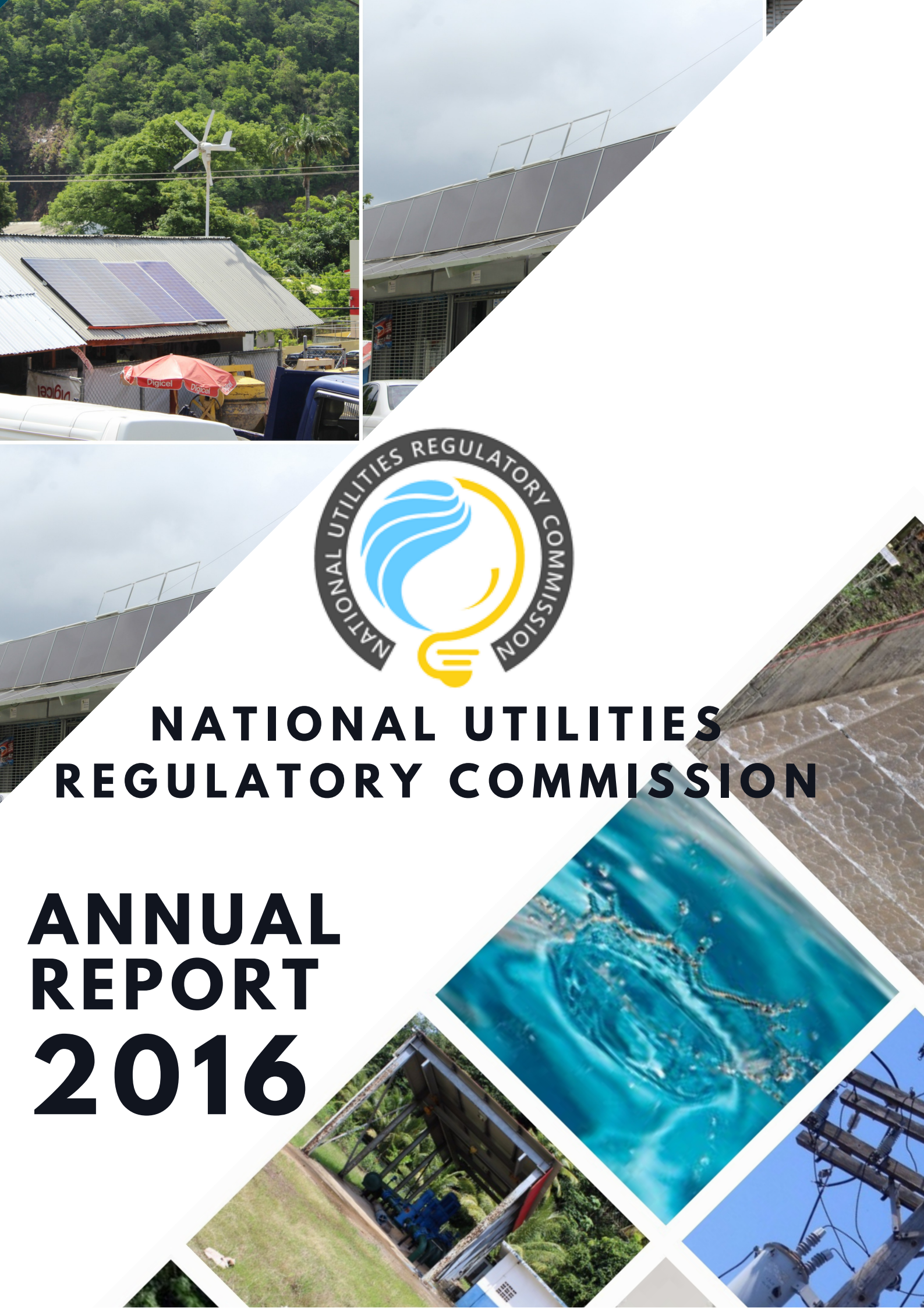
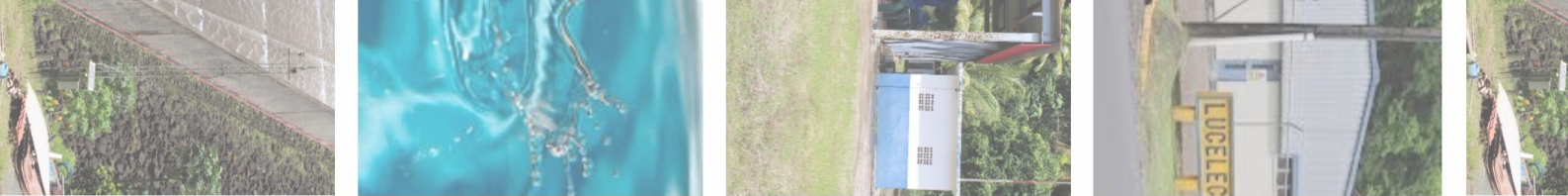




NATIONAL UTILITIES REGULATORY COMMISSION

ANNUAL REPORT 2016

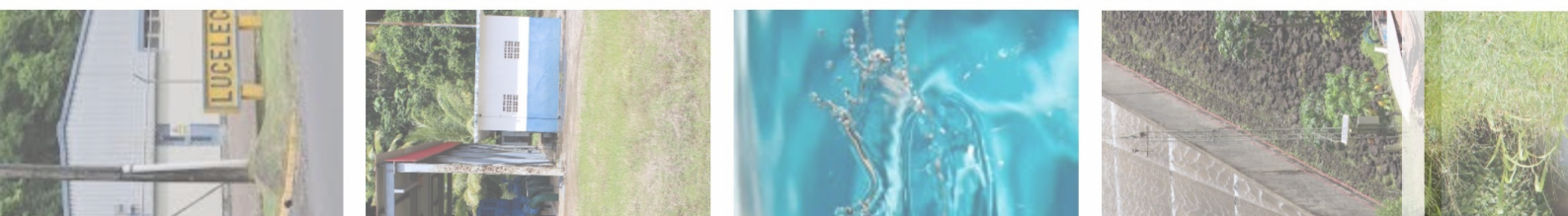




NATIONAL UTILITIES REGULATORY COMMISSION ANNUAL REPORT 2016

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REMARKS BY THE CHAIRMAN OF THE COMMISSION

In February 2016, the government of Saint Lucia appointed a seven (7) member Board of Commissioners for the National Utilities Regulatory Commission (NURC) to commence the task of joint regulation of energy and water supply services in Saint Lucia. The Board of Directors comprises a well balanced mix of independent professionals with backgrounds in the fields of public policy, public administration, human resource management, utility regulation, law, agriculture, business management, accounting, economics, and electrical engineering.

During the first fiscal year of operations, which ended on December 31, 2016, the Board of the NURC concentrated on implementing a number of transition phase activities. These activities involved closing the operations of the single water sector regulator, the National Water Sewerage Commission (NWSC), and operationalizing the National Utilities Regulatory Commission (NURC), as a consolidated water and energy services regulator.

This report is a summary of activities undertaken by the Board of Commissioners during the period under review. Among the many activities completed by staff and commissioners were as follows:

- Participated in a series of orientation and training sessions on utility regulation;
- Reviewed legislation, regulations and policies relating to the water and energy sectors;
- Adopted a logo, an organizational structure and a compensation structure for the NURC;
- Established the NURC website /social media page;
- Prepared a new letterhead, an outdoor signage, email addresses and business cards;
- Clarified the NURC's mission and adopted a vision and core values to be promoted;
- Convened meetings with the Board and management of WASCO and LUCELEC's management;
- Convened meetings with the Minister for Public Utilities and Minister for Water Utility;
- Met with officials of consulting entities such as CARCEP, Carbon War Room, Clinton Foundation;
- Supported the establishment of the Eastern Caribbean Energy Regulatory Agency (ECERA);
- Established strategic partnerships with regional and sub-regional agencies such as; Fair Trading Commission, Office of Utilities Regulation and Regulated Industries Commission.

