



**PURC's Responses to Stakeholder Comments on  
Draft Regulations on Tariff Setting Methodology for  
the Electricity Sector of Grenada**

## Consultation Process

The PURC's propensity to hold public consultations is derived from both the PURC Act, 2016 and the Electricity Act, 2016. Section 31 (a) (2) of the PURC Act avers, "The Commission may hold public hearings and issue consultation documents in order to ask opinions about matters having significant impact on the society related to public utilities to which this Act applies". Section 32 (8) (1) (c) of the Electricity Act states, "The Commission may hold public education and consultation meetings to afford an opportunity to members of the public to ask questions related to the regulation of rates for the supply of electricity and other matters by the Commission".

The PURC has produced and published its Consultation Guidelines with the objective of informing all stakeholders of the process by which it will develop its required key regulatory instruments and documents. In setting the consultative guidelines international best practice has been drawn upon. The PURC's consultative process will comprise the following discrete but related components:

- Pre-Consultation;
- Initial Consultation;
  - Public Hearing
    - Working Group
- Comment and Reply; and
- Final Decision.

The reference and time table for this consultation is as follows:

Document Title: Draft Regulations on Tariff Setting Methodology for the Electricity Sector of Grenada

Event	Date
Publication of Document	December 11, 2019
Public Forum	March 3-9, 2020
Written Comments Close	June 2, 2020
Publication of Responses to Comments Received	January 2021
Working Groups Session	February 2021
Final Decision by the Commission	To be Announced

# **Regulations on Tariff Setting Methodology for the Electricity Sector of Grenada**

## **Introduction**

The Public Utilities Regulatory Commission established pursuant to the Electricity Act No. 19 of 2016 has the responsibility for regulating the Electricity sector of Grenada. Amongst its principal responsibilities is the duty to set tariffs that are cost reflective and balance the interest of consumers and services providers alike.

The Commission issued the consultation document – Regulations on the Tariff Setting Methodology - on December 11 2019 and invited comments to be submitted by January 17, 2020. Requests for an extension were subsequently made by stakeholders, and the Commission made a decision to extend the consultation period to June 2, 2020 to allow for the submission of written comments.

Six respondents including GRENLEC provided formal written comments on the consultation document, which are available on the Commission's website at [www.purc.gd](http://www.purc.gd). Additional comments were also received from attendees at the public forum meetings which were held between the 3<sup>rd</sup> and 9<sup>th</sup> of March, 2020 to discuss draft regulation documents.

The Commission now sets out its responses on all comments. The Commission thanks all other respondents and attendees of the public forum meetings for their participation in this important discussion and looks forward to continued discussion as we meet in smaller working groups towards the finalization of this very important regulation.

For ease of reference, the relevant comment from GRENLEC and other respondents are reproduced in italics and the PURC's response is inserted immediately below.

## PURC's Responses on all Written Comments

Page 4

***Respondent 6- Authorised Business “authorized business” in respect of a network licensee means the business authorised in its network licence and if applicable “its” generation licence.***

GRENLEC's suggested change is accepted.

The PURC proposes to replace the term “Authorised Business” with the term “Authorised Company” and it shall be defined as follows: “authorized company” in respect of a network licensee means the business authorised in its network licence and if applicable its generation licence.

Page 5

***Respondent 4 – Is the CPI determined by the Grenadian equivalent of the CSO? It may be necessary to cite the source of the index in the definition.***

The Commission suggests the following amendment of “CPI”:

“Consumer Price Index as described in Section 4 Part A of Schedule 2.”

Page 5

***Respondent 4 - "grid and National Grid" defined in the same way. But it is conceivable that micro grids etc. are only connected to the distribution.***

The respondent's comment is noted. The Commission therefore proposes the following amendment to the definition by inserting “/or”:

“Grid or National Grid” means an interconnected transmission and/ or distribution system...”

Page 6

***Respondent 6- Suggests the inclusion of a definition for “Net generation” - the sum of all gross generation by Generation Electric Plants less the sum of all own use (auxiliary power) by the Generation Electric Plants.***

The Commission accepts GRENLEC's suggestion to include a definition for “Net generation”. The Commission therefore proposes the following definition ; “Net generation” - the sum of all gross generation by Non-Renewable Energy (RE) Generation Electric Plants less the sum of all own use (auxiliary power) by the Generation Electric Plants.

Page 6

***Respondent 6- Please see our comments (Suggestion for utilisation of CAPM in place of WACC) against Schedule 1, Part B, Section 2.4 and our response in Annex A. Accordingly, we believe that this definition is not needed and should be removed.***

The Commission understands GRENLEC's concerns surrounding the stability of the LBTR for Grenada, which was proposed as a factor in calculating the Return on Equity (ROE). Further clarity can be found on the comments made to Section 2.4 of Schedule 1 Part B.

Page 6

***Respondent 6– Non-Fuel Revenue Requirements – “NFRR” means Non-Fuel Revenue Requirement. This is the revenue required by the utility to cover all its costs and achieve a reasonable rate of return on its investment.***

The Commission suggests the following rewording:

NFRR” means Non-Fuel Revenue Requirement. This is the revenue required by the utility to cover all its non-fuel related costs including a reasonable rate of return on its investment.

Page 7

***Respondent 4 - "RPI" as reference price index is confusing as it typically refers to the Retail Price Index.***

The Commission acknowledges your comment, however, RPI in the context of this regulation refers to the Reference Price Index.

Page 7

***Respondent 6- Can non-renewable generators be deemed self-generators? This is not clearly stated. It seems open to interpretation that both renewable and non-renewable energy producers can be self-generators. See Regulation on Tariff Setting Methodology Part 2 Retail Tariff, Division 2 Retail Tariff Structure 9. Fuel Charge and 10. Renewable Charge imply that a self-generator should only be a renewable source.***

The Commission notes your comment. The Electricity Act of 2016 defines a “self-generator” as a person who generates electricity only for his or her own use and, as the case may be, for the provision of excess electricity to a network licensee, and the term “self-generate” shall be construed accordingly. As it is currently the case, the self-generator programme will only facilitate the sale of excess generation by RE self-generators to a network licensee.

Page 7

***Respondent 6- Delete “maximum allowable”. This is the definition of system losses and not the definition of a limit on system losses. Typo: “lot” should be “lost. System Technical Losses (12th definition) - “system technical losses” means the percentage of electricity generated that is lost before reaching consumers.***

***Respondent 4 -Typo in system loss definition, it says "lot" but should be "lost"***

The Commission accepts the definition proposed by the respondent. The correction of typographical error is also accepted.

Page 8

***Respondent 6- “test year” means the most recent twelve (12) month of period whose financial accounts audited in whole or part will be adjusted to determine the Non-Fuel Revenue Requirement of a licensee for the next periodic tariff review.***

***Test years are frequently not coincidental with the fiscal year. Hence a part of the test year may be audited and a part unaudited.***

The Commission refers to the definition of “test year” as given in Section 2 of Part 1.

Page 8

***Respondent 6- Duplicate definition – delete second occurrence. TOU” means Time of Use service. For this type of service consumers are charged different rates depending on the time of the day when electricity is consumed.***

The Commission acknowledges this comment and the second occurrence of TOU definition is to be removed.

Page 8

***Respondent 6- “Transmission System” the devices and structures used to enable the transport of electrical energy between substations at a High Voltage as defined in the Transmission and Distribution Grid Code. Definition changed to conform with the Transmission and Distribution Grid Code.***

The Commission proposes the following definition; "Transmission System" - That portion of the electric system which transfers electric energy at a high voltage from the Generating Facilities to the Distribution System. This is consistent with the definition as per the Grid Code - Introduction Code.

