A New Rate Structure for DOMLEC

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Independent Regulatory Commission

Points of Discussion

1. Introduction: The IRC's Mandate
2. General Overview of the Regulatory Framework for the Tariff Regime
3. The Rate Making Process
4-5. Key Parameters and Tariff Principles
6-7. Old and Proposed New Rate Structure

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1. Introduction

The IRC's Mandate

The Independent Regulatory Commission (IRC) was created by an Act of Parliament #10 of 2006.

One of the items of its mandate is defined in Part IV – Tariffs and guides the process of tariff setting.

Additionally, a tariff regime for DOMLEC was developed by the IRC; Decision document 2009/004/D. This document sets the regulatory rules that guides the tariff process.

The Legal Background

01

Section 18

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

02

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 licencees 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."

03

Other sections within the Act includes the procedure for setting and tariff review i.e. sections 23 and 24.

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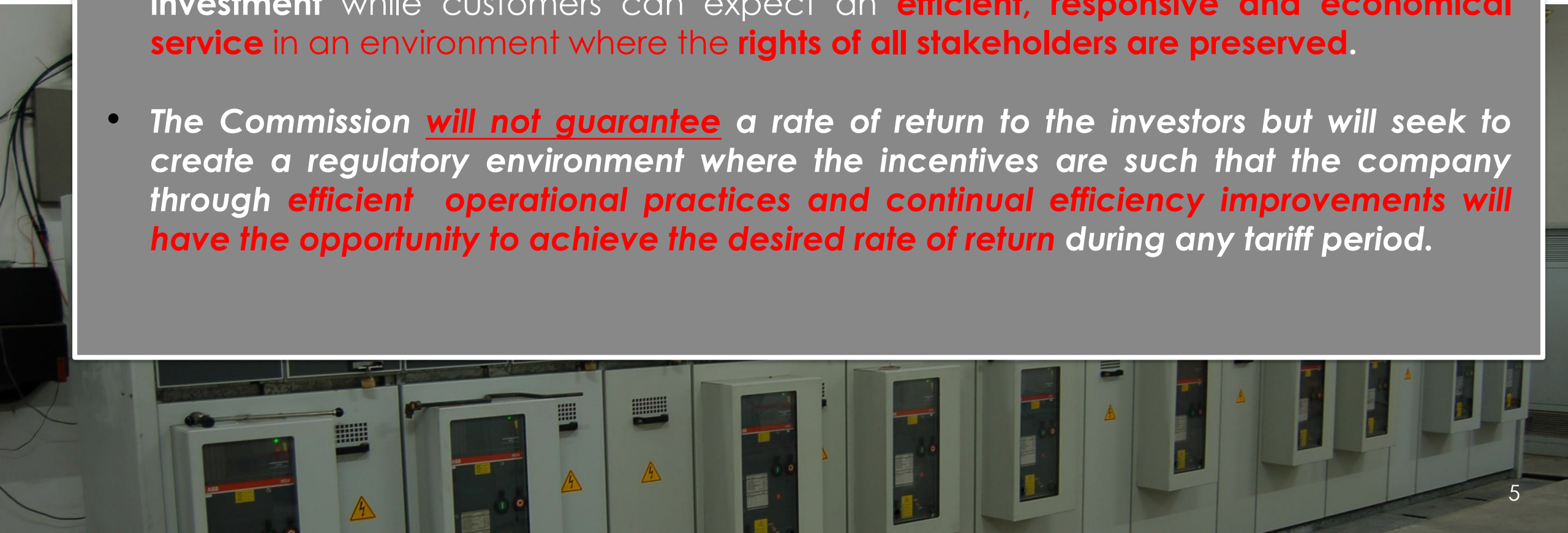
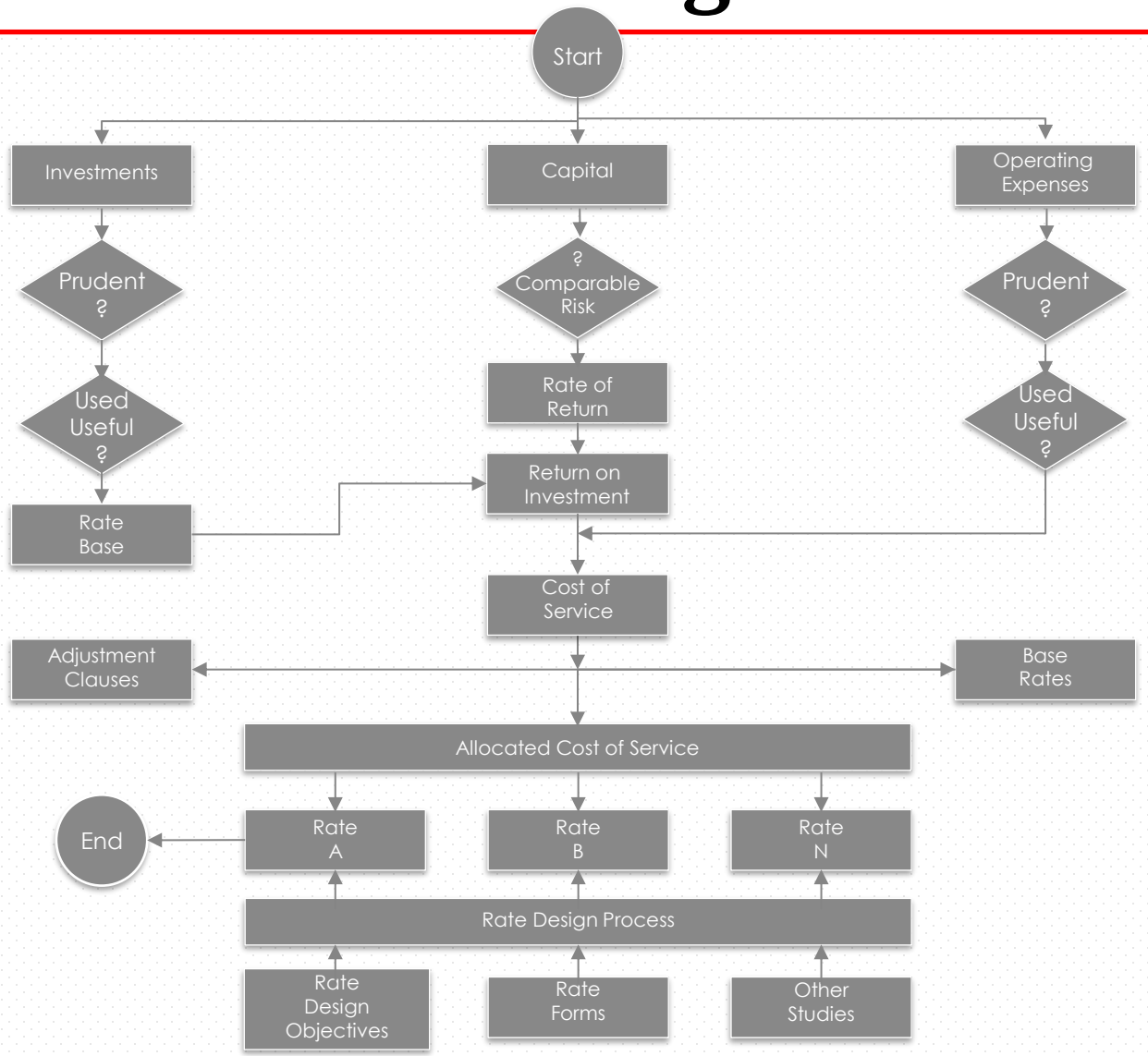
Regulatory Policy Objectives

- The Commission's regulatory policy is to establish a tariff which **balances the interests of the consumers and investors** where the investors can realize a f**air return on investment** while customers can expect an **efficient, responsive and economical service** in an environment where the **rights of all stakeholders are preserved**.

