



BELIZE ELECTRICITY LIMITED

2 1/2 MILES NORTHERN HIGHWAY, P.O. BOX 327, BELIZE CITY, BELIZE CENTRAL AMERICA

"Continuously Striving to Serve You Better"

A FORTIS COMPANY

CORPORATE

TEL: 501-227-0954

CUSTOMER CARE

TEL: 0-800-BEL-CARE

TEL: 0-800-235-2273

FAX: 501-223-0891

EMAIL: corporate@bel.com.bz

VISIT US AT: www.bel.com.bz

May 12, 2008

OUR REF: EXE/160/05/2008(49)

Mr. John Avery
Chairman
Public Utilities Commission
41 Gabourel Lane
Belize City, BELIZE

Dear Mr. Avery,

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, 2008 to June 30, 2009.

BEL strongly objects to the initial decision as documented in the attached. The decision is contradictory in numerous areas, reversing treatments and balances that were vetted and approved in previous tariff decisions. This clearly does not promote a fair and stable regulatory and financial environment for the operation of a capital intensive operation such as BEL's.

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

BEL hereby requests a list of potential independent 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 would be appreciated.

Sincerely,

Lynn Young
President & Chief Executive Officer

LY/mm

Attachment: 1

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(0-800-235-2273)

"Continuously Striving to Serve You Better"

Belize Electricity Limited
Objections/Comments to PUC ARP 08/09 Initial Tariff Decision
May 12, 2008

1. In its decision on Threshold Event Review Proceeding of March 28, 2008, the Public Utilities Commission (PUC) decided not to amend the cost of power component of the rates even though the bylaws of 2005 and the bylaws as amended in 2007 clearly required the PUC to adjust the cost of power component of the rates. The reasons given by the PUC were unrelated to the issue of rising cost of power and the refusal to comply with the law is causing the company to not meet one of the conditionality of its Scotia Bank Facilities - forecasted Cash Flow Coverage Ratio.. The ARP decision also puts the company in violation of a key financial covenant with the Caribbean Development Bank (CDB) and the International Bank for Reconstruction and Development (IBRD) relating to loans that were lent to the Government of Belize and on-lent to BEL. Under these loans, the Company cannot borrow any money without the approval of the CDB and the IBRD once in violation of the covenants. (See list of covenants and letter to CDB in attachment A)
2. The earlier TERP and the 2008 ARP were based on the Energy Information Administration (EIA), www.eia.doe.gov, forecast of approximately US\$95 per barrel for West Texas Intermediate (WTI) crude in 2008. Since then, the EIA has increased its forecast for 2008 to over \$110 per barrel (see graph in attachment B). As of May 9, 2008 the price of oil has surpassed US\$126 per barrel and the price of firm power from CFE has increased to BZ\$362 per MWh. Based on these latest forecasts, the Wholesale Cost of Power in 2008 will significantly exceed the value in BEL's submission, and will even exceed the PUC's determination. The company's cash flows are even more strained than projected and it is very likely that another threshold event will be triggered shortly after the implementation of the Final 2008 decision.
3. The bylaws as amended in 2007 were repealed on March 28, 2008, four (4) days before the submission of the Annual Rate Proceeding was due with no consultation or advance notice. There was insufficient time for the company to redo its submission in accordance with the 2005 bylaws which required that the RSA balance be zeroed by the end of the Full Tariff Period which according to the 2005 bylaws ends on June 30th, 2009.
4. The company carried out various actions and reported its financial results for 2007 on the basis of the 2007 bylaws which were in effect at the time. Repealing the bylaws does not retroactively change established financial positions and approved actions taken by the company such as the balance in the Rate Stabilization Account, the Regulated Asset Values, and the approval of various Power Purchase Agreements. These were reported on and acted upon in accordance with the prevailing law.
5. The repeal of the 2007 bylaws leaves us with no legally authorized Rate Setting Methodology as the Rate Setting Methodology (RSM) which was introduced after the company had submitted its submission for the Full Tariff Review in 2005, and to which the company objected, was not promulgated by law. BEL has challenged the legality of the 2005 methodology.

