.65% reduction in the first tier when compared to the existing rates. The Commission mentioned that this will provide relief to over 7,600.00 low-income customers.

DOMLEC advised stakeholders that affordability for economically vulnerable customers, as well as the retention of customers who may be competitively vulnerable, were important considerations in the development of the standard tariff category. Accordingly, domestic customers consume electricity of 150 kWh or less per month. Streetlighting and small business customers consuming less than 500 kWh per month will be charged at a flat rate under the proposed tariff structure.

DOMLEC also reaffirmed that more than 22,000 domestic customers consuming less than 150 kWh of electricity per month will benefit from the reduction in the standard tariff first-block rate.

Proposed Decision 5:

DOMLEC's shall utilize the methodology outlined in the Cost-of-Service Study to set the revised rates to ensure fairness across all customer categories.

Consultation Question No 5:

The proposed tariff design is based on the methodology that is practicable and in accordance with the best international practices, with a Cost-of-Service Study to ensure fairness across the different customer categories.

What are your thoughts on this approach?

Respondents' Comments and Responses

The background to this question lies in the established methodology used within the industry for setting fair and reasonable electricity rates. The Commission informed stakeholders that the Cost-

of-Service Study is a financial tool used to evaluate the cost of providing electricity services to the different customer classes. It serves as the foundation for establishing fair and equitable rates among the customer groups.

The Commission explained that the approach utilized by DOMLEC is the embedded Cost-of-Service Methodology. This approach is based on historical accounting data, including actual Capital Investments in property, plant, and equipment, and actual operating, maintenance, and administrative costs incurred by the utility for supplying electricity to customers. The methodology also allocates these costs across the functional areas and customer classes.

Following a comprehensive review of the 2023 Cost-of-Service dataset, the Commission confirmed the accuracy of the dataset to include the determination of Revenue Requirement, Rate Base, pre-tax Weighted Average Cost of Capital (WACC), Rate of Return, Operating Income and Expenditure among customer classes. Stakeholders were informed that the study revealed that commercial and streetlight customers are subsidizing the cost of providing electricity to other customer categories by approximately 2.76% and 15.06%, respectively. The study also showed that domestic, hotel, and industrial customers are not paying the full costs associated with the supply of electricity.

DOMLEC in its response informed stakeholders that the Cost-of-Service Study is a structured analysis used primarily by utilities to determine the total annual cost of providing service, including operational expenses, depreciation, and a reasonable return on investment. The study ensures that electricity rates are established equitably across customer classes based on the costs they impose on the system. The primary objective is to determine a lawful, fair, and justifiable Revenue Requirement, namely, the total revenue necessary for the utility to operate effectively and allocate those costs among the customer classes.

DOMLEC explained that the Cost-of-Service Study was conducted using the company's 2023 financial statements to determine the required revenue necessary for the company to remain financially viable over the upcoming 3-year tariff period. The study reaffirmed that the company required a 5.5% increase in base revenue based on the 2023 financial results; however, this was subsequently adjusted to a 4% increase.

Proposed Decision 6:

The IRC shall discharge its regulatory function with fairness, accountability, and in a transparent manner.

Consultation Question No 6:

Do respondents believe that the tariff process that led to the final tariff design was undertaken in a transparent manner? If not, what suggestions do you have to make the tariffs process clearer and more transparent in a future review period?

The Commission informed stakeholders that issues arising in the regulatory industries must be carried out in a manner that is transparent, non-discriminatory, and with a degree of competence and accountability. The Commission's Decision, Regulatory Policy Rules of Practice and Procedure 2008 – Document Ref:2008/004/D indicates that “The publication of Consultative Document and the public consultation process that ensue are the primary method by which the Commission discharges its responsibilities toward achieving these hallmarks of good governance”.

The Commission shall, through its Consultative Documents, endeavour to stimulate public debate on the important regulatory issues on which it is seeking view. The comments, analysis, and evidence supplied by respondents are a vital part of that public debate. Transparency of the consultation process, therefore, goes beyond the Commission making public its own views and analysis. In order for the public debate to be properly transparent, the responses made to the Commission's documents shall be made publicly available.”

