



BELIZE ELECTRICITY LIMITED
A CHS COMPANY
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"Continuously Striving to Serve You Better"

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May 14, 2007

OUR REF: EXE/160/03/2007 (120)

Mr. Roberto Young
Chairman
Public Utilities Commission
63 Regent Street
PO Box 300
Belize City, Belize

Dear Mr. Young,

We are in receipt of the Public Utilities Commission (PUC) initial decision on Belize Electricity Limited's (BEL) tariff application for the Annual Tariff Period (ATP) July 1, 2007 to June 30, 2008.

BEL strongly objects to the initial decision as documented in the attached. We contend that the PUC has acted illegally when it reduced the Mean Electricity Rate (MER) and when it reduced the Rate Stabilization Account (RSA) balances based on a calculation methodology introduced earlier this year that wrongly adjusts variances in cost of power which has already been corrected for in the Annual Correction. Also, in its decision to disallow a portion of the cost from CFE, the PUC is in effect trying to force BEL to purchase power from other would be suppliers preferred by the PUC under a take or pay arrangement that would make the PUC's preferred supplier be the most expensive source of power. As the PUC is aware from the current case before the Supreme Court, BEL contends that the PUC does not have the power to direct and determine with whom BEL may contract for supply and the terms and conditions of such supply.

Should the PUC proceed with a final decision that is contrary to the laws and in contravention of discussions and agreements between the parties, then the Company will have no alternative but to take such steps as it is entitled to under law to challenge such decision.

The Company hereby requests a list of potential consultants being considered by the PUC as a result of this objection in order to be assured of the qualification and the independence of the proposed consultants before any appointment is made. Detail curriculum vitae of the consultants are required.

Finally, please note that Appendix II of our objections is an extract from a report received from the PUC and marked "Privileged and Confidential". BEL does not expect and never expected that these objections or any of its submissions relating to the ARP be treated as confidential. Any inadvertent use of the word "confidential" in these submissions should be ignored.

Sincerely,

(Lynn R. Young)
**PRESIDENT AND
CHIEF EXECUTIVE OFFICER**

Enclosure: Detailed Objections on PUC Decision on 2007/2008 ARP dd May 14, 2007

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Belize Electricity Limited
Detailed Objections on PUC's Initial Decision on 2007/2008 ARP
May 14, 2007

1. The PUC has (without consultation with the Company) reduced the forecast calendar year 2007 cost of power by \$1,275,813. The PUC unilaterally decided not to allow the full cost of power from Comision Federal de Electricidad (CFE) under the new contract signed by BEL and CFE in August 2006 claiming that the PUC "approved" another price as a result of a 2005 RFP process. However, during the RFP process, the PUC made it clear that its approvals were conditional upon BEL agreeing to purchase power from a would be local supplier NEL under conditions dictated by the PUC. The increase in the price of firm power from CFE was as a direct result of the PUC's refusal to approve the initial CFE bid. At any rate, BEL was able to negotiate better arrangements for economic power which more than offset the increase in the price of firm power from CFE. As a result of the performance of Chalillo and the re-negotiated arrangements for economic power, the cost of power was less than the PUC's forecast which was based on the initial CFE bid. If BEL had gone along with the PUC's instructions, the cost of power would have been much higher. This is documented in detail in the attached Appendix I.

The PUC's calculation of cost of power is not accurate because it is based on an expired 2005 RFP. The forecast costs submitted are based on the most current prices available to BEL. Furthermore, as can be noted from actual 2006 results, cost of power came in below the reference cost of power most of the year despite the alleged higher CFE price. The PUC has failed to realize that the CFE contract is composed of three contracts – Firm, Economic and Emergency – with Economic energy now available before firm energy and at lower prices than firm energy causing actual cost of power to come in below the reference cost. This benefit which the company negotiated and agreed to without the PUC's approval is ignored by the PUC yet the Company is penalized when the actual cost of power comes in above the reference cost of power during certain months. Consequently, the 2007 cost of power on a net generation KWh basis should remain at \$0.221 as per BEL calculations. Similarly, it appears the PUC arbitrarily decreased the 2008 and ATP 07/08 BEL submitted cost of power by \$1,141,961 and \$1,766,626 respectively. BEL's calculated cost of power on a per KWh sold basis for the calendar year 2007 and ATP 07/08 is then \$0.255 and \$0.259 respectively.

2. In February 2007, the PUC presented BEL with a set of formulae to calculate the CPRSA balance. In a meeting with the PUC on April 19, 2007 BEL pointed out inconsistencies in the formulae. The PUC did not seem to understand the formulae and explained that it would review the mechanism and get back to us. As far as we are aware this has not been done and BEL is still awaiting this new methodology. Consequently, the Company continues to calculate the balance as it has been doing since the establishment of the account in 2000. This calculation method has been approved by the PUC as recent as the July 1, 2005 in determining the balance in the account (PUC Initial Decision ARP 07/08) and by our external auditors for the year ended December 31, 2006. It now seems that the PUC calculations of the CPRSA and HCRSA balances for the period July 1, 2005 to December 31, 2006 was done utilizing the PUC's proposed methodology presented to BEL in February 2007. Until the inconsistencies in the proposed methodology are corrected and the

methodology finalized with BEL we cannot agree to the balance of the CPRSA as at December 2006 proposed by the PUC.

3. Compared to our records, the PUC has arbitrarily reduced the CPRSA balance as at December 2006 by \$7,703,513 and the HCRSA balance by \$403,398. These are material adjustments to the Company's audited accounts which cannot be accepted. The PUC's calculations of the CPRSA balance makes provision to remove the unapproved CFE contract price from BEL's cost of power and replace it with an RFP price ignoring actual cost incurred by the Company. BEL categorically states that the RFP price being referred to by the PUC has expired and thus the PUC cannot make any such deductions to the cost of power when calculating the CPRSA balance (see discussion above).
4. Below are the amounts that the PUC has noted as the 2006 actual recoveries of the RSA balances compared to actual amounts the Company used in calculating the balances as at December 31, 2006. The PUC is showing more recoveries for both accounts than what was actually recorded. However, looking at a separate detail calculation provided by the PUC for the CPRSA, actual recoveries in their calculations are showing \$9,789,218 as compared to the \$7,924,420 they noted previously. The PUC is inconsistent in the data it utilizes for the CPRSA which at a minimum is misleading and inappropriate under these circumstances where the differences between PUC and the Company amounts are very material. The company hereby disputes the PUC's calculated values (both of them) and requires supporting calculation for the former amount.

	PUC Actual Values	BEL Actual Values	Difference
CPRSA Recoveries	7,924,420	7,840,625	82,795
HCRSA Recoveries	705,820	425,165	280,655

5. In addition, included in the \$9,789,218 CPRSA recovery (second amount) noted by the PUC for 2006 is an additional \$0.01 per Kwh sold with effect from July 2006 which the PUC claims is the COP elements of the annual correction. This is not acceptable since as per the final decision for the ATP 2006/2007, only the \$0.023 per KWh sold was approved by the PUC as recovery of the CPRSA balance – the PUC is acting in contravention of its own decision. Should this additional \$0.01 recovery have been approved by the PUC with effect from July 2006 then the MER for the ATP 06/07 should have been \$0.01 more or \$0.451 instead of the \$0.441 approved. This additional recovery is not possible and is unreasonable and unlawful.

It appears that the PUC is arbitrarily determining how much CPRSA was recovered irrespective if that was what the Company actually billed its customers. In fact the PUC is effectively telling the Company that it collected more (additional recovery) than what the Company's own internal customer information system and audited records show – this is an inconceivable position for the PUC to take.

6. For the record, contrary to the PUC's statement in the initial decision, the proposal to transfer the HCRSA balance into the CPRSA came from the PUC in a March meeting with the PUC. The proposal did not come from the Company. The Company agreed with the PUC's proposal at the meeting. It is misleading for the PUC to claim that it has increased/accelerated the recovery of the CPRSA account as required by the Byelaws before any reduction in customer tariffs can be effected. The \$0.001 increase in the CPRSA

recovery is in fact the transfer of the \$0.001 recovery of the HCRSA (now amalgamated with the CPRSA) to the CPRSA recovery. The recovery of the rate stabilization accounts (as referred to in section 28(3) of the Byelaws) remains the same at \$0.024 and is not being accelerated.

7. The PUC seems to imply that by “accelerating the recovery of the CPRSA”, it is now free to implement a reduction in the Mean Electricity Rate (MER) from \$0.441 to \$0.432. This is contrary to the bylaws section 28(3) which was discussed between the Company and the PUC prior to the finalization of the byelaws in December 2005. At these discussions it was agreed by both parties that the MER would not be reduced until the rate stabilization accounts had been fully recovered which was then utilized as the background for the incorporation of section 28(3) in the byelaws. This is documented in correspondences between the Company, the PUC and other parties.

During discussions with the PUC, BEL was led to believe that the PUC supported the Government’s request for the removal of the \$10 service charge for customers whose bills are \$150 or less per month. During those discussions, the PUC pointed out that the Mean Electricity Rate must remain at \$0.441 and asked the company to come up with a proposal to meet the Government’s request. After discussing several different options with the PUC, the Company in its ARP presented an option which it was led to believe that the PUC preferred, to remove the \$10 service charge and make adjustments to maintain the MER at \$0.441.

8. We requested detail backup calculations for the PUC’s \$4,768,955 negative Annual Correction (AC). Actual amounts used by PUC in the AC calculations are not reconciling to amounts submitted to the PUC via data templates. The table below shows that the PUC’s tariff basket was \$479,278 more than the actual tariff basket recorded by the Company. Cost of power shows \$567,390 less than that recorded by the company. The PUC did not provide sufficient details to review.

	PUC Actual Values	BEL Actual Values	Difference
Tariff Basket Revenues (TB)	158,618,171	158,138,893	479,278
COP _{PS,t}	74,103,273	74,670,663	(567,390)

9. It should also be noted that included in the annual correction calculation are three components; namely, Cost of power for Sales and Cost of Power for Technical and Commercial losses price variance that also appear in the PUC’s proposed CPRSA balance calculations that is under dispute. These three components calculation adds up to a negative \$10,716,537 impact to the Company. In effect the proposed CPRSA calculation returns to the customers the negative variances related to these three Cost of Power components by reducing the CPRSA balance owed to the Company. However, the AC calculation also reduces the MER/Tariff Basket for the same amounts which is in fact a reduction of cash receipts from customers effectively returning to the customers (via a reduction in the tariff basket) the same negative variances already returned to the customer via the reduction in the CPRSA.
10. The PUC at the April 19 meeting claimed that the inclusion of the same Cost of Power components of the AC both in the AC and the CPRSA calculation results in the CPRSA being reduced (amounts no longer owed to the Company by the customer) therefore requiring less CPRSA recovery going forward hence the inclusion again of the same Cost of

requiring less CPRSA recovery going forward hence the inclusion again of the same Cost of Power components in the AC calculation – reducing the MER (in this case). This however does not reconcile to the PUC proposing an increase (“acceleration”) of the recovery of the CPRSA.

The Company cannot accept the double impact on its cash receipts this proposed treatment of the three cost of power components is causing to the tune of over \$10.7 million and requests that the CPRSA balance calculation be appropriately adjusted to remove this double counting.

11. The PUC’s proposed customer tariffs amounts to a reduction in the MER which is contrary to the byelaws agreed to by BEL and the PUC as noted above. At a minimum, the current customer tariffs should remain in place should the PUC not agree with the proposed customer tariffs from BEL which would keep the MER the same at \$0.441.
12. The PUC completely disregards the equity concept of the increase in reconnection fees in order for delinquent customers to be able to bear their fair share of expenses as compared to good paying customers. The PUC also disregards the fact it has approved higher disconnection/reconnection charges for one other utility that does less physical work to disconnect customers than BEL. The increase in this fee will also act as a deterrent and can also be seen in a good light when delinquency reduces resulting in a reduction in the cost of delinquency to the Company and therefore more efficient operations for the benefit of all customers. It should also be noted that BEL has in place other bill payment options such as budget billing and direct payments for customers in addition to email notifications that by themselves have not resulted in reduction in delinquencies. The Company’s efforts are in multiple areas but with little effect, hence the request for the increase in the fee. In fact, the PUC supports BEL’s position on this issue when it noted in its initial decision “In 2005, the PUC approved an increase from \$5.00 to \$10.00 in BEL’s reconnection fee; however BEL has experienced no material reduction in the number of disconnections.” BEL’s request in 2005 was for a \$25 reconnection fee because our analysis showed that a \$10 fee would not be enough of a financial incentive for delinquent customers. BEL re-iterates its request for an increase in this fee.
13. It is difficult to reconcile the PUC’s position on liquidated damages for tampering to its position on requiring the Company to reduce Commercial losses (as a percent of net generation). This approach is typical in contracts for services in many other businesses. The liquidated damages to be levied will be on those customers that misuse the Company’s equipment to the detriment of the Company. Our attorneys have advised that this proposal is lawful because the basis of the liquidated damages lies in the law of contract and not at all in any purported area of criminal law or punishment. BEL hereby requests the PUC to review this request once again.
14. BEL’s request to amend targeted commercial losses arises from the 2005 FTRP wherein the PUC and BEL in conjunction with the independent expert (Mr. Dennis Colenut of NERA) agreed for losses to be independently studied to arrive at appropriate losses targets (see extract of NERA report attached in Appendix II). In previous communications with the PUC the revised Commercial losses number that could be used as the revised target has been presented to the PUC – 10,738,815 KWh. This is the commercial losses data BEL expected the PUC to consider. The PUC has decided not to abide by its own agreement to reconsider

the losses targets in this initial decision. BEL hereby requests the PUC to honor its commitments. With reference to amendments to this target not being possible outside of an FTRP, BEL presents that the PUC did amend another target, namely the Opex sharing mechanism, outside of an FTRP (August 2005).

