



CONSULTATIVE DOCUMENT

Document Reference No.: 2024/003/CD-01

Five-Year Investment Plan For DOMINICA ELECTRICITY SERVICES (DOMLEC) LTD

SEPTEMBER 2024

5-Year Investment Plan for Dominica Electricity Services Limited

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
42 Cork Street
P.O. Box 1687
Roseau
Commonwealth of Dominica**

Tel No: 767-440-6635

Responses, clearly showing the Document Reference identification, may also be sent 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 proposed timetable for this consultation are:

Document Ref No: 2024/003/CD-01

Document Title: DOMLEC's Five-Year Investment Plan

EVENT	PROPOSED DATES
Publication of First Issue of Document	October 8 th , 2024
Public Consultations	October 8 th to 28 th , 2024
Responses Closed – <i>End of Phase 1 of Consultation</i>	October 29 th , 2024
Comments on First Response and Publication of Second Issue of Document	November 12 th , 2024
Responses close - <i>End of Phase 2 of Consultation</i>	November 26 th , 2024
Statement of Results and Commission's Decision	December 3 rd to 10 th , 2024

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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 is of the view that to ensure timely completion of its review of any application for a tariff review submitted by DOMLEC it would be minded to considering certain critical issues in separate proceedings leading up to the tariff review itself.

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

- Depreciation Policy (Completed – April 2024)
- The Weighted Average Cost of Capital (WACC)
- The Revenue Requirements and Regulated Asset Base (RAB)
- Approval of 5-Year Investment Programme
- The Cost-of-Service Study with Load Research
- The Rate Proposal

The Commission will make determinations on these issues prior to the formal submission of the Notice of Intent-to-File on the presumption and condition that the Commission's Decisions on these issues will feed into the approval of the new structure with accompanying rates proposed by the Dominica Electricity Services (DOMLEC) Ltd.

The Commission's decision on the depreciation policy was completed and published as per the Commission's Decision Document Ref: 2024/001/D, May 2024 - "Depreciation Policy for Dominica Electricity Services Ltd".

The Commission's decision on the Weighted Average Cost of Capital (WACC) for DOMLEC will be published in October 2024.

DOMLEC submitted its proposed 5-year Capital Investment Plan for the Commission's consideration on November 29th, 2022.

This consultation document sets out the Commission's thinking in response to DOMLEC's proposal. However, the Commission requires stakeholders' feedback on budgetary estimates for 2025, 2026 and 2027 as DOMLEC's capital investment for 2023 and 2024, 3rd quarter ended September 2024 has already been included for prior periods.

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

- a. DOMLEC's proposed 5-year Capital Investment Plan.***

Policy and Legal Framework

Government Draft Policy¹

The Government has ratified the National Energy Policy (NEP). The Commission is of the view that the principles in that document should guide its thinking regarding the development of and approval of DOMLEC's investment plan. The salient features of the policy (*at Section 4*) are highlighted below:

On '*Electricity Supply*', the Government's policy objectives are as follows: –

It is the Government's policy to foster a safe, efficient, affordable, and low-carbon national electricity supply that meets international quality standards by promoting the efficient use of imported fossils fuels, and the development of Dominica's domestic renewable energy resources. To achieve these policy goals, it will be necessary for Government to:

- *Ensure that the energy resources available to the island are fully assessed in terms of their potential to economically contribute to the island's electricity supplies.*
- *Evaluate the effect of their exploitation for electricity production on the local environment and on the island's carbon footprint.*
- *Maintain an inventory of the available resources with potential to contribute to the country's electricity demand and update this inventory at regular intervals in line with changing economic conditions.*
- *Ensure the implementation of demand-side-management (DSM) programmes to reduce the long-term demand for increased generating capacity.*
- *Ensure that electricity supplies are generated and used as efficiently as possible and that losses are reduced to an economic minimum.*

Legal Framework

The Commission's duties and functions regarding tariff making are provided for pursuant to provisions in three principal instruments:

- (i) the Act,
- (ii) the Licence and;
- (iii) Commission's Determination as per its "*Tariff Regime for Dominica Electricity Services Ltd Document Ref: 2009/004/D*" (herein referred to as 'The Determination').