***Respondent 6- Weighted Average Cost of Capital - “WACC” means Weighted Average Cost of Capital. It is a calculation of a firm’s cost of capital in which each category of capital is proportionately weighted. All sources of capital, including common stock, preferred stock, bonds, and any other debt, are included in a WACC calculation. Definition changed to more clearly define the WACC in accounting terms.***

The PURC proposes the following definition; “WACC” means a weighted average of the components of the cost of capital: debt and equity, in which the utility uses to finance its business ventures, as approved by the Commission.

***Respondent 6- Change “Consumer” to “Customer”. Several persons may live in a household and are all consumers of electricity, but the holder of a supply contract with the Licensee is a customer. Also, consistence with the Supply Code.***

The Commission proposes the use of the term consumer as defined by the Electricity Act and will be retained. “Consumer” means any person or public body supplied, or requesting to be supplied, with electricity by a network licensee.

***Respondent 6- The national electricity policy has not been established to date. Note as well that the draft policy requires consultation with licensees(s) (among others). The Act says the Minister may establish a National Electricity Advisory Committee to determine the Policy. To date GRENLEC’s representatives on this committee have not been notified of a meeting.***

The Commission notes the comment of the respondent.

***Respondent 6- What criteria is to be used for determining applicable customers? Will the public be allowed to comment on what goes into the policy? If the customer is in an area that requires significant infrastructure work, who bears the cost of connection? Is the Social Tariff meant to apply to a separate class or a discount on the domestic rate? GRENLEC points out that a reduced tariff for such customers will require cross-subsidization from other customers/rate classes to cover the decrease in contribution from this grouping, as the NFRR is composed from the sum of revenue from all customers/rate classes. GRENLEC is not the entity that will determine who these vulnerable groups are. The PURC or some other entity will have to determine this.***

The Commission takes note of the respondent’s concerns and may recommend, set and approve classes or changes in classes if it considers that the grouping or change targets vulnerable groups to whom a social tariff should be applicable, in which case the social tariff shall be

defined and financed in accordance with the Policy established by the Minister under section 3 (a) of the Act.

Page 10

***Respondent 4 -There is no customer charge. Maybe it can be included for flexibility.***

The Commission notes the comment and highlights that the proposed fixed charge is equivalent to a customer charge.

Page 10

***Respondent 6- Does “The retail tariff shall comprise the following components” imply that each customer class, including street lighting will have all these components?***

The retail tariff components of each customer class would not be the same and the energy requirements of each class are different. The precise tariff structure for each customer class can be informed by the findings of the cost of service study.

Page 10

***Respondent 1 - The retail tariff includes “(c) the demand or fixed charge”. What is intended by this fixed or demand charge? Here the demand charge should include a fixed component for those rate payers that self-generate electricity but at the same time maintain a connection to the grid.***

The Commission provides the following for clarity, the current classification of commercial and industrial classes is based on the aggregate demand of the customers. If a business customer's demand is below five (5) horsepower then the consumer is classified as commercial and above 5 horsepower, the industrial classification is applied. Since the utility's electrical meters for customers currently do not measure kW or kVA demand and floor space is used as a proxy for demand. The use of kVA as the metric of demand would be a more precise and transparent measure of demand. However, the use of the kVA demand metric must await meter changes and a load research study to properly establish the most appropriate class boundary. Billing based on the kW or kVA registered by large users is envisaged. The PURC and GRENLEC would set a timetable for the transition.

The Standby customer class is proposed for self-generators for their stand-by, supplementary and auxiliary requirement. As the number of distributed generators increase the network planning and operation will be affected and there can be an increase or reduction of the network costs. Adjustments to costs can be addressed specifically with this group.

Page 10

***Respondent 6- When the fuel and renewable charges are calculated according to Schedule 3, the result is a much higher total energy charge than what we believe is intended.***



The Commission is of the view that the RE charge per kWh can be comparable to the fuel charge per kWh. So the per kWh charge for RE would be the total cost paid to IPP's and self-generators divided by the total RE consumed. In addition to non-fuel charges every customer will see a portion of their consumption charged at the RE charge and a portion at the fuel charge. As more RE comes onto the grid the portion of consumption charged at the RE charge will increase.

Page 10

***Respondent 6- "(e) Independent Power Producer non- fuel charge" was added to the list of retail tariff components as there is no place in this regulation for the non-renewable Independent Power Producer to recover its NFRR and so it is suggested that this avenue be used.***

The Commission notes the comment of the respondent. The regulation outlines the following treatment of IPP's cost. "PART B – Non-Fuel Tariff Mechanism Calculation 2.3. The components of the NFRR shall include: the non-fuel component of IPP costs."

Page 10

***Respondent 6- The base non-fuel charge, plus the fixed or demand charges on each customer as applicable, is a set of charges on each consumer that seeks to recover, in the aggregate, the non-fuel revenue requirement of the network licensee.***

The Commission proposes the following: The base non-fuel charge, plus the fixed or demand charges on each consumer, as applicable, is a set of charges that seeks to recover, in the aggregate, the non-fuel revenue requirement of the network licensee.

Page 10

***Respondent 1- The Commission is limited in calculating the Non-Fuel Revenue Requirement to costs that are "prudently incurred". This is an open-ended limitation; how is prudent defined and established?***

The Commission provides the following for clarity: prior to conducting a rate review exercise, the PURC will outline its approach to assessing operating expenditure and capital expenditure to ensure prudently incurred cost are passed on to customers. Prudence is an established concept in Utility Regulation.

Page 10

***Respondent 1- The concept of "efficient conversion" of fuel into electricity is introduced by the regulations to the fuel pass through mechanism. The efficiency adjustments to the fuel rate which are defined in Schedule 3, Section 1.4 and comprise a "system heat rate target" and "system losses rate target" which are both "determined by the regulator". However, the***

***regulations neither define how targets are set nor what the proposed targets levels should be. As written, this appears arbitrary and will serve as a deterrent to investment. The efficiency targets must be clearly defined, the process for setting targets clearly established along with the consultation and review period with the network licensee.***

The Commission seeks to address this comment by the following: Sections 12 (3), (4) & (5) of the regulation outlines the process for establishing efficiency targets for a review period.

(3) The network licensee shall clearly indicate in its retail tariff proposal all service standards, efficiency targets and any modification of the tariff structure that are proposed by the licensee.

(4) The Commission shall conduct the review in accordance with the procedure in Schedule 1 Part E.

(5) Subject to sub-section 3, the Commission shall determine and publish its procedures for a retail tariff review. The procedures shall be consistent with reasonable standards of procedural fairness and the rules of natural justice.

Page 10

***Respondent 6- The fuel charge is a per kWh charge on each Consumer that seeks to, in the aggregate, recover the monthly efficient cost of fuel used for generation by the Authorized Generation Electric System and/or an independent power producer."***

***Use of the defined term "Authorized Generation Electric System" meaning the generation plants owned and operated by the Network Licensee.***

***Respondent 2- Under a typical PPA structure, IPPs are paid a fixed price per kW and /or per kWh. They are not compensated directly for fuel, so you might not actually know the fuel costs. Unless you plan to structure your IPP contracts that way, you might want to consider changing the fuel charge to a fuel and purchased power charge and include the cost of fuel or the price paid under PPAs, as applicable.***

The Commission notes the comments made by the respondents and highlights that the regulation refers to "authorised company" in respect of a network licensee means the business authorised in its network licence and if applicable in his generation licence.

The fuel charge is a per kWh charge on each Consumer that seeks to, in the aggregate, recover the monthly efficient cost of fuel used for generation by the authorised company and/or an independent power producer.

Page 11

***Respondent 6- Change title from "Price Cap" to "No Other Rates Allowed", as the term Price Cap has a specific meaning in the regulatory field***

***Respondent 4- The section headed "Price cap" has nothing to do with a "price cap" it is simply a statement that the licensee must charge the rates approved by the Commission.***

The Commission wishes to provide the following for reference:

The rates approved by the Commission in accordance with these Regulations are the maximum rates chargeable by the network licensee within the Tariff review period. The appropriate definition of the price cap regulatory regime will be inserted within a suitable section of the regulatory document.