15. It is not clear to BEL how the PUC arrived at the service quality achieved (SAIDI 10.03 and SAIFI 11.00) for the year 2006 (Annex 8 in the PUC initial decision) as data provided by BEL to the PUC derived from BEL's database of outage information supports a lower amount achieved as submitted to the PUC in our ARP submission (SAIDI 9.28 and SAIFI 9.08). BEL requested additional details supporting the PUC calculation. The PUC's number was provided at a high level and did not afford the company the opportunity to assess where the difference arises. The Company requests that the PUC provides these details and its calculations for the Company to properly review.

APPENDIX I CFE PRICE

The PUC contends that CFE was selected under the 2005 RFP with an energy cost of US\$0.0847 and that BEL signed a PPA with a higher energy cost. In fact, the PUC refused to approve the CFE contract when submitted by BEL and instead requested that BEL negotiate changes with CFE to the benefit of another supplier which the PUC preferred. BEL approached CFE with the changes requested by the PUC and CFE increased their prices.

BEL maintains that the sequence of events documented below clearly reflects an unlawful course of conduct by which the PUC sought to have BEL to award a 25 MW take or pay power purchase contract to NEL.

On December 29, 2005, BEL submitted its recommendations to the PUC under the July 5, 2005 RFP. These were:

- i. Negotiate a new contract on a short term basis (4 years) with CFE for a 12-15 MW firm capacity to be effective August 2006; BEL should continue to optimize its short term requirements and determine the lowest possible firm contract required from CFE. BEL should continue the economic energy purchase contract with CFE up to 15-20 MW.*
- ii. Negotiate a PPA with NEL for approximately 15 MW firm capacity to come on line mid 2007 subject to NEL obtaining environmental approval for using 3.0%S heavy fuel oil for the duration of the 15-year PPA and that the cost of energy be indexed and be based on the 3.0%S heavy fuel oil.*
- iii. Negotiate a PPA with BECOL for the 18 MW Vaca Offer to come on line January 2009.*
- iv. BEL should consider the Bowen 10 MW unsolicited Offer as part of its medium to long term generation mix. One such option is to evaluate the possibility of replacing existing aging high and medium speed diesel fired plants at Belize City and Belmopan.*

On December 30, 2005, the PUC advised BEL that they concurred with the BEL position of December 29, 2005 and BEL notified the successful bidders who all accepted the bid awards. BEL proceeded to negotiate Power Purchase Contracts.

On March 2, 2006, the PUC requested an update on the status of the negotiations for the Power Purchase Agreements.

On March 2, 2006, BEL submitted the contract negotiated between BEL and CFE for 15 MW firm capacity and energy from August 21, 2006 to December 15, 2009 (exactly as contained in BEL's December 29, 2005 letter and agreed to by the PUC on December 30, 2005).

On April 3, 2006, since no response was received from the PUC on the proposed PPA with CFE, BEL asked the PUC for its comments once more.

On April 10, 2006, the PUC advised BEL that the PUC had reviewed the CFE PPA submitted on March 2, 2006, but wanted an updated generation planning document from BEL before providing their approval.

On April 12, 2006, BEL asked the PUC to clarify why a generation plan was required and pointed out to the PUC that there was a critical need to finalize the 15 MW firm contract with CFE as soon as possible.

On April 20, 2006, the PUC stated that their position was sufficiently clear and a revised Least Cost Generation Plan must be submitted for this is the basis for any contractual arrangements. The PUC made no reference to BEL's request to treat the CFE matter as a priority.

On May 30, 2006, BEL submitted a revised Least Cost Generation Plan to the PUC as requested in the PUC's letter of April 20, 2006. BEL's recommendations were:

1. *the contract with CFE for 15 MW firm and the economic energy purchases for 25 MW be finalized immediately;*
2. *the GT be upgraded in stages to 29 MW. The first stage upgrade of the engine to 24 MW is to be completed by August 2006;*
3. *contract negotiations continue with NEL for 15 MW. If NEL cannot obtain environmental approval for the 3.0%S heavy fuel oil or if NEL is delayed beyond 2008 this situation will have to be re-visited early 2007 with a view to advance the GT upgrade from 24 MW to 29 MW to the end of the dry season 2007 and increase CFE Firm to 20 MW by January 2008; and*
4. *BELCOGEN's request for a change to the Scheduled Commercial Operational Date from December 31, 2007 to December 31, 2008 be accepted.*

On June 12, 2006, the PUC responding to BEL's May 30, 2006 submission stated their approval for the following:

1. *A contract with CFE for a firm capacity of 25 MW with associated energy for a period of two (2) years starting in August 2006 and terminating in August 2008 is to be immediately concluded. Except for the above changes, the other terms and conditions to be included in the contract are as contained in the proposed contract submitted to the PUC by Belize Electricity Limited (BEL) under cover letter EXE2/240/10/2006(30). For certainty the price approved is as contained in Section 3.2 of that proposed contract. The arrangement for the supply of "economic" energy by CFE is to be continued.*
2. *The Power Purchase Agreement (PPA) negotiations with National Energy Limited (NEL) are to be expedited and finalized for the supply of 25 MW of firm capacity and associated energy starting in January 2008 for a period of fifteen (15) years. NEL should be encouraged to secure a fuel supply contract with Belize Natural Energy Ltd. (BNE). Preliminary analysis*

indicates that using local crude oil will reduce prices and alleviate environmental concerns on burning imported HS HFO along with having other positive economic benefits to Belize.

3. *The Scheduled Commercial Operational Date for electricity supply from Belize Cogeneration Ltd. (BELCOGEN) is to be extended from December 31, 2007 to December 31, 2008.*
4. *The negotiations with Belize Electricity (sic) Company Ltd. (BECOL) are to be pursued with a view to settling an energy price that can be included in the PPA. As discussed, from the perspective of the PUC and based on the information received to date, a fair and reasonable price for energy from the Vaca Hydroelectric Project seems to be in the order of US\$ 0.085 per kilowatt hour with no escalation and no capacity charge.*
5. *The expansion of the GT capacity from 20 MW to 24 MW is to be carried out in lieu of the hot section work scheduled for this year on the understanding that the current levels of the fixed and variable cost (excluding fuel) for the total of BEL's diesels and GT remain at the same levels as is currently being incurred and forecasted. The Ruston (3MW) diesel which was recently taken out of service will not be replaced.*

Importantly the PUC submitted no formal explanation for the basis of its conclusions nor did they demonstrate that theirs was the least cost, despite claiming on April 20, 2006 that any decision must be made on a Least Cost Generation Plan.

Since the existing contract with CFE was due to expire in August 2006, BEL in an effort to secure the supply, immediately approached CFE to increase the 15 MW firm to 25 MW firm and to reduce the contract term from December 2009 to August 2008 but maintaining the same terms and conditions as in the submission to the PUC on March 2, 2006.

CFE indicated that they would consider the request but the terms would change. After discussions, on July 19, 2006 CFE submitted a new proposal for 20 MW firm for the period August 2006 to December 2009. The terms and conditions were significantly different from the first.

On analysis and negotiations with CFE on a way forward since the new prices were higher it was decided that in the short term to August 20, 2008 BEL should only purchase 15 MW of firm capacity with the possibility of increasing to 20 MW and not pursue the Gas Turbine expansion. This being the least cost solution at that time.

On August 16, 2006, the revised prices from CFE were submitted to the PUC informing them that since the CFE contract would terminate August 20, 2006, it was now essential that a contract with CFE be signed. BEL noted that the prices had escalated significantly and BEL made a decision to maintain the firm contract at 15 MW.

On August 18, 2006, a new PPA was signed with CFE. Included in this PPA was a revision to the economic energy contract. It was agreed that should economic energy be available, CFE would agree to sell BEL up to 40 MW of economic energy and only after economic energy was cancelled would BEL have to take firm. In addition, if the price of firm energy was less than economic

energy BEL would opt to take firm energy ahead of economic. The result is that at any given instant the lowest cost source from CFE is taken in any given hour.

The PUC responded on August 22, 2006 that they are still deliberating whether the difference in prices approved by the PUC and the new prices will be allowed to be passed on to consumers. At the same time, the PUC ignoring the RFP process under which the bidders committed to negotiate and correspond only with BEL, and in prejudice to other bidders, directly approached NEL for a revised offer to supply 25 MW of power.

On October 23, 2006, BEL reminded the PUC that resolution of the CFE PPA was pending. The PUC did not respond to BEL's letter.

BEL does wish to make clear that the PUC's position that BEL's recalcitrance caused the price increase is not at all supported by the facts – indeed the sequence and record events demonstrates the unsustainability of this position. Further, it then must be the case that the CFE costs should be allowed by way of pass through to customers

**APPENDIX II
LOSSES SUPPORT**

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have now submitted a revised set of losses forecasts that they say are based on more detailed analysis, and these are also shown in Table 2.1. These represent a higher level of losses than the original forecasts, ending 0.3 of a percentage point higher in 2009. Unfortunately, this new forecast was submitted only a few days before the deadline for submission of this report, and so it has not been possible for me to evaluate it in detail.

The setting of a losses target is, in my view, a desirable feature of the price regulation, as it has the potential advantage that it allows incentives to be offered to BEL in the event that it is possible to better the target. However, this target needs to be set in a way that does not impose excessive risk on BEL. If BEL's new forecasts are validated, then I believe that the PUC target would be impossible for BEL to achieve and would therefore impose excessive risk. The parameter X_{TL} would need a value of approximately -4.5% rather than -2.5% to reflect BEL's forecast. In these circumstances, a mid-point value of -3.5% would seem to me reasonable, subject to the results of the independent study.

2.5.2.3. Deferral of Commencement of Losses Targets

Based on the review I have carried out, I state above that believe that the target losses figure should be modified, pending an independent study of losses. It does not therefore seem to me necessary to defer the application of the losses target as BEL have suggested, but this is subject to the more detailed independent study being carried out, as BEL have suggested, and to the Decision containing provision for the target to be reviewed in the light of that study.

2.5.2.4. Sharing of the Benefits from Technical Losses Reductions

The arrangements for the costs of technical losses that are proposed in Sections 28 to 36, taken together with the regulated values proposed in Section 109, would mean that where the actual level of technical losses is below the target level, the financial benefits are shared 50:50 between BEL and the consumers. Conversely, if actual level of technical losses is above the target level, then BEL would be required to carry the full cost. The reasons for this asymmetrical arrangement are not explained in the Decision, but I understand from PUC that BEL is expected to carry the cost of failing to achieve the targets on the grounds that the targets are reasonable and BEL should be capable of achieving them. It should be noted that the corrections for divergences above and below the target are based on the sum of all the FTRP years, so to some degree over shooting and under shooting will cancel each other out over the period.

With regard to the sharing of the benefits, BEL have argued that since the savings would be based purely on their efforts this sharing is not reasonable. In fact, the main source of reductions is likely to be investment in the system, and this investment cost is, of course, included in the allowed revenues. Indeed, the methodology set out in the Interim Decision means that the allowed revenues will be adjusted to reflect actual investment, and so there will be an incentive on BEL to make investments to reduce losses, up the limit of the maximum investment assumed in the allowed revenues. During the submissions leading up to the Decision, BEL submitted revised forecasts with substantially increased capital



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OUR REF: EXE2/120/02/2005(119)

December 29, 2005

Dr. Gilbert Canton
Chairman
Public Utilities Commission
63 Regent Street
Belize City

Dear Dr. Canton,

Further to our discussions, enclosed is the final evaluation report for bids received on October 31, 2005, under the RFP dated July 5, 2005 for baseload generation for BEL's power system – 2007 and 2009. We recommend:

- i. Negotiate a new contract on a short term basis (4 years) with CFE for a 12-15 MW firm capacity to be effective August 2006; BEL should continue to optimize its short term requirements and determine the lowest possible firm contract required from CFE. BEL should continue the economic energy purchase contract with CFE up to 15-20 MW.
- ii. Negotiate a PPA with NEL for approximately 15 MW firm capacity to come on line mid 2007 subject to NEL obtaining environmental approval for using 3.0%S heavy fuel oil for the duration of the 15-year PPA and that the cost of energy be indexed and be based on the 3.0%S heavy fuel oil.
- iii. Negotiate a PPA with BECOL for the 18 MW Vaca Offer to come on line January 2009.
- iv. BEL should consider the Bowen 10 MW unsolicited Offer as part of its medium to long term generation mix. One such option is to evaluate the possibility of replacing existing aging high and medium speed diesel fired plants at Belize City and Belmopan.