6. A new RSM has again been introduced in the 2008 ARP after the company made its rate submission. This new RSM is being applied historically to calendar year 2007 and prior years, reversing previous decisions and agreements that dictated the historical results of the company's operations and set the stage for how the utility operated in the most recent calendar year.
7. The new RSM has been introduced to justify the 2008 decision and yet again, it has been introduced without any genuine consultation with the utility as required by law (as documented in our letter dated April 21, 2008). The repeal of the December 2007 RSM that was incorporated in the December 2007 amendments to the tariff byelaws (SI No. 141 of 2007) effectively means that there is no legally authorized RSM in place. The importance of having the RSM properly promulgated by law is manifest given the repeated attempts to change the rules with retroactive effect during the review process.
8. This pattern of arbitrarily changing the methodology, retroactively changing past decisions, refusing to honor past agreements and ignoring the requirements of the bylaws makes it impossible for the utility to rely on the tariff setting regulations or the decisions of the PUC. This of itself makes it impossible for the company to finance its operations. The company's past financial results cannot be relied upon, nor can the company make any commitments with respect to any financial covenant even when operating as a well managed utility. The bylaws of 2007 which included the only legally approved RSM should be re-instated and the 2008 ARP should be in accordance with that bylaw. Modification of the 2007 bylaw and the RSM should only be undertaken after due consultation with all stakeholders and proper consideration of the effect of changes on the industry.
9. One of the key principles enshrined in the Electricity Act is that the Utility must be allowed to earn a fair return. The Central Bank's average annual interest rate on low-risk 90-day deposits in 2007 was 8.4%. This would suggest that BEL's return should be in the range of 15%. The company's return on assets net of contributed capital in 2007 was 10.3%. In a public statement, the Chairman of the PUC explained that the 2008 decision lowered the allowed return to 8.5%. This rate of return on regulated assets is not in accordance with the very RSM supposedly being followed by the PUC. The rate of return in the RSM is a target of 12% with a range of 10% to 15%. The RSM also states that the return is a regulated value which can only be changed during an FTRP. The recent decision to reduce the return is therefore contrary to the rules of the 2005 and the 2008 RSM's.
10. Benchmark studies submitted to the PUC shows that the company is one of the most efficient when compared to similar sized utilities. Excluding cost of power, the company has reduced its operating cost per customer by 17% and its operating cost per megawatt hour by 32% over the last eight years. Yet, its return is low when compared to similar sized utilities in other jurisdictions (see attachment C).
11. The original RSM introduced in 2005 set out that the utility's total return would be evaluated every four years (the FTP) with any adjustments applied to the first ATP of the subsequent FTP. This gives the utility a window in which to operate efficiently for the benefit of consumers and its investors. The recently introduced RSM now adjusts the

utility's revenues annually for variances in total return (sections 19(d) and 78) violating this principle.

12. The 2008 RSM that was developed during the tariff review and used by the PUC now gives the PUC the right to penalize the company for having exceeded targeted operating expenses (opex) in a given year by including a penalty in the next Annual Tariff Period (ATP). This is clearly an erroneous position. In the year that the opex target is exceeded the utilities profits/returns would have been reduced in that year and penalizing the company in the subsequent ATP for this same variance doubles the impact of exceeding target opex on utility profits/returns. The same occurs in the reverse. Additionally this same section 51 of the 2008 RSM states in Note 4 to the section that the utility is not to be penalized for opex performance above the target (opex variance less than zero). There is an obvious inconsistency in the 2008 RSM.
13. On page 4, section 3 of the new RSM, reference is made to the CPRSA balance being \$20 million. The \$0.004 RSA recovery component of the tariff cannot reduce this balance to zero by the end of the FTP as required by law (sections 15(2) and 28(2) of the byelaws). In public statements, the Chairman of the PUC stated that the RSA balance was reduced to \$740,000. (See copy of news report attachment D). He also stated that the CPRSA was reduced by corrections arising from variances related to the Value Added of Delivery (VAD) component of the tariff which goes contrary to the concept of the CPRSA, i.e., a rate stabilization account established to manage cost of power only.
14. In the final decision of June 26th, 2007, the PUC had approved a CPRSA balance of \$16,098,216 which is the subject of a challenge by the company. In its 2008 decision, the PUC did not produce any calculations to show how the new balance of the CPRSA was determined. (See Attachment E, Final Decision of June 26th, 2007).
15. Regarding excess cost of power deferred into the CPRSA for the current year 2008, the PUC appears to have arbitrarily disallowed 20% of January and February's deferrals (no mention is made of March's deferrals in the explanations offered). In its justification, the PUC stated that BEL "diverted considerably from its planned energy dispatch profile...". No other details or calculations are provided in support of this decision. This is an unacceptable approach to take regarding the current high cost of power. It appears that the PUC continue to take issue with the price of power from CFE. However, in December 2007 the PUC approved an increase in power from CFE from 15 MW to 20 MW under the terms of the August 2006 contract (See attachment F letter from the PUC).
16. The company carries out dispatch in the most economical manner but giving consideration to the need for maintaining a certain level of water in the Chalillo reservoir to carry through the dry season based on historical average water inflows. Rainfall in the early part of 2008 was much below average since Chalillo was commissioned. As pointed out to the PUC before, not maintaining an adequate level of water in January through March would result in running the Gas Turbine and the Diesels more often in April and May and possibly June and July, which will cost consumers much more. The company sometimes takes more expensive power from CFE to maintain a prudent reservoir level. Moreover, running down the reservoir puts the reliability of the system in jeopardy should there be an extended outage from CFE or the Gas Turbine as has happened in previous years. The PUC has been kept informed of the dispatch methodology and

reasons for deviating from the target dispatch on a regular basis and has approved all power purchase agreements for pass through (See attachment F letters from PUC approving PPAs with CFE, BAL and BECOL).