Page 11

***Respondent 6- “(1) Within 3 month of from the commencement date of this Regulation and in accordance with PART E – Retail Tariff Review Procedure 5.2, and every 5 years thereafter, the Commission shall instruct the Licensee to submit its retail tariff proposal for changes in rates in accordance with this regulation.***

***GRENLEC proposes that the interim tariff be for a short period and then move to the first periodic retail tariff review in accordance with PART E – Retail Tariff Review Procedure 5.2.***

***GRENLEC believes that because the procedures for retail tariff review are included in this regulation in Schedule 1, Part E, then sections 12 (5) & 12 (6) are not required and should be removed. Should the Commission disagree, then please see our comments on Sections 6 (b) and (c) below.***

The Commission acknowledges the comments highlighted by the respondent and conveys that the regulation allows sufficient time for necessary studies to be completed before the first periodic rate review is initiated.

Page 12

***Respondent 6- The procedure for filing for the tariff is clearly defined in Schedule 1 Part E. So, 6(b) is redundant and should be removed.***

***Commission’s response***

The Commission is not in agreement with the suggestion to omit Section 6(b) and rejects the respondent’s suggested omission.

Page 12

***Respondent 6- This time frame is too short for written comments on the tariff review procedure. This should be a minimum of 60 working days. If the procedures are to be changed it must be done prior to the request for filing for tariff so that the Licensee will know how to file.***

The Commission acknowledges your comment and seeks to provide the following for clarity; the regulation states that a minimum of 30 working days will be given for stakeholders to respond. The timeframe for stakeholder responses will be reviewed.

***Respondent 2 - Will this include a recalculation of the fuel charge? It doesn't say so explicitly, but that is the charge that I would expect to be the most volatile. You seem to allow for this in Section 28, so I'm not sure that it has to be in this section, too, but I'm not sure why you would exclude it.***

The Commission notes the comment and highlights that the annual adjustment is to be done on non-fuel charges. The fuel charge will be calculated on a monthly basis. Consideration will be given to change the heading of Section 13 from Annual adjustment of retail tariff to Adjustment of non-fuel retail tariff.

***Respondent 6- The Commission shall provide in advance all statistics, data and indexes necessary to submit its application for the annual adjustment."***

***Suggest re-wording of 13 (4) as above. As can be seen in 13(5), it is clearly the Commission who must furnish the statistics and data in advance. Furthermore, GRENLEC suggests that the adjustment be made annually on the 1st July as the Dept. of Stats typically publishes the CPI and figures required for the RPI calculation in March/April time frame.***

The Commission acknowledges the suggestion and offers the re-wording of Section 13 Subsection (5) as follows:

"If the Commission does not comply with sub-section 2, the network licensee shall not be obliged to comply with the obligation established in sub-sections 3 and 4 until such default is remedied."

***Respondent 1- The levels for service standards are based on "(a) industry-best practice internationally". However, this does not account for the economic, technical and other operating factors specific to small island states. Service standards in Sweden are not directly comparable to Grenada. The language should be modified to take this into account, as it is in Section 2.5 of Part B of Schedule 1 where it states, "customary practices of electricity utility operation recognizing the specific peculiarities of operating in Grenada***

***Respondent 4 - The use of the mandatory "shall" in section 17 implies that all of these shall inform the standard. In reality industry best practice may not be available or difficult to ascertain why not a different wording such as "in establishing the level for service standards the Commission should take into consideration....."***

The Commission notes the comments and provides the following for clarity:

In keeping with requirements of the Section 21 (1) (vi) (vii) of the PURC Act the following rewording is proposed:

The levels for service standards shall consider:

- (a) a network licensee's historical performance;
- (b) industry-best practice; and
- (c) expected service improvements over time.

Page 14

***Respondent 6- New service standards may be adjusted for each year, or some years, of a tariff period.***

The Commission accepts the suggested change.

Page 14

***Respondent 6- Types of Standards (1) (b) – “Technical and Financial Losses Standards and Targets.” Why Financial Standards? What is the rationale for the Financial Standards?***

The Commission notes the comment and provides the following:

Section 19 Types of standards

(1) Initial service standards are detailed in Part B of Schedule 2 and include:

- (a) Quality of Service Standards and Targets;
- (b) System Technical Losses and Financial Standards and Targets.

The financial standards are necessary to monitor credit and collection practices to mitigate adverse effects on the utility and its consumers.

The standards as referenced represent the best practices in utility regulations

Page 15

***Respondent 6- The service standards shall be set or reviewed during each periodic retail tariff review according to the process set out in Schedule 1 Part E, and new service standards may be proposed by the network licensee in its tariff proposal.***

***Insert the word ‘be’ between the words may and proposed.***

The Commission accepts the suggested change by the respondent.

Page 16

***Respondent 6- What is the basis for the calculation or establishment of compensation penalties?***

The Commission acknowledges the comment and offers the following information for insight: the penalties associated with the breach of a Standards for customers shall be determined by

the Commission after taking into account the levels proposed by the Licensee and represents best practice in Utility regulations

Page 16

***Respondent 6- Within 3 months of the Commencement Date of this regulation the Licensee shall:***

- a) Retain the existing customer classes and their respective non-fuel base charge;***
- b) Replace the current fuel charge with a Fuel Charge based on the Fuel Energy Charge formula described in Schedule 3 Section 1;***
- c) Introduce a new Renewable Charge to allow the Network Licensee's renewable electricity purchases to be treated as a pass-through to Consumers in accordance with Schedule 3, Section 2 (as amended).***

***We suggest a wholesale change to Section 28. As indicated previously, GRENLEC believes that it is in all stakeholder's interests to move to a full periodic tariff review as soon as possible. We therefore suggest that this section be modified to define how an interim tariff, which will be in place until the first periodic tariff review is completed, will be made up. Our suggestion for the modified section is shown above. Explanations of the various sections (a) through (c) are given below.***

***a) The present non-fuel charge for each existing customer class has only increased by EC\$0.02 in 25 years, and is presently fixed, so it seems reasonable for it to remain until a new periodic tariff review is completed.***

***b) The new fuel charge will replace the existing fuel charge mechanism.***

***c) The new renewable charge will be introduced.***

***We further suggest eliminating references to the Interim Tariff Review and initiating the 1st periodic tariff review within 9 months of the Commencement Date.***

The Commission notes the suggestions of the respondent and wishes to iterate that the proposed methodology for an interim tariff review (i.e. before the first periodic review) as outlined in the draft document gives the Commission greater scope for establishing interim tariff charges than what has been suggested in the comment.

Page 17

***Respondent 4 - Interim tariff review is as the Part 4 heading states a transitional review. However, in many jurisdictions the use of an interim determination refers to a procedure that is invoked if something goes wrong with an existing determination and the regulator needs to adjust same. I realise though that the z factor has been included for this.***

The Commission notes the respondent's comment.

***Respondent 1- This section allows for a tariff calculated according to a different methodology than contained in the regulation schedules. However, the circumstances in which this tariff would apply are general and ill-defined and are based only on a lack of “information available”. The circumstances must be defined more precisely, in particular what specific missing information would prevent compliance and trigger the contemplated “interim tariff”.***

The Commission wishes to clarify the above concern by highlighting the following; the information requirements for carrying out a full periodic rate review are outlined in the regulation. In the absence of all the relevant information for such an exercise to be conducted, the regulation gives the PURC the option to implement a rate review utilising some aspects of the proposed methodology which can be used alongside the existing method of calculating both fuel and non-fuel charges. Since the utility has not had any regulatory scrutiny it gives the PURC an opportunity to conduct an interim tariff review until a full periodic rate review exercise can be conducted utilising the full methodology proposed in the regulations.