(Cont'd. p. 2)

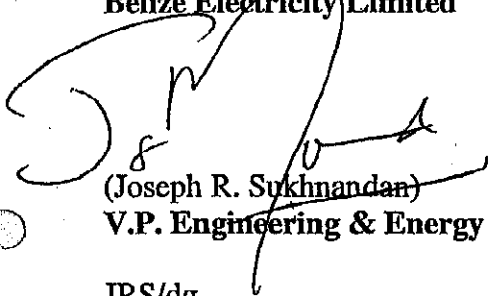
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"Continuously Striving to Serve You Better"

Letter to PUC
December 29, 2005
Page 2 of 2

Please confirm if the PUC concurs with these recommendations.

Sincerely yours,
Belize Electricity Limited

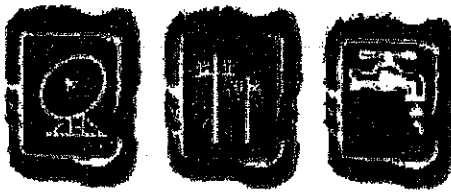


(Joseph R. Sukhmandan)
V.P. Engineering & Energy Supply

JRS/dg

c: Lynn Young – President/CEO, BEL

EXE2/120/02/05/016



Public Utilities Commission

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December 30, 2005

Mr. Joseph Sukhnandan
Vice President Engineering & Energy Supply
Belize Electricity Limited
2 ½ Miles Northern Highway
Belize City, BELIZE

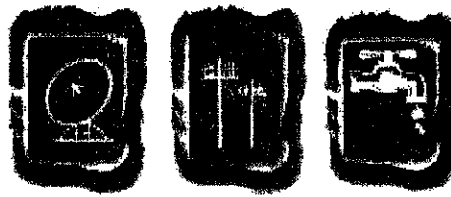
Dear Mr. Sukhnandan,

The Public Utilities Commission (PUC) is in receipt of your letter (Ref. EXE2/120/02/2005(119) with the final bid evaluation report attached. The PUC hereby expresses its concurrence with the recommendations as set out in the letter on the further steps to be taken by Belize Electricity Limited (BEL) in moving towards a conclusion of the generation procurement. As we have been discussing over the past few months, the increases in the cost of power over the last two years have placed a tremendous burden on the people and economy of Belize. In this regard in the upcoming negotiations with the suppliers leading to a Power Purchase Agreement, BEL is to use its best efforts to secure the lowest cost of power that will be passed on to consumers.

Sincerely,

Dr. Gilbert H. Canton
Chairman

FAXED
30/12/05



Public Utilities Commission

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Fax: 501-227-1149
Email: puc@btl.net

March 2, 2006

Mr. Joseph Sukhnandan
Vice President
Engineering & Energy Supply
Belize Electricity Limited
2 ½ Miles Northern Highway
Belize City, BELIZE

Subject: CFE Power Purchase Agreement

Dear Mr. Sukhnandan,

The Public Utilities Commission (PUC) requests that Belize Electricity Limited (BEL) provide us with an update on the status of the negotiation leading to a Purchase Purchase Agreement with Comision Federal de Electricidad of Mexico.

The PUC needs to be appraised of any developments as they occur during the negotiation so as to avoid any unnecessary delays in the PPA approval process.

Sincerely,

Dr. Gilbert H. Canton
Chairman

FAXED
2-3-06



BELIZE ELECTRICITY LIMITED
5th FLOOR, SPINNEY BUILDING, P.O. BOX 227, BELIZE CITY, BELIZE CENTRAL AMERICA

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EMAIL: corporate@bel.com.bz
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OUR REF: EXE2/240/10/2006(30)

March 2, 2006

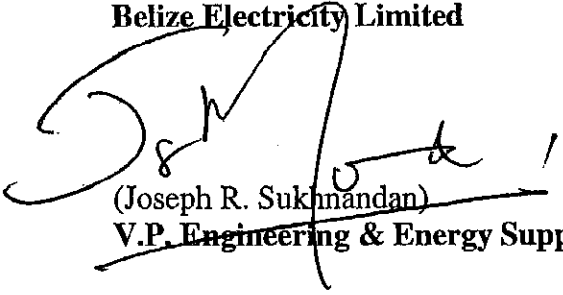
Dr. Gilbert Canton
Chairman
Public Utilities Commission
63 Regent Street
Belize City

Dear Dr. Canton,

Attached is the proposed contract between BEL and CFE effective August 21, 2006 for 15 MW firm capacity and associated energy. Please inform us if this is acceptable to the PUC.

We have separately sent this for legal review and will inform you of any changes.

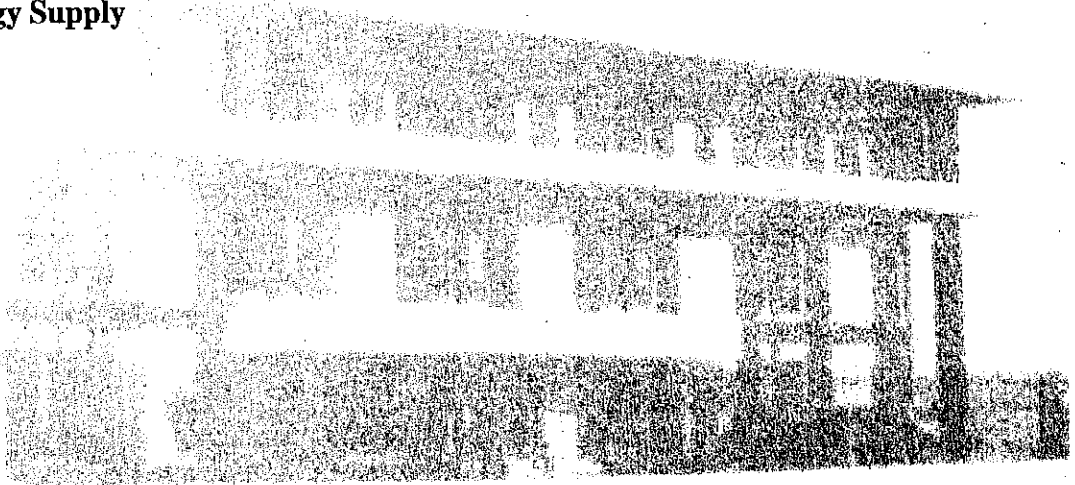
Sincerely yours,
Belize Electricity Limited



(Joseph R. Sukhmandan)
V.P. Engineering & Energy Supply

JRS/dg

Attachment

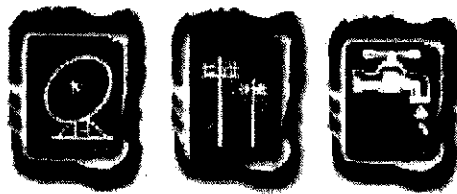


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EXE2/120702/06 (177)



Public Utilities Commission

63 Regent Street
P.O. Box 300
Belize City, Belize

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Email: puc@btl.net

April 10, 2006

Mr. Joseph Sukhnandan
V. P. Engineering & Energy Supply
Belize Electricity Limited
2 ½ Miles Northern Highway
Belize City
BELIZE

Dear Mr. Sukhnandan,

Please refer to your letter Ref: EXE2/320/01/2006(24). As mentioned on previous occasions, the Public Utilities Commission (PUC) will review, in anticipation of the required PUC approval, power purchase agreements that have been conclusively negotiated between the contracting parties.

As far as we are aware from discussions and copies of correspondence between Belize Electricity Limited (BEL) and Belize Cogeneration Limited (Belcogen) this stage has not as yet been reached by the parties. The PUC also stands ready to assist in resolving any disputes between the parties.

However, we do note from the correspondence that BEL is suggesting the inclusion of an additional clause, namely Article 4.4. The PUC hereby informs BEL that the proposed Article 4.4 is not acceptable and is not to be included in the PPA.

In regards to the CFE PPA, the PUC has reviewed the document but has not provided approval as again based on our discussions on the delays of the IPP projects and the impact on future generation planning, we understood that BEL would be preparing an updated generation planning document for submission to the PUC and such an exercise may indicate required changes in proposed contractual arrangements with CFE. Additional capacity from CFE is an option in determining the lowest cost alternative. The PUC looks forward to receiving and discussing BEL's proposals.

Finally we note that your correspondence (EXE2/120/02/2006(178)) on the status of the PPA's as at the end of March indicates that BEL plans to submit the PPA for Belize Electric Company Limited (Becol) sometime around the middle of April. Please be informed that the issues surrounding the Becol proposal raised by the PUC have not been satisfactorily resolved and must be addressed before any approval by the PUC will be given.

Sincerely,

Dr. Gilbert H. Canton
Chairman

FAXED
10/10/06



BELIZE ELECTRICITY LIMITED

111 WINDY CLIFFS, BELIZE CITY, BELIZE CENTRAL AMERICA

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April 12, 2006

OUR REF: EXE2/120/02/2006(179)

Dr. Gilbert Canton
Chairman
Public Utilities Commission
63 Regent Street
Belize City

C O P Y

Dear Dr. Canton,

Re: Power Purchase Agreements (PPAs) with BELCOGEN, BECOL and CFE

Your letter of April 10, 2006 refers.

We seek to clarify the PUC's response which is unclear. In the case of BELCOGEN, the PUC is being asked to approve an existing agreement between BEL and BELCOGEN dated December 1, 2004. This PPA was negotiated with the consent of the PUC and was in fact vetted and agreed to by the PUC prior to signing. We are surprised that the PUC is now saying that it cannot approve the PPA between BEL and BELCOGEN signed on December 1, 2004.

We do agree that there have been recent discussions with BELCOGEN and the parties may or may not agree to changes to the PPA. However, if there is a change to the December 1, 2004 agreement then a submission will be made to the PUC. So, we cannot understand why the PUC is suggesting that "this stage has not as yet been reached by the parties" when in fact a signed agreement exists and in fact the PPA was signed with the consent of the PUC.

You comment that BEL is suggesting the inclusion of an Article 4.4 and the clause is not acceptable to the PUC. Inclusion of Article 4.4 can only be effected if both parties agree. Considering that BELCOGEN disagrees, we believe that the PUC's view is premature, especially since no amended PPA was submitted to the PUC for its approval. But in our view, if both parties were to agree, we do not understand how the PUC can inform us that the Article is unacceptable when the Article has no impact on cost - at least as we propose it.

With regards to CFE, again we do not understand the PUC's statements. The PUC has already approved in a letter dated December 30, 2005 that BEL enter into a Firm Contract with CFE for up to 15 MW. A copy of the letter is attached for ease of reference. If BEL were to determine that additional capacity and energy is required from CFE a separate submission would be made and a separate PUC's approval sought but there is a critical need to finalize the 15 MW Firm Contract with CFE, so as not to place the reliability of the electrical system in jeopardy considering that CFE current contract terminates August 20, 2006.

(Contd.) (2)

Original sent safehand
a copy forwarded to Lynn Yang 28/12/06

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(0-800-235-2273)

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To: Public Utilities Commission

Re: Power Purchase Agreements (PPA) with BELCOGEN, BECOL and CFE

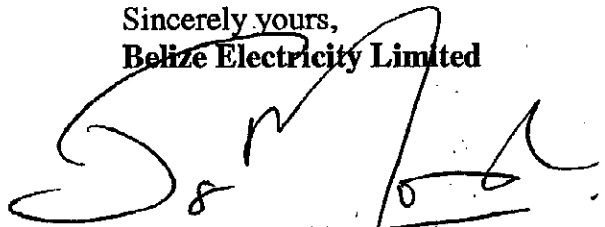
April 12, 2006

Page 2 of 2

With regards to BECOL, BEL is satisfied that it has adequately investigated and discussed the PUC's concern with BECOL and we are of the view that the issues raised by the PUC were adequately addressed by BECOL. The next step in the process, as we understand it, is to seek the PUC's approval for the proposed PPA. If the PUC still has a concern then it has to be addressed after our submission is made, not before. BEL will therefore proceed to submit the proposed PPA with BECOL for the required capacity in 2009 to the PUC for approval.