17. In its final decision of June 26th, 2007, the PUC increased the VAD from 16 cents per kWh to 16.8 cents per kWh based on the fact that sales were lower than projected in the FTRP. Sales in 2007 were also lower than that projected in the FTRP. However, the PUC has now reduced the VAD to 13 cents per kWh and did not demonstrate any calculations in its 2008 decision to support this.
18. The PUC has also stated that it has disallowed all previous Hurricane Cost Rate Stabilization Account (HCRSA) charges to customers. This arbitrarily reverses a previous decision by the PUC when it approved the establishment of the HCRSA in 2002 and the subsequent recoveries and balances in the account each year thereafter up until last year's decision. In relation to calculations supporting the PUC's initial tariff decision, it must be noted that not until after repeated requests for this support did the PUC provide a narrative explanation of their calculations on Friday May 9 at 4 p.m., fully one week after their initial decision and one working day before the deadline for objections. This response level is not conducive of a proper regulatory environment. Additionally, during the current ARP the PUC is jeopardizing the financial stability of the utility when it arbitrarily changes its past decisions on which the utility based its financial operations and reported its audited results.
19. After repeated requests, the PUC finally provided a draft and incomplete narrative explanation of their calculations on Thursday May 8th, showing that some of the calculations were incomplete. An updated report was received on Friday May 9, fully one week after their initial decision and one working day before the deadline for objections. The calculations in the final report do not support the initial decision. During the process, the PUC kept requesting information for past years that had already been provided in the ARPs for those years. These actions and lack of organization constitutes a very difficult and unreliable regulatory environment and undermines the credibility of the 2008 decision. At no time did BEL unduly delay the delivery of information to the PUC. In fact, a number of information requests from the PUC were submitted at the last moment and as noted, each year the PUC receives a significant amount of information for that year that they could have readily accessed.
20. On page 7, the fifth paragraph of the introduction to the new 2008 RSM, the PUC states that the RSM can be amended from time to time over the FTP. This does not support a stable and fair regulatory and financial environment for the utility and will only serve to discourage investments in the industry.
21. As noted previously, the PUC has changed the regulatory rules in the middle of an ARP and during an FTP. The changes result in negative financial repercussions on the utility which had been operating and reporting its financial results on a different set of rules. An example of this can be seen in section 59 where the PUC now disallows work in progress as a regulated asset value (RAV) and therefore disallows a return on this asset that the company has obtained debt financing and shareholder funds to finance. A utility cannot operate in such an environment which would then result in insufficient returns to the

utility to finance work in progress. Additionally the PUC introduces new terms and parameters such as “working RAV” and investments “commissioned and in service” in the new RSM that further limits the level of RAV that can earn a return exacerbating the utility’s financial position. The PUC then applies these new rules retroactively.

22. In sections 73 and 74 of the new RSM the PUC now requires that the variance in actual depreciation expense over forecast depreciation expense be adjusted for annually in the next ATP. In the previous RSM which formed the basis of previous rate decisions, the depreciation variance was to be computed only for each 4 year FTP and adjusted for in the first ATP of the next FTP. The principle behind the latter approach was that in the industry, capital expenditures (capex) form a significant part of operations and therefore the utility would need a window in which to properly plan and execute its capex program which then drives depreciation expense. Annual adjustments for depreciation expense variance do not take into consideration external uncontrollable factors that may force a utility to amend its capex program one way or the other. Additionally, depreciation on existing assets (“D exist” as the PUC calls it) are not taken into consideration in determining the depreciation variance. Furthermore this major retroactive adjustment to the RSM renders invalid the financial results of operations of the Company for the past years in the FTP that the PUC had already reviewed and accepted.
23. In section 99, one of the VAD components is depreciation expense, “D cs” as the PUC calls it, and it appears to exclude depreciation on existing assets as referred to by the PUC as “D exist”. This would make the calculation of the VAD incomplete.
24. In section 112 of the new RSM, the delta ROR is not defined anywhere else in the document. Additionally, the comment in this section in bold allows the PUC to set any component of VAD on an annual basis which in effect negates the need for an FTRP that employs a longer period for review of the actual 4 year historical operating performance of the utility in the previous FTP which should then used as a basis to forecast VAD over the next FTP. This is an unstable and unworkable regulatory and financial environment for an investor or financier and is unreasonable.
25. Section 114 needs clarification. What is meant by “Any AC that is not accomplished in any ARP,...”?
26. Section 120 notes that the utility is to further justify significant investment that are individually or in the aggregate for the year in excess of \$250,000 and \$1,000,000, respectively. There is no reference to a timeframe for the PUC to evaluate the investment and provide feedback to the utility. The company annually submits to the PUC for approval its capital expenditures program but has not received a response. Undue delays in investment decisions will lead to negative impacts on quality of service standards. Some of the targets that the PUC has set for the Utility require the company to make substantial capital investments. Capital expenditures are also required to improve productivity and reduce operational expenses. It is not fair for the PUC to handcuff the company in its capital program then penalize the company for not meeting targets. At any rate, requiring individual approval for these levels of capex will be bureaucratic and unworkable.