Despite the many achievements recorded by the Commission in the past year there are a number of concerns that require immediate attention. First, and most critical, is the need for government to update its water and energy sector policies to incorporate new initiatives in renewable energy. Second, there is a need for government to enact a new Electricity Supply Services Act to facilitate regulation of the Energy Sector. Additionally, the government needs to effect amendments proposed to the existing NURC Act and to introduce accompanying regulations.

On behalf of the Board of Directors of the NURC, I take this opportunity to thank the government of Saint Lucia for demonstrating confidence in the ability of the current NURC to guide the process of regulating energy and water services in Saint Lucia. I also wish to express our appreciation for the ongoing institutional support provided by various government Ministries and Departments to facilitate the regulatory work of the Commission. We look forward to continuing the work of regulating energy and water services in the coming years.



INTRODUCTION

This Commission report is prepared pursuant to section 33 (1) of the National Utilities Regulatory Commission Act No. 3 of 2016.

Since the NURC was established on February 9, 2016, the report covers the period February 9, 2016 to December 31, 2016.

The report includes a review of the state of the two utility supply services sectors being regulated by the Commission, as well as the transition activities of the Commission during the year.

ESTABLISHMENT OF THE COMMISSION

The National Utilities Regulatory Commission was established by the National Utilities Regulatory Commission Act No. 3 of 2016. The primary purpose of the commission is to regulate utility supply services in the electricity and water sectors. Additionally, under section 4 of the Electricity Services (Amendment) Act No.2 of 2016, the NURC is assigned the responsibility for the Licensing and Regulation of generation of electricity from renewable resources.

Consequent upon the creation of the NURC, the National Water and Sewerage Commission was made defunct and its responsibilities, as prescribed under the Water and Sewerage Act Chapter 9.03, were transferred to the NURC.

A seven (7) member Board of Commissioners was appointed effective February 8, 2016, for terms ranging from three to five years duration. The Board comprises the following persons:

Commissioners	Tenure
Mr. Victor Poyotte (Chairman)	5 years
Mr. Vern Gill (Deputy Chairman)	3 years
Mr. Desmond Destang	4 years
Mrs. Marie Monroe	4 years
Dr. Anderson Reynolds	3 years
Mr. Michael Sewordor	3 years
Dr. Barbara Graham	5 years

The Commissioners bring to the Commission diverse experiences and competence in the areas of human resource management, policy formulation and analysis, law, accounting, business management, utility regulation, economics, agriculture and electrical engineering.

The primary functions of the Commission are prescribed in section 6(1) of the National Utilities Regulatory Commission Act No. 3 of 2016 and includes inter alia:

- i. To advise the Minister on the formulation of National policy on matters relating to utility supply services;
- ii. To promote the efficient and economic development of the utility supply services sector;
- iii. To ensure economic regulation of utility supply services;
- iv. To ensure compliance with the Government's international and regional obligations relating to utility supply services;
- v. To be responsible for the technical regulation and for setting technical standards having regard to international standards and best practice relating to utility supply services;
- vi. To receive, consider and determine applications for service licenses to provide utility supply services pursuant to the regulatory Acts;
- vii. To establish, approve, monitor and review tariff schemes and tariffs in accordance with any regulatory Act;
- viii. To monitor and ensure service licensees comply with conditions attached to their service licenses;
- ix. To ensure the protection of interest of consumers in relation to the provision of utility supply services;
- x. To promote competition and monitor anti-competitive practices in the utility supply services and advise the competent authority responsible for the regulation of anti-competitive practices accordingly;
- xi. To maintain a register containing records of service licensees in the prescribed form;
- xii. To receive and evaluate consumer complaints and resolve disputes;

ESTABLISHMENT OF THE COMMISSION

- xiii. To undertake in conjunction with other institutions and entities where practicable, training, manpower planning, seminars and conferences in areas of national and regional importance in utility supply services;
- xiv. To conduct research relating to utility services as may be necessary;
- xv. To report to and advise the Minister on the economic financial, legal, technical, environmental and social impacts of utility supply services;
- xvi. To require payment and collect fees payable under this act and regulatory Acts; and
- xvii. To perform such other functions specified in NURC Act, any other Regulatory Acts or the Regulations.

In addition, section 6(2) of the Act also empowers the Commission to do all things necessary or convenient to be done for or in connection with the performance of its functions.

Transitioning from the National Water and Sewerage Commission

As a consequence of the establishment of the NURC, the National Water and Sewerage Commission (NWSC) ceased to exist. The initial task of the Commission was to effect a seamless transition to the new entity that would not only assume the responsibility and functions of the NWSC but would also assume responsibility for the regulation of the energy Sector.

During the first few months of operations, the Commission focused on laying the groundwork for the effective execution of its mandate. The emphasis was placed in three primary areas:

1. Establishing administrative and operational structures.
2. Capacity building and organizational development.
3. Organizational governance, processes and internal procedures.

Establishment of Administrative and Operational Structures

Achievements include:

- (i) The creation of a more appropriate organizational structure
- (ii) The creation of new staff positions and relevant job descriptions.
- (iii) The procurement of additional furniture and equipment.
- (iv) Procuring and renovating additional office space to accommodate staff
- (v) Adoption of a logo for the NURC
- (vi) Preparation of a work plan and budget for period March 2016 – December 2016.
- (vii) The drafting and adoption of an operations manual for the secretariat

Capacity Building and Organizational Development

Achievements include:

- (i) Advertised the new staff positions and interviewed and contracted suitably qualified persons for the following positions:
 - Chief Executive Officer
 - Legal Officer/Corporate Secretary
 - Energy Specialist
 - Water Specialist

ESTABLISHMENT OF THE COMMISSION

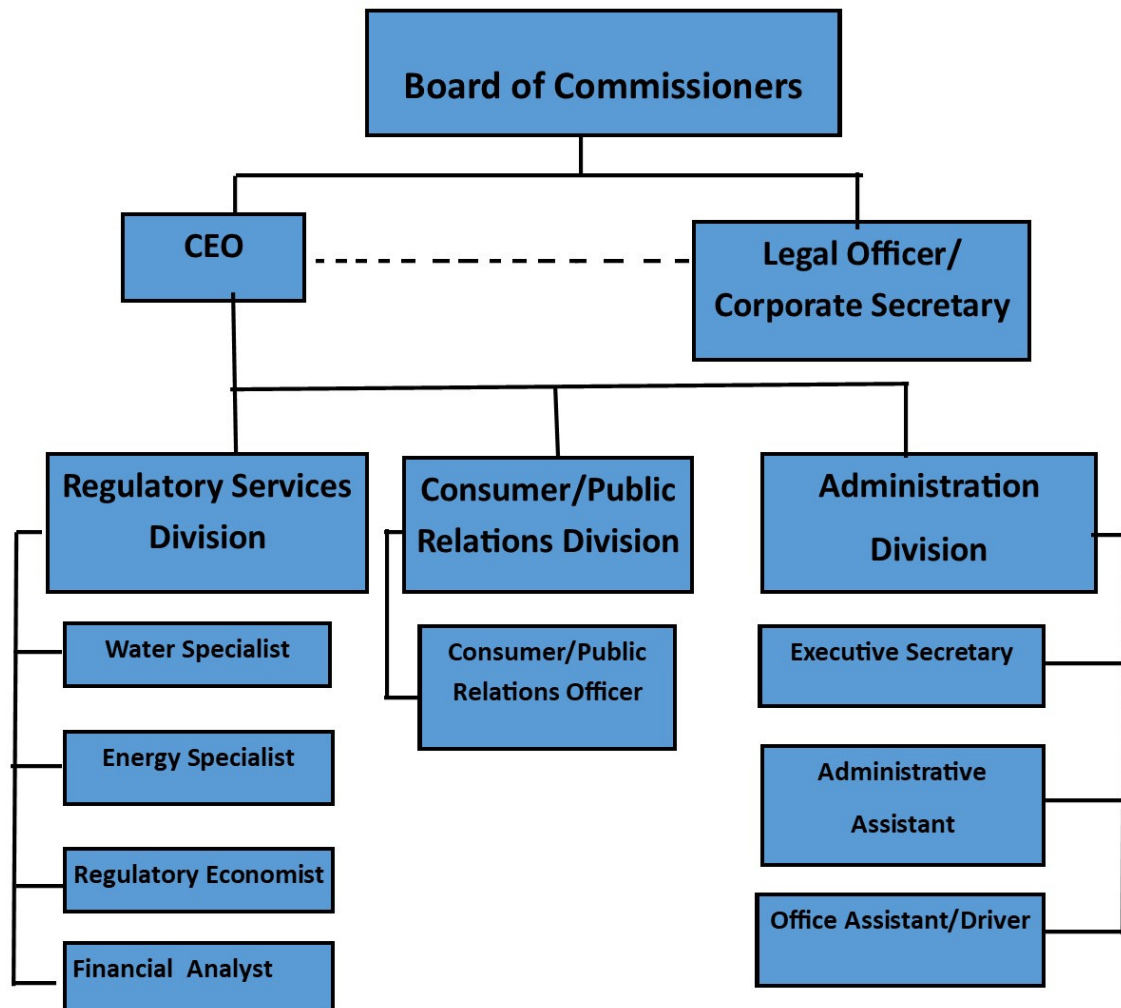
- (ii) Made the position of Executive Director, NWSC, redundant and caused a separation of the occupier of that position from the NURC;
- (iii) Redefined the position of Consumer Relations Officer to bring it in line with the NURC's mandate;
- (iv) Trained commissioners and staff on various areas of utility regulation;
- (v) Facilitated the attendance of members of staff at technical workshops and regulators forum.