¹ Draft Sustainable Energy Plan of the Commonwealth of Dominica, 15 April 2014

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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.*
- (d) facilitate the promotion of sustainable and fair competition in the electricity sector where it is efficient to do so.*
- (e) protect the interests of all classes of consumers of electricity as to the terms and conditions and price of supply.*
- (g) ensure that the financial viability of efficient regulated electricity undertakings is not undermined.*

The Act gives the **Commission full authority to act independently** in the performance of its duties under the Act – specifically having regard to public interest considerations and government policy, as embodied in legislation. In providing for its functions *the ESA (Section 20)* mandates the Commission to act in a manner which it considers best calculated to achieve a number of policy objectives and in this regard clauses (a), (b), (d), (e) and (g) of *Section 20*, 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*”.

Determinations for DOMLEC's 5-Year Investment Plan

The Commission must be mindful of the implications that the approval of an investment plan will have on DOMLEC's operations, where, on the one hand, shortfalls in investment to meet demand or maintenance of facilities can impact the quality of supply while, on the other hand, over or ill-timed investment can result in excessive rates and less than efficient utilization of capital invested. So, while the Commission will tend to be conservative in its consideration of the investment plan, it remains conscious of the importance of balancing the two consequences in the consumers' interest.

Any conclusions represented in this document will therefore be ultimately conditioned by the outcome of the feedback from the consultation.

In this regard, the Commission's consideration of projects will be two-fold:

1. Those projects or capital sums that will be brought into the rate base during the tariff period, and
2. Those projects which, although started during the tariff period, will be completed and brought into the rate base in the subsequent period.

For the avoidance of doubt, the Commission reminds all stakeholders that the outcome of this proceeding will determine DOMLEC's investing activities for the ensuing planning period and thus, the values that will be absorbed in the company's regulated rate base.

The regulated rate base is a term used to define the rate base to which the WACC is applied for rate making purposes. The Determination provides the following guidance regarding adjustments to the "rate base" to derive the regulated rate base.

Adjustments

Adjustments are also referred to as "No Cost Capital." These are funds received by a utility to which it is not entitled to earn a rate of return and as such these amounts are not included in the rate base.

These adjustments consist of customer advances, which are funds paid by customers for the construction of facilities required to service those customers, or to finance future payments, such as non-current liabilities, deferred credits, etc.

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For the Revenue Requirement estimate, the following would be identified as adjustments and excluded from rate base:

- *Customer Advances for Construction (=referred as “deferred revenue” in DOMLEC’s financials)*
- *Consumer deposits (i.e. for connections)*
- *Capital Grants*
- *Other revenue (= interest income)*
- *Deferred tax*

Ideally, a weighted average of balances for each of these adjustments would be calculated and subtracted from the rate base.

Summary of DOMLEC’s Proposals

DOMLEC’s proposal was submitted on November 29th, 2022 under cover of a Document “*Dominica Electricity Services Ltd Five-Year Investment Plan 2023-2027*”. The proposal was critically reviewed by the Commission and after many iterations, DOMLEC agreed with the Commission’s recommendations and subsequently, the 5-year forecasted CAPEX was re-submitted on May 14th, 2024.

The submission is a detailed one and the justifications for every project listed were submitted.

The table below provides DOMLEC’s estimated total capital requirement for the five years being considered.

Table 1. Total Capital requirements over the five-year period are estimated at approximately:

<i>Year</i>	<i>Estimated Capital Requirement Amount in EC\$</i>
<i>2023</i>	<i>16.3 M</i>
<i>2024</i>	<i>28.4 M</i>
<i>2025</i>	<i>23.2 M</i>
<i>2026</i>	<i>10.5 M</i>
<i>2027</i>	<i>9.7 M</i>
<i>Total</i>	<i>88.1 M</i>

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The major capital items by departments within DOMLEC for the 5-year period are:

- *Generation - \$44.9 million including \$ 24.7 million for a 4.5 MW Utility Scale Solar System, \$10.4 million on major overhauls of thirteen generating units, \$3 million for the rehabilitation of the PADU Diversion Weir.*
- *Transmission and Distribution - \$20.7 million including \$4.4 million on New Services, \$4.2 million on Suspense Jobs, \$3.3 million on vehicle replacement which includes an electric vehicle and truck, \$2.5 million on Pole and Hardware Replacement and \$1.4 million on Low Voltage Distribution Upgrade.*
- *Engineering - \$9.4 million including \$2.5 million for the Stadium Microgrid, \$1.4 million for Radio Communication Upgrade, \$1.4 million for Geothermal Interconnection Upgrade and \$1.3 million for Renewable Energy Utilization thrust. Also, \$0.4 million has also been included for works to facilitate the Battery Energy Storage System at Fond Cole which DOMLEC will lease from the Government of Dominica.*
- *Administration- \$5.3 million including \$0.9 million for Morne Bruce Backup Control Centre, \$0.68 million for completion of Stores Storage Facility, \$0.45 million for a Retaining Wall at Morne Bruce. Amounts have been included for various other property upgrades and security systems upgrades.*
- *Information Technology - \$3.7 million comprising the replacement and upgrading of hardware and software. \$0.3 million has been included for Virtual Infrastructure Hardware.*
- *Accounts & Finance - \$2.4 million is made up of \$1.9 million in General contingency and \$0.25 million as contingency for Information Technology Project financing.*
- *Commercial - \$1.7 million comprising \$0.45 million for Meter Test Bench to ensure compliance with IRC regulations and Meter Upgrades and Replacements of \$0.44 million.*