27. Section 123 (f) now requires the utility to pay interest on consumer deposits. The utility notes that interest on overdue balances from customers is not charged. This is patently unfair to the utility and to the good paying customers.

28. The PUC continues to insist that the Mollejon Transmission Line is not a regulated asset value on which the utility is to earn a return despite the PUC being a party to agreements that resulted in BEL paying for the line via a loan with Belize Electric Company Limited (BECOL). BEL reiterates its position that in the amendments to the Power Purchase Agreement between BECOL and BEL and the Transmission Facility Agreement between the Government of Belize, BECOL and BEL, BEL agreed to pay for the transmission line separately from the price it paid for power and in return, BECOL modified the PPA to exclude capacity charge in addition to other commitments (see copy of agreement attachment G). The PUC and the Government are obligated to honor their commitments and allow the company to earn a fair return on this asset to be able to meet its financial commitments.

ATTACHMENT A

Scotiabank (Belize) Limited Cash Flow Coverage Ratio (Annualized)

	March 2008
EBITDA	12,831,215
Net RSA Recovery	(7,763,060)
Adjusted EBITDA	5,068,155
Interest Expense	1,421,901
Current Portion of Long Term Debt	11,663,338
Cash Flow Coverage Ratio (annualized)	1.17

Scotiabank Cash Flow Coverage Ratio Minimum is 1.60.

CDB/IBRD Net Revenue to Debt Service Ratio)

	March 2008
Net Revenue (EBIDA) – [tax included]	12,121,929
RSA Recovery Adjustments (net)	(7,763,060)
Subtotal	4,358,869
Loan Payments	2,123,422
Interest Payments	2,837,581
	4,961,003
Net Revenue to Debt Service Ratio	0.88

CDB/IBRD Net Revenue to Debt Service Ratio Minimum is 1.50



BELEZ ELECTRICITY LIMITED
A DIVISION OF BELMOP LIMITED, BELMOP HOUSE, BELMOP, BELIZE, CENTRAL AMERICA

"Continuously Striving to Serve You Better"

OUR REF.: EXE/00/06/2008(101)

May 8, 2008

Mrs. Tessa Williams Robertson
Division Chief
Economic Infrastructure Division
Caribbean Development Bank
P.O. Box 408, Widley
St. Michael, Barbados, W.I.

Dear Mrs. Robertson,

Belize Electricity Limited Power VI Project

We are in receipt of your letter of May 6, 2008 regarding the potential financing of a portion of our capital expenditure program for the next three years. We believe the preliminary loan terms are reasonable and would like to proceed with further loan discussions subject to the comment below. Additionally, is there a possibility that the front end can be reduced? Based on a USD 22 million loan, this is a USD 220 thousand fee.

As we discussed with you during your visit, we are experiencing some tight cash flows as our cost of power increases and the regulatory authority has been reluctant to address the problem. Our Public Utilities Commission (PUC) recently disallowed an application for the increase in the cost of power component of the tariff to counteract the rapidly increasing cost of power (tied to the increasing price of oil) that as at the end of March resulted in BZ \$9.2 million excess cost of power to be recovered from customers. This excess cost of power has been deferred into a Rate Stabilization Account (RSA) with a balance of BZ\$27.4 million as at end of March. The PUC last week in their initial decision on our annual tariff application also refused to increase the average mean electricity rate as was proposed to once again address the increasing cost of power. The PUC maintained the average customer tariff by increasing the cost of power component of the tariff and significantly decreasing the RSA recovery and the Value Added of Delivery (VAD) components of the tariff. The VAD incorporates all non-cost of power related operational expenses of the Company as well as a return on assets to finance the operations of the Company. This decrease in VAD now seriously jeopardizes the financial viability of the Company.

Our calculations as at March 31, 2008 show that our debt service coverage ratio covenant for loans with yourselves and the World Bank is not being met and worsens in the near term with the decrease in the VAD. Additionally our forecasts show that starting in 2009, return on assets goes below the 7% covenant level noted in the same loan agreements with yourselves and the World Bank.

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Page 2 of 2

Re: BEL Power VI Project

May 8, 2008

In view of the above, we may need to delay further discussions on the proposed Power VI project financing at this time.

We also hereby request your response on our apparent breach of the debt service coverage ratio covenant.

Sincerely yours,



Rene Blanco

Vice President Finance, Administration & Chief Financial Officer

c: Lynn Young - President and Chief Executive Officer, BEL
Hon. Dean Barrow - Prime Minister and Minister of Finance
Hon. Melvin Hulse - Minister of Public Utilities, National Energy Management,
Transport and Communication
Mr. Joe Waight - Financial Secretary, Ministry of Finance
Mr. John Avery - Chairman, Public Utilities Commission

Section 6.06 Management of Executing Agency. (a) In carrying on its business, the Executing Agency shall:

- (i) institute and maintain organisational, administrative, accounting and auditing arrangements for the Project acceptable to the Bank;
- (ii) keep its staff at a level consistent with financial prudence and technical and administrative competence; and
- (iii) conduct its business along strict commercial lines and in such manner as to generate operating revenue sufficient to cover its operating expenses, including depreciation, as well as payment of the Principal, interest, commitment charge and Other Charges in respect of the Loan and all other loans and to accumulate a reasonable surplus.