Establishment of Governance, Internal Procedures and Processes

The Commission recognized that as a creature of statute, its operations must be governed by regulations and procedures that are either enshrined in the law or developed and adopted by the Board of Commissioners. Consequently, during the year the Commission pursued an agenda which included the review and amendment of the draft legislation, the development and adoption of government policies and draft internal procedures that would form an integral part of tools for regulating utility supply services. Achievements in this area included:

- (i) A review and analysis of the NURC Act to determine the need for amendments and the development of relevant regulations in support of the principal Act as well as to clarify the power and authority of the Commission;
- (ii) Meetings with the Minister for Energy and Public Utilities to seek confirmation of government's policy direction for utility supply services (Water and Energy) and clarify the role of the NURC in the regulatory process;
- (iii) Establishment of the advisory committees for water and energy, pursuant to section 15 (1) of the NURC Act No.3 of 2016;
- (iv) Developed and adopted governance procedures for the Board of Commissioners;
- (v) Drafted and adopted a code of conduct for NURC staff;
- (vi) Prepared and signed a Memorandum of Understanding (MOU) for the exchange of information with the Water Resource Management Agency;
- (vii) Held meetings with the management of WASCO and LUCELEC to clarify the role of the NURC as the regulator and establish protocols for both formal and informal interaction between the regulator and regulated utilities.

ORGANIZATIONAL STRUCTURE



BOARD OF COMMISSIONERS



CHAIRMAN
Victor Poyotte



DEPUTY CHAIRMAN
Vern Gill



COMMISSIONER
Michael Sewordor



COMMISSIONER
Desmond Destang



COMMISSIONER
Anderson Reynolds



COMMISSIONER
Barbara Graham



COMMISSIONER
Marie Monroe

THE SECRETARIAT

The NURC Secretariat comprises a mix of Professional and Administrative Staff led by a Chief Executive Officer.

The current organizational structure provides for the following positions, some of which were vacant but which should be filled when the Commission determines that it is appropriate to do so.

- i) Chief Executive Officer - Mr. Jerome Jules
- ii) Legal Officer/Corporate Secretary - Ms. Estelle George
- iii) Regulatory Economist - Ms. Skeeta Carasco
- iv) Water Specialist - Mr. Terrence Gilliard
- v) Energy Specialist - Ms. Kerne Antoine
- vi) Financial Analyst - Vacant
- vii) Consumer Relations Officer - Vacant
- viii) Executive Assistant to CEO - Mrs. Julie Peter-Clauzel
- ix) Administrative Assistant - Ms. Yasmin Edwin
- x) Office Assistant - Vacant
- xi) Cleaner - Ms. Paulina Joseph

In addition to the full- time staff complement, the Secretariat outsources its Information Technology (IT) and Accounting support services on a contractual basis.



REVIEW OF THE WATER SECTOR 2016

The State of the Water Sector

Potable water supply and sanitation services are provided by only one state-owned company, the Water and Sewerage Company Incorporated (WASCO Inc.) which is responsible for meeting the water requirements of the entire island including the nearly one million tourists who visit our shores every year.

WASCO's water production infrastructure is comprised of twenty-eight (28) intakes located generally within upper catchment regions island-wide, where ostensibly, water quality was not being significantly compromised by human activity and water quantities were in sufficient supplies. The company also operates the John Compton Dam (JCD) at Roseau which has a capacity of 3 million cubic meters. Raw water is treated at twenty-six (26) treatment facilities with varying degrees of treatment ranging from simple disinfection in places such as Desbarra, Saltibus, Anse la Verdu and others, to a more complex process of coagulation, sedimentation, filtration & disinfection which is done, for example, at the Theobalds Water Treatment Plant (TWTP) in Ciceron. In addition to the JCD and the TWTP, WASCO operates two other major water supply systems, Hill 20 Water Supply System in the north and the Grace and Beausejour Water Supply System in the south of the island. Potable water within the North of the Island are supplied by the TWTP which receives raw water from the JCD and has the capacity to produce 10 million gallons per day to supply a significant portion of the island's population including the many hotels found within this region. It is estimated that WASCO's distribution system is about 800-1000 km in length with some pipes dating back to the 1940s.

WASCO's Financial Performance

According to preliminary information provided by WASCO, the company's financial performance remained favorable with a slight decrease in its surplus which declined from EC\$4,552,399 in 2015 to EC\$4,443,456 in 2016. One contributing factor to the reduction in the surplus, as noted by the company, was the increase in direct expenses particularly for chemicals, wages and salaries. This was due in part to increases in wages and salaries as a result of settlements awarded to daily paid employees after their industrial action in late 2015.

Despite the decline in the surplus, preliminary information provided by the company reveals that there was a minor increase in water consumption and revenue from water sales during the year 2016. Total water consumption for 2016 was 1,846,189,775 gallons representing an increase of less than 1% over consumption levels of 2015, a year greatly affected by drought. The total revenue from water sales was estimated to be EC\$51,915,245.24, a 2.6% increase over water sales in 2015. Based on the sales and volume of water consumed for 2016, the average tariff for 2016 (computed by dividing dollar sales by gallons sold) was estimated at EC\$0.03 per gallon. There were however no changes in water rates during 2016.

2016

REVIEW OF THE WATER SECTOR IN 2016

Notwithstanding WASCO's challenges in measuring the demand for water, the company reported that water demand remained relatively flat in 2016. A total of 723 new customer accounts were registered in 2016 with 95% of the new installations being domestic installations.

