LIGHT & POWER REFUTES CLAIMS IT WAS IMPRUDENT

The Barbados Light & Power Company (Light & Power) refutes recent media reports that since its last increase in electricity base prices in 2010, over twelve years ago, it has not acted prudently in replacing steam generators and instead made a decision to extend the life of its steam generators that was not in the best interest of customers.

The Company considers these comments to be unfortunate, inaccurate and misleading. Light & Power welcomes rigorous analysis of its 2021 Rate Application and accepts and respects the role of all stakeholders in its review. However, productive and useful analysis requires a clear understanding of the facts and it is with this objective that the following clarification is provided.

The Framework

One of the statutory requirements of Light & Power when it applies for a price adjustment is to file its future capital investment plans with the Fair Trading Commission (FTC). These plans present the Company's best estimate of future sales demand, market conditions and investments in the electricity network over a 20-year period.

In 2009, the Company provided these projections to the FTC as part of its rate review filing and was granted approval for a rate adjustment in 2010, not based on its capital investment projections but based primarily on its financial performance in the 2008 test year.

When filing for an increase in rates, Light & Power must provide a test year which provides a baseline of its operations. The test year consists of a 12-month period used to evaluate Light & Power's cost of providing electricity service to customers.

In the 2009 rate review, the Company successfully demonstrated that an increase in rates was necessary to provide the revenue required to meet the expenses involved in supplying a safe, reliable service and to attract new capital on reasonable terms.

The Facts

The granting of a rate adjustment does not remove the Company's responsibility and discretion to modify its investment plan in the interest of customers, given its assessment of changes in its external environment. The Plan is not conclusive, as socio-economic, commercial and industry developments might call for modifications after submission.

In 2009, Light & Power had intended to invest in new plant by 2012, however, with a rapidly changing business environment and a global and national thrust towards renewable energy, Light & Power felt it prudent to delay the retirement of its steam plant and its planned installation of new fossil fuel plant in 2012.

The delay gave Light & Power the opportunity to develop a more informed investment plan in response to the new business environment.

Between 2012 and 2014, Light & Power, in consultation with various stakeholders developed an Integrated Resource Plan (IRP), and on April 7, 2014, the FTC advised that it was satisfied with the approach and the assumptions made in preparing the IRP. An IRP is an assessment of future electric needs and a plan to meet those future needs integrating both demand and supply side options. An IRP also presents various scenarios with an option to choose the least cost or preferred plan based on an analysis of multiple criteria.

Light & Power's IRP considered the Government of Barbados' (GoB's) plan to introduce up to 60 MW of combined waste-to-energy and biomass generation between 2016 and 2018.

These announcements from the GoB coupled with a signed PPA between a project developer and the government for 35MW of renewable capacity, along with changes to the GoB's licensing regime, low sales growth projections, the new Electric Light & Power Act (ELPA) and anticipated reforms in the electricity market structure created uncertainty in Barbados' energy environment. As a result, Light & Power felt it prudent to further delay investments in new fossil fuel plant and to extend the life of its steam plant to avoid the possibility of stranded assets.

In the intervening period, Light & Power instead invested significantly in facilitating the integration of renewable energy generation to the Grid. This included its own investments in a 10MW solar farm (commissioned during 2016) and to help facilitate the Renewable Energy (RE) transition, the Company embarked on and completed an island-wide installation of smart meters as part of its grid modernization program. Investments in strengthening of the transmission and distribution infrastructure, along with other investments in technology and key customer initiatives, continues.

When Light & Power recognized that investor-driven plans to commission up to 60MW of firm renewable capacity were not likely to occur and that as a nation we were still some ways off from achieving higher penetration of renewable energy necessary to satisfy the island's energy needs, the Company advanced plans once again to install new fossil fuel generating capacity.