- ***The Commission will not guarantee a rate of return to the investors but will seek to create a regulatory environment where the incentives are such that the company through efficient operational practices and continual efficiency improvements will have the opportunity to achieve the desired rate of return during any tariff period.***



3. Rate Making Process



4. Key Parameters

01 Depreciation Study

02 WACC/Rate of Return

03 Revenue Requirement and Rate Base

04 Utility's 5-year Capital Expenditure Plan

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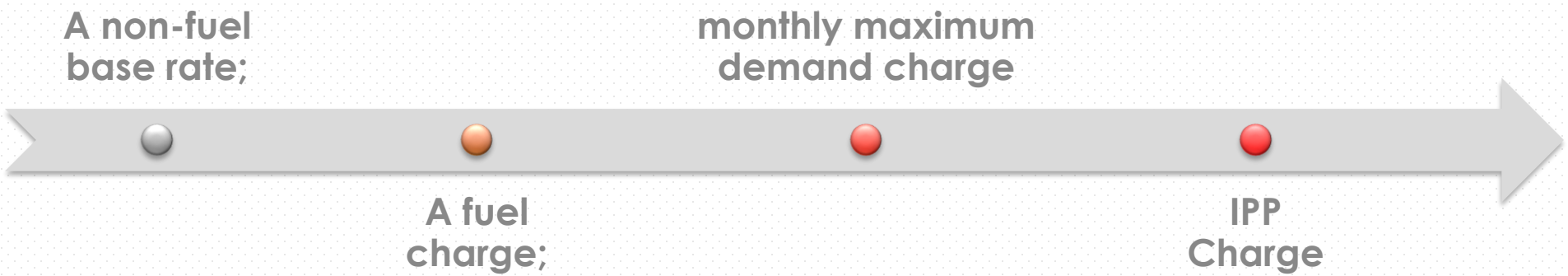
5. Tariff Principles

The tariff model adopted for tariff structure consists of four parts



The Commission has adopted a 100% pass through of the fuel cost represented by the fuel charge. Thus, the average rate is simply:

Average rate = Revenue Requirement ($)/Sales (kWh)

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Efforts undertaken to modernize DOMLEC's Tariff Structure and Regime

- The tariff review period will be for every three years.
- The introduction of Time-of-Use (ToU) charges for on-peak and off-peak periods. Applicable to residential, large commercial and industrial, hotel customer categories.
- Kept the Standard option for Residential/Domestic customer category providing these customers with a choice.
- Introduction of a Small Business category - Include any non-domestic customer that utilizes **500kWh** or less.

Additional interventions

- Any customer that fall into the commercial, industrial, and hotel categories exceeding **500kWh** will be considered as large.
- Introduction of a monthly maximum demand charge that will be applicable to Commercial, Industrial, and Hotel customers. Discontinuing the installed capacity charge from the old tariff regime.
- Subsequent introduction of Key Performance Indices (KPIs) geared at improving efficiency on DOMLEC's operations.

Division of current customer categories into sub-categories

The most impactful principle that resulted in the lowering of the base tariff is the restructuring tariff structure. The simple mathematical principle that was utilized is the principle of number divisibility.

This principle was applied in the following manner:

1. The introduction of small and large customer categories based on their energy consumption.

2.The introduction of ToU with a peak and off-peak period that will allow customers choice to shift certain loads between periods while enjoying a lower tariff at off-peak

Consider the following principle of number divisibility.

$12 can be divided as follows:

6 + 6

4+4+4

3+3+3+3

2+2+2+2+2+2

1+1+1+1+1+1+1+1+1+1+1+1

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7. Proposed New Rate Structure

Category	Description
Domestic Standard	Domestic customers using 150 kWh or less per month.
Domestic TOU (Time of Use)	Domestic customers using more than 150 kWh per month.
Small Business	Non-Domestic customers using 500 kWh or less per month.
Commercial - Large	Commercial customers using more than 500 kWh per month.
Hotel - Large	Hotel customers using more than 500 kWh per month.
Industrial - Large	Industrial customers using more than 500 kWh per month.
High Voltage	Customers receiving power at high voltage.
Street Lighting	Street lighting accounts.

Summary of Interventions Achieved

Control of Costs

Implemented measures onto DOMLEC to reduce costs ensuring a more sustainable pricing model.