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Table 2. Summary of DOMLEC's proposed Capital Investment Plan over the 5-year period.

Dominica Electricity Limited Capex Summary 5 Year Forecast ending December 31, 2027						
	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Total
Summary per Department						
Generation	6,535,174	17,211,050	14,987,050	3,001,000	3,141,000	44,875,274
Commercial	238,307	746,304	242,011	252,011	202,011	1,680,644
Transmission & Distribution	4,620,361	4,347,739	3,902,386	3,920,236	3,883,686	20,674,408
Engineering	2,112,283	3,615,501	1,590,212	1,538,569	544,173	9,400,738
Administration	1,236,524	1,502,020	1,112,500	537,500	957,500	5,346,044
Finance	641,300	450,000	450,000	450,000	450,000	2,441,300
Information Technology	879,000	550,000	912,000	830,000	520,000	3,691,000
	16,262,949	28,422,614	23,196,159	10,529,316	9,698,370	88,109,408
	2023	2024	2025	2026	2027	Total
Growth Capital Items	2,959,264	16,968,995	15,375,276	2,613,316	2,484,950	40,401,801
Sustaining Capital Items	13,303,685	11,453,619	7,820,883	7,916,000	7,213,420	47,713,607
	16,262,949	28,422,614	23,196,159	10,529,316	9,698,370	88,109,408

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The Commission conducted a comprehensive review of the shared data filing containing budgetary amounts for each project. The budgetary amounts for each project were reconciled against budgetary *allocation*.

*As reiterated in this document, the Commission seeks stakeholders' comments only in respect of capital investment plan for the years 2025, 2026 and 2027. **The Commission would be interested in receiving stakeholders' views in this regard.***

The Commission's Proposed Decisions

PROPOSED DECISION NO. 1

The Commission proposes that DOMLEC's capital investment plan be aligned to its implementation capabilities which ranges historically between EC\$12 million to EC\$18 million per annum.

Given the Commission's assessment of DOMLEC implementation capabilities, the IRC recommends an adjustment in DOMLEC's capital investment plan as shown in *Table 3*. below. The table below presents DOMLEC's proposed capital investment plan from the years 2025 to 2027. Significantly, 2023 and 2024 capital investment plans have been excluded from the Table since actual capital expenditure works have already been expensed in DOMLEC's accounts.

Table 3. Capital Investment Plan Summary for years 2025 to 2026

Capital Investment Plan - Years	DOMLEC's Proposal	IRC's Proposal
2025	\$25.1 million	\$18 million
2026	\$10.4 million	\$8 million
2027	\$10.4 million	\$8 million

The Commission's Considerations

IRC's Rational for Capital Investment Plan for DOMLEC

Expert Advice

In reviewing DOMLEC submission for the approval of the 5-year Investment Plan for the year ended December 2027, the Commission contracted the service of Mrs. Lamis Aljounaidi, Regulatory Consultant from Paris Infrastructure Advisory (PIA) funded by the AFD, Mrs. Aljounaidi is a recognized expert in energy economics, tariff setting and financing. She has sixteen years of experience in energy infrastructure development and economics focused on renewables and networks. The Regulatory Consultant supported over 50 projects through different development and financing stages including regulation, WACC calculations, pricing, market design for investment incentives. She has experience working in Dominica, to support the regulator through the development of a geothermal IPP (2018-2020) during which she evaluated the DOMLEC-DGDC PPA, did Electricity Demand Forecasts, and review of the Project's Financial Model. The Commission can confirm that the Regulatory Consultant has the professional competence and expertise to review DOMLEC's application for the 5-year investment plan.