(b) Except as the Bank may otherwise agree, the Executing Agency shall maintain a net income before deduction of depreciation charges (debt service coverage ratio) of not less than one decimal five (1.5) times its debt service.

(c) Except as the Bank may otherwise agree, the Executing Agency shall not:

- (i) make any loans to any of its directors or its shareholders or to any other person (other than staff of the Executing Agency) for any purpose whatsoever;
- (ii) grant any credit (other than in the ordinary course of business), or give or negotiate any guarantee or indemnity to or for the benefit of the Executing Agency, or anyone else, or voluntarily assume any liability in respect of any obligation of anyone else;
- (iii) until the Project is completed undertake or permit to be undertaken on its behalf any other investment in excess of five hundred thousand United States dollars (US\$500,000) unless it has furnished to the Bank evidence satisfactory to the Bank that such investment is technically, financially and economically justified and environmentally sound; and

(iv) incur any new debt (other than as contemplated in carrying out the Project) without the prior approval of the Bank unless the debt service coverage ratio referred to in paragraph (b) of this Section is achieved.

(d) The Executing Agency shall ensure that any new appointees to the positions of Chief Executive Officer; Deputy Chief Executive Officer; General Manager, Finance and Administration; General Manager, Engineering; and Project Coordinator/Manager, shall be persons whose qualifications and experience are acceptable to the Bank.

Section 6.07 Maintenance by Executing Agency of Corporate Existence. The Executing Agency shall at all times take all necessary steps as lie within its power and use its best endeavours to maintain its corporate existence.

Section 6.08 Restriction of Amendment of Memorandum and Articles of Association. The Executing Agency shall not amend its Memorandum and Articles of Association except with the prior approval of the Bank.

Section 6.09 Restriction on Disposal of Property. Except as the Bank may otherwise agree, the Executing Agency shall not sell, lease, transfer or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its business.

Section 6.10 Compliance with Laws affecting the Executing Agency. The Executing Agency shall observe all the provisions of the legislation under which the Executing Agency is established as such legislation may be amended from time to time, especially in filing with the Registrar of Companies any information and documents required to be filed under such legislation.

Section 6.11 Accounts Receivable. (a) Except as the Bank may otherwise agree the Executing Agency shall manage its affairs so that accounts receivable shall be maintained at a level below the equivalent of sixty (60) days' sales.

(b) The Executing Agency shall forthwith initiate and actively pursue such appropriate proceedings (including legal proceedings) available to it for recovery of accounts receivable which do not meet the requirements set out in paragraph (a) of this Section.

Section 6.12 Rates of Return. (a) Except as the Bank may otherwise agree the Executing Agency shall maintain its charges for the supply of electricity and the provision of associated services at a level which will yield a rate of return on average net fixed assets in operation, revalued from time to time when required by the Bank, of not less than seven percent (7%).

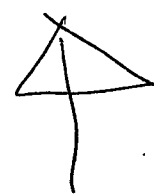
(b) The Executing Agency shall:

(i) by January 1 in each year on the basis of forecasts prepared by it and satisfactory to the Bank, review whether it would meet the requirements set out in paragraph (a) of this Section in respect of such year and the next following year; and

(ii) furnish to the Bank the results of the review referred to in sub-paragraph (i) of this paragraph and if the results indicate that the Executing Agency will not meet the requirements set out in paragraph (a) of this Section, it will promptly take all necessary measures to enable it to meet such requirements.

(c) The Borrower undertakes that it will not prevent the Executing Agency from prescribing adequate charges for the supply of electricity and the provision of associated services in order to enable the Executing Agency to yield the minimum rate of return referred to in paragraph (a) of this Section, and will take all reasonable steps as lie within its power and use its best endeavours to facilitate the approval of any required increases in a timely manner in order that the Executing Agency may prescribe any increased charges.