Light & Power recognized that to maintain adequate system reliability and resilience during the transition, there was an immediate and urgent need for additional fossil fuel generating capacity. At this stage, Light & Power not only conceived, designed and has now constructed the 33MW Clean Energy Bridge generating plant at Trents, St. Lucy, it also advanced plans for new solar and wind RE builds at Lower Estate and Lamberts and advised of the need to install utility scale storage or batteries in light of the continuously growing RE installations.

However, Light & Power was only given approval to move forward to build this new plant after significant resistance by some key stakeholders and after a significant period of planning and delays in obtaining permissions to replace firm capacity. To date, Light & Power has not been able to attain approval to move forward with its RE investments which align with Government policy and would help facilitate reaching the 2030 policy goals.

Decisions to modify its investment plans and delay the retirement of the steam were made with the full knowledge of Light & Power's regulator, the Fair Trading Commission (FTC). Light & Power's investment decisions were and continue to be made in the best interest of customers and in consultation with key stakeholders.

Light & Power notes the commentary of its regulator, the FTC below in its March 25, 2022 Decision on the Light & Power's Depreciation Policy Application where the FTC acknowledges the prudency and reasonableness of the Company's decision:

"The Commission acknowledges the concerns of the Intervenor and the Applicant's rationale of their decision. The Commission was made aware of the government's intention to install the waste-to-energy and biomass plants. Additionally, policy changes by the government in the form of the development of the BNEP 2019-2030 by the Ministry of Energy was part of the considerations of the BLPC in its decision making.

Given the transition that the electricity market has been seeing over the period 2010 to present, a decision to retire steam units and replace them by other fossil fuel plant could potentially result in the creation of stranded assets, that is, assets that are still used and useful, but that need to be retired earlier than at the end of their useful life. In that the assets would have been determined to be prudently incurred, the recovery of those costs would still need to be borne by the Barbados consumer and therefore will result in increased cost to the consumer.

For this reason, the Commission therefore recognised the conclusion by the Applicant to defer its decision to remove aged infrastructure from generation as a reasonable one."

The decision to continue utilization of the steam plant was entirely consistent with the technical capacity of such generators, often operated for 50 years with appropriate life extension measures. The approach to extend the life of the steam generators was aimed at keeping costs down for customers while the island transitions ambitiously to 100% RE.

We are still several years away from achieving electricity from 100% renewable energy and given the need to maintain adequate system reliability and resilience during the RE transition, Light & Power has invested in 33MW of additional fossil fuel generating capacity, referred to as the Clean Energy Bridge, that is expected to be in operation later this month at its generating plant at Trents, St. Lucy.

The Future

To achieve 100% Renewable Energy by 2030, Light & Power like many other investors will need to make significant capital investments.

In order to execute its capital investment plans, Light & Power, like other investors, will be required to borrow the funds needed to invest in costly, long-lived assets.

Without an increase in rates, Light & Power would be unable to fund plan investments to meet customer requirements; facilitate other players and new entrants in the electricity sector; and generally meet the BNEP objectives and other regulatory requirements.

Apart from a rate increase, another key enabler to allow Light & Power to continue borrowing with reasonable terms, is an extension of its existing franchise which is due to expire in 2028. The absence of a Licence extension creates increasing uncertainty around Light & Power's long term investment plans and also impacts its ability to enter into Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs).

Currently the state of Light & Power's finances demonstrates that if the Company does not seek a rate adjustment, it would:

1. Find it increasingly difficult to borrow money to fund its operations;
2. Be without the financial resources to continue to adequately maintain its plant equipment and continue to to invest in initiatives to meet customers' needs;
3. Be unable to facilitate policy objectives and regulatory compliance obligations; and
4. Be unable to respond to financial, economic or environmental shocks.

The Barbados Light & Power Company remains committed to its business of safely providing energy and energy services that are cost effective and reliable for our customers. Our Customers can Count on Us to invest in ways to make electricity generation cleaner and in getting that energy to market and creating energy solutions by linking assets, markets and energy partners.