- Introduction of an OPEX efficiency target.
- Achieved a reduced depreciation amount.
- Achieved a lower WACC compared to DOMLEC.
- Achieved a reduced CAPEX amount.

Strategic interventions

Achieved through the tariff restructuring achieving a fairer and more balanced pricing model

Proposed New Rate Structure Take-aways

Comparisons

Old Rate Structure Workflow

- Fixed charges for different categories
- Higher costs due to uniform rate application
- No differentiation for peak and off-peak usage
- Greater exposure to fuel surcharge fluctuations.
- Installed capacity charge not an accurate determination of demand charge.

New Rate Structure Workflow

- Customers categorized more precisely for fairer/balanced pricing
- Time-of-Use pricing encourages off-peak consumption, reducing strain on the customer and grid.
- Monthly maximum demand charges introduced for large consumers to balance load distribution
- Adjustments in pricing ensure fairer cost allocation and sustainability.

New Tariff Structure

DOMESTIC - Standard

Applies to all residential customers not opting for TOU.

Customer Charge: Yes.

kWh Charges:

- Block 1: 0 - 50 kWh
- Block 2: > 50 kWh

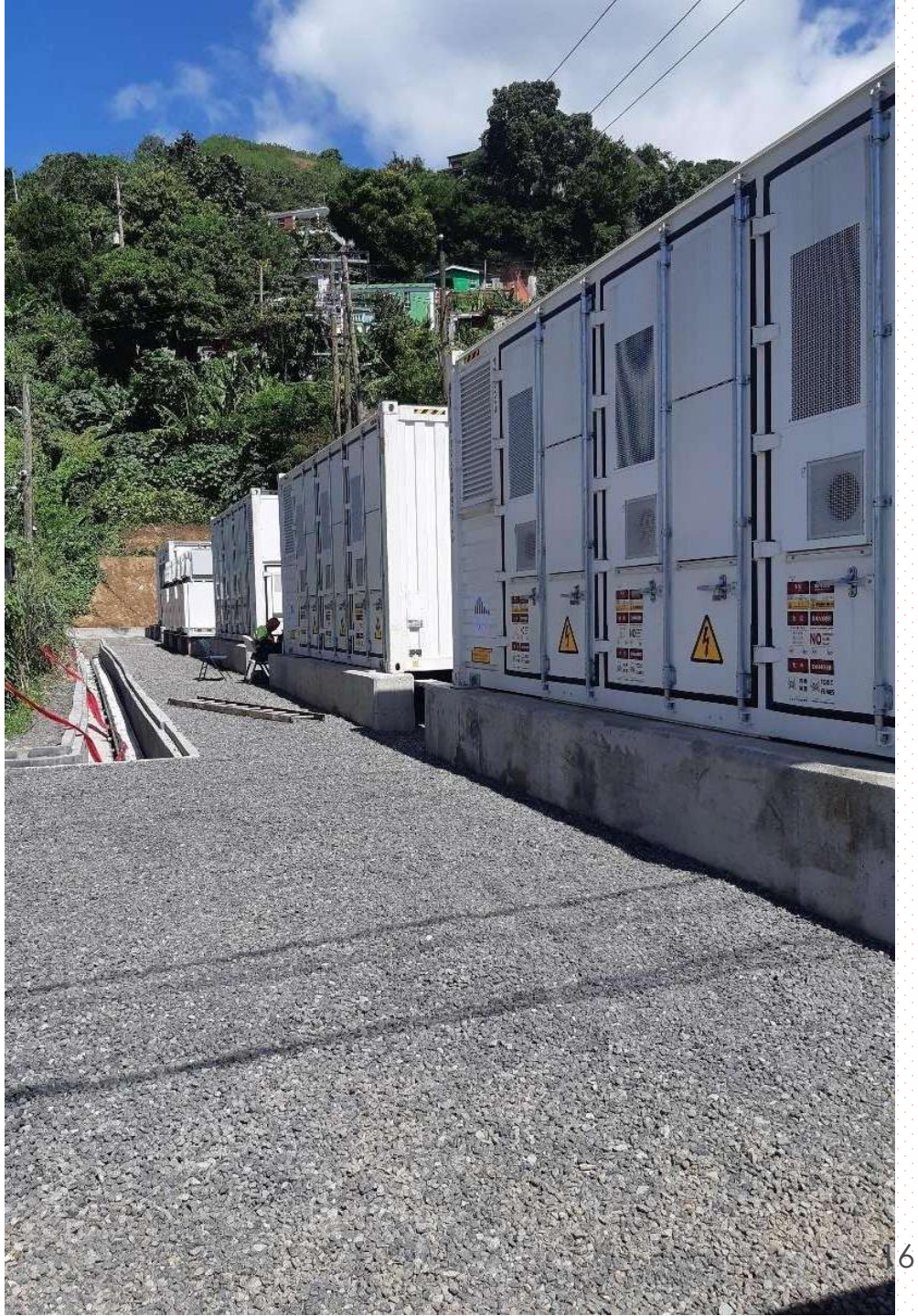
Fuel & Purchased Power Charges: Same for all customers.

