Low-Discretion Models: Statutes and Regulation

Another Way to Deal with Limited Capacity

Case Study: Saint Lucia

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Saint Lucia Electricity System: Key Statistics

Population	180,870
Access Rate (%)	99
Generation Capacity (MW)	88.6
Peak Demand (MW)	59.8
System Losses (%)	9.6
Customer Connections	61,800
Average Residential Tariff (USD/kWh)	.35
Renewable Energy Share (%)	0

LUCELEC
ST. LUCIA ELECTRICITY SERVICES LIMITED

- Vertically-integrated monopoly
- Mix of public + private shareholders
- 80-year exclusive license over generation, transmission, distribution (until 2045)

Regulatory Challenge: Regulate effectively with limited capacity

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Low-discretion regulation by statute

- **Electricity Supply Act (ESA)** *(1994)*
  - **Tariff Mechanism:**
    - Set LUCELEC's rate of return on equity at 15%
    - If profits exceed target, customers get reimbursed through lower tariffs
    - If target is not achieved, tariffs increase
  - **Mechanisms for Review:**
    - Certification of compliance
    - Certification Commission
    - Review Board

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Changes to the ESA *(2006)*

- **Changed allowable rate of return from single figure to band 2-7% above the cost of Government long-term bonds** (minimum rate of return = 10%)

- **Gave the Review Board a more permanent regulatory function**
  - Monitor LUCELEC's performance every 2 years against agreed-on targets
  - Review LUCELEC's development/expansion plans and fuel cost efficiency
  - Set technical, operational, efficiency standards every 3 years
  - Review and report on LUCELEC's efficiency of asset utilization and optimization

Impacts of Tariff Mechanism on Sector Outcomes

	Positive	Negative	
Feasible in small-island developing state	Keeps capacity requirements low	LUCELEC returns only half of excess profits	No incentive to reduce tariffs
High access rates Good service quality	Gives LUCELEC incentive to invest in network	No incentive to invest efficiently	Inefficiency and risk of 'gold plating'
Capacity to invest in improvement and maintenance	Results in profitable utility	All risk placed on consumer	Consumer carries financial burden

In practice…

- **The Certification Committee and Review Board have never been established**
- LUCELEC consistently exceeds target rate of return *(averaged 19% between 2006 and 2011)*

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Impacts of Failing to Create the Review Board

IMPACT	EFFECTS
No externally monitored service standards	• Limited transparency • Limited accountability
No tariff review	• High electricity tariffs • Public concern about fairness and transparency
No review of LUCELEC's investment/expansion plans	• Hinders government from ensuring renewable development • No way to ensure that electricity expansion aligns with national sustainability goals
No review of LUCELEC's capital investment	• Risk of inefficiency

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Key finding:

A low-discretion regulatory approach through statutory tariff regulation can keep capacity requirements low and achieve high access rates and quality standards.

But it must be supported by robust review mechanisms.

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Saint Lucia’s Regulatory System in Flux…

Revisions to the ESA

- Deregulate the sector, end LUCELEC’s monopoly, and encourage renewable development

National Utilities Regulatory Commission

- One independent regulator for both water and electricity

Eastern Caribbean Energy Regulatory Authority (ECERA)

- Saint Lucia participating in Phase 1

Thank you!

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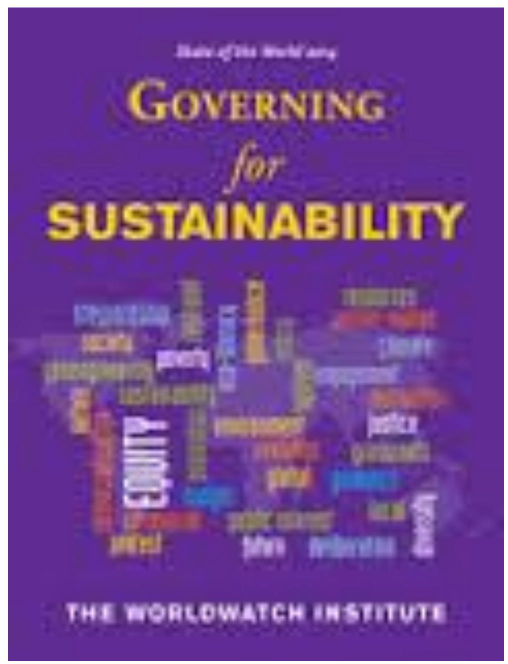
blogs.worldwatch.org/revolt/



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