We respectfully submit that the PUC's statements and recent correspondences impose uncertainty in the decision making and approval process. We are obligated to have generating capacity to meet the demand and unless we can have timely resolution of issues the security of the electrical system will be jeopardized. To guide us in our various submissions please point us to the relevant laws and/or regulations which states how the submission and approval process for PPAs should be carried out and we will ensure that we comply.

Sincerely yours,
Belize Electricity Limited

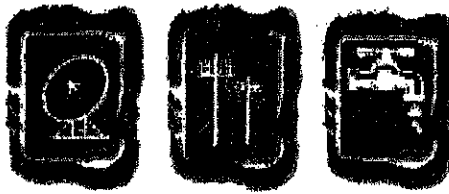


(Joseph R. Sakmandan)
V.P. Engineering & Energy Supply

copy: Lynn Young - President and Chief Executive Officer, BEL

Attachment: 1

JRS/zbt



EXE 2/120/02/2006
(180B)

Public Utilities Commission

63 Regent Street
P.O. Box 300
Belize City, Belize

Website: www.puc.bz

Ph: 501-227-1185
Fax: 501-227-1149
Email: puc@btl.net

April 20, 2006

Mr. Joseph Sukhnandan
Vice President Engineering & Energy Supply
Belize Electricity Limited
2 ½ Miles Northern Highway
Belize City
BELIZE

Dear Mr. Sukhnandan,

Please refer to your letter EXE2/120/02/2006(179). The Public Utilities Commission (PUC) believes that our letter of April 10, 2006 is sufficiently clear in setting out our position on the matters referred. We look forward to receiving in a timely manner:

- (1) the Power Purchase Agreement (PPA) between Belize Electricity Limited (BEL) and Belize Cogeneration Limited (BELCOGEN) complete with exhibits and any proposed changes, if any, agreed to by the parties.
- (2) BEL's proposals on a revised Least Cost Generation Plan (LCGP) which has become necessary to accommodate the delays being experienced in bringing on new generation. The LCGP is the basis for contractual arrangements and considering that PPA's are not finalized as yet the opportunity still exists to have the best fit of contracts to the LCGP.
- (3) analysis with supporting documentation sufficient to convince the PUC that the price offered by BECOL is indeed reflective of hydroelectric technology and is fair and reasonable.

As usual your cooperation is greatly appreciated.

Sincerely,

Dr. Gilbert H. Canton
Chairman

Cc: Mr. Lynn Young

FILE COPY
Original with Mr. Sukh





BELECOGEN BELIZE ELECTRICITY LIMITED
 BELIZE CITY, BELIZE

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May 30, 2006

OUR REF: EXP/27/120/02/2006(188)

COPY

Dr. Gilbert Canton
 Chairman
 Public Utilities Commission
 63 Regent Street
 Belize City, Belize

Dear Dr. Canton:

In response to the PUC's letter of April 20, 2006 we have completed a revised Least Cost Generation Plan considering the delays being experienced with NEL and BELCOGEN. Considering both reliability and cost of power, we recommend that:

1. the contract with CFE for 15 MW firm and the economic energy purchases for 25 MW be finalized immediately;
2. the GT be upgraded in stages to 29 MW. The first stage upgrade of the engine to 24 MW is to be completed by August 2006;
3. contract negotiations continue with NEL for 15 MW. If NEL cannot obtain environmental approval for the 3.0%S heavy fuel oil or if NEL is delayed beyond 2008 this situation will have to be re-visited early 2007 with a view to advance the GT upgrade from 24 MW to 29 MW to the end of the dry season 2007 and increase CFE Firm to 20 MW by January 2008; and
4. BELCOGEN's request for a change to the Scheduled Commercial-Operational Date from December 31, 2007 to December 31, 2008 be accepted.

Please indicate if the PUC agrees to these recommendations. If the PUC agrees to these recommendations, please for the PUC approval:

1. of the proposed PPA with CFE submitted on March 2, 2006;
2. of the BELCOGEN PPA submitted on February 28, 2006; and
3. to upgrade the Gas Turbine from 20 MW to 29 MW

Sincerely,

(Joseph R. Sukhnandan)
 V.P. Engineering & Energy Supply

copy: Lynn Young - President and Chief Executive Officer, BEL

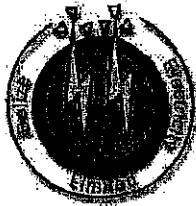
JRS/zbt

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**LEAST COST SOLUTION
FOR MEETING THE DRY SEASON 2007 DEMAND
AND
POSSIBLY THE DRY SEASON 2008 DEMAND
CONSIDERING DELAYS
IN
FINALIZING PPAs WITH IPPs**

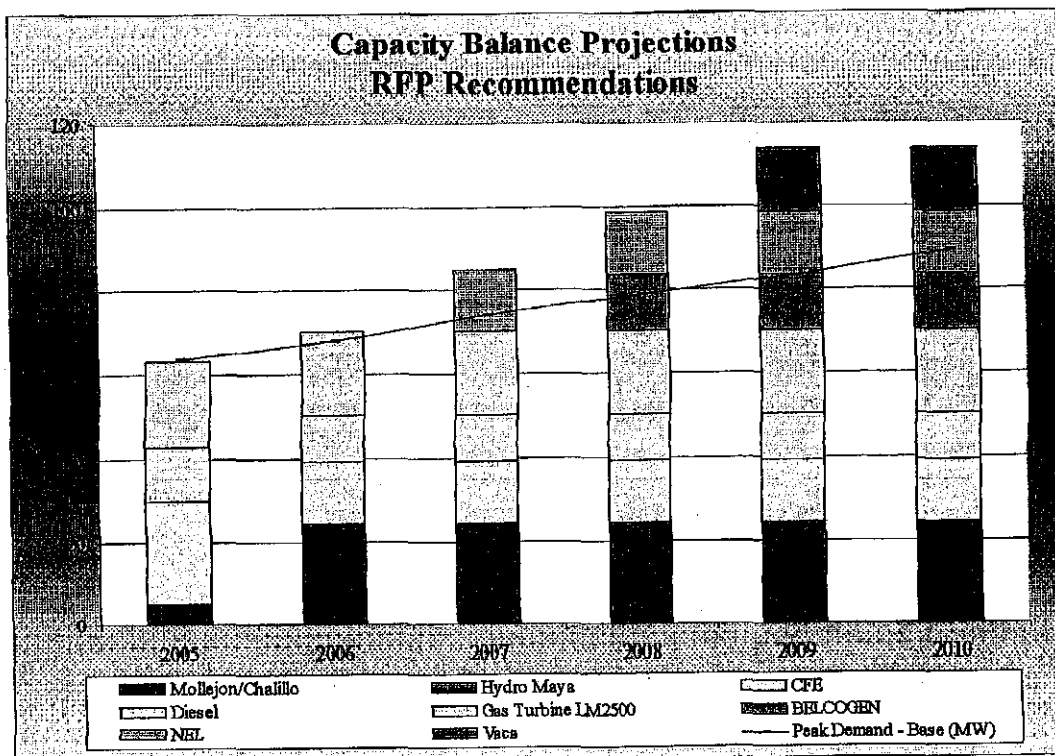
May 2006

Introduction

Under the RFP 2005, the following recommendations were made. BEL should proceed to do¹ the following:

1. Negotiate a new contract on a short term basis (four years) with CFE for a 12-15 MW firm capacity to be effective August 2006; BEL should continue to optimize its short term requirements and determine the lowest possible firm contract required from CFE. BEL should continue the economic energy purchase contract with CFE up to 15-20 MW.
2. Negotiate a PPA with NEL for approximately 15 MW firm capacity to come on line mid 2007 subject to NEL obtaining environmental approval for using 3.0%S heavy fuel oil for the duration of the 15-year PPA and that the cost of energy be indexed and be based on the 3.0%S heavy fuel oil.
3. Negotiate a PPA with BECOL for the 18 MW Vaca Offer to come on line January 2009.
4. BEL should consider the Bowen 10 MW unsolicited Offer as part of its medium to long term generation mix.²

The capacity balance with the above recommendations and the forecasted demand when the RFP was formulated is:



¹ BELCOGEN and Hydro Maya were the two successful IPPs from the first RFP in 2002. As of the date of the RFP 2005, Hydro Maya was scheduled to come on line December 2005 and BELCOGEN December 31, 2007.

² The Bowen Offer is not evaluated in this report.

The LOLP³ calculations yield:

Year	LOLP (days per year)
2007	1.4095
2008	0.1504
2009	0.5073

Capacity Balance – Delays in NEL and BELCOGEN, revised Peak

Since the PUC approved the recommendations of the RFP in December 2005, three key issues have developed.

1. BELCOGEN has indicated that the 13.5 MW bagasse fired plant will not come on line until December 2008.
2. Discussions with NEL continue but there has been no commitment to a Commercial Operation Date. In fact, NEL suggest that a target date is subject to obtaining environmental approval so they cannot come on line in the year 2007 (assuming three to six months for EIA, environmental approval other approvals and 10 to 12 months for construction). This, of course, means NEL cannot meet the RFP's February 2007 target date.
3. The peak demand forecast was revised to:

Peak Load (MW)	
Year	Base
2006	66.436
2007	70.422
2008	73.943
2009	77.640
2010	81.522
	5.249%

Shown below is the impact of the delay of both NEL and BELCOGEN, while maintaining CFE at the RFP recommendation of 15 MW.

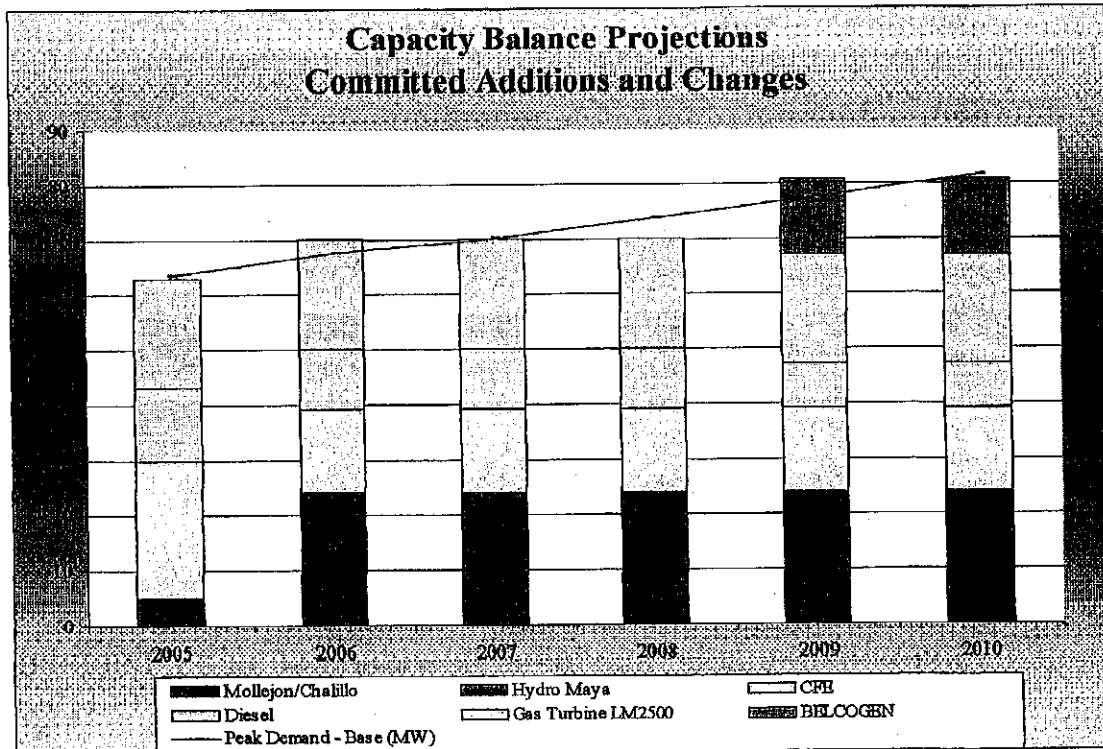
³ It is important to note that these LOLP numbers were calculated at the peak values when the RFP was formulated but at the current forecasted peak values these numbers are significantly lower in 2008 and 2009.

