



BLPC Rate Hearings - Oct 14 2022

Closing Statement

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It has been an honor and privilege to represent the Coalition of Cooperatives and Concerned Citizens in this important Electricity Rate Review hearing. On behalf of my co-intervenor Mr Hally Haynes and myself, we thank the Chairman and Commissioners, the Director and Staff of the FTC and all of our fellow intervenors for all the support and encouragement which we received.

Thanks also to the BLPC team, whose professionalism we feel compelled to admire, even as we challenge the flawed narrative which they have attempted to put to the Commission.

At the end of the Hearings, The Coalition is even more concerned than we initially were, about the urgent need for radical reforms in Energy management in Barbados.

Local National Energy Legislation has wisely established BLPC as a REGULATED PUBLIC UTILITY to serve the Public Good of Barbados. For over 100 years, this structure served the electricity needs of Barbados well, with representation from all Stakeholders.

From 2011 to 2014, **Emera Inc** of Canada acquired 100% of BLPC shares and in our assessment, proceeded to completely transform the company from a regulated Electric Utility, into a mechanism to generate cash for its new sole shareholder.

Whereas for generations previously, about 15% of net income had been paid in dividends to shareholders, and 85% reinvested into the BLPC's operations, we have seen 86% of income since 2011 being extracted as dividends, and only 14% reinvested into the utility.

The facts show that this assault has impacted on the company's operations in many critical areas, including;

1. Delaying investment in critical efficient, base load generating Plant.
2. Downgrading T&D maintenance standards,
3. Degrading the critical Self Insurance Fund (SIF) catastrophe Insurance coverage

These and other actions and 'failures to act', have resulted in significant additional cost to customers since 2011 in;

- Higher than needed fuel charges,
- Reduced reliability,
- Excessive operating costs on old, retired generation Plant - to be borne by customers,
- And significant reductions in maintenance on the Transmission & Distribution infrastructure.

As a regulated Public Utility, the BLPC is established to be administered as a Franchise through a license issued by the Government of Barbados. The current license expires in 2028.

While Emera obviously anticipated an automatic roll-over of the franchise, The Barbados Government has wisely reviewed the whole process closely, particularly in light of the country's declared national objectives to radically re-engineer the local energy framework into one based on sustainability via the BNEP.

Officials of Emera have publicly challenged government's stance on licensing, and an impasse has resulted in the energy leadership in Barbados, which has led to a clear lack of harmony and progress for the BNEP.

The BLPC application for an increase in rates, and their interim rate application are the latest examples of such disharmony.

The simple financial facts are impossible to misread....

1. BLPC has not had a single year of financial losses in recent memory.
2. In recent decades, not a single cent has been invested into BLPC by Emera or any other any 'investor'.
3. On the other hand, since the last Rate Hearing in 2010, BLPC customers paid \$6.3 Billion as revenue to the company.
4. Fuel charges collected through the FCA amounted to \$3.75 billion, while electricity rates paid by customers amounted to \$2.55 billion.
5. The total **net income** generated for BLPC in the period since the 2010 rate adjustment has been \$635 million
6. But of that total net income, \$538 million has been extracted by Emera as dividends
7. Meanwhile, unexplained decisions were taken by BLPC too delay investments in critical base load plant promised at the 2010 Rate Hearing.
8. Deep cuts were made in the BLPC resources previously dedicated to T&D maintenance, leaving hundreds of rotting and leaning poles across the country.
9. A well designed Self-Insurance Trust was de-capitalized by \$100 million, and that \$100 million gifted to share holders - for reasons that are yet to be explained, and despite specific regulations in the SIF Trust legislation restricting ANY withdrawals for non-catastrophe reasons.

The Company's own records show a return on Rate Base of 3.8% in 2020, when almost every other operation globally fared badly, and where the country itself suffered a near 20% DECLINE in GDP. BLPC's 3.8% growth therefore reflects an effective relative performance of around 24% in 2020.

