



**PUBLIC UTILITIES
COMMISSION
BELIZE**

TERMS OF REFERENCE

**Independent Expert Consultancy
PUC's Initial Decision on BEL's
Full Tariff Review Proceedings 2024**

July 23, 2024

PUBLIC UTILITIES COMMISSION

CONSULTANCY TERMS OF REFERENCE FOR THE INDEPENDENT EXPERT'S REVIEW OF INITIAL DECISION IN ELECTRICITY FULL TARIFF RATE PROCEEDINGS 2024

Introduction

The Public Utilities Commission (PUC) was established in 1999 as an autonomous, multi-sectorial, regulatory agency comprised of up to seven Commissioners. The primary duty of the PUC is to ensure that the services rendered by a public utility provider are satisfactory and that the charges imposed in respect of those services are reasonable. The PUC is also responsible for the award of licenses and for monitoring and enforcing compliance with license conditions. The PUC issued a 15-year license to Belize Electricity Limited (BEL) effective July 1, 2000. The Licence was extended for an additional 10 years effective July 1, 2015.

The PUC is currently conducting a Full Tariff Review Proceeding (FTRP) for the determination of Regulated Values and Tariffs, Fees and Charges and a Mean Electricity Rate (MER) for BEL for the Full Tariff Period (FTP) of November 1, 2024 to June 30, 2028. The PUC issued an **Initial Decision** in respect of the FTRP on June 29, 2024. On July 23, 2024 BEL filed an **objection** to the **Initial Decision**.

As per the Electricity (Tariffs, Fees and Charges) Byelaws, the PUC is now required to **appoint** an Independent Expert to review the **Initial Decision** in regards to the objection filed by BEL. The appointment of the Independent Expert and his/her review and reporting on the **Initial Decision** are guided by the Electricity (Tariffs, Fees and Charges) Byelaws, and in consideration of related Decisions or Orders made by the Commission, undertakings agreed by BEL, and BEL's FTRP Submission to the extent the Commission was satisfied that BEL's justifications were sound.

BEL and any interested parties may submit comments on the report within 20 days of its issuance. Where the Commission receives comments challenging the conclusions of the

report or any material aspect therein, the PUC shall afford such party or parties an opportunity to be heard.

The PUC shall study the Report of the Independent Expert in making and issuing a **Final Decision** in respect of the upcoming 2024 | 2028 FTP.

1.0 BEL's Objection

In regards to the Initial Decision issued by the PUC on June 29, 2024, Belize Electricity Limited Objects to the:

- (a) **PUC's Initial Decision to disallow full recovery of Cost of Power associated with the deployment of the 21-MW TM2500 gas turbine in San Pedro per the PUC's "Final Decision – consent to purchase refurbished 21 mw mobile gas turbine for San Pedro, Ambergris Caye" dated December 22, 2023.**
 - (i) Failure of Generation Procurement Process administered and spearheaded by the PUC.
 - (ii) The TM2500 is a superior solution to alternatives.

- (b) **Generation and Dispatch Plan and estimates of energy supply costs underlying the PUC Initial Decision.**
 - (i) The Recent Events require an Acceleration of the Plan to Install In-Country Renewables backed up by Firm Capacity.
 - (ii) The Recent Events have drastically increased COP in the current period and is expected to persist into the near future, causing a substantial financial burden on the Company given current rates.

- (c) **OPEX allowance amounts proposed in the PUC's Initial Decision.**

The OPEX allowance increases proposed by the PUC are arbitrary and account for inflation only.

- (d) **Parameters proposed for return in the PUC's Initial Decision**
 - (i) The lower limit of the ROR cannot be set at less than the Weighted Average Cost of Capital.

- (ii) The Target ROR will not allow BEL to cover all its costs given the cap on OPEX.
 - (iii) The Regulated Asset Value will be understated because of Disallowances by the PUC.
- (e) **PUC'S regulatory account balance accumulated within the FTP 2020-2024.**
- (i) The Regulatory Balance amount (in favour of BEL) determined by the PUC understated due to errors in the accounting for the transactions.
 - (ii) The PUC does not have the authority to change ROR parameters within an FTP.
 - (iii) The PUC must give BEL the benefit of the doubt that CAPEX that was not approved by the PUC but still spent was used in the best interest of Customers.
 - (iv) The PUC has a duty to ensure that BEL recovers all its reasonable costs.
- (f) **Penalties imposed by the PUC for delays in completing the Caye Caulker submarine interconnection.**
- (i) The Penalties imposed by the PUC are arbitrary and actually counter-productive to BEL's efforts to deliver safe, reliable, and sustainable energy solutions to its Customers.

The Independent Expert, in conducting the review, shall give full and fair consideration to the PUC's analyses and determinations in reaching the **Initial Decision**, BEL's FTRP Submission and all information provided therein and therewith, objections made by BEL and comments and information submitted by interested parties as described above.