Capacity Balance Projections 2007 - 2010 Delays in NEL and BELCOGEN						
	2005	2006	2007	2008	2009	2010
Mollejon/Chalillo	5.00	23.70	23.70	23.70	23.70	23.70
Hydro Maya		0.50	0.50	0.50	0.50	0.50
CFE	25.00	15.00	15.00	15.00	15.00	15.00
Diesel	13.00	11.00	11.00	11.00	11.00	11.00
Gas Turbine LM2500	20.00	20.00	20.00	20.00	20.00	20.00
BELCOGEN					13.50	13.50
Total Firm Available Capacity	63.00	70.20	70.20	70.20	83.70	83.70
Peak Demand - Base (MW)	63.50	66.44	70.43	73.94	77.64	81.52
Capacity Reserve (MW)	-0.50	3.76	-0.22	-3.74	6.06	2.18
Generation Reserve Margin %	-1%	6%	0%	-5%	8%	3%
Generation Capacity Margin %	-1%	5%	0%	-5%	7%	3%

The LOLP calculations yield:

Year	LOLP (days per year)
2007	6.9441
2008	10.8749
2009	2.9878

The capacity balance⁴ graph is:



⁴ The capacity balance is done assuming a firm output of 24 MW from Mollejon/Chalillo. This is the annual average firm capability. This firm capability increases in the wet season to approximately 32 MW. In some of the drier months this can be as low as 10 MW depending on hydrology.

Observations:

1. With the reduction in CFE to 15 MW in August 2006 there is inadequate capacity reserve to reliably meet the peak demand in 2006. However, since the reduction in reserve occurs in the rainy season it will be partly mitigated by Mollejon/Chalillo.
2. The delay of NEL⁵ will cause a capacity deficit in 2007 and there is inadequate capacity to meet the dry season peak.
3. The delay of BELCOGEN from December 2007 to December 2008 will worsen the situation and increase the capacity deficit. In fact, in 2008 the deficit is approximately 4 MW.
4. In 2007 and 2008 the LOLPs are significantly above industry standards, indicating inadequate capacity reserves.

Conclusions:

It was known when making the RFP recommendations that reducing CFE in August 2006 would impose a capacity deficit. It was however felt that this deficit would be manageable in the wet season July-January of each year because of Chalillo; it is for this reason the RFP had set a target date for the generation addition as February 2007. With NEL delayed, increasing CFE, while an option, does not however address one of the key planning constraints: having sufficient generating capacity in-country to meet the peak demand. Moreover, increasing CFE may mean delaying or reducing NEL.

Therefore, without increasing CFE, and allowing time to resolve a possible PPA with NEL, is there a cost effective solution that ensures adequate capacity to meet the peak demand in 2007 and 2008? This solution must be optimal and least cost – as far as is practical.

Generation Planning Criteria

Three criteria used in Generation Planning are:

Generation Capacity Margin = (capacity in service – peak load)/capacity in service
Generation Reserve Margin = (capacity in service at peak – peak demand)/peak demand
Loss of Load Probability.

The industry standard for a developing country is that a 20% reserve margin or an LOLP of approximately 2 days per year provides acceptable levels of reliability. This is in line with the SAIDI and SAIFI targets contemplated by the PUC in the July 2005 decision.

Options to improve Capacity Reserve and Improve LOLP 2007 to 2009

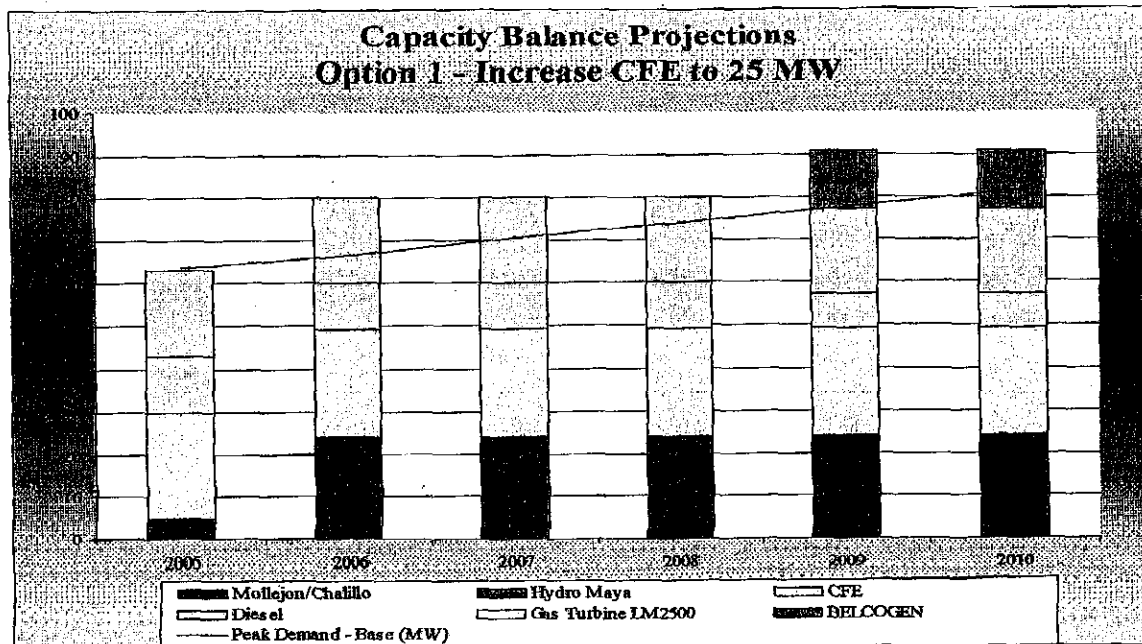
The available options are:

⁵ NEL is not shown in the above chart because a PPA is still being negotiated and a Commercial Operation Date has not been finalized. However, it is shown as one of the options from here onwards.

1. Increase CFE firm from 15 MW to either 20 MW or 25 MW.
2. Upgrade the GT capacity from 20 MW to 24 MW.
3. With NEL coming on line 2008 rent standby capacity or enter into a short term firm contract with CFE for the dry season 2007.
4. Increase the GT from 24 MW to 29 MW.
5. A combination of the available options such as increasing CFE to 20 MW and increasing the GT to 24 MW.
6. Rent diesel fired units in 2007 and 2008

Option 1 – Increase CFE to 25 MW⁶

Capacity Balance Projections 2007 - 2010 Option 1 - Increase CFE 25 MW, GT20 MW						
	2005	2006	2007	2008	2009	2010
Mollejon/Chalillo	5.00	23.70	23.70	23.70	23.70	23.70
Hydro Maya		0.50	0.50	0.50	0.50	0.50
CFE	25.00	25.00	25.00	25.00	25.00	25.00
Diesel	13.00	11.00	11.00	11.00	8.00	8.00
Gas Turbine LM2500	20.00	20.00	20.00	20.00	20.00	20.00
BELCOGEN					13.50	13.50
Total Firm Available Capacity	63.00	80.20	80.20	80.20	90.70	90.70
Peak Demand - Base (MW)	63.50	66.44	70.42	73.94	77.64	81.52
Capacity Reserve (MW)	-0.50	13.76	9.78	6.26	13.06	9.18
Generation Reserve Margin %	-1%	21%	14%	8%	17%	11%
Generation Capacity Margin %	-1%	17%	12%	8%	14%	10%



⁶ The results for the 20 MW option is inferred from the 25 MW option and a separate calculation is not deemed necessary.

The LOLP numbers are:

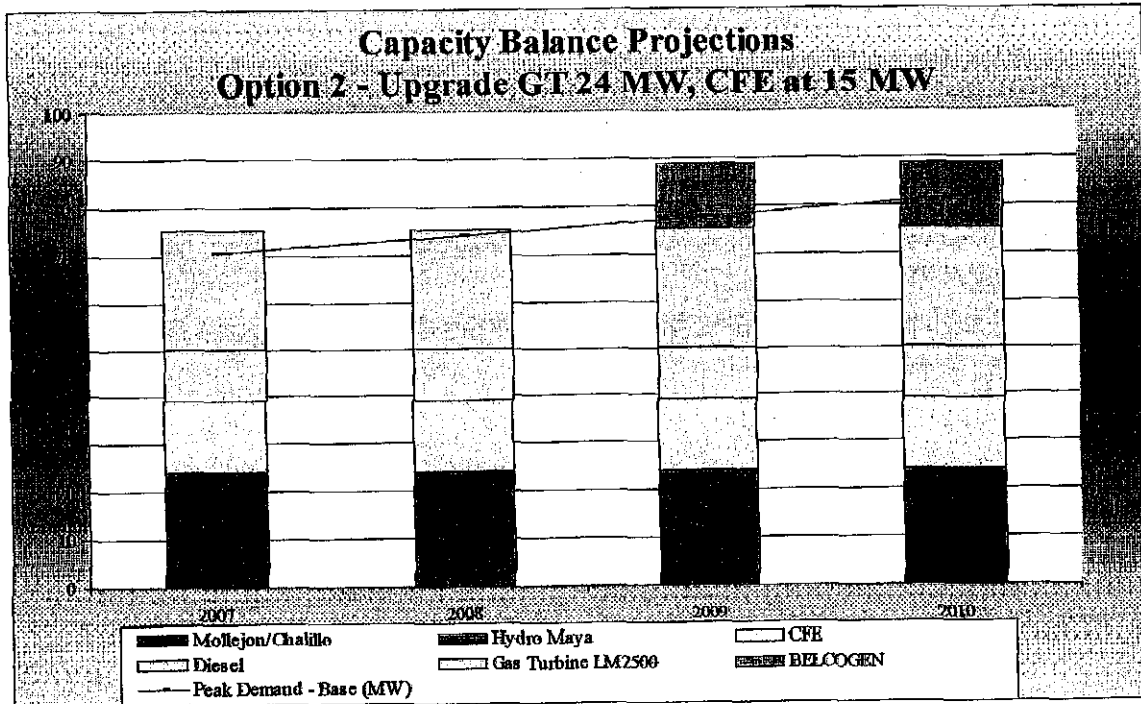
Year	LOLP (days per year)
2007	0.5501
2008	1.3408
2009	0.1246

Observations:

1. In 2006 the reserve margin is adequate at 21%; in 2007 there is a significant decrease to 14%; and in 2008 it is inadequate at 8%.
2. The LOLP values are all within the acceptable limits from 2007 to 2009.

Option 2 – Upgrade GT from 20 MW to 24 MW, maintain CFE at 15 MW

Capacity Balance Projections 2007 - 2010 Increase GT - 24 MW				
	2007	2008	2009	2010
Mollejon/Chahilo	23.70	23.70	23.70	23.70
Hydro Maya	0.50	0.50	0.50	0.50
CFE	15.00	15.00	15.00	15.00
Diesel	11.00	11.00	11.00	11.00
Gas Turbine LM2500	24.00	24.00	24.00	24.00
BELCOGEN			13.50	13.50
Total Firm Available Capacity	74.20	74.20	87.70	87.70
Peak Demand - Base (MW)	70.42	73.94	77.64	81.52
Capacity Reserve (MW)	3.78	0.26	10.06	6.18
Generation Reserve Margin %	5%	0%	13%	8%
Generation Capacity Margin %	5%	0%	11%	7%



The LOLP calculation yields

Year	LOLP (days per year)
2007	3.4013
2008	6.5185
2009	1.5032

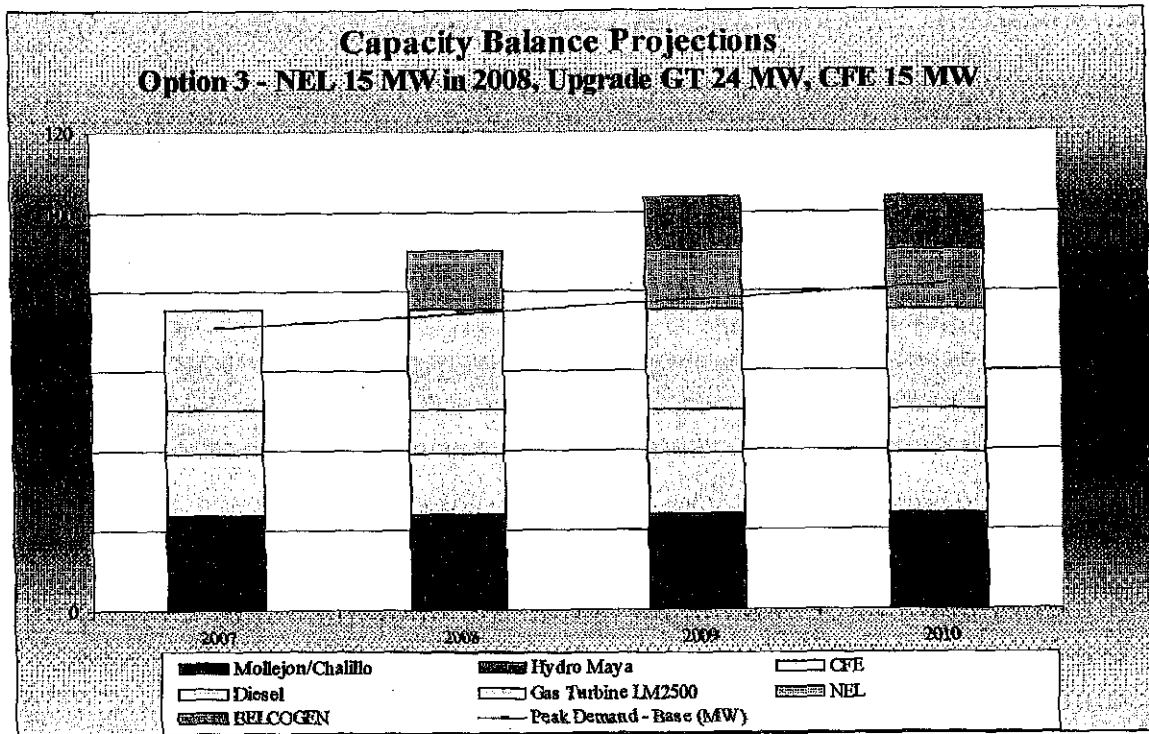
Observations:

- i. The LOLP while unacceptable in 2007 and 2008 is acceptable in 2009.
- ii. In 2008 the reserve margin is 0%.
- iii. There is no firm commitment with CFE in 2010 but it is included for completeness.