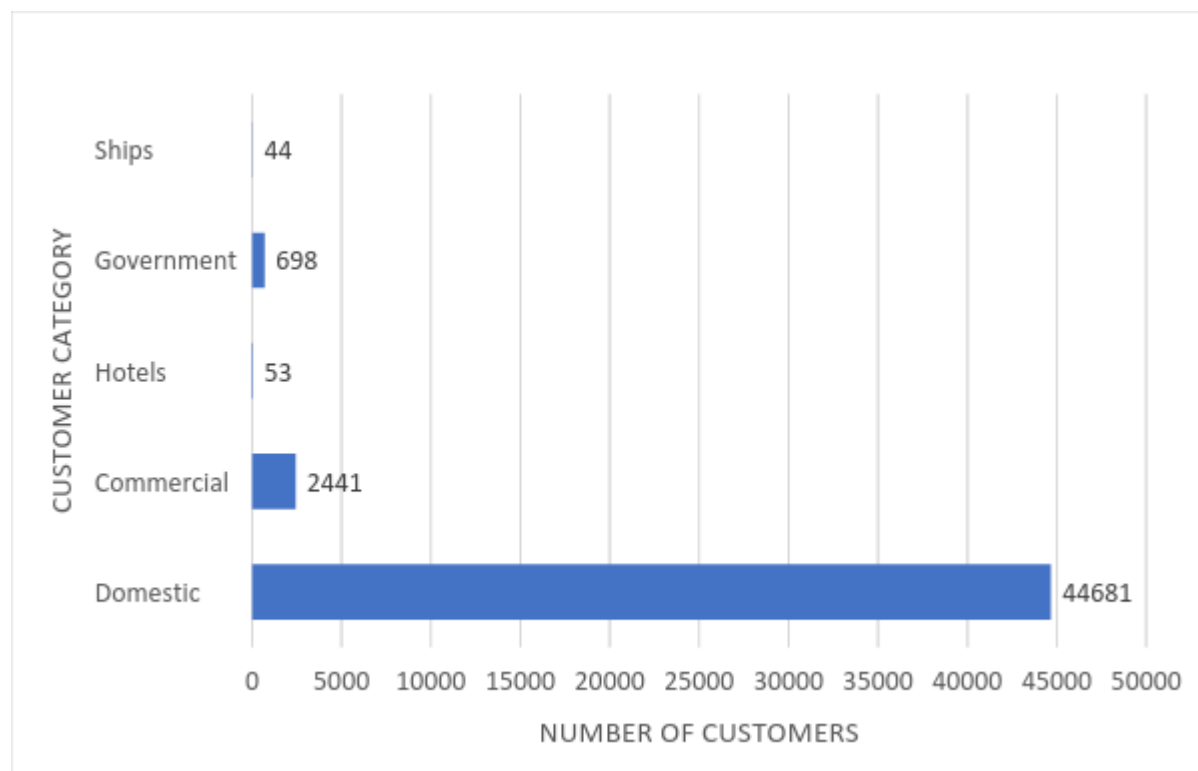
WASCO's revenue performance in the area of waste water also improved with an increase in revenue from EC\$3,493,328 in 2015 to EC\$3,800,461 in 2016. Despite this improved revenue performance, the sewerage sector remains largely untapped with national coverage reported at approximately 7 percent.

Customer Service

WASCO has a total of forty-seven thousand, seven hundred and twenty-one (47,721) active customers of which five hundred and sixty-four (564) are unmetered, there are an additional seventeen thousand four hundred and thirty-nine (17,439) inactive customers.

The various categories of customers as at December 31, 2016 is illustrated below in Figure 1:

Figure 1: WASCO Customer Connections by Category.

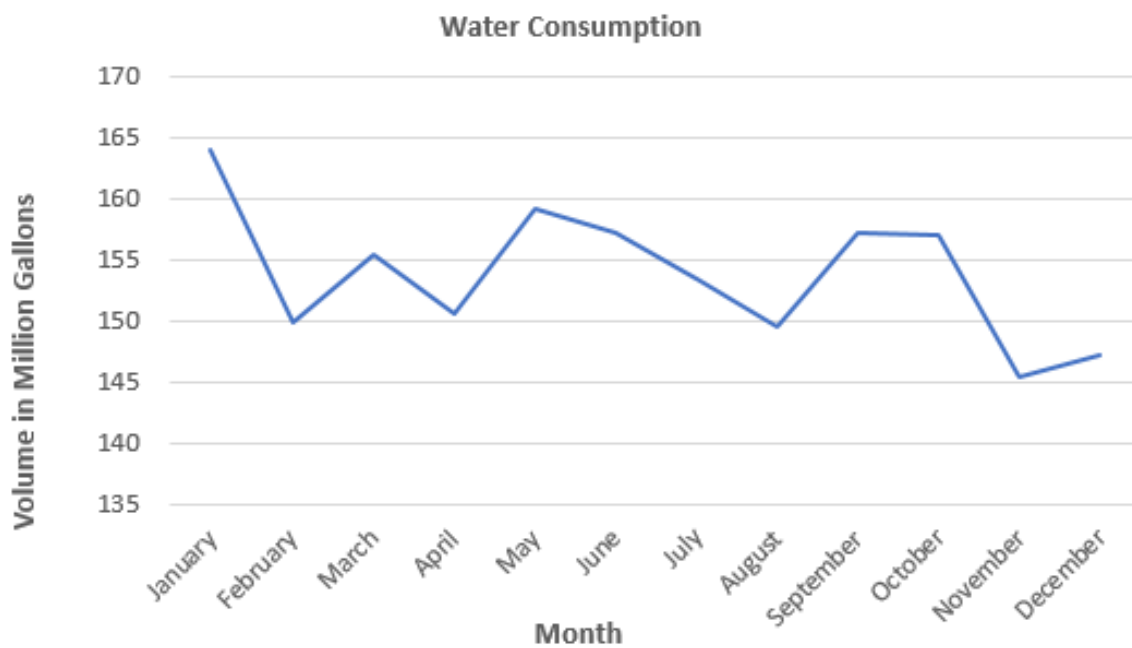


Approximately 1.86 billion gallons of water was sold by WASCO during 2016, with the largest portion being consumed by the domestic customers. This would equate to approximately 133 Litres/person/day.

REVIEW OF THE WATER SECTOR IN 2016

Figure 2 below captures the monthly water consumption by all categories of customers. Decreases in water consumption can be attributed to several factors including, drought conditions during the months of February to May. Increases may be attributed to increased availability to all customer categories and increased usage by the tourism sector on account of increased arrivals.

Figure 2: Monthly Water Consumption for 2016

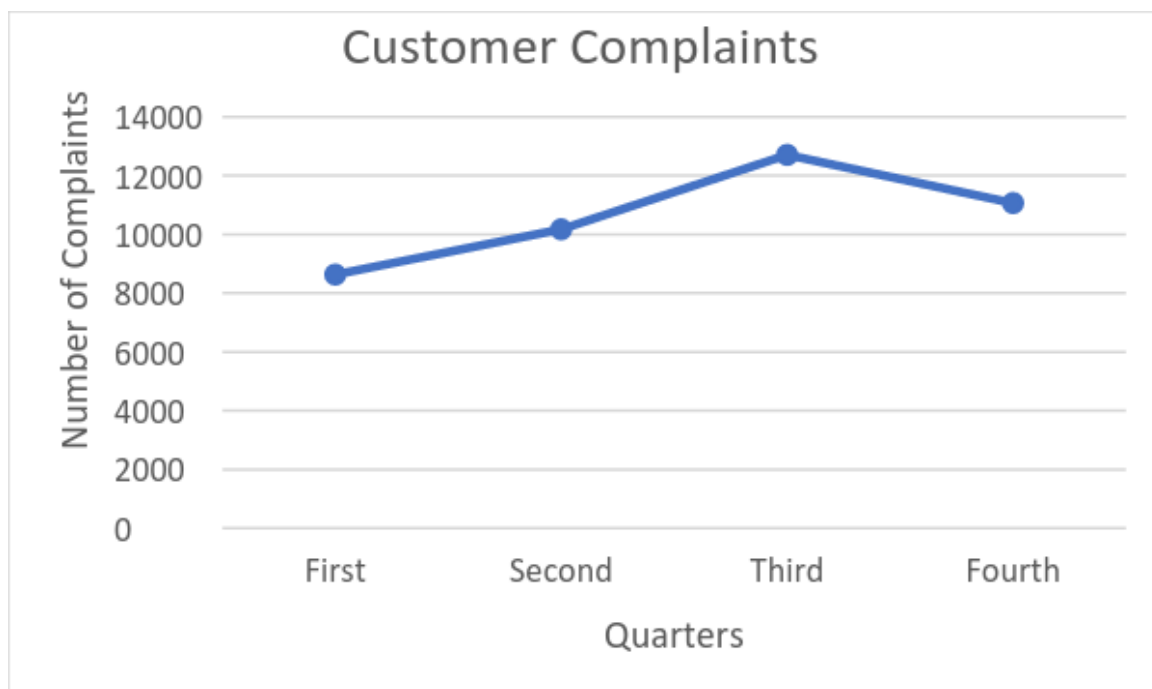


Customer Complaints

The nexus between customer satisfaction and business performance in water utilities has been the subject of peer reviewed scientific studies for various reasons. In essence, customer satisfaction impacts positively on the revenue of water utilities and by extension performance. One measure of customer satisfaction is the nature in which customer complaints are handled. An assessment of complaints received by WASCO is illustrated in figure 3 below.