GOVERNMENT OF BELIZE BEL

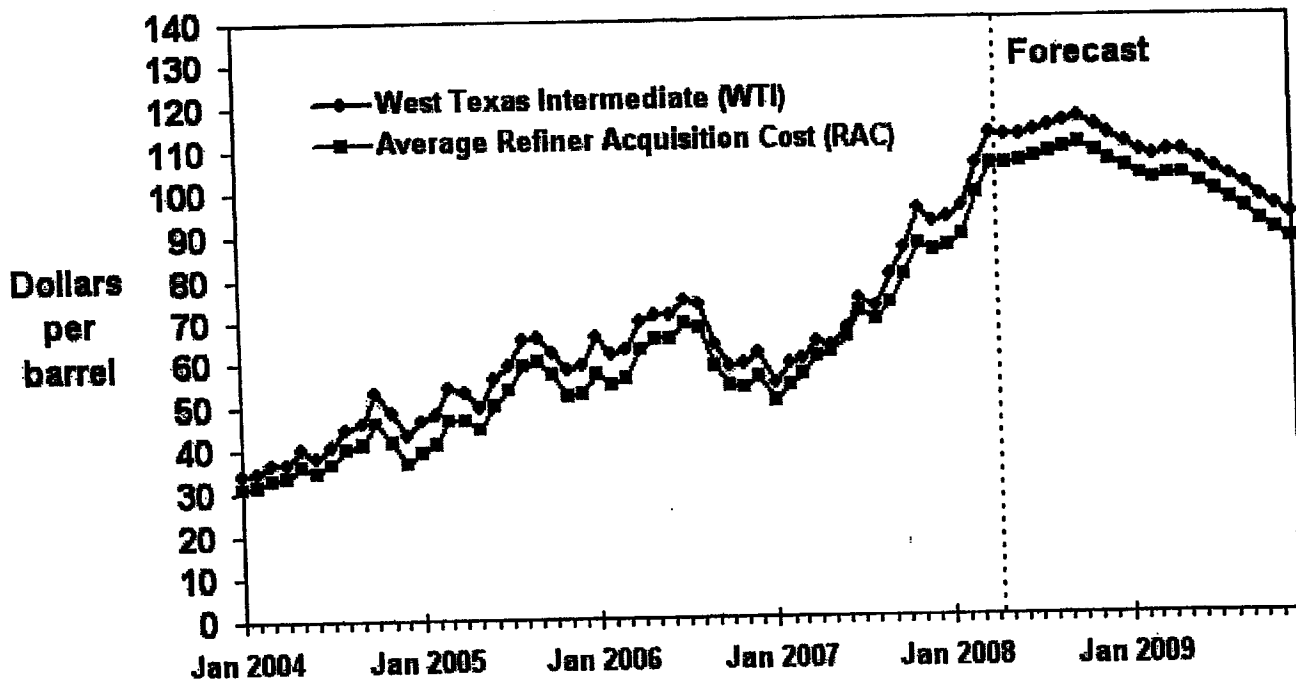


Section 6.13 Tariff Study. The Executing Agency shall:

(i) by March 31, 1995 or such later date as the Bank may specify in writing carry out a tariff study in accordance with terms of reference acceptable to the Bank; and

ATTACHMENT B

Crude Oil Prices



ATTACHMENT C

Returns for Utilities in Region

ATTACHMENT D

RSA Balance News Report

Channel 5 News

The Headlines for Monday, May 05, 2008

P.U.C. blocks out B.E.L.'s price hike request until expert to review findings

Belize Electricity Limited and the Public Utilities Commission continue to buck heads tonight over the power company's request for an increase in rates. On Friday, the P.U.C. announced that even though certain figures were adjusted during the Annual Review Proceeding of B.E.L., in the end, no changes would be made in the prices paid by customers. During an explanation of its initial decision this morning, P.U.C. Chairman John Avery maintained that the

Commission's finding was made according to the Public Utilities Act, the Electricity Act and the Rate Setting Methodology. Most shocking, however, is that the P.U.C. has announced that it has "significantly reduced" the balance of the Cost of Power Rate Stabilization Account from \$18.95 million to a mere \$740,000. The CPRSA is the account that holds the difference between what customers pay B.E.L. and what B.E.L. pays its suppliers. During proceedings earlier this year, B.E.L. maintained that it needed to offset that account because of the rising costs of power. But today Avery says all the P.U.C. did to bring down the balance was apply depreciation and return corrections as allowed by the Rate Setting Methodology. The Commission says bottom line, B.E.L. needs to get a handle on its financial operations.



John Avery, Chairman P.U.C.

"What we are saying to B.E.L. is: you're getting over \$55 million to handle your business. That can cover B.E.L.'s expense. What B.E.L. needs to do is to see if where they can effect certain savings that might actually leave them with a bigger surplus. Then after that then they can start seeing how they can distribute their profits. But we believe that B.E.L. can meet their expenses and should still end up with a surplus. It just might not be as big as they have realised over the last few years. B.E.L., there is a concern about cash flow. Again, the P.U.C. is of the opinion that B.E.L. can better manage its cash flow. One just needs to look at B.E.L.'s annual reports to realise that B.E.L. can do a better job in managing its cash flow. We are not telling them how to run their business. We're telling them what we think is a reasonable rate to deliver a specific service to their customers. B.E.L. undertakes certain obligations and other commitments within the scope of their business that we see have absolutely no bearing on providing the service. A good example is the one-fifteen KV transmission line from Mollejon to Belize City. B.E.L., at some point—when that thing was set up B.E.L. got that thing for a dollar. It was transferred to Belize for a dollar, one dollar U.S. and the cost of the land was to be recovered through the rates. B.E.L., after Fortis took