Option 3 - NEL comes on line 2008 with 15 MW

Indications are that NEL can possibly come on line in early 2008. Considering that increasing the GT to 24 MW provides an LOLP of 3.4013, this is evaluated along with the NEL 15 MW.

Capacity Balance Projections 2007 - 2010 Increase GT and add NEL 2008				
	2007	2008	2009	2010
Mollejon/Chalillo	23.70	23.70	23.70	23.70
Hydro Maya	0.50	0.50	0.50	0.50
CFE	15.00	15.00	15.00	15.00
Diesel	11.00	11.00	11.00	11.00
Gas Turbine LM2500	24.00	24.00	24.00	24.00
NEL		15.00	15.00	15.00
BELCOGEN			13.50	13.50
Total Firm Available Capacity	74.20	89.20	102.70	102.70
Peak Demand - Base (MW)	70.42	73.94	77.64	81.52
Capacity Reserve (MW)	3.78	15.26	25.06	21.18
Generation Reserve Margin %	5%	21%	32%	26%
Generation Capacity Margin %	5%	17%	24%	21%



The LOLP calculation yields:

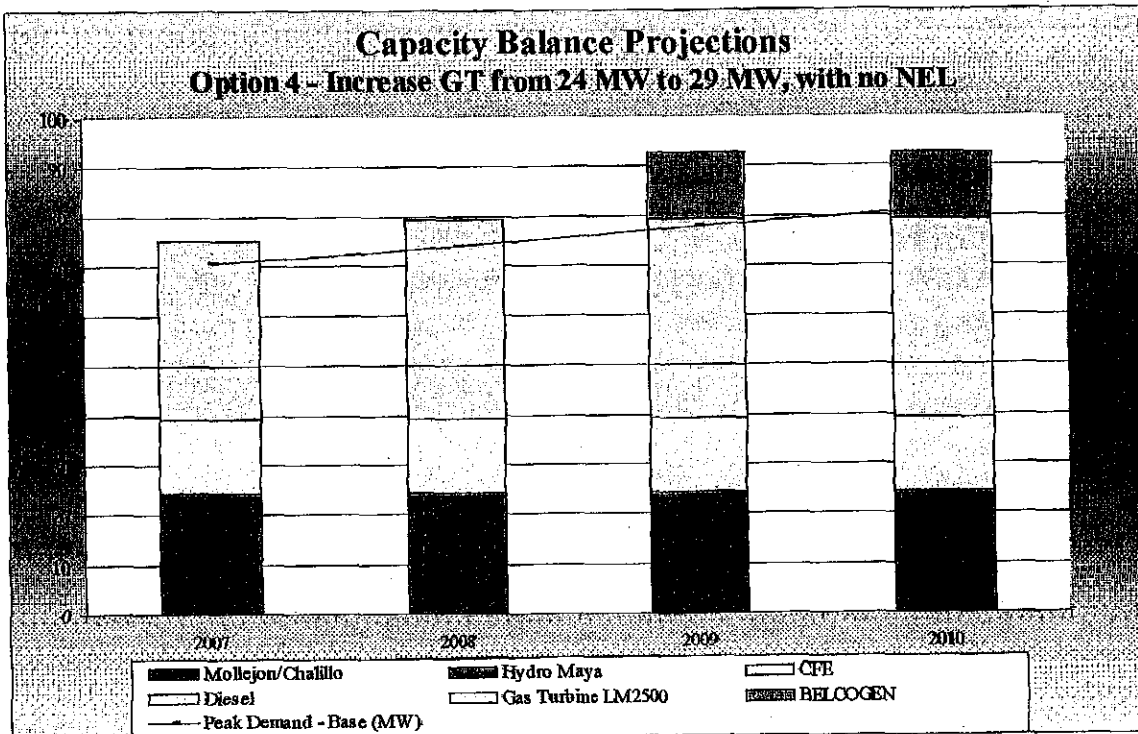
Year	LOLP (days per year)
2007	3.4013
2008	0.3813
2009	0.0328

Observations:

- i. The LOLP in 2008 and 2009 are less than 1 and are acceptable. However, this indicates that customers will be paying for too much spare capacity in both 2008 and 2009.
- ii. If NEL comes on line in 2008 it might be possible to terminate the CFE firm contract earlier and purchase only economic energy.

Option 4 - Increasing GT from 24 MW to 29 MW, with no NEL

Capacity Balance Projections 2007 - 2010 Increase GT to 29 MW				
	2007	2008	2009	2010
Mollejon/Chalillo	23.70	23.70	23.70	23.70
Hydro Maya	0.50	0.50	0.50	0.50
CFE	15.00	15.00	15.00	15.00
Diesel	11.00	10.00	10.00	10.00
Gas Turbine LM2500	24.00	29.00	29.00	29.00
NEL		0.00	0.00	0.00
BELCOGEN			13.50	13.50
Total Firm Available Capacity	74.20	78.20	91.70	76.70
Peak Demand - Base (MW)	70.42	73.94	77.64	81.52
Capacity Reserve (MW)	3.78	4.26	14.06	-4.82
Generation Reserve Margin %	5%	6%	18%	-6%
Generation Capacity Margin %	5%	5%	15%	-6%



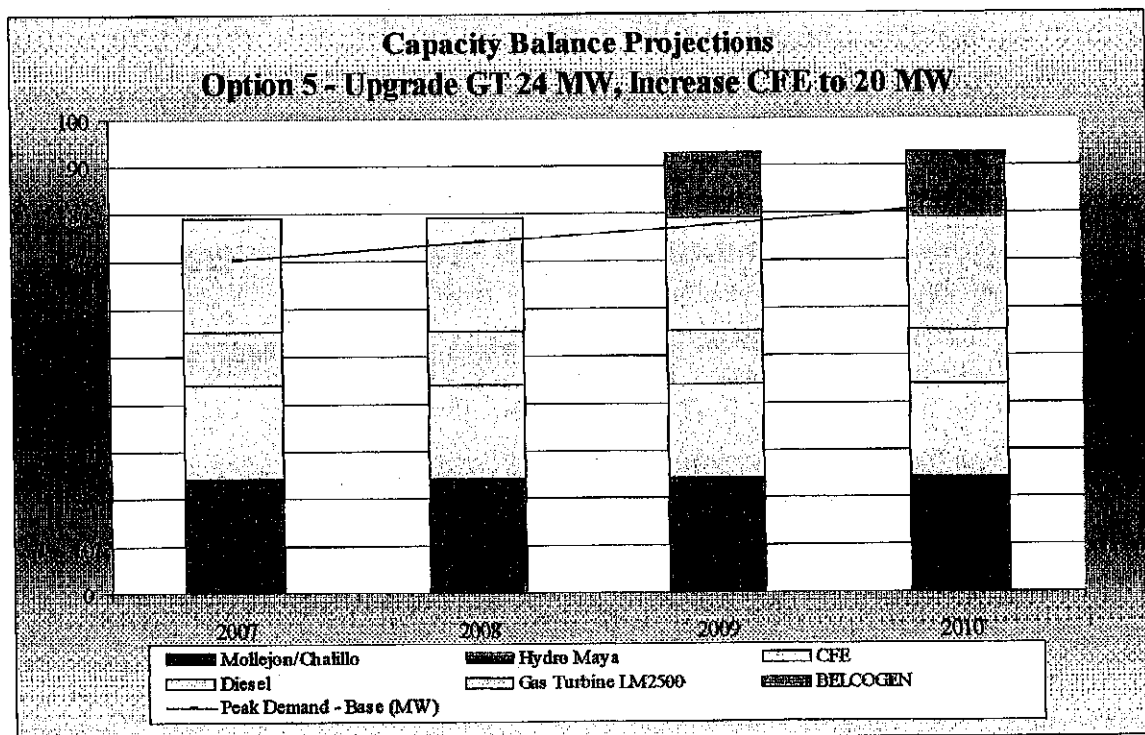
The LOLP calculation yields:

Year	LOLP (days per year)
2007	3.4013
2008	4.9346
2009	0.5193

Observations:

- i. The LOLP in 2007 and 2008 are slightly above standard but is acceptable in 2009.

Option 5 – Increase CFE 20 MW and Upgrade the GT to 24 MW



Year	LOLP (days per year)
2007	2.3228
2008	3.7926
2009	0.6241

Observations

- i. Except for 2008, the reliability numbers are almost within the accepted standard.

Option 6 – Rent Diesel fired units

In 2004 an analysis was done comparing a CFE Firm Offer with rental of small 1.4 MW diesel fired standby units. This analysis was done to determine the options for the dry season 2005. In that report it was concluded that the capacity charge for standby units was in excess of US\$24 per kW compared to CFE of US\$10.31 per kW. Considering the high price of diesel, it was decided not to evaluate this option any further.

Summary of Observations

Without NEL in 2007, the LOLP is almost 7 days per year and the capacity margin with CFE at 15 MW is zero. If NEL does *not* come on line in 2008 the situation is significantly worsened.

Increasing the capacity of the GT and increasing CFE's firm contract are the only viable and cost effective short term solutions to meet the capacity deficit. Obtaining CFE on an emergency basis is not a cost effective or reliable option and using CFE to provide all of the dry season capacity does not provide adequate in-country capacity.

Increasing the GT alone in stages does not allow BEL to meet the target LOLP of 2 days/year but there is a reserve margin of almost 6% in both 2007 and 2008.

Should NEL be delayed beyond 2007 further capacity additions will be required in 2008 considering that BELCOGEN is now delayed to early 2009.

With the GT at 29 MW the in-country reliable capacity improves to 60.2 MW. Optimizing Mollejon/Chalillo to the full plant capability of 32.5 MW would provide in-country capacity to almost 75MW, ensuring that loss of CFE does not jeopardize the ability to meet the peak using in-country sources. However, in May 2007 there is a hydrology risk that Mollejon/Chalillo will be unable to sustain the 32.5 MW for the day and the night peak and CFE emergency may have to be used.

If NEL fails to come on line in 2008, there is a capacity deficit in April and May 2008, even with CFE at 15 MW and the GT at 29 MW. However, the performance of the system is not severely jeopardized.

With Mollejon, Chalillo, the GT upgrade, diesel fired units and BELCOGEN, there is adequate in-country capacity each year until 2010.

The best option purely from a reliability perspective is to increase CFE either 20 or 25 MW and upgrade the GT to 24 MW. However, once CFE is increased, it cannot be decreased until December 2009.

Cost of Power - GT 24 MW, then 29.2 MW and CFE to 15 MW

Option	2007	2008	2009
CFE30, GT20, No NEL	0.2175	0.2252	0.2149
CFE20, GT24, GT29	0.2212	0.2265	0.2194
CFE15, GT24, GT29, No NEL	0.2231	0.2284	0.2212
CFE15, GT24, NEL 2008	0.2231	0.2289	0.2296

Notes:

1. The optimal dispatch on a monthly basis using the hourly model is shown in Appendix 1⁷. However, it is unlikely that economic energy would be readily available in March, April and May so we have assumed a probability of availability of 0.85, 0.8 and 0.7 respectively. To meet the capacity the following is done:
 - i. For the GT upgrade option, the GT is dispatched to meet the deficit for 2007 through 2010 for March, April and May.
 - ii. For the NEL option this is only done in 2007 and for April and May in 2008.
2. For the NEL option, the GT is assumed to increase *only* to 24 MW in 2007. No further upgrades are done, even though the maximum efficiency is at 29 MW, because with NEL, the LOLP is lower than the target.
3. NEL is dispatched as a priority: Mollejon → Chalillo → Hydro Maya → CFE 15 MW → NEL 15 MW → CFE Economic → Diesel or GT. However, it is only possible to dispatch NEL at a 59% capacity factor in 2008, 33% in 2009 and 40% 2010. This causes an increase in the unit cost of power since NEL's capacity charge is significantly higher than CFE's.

