

BARBADOS

NO: 001/08

FAIR TRADING COMMISSION

IN THE MATTER of the Application
by the Barbados Light & Power
Company Limited for approval of the
depreciation policy.

APPLICANT: Barbados Light & Power Company
Limited

INTERVENOR: Barbados Association of Non
Governmental Organisations

SUBMISSION BY
BARBADOS ASSOCIATION OF NON GOVERNMENTAL
ORGANISATIONS (BANGO)

I, Roosevelt Oswald King of #31 Jessamine Avenue, Beckles Road, St. Michael, Barbados, make this submission on behalf of BANGO and say:

1. I am duly authorised to represent the Barbados Association of Non Governmental Organisations (BANGO), Registered Charity No: 611 under the Laws of Barbados Cap 342 and office situate at #10 Garrison, St. Michael.
2. I have read the application for the approval of the Depreciation Policy advanced by the applicant and the evidence being relied upon and I am able to give a fair and reasonable assessment of the Application as it would impact the consumers of electricity in Barbados.
3. It is our assessment that changing the depreciation policy will affect the rate base. It can raise or lower the rate base according to useful lives and values assigned to assets. The elements of the application and the proposed policy which have the potential to do so are:
 - i. Doubling the original life of assets
 - ii. Extending the original life of assets
 - iii. Revaluation of assets
4. I refer to Exhibit BANGO-1 to support our findings. Shown to me, produced and exhibited is a copy of the said document attached hereto and marked Exhibit "BANGO-1".
5. Under the circumstances and with the abundance of caution, we submit that it is in the best interests of consumers for the Fair Trading Commission to consider the depreciation of assets, along with the setting of new rates. The company has not produced in evidence, a schedule for

future purchases and any upgrades to the performance and capacity of its plant that will impact on rates and monthly billing or alternatively serve to boost the applicant's profits.

6. While the evidence provided seems generally favourable, what cannot be ignored is that the movement in depreciation and re-evaluation of assets' lives can help to increase profits to the company, once the rate is set and rates are not re-set with consideration for movement in depreciation. It would be fair that when re-evaluations occur and the depreciation charge is reduced, that this is reflected in the monthly billing of the customers of the company; in the same way that fluctuations in fuel is reflected on its customers' bills.
7. It is our assessment that by the fact of the application, the company is seeking benefits from this exercise at a time when the consumers of Barbados are crying out against price gouging, rising inflation and the recent sky rocketing of oil prices. If as the rate is set, the company is projected to earn profits within the limits of the legislation, then any changes in circumstances, which would merely serve to increase the company's profits, should be passed back to the consumer as savings, either monthly or quarterly; since the applicant is already making its legitimate profit.
8. It is fitting that some attention be paid to this in light of the great burden which consumers have borne over the years, especially as a result of increased prices in oil. While it may not be the norm outside fuel adjustment to use such a mechanism, certainly the principle by which fuel adjustment is applied, serves as a precedent that can be applied to any

other factor if such becomes necessary, fair and reasonable in the circumstances.

9. BANGO therefore submits that in its decision, the Panel should:
- i. Make a policy stating clearly whether or not valuations can be re-assigned to assets.
 - ii. Compare changes in depreciation with changes in profits since changes in depreciation can mean large profits for the company.
 - iii. Make an order for savings in depreciation to be passed on to the consumer through a Depreciation Adjustment Clause, which can be deducted based on usage or as a flat payment to all customers; either monthly or quarterly or as often as revaluations occur.
 - iv. In the presence of any doubt about negative impact on rates, order that the Depreciation Policy be considered as part of a comprehensive rate hearing.