REVIEW OF THE WATER SECTOR IN 2016

Figure 3: Customer complaints during 2016

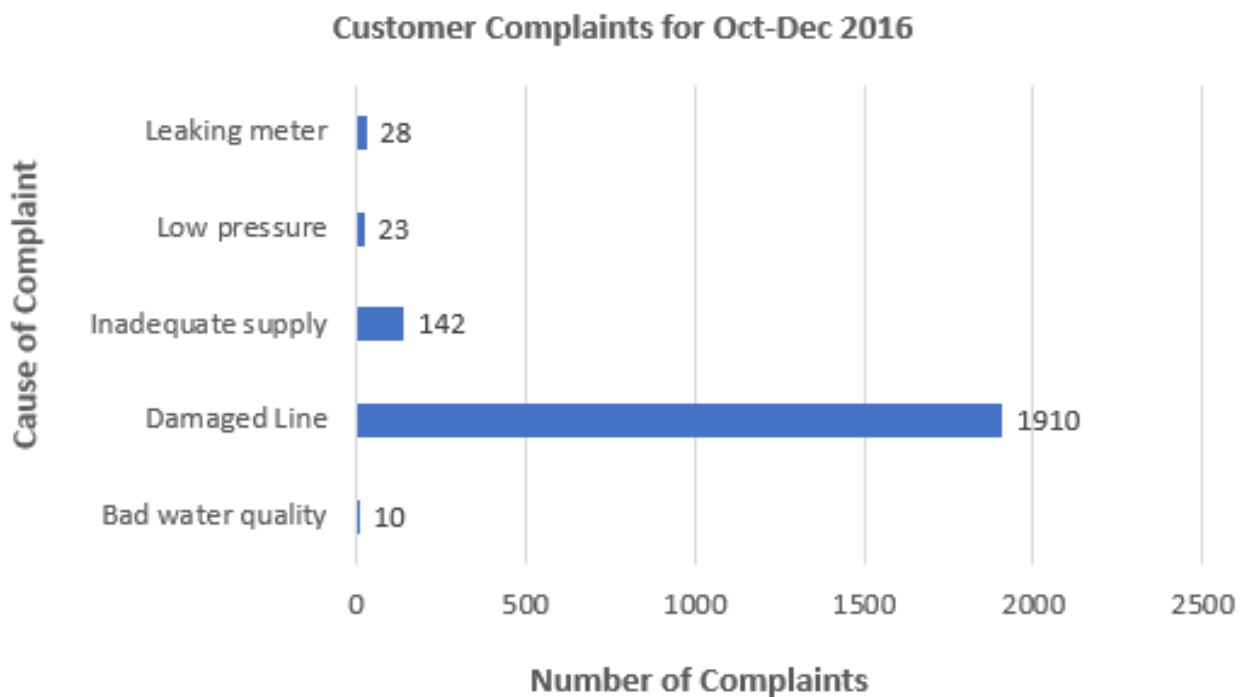


WASCO received in excess of forty-two thousand complaints during 2016 the majority of which constituted “miscellaneous complaints” consisting of phone queries on outstanding bill balances. A large proportion of complaints were billing queries because of high consumption charges. Average resolution time is not available because of reporting deficiencies. During the reporting period, the company experienced challenges with its billing system which resulted in a flood of miscellaneous complaints during January to March 2016.

During October to December 2016 complaints about damaged lines, inadequate supply, bad water quality, low pressures and leaking meters were received by WASCO. Figure 4 below illustrates the nature and number of such complaints.

REVIEW OF THE WATER SECTOR IN 2016

Figure 4: Customer complaints to water Services Department of WASCO



Wastewater Situation

An estimated 7% of the island's population is connected to the sewerage network operated by WASCO in parts of Castries, Vieux- Fort and Gros -Islet. The vast majority i.e. 63% of the population use on-site septic tanks for disposal and treatment of sewage while 23% still use pit latrines. Unfortunately, 7% of the population use other forms of wastewater management which include open defecation. Only 2% of all the wastewater generated on the island is treated before disposal into the environment and this highlights the need for a clear policy on wastewater management on the island in the interest of public health and socio-economic development. Further, this would attract much needed investments in this sector to drive development within a suitable enabling environment. This matter can be addressed within the context of a newly revised National Water Policy which is overdue or alternatively, as a separate policy imperative. What is clear is the need for urgent action!

REVIEW OF THE WATER SECTOR IN 2016

Water Availability and Water Quality

Water availability was highly influenced by rainfall and the lack thereof. Generally, increased rainfall was experienced around the island leading to frequent cases of high turbidity hampering water supplies. Within some rural communities with limited water treatment capacity, chlorination treatment only served to reduce pathogens but not turbidity. Compliance ratios against World Health Organization (WHO) standards for WASCO's twenty-six (26) water treatment facilities for bacteriology and turbidity were generally within acceptable limits for treatment facilities with filtration capacity except in cases of extreme rainfall events. Water rationing was necessary during the drier months of the year as stream-flows, supplies within the John Compton Dam and other reserves fell.

Investments in the Water Sector

Major investments in the water sector are by large reflected in undertakings by the main water utility WASCO Inc through loans, support from the Government of Saint Lucia and grants by donor agencies. These investments were meant to address a range of issues such as improved water treatment, increased storage and an expansion in coverage to meet the growing demands for potable water in various parts of the island. Moreover, efforts were made towards institutional strengthening within WASCO's

finance and Accounting Department. It is noteworthy to mention that work has commenced on updating the Customer Information System from a DOS based version to enable the company to integrate accounting, payroll and CIS functions into one system thereby increasing efficiency.

Three major projects were initiated to address water supply reliability in Dennery North, Vieux Fort and environs and the rehabilitation of the John Compton Dam. All three of these projects are still in the nascent stage. Upwards of 8 million EC dollars were injected into various projects undertaken by WASCO, the details of which are captured below in the section on Infrastructure Improvement.



John Compton Dam Spillway

Infrastructural Improvements

Some critical infrastructural improvements were carried out by WASCO. In Micoud, raw water harvesting and treatment processes were improved through the installation of a new intake and improved water filtration systems. Water supply was extended from Belvedere to the community of Bouton. Additionally, a 50,000 gallon tank is being installed in this community to further improve water supply reliability to its residents. WASCO partnered with a developer to extend an 8 inch water main from Aupicon to Savannes Bay to facilitate residential and commercial expansion in Savannes Bay. WASCO's wastewater network was extended as the company assumed ownership for the Black Bay wastewater system constructed by the National Housing Corporation. It is anticipated that revenue to the company will increase to sufficient levels to cover operating costs.

REVIEW OF THE WATER SECTOR IN 2016

Non-revenue Water

Actions towards addressing the non-revenue water issue are ongoing. Improved leak detection capacity by WASCO has received support from the GIZ (German Government). There are also plans for bulk meterization to enable measurement/quantification of water and to determine revenue and non-revenue water. It is recognized that WASCO is operating in some instances with very aged infrastructure that will require significant investments to modernize. The Commission will continue to monitor very closely developments in this respect.

Amidst a global push towards increased adoption of Renewable Energy, the year 2016 was a year of transition for Saint Lucia's energy sector. The year marked the introduction of independent regulation to the energy sector to enable competition in generation of electricity from renewable sources. LUCELEC retains a monopoly over transmission, distribution and the generation of electricity from fossil fuels until the year 2045. During this transition year, LUCELEC again registered a strong performance despite the passage of Tropical Storm Matthew, the temporary closure of its main administrative and customer service office and delays in the implementation of planned investment in renewables.

Legislation and Policy

In 2016, major changes were made to the legislative framework governing the energy sector. Parliament enacted the National Utilities Regulatory Commission Act (NURC), establishing the NURC as the economic and technical regulator for utility supply services including electricity supply services. There was also the passage of an Electricity Supply (Amendment Act) which makes provisions for the NURC to regulate the energy sector and opened the generation of electricity from renewable energy sources to competition.