Conclusions

It can be concluded that:

1. To meet the 2007 dry season requirements, *the least cost solution* is to increase CFE to 30 MW. However, once CFE is increased to 30 MW, the contract must remain effective until 2009. This will mean NEL cannot be further considered until then.
2. Upgrading the GT to approximately 29 MW causes a slight increase from the annual least cost of power.

⁷ Appendix 1 shows the optimal dispatch only. It does not show the changes for March, April and May. These changes were made only in the cost of power calculations.

3. However, upgrading the GT ensures that there are adequate in-country sources through 2010 – provided BELCOGEN comes on line early 2009.
4. There is not a significant difference in either the cost of power or LOLP between the following two options: (i) CFE increased from 15 to 20 MW, GT upgraded to 29 MW; and (ii) CFE remaining at 15 MW, GT upgraded to 29 MW.
5. It would certainly be desirable to increase both CFE to 20 MW and the GT to 29 MW immediately - as there is still some concern during the months of April and May 2007 and 2008. However, in our view, the decision to increase CFE to 20 MW should be made only if NEL cannot come on line 2008.

Recommendations

It is recommended that:

1. Immediately finalize the contract with CFE for 15 MW firm and finalize the economic energy purchases at 25 MW.
2. Upgrade the GT in stages to 29 MW. The first stage upgrade of the engine to 24 MW to be completed August 2006.
3. Continue pursuing a contract with NEL for 15 MW. If NEL cannot obtain environmental approval for the 3.0%S heavy fuel oil or if NEL is delayed beyond 2008 this situation will have to be re-visited early 2007 with a view to advance the GT upgrade from 24 MW to 29 MW to the end of the dry season 2007 and increase CFE Firm to 20 MW by January 2008.
4. Accept the BELCOGEN request for a change to the Scheduled Commercial Operational Date from December 31, 2007 to December 31, 2008.

APPENDIX 1
OPTIMAL MONTHLY DISPATCH

CFE15, GT 24, GT 29, ECONOMIC 25, NO NEL

2,007	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	896	-	10,508	-	7,424	-	26	32,355
February	2,100	8,400	510	-	10,002	-	9,923	-	171	31,106
March	1,800	7,200	396	-	11,159	-	18,023	-	1,613	38,190
April	1,500	6,000	317	-	10,800	-	18,286	34	2,598	37,535
May	1,200	4,800	370	-	11,160	-	17,860	191	4,570	40,152
June	2,100	8,400	1,036	-	10,798	-	15,815	30	1,952	40,128
July	2,750	13,750	2,028	-	10,942	-	10,672	-	781	40,923
August	2,750	13,750	2,050	-	10,892	-	10,928	-	558	40,929
September	2,750	13,750	2,018	-	10,337	-	9,143	-	318	38,316
October	2,500	12,500	2,025	-	10,938	-	9,701	-	131	37,796
November	2,250	11,250	1,545	-	10,618	-	9,420	-	36	35,119
December	2,500	12,500	1,208	-	10,805	-	9,929	-	85	37,028
TOTAL	26,900	123,100	14,400	-	128,958	-	143,125	255	12,838	449,578

2,008	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	896	-	10,744	-	8,792	-	88	34,020
February	2,100	8,400	510	-	10,049	-	11,270	-	378	32,707
March	1,800	7,200	396	-	11,160	-	18,821	176	2,603	40,156
April	1,500	6,000	317	-	10,800	-	18,800	345	3,705	39,467
May	1,200	4,800	370	-	11,160	-	18,149	1,583	4,956	42,218
June	2,100	8,400	1,036	-	10,798	-	16,615	445	2,800	42,194
July	2,750	13,750	2,028	-	11,063	-	12,198	-	1,240	43,030
August	2,750	13,750	2,050	-	11,037	-	12,439	-	1,010	43,035
September	2,750	13,750	2,018	-	10,534	-	10,580	-	656	40,288
October	2,500	12,500	2,025	-	11,044	-	11,323	-	350	39,741
November	2,250	11,250	1,545	-	10,713	-	11,003	-	166	36,927
December	2,500	12,500	1,208	-	10,941	-	11,490	-	294	38,934
TOTAL	26,900	123,100	14,400	-	130,043	-	157,479	2,549	18,245	472,716

2,009	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	896	9,655	8,635	-	3,058	-	-	35,744
February	2,100	8,400	510	9,049	9,402	-	4,902	-	2	34,365
March	1,800	7,200	396	10,027	11,081	-	11,578	-	109	42,191
April	1,500	6,000	317	9,718	10,746	-	12,804	-	381	41,497
May	1,200	4,800	370	10,041	11,160	-	15,852	-	1,135	44,358
June	2,100	8,400	1,036	9,608	10,710	-	12,172	-	305	44,332
July	2,750	13,750	2,028	10,025	9,735	-	6,901	-	21	45,210
August	2,750	13,750	2,050	10,026	9,839	-	6,799	-	3	45,216
September	2,750	13,750	2,018	9,660	9,008	-	5,144	-	0	42,330
October	2,500	12,500	2,025	10,008	9,741	-	4,981	-	-	41,755
November	2,250	11,250	1,545	85	10,703	-	12,522	-	462	38,798
December	2,500	12,500	1,208	9,942	9,609	-	5,147	-	-	40,907
TOTAL	26,900	123,100	14,400	107,825	120,370	-	101,660	-	2,419	496,674

2,010	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	896	9,726	9,322	-	4,141	-	-	37,585
February	2,100	8,400	510	9,052	9,648	-	6,405	-	20	36,135
March	1,800	7,200	396	10,027	11,134	-	13,389	-	417	44,364
April	1,500	6,000	317	9,718	10,779	-	14,197	-	1,092	43,603
May	1,200	4,800	370	10,041	11,160	-	16,622	-	2,450	46,642
June	2,100	8,400	1,036	9,608	10,755	-	13,973	-	743	46,615
July	2,750	13,750	2,028	10,042	10,188	-	8,841	-	142	47,539
August	2,750	13,750	2,050	10,034	10,206	-	8,704	-	52	47,545
September	2,750	13,750	2,018	9,705	9,469	-	6,795	-	23	44,510
October	2,500	12,500	2,025	10,030	10,245	-	8,802	-	5	43,906
November	2,250	11,250	1,545	48	10,740	-	13,949	-	1,015	40,797
December	2,500	12,500	1,208	9,989	10,068	-	6,748	-	0	43,014
TOTAL	26,900	123,100	14,400	108,020	123,710	-	120,165	-	5,058	522,254

CFE 15, GT 24, NEL 15 - 2008

2,007	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	896	-	10,508	-	7,424	-	26	32,355
February	2,100	8,400	510	-	10,002	-	9,923	-	171	31,108
March	1,800	7,200	396	-	11,159	-	16,023	-	1,613	38,190
April	1,500	6,000	317	-	10,800	-	16,288	34	2,598	37,535
May	1,200	4,800	370	-	11,160	-	17,860	191	4,570	40,152
June	2,100	8,400	1,036	-	10,796	-	15,815	30	1,952	40,128
July	2,750	13,750	2,028	-	10,942	-	10,672	-	781	40,923
August	2,750	13,750	2,050	-	10,892	-	10,928	-	558	40,929
September	2,750	13,750	2,018	-	10,337	-	9,143	-	318	39,316
October	2,500	12,500	2,025	-	10,939	-	9,701	-	131	37,796
November	2,250	11,250	1,545	-	10,618	-	9,420	-	38	35,119
December	2,500	12,500	1,208	-	10,805	-	9,929	-	85	37,028
TOTAL	26,900	123,100	14,400	-	128,958	-	143,125	255	12,839	449,578

2,008	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	898	-	10,744	3,100	5,779	-	-	34,020
February	2,100	8,400	510	-	10,049	5,094	6,554	-	-	32,707
March	1,800	7,200	396	-	11,160	8,061	11,528	-	11	40,156
April	1,500	6,000	317	-	10,800	8,281	12,539	-	30	39,467
May	1,200	4,800	370	-	11,160	9,378	15,152	-	158	42,218
June	2,100	8,400	1,036	-	10,798	8,612	11,207	-	40	42,194
July	2,750	13,750	2,028	-	11,063	6,952	6,486	-	-	43,030
August	2,750	13,750	2,050	-	11,037	6,987	6,461	-	-	43,035
September	2,750	13,750	2,018	-	10,534	5,891	5,345	-	-	40,288
October	2,500	12,500	2,025	-	11,044	5,208	6,464	-	-	39,741
November	2,250	11,250	1,545	-	10,713	5,004	6,164	-	-	36,927
December	2,500	12,500	1,208	-	10,941	5,117	6,668	-	-	38,934
TOTAL	26,900	123,100	14,400	-	130,043	77,686	100,348	-	239	472,716

2,009	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	896	9,655	8,635	857	2,400	-	-	35,744
February	2,100	8,400	510	9,049	9,402	1,692	3,212	-	-	34,365
March	1,800	7,200	396	10,027	11,081	5,198	6,489	-	-	42,191
April	1,500	6,000	317	9,718	10,746	5,706	7,479	-	-	41,467
May	1,200	4,800	370	10,041	11,160	6,708	10,079	-	-	44,358
June	2,100	8,400	1,036	9,608	10,710	5,547	6,931	-	-	44,332
July	2,750	13,750	2,028	10,025	9,735	3,034	3,888	-	-	45,210
August	2,750	13,750	2,050	10,026	9,839	3,152	3,651	-	-	45,216
September	2,750	13,750	2,018	9,660	9,008	1,990	3,154	-	-	42,330
October	2,500	12,500	2,025	10,008	9,741	1,675	3,305	-	-	41,755
November	2,250	11,250	1,545	85	10,703	5,796	7,189	-	-	38,798
December	2,500	12,500	1,208	9,942	9,609	1,865	3,282	-	-	40,907
TOTAL	26,900	123,100	14,400	107,825	120,370	43,021	61,059	-	-	496,674

2,010	CHA	MOL	HML	BELC	CFE	NEL	CFE-E	GT	DSL	TOTAL
January	2,700	10,800	896	9,726	9,322	1,099	3,042	-	-	37,585
February	2,100	8,400	510	9,052	9,648	2,534	3,891	-	-	36,135
March	1,800	7,200	396	10,027	11,134	5,821	7,986	-	-	44,364
April	1,500	6,000	317	9,718	10,779	6,257	9,031	-	-	43,603
May	1,200	4,800	370	10,041	11,160	7,306	11,766	-	-	46,642
June	2,100	8,400	1,036	9,608	10,755	6,347	8,370	-	-	46,615
July	2,750	13,750	2,028	10,042	10,186	4,208	4,575	-	-	47,539
August	2,750	13,750	2,050	10,034	10,206	4,408	4,348	-	-	47,545
September	2,750	13,750	2,018	9,705	9,469	3,167	3,651	-	-	44,510
October	2,500	12,500	2,025	10,030	10,245	2,639	3,967	-	-	43,908
November	2,250	11,250	1,545	48	10,740	6,602	8,362	-	-	40,797
December	2,500	12,500	1,208	9,989	10,068	2,760	3,988	-	-	43,014
TOTAL	26,900	123,100	14,400	108,020	123,710	53,147	72,977	-	-	522,254

APPENDIX II
UPGRADING THE GAS TURBINE

Upgrading the GT

The GT requires a hot section change in early 2007 because the running hours will exceed 8,000 hours. The cost of a hot section change would be just over US\$1 million. GE proposes instead to upgrade the LM2500PE to LM2500+(PK) via exchange option for one unit. The LM2500PE is combined cycle, in an AEP package, and controlled with a Woodward Atlas + Fanuc 90-70 control system. GE AE will be responsible for teardown, upgrade/exchange, and reinstallation of the new LM2500+(PK) into the existing package. BEL will be responsible for providing laborers, welders, and any extra power supply required of added control instrumentation. In addition, chillers can be added as a second stage to significantly improve the power output.

If only the engine is replaced, the cost is US\$4.6⁸ million for an additional 3 MW of capacity⁹. The equivalent capacity charge is US\$21.85 per kW-month. With a new engine and chillers¹⁰ the estimated cost is US\$7.7 million for an additional 8 MW of capacity¹¹. The equivalent capacity charge is US\$13.71 per kW-month. Importantly, with the upgrade to 29.3 MW, the capacity charge for the GT becomes US\$9.9 per kW-month, which is comparable to CFE's capacity charge¹² and is almost the same as the existing capacity charge.