The Commission's general power, duties, responsibilities and function are stipulated in the Electricity Supply Act No. 10 of 2006, Section 10: “The Commission shall have sole and exclusive authority to regulate all electricity entities that are subject to this Act and shall have full powers to regulate all licensees with regards to all economic and technical aspects of regulation in accordance with this Act especially with regards to the determination of tariff for electricity.

Against this background, the Commission carried out a series of Public Consultation and Public Outreach Cost-of-Service Study and Revised Rate Proposal tariff. Stakeholders were encouraged to provide questions, answers, and concerns to the Commission throughout the duration of the public consultation process.

Expert Consultants

The IRC engaged the services of a Regulatory Consultant based in Paris who assisted the Commission in conducting comprehensive review and analysis in critical parameters of the tariff

As part of regulatory proceedings, the Commission engaged in the services of a regulatory consultant with the necessary competencies to provide expert assistance in this rate making exercise.

The IRC's Expert Advice

Mrs. Lamis Aljounaidi, Regulatory Consultant from Paris Infrastructure Advisory (PIA), is a recognized expert in energy economics, tariff setting and financing. She has sixteen (16) years of experience in energy infrastructure development and economics focused on renewables and networks. The regulatory consultant supported over fifty (50) projects through different development and financing stages including regulation, WACC calculations, pricing, and market design for investment incentives. She has experience working in Dominica, by providing support to the regulator through the development of a Geothermal Independent Power Producer (2018-2020) during which she evaluated DOMLEC and the Dominica Geothermal Development Company (DGDC) Limited Power Purchase Agreement, conducted Electricity Demand Forecasts, and reviewed the Project's Financial Model.

DOMLEC also informed stakeholders that the company also engaged the services of a Tariff Consultant who worked on all aspects of the tariff process

DOMLE Expert Advice

In support of its request for the Determination of the WACC, DOMLEC relies on a study carried out by Mr. William Vinhage, of Vinhage and Associates as the main piece of expert evidence. Mr. Vinhage's report "*Determination on Return on Equity (ROE) Range for Dominica Electricity Service Ltd.*", dated June 2023, which was included with the submission, seeks to assist the utility to establish, using the methodology prescribed in the Determination, the ROE element of the WACC. The Commission has noted that Vinhage and Associates which is a Florida based company, has a client list which includes Grenada Electricity Services Ltd (GRENLEC) from the Caribbean region and WRB Enterprises of Florida. Mr. Vinhage has over 20 years' experience of consultancy services and professional experience in the following areas:

- Strategic Planning & Analysis
- Project/Program Process & Impact Evaluations and Financial Analysis
- Statistical and Econometric Analysis and Forecasting
- Development of Financial/Operational Measurement and Tracking Systems
- Financial Planning, Budgeting & Analysis
- Competitive Intelligence & Benchmarking
- Development of Utility Revenue Requirements, Cost of Service and Tariff Design
- Process Design, Coordination, Mapping & Analysis

Conclusion

The Commission noted the concerns expressed by stakeholders during the first public consultation on the Cost-of-Service Study and the Revised Rate Proposal and will undertake a critical review and analysis of the comments and questions raised. Based on the merits of the stakeholders' submissions, the Commission may amend the Proposed Decision accordingly.

The Commission extends thanks and appreciation to DOMLEC for its engagement at the public consultations. The Commission also thanks respondents who provided constructive input throughout the consultation process and for their participation and confirmation in support of the Proposed Consultation Decision.

Additionally, the Commission strongly believes that the tariff restructuring will benefit customers through:

1. Fairer pricing for customers in all categories.
2. Adjustments in prices distributed amongst customers in a manner to achieve fairer cost allocation and sustainability.
3. Time-of-Use (TOU) pricing for customers in the residential, large commercial, large industrial and large hotel customers will allow these customers to shift certain loads to off-peak periods facilitating consumption efficiency, while easing the strain on the grid.
4. Demand charges introduced for large consumers to balance grid load distribution.

~~ END OF DOCUMENT ~~



Independent Regulatory Commission (IRC)

42 Cork Street, 1st & Top Floor.

P. O. Box 1687, Roseau

Commonwealth of Dominica

Office: [767 440 6634](tel:7674406634) / 6635 / 7247

Mobile: [767 295-9335](tel:7672959335)

Web: www.ircdominica.org