The Draft Electricity Supply Services Bill, which is expected to replace the existing Electricity Supply Act, Chapter 9:02 and the NURC Act were also presented to stakeholders for their input. To date, neither the new energy legislation nor the Draft Electricity Supply Services Bill have been enacted. In support of the energy transition initiatives, the Government of Saint Lucia partnered with the Clinton Climate Initiative, the Rocky Mountain Institute and LUCELEC to develop a National Energy Transition Strategy (NETS) which will chart the way forward for the energy transition. Work on the NETS was ongoing at the end of 2016.

According to LUCELEC's 2016 annual report, the company recorded improved performance in 2016 despite the challenges of Hurricane Matthew which left up to 70% of its customers without an electricity supply, as well as the temporary closure of its main administrative and customer service center.

LUCELEC's net profit for 2016 increased by 17.6% from EC 28.9 million in 2015 to EC\$34 million in 2016. Earnings per share similarly increased by 17.5% from EC\$1.26 in 2015 to \$1.48 in 2016. The group attained a higher return on equity of 12.7% in 2016 compared to 11.6% in 2015. One factor which positively contributed to LUCELEC's strengthened performance was the increase in electricity sales volume by 3.2%. LUCELEC attributed this increase in sales volume to the increased consumption caused by a higher energy demand for cooling equipment due to abnormally high temperatures during the summer months.

REVIEW OF THE ENERGY/ELECTRICITY SECTOR 2016

With the fall in fuel prices, evident in the decrease in the average fuel cost from EC\$8.73 per gallon in 2015 to EC\$5.76 per gallon in 2016, consumers benefited from decreases in electricity tariffs. LUCELEC's overall average tariff decreased from EC\$0.92 per kW in 2015 to EC\$0.75 per kwh in 2016- a reduction of 18.5%.

Investments in Renewables

The efforts to include more renewables in LUCELEC's generating portfolio experienced delays. Whereas a relatively small 75kW PV system was commissioned in early 2016, a planned utility scale solar project for the installation of 3MW of utility scale solar was delayed. Progress on a 12 MW wind energy project was also set back by land acquisition challenges. Private sector and homeowner participation in the generation of electricity from renewables, did not proceed as anticipated. This may have been due primarily to delays in the passage of legislation that would facilitate the connection of these systems to the electricity grid.

LUCELEC'S pilot programme, during which the company voluntarily connected Photovoltaic generating systems to the grid, was halted pending the rationalization of the role of the NURC in the licensing and regulation of the generation of electricity from renewable sources.



Solar Photo-voltaic System

Report on the 2016 Programme of Activities

The work plan for the year 2016 was an amalgamation of the Plan of Action for the National Water and Sewerage Commission and the new priorities established by the Board of Commissioners of the NURC, given its additional mandate to regulate the electricity supply services sector.

The priorities identified for the year were as follows:

- Transitioning the NWSC to the NURC and building regulatory capacity;
- Legislative and regulatory reform to respond to challenges in the water sector and facilitate the regulation of the electricity supply sector;
- Intensification of the public outreach campaign commenced under the NWSC;
- Review of the tariff application from WASCO.
- Review of the amount collected from the John Compton Dam dredging fee and an application for the extension of the period over which the fee would be collected.
- Improved monitoring of the performance of the water utility company with specific regards to quality of service.
- Development and implementation procedures for the licensing and regulation of the generation of electricity from renewable resources especially Solar Photovoltaic.

Programme Implementation and Achievements

A significant proportion of the human and financial resources were devoted to activities related to the process of transitioning from the National Water and Sewerage Commission (NWSC), to the new entity, the National Utilities Regulatory Commission (NURC).

For the first few months after its establishment, the focus was on preparing the NURC for meeting its mandate of regulating utility supply services.

The following are some of the highlights of the work accomplished during the year.

Administration, Governance and Capacity Building

- Developed governance procedures for the Board of Commissioners
- Recruitment of a Chief Executive Officer and other staff to fill vacant positions in the new organizational structure
- Organized training for Commissioners and staff in utility regulation and tariff application review.
- Procured additional office space and equipment to house additional staff.
- Developed staff performance evaluation system for NURC.
- Drafted staff Code of Conduct.

2016

REPORT ON THE 2016 PROGRAMME OF ACTIVITIES

Policy, Legislation and Governance

Main highlights included reviews of the following documents:

- The national water and energy policies.
- The National Utilities Regulatory Commission Act No. 3 of 2016
- The procedures for handling consumer complaints and settling disputes;
- The new suite of legislation for the regulation of the energy sector drafted under the ECERA Project;
- The draft agreement for the establishment of the Eastern Caribbean Energy Regulatory Agency (ECERA).

Regulation of Water and Sewerage Services

Main highlights:

- Drafted Key Performance Indicators for the water utility company
- Reviewed and amended the draft license templates for water truckers and other small service providers.
- Drafted and approved a new sewerage license for WASCO
- Monitored consumer complaints at WASCO.
- Monitored the collection and use of the John Compton Dam dredging fees by WASCO
- Appointed a Water Advisory Committee to advise the Commission on water and sewerage issues.

Regulation of Electricity Supply Services

- Reviewed the Electricity Supply (Amendment) Act No 2 of 2016 for gaps and made recommendation for its amendment to provide for interconnection of renewables to the electricity grid
- Developed application procedures for licensing and regulation of the generation of electricity from Solar PV.
- Reviewed the draft agreement for interconnection of PV installations to LUCELEC grid and made recommendations for its improvement including provision for the protection of both parties to the Agreement.
- Appointed an Energy Advisory Committee to provide advice to the Commission on matters related to energy regulation.
- Clarified the role of independent power producers in the power sector.



NURC

FINANCIAL REPORT 2016

With the establishment of the NURC, all fund balances held in the name of NWSC were transferred to the NURC. The additional funding for implementing the NURC's work programme was expected to come from licence fees paid by the regulated utilities and financial support under the World Bank funded ECERA project.

However, the only source of revenue during 2016 was the licence and regulatory fee paid by WASCO. No fees were collected from LUCELEC as the current legislation did not allow the regulator to assess and collect any fees from the electricity company. The anticipated support from the ECERA project was not materialized.

Fund balances transferred to the NURC : \$1,232,859.00

Revenue collected from WASCO : \$ 700,000.00

Other Revenue (Interest) :

Total funds available during the year : \$1,932,859.00

Total expenditure : \$1,182,389.00

Total fund balances at December 31, 2016 : \$ 750,470.00

NURC FINANCIAL REPORT 2016

Figure 5: Comparison of Projected and Actual Revenue 2016

Source	Budgeted Revenue (\$)	Actual Revenue (\$)	Variance (\$)
WASCO	700,000	700,000	0
LUCELEC	1,232,754	0	(1,232,754)
ECCERA	480,600	0	(480,600)
GOSL	158,249	0	(158,249)
APPLICATION FEES	0	0	0
TOTAL	2,571,603	700,000	(1,871,603)

Figure 6: Comparison of budgeted and actual expenditure (2016).

Expenditure Item	Budgeted Amt (\$)	Actual Expenditure (\$)	Variance (\$)
Bank charges and interest	0	2,489	2,489.00
Board meeting expenses	3,000	3,750	750.00
Commissioners' fees	126,500	128,240	(1740.00)
Depreciation	0	52,901	(52,901)
Office and general expenses	47,600	26,792	20,208
Payroll expenses	756,927	685,510	71,417
Printing, postage and stationery	27,706	12,931	14,775
Audit and accounting fees	14,000	17,249	(3,249)
Staff expenses	0	5,674	(5,674)
Insurance expense	2,300	2,530	(230)
Communication	49,800	36,022	13,778
Training, Conference, convention and meetings	369,918	76,087	293,831
Consultancies	576,000	0	576,000
Repairs and maintenance	20,000	26,267	(6,267)
Rent	121,426	88,183	33,243
Contract Services	28,500	17,764	10,736
Furniture and equipment	55,110	33,653	21,457
Leasehold improvements	40,000	65,210	(25,210)
Total	2,238,787	1,182,389	

CHALLENGES

Whilst the Commission implemented a significant proportion of its plan of action over the review period, a number of initiatives and programmes planned for implementation during the year were either deferred or delayed. These are highlighted below:

- There were no specific public awareness activities undertaken, due in part to the uncertainty surrounding the financial resources of the NURC and the resignation of the Consumer Relations Officer during the year.
- The expected review of the tariff application from WASCO, which would have consumed a significant amount of the Commission's time did not take place as the WASCO did not submit the application for a review of tariff.
- The determination on the application for extension of the dredging fee was deferred as the additional information required for the application was never submitted by WASCO due to delays in finalizing the total project cost.