The power outputs under various options are shown below:

⁸ The annual cost is calculated as $TC \times CRF$. CRF is calculated at a discount rate of 0.15, and is equal to 0.1710.

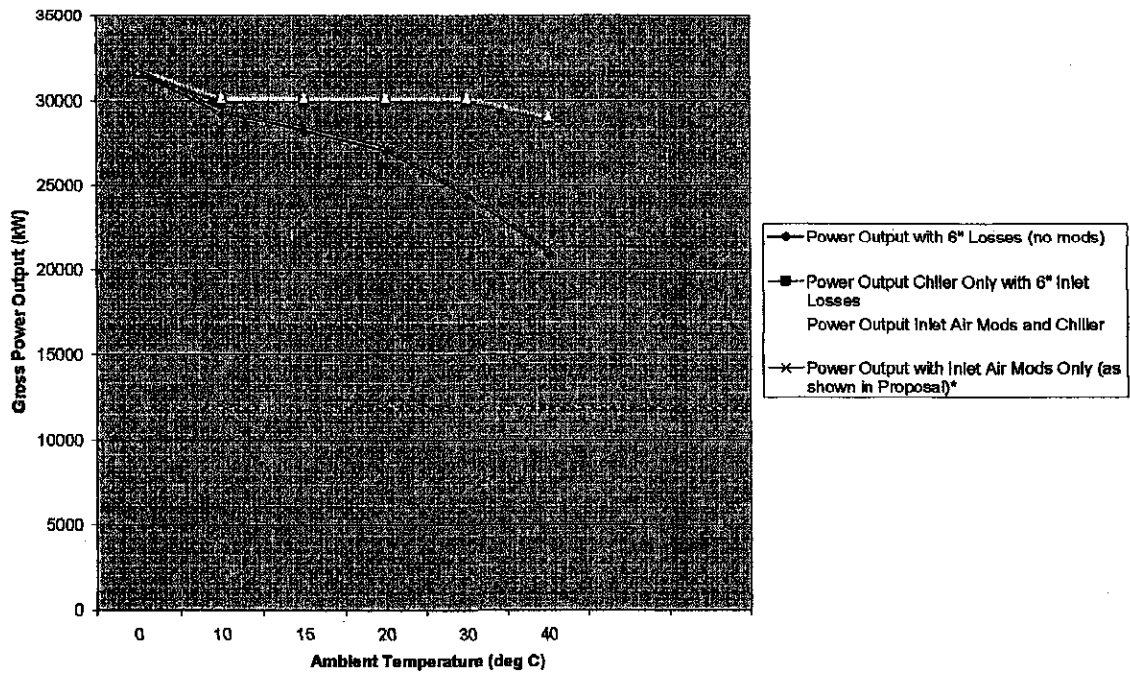
⁹ Increase from 21.481 MW to 24.403 MW

¹⁰ The input air to the GT is cooled to 7°C.

¹¹ Increase from 21.481 MW to 29.315 MW.

¹² The annual cost increases to BZ\$5.705 million for the 24 MW option, up from BZ\$4.641 million. For the 29 MW option the annual cost increases to BZ\$6.779 million.

LM2500+ Upgrade Options Power Output





Public Utilities Commission

63 Regent Street
P.O. Box 300
Belize City, Belize

Website: www.puc.bz

Ph: 501-227-1185
Fax: 501-227-1149
Email: puc@btl.net

EXE2/120/02/2006(188)
(194)

June 12, 2006

Mr. Joseph Sukhnandan
V.P. Engineering & Energy Supply
Belize Electricity Limited
2 ½ Miles Northern Highway
Belize City, BELIZE

Dear Mr. Sukhnandan,

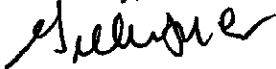
Please refer to letter EXE2/120/02/2006(188) dated May 30, 2006 and the subsequent discussions and further analysis undertaken on the matters contained therein. In furthering the establishment and implementation of a Least Cost Generation Plan (LCGP) for the period 2006 to 2010, the Public Utilities Commission hereby approves the following:

- (1) A contract with CFE for a firm capacity of 25 MW with associated energy for a period of two (2) years starting in August 2006 and terminating in August 2008 is to be immediately concluded. Except for the above changes, the other terms and conditions to be included in the contract are as contained in the proposed contract submitted to the PUC by Belize Electricity Limited (BEL) under cover letter EXE2/240/10/2006(30). For certainty the price approved is as contained in Section 3.2 of that proposed contract. The arrangement for the supply of "economic" energy by CFE is to be continued.
- (2) The Power Purchase Agreement (PPA) negotiations with National Energy Limited (NEL) are to be expedited and finalized for the supply of 25 MW of firm capacity and associated energy starting in January 2008 for a period of fifteen (15) years. NEL should be encouraged to secure a fuel supply contract with Belize Natural Energy Ltd. (BNE). Preliminary analysis indicates that using local crude oil will reduce prices and alleviate environmental concerns on burning imported HS HFO along with having other positive economic benefits to Belize.
- (3) The Scheduled Commercial Operational Date for electricity supply from Belize Cogeneration Ltd. (BELCOGEN) is to be extended from December 31, 2007 to December 31, 2008.
- (4) The negotiations with Belize Electricity Company Ltd. (BECOL) are to be pursued with a view to settling an energy price that can be included in the PPA. As discussed, from the perspective of the PUC and based on the information received to date, a fair and reasonable price for energy from the Vaca Hydroelectric Project seems to be in the order of US\$ 0.085 per kilowatt hour with no escalation and no capacity charge.

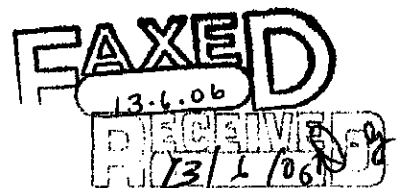
- (5) The expansion of the GT capacity from 20 MW to 24 MW is to be carried out in lieu of the "hot section" work scheduled for this year on the understanding that the current levels of the fixed and variable costs (excluding fuel) for the total of BEL's diesels and GT remain at the same levels as is currently being incurred and forecasted. The Ruston (3 MW) diesel which was recently taken out of service will not be replaced.

The PUC looks forward to the successful completion of the above approved activities which are a part of the competitive bidding processes being utilized to establish generation that will not only be the least cost option but also serve to increase energy security and reliability.

Sincerely,



Dr. Gilbert H. Canton
Chairman



Joseph Sukhnandan

From: ambrosio.salazar@cfe.gob.mx
Sent: Wednesday, July 19, 2006 6:53 PM
To: Joseph Sukhnandan; Lynn Young; Kevin Longsworth
Cc: eduardo.meraz@cfe.gob.mx; mario.lara@cfe.gob.mx; anselmo.sanchez@cfe.gob.mx;
leon.flores@cfe.gob.mx; victor.corona@cfe.gob.mx
Subject: NUEVA OFERTA

MR. JOSEPH SUKHNANDAN
VICEPRESIDENT ENGINEERING &
ENERGY SUPPLY

LE ENVÍO LA NUEVA PROPUESTA DEL PRECIO DE ENERGÍA PARA EL NUEVO CONTRATO, EN ESPERA DE SUS COMENTARIOS QUEDO PENDIENTE-

Atentamente
Ing. Ambrosio Salazar Baños.
SubGerente de Transacciones Comerciales e/f.
Área de Control Peninsular CENACE
Comisión Federal de Electricidad
Tel. 9 42 61 50
Cel 99 91 83 99 21
email ambrosio.salazar@cfe.gob.mx



BELIZE ELECTRICITY LIMITED
A PUBLIC UTILITY COMPANY INCORPORATED IN BELIZE, CENTRAL AMERICA

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August 16, 2006

OUR REF: EXE2/240/10/2006(53)

Dr. Gilbert Canton
Chairman
Public Utilities Commission
63 Regent Street
Belize City, Belize

Dear Dr. Canton:

Considering that the PPA with CFE for the 15 MW firm contract was not signed, CFE decided to change the original offer. According to CFE, the price for the various energy sources have increased significantly and the price of combustible (heavy fuel oil) for example is now very high whereas the price of gas has reduced substantially. According to CFE, the price of the original offer was based on gas only and is much lower than the actual production cost and thus cannot be maintained. Consequently, CFE submitted a new proposal dated August 2, 2006 modifying their original submission dated September 21, 2005. Since the CFE contract expires on August 20, 2006 and no other cheaper source can be obtained in this short time frame we will proceed to enter into a PPA with CFE for two years for 15 MW under the new terms.

Sincerely,

Joseph R. Sukhnandan
V.P. Engineering & Energy Supply

JRS/dg

c: Lynn Young – President & CEO

Attachment: 1

CALL TOLL FREE: 0-800-BEL-CARE
(0-800-235-2273)

Continuously Striving to Serve You Better



Public Utilities Commission

83 Regent Street
P.O. Box 300
Belize City, Belize

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Ph: 501-227-1185
Fax: 501-227-1149
Email: puc@btl.net

August 22, 2006

Mr. Ira Ginsburg
National Energy Limited
P. O. Box 175
San Ignacio, Cayo
BELIZE

Dear Mr. Ginsburg,

The Public Utilities Commission (PUC) hereby requests that you provide us with your final best offer for a firm supply of 25MW. The PUC is aware from earlier correspondence and the meeting held with Belize Electricity Limited (BEL), ourselves, and yourselves last month that National Energy Limited (NEL) is prepared to better their original offer through a reduction in the capacity charge and other means. We would appreciate if we could receive the offer by close of business today.

Looking forward to hearing from you.

Sincerely,

Dr. Gilbert H. Canton
Chairman

cc: Mr. Lynn Young, Belize Electricity Limited



BELIZE ELECTRICITY LIMITED
A Public Utility Company Limited
177 BELIZE CITY, BELIZE, CENTRAL AMERICA

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October 23, 2006

OUR REF: EXE2/120/02/2006(206)

Mr. Roberto Young
Chairman
Public Utilities Commission
Regent Street
Belize City, BELIZE

Dear Mr. Young:

As you are aware there have been various discussions between BEL and the PUC concerning finalizing the RFP-2005. Some of the recent discussions centered on the various steps laid out in the RFP and what is required to achieve finality of the process. We are obligated to the various bidders to make an announcement or state to them in writing that the process has been concluded. If we do not, there is a risk that future calls for bids may not be taken seriously and BEL may well not get competitive bids in generation. It should be noted that one bidder did verbally express this view when we were amending the closing dates.

It was our intention that the RFP-2005 issued in July 2005 would have resulted in the consummation of PPAs by March 2006 especially for the first tranche to enable generation additions to come on line by early 2007. This was to ensure that there was adequate capacity to meet the dry season 2007 demand. This is no longer possible. In any case, a close examination of the RFP indicates that the RFP process has come to a close simply because it has expired or is no longer valid. Procedurally we were required to extend Steps 8 & 9 of the RFP to facilitate completion of possible PPAs, however Step 9 was only extended to May 15, 2006 on March 15, 2006. Since we have not extended Step 9, the RFP is no longer valid.

As part of an agreement with the PUC in late 2005 as evidenced by our letter of December 29, 2005 and the PUC's letter of December 30, 2005, we submitted two PPAs: one with BECOL for the Vaca Hydroelectric Project on May 5, 2006 and one with CFE for 15 MW firm capacity on March 2, 2006 but the PUC have yet to confirm its approval. In fact, the PUC requested that we amend the CFE PPA and CFE increased their prices. A revised PPA was subsequently submitted.

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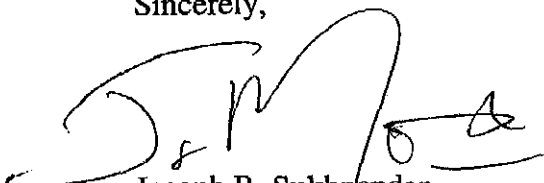
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We have been unable to come to an agreement with NEL for the 15 MW firm capacity required to be on line early 2007. We have therefore decided to cease discussions with NEL and considering the length of time that has elapsed from RFP commencement to today, it is our view that the RFP no longer serves any purpose and should be brought to its logical conclusion. For example, since we cannot reach an agreement with NEL, we should have offered the 15 MW firm capacity for the first tranche to the next lowest bidder but obviously this cannot be done as the validity of all bids have expired.

Finally, our view is that the offer from BECOL and Bowen for 15 MW firm capacity and 10 MW firm capacity were the most competitive offers as evidenced by our initial submission to the PUC. We recommend that PPAs be consummated with BECOL and Bowen at prices not to exceed their bid amounts. The Bowen 10 MW capacity is available immediately and can be used to meet the dry season 2007 and 2008 demand.

Sincerely,



Joseph R. Sukhrandan
V.P. Engineering & Energy Supply

JRS/dg

c: Lynn Young – President & Chief Executive Officer

Faxed
23/10/06
N.Y.