***Respondent 6- Transition to the first periodic tariff review (3), (4)(b)(c)(d)(e).***

***“(3) If the Commission shall not be obliged to consider or follow the recommendations and conclusions included in the studies mentioned in sub-regulation approvals of the Commission required by sub-regulation 29 (2) are not complied with 29 (1) when adopting decisions regarding the periodic tariff review.***

***A simpler wording is The Commission shall not be obliged to consider or follow the recommendations and conclusions included in the studies mentioned in sub-regulation 29 (1) if the approvals of the Commission required by sub-regulation 29 (2) are not complied with when adopting decisions regarding the periodic tariff review.***

***Respondent 1- This sub-regulation is very unclear regarding the obligation of the Commission to follow the recommendation of consultants and their studies as well as the circumstances and consequences if the Commission does not. The sub-regulation should be clarified in this respect precisely defining the circumstances in which the Commission would not follow the recommendations of consultants and studies prepared in conjunction with sub-regulation 29 (1).***

The Commission accepts the typographical error correction and now proposes the following rewording:

"(3) (a) The Commission shall not be obliged to consider or follow the recommendations and conclusions included in the studies mentioned in sub-regulation 29 (1) if approvals of the Commission required by sub-regulation 29 (2) are not complied with when adopting decisions regarding the periodic tariff review."

(b) The Commission shall provide in writing justification in the instance it does not adhere to the recommendations proposed in the studies highlighted in the sub-regulations 29 (1).



Page 18

***Respondent 5 - A raising block structure in the Domestic Service Class in order to introduce measures of relief applicable to low-income Consumers and to promote demand-side management practices; Should this read “A rising” block tariff in the Domestic Service Class. By this I assume the kW provision to lower income family will be greatly reduce, only allowing for the safe operation of lighting and one major appliance.***

The Commission acknowledges the respondent’s comment and accepts the suggested change. The tariff structure for the Domestic service class is to be referred to as a rising/ an increasing block structure -which is not defined by an electricity capacity provision.

Page 18

***Respondent 6- It is unclear what the intention of this sub-paragraph is. GRENLEC does not agree with this clause. Most, if not all, commercial customers would be connected at the same voltage levels as residential customers, i.e. 230V. Commercial and Industrial customer classes are not determined by the voltage level of their supply but by the nature of the business. A large commercial business may be supplied at a higher voltage level than a small commercial or a small industrial business. Further explanation/clarification is needed.***

The Commission wishes to provide insight to the respondent on the above comment; the use of the kVA demand metric must await meter changes and a load research study to properly establish the most appropriate class boundary.

Page 18

***Respondent 6- Why is this necessary? It will require a cost of service study. Service to a hotel is no different to any other commercial establishment. If it is intended to have a reduced rate for hotels, which other customers class (es) will subsidize this reduction? Will this rate be extended to facilities like air bnb, guest houses, rental properties, bed and breakfasts, and restaurants? A much better definition of what constitutes a hotel is needed.***

***Respondent 5 - The establishment of a Hotel Service Class; the establishment of such is a great idea. However, consideration should be given to further division within this cost framework, and should be based on bed space grouping. i.e. (0 -100 beds) (101 – 200 beds) and 201+ beds. I don’t consider it’s necessary to burden the smaller establishment with higher tariffs.***

The Commission seeks to address the respondent’s comment by providing the following information; the definition of a hotel is to be established. The creation of a Hotel category and the respective charge would be informed by the findings of a load research study and a cost of service study.



***Respondent 6- 4 (d) A tariff for a Stand-by Service Class for self-generators interested in receiving back-up, supplementary or ancillary services provided by the Network Licensee.” Wording change suggested as above. Stand-by tariffs are typically for customers who supply their own energy needs under normal circumstances. However, they enter into stand-by agreements with the network licensee to supply them with power if their own equipment fails. Additionally, renewable self-generators rely on the network licensee to provide ancillary services such as voltage and frequency regulation (as well as backup power) in order for their equipment to function. Hence there needs to be a tariff to cover such provision of service.***

The Commission accepts the suggested wording change by the respondent. The appropriate charge to standby customers will be informed by findings of studies mentioned in 29 (1) of the regulation.

***Respondent 6- “4(e) Provisions for billing of consumers who are part of the Industrial Service Class on the basis of kVA demand charges; “Deletion of kW suggested as above. This should be extended to include the commercial class (and hotel if such a customer class is developed) and consideration should be given to possibly include residential class as an alternative to the stand-by charge described in the comment above.***

The Commission notes the comment of the respondent and offers the following guidance; the options of kVA and kW to remain in the regulation. Demand charges are envisioned for large customers. The distinction of large customers will be advised by the cost of service study. Hotels that are considered large customers will be classified and charged accordingly.

***Respondent 5 - Examination and analysis of the feasibility, efficiency and practicality of introducing Time-of-Use (TOU) and interruptible rates; The introduction of a Peak and Off-Peak service is a good step forward and help focus minds on usage.***

The Commission notes the respondent’s comment.

***Respondent 2- You might consider clarifying that it is the unamortized portion of the rate base.***

***Respondent 3- I would specify how the rate base is determined, including whether it is current or original cost, how the test year will be determined, and how you will determine prudence, used and useful, and CWIP vs AFUDC.***

***Respondent 4 - The schedule is silent with respect to the valuation of the Regulatory Asset Base - Historical cost, replacement cost etc. It can be contentious issue. Roll forward of the asset base, the treatment of contributed assets are also important.***

The Commission notes the comments from the respondents and provides the following for clarity; Section 21 (1) of the PURC Act states that in fixing rates whether or not on its own motion or at the instance of the Minister the Commission shall have regard to the returns on the depreciated efficient original cost rate base of the public utility. The Commission believes that in order to clearly define prudence, use & usefulness in relation to the utility's operations and systems; we must first evaluate past and current decisions and processes through our upcoming Load Research and Cost of services studies. In addition, following these studies and working group sessions the Commission will be more equipped with detailed information to update the draft Tariff Methodology on the definition or determination of prudence, use & usefulness, the test year and the treatment of Construction Work in Progress (CWIP) versus Allowance for Funds used during construction (AFUDC).

Page 19

***Respondent 6- 1.4. Approved operation and maintenance costs incurred by the Generation Licensee (where that licensee is the same entity as the Network Licensee) for the Authorized Generation Electric System. Authorized Generation Electric System is the definition for the generation plants owned by the Licensee.***

***However, GRENLEC does not agree with the O&M costs of an IPP being tied in with the company's NFRR. It feels that all non-fuel costs for the purchasing of power (capacity payments, O&M, etc.) from any IPP must be a separate line item on the utility bill.***

***Respondent 2 - If you do change your fuel charge to a fuel and purchased power charge, you can eliminate the IPP portion here. As I said, you might not always know the fuel costs for an IPP.***

The Commission notes the respondents' comments and provides the following points of information; the power purchase price/conversion cost of fossil fuel IPP generators and any capacity cost, are the costs that would be part of the Network Licensee NFRR. Such cost will be negotiated and outlined in a power purchase agreement.

Page 19

***Respondent 1 - It is unclear whether contributions to the Universal Service Fund are to be added to the base rate under taxes and licence fees. This should be clarified and added to the building blocks.***

The Commission notes the comment and provides the following for clarity; any cost imposed on the utility by the Electricity Act of 2016 & PURC Act of 2016 will be part of the Network Licensee's NFRR.

***Respondent 6- The approved annual contribution to the Hurricane Fund and such amount shall be treated as a tax-deductible allowable expense in determining the non-fuel revenue requirement. The hurricane fund reserve account will, in the event of another hurricane or significant natural disaster, provide the Licensee with immediate access to cash to commence recovery efforts. Additionally, it will reduce the likelihood of the Licensee having to implement the exogenous cost recovery mechanism specified, and thereby lessen the chance of a significant rate increase immediately following such a natural disaster.***

The Commission notes the respondent's comment, however, the recommendation to replace social fund with Hurricane fund is not accepted as they have distinct purposes. Regulation is being drafted to guide the operation and administration of the Hurricane fund alongside Z factor application. The draft will be consulted upon.