Demand, Reactive Power & Standby Charges: None.

New Tariff Structure

DOMESTIC - TOU (Opt-in)

- Available for residential customers
- Customer Charge: Yes.
- kWh Charges: Peak & Off-Peak rates apply.
- Fuel & Purchased Power Charges: Same for all customers.
- Demand, Reactive Power & Standby Charges: None.



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New Tariff Structure

SMALL BUSINESS

01

For non-residential customers using

<500 kWh/month.

02

Customer Charge:

Yes.

03

kWh Charge:

One rate for all usage.

04

Fuel & Purchased Power Charges:

Same for all customers.

05

Demand, Reactive Power & Standby Charges:

None.

06

There is no TOU for this category.

New Tariff Structure

COMMERCIAL - LARGE

01 **For businesses using >500 kWh/month (includes self-generators).**

02 **Customer Charge: Yes.**

03 **kWh Charges: Peak & Off-Peak rates apply.**

04 **Fuel & Purchased Power Charges: Same for all customers.**

05 **Demand Charge: Yes ($/kW).**

06 **Reactive Power Charge: Applied if peak demand > 50 kW & power factor <85%.**

New Tariff Structure

HOTEL - LARGE

01 For hotels using
>500 kWh/month
(includes self-generators).

02 Customer Charge:
Yes.

03 kWh Charges:
Peak & Off-Peak rates apply.

04 Fuel & Purchased Power Charges:
Same for all customers.

05 Demand Charge:
Yes ($/kW).

06 Reactive Power Charge:
Applied if peak demand >50 kW & power factor <85%.

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New Tariff Structure

INDUSTRIAL - LARGE

01 **For industrial users consuming >500 kWh/month (includes self-generators).**

02 **Customer Charge: Yes.**

03 **kWh Charges: Peak & Off-Peak rates apply.**

04 **Fuel & Purchased Power Charges: Same for all customers.**

05 **Demand Charge: Yes ($/kW).**

06 **Reactive Power Charge: Applied if peak demand > 50 kW & power factor <85%.**

