Why a Fuel Clause Adjustment?

Fuel is the single largest cost in the production of electricity. Fuel prices rise and fall frequently and unpredictably and a mechanism is needed to adjust the electricity tariff other than frequent rate hearings. The costs of rate hearings are very high and are eventually passed on to the customer. To avoid this, the Public Utilities Board (forerunner of the Fair Trading Commission) authorized the Company to use a fuel clause adjustment to deal with changes in the cost of fuel. This approach is used in many jurisdictions where similar fuel price fluctuations are experienced.

What is the Fuel Clause Adjustment?

The fuel clause adjustment is a mechanism designed to recover the cost of fuel oil used in the generation of electricity. The basic energy charge on the electricity bill includes 2.64 cents per kilowatt hour for the cost of fuel used to generate electricity. This covers only a portion of the fuel cost. The remainder is collected through the fuel clause adjustment.

What does it do?

The fuel clause adjustment adjusts the price that customers pay for each kilowatt hour of electricity as the cost of fuel used to generate electricity rises and falls.

What does it NOT do?

The fuel clause adjustment does not contribute to Light & Power's profit. All monies collected through this mechanism are paid to the oil suppliers for fuel used to generate electricity.

Who monitors the Fuel Clause Adjustment?

The Fair Trading Commission is responsible for setting the rates Light & Power charges customers and for monitoring the rates charged. This includes checking the calculation of the fuel clause adjustment. In an in depth review carried out on the fuel clause mechanism, the Fair Trading Commission confirmed that this mechanism adequately achieved the regulatory objectives of equity. The fuel clause adjustment for each month is published in the daily newspapers early in the month.

How is it calculated?

At the beginning of each month the Fuel Cause Adjustment is calculated using the most up to date projections for fuel prices, fuel usage and electricity sales (in kWh) for the month. At the end of the month, when the actual amounts are known, there is usually a positive or negative balance left over as the Company may have collected more or less than the actual cost of fuel used. This balance is carried forward to the next month and is added or subtracted, as appropriate, to the next month's fuel cost. It should be noted that the 2.64 cents/kWh that is included in the basic energy charge (see the response above to "What is the Fuel Clause Adjustment?") is deducted from the fuel cost when calculating the net fuel cost to be recovered.

A sample calculation of the Fuel Clause Adjustment is as follows:

Projected Electricity Sales		**75,300,000 kWh**

Projected Fuel Consumption		
Heavy Fuel Oil (Bunker C)	18,400,000	litres
Diesel	2,700,000	litres
AvJet	2,400,000	litres
Total	23,500,000	litres

Projected Fuel Cost		$ 19,400,000
less Portion of fuel cost collected in Basic Energy Charge.	-	$ 1,990,000
Fuel Cost to be recovered.		$ 17,410,000
plus Carried Forward balance from previous month.	+	$ 1,150,000
Net Fuel Cost to be recovered through Fuel Clause Adjustment.	=	**$ 18,560,000**

$$\text{Fuel Clause Adjustment} = \frac{\text{Net Fuel Cost to be recovered}}{\text{Electricity Sales}}$$

$$\text{Fuel Clause Adjustment} = \frac{\mathbf{\$18,560,000}}{\mathbf{75,300,000\ kWh}}$$

Fuel Clause Adjustment = 24.65 cents per kWh