Additionally, the NURC encountered the following challenges that negatively impacted its work:

- Delays in completion and promulgation of the new Electricity Supply Services Bill and accompanying regulations, which would allow for more effective regulation of electricity supply services, more rapid deployment of renewable energy installations and the assessment and collection of fees from the electric utility company;
- Outdated water and energy policies which do not make adequate provisions for new imperatives; technologies and current situations that affect the water and energy sectors.
- Changes in the management of the water utility company which resulted in delays in reaching agreement on issues related to the regulation of the water sector;
- Delays in the filling of the key positions at the NURC secretariat;
- The delay in reaching agreement on the establishment of the Eastern Caribbean Energy Regulations Agency (ECERA) and the concomitant delay in the NURC having access to financial support under this facility. This resulted in the underachievement of the NURC's capacity building, training and legislative reform agenda.

CONCLUSION

The establishment of a new regulatory body and the transition from a single sector regulator to a multi-sector regulator brought with it multiple challenges. This was particularly so, when the existing agency lacked some of the most basic governance and administrative structures upon which the new entity could be built. The above notwithstanding, there was a relatively smooth transition from the NWSC to the NURC with minimal disruptions to the execution of the regulatory functions for water and sewerage supply services.

There was minimal success in regulating energy supply services, as the legislative framework that would facilitate this was not in place. Whilst there was an amendment to the Electricity Supply Act in 2016, the provisions contained therein were not sufficiently robust to give the regulator any significant regulatory authority over the electric utility company. Thus, the response from the electricity company for information requested by the NURC and the connection of solar PV installations to the grid of the incumbent service provider, was very slow.

It is envisaged that when the new legislation and regulations are promulgated, the NURC will be able to more effectively regulate the energy sector.



NURC

AUDITED FINANCIAL STATEMENTS

Mario Lendor

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Auditor's Report to the Commissioners of:

NATIONAL UTILITIES REGULATORY COMMISSION

Report on the Financial Statements

I have audited the financial statements of the National Utilities Regulatory Commission which comprise of the Statement of Financial Position as at 31st December, 2016, as well as the Statement of Changes in Fund balance, Statement of Income and Expenditure and the Statement of Cash Flows for the year then ended. Also included is a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The financial statements are the responsibility of the commission's management, which includes the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those Standards require that I conform to ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the accompanying financial statements referred to above, presents fairly, in all material respects, the financial position of the commission as at 31st December, 2016 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

31st May, 2017

Mario Lendor
CHARTERED ACCOUNTANT

NATIONAL UTILITIES REGULATORY COMMISSION

Index to Financial Statements

31st December, 2016

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NATIONAL UTILITIES REGULATORY COMMISSION

Statement of Financial Position

As at 31st December, 2016
(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>		<u>2016</u>
<u>Current Assets</u>			
Cash and cash equivalents	5	\$	<u>614,227</u>
Total current assets			<u>614,227</u>
<u>Non-Current Asset</u>			
Property, plant and equipment	8		<u>190,711</u>
Total non-current asset			<u>190,711</u>
Total assets			<u>804,938</u>
<u>Current Liabilities</u>			
Accounts payable and accruals	6		<u>54,468</u>
Total current liabilities			<u>54,468</u>
Total liabilities			<u>54,468</u>
<u>Fund Balance</u>			
Fund balance			<u>750,470</u>
Total fund balance			<u>750,470</u>
Total liabilities and fund balance		\$	<u>804,938</u>

Approved by:


 ----- Commissioner

 ----- Commissioner

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES REGULATORY COMMISSION

Statement of Changes in Fund Balance

*For the period ended 31st December, 2016
(Expressed in Eastern Caribbean Dollars)*

		<u>2016</u>
Excess expenditure over revenue	\$	(482,389)
Transfer from Water Commission		<u>1,232,859</u>
Balance - end of year	\$	<u>750,470</u>

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES REGULATORY COMMISSION

Statement of Income and Expenditure

*For the period ended 31st December, 2016
(Expressed in Eastern Caribbean Dollars)*

		<u>2016</u>
Revenue		
License fees	\$	<u>700,000</u>
Total revenue		<u>700,000</u>
 Less: Expenditure		
Gratuity		113,209
Bank charges and interest		2,489
Board meeting expenses		3,750
Commissioners' fees		128,240
Depreciation		52,901
Office and general expenses		26,792
Payroll expenses		527,301
Printing, postage and stationery		12,931
Audit and accounting fees		17,249
Staff expenses		5,674
Insurance expense		2,530
Communication		36,022
Conference, convention and meetings		76,087
Repairs and maintenance		26,267
Rent		88,183
Contract Services		<u>17,764</u>
Total expenses		<u>1,182,389</u>
Net excess of expenditure over revenue	\$	<u>(482,389)</u>

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES AND REGULATORY COMMISSION

Statement of Cash Flows

*For the period ended 31st December, 2016
(Expressed in Eastern Caribbean Dollars)*

	<u>2016</u>
<u>Cash Flows from Operating Activities</u>	
Excess expenditure over revenue	\$ (482,389)
Adjustments for:	
Depreciation	52,901
Transferred from water commission	<u>1,088,110</u>
Operating income before working capital changes;	658,622
Accounts payable and accruals	<u>54,468</u>
Net cash generated from operations	<u>713,090</u>
 <u>Cash Flows from Investing Activities</u>	
Purchase of fixed asset	<u>(98,863)</u>
Net cash used in investing activities	<u>(98,863)</u>
 Increase in cash and cash equivalents	614,227
Cash and cash equivalents - end of year	\$ <u>614,227</u>

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES REGULATORY COMMISSION

Notes to Financial Statements

31st December, 2016
(Expressed in Eastern Caribbean Dollars)

1. Background and Principal Activity

The National Utilities Regulatory Commission (NURC) was established under Section 5(1) of the National Utilities Regulatory Commission Act No 3 of 2016. The commission commenced operations on February 9th, 2016, accordingly these financial statements present the first year of operations. The main objective of the commission is the regulation of the delivery of electricity, water and sewerage services throughout Saint Lucia.

In accordance with clause 2 schedule 5 of the Act all rights, liabilities and obligations of the National Water and Sewerage Commission were transferred to the National Utilities Regulatory Commission, on 8th February, 2016 when the commissioners were appointed to oversee the operations of the NURC.

The main functions of the commission are:

1. ensuring the economic regulation of utility supply services,
2. establishing, approving, monitoring and reviewing tariff schemes and tariffs,
3. monitoring and ensuring compliance with standards,
4. promoting the economic regulation of utility supply services
5. ensuring the protection of the interest of consumers in relation to the provisions of the utility supply service,
6. promoting competition and monitoring anti-competitive practices in the utility supply service, and
7. reporting to and advising the Minister with responsibility for Public Utilities on the economic, financial, legal, technical, environmental and social aspects of the utility supply services sector.

The statements for the financial year cover the period January to December 2016.

The financial statements were approved for issuance on 28th July, 2017.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of Preparation

The financial statements of The National Utilities Regulatory Commission have been prepared in accordance with International Financial Reporting Standards (IFRS) as they apply to the financial statements of the Commission for the year ended 31st December, 2016, interpretations adopted by the International Accounting Standards Board (IASB).

These financial statements are presented in Eastern Caribbean Dollars and rounded to the nearest dollar. They have been prepared on the historical cost basis and on the going concern basis.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. They form the basis of judgements about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a continuing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected. Critical judgements and areas where the use of estimates is significant are discussed in note 3.