Submitted on this the 6th day of January 2009

On behalf of Barbados Association of Non Governmental Organisations by:

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Roosevelt O. King
Secretary General

Barbados Association of Non Governmental Organisations
#10 Garrison
St. Michael
Barbados

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EXHIBIT BANGO-1

This is a copy of the document marked Exhibit BANGO-1 mentioned and referred to in Paragraph 4 of the Submission by Roosevelt King on behalf of the Barbados Association of Non Governmental Organisations

AFFIDAVIT OF DOUGLAS SKEETE

I, Douglas Skeete of # 5 Grazettes Terrace, St. Michael BB12016, Hereby make oath and say:

1. I am a Chartered Accountant and member of the Institute of Chartered Accountants of Barbados and the Association of Chartered Certified Accountants of the United Kingdom.
2. I completed the examinations of the Association of Chartered Certified Accountants (ACCA) the United Kingdom in 1981.
3. I have read the application and the evidence being relied upon and I am qualified to make a fair and reasonable assessment of the application and the evidence produced.
4. I have been retained by the Barbados Association of Non Governmental Organisations to assess the application to analyse how any probable decision would impact on consumer rates and monthly billings.
5. The BL&P is asking for permission to adjust or "converge" its depreciation policy from a regulatory reporting basis to its financial reporting method. I say and verily believe that if this is allowed the company might be permitted to revalue its assets, since under financial reporting purposes this would be permissible, as companies comply with **International Financial Reporting Standards** that allows revaluation.
6. This means that at periodic intervals, the company can hire a valuer to assign values based on market prices or replacement costs akin

to the valuation of a property. The revaluation of assets could possibly assign a higher "cost" base to individual assets, thereby increasing the annual depreciation charge and the company's cost base for rate making purposes.

- 7. Alternatively, the assignment of a lower value would result in a lower "cost" base for individual assets, a decrease in the annual depreciation charge and a lower cost base for rate making purposes.
- 8. The application speaks only to changes in the useful lives of assets but is silent as regards the possible revaluation of assets for regulatory accounting purposes. One cannot therefore conclude that there will be no revaluation of assets as part of the company's policy, if approval is given for convergence in the company's method of calculating depreciation.
- 9. There is still no clear articulation within the company's documents and application of the reason(s) why it is seeking a change in the method of calculating depreciation on the relevant assets.

Sworn to by the deponent)
 The said Douglas Skeete at Bridgetown)
 This 6th day of January 2009)

Before me:

.....
 Legal Assistant/Clerk



Barbados Association of Non Governmental Organisations

"Registered Charity No: 611"

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e-mail: admin@bango.org.bb

6 January 2009

The Commission Secretary
The General Legal Counsel
Fair Trading Commission
"Good Hope"
Green Hill
St. Michael

Dear Sir/Madam,

Re: # 001/08 BL&P – Application for Approval of Depreciation Policy Interrogatories and Request for information

Please accept a list of five (5) questions below, to which we would be grateful for answers; either by the FTC or the Company.

First, there is one request for information which we hope could be supplied.

Request for Information

1. Exhibits 1-E and 1-F show aggregated figures. We are requesting an expansion of this table showing figures by individual assets under the headings:
 - a. year of purchase;
 - b. cost;
 - c. accumulated depreciation;
 - d. depreciation rate(s); and
 - e. remaining useful life.

Questions (1-5):

1. Does the company in compiling regulatory financial accounts have to maintain separate sets of accounting records? If the answer is in the affirmative what is the cost of so doing?
2. Given that there are differences of depreciation rates used by the company for financial accounting purposes and those approved by the PUB, and that Hutson Best in his affidavit indicated that the difference in the calculation of the two methods is not significant:

To:
The Commission Secretary
The General Legal Counsel
Fair Trading Commission
"Good Hope"
Green Hill
St. Michael

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Re: # 001/08 BL&P – Application for Approval of Depreciation Policy

- a. Why is there a need to converge?
 - b. Is there a financial benefit to the company?
 - c. Will it impact positively on rates so that consumers benefit?
3. In PH affidavit at paragraph 37, he mentions rates prescribed for computer software; however, table 1 at page 6 of Hutson Best's affidavit, there are no rates for computer software.
 - a. Have rates been approved by the PUB for computer software? If so, what are the rates?
 - b. What other assets, if any, were omitted from Table 1 for which rates have been approved by PUB?
4. Hutson, Best's affidavit, Table 2, page 7: Does the company perform periodic revaluations of any of its:
 - a. generating plant and equipment?
 - b. transmission and distributions lines?
 - c. general property?
 - d. What is the period (please state if it is different for different assets) and what are these periods of time?
5. Peter Huck has done an appraisal of the assets' useful lives. Is this a policy only for rate hearings or is it company policy to do this at predetermined times? If so, what are those periods of time?

Roosevelt O. King
Secretary General