Reference is made to *Schedule 1 page 27 & 28*, of the Commission's *Rules of Practice and Procedures 2008*; *Decision Document Ref: 2008/004/D*:

"The views and analysis set out by the Commission in the said Consultative document shall be for discussion purposes only and are not final. The purpose of the consultative document is to invite comments and evidence to be supplied, which may assist the Commission in the formulation, and, if need be, revision of its views. The Consultative document may include a series of specific questions upon which the Commission is seeking particular comments. In the event that the Commission considers it appropriate, respondents may wish to address other aspects of the document for which the Commission has not prepared any specific question. In the event that respondents may only wish to answer some of the questions posed – failure to provide answers to all questions will in no way reduce the considerations given to the response.

Following careful consideration of the responses and, if necessary, undertaking additional analysis and evidence gathering, the Commission shall publish a further document in which it provides comments on the responses. On major and/or complex issues, this may be another Consultative document with a view to inviting comments on matters not fully explored in the first Consultative document. Once the Commission has gathered all responses on all relevant aspects of the issue and has completed its analysis, it shall publish a decision/statement or policy position paper with the basis for its judgement....."

Therefore, in compliance with its core corporate values of professionalism, predictability, integrity, responsiveness, teamwork and transparency, the Commission is always guided by the principle to garner the widest possible range of views on the matter under consideration.

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The Commission will explain the basis for its decisions and factors influencing its position in any given matter through its published documents.

The Commission recognizes that DOMLEC has direct oversight to its day-to-day operation that facilitates the provision of efficient and reliable services to customers at affordable prices. The Commission understands that DOMLEC will incur capital expenditure associated with its strategic plan and will authorize the associated capital expenditure once agreed upon as part of the capital investments. Moreover, the Commission is cognizant that the 5-year Capital Investment Plan is vital to ensuring that DOMLEC implements its short to medium term goals as enshrined in its strategic plan.

The Commission reviewed DOMLEC's shared dataset containing 128 justification reports that are aligned to each item or budgetary allocation of the 5-year Capital investment plan for 2023 to 2027. The justification reports were evaluated based on the priority rating criteria, the purpose of each project and the implementation capability of all the projects.

The Commission is of the view that DOMLEC's capital investment plan should be aligned to its implementation capabilities ranging between \$12 to \$18 million or averaging \$15 million based on historical data from 2015 to 2023. *Table 3* above illustrates DOMLEC's proposed capital investment plan of \$45.9 million and IRC proposal of \$34 million for the 3 years 2025, 2026 and 2027 to be factored in this tariff rate setting.

The Commission seeks comments and feedback based on the proposed Capital Investment Plan for DOMLEC for the years 2025, 2026 and 2027.

Consultation Questions for Stakeholders

Consultative Question No. 1:

Do respondents agree with the methodology utilized by the IRC in reviewing DOMLEC's 5-year capital investment plan for the period 2025 – 2027 that allows the investment plan to be aligned with its implementation capabilities, ranging from EC\$12 million to ED\$18 million or an average of EC\$15 million per annum? If not, can respondents recommend other options that could be employed to further assess DOMLEC's capital investment plan?

Consultation Question No. 2:

Do respondents agree with the Commission's proposed Capital Investment Plan for DOMLEC of EC \$18 million in 2025, EC \$8 million in 2026 and EC \$8 million in 2027, rather than DOMLEC's proposed values of EC \$25.1 million in 2025, EC \$10.4 million in 2026 and EC \$10.4 million in 2027? If not, give reasons.

Consultative Question No.3:

Do respondents believe whether the project costs of EC\$24.7 million for the 4.5 MW solar PV should be included in this rate base at this time or that the rate should be reopen at a later stage if the timeline is confirmed or alternative funding be considered for the investment in the 4.5 Solar PV? Give reasons?

Consultation Question No. 4:

Do respondents believe that DOMLEC's capital investment project for the years 2025, 2026, and 2027 are considered sustainable and achievable? If not, please give reasons.

Consultation Question No.5:

Do respondents believe that the costs of the investment in DOMLEC's proposed capital investment plan will negatively impact its cash flow in the medium term? If yes, do respondents believe that the costs of investment outweigh the benefit to be derived from his investment or vice versa? Please explain.

Consultation Question No. 6:

Do respondents believe that DOMLEC's proposed capital investment plan will result in efficient and reliable service to customers if implemented? If not, please explain?

Consultation Question No.7:

Do respondents have any other (related) comments or recommendations?

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