NATIONAL UTILITIES REGULATORY COMMISSION

Notes to Financial Statements... (Cont'd)

31st December, 2016
(Expressed in Eastern Caribbean Dollars)

2. Significant Accounting Policies... (Cont'd)

d. **Property, Plant and Equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation. The cost of property, plant and equipment includes labour and overhead costs arising directly from the construction or acquisition of an item of property, plant and equipment. Plant and equipment represents the Commission's administration office assets.

Depreciation is provided to write-off the cost of property, plant and equipment, on a straight line basis to allocate their cost over the estimated useful lives of the assets as follows:

Computer Software - 33.3% Office Equipment - 15% Computer - 25% Office Furniture - 15%

Leasehold Improvements - 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income and expenditure.

e. **Foreign Currency Translation**

Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Eastern Caribbean Dollars, which is the Commission's functional and presentation currency.

Transactions balance

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and expenditure.

f. **Leases**

All Commission leases are operating leases. Payments made under operating leases, net of lease incentives or discounts received, are charged through profit or loss on a straight-line basis over the period of the lease.

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES REGULATORY COMMISSION

Notes to Financial Statements... (Cont'd)

31st December, 2016
(Expressed in Eastern Caribbean Dollars)

2. Significant Accounting Policies... (Cont'd)

g. Provisions

Provisions are liabilities of uncertain timing or amount. They are recognised when the Commission has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are presented in the statement of financial position at the present value of the estimated future outflows expected to be required to settle the obligation. Provision charges and reversals are recognised through profit or loss. Discount unwinding is recognised as a finance expense.

h. Income and Expense

Income is recognised on the accruals basis as has been used for recording of income and expenses. Interest income and expense are recognised in the statement of income and expenditure for all instruments measured at amortised cost using the accrual method.

i. Accounts Receivable

Trade accounts receivable and amounts due from related parties and other receivables represent the principal amounts due at the statement of financial position date plus accrued interest and less, where applicable any impairment.

j. Accounts Payable and Accruals

Trade accounts and amounts owing to related parties and other payables and accrued liabilities represent the principal amounts outstanding at the statement of financial position date plus, where applicable, any interest.

k. Taxation

The Commission is exempted from the payment of income taxes in accordance with the Income Tax Act Chapter 15.02 of the Revised Laws of Saint Lucia.

l. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash on hand and non restricted balances at the commercial banks.

NATIONAL UTILITIES REGULATORY COMMISSION

Notes to Financial Statements... (Cont'd)

31st December, 2016
(Expressed in Eastern Caribbean Dollars)

3. **Critical Accounting Estimates and Judgements**

No major estimates and assumptions have been made relating to the reporting of results of the operations of the Commission.

4. **Financial Risk Management**

In accordance with provisions of International Accounting Standards No. 32, disclosure is required regarding credit risk, interest rate, fair value and liquidity risk of financial assets and liabilities. This note details our financial risk management objectives and policies. We discuss the exposure and sensitivity of the Commission to credit, liquidity, interest and foreign exchange risk, and the policies in place to monitor and manage these risks. The policies have been approved by the Board for managing each of these risks including levels of authority on the type and use of financial instruments.

Treasury Policy

The Commission activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Commission seeks to minimise potential adverse effects on the Commission's financial performance.

Exchange Rate Risk

The Commission is not exposed to foreign currency risk on the majority of its transactions and settlement of trade and other receivables and payables which are not denominated in US dollars. The Commission does not use foreign exchange contracts and other derivatives and financial instruments.

Credit Risk

Credit Risk arises from the possibility that counterparties may default on their obligations to the Commission. The amount of the Commission's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Cash deposits and similar financial instruments give rise to credit risk, which represents the loss that would be recognised if counterparty failed to perform as contracted. The carrying amount of the financial assets of the Commission represents the maximum credit exposure of the Commission.

Maximum exposure to credit risk at the reporting date was:

		<u>2016</u>
Cash and cash equivalents		<u>614,227</u>
At 31 st December, 2016	\$	<u>614,227</u>

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES REGULATORY COMMISSION

Notes to Financial Statements... (Cont'd)

31st December, 2016
(Expressed in Eastern Caribbean Dollars)

4. Significant Accounting Policies... (Cont'd)

Interest Rate Risk

Differences in contractual re-pricing or maturity dates and changes in interest rates may expose the Commission to interest rate risk. The Commission is not significantly exposed to interest rate risk on its surplus cash as it is non interest bearing accounts.

Liquidity Risk

The Commission manages operational liquidity in-order to meet its financial obligations of servicing and repaying its expenses and strategic initiatives.

	Carrying amount \$000	Contractual cash flows \$000	2016			
			0-12 months	1-2 years	2-5 years	More than 5 years
			\$	\$	\$	\$
Accounts payables and accruals	54,468	-	54,468	-	-	-
At 31st December, 2016	54,468	-	54,468	-	-	-

At 31st December, 2016 the Commission had cash and cash equivalents of \$614,227. These amounts are highly liquid and are a significant component of the Commission's overall liquidity and capital resources. Liquidity forecasts are produced on a regular basis to ensure the utilisation of current facilities is optimised, to ensure covenant compliance and that medium-term liquidity is maintained and for the purpose of identifying long-term strategic funding requirements.

Fair Value of Financial Instruments

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. None of the Commission's financial assets and liabilities are traded in a formal market. Estimated fair values are assumed to approximate their carrying values.

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES REGULATORY COMMISSION

Notes to Financial Statements... (Cont'd)

31st December, 2016
(Expressed in Eastern Caribbean Dollars)

5. <u>Cash and Cash Equivalents</u>	<u>2016</u>
Bank of St. Lucia Limited – current account	119,544
Bank of St. Lucia Limited - Regular CD	150,000
Bank of St. Lucia Limited – call account	344,183
Cash on hand	500
	\$ <u>614,227</u>

No interest is paid on any of the Commission's bank accounts.

6. Accounts Payable and Accruals

There is no material difference between the carrying value and fair value of trade and other payables presented. For liquidity risk exposure analysis purposes, the carrying amount of trade and other payables is the same as the contractual cash flows, with the contractual maturities of these financial liabilities all due in less than one year.

Salaries and wages	33,814
Professional fees	9,000
Other	11,654
	\$ <u>54,468</u>

7. Transfer from Water Commission

In accordance with clause 2 schedule 5 of the Act, all rights, liabilities and obligations of the National Water and Sewerage Commission were transferred to the National Utilities Regulatory Commission, on 8th February, 2016. The commission took over all assets and liabilities accrued up to 8th February including, Cash balances, property plant and equipment, payables including staff gratuities accumulated up to that date.

The accompanying notes form an integral part of these financial statements.

NATIONAL UTILITIES REGULATORY COMMISSION

Notes to Financial Statements... (Cont'd)

31st December, 2016
(Expressed in Eastern Caribbean Dollars)

8. Property, Plant and Equipment:

A category breakdown of fixed assets is as follows:

	Office Furniture	Office Equipment	Computer Hardware	Computer Software	Leasehold Improvement	Total
<u>Cost</u>						
Transfer from NWC - 09/02/16	\$ 35,559	63,618	29,137	7,791	82,125	218,230
Additions	21,765	11,888	-	-	65,210	98,863
Cost - 31/12/16	<u>57,324</u>	<u>75,506</u>	<u>29,137</u>	<u>7,791</u>	<u>147,335</u>	<u>317,093</u>
<u>Accumulated Depreciation</u>						
Depreciation expense – 09/02/16	10,668	20,119	19,656	6,614	16,424	73,481
Charge for the year	8,599	11,326	7,284	1,177	24,515	52,901
Accumulated depreciation - 31/12/16	<u>19,267</u>	<u>31,445</u>	<u>26,940</u>	<u>7,791</u>	<u>40,939</u>	<u>126,382</u>
Net Book value - 31/12/16	<u>38,057</u>	<u>44,061</u>	<u>2,197</u>	<u>-</u>	<u>106,396</u>	<u>190,711</u>
Net book value - 09/02/16	\$ <u>24,891</u>	<u>43,499</u>	<u>9,481</u>	<u>1,177</u>	<u>65,701</u>	<u>144,749</u>

The accompanying notes form an integral part of these financial statements.



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