over, I would say, volunteered to transfer that line into a loan at the original value of the line and then pay it off to BECOL. Now, there can be technical arguments for doing something like that. For example, because the rate setting methodology—and this is something that I think we will continue further—allows the pass through of power. Then having line in the rates you're paying for power is kinda distorting the true cost of power. So in a sense we do not fully object to moving that line out of the cost of power. However, B.E.L. took on this thing as a loan but we have not seen any corresponding decrease in the rates being charged to B.E.L. As far as we understand, that line took up, basically accounted for 25% of the initial investment in Mollejon on that line. It would only be reasonable to expect if you're going to take out 25% of the investment, we should see something close to 25% being reduced in the rates. Some of the problems B.E.L. is currently facing, to put it in common phrase, they have to spread their own bed. We cannot penalize customers for that; it's as simple as that. We have to balance the interest of the country with the interest of B.E.L. There are certain obligations that B.E.L. made that as far we're concerned, has not had one impact on the delivery of their service and in fact has actually hurt B.E.L. in terms of their financial obligations. We're saying until they adjust those, then you really have no case to put before us."

In responding to the initial decision, B.E.L. maintained that quote "the P.U.C.'s refusal to increase the R.S.A. recovery fails to recognize the investments required to deliver power to customers and will seriously undermine the company's ability to deliver quality service." B.E.L.'s Chief Executive Officer, Lynn Young, is out of the country but he is quoted as saying "the reality is that the cost of providing service to our customers has increased for the same reasons that the cost of fuel at the pumps and the cost of many other goods and services has increased. Our request in the rates reflects this reality". Young goes on to assert, "if the decision stands, the decision will put the company in an unsustainable position. We had to defer dividend payments, and will be at serious risk of defaulting on our financial obligations, some of which are guaranteed by the Government when the Company was majority owned by the Government".

When questioned today, P.U.C. Chairman John Avery denied the existence of any "Government-guaranteed loan" referred to by Young. Since B.E.L. has already indicated its intentions to object to the decision, the P.U.C. will now appoint an international independent expert to review the regulated values, the Mean Electricity Rates and tariffs. The expert's report to the Commission is due by June 11th, with the P.U.C. announcing the final decision on June 26th.

And while the P.U.C. stood its ground on the Commission's initial decision, this morning Chairman Avery also cautioned the public that factors influencing their findings now could change by the end of June.

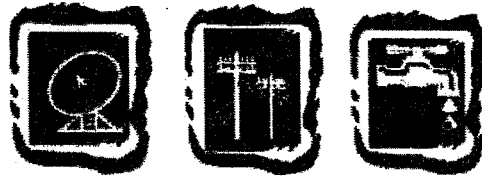
John Avery, P.U.C. Chairman

"The point is the cost of energy keeps going up. People will need to understand that a lot of these things are outside of our control and so conservation becomes a very serious issue. The P.U.C. cannot stand by and see B.E.L. suffer as such and if the rate, the cost of power continues to increase then we will have to respond. And so people need to understand that although we did not allow for an increase in rates in the initial decision, that is absolutely no guarantee that there may not be an increase yet to come. As well, maybe there's a reduction. We are not promising any way but people need to understand that the cost of power currently is escalating."

Viewers should also note that any dramatic changes in the cost of power could trigger a Threshold Event Review Proceeding which would also involve a review of rates.

ATTACHMENT E

FINAL DECISION OF JUNE 26TH, 2007



PUBLIC UTILITIES COMMISSION

FINAL DECISION

in the

ANNUAL REVIEW PROCEEDINGS

for

Belize Electricity Limited

JUNE 26, 2007

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1. Legal Framework

The Public Utilities Commission (PUC) is authorized under the Public Utilities Commission Act (No. 39 of 1999) to serve as the economic regulator for the electricity, water and telecommunications sectors in Belize.

The primary duty of the PUC is to ensure that the services rendered by public utility providers in all three sectors are satisfactory and that the charges imposed in respect of those services are fair and reasonable. The PUC has the authority to oversee the rates that are charged in respect of utility services and the standards that must be maintained in relation to such services.

Sector specific legislation provides the legal framework for the PUC to carry out its duties and functions in a particular utility sector, as obtains in the regulation of the electricity sector, the Electricity Act (No. 13 of 1992) as amended by Act No. 40 of 1999 (the "Act") and the Electricity (Tariffs, Charges and Quality of Service Standards) Byelaws, 2005 (the "Byelaws"). The Byelaws set procedures for conducting the rate review proceeding and reference the methodology used for calculating rates.

2. Methodology

The 2005 Full Tariff Review Proceedings (FTRP) introduced a Rate Setting Methodology (the "Methodology") which is a hybrid method using elements of a revenue cap form of regulation with pass-through of certain "uncontrollable costs" and specific cost target incentives for other cost drivers.

As part of the FTRP the PUC set cost targets for the cost of losses, operating expenses and service quality (network interruptions) over the Full Tariff Period (FTP) of 1 July 2005 to 30 June 2009. These targets were set using benchmarking and assessments of BEL's performance. The electricity prices were then calculated using these targets plus forecasts of the uncontrollable elements plus a nominal reasonable rate of return for the company. If BEL performs worse than the targets they automatically receive a lower return over the FTP. Conversely, if they perform better than the targets, they receive a higher return over the FTP. However if the returns exceed higher or lower limits, they are corrected in the FTP correction so that the resultant return falls between the limits.