The Independent Expert shall not make any determination as it relates to:

- 1) new information that was known to BEL at the time of its FTRP Submission and which differs in a material respect from that provided to the PUC prior to arriving at its **Initial Decision**;
- 2) new information which became known to BEL after the time of its FTRP Submission;
and

- 3) statutory interpretation that is the exclusive jurisdiction of the PUC or the High Court of Belize to determine.

Within thirty (30) days of the date of his appointment, the Independent Expert shall issue a written report to the Commission documenting his review and containing his recommendations on the Regulated Values and the Mean Electricity Rate (MER), Tariffs, Fees and Charges approved in the **Initial Decision**.

2.0 Scope of Work

The Independent Expert will be provided with BEL's FTRP Submission, the Initial Decision, all relevant supporting information, and all comments and objections. These documents will facilitate a comprehensive review.

2.1 Independent Expert Activities

1. Comprehensive Review: Conduct a thorough review of BEL's FTRP Submission, including all supporting justifications, to understand the operational and business context as presented to the PUC. This review will include all supplemental information and datasets provided by BEL during the rate proceedings leading up to the Initial Decision.
2. Examination of Initial Decision: Examine the Initial Decision of the PUC, focusing on the rationale for any amendments, modifications, or deletions made to BEL's Submission.
3. Consideration of Objections: Carefully consider the objections raised by BEL, taking into account the evidence filed and the rationale of the PUC in considering that evidence or lack thereof. Provided, new evidence by BEL shall not be considered.
4. Interim Fact-Finding Report: This report aims to comprehensively capture the assumptions and analytical rationale submitted by BEL, alongside the contextual framework within which the PUC made its Decision. It serves to establish a robust foundation for understanding the basis of the Initial Decision and identify areas necessitating further examination. Specifically, within the framework of rate of return regulation utilized, the report addresses *inter alia* the following key aspect:

- (i) *Dispatch and Production Costing*: Review the dispatch methodology employed to calculate the costs associated with generating and supplying wholesale power. The economic dispatch of supply-side resources and the accurate forecasting of Reference Cost of Power have a profound impact on retail rates going forward.
 - (ii) *Delivery Costs*: Evaluate delivery costs, encompassing Operating Expenses (OPEX), depreciation, return on investment, and statutory charges. Assess the reasonableness of OPEX depreciation rates and return on investment.
 - (iii) *Prudence of CAPEX*: Evaluate the justification and assumed productivity of Capital Expenditures (CAPEX) proposed by BEL, taking into account prior planning determinations made by the Commission.
 - (iv) *Reasonableness of OPEX*: Examine the appropriateness and efficiency of the operating expenses proposed by BEL. Assess whether the Initial Decision provides adequate institutional resources for BEL to meet its utility obligations at the prescribed standards of performance.
 - (v) *Capital Market Attributes*: Consider relevant capital market conditions and attributes impacting the utility's financial health and cost of capital, as presented by BEL and reviewed by the Commission.
5. *Availability for Clarification*: Be available to respond to any questions or requests for clarification from the Commission before the **Interim Fact-Finding Report** is fully developed into the **Final Report**. Address any issues raised by the Commission promptly and comprehensively.
 6. *Final Report*: Offer well-founded recommendations on how the Initial Decision can be enhanced for greater fairness and reasonableness, especially in terms of aligning with objectives that serve the public interest.
 7. *Transparency and Documentation*: Ensure all steps, analyses, and recommendations are well-documented and transparent, facilitating a clear understanding of the review process and the basis for all conclusions drawn.

2.2 Independent Expert Report

Within **thirty (30) days of appointment**, and on completion of review, the Independent Expert shall issue a written report to the PUC documenting his review and containing his recommendations on the Regulated Values and the MER, Tariffs, Fees and Charges approved in the Initial Decision with regard to the specific objections made by the BEL.

3.0 Qualification of Independent Expert

The Independent Expert shall have the following professional and other qualifications:

a. Eligibility

- Recognized competence in engineering, economics, finance, utility management or business.
- Minimum 10 years of professional experience.
- Working in or with a small regulated electric utility (< 500 MW) such as in Belize / the Caribbean in the last 5 years is preferred.

b. Skills and Knowledge in Specific Areas of Expertise

- Have proven experience and understanding of electric utility practice in respect of price regulation systems and its components (efficiency analysis, cost allocation, finance, setting of asset base, WACC, quality targets, etc.);
- Previous experience working in a regulatory environment is preferred;
- Proficient (oral and written) in the English language.
- Proven capability to draft technical texts in the English language

4.0 Terms of Appointment

Specific terms and conditions of the Independent Expert's consultancy will be according to any agreement negotiated with or accepted by the PUC.

The consultancy shall not be re-assigned by the Expert.