

How can BEL experience cash flow problems when it makes healthy profits (earnings)



When BEL pays out more money for power than it is allowed to charge in the rates, the extra cost is not shown as an expense against BEL's income. Likewise, if BEL pays less for power than the amount provided for in the rates, BEL cannot show the savings as a profit. The extra costs or savings is tracked in the Rate Stabilization Account (RSA). If the RSA goes below zero, customers will get rate reductions. However, when the RSA increases beyond a certain level, then the rates have to be adjusted to bring it back to zero.

At the current level of oil prices and if there are no adjustments made to the cost of power component of electricity rates, BEL will pay more than \$21 million in extra costs of power in 2008, that will not be collected in the rates. This is more than 72 per cent of the Company's 2007 profits, leading to a serious cash flow problem.