***Respondent 6- The non-fuel component of conventional/thermal IPP's costs cannot be included in the Network Licensee's NFRR and instead should be shown separately on the utility bill. We suggest this could be called "purchased power charge.***

***Respondent 1- The Commission is limited in calculating the NFRR to costs that are "prudently incurred". This is an open-ended limitation and can be interpreted arbitrarily. The concept of prudence must be clearly defined and established.***

The Commission notes the comments and highlights the following: the power purchase price/conversion cost of fossil fuel IPP generators and any capacity cost are the costs that would be part of the Network Licensee NFRR. Such cost will be negotiated and outlined in a power purchase agreement. Benchmarking with historical cost and comparable utilities will be done to assess prudence.

***Respondent 3 - On non-fuel O&M, I would carefully define interest so that you do not double count interest in the return on investment. What interest is associated with can be a little fuzzy, so it might be better to say interest not on long term debt and then specify that long term debt interest is in the cost of capital.***

The Commission acknowledges the comment of the respondent. It should be noted that the O&M interest (on other borrowings not associated with capital investment) and interest on Capex (long-term debt) are treated separately within the methodology.

***Respondent 6- "(d) Licence and Regulatory Fees. These fees include the fees that the Licensee shall pay for the issuance, amendment or extension of licences, annual fees due to fund the Commission in accordance with section 14 of the Public Utilities Regulatory***

***Commission Act and section 62(1)(q) of the Electricity Act, and any other regulatory fee established by the Regulations of the Minister pursuant to the Electricity Act and/or the Public Utilities Regulatory Commission Act including the cost of conducting studies requested by the Commission.***

***Studies requested by the Commission are recoverable through the NFRR.***

The Commission notes the comment of the respondent and highlights the following: the regulation speaks to the treatment of reasonably incurred cost. More specifically section 2.3 (a) of Schedule 1 allows for other costs which are determined to be reasonably incurred by the Network Licensee in meeting Consumers demand and all regulatory obligations for electricity services to be included within the NFRR.

Page 21

***Respondent 6- Contribution to social fund cannot be included in the regulations as Section 70 of the original act has been declared unconstitutional by the High Court.***

The Commission acknowledges the comment of the respondent. Regulations will comply with the law.

Page 22

***Respondent 6- b) The Rate Base is the value of property on which a Network Licensee is permitted to earn a specified rate of return, in accordance with rules set in this regulation.” In the rate-making process the Rate Base shall include appropriate proforma adjustments to take account of:***

***I) Known and measurable changes in the plant investment base and shall be increased or reduced by any positive or negative working capital requirement that may exist at such time;***

***ii) Accumulated deferred taxes;***

***iii) The exclusion of non-utility related rate base items***

***iv) Removing balances for rate base items that would be fully depreciated, amortized, retired or otherwise non- existent going forward***

***v) Including balances for future rate base items, e.g. significant new investments that are not present in the test year.***

***vi) Other adjustments approved by the Commission.***

***Suggested reword as shown above.***

***Respondent 1- The average Country Risk Premium (country default spread x relative equity market volatility for that market) for a comparable Caribbean country peer group is 6.5%. The allowed Rate of Return on Equity should accurately reflect the required risk-adjusted equity return for an investor. The fixed adder should be increased to 6.5%. Additionally, the allowed Rate of Return on Equity includes the Long Term Bond Rate of the Government’s***

***“most recent long-term bond issued by the RGSM”. However, Grenada has previously been in selective default and there has not been a recent issue of a “long term” bond. Only short term bonds of 2-years maturity or less have been issued recently. Yields have fluctuated on Grenada’s outstanding medium-term bonds from 15 to +30%. Short-term bond rates are not an appropriate substitute for Long-Term Bond rates as they will understate the risk of investment. In the absence of a Long-Term benchmark bond offering by Grenada, the average Long-Term bond rate of a comparable peer country group should be used as a substitute.***

The Commission notes respondent 6’s suggested changes, and proposes to adjust section 2.4 (b) of the regulation to reflect the following;

The Rate Base is the net-investment made by the Network Licensee for the purpose of supplying electricity to its Customers. In the rate-making process the Rate Base shall appropriately make adjustments as follows:

- i. Include Known Known and measurable changes in the plant investment base and shall be increased or reduced by any positive or negative working capital requirement that may exist at such time;
- ii. Include Accumulated deferred taxes;
- iii. The exclusion of non-utility related rate base items
- iv. Removing balances for rate base items that would be fully depreciated, amortized, retired or otherwise non-existent going forward.

The Commission notes respondent 1’s comments, and advises that a final decision on the components of the ROE will be made and reflected in the draft Tariff Methodology on completion of upcoming studies and working group sessions.

Page 22

***Respondent 2 - The advantage of having a direct formula for ROE is that the licensee will always be able to calculate what they’re going to have the opportunity to recover. The disadvantage is that the risk premium doesn’t adjust to prevailing conditions in the capital market. There may be times when a 550 basis point premium is not sufficient to attract equity capital and sometimes when it is more than enough. That’s a manageable methodology and a lot more flexible than this.***

The Commission notes the respondent’s comment.

Page 22

***Respondent 3***

***I would specify in the WACC that the debt costs are actual debt cost. I would also specify whether the WACC is real or nominal. It appears that it is nominal since it includes LTBR, but the 5.5% might be based on current experiences with inflation, which may or may not hold in the future. I am unsure the source of the 5.5% in the ROE formula, so I cannot***

*comment on that. So if the WACC is expected to be nominal, then the rate base should be original cost. We should not inflate both WACC and rate base.*

***Respondent 4 -It defines the Return on equity. But how is the cost of debt determined?***

The Commission notes the comments of the respondents. The intricate details of the WACC and its cost of debt component will be defined in the updated regulatory methodology, these will also be discussed in the working group sessions.

Page 22

***Respondent 6- "The Weighted Average Cost of Capital (WACC) shall be based on the capital structure approved by the Commission and shall balance the interest of investors and consumers. The WACC shall be sufficient to enable the Network Licensee, under prudent management, to inspire confidence in the financial sustainability of the business and thereby be in a position to maintain its credit and attract additional debt and equity capital to the business. "The additional capital could be either debt or equity.***

***No Government of Grenada long-term bond exists. We are surprised that the Commission could promulgate a document for discussion and comment knowing that the basis for one of the most important and potentially divisive components of rate making is not available? We believe that this is an inappropriate method of calculating ROE. Please see Annex A for a detailed explanation of our reasons and our suggested approach for calculating ROE.***

The Commission understands the concerns surrounding the stability of the Long Term Bond Rate for Grenada. The Commission is therefore exploring the following options:

- Discounted Cash Flow Method;
- Capital Asset Pricing Model (CAPM);
- FAMA-French Three Factor; and
- Comparable Earnings Approach.

And is converging on the most suitable option for our island's context. This method will be discussed in the working group session.

Page 23

***Respondent 6- What factors dictate when the network licensee's actual D/E ratio will be used or ignored? If there is an "approved" range for the D/E ratio the PURC must state it. Using terms like "deemed prudent" takes away transparency and moves away from good regulatory practices. Is there an appeal process for when the PURC deems something prudent and the Licensee disagrees?***

The Commission acknowledges the comment of the respondent. An approved range cannot be explicitly given as the component of the capital structure is dynamic. The ratio will be analysed and justified before approval on the basis of future investment plans and international

benchmarks. Therefore, “deemed prudent” is inherent to the aforementioned process. Options for the utilities capital structure will be presented and discussed in the working group sessions.