- *BLPC's debt levels are very low..indeed it is the lowest among the companies which they themselves selected for comparison (pg 296) in their own Rate Application.*
- *Their chart on profitability on page 294 also shows BLPC to be among the most profitable among that peer group - with impressive profit margins over the years compared to the others.*

The Company has been unable to show any evidence of any kind of financial stress that warrants the extraction of even more resources from customers.

Officials have merely cited the need for company profitability to improve even more, "so as to be more attractive to needed investments" Lord knows from whom...! **Since ONLY customers have invested in BLPC in the last twenty years.**

In the meanwhile, the company, contrary to mis-information from their lawyer Mr Alleyne this morning, admits to having 'no policy' on the payment of dividends, and a senior official conceded in response to a Coalition question, that there is nothing to prevent any rate increases granted, from being paid to shareholders as increased dividends.

In its 2010 decision at paragraph 185, FTC Commissioner Knight questioned the rationale behind the high dividend payouts projected by BLPC.

The commission expressed the view that the significant increase in dividends projected '**may not be prudent**'.

Despite this, From 2011 to 2021, the records show that dividends went from 15% of income, to 86% of income - totaling some \$538 million out of total income of \$635 million.

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The actual fact is that current BLPC electricity rates are too high.

It is common knowledge that by installing a PV system, customers can cut their electricity bill by 50% over the next twenty years.

This means that electric energy is currently available to customers in Barbados at approximately 50% of the current BLPC rates.

Rather than review their traditional, outdated monopolistic approach and radically embrace the new technologies to make these cost benefits of sustainable technologies available to everyone as outlined in the Barbados National Energy Policy, BLPC has chosen instead to prolong their antiquated fossil-fuel relics,

and instead to seek to increase rates in order to maximize cash dividends to their shareholder (who have themselves, not made a single dollar investment into BLPC to date).

So, based on current, existing Renewable Energy market competition, (including competition from the their Investor-owned '**Emera Caribbean Renewables Inc**',) current BLPC electricity rates are already at least 50% too high.

It seems therefore to us, to present a **conflict of interest** for Emera-controlled BLPC to seek to raise electricity Rates, which then facilitates **Emera Caribbean Renewables** to better entice customers to leave the national grid in favor of their cheaper alternative offering.

The true role of a regulated Electric Utility is to bring economies of scale to bear for the benefit of all customers. Not to drive customers away to the competitors (which they also own)

FTC's Call

The **Utilities Regulation Act** empowers the FTC (Commission) to exercise wide discretion in ensuring that the public good for which the BLPC was created, will be served in the interest of all Barbados.

It is clear that the lack of effective representation of other critical stakeholders such as customers, government and ordinary citizens at the decision-making levels of BLPC has compromised that utility's ability to champion the cause for which it was created.

The Cooperative Coalition calls on the FTC and on Government, to take immediate steps to address this situation.

No coherent Case

No coherent case whatsoever has been made by the Company to justify an increase in rates paid by customers during this Hearing.

Indeed, a number of questionable, critical, financial actions have called into question the motives of the BLPC Directors, and clearly indicate the need for a Clawback Order from the FTC to correct the situation.

These questionable actions include

- \$100 million withdrawal from the \$145 million Self Insurance Fund (SIF) in 2016 which was paid to BLPC 's shareholders. This clearly contravenes the Trust Regulations under which the Fund is established. Regulation # 8 states

"The Fund shall only be utilized by the Company for the purpose of replacing or reinstating the self-insured assets which are damaged by catastrophe and reinstating the financial loss following such damage."

- *By our calculations*, at least \$358 Million in excess dividend payments were made to Emera for the period 2011-2021. This is over and above payments properly approved by the FTC in 2010,
- Compensatory refunds may be due to customers who have been forced to pay millions in additional fuel charges as a result of the Steam Units expensive and inefficient life extension, and the refusal to invest in efficient generation plant as promised at the 2010 FTC Hearing. We estimate that additional fuel charges of \$1 billion were paid by customers over the period, due to the delays.

CONCLUSION

We humbly submit that the **Fair Trading Commission** must not only reject this unsubstantiated request for a rate increase, but must move urgently to clawback the major financial mis-steps that have been taken to transfer significant funds from BLPC to its sole shareholder in the form of dividends, and which were highlighted during the Hearings.