New Tariff Structure

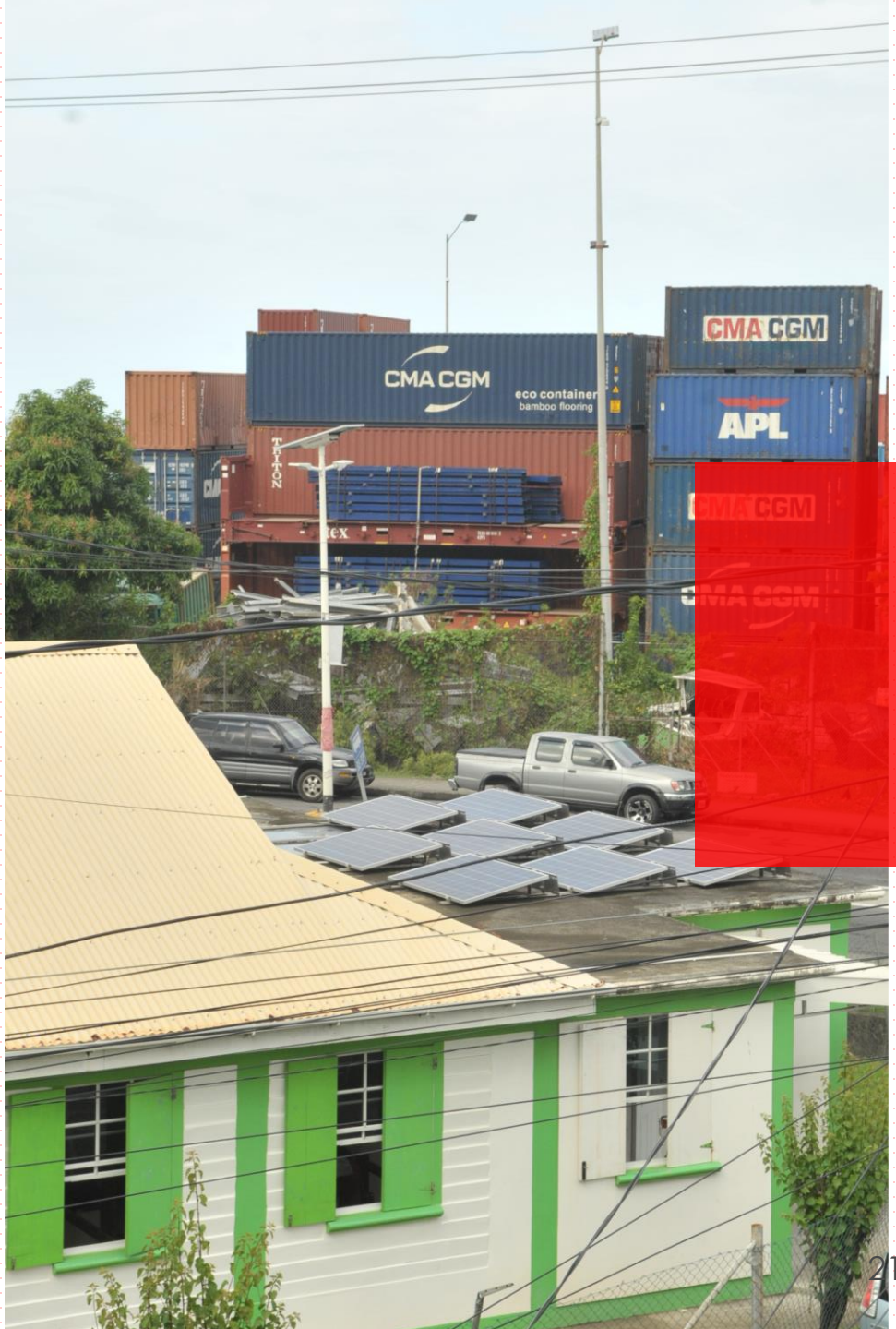
TOU periods proposed by DOMLEC

The proposed times of use are

Peak period =
Weekdays = 8 a.m. to 10 p.m.
Weekends = 6 p.m. to 10 p.m.

The proposed Off-peak periods are

Off-peak periods =
Weekdays = 10 p.m. to 8 a.m.
Weekends = 10 p.m. to 6 p.m.



How ToU Tariffs Benefit Customers

01

The benefit to the customers for adopting the ToU tariffs and basically speaking to the savings that can be accrued.

02

The option granted to residential/domestic customers to choose between TOU and the standard structure **providing choice** so customers can benefit from what works best for them in terms of **cost savings to their bill.**

03

For Commercial, Industrial and Hotel customers the ToU benefit will be that they will automatically move into a lower tariff during off-peak periods and can utilize this period to perform certain tasks that will benefit from the lower tariff.

General Benefits of the New Rate Structure

01 The new rate structure encourages efficiency improvements and cost reduction on both the demand and supply side.

02 This new approach secures the financial sustainability of DOMLEC while reducing the cost burden to the customer.

03 Accruing environmental benefits through demand-side management and peak load reduction.

Questions

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THANKS!

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