Section 32 of the PURC Act outlines the process for establishing a Public Utilities Appeals Tribunal for the purpose of hearing appeals against decisions of the Commission made pursuant to this Act and any other enactment.

Page 23

***Respondent 6- Exclude the following from the depreciation schedule (Land clearance equipment, Wooden Jetties, Motor Launches Hydro-electric turbines & control gear, Bicycles, Dams, intake works and water conduits)***

***Include the following into the depreciation schedule: (Computer Equipment, Air Conditioning (AC) Units, Photovoltaic system (PV) Systems, Portable Generators, Tools & Test Equipment, Right-of-use Assets (Leases)***

***Respondent 2 - Just so there's no confusion on the depreciation table, you should probably change the rate for Vehicles to 14 2/7 % or 6 2/3 years. It will save problems in the long run.***

***Also, on Bicycles, is it your intention that they depreciate only half of the cost? If not, one of those columns has to be adjusted***

The Commission accepts the respondent's additions of the following assets into the depreciation schedule: Computer Equipment, Air Conditioning (AC), Portable Generators, Tools & Test Equipment, Right-of-use Assets (Leases) and rejects the inclusion of photovoltaic (PV) Systems.

Moreover, the Commission rejects the suggestion to remove the following assets from the deprecation schedule Land clearance equipment, Wooden Jetties, Motor Launches Hydro-electric turbines & control gear, Bicycles, Dams, intake works and water conduits.

The depreciable lives of vehicles and bicycles are to be adjusted.

Page 24

***Respondent 6:***

***“(b) Industrial Service rate will apply to customers engaged in the manufacturing of goods, or the processing and packaging of mineral and/or materials. The customer must maintain a minimum peak demand of 100 kVA.***

***“(c) Commercial Service rate is applicable to all electricity supplied to any premises other than premises used exclusively for private residential purposes or to which the Industrial Power rate or Hotel Service rate is applicable.***

***d) Hotel Service: rate is applicable to all electricity supplied to an establishment providing accommodation, meals, and other services for travellers and tourists to any other commercial establishment.***



***Why is this necessary? It will require a cost of service study. Service to a hotel is no different to any other commercial establishment. If the intent is to have a reduced rate for hotels, which other customers class(es) will subsidize this reduction?***

***Additionally, a very clear definition of what constitutes a hotel is needed***

The Commission notes the respondent's comments and provides the following for clarity: the current classification of commercial and industrial classes is based on the aggregate demand of the customers. If a business customer's demand is below five (5) horsepower then the consumer is classified as commercial and above 5 horsepower, the industrial classification is applied. Since the utility's electrical meters for customers currently do not measure kW or kVA demand and floor space is used as a proxy for demand. The use of kVA as the metric of demand would be a more precise and transparent measure of demand. However, the use of the kVA demand metric must await meter changes and a load research study to properly establish the most appropriate class boundary. Billing based on the kW or kVA registered by large users is envisaged. The PURC and GRENLEC would set a timetable for the transition.

The Standby customer class is proposed for self-generators that for their stand-by, supplementary and auxiliary requirement. As the number of distributed generators increase the network planning and operation will be affected and there can be an increase or reduction of the network costs. Adjustments to costs can be addressed specifically with this group.

Page 26

***Respondent 6- Section 5.2 ;“(c) inform the Commission of the proposed Effective Date of the new tariff.”***

***Section 5.2.4; the tariff application of the network licensee related to the First Periodic Tariff Review shall be submitted on by the date specified by the Commission. Allows the network licensee to submit prior to the deadline.***

The Commission accepts the suggested change given by the respondent for Section 5.2.4 and will also reword Section 5.2(c) to “propose the effective date of the new review tariff.”

Page 26

***Respondent 4 - Is the Commission required to serve notification to the licensee that it must submit its application?***

The Commission notes the comment of the respondent and highlights the following for clarity; outlined in the regulation, the Commission shall, at least eighteen (18) months before the due date of the tariff proposal, send a notice to a network licensee indicating the due date of the tariff proposal and requiring the network licensee to submit a proposal on or before this due date.



***Respondent 4- Are the timeframes adequate for the public to respond?***

The Commission notes the comment of the respondent and provides the following for clarity; the regulation states that a minimum of 30 working days will be given for stakeholders to respond. The timeframe for stakeholder responses will be reviewed.

***Respondent 4- Only one public hearing?***

The Commission notes the respondent's comment, a public hearing can refer to a series of hearings.

***Respondent 6- On 1st July each year the retail tariff, the average Non-fuel Base rate (CAPn) shall be adjusted by the following formula:" 1st July suggested as typically the Dept. of Stats does not have CPI and RPI figures until March/April.***

The Commission notes the respondent's concern and has been in discussion with the Central Statistical Office (CSO) with respect to the publishing of data. The timeframe for reporting, therefore, is to be discussed.

***Respondent 6- The Dept. of Statistics presently lumps the cost of Housing, Water, Electricity, Gas and other Fuels together, hence the RPI calculation is affected by housing and water. Housing and water need to be separated from the Electricity, Gas and other Fuels to enable accurate calculation of the RPI. The alternative is to simply use CPI.***

The Commission notes the respondent's concern and has been in discussion with the Central Statistical Office (CSO) to prepare Reference Price Index (RPI) calculations so that the RPI is the Consumer Price Index (CPI) neutral only to changes in fuel prices and the price of electricity. The intention is to further discussions with the CSO for preparation of RPI figures on an annual basis.

***Respondent 6- It is critical to understand exactly how the X-factor will be determined. It is also implied that it will potentially change annually but GRENLEC suggests that the X-factor only be reviewed and potentially changed at each periodic tariff review. Regardless, a much more detailed explanation is required on exactly how this is to be determined/calculated.***

The Commission notes the respondent's comment and provides the following for clarity; the X-factor is determined at the end of each tariff review, alongside other factors ie. Q and Z

factors. The X-factor mechanism will be developed in consultation with stakeholders. The X-factor is to be set to equal the difference in the expected total factor productivity growth of the network licensee and the general total factor productivity growth of firms whose price index of outputs reflect the price escalation factor. Total factor productivity (TFP) is a measure of the physical output of a regulated company produced by a given quantity of inputs. With multiple inputs (Y) and outputs (X), outputs are usually weighted by their revenue shares (sR) and inputs are weighted by their cost shares (sC). A productivity study would be undertaken to inform the X- factor. As outlined in the regulation, the X- factor would be an offset to the change in price caused by inflation.

The exact construct will be developed by the Commission.

Page 30

***Respondent 6- A formula showing how this proposed factor will be calculated is required before GRENLEC can fully evaluate this aspect of the tariff formula.***

The Commission notes the respondent's comment and provides the following explanation; the Q- factor is proposed to be a symmetrical adjustment to the price escalator based in the construct developed by the Commission. The factor index shall be based on SAIDI and SAIFI as defined in the regulation that captures improvements and deterioration in the technical performance of the electricity system and compliance of other quality of service standards listed in Part B of this Schedule.

Example:

Positive Q-factor Above Average Performance (Greater than 10% below target) Zero Q-factor at Dead Band Performance (+ or - 10% of target)

Negative Q-factor Below Average Performance (Greater than 10% above target)

The exact construct is to be developed by the Commission

Page 32

***Respondent 6- Z-factor Materiality: an exogenous factor shall be deemed to be sufficiently material to be treated as a Z-factor adjustment only if the annual incremental costs or savings to the Network Licensee that result there from amount to at 0.5%, either individually or in the aggregate, of the network licensee's annual non-fuel revenue for the given year."***

The Commission notes the respondent's comment and provides the following details; the Z-factor materiality will be discussed further in the working group sessions. Regulation is being drafted to guide the operation and administration of the Hurricane fund alongside the Z-factor application. Additionally, the Z-factor materiality will be discussed further in this new regulation and the draft will be consulted upon.