The FTC must restore this important Public Utility to its rightful role in taking Barbados collectively towards our innovative National Energy Vision as outlined in the BNEP, and to do so by requiring the full participation of all stakeholders in BLPC decision-making.

BLPC FINANCIAL SUMMARY POST 2010	Total since 2009	Average Annual
Total Revenues collected from customers	\$ 2.55 billion	\$ 196 million
Total Investments by Shareholders	\$0 dollars	\$ 0 dollars
Total Expenditure	\$ 1.9 billion	\$ 148 million
Net income (25% of net Revenue)	\$ 635 million	\$ 48 million
Dividends Paid. (21% of net Revenue)	\$ 538 million	\$ 41 million
Retained Earnings for BLPC (3.8% of Revenue)	\$ 97 million	\$ 7 million

APPENDIX

DI L.R.O. 2007 *Insurance (Barbados Light and Power Company Limited) (Self-Insurance Fund) Regulations, 1998* CAP. 310
regs. 1-2

Insuree

Cap. 310

INSURANCE (BARBADOS LIGHT AND POWER COMPANY LIMITED) (SELF-INSURANCE FUND) REGULATIONS, 1998 1998:1
2015:16

Authority: These Regulations were made on 6th July, 1998 by the Minister under section 154 of the Insurance Act.

Commencement: 31st August, 1998.

1. These Regulations may be cited as the *Insurance (Barbados Light and Power Company Limited) (Self-Insurance Fund) Regulations, 1998*.

2. In these Regulations,

catastrophic means

- (a) earthquake shock, fire resulting from an earthquake, or a flood caused by an earthquake;
- (b) a hurricane, volcanic eruption, cyclone, tornado, windstorm or flood; 2005:16
- (c) an overflow of the sea onto Barbados from any cause; 2005:16
- (d) fire, lightning, smoke damage; 2005:16
- (e) general impact, vehicle impact, or impact caused by aircraft or other aerial devices; 2005:16
- (f) riot, strike, terrorism, civil commotion, malicious damage; 2005:16
- (g) general explosion, boiler explosion, burst pipes; 2005:16
- (h) breakdown of electrical and other machinery; or 2005:16
- (i) any other peril approved by the Supervisor of Insurance; 2005:16

"company" means the Barbados Light and Power Company Limited;

"Fund" means the self-insurance fund established under regulation 3;

"investment grade securities" means securities which have received a credit rating of not lower than AA from a recognised credit rating agency.

3. There is established a Fund for the purpose of self-insuring the assets of the company that are listed in the Schedule against damage and consequential loss as a result of a catastrophe.

4. The Fund shall be created by deed of trust and the trustees shall be such persons as the Supervisor of Insurance shall approve.

5. The monetary limit of the Fund shall be

- (a) the total of the replacement cost of the assets which are being self-insured and the self-insured portion of the company's commercial insurance programme; or
- (b) 10 per cent of the total assets of the company, where the replacement cost is not easily determined.

6. The maximum annual payment by the company to the Fund is

- (a) 20 per cent of the total replacement cost of the assets which are being self-insured plus the self-insured portion of the company's commercial insurance programme; or
- (b) 5 per cent of the total assets of the company, where the replacement cost is not easily determined.

7. The assets of the Fund shall not be mortgaged or assigned by the company.

8. (1) The Fund shall only be utilised by the company for the purpose of replacing or reinstating the self-insured assets which are damaged by catastrophe and reinstating the financial loss following such damage.

(2) Where the Fund is utilized for any other purpose any monies withdrawn shall be subject to corporation tax.

9. The company shall submit to the Supervisor of Insurance, within four months of the end of each financial year of the company, an audited statement of the assets and liabilities of the Fund.

10. (1) Up to 60 per cent of the Fund shall be invested in overseas securities on the condition that the securities are investment grade securities.

(2) The remainder of the Fund shall be invested in securities in accordance with the *Insurance (Prescribed Securities) Regulations, 1987* 1998.