***Respondent 1- The section describes the service standards and initial targets for the calculated Q-Factor which are very aggressive and do not account for any initial investment required to reach those targets. GRENLEC has never achieved 6.9% system losses and moving from 85% to 95% collections may create some social frictions to achieve, given the required aggressive collection methods. These initial targets should be reviewed and agreed with the Network Licensee during the initial Tariff review, otherwise it will negatively impact the bankability of the Network Licensee.***

***Respondent 2- If the licensee achieves both the 2021 SAIDI and SAIFI targets, they still might not achieve the CAIDI target. Is that your intention?***

***Respondent 5- You have a list of Service standard targets in which the Licensee is to achieve and maintain. For me I would refer to these as Key Performance Indicators (KPI's). While these appear to be reasonable and achievable in the current climate, my concern and no doubt that of the wider public is the "payment of compensation to members of the public".***

The Commission notes the respondents' comments; and agrees with Respondent 1, that the Commission may set initial targets with the Network Licensee. As outlined in the regulation - A network licensee shall in its tariff proposal, include a proposal for all service standards, including—

- (a) levels for service standards;
- (b) compensation levels for violations of service standards;
- (c) rating categories for service standards.

The network licensee is liable to pay compensation to the affected consumer according to the compensation penalties and sanctions set by Order by the Minister after consultation with the Commission, which may have taken into account the levels proposed by the Licensee. With respect to Respondent 2's comment, this is not the intention of the Commission and the targets will be addressed in the updated regulations. With respect to Respondent 5's comment, there is ongoing discussion surrounding the compensation to the consumers, however, the intricate details of such a compensation will be defined in a subsequent regulatory document.

***Respondent 6- GRENLEC requests extensive discussions with the Commission on the appropriate setting of the Standards and Targets. Hence our responses to items in this section should be taken in that context. SAIDI and SAIFI calculations must exclude events outside the control of Licensee including kite flying, some weather related outages, outages caused by third parties (Vehicular accidents, trees falling in lines due to felling by third parties, outages caused by IPPs and other like incidents), planned and advertised maintenance activities.***

***CAIDI is an unreliable metric to use as an evaluator as it depends on the ratio between the SAIDI and SAIFI. In some circumstances both the SAIDI and SAIFI can reduce but the CAIDI can increase if the SAIFI decreases more proportionally than the SAIDI.***

The Commission notes comments made by the respondent, the Network Licensee is required to inform the Commission of such exogenous events. Once an event is declared a force majeure by the Commission it would not be considered in the calculation of these indicators.

Page 34

***Respondent 6- GRENLEC requests extensive discussions with the Commission on the appropriate setting of the Standards and Targets. Hence our responses to items in this section should be taken in that context***

***“Connection of new residential and other simple installations” means the number of days required to connect a consumer after the consumer has submitted a complete application and obtained any necessary permits and paid the required deposit and fees***

***“Simple installations” means installations that do not require complex connections, for example, those installations not requiring line extensions or construction.***

***“Reconnection after determination of wrongful disconnection” means the average number of hours required to reconnect a consumer who, in the opinion of the Commission after review of any evidence submitted by the consumer and/or the Licensee, has been determined to have been wrongfully disconnected.”***

The Commission is not in favour of the respondent’s proposed changes. The Commission welcomes extensive discussions on this matter and can be discussed during the tariff setting process.

Page 35

***Respondent 1 - The section describes the service standards and initial targets for the calculated Q-Factor which are very aggressive and do not account for any investment initial investment required to reach those targets. GRENLEC has never achieved 6.9% system losses and moving from 85% to 95% collections may create some social frictions to achieve given the required aggressive collection methods. These initial targets should be reviewed and agreed with the Network Licensee during the initial Tariff review, otherwise it will negatively impact the bankability of the Network Licensee.***

The Commission notes the respondent’s comment, as outlined in the regulation - A network licensee shall in its tariff proposal, include a proposal for all service standards, including -

- (a) levels for service standards;
- (b) compensation levels for violations of service standards;
- (c) rating categories for service standards;

Additionally, the Commission welcomes extensive discussions on this matter.

***Respondent 6- Why should these (Collection Rate and Outstanding Sales) matter to a regulator, other than for review purposes? There should be no penalty/incentive associated with these metrics.***

***Respondent 5 -There needs to be a compensation policy on payment to members of the public whereby services were wrongfully or unlawfully disconnected. As such causing consumers to lose meat and other stored items within their refrigerator and freezer. Currently there is a lack of clear policy on compensation payable by the Licensee.***

The Commission acknowledges the respondents' comments, both standards are KPIs utilized to monitor how well credit and collection policies and practices are implemented within a utility company.

As outlined in the regulation - A network licensee shall in its tariff proposal, include a proposal for all service standards, including -

- (a) levels for service standards;
- (b) compensation levels for violations of service standards;
- (c) rating categories for service standards;

Such proposals will be considered by the Commission in its determination.

With respect to Respondent 5's comment, discussion is ongoing with respect to a policy that will guide compensation to consumers, the intricate details of such a compensation will be defined in a subsequent regulatory document.

***Respondent 6- "The fuel charge (FC<sub>n</sub>) for bills rendered during the current month n, is the rolling average of the adjusted fuel rate (FR) for the prior two three months, plus or minus the annual residual fuel rate (ARFR) as set out in the following formula:"***

***Note to PURC: The way the system works is this. Take any month, say the month of April. When bills are sent out in April (April's bills) the company does not yet know the fuel consumption or costs for the month of April. It computes the fuel charge based on averaging the fuel costs of the prior three months.***

The Commission notes the respondent's comment and will discuss further at the working group sessions.

***Respondent 6- Fuel cost rate net of efficiency targets for month n by the fuel rate calculated in the following manner. Where:***

***FR<sub>n</sub> = Monthly Adjusted Fuel Rate in EC\$ per kWh rounded to the nearest one-hundredth of a cent.***

***Fn = Total cost of fuel in EC\$ used in the production of energy for the month.***

***En = The total kWh energy sales for the month.***

***HT = The Authorized Generation Electric System's heat rate target in kJ/kWh determined by the Commission***

***HA = The actual Authorized Generation Electric System's heat rate in kJ/kWh derived from the production of energy during the month.***

***ST = The system losses rate target (expressed as a percentage of net generation) determined by the Commission.***

***How exactly will the commission determine what is an acceptable/achievable target? To what extent will GRENLEC be involved in the determination of such a target?***

***"SA = The 12-month rolling average system losses (expressed as a percentage of net generation) registered during the month.***

***As the monthly system losses calculation can be significantly affected by the number of unread days in GRENLEC's billing cycle 19 (the cycle in which all large customers fall), GRENLEC proposes that SA be the 12- month rolling average in that month. It decreases price volatility.***

The Commission acknowledges the comments of the respondent and proposes the following:

FRn = Monthly Adjusted Fuel Rate in EC\$ per kWh rounded to the nearest one-hundredth of a cent applicable to bills rendered during the current Billing Period.

Fn = Total cost of fuel in EC\$ used in the production of energy for the period.

En = The total kWh energy sales for the billing period, net of renewable purchases.

HT = The system heat rate target in kJ/kWh determined by the Commission

HA = The actual system heat rate in kJ/kWh derived from the production of energy during the month.

ST = The system losses rate target (expressed as a percentage of net generation) determined by the Commission.

Sections 12 (3) of the regulation state that the network licensee shall indicate in its retail tariff proposal all service standards, efficiency targets and any modification of the tariff structure that are proposed by the licensee.

The period for calculating the actual system losses will be discussed at working group sessions.

Page 38

***Respondent 6- Renewable Charge. This is the network licensee's actual monthly cost of renewable energy purchased from independent power producers and self-generators, in accordance with the terms of Power Purchase Agreements and Self-Generator Contracts, respectively, divided by the total kWh energy sales (En) during the given month."***

***We believe that there is an error in the proposed formula and if applied will result in the customer receiving a higher bill than is equitable. Our suggestion for the amended calculation is shown above.***

The Commission notes the respondent's comment and provides the following for clarity; the RE charge per kWh can be comparable to the fuel charge per kWh. So the per kWh charge for RE would be the total cost paid to IPP's and self-generators divided by the total RE consumed. In addition to non-fuel charges, every customer will see a portion of their consumption charged at the RE charge and a portion at the fuel charge. As more RE comes onto the grid the portion of consumption charged at the RE charge will increase.

Therefore, the respondent's proposed change is not accepted.



## **PURC's Responses on Comments/Questions made at Public Forum Meetings**

### ***Comment 1 - Has the PURC considered the cost of GRENLEC restructuring its accounting system and who will bear such a cost?***

The Commission notes the comment, as required by section 45 of the Electricity of 2016, a licensee is required to keep proper books and accounts. Therefore, GRENLEC can remain a vertically integrated company with accounting separation by licensed activity. In so doing there would be greater clarity in terms of tracking cost for generation and transmission. In such a case the entity will remain under one umbrella and a cost accountant would have the task of allocating shared cost between the two areas of business and preparing separate accounts for generation and network business.

### ***Comment 2 - The RPI comes from the CPI made fuel neutral. Presently water, housing and fuel are included in the equation when calculating the CPI, this can pose a challenge.***

The Commission notes the comment and has been in discussion with the Central Statistical Office (CSO) to prepare Reference Price Index (RPI) calculations so that the RPI is the Consumer Price Index (CPI) neutral only to changes in fuel prices and the price of electricity. The intention is to further discussions with the CSO for preparation of RPI figures on an annual basis.

### ***Comment 3 -The demand charge that's presented in the document, where does it fit in?***

The Commission acknowledges the comment, the total cost to supply electricity includes not only energy consumption but also the cost of how much stress is placed on the grid to meet demand at all times. So while kilowatt-hour (kWh) is a measure of consumption, Kilowatts/kilovolt-amperes (kW/kVA) are measures of power or demand, the rate at which energy is generated or used. The kWh charge (consumption) is the measurement of the amount of energy the building uses over the given period. The kW/demand charge represents the cost to supply a certain amount of energy consumed at a single point in time. These costs are recovered through demand charges and account for more than half of customer bills in certain territories.

### ***Comment 4- How will demand charge be measured, who exactly will be measured?***

The Commission notes the comment, the current classification of commercial and industrial classes is based on the aggregate demand of customers. If a business's customer demand is below five (5) horsepower then the consumer is classified as commercial and above 5 horsepower, the industrial classification is applied. Since the utility's electrical meters for customers currently do not measure kW or kVA demand and floor space is used as a proxy for demand. The use of kVA as the metric of demand would be a more precise and transparent measure of demand. However, the use of the kVA demand metric must await meter changes and a load research study to properly establish the most appropriate class boundary. Billing



based on the kW or kVA registered by large users is envisaged. The Commission and the utility would set a timetable for the transition.

***Comment 5- Currently the fuel charge is computed using the rolling average method which takes into consideration the last three months prior to the billing month. However, if the current month is to be used, calculations will be impossible. GRENLEC is therefore putting forward that the rolling average method continues to be used.***

The Commission notes the respondent's comment and will be discussed further in the working group sessions.

***Comment 6 - If the intention is to have a reduced rate for hotels, which customer class will have to subsidize this reduction?***

***Comment 7- Presently, hotels are included in the commercial sector which has the highest rate. If it is removed from that sector and given a lower rate, it will then have to be subsidized by other customers.***

***Comments 8- If the cost of study for hotels shows they don't deserve higher prices, will the hotels still be able to push down prices so that other classes e.g. the domestic class will have to bring their prices up to compensate?***

The Commission notes the comments, there is no intention to disenfranchise any customer class to the benefit of hotel customers. The creation of a Hotel category would be informed by the findings of a load research study and a cost of service study.

***Comment 9 - With regards to the Z-factor, it is noted that hurricane expenses are included, consideration may have to be made to input in the document that the hurricane adjustment is only going to come in to the extent that the cost required exceeds the hurricane fund.***

The Commission acknowledges the comment, regulation is being drafted to guide the operation and administration of the Hurricane fund alongside Z-factor application. The draft will be consulted upon.

***Comments 10- How will the proposed formula mentioned in the non-fuel section of the equation going to lower my cost?***

The Commission notes the comment, the intent is that only the efficient cost of the utility is passed on to customers. The regulatory scrutiny of the utility's controllable non fuel cost is expected to ensure that only efficient costs would be passed on to customers and thus achieve fair and reasonable rates.

***Comment 11- What is meant by reasonable rate of return on investment? How is it equated in dollars and cents?***

The Commission notes the comment, the role of ROE in effective regulation is to ensure cost effective access to capital and to compensate for comparable risk and intent management of the utility.

***Comment 12- In the Return on Investment equation, cost of equity was replaced with return on equity. In research, GRENLEC hasn't been able to find any government long-term bond rate on the RGSM. Can guidance be received so that it can be noted?***

The Commission acknowledges the comment and believes that the concerns regarding the stability of the LTBR are legitimate. This area would be discussed further during working group sessions alongside other methods to determine the ROE.

***Comment 13- The existing renewable charge calculations within the regulations would not achieve what PURC intends it to. It will only result in a higher charge to the customers. It is suggested that you divide by total sales instead of just the renewable sales.***

***Comment 14- Renewable energy is calculated incorrectly. It should be the cost of the renewable energy produced by all the IPP's divided by total energy used by all customers.***

The Commission notes the comments, the idea is that the RE charge per kWh can be comparable to the fuel charge per kWh. The per Kwh charge for RE would be the total cost paid to IPP's and self-generators divided by the total RE consumed. In addition to non-fuel charges every customer will see a portion of their consumption charged at the RE charge and a portion at the fuel rate. As more RE comes onto the grid the portion of consumption charged at the RE charge will increase.

***Comment 16- Section 70 of the Electricity Act which spoke to the 5% social fund was determined to be unconstitutional in court.***

***Comment 17 – GRENLEC contested the clause of the social fund and it was deemed unconstitutional. It was however, mentioned in the tariff setting methodology.***

The Commission acknowledges the comments presented, the PURC's regulations must comply with the law.

***Comment – 18 As it relates to social tariffs, what criteria determines who falls in such category and what is GRENLEC's responsibility in this area?***

The Commission notes the comment, and may recommend, set and approve classes or changes in classes if it considers that the grouping or change targets vulnerable groups to whom a social tariff should be applicable. The social tariff shall be defined and financed in accordance with the Policy established by the Minister under section 3 (a) of the Act. Moreover, these tariffs

should be included in the revenue forecasts and should be revenue-neutral for the utility provider.

***Comment 19 - If an individual decides to use a standby, will the individual's rate be different because of the standby they are using?***

The Commission acknowledges the comment, stand by power service can be a sub class of the existing customer classes or a new category can be created with sub classes for different demand requirements. Discussion with network licensees regarding administrative simplicity of implementing this category will provide guidance. Stand-by power service class is distinct because as the number of distributed generators increase the network planning and operation will be affected and there can be an increase or reduction of the network costs. Adjustments to costs can be addressed specifically with this group. In the short term it is unlikely that the standby charge would be different to charges established for other customer categories.

***Comment 20- The annual X-factor which speaks to expected productivity gains of the licensed utility, how is that determined and applied?***

The Commission notes the comment, the X-factor is determined at the end of each tariff review, alongside other factors ie. Q and Z factors. It is a measure of efficiency/productivity of the utility. The factor, an index number, is intended to permit prices to move between tariff reviews according to an objective and reliable pattern. A productivity study would be undertaken to inform the X- factor. As outlined in the regulation, the X- factor would be an offset to the change in price caused by inflation.