Every year in the Annual Review Proceedings (ARP) BEL submits forecasts of the cost of power, electricity generation, purchases and sales for the new calendar year and Annual Tariff Period (ATP). These forecasts are verified by the PUC. BEL also submits the actual figures for

sales, operating costs and cost of power for the previous calendar year, which are again scrutinised by the PUC. In each ARP the PUC calculates the Annual Correction (AC) which forms part of the Mean Electricity Rate (MER), which corrects for the impact of the difference between forecast and actual sales on the network costs.

3. Annual Review Proceedings

The Annual Review Proceedings (ARP) commenced April 2, 2007 upon the submission by Belize Electricity Limited (BEL) requesting the PUC's approval of proposed regulated values, mean electricity rates, tariffs, charges and fees for the ATP July 1, 2007 to June 30, 2008.

3.1 Summary of BEL Submission

The submission made by BEL contained the following key points:

- The Mean Electricity Rate (MER) components were forecast as shown in the table below:

	Actual 2006 Jan- Jun	Actual 2006 Jul - Dec	Forecast 2007 Jan - Dec	Forecast 2008 Jan - Dec
Reference Cost of Power	0.255	0.253	0.255	0.263
Value Added of Delivery	0.162	0.162	0.162	0.162
CPRSA recovery	0.021	0.025	0.024	0.016
HCRSA recovery	0.003	0.001	0.000	0.000
Mean Electricity Rate	0.441	0.441	0.441	0.441

- Customer tariffs were proposed to change as follows:
 - Removal of \$10 monthly residential service charge;
 - Introduction of residential flat fee (monthly minimum charge) of \$5;
 - Increase in residential usage rates, of +6c/kWh for 0-50kWh; +3c/kWh for 51-200kWh and +1c/kWh for >200kWh
 - Increase in commercial usage rates of +1c/kWh across all bands;
 - Removal of peak and off peak charges for Industrial categories and replacement with a single flat rate for each category.

Schedule 4		
Belize Electricity Limited ("Licensee")		
Table 1: Proposed Rates for Tariff Classes ATP 07/08		
Tariff Class	Current Tariff	Proposed Tariff
Social		
Flat Rate	\$ 4.00	\$ 4.00
0000 - 0050 kWh (minimum \$4.00)	0.25	0.25
Residential (Exclude small commercial less than 2,500 kWh/month)		
Service Charge	\$ 10.00	\$ -
Flat Rate	-	5.00
0000 - 0050 kWh	0.28	0.35
0051 - 0200 kWh	0.41	0.44
Above 0200 kWh	0.46	0.47
Commercial (Commercial greater than 2,500 kWh/month)		
Service Charge	\$ 100.00	\$ 100.00
00,000 - 10,000kWh	0.44	0.45
10,000 - 20,000 kWh	0.43	0.44
Above 20,000 kWh	0.42	0.43
Industrial 1 (Using greater than 30,000 kWh/month)		
Service Charge	\$ 100.00	\$ 100.00
Demand Charge per kW/month	35.00	35.00
Off - peak energy	0.32	0.33
Peak energy (6 p.m. - 9 p.m. Mon to Fri)	0.46	0.33
Industrial 2 (Avg Peak Load of 1.5 MW & greater)		
Service Charge	\$ 100.00	\$ 100.00
Demand Charge per kW/month	21.00	21.00
Off - peak energy	0.25	0.28
Peak energy (6 p.m. - 9 p.m. Mon to Fri)	0.45	0.28
Street Lighting	\$ 0.52	\$ 0.55

- A balance in the CPRSA as of December 31, 2006 of \$18,396,195
- A balance in the HCRSA as of December 31, 2006 of \$686,134 and a forecast balance in the HCRSA as of December 31, 2008 of \$0, assuming the HCRSA balance is transferred into the CPRSA as of January 1, 2007.
- Increase in reconnection fees after disconnection for non payment of bills from \$10 to \$25 for residential customers and from \$25 to \$100 for commercial and industrial customers; increasing to \$40 for residential and \$150 for commercial reconnections after normal working hours;
- Institution of Liquidated Damages for Tampering as follows:

Customer category	Liquidated damages for tampering
Social customer	\$100.00
Residential (self connect)	\$100.00
Residential (tampering)	\$250.00
Residential (tampering) over 2,000 kWh/m	\$500.00 plus 16% interest on back bills
Commercial (tampering)	\$1,000.00 plus 16% interest on back bills
Commercial (tampering) over 20,000 kWh/m	\$2,500.00 plus 16% interest on back bills
Industrial (tampering)	\$5,000.00 plus 16% interest on back bills

- Request for change to the Commercial Losses targets set in 2005 FTRP Final Decision (no proposed targets submitted).

3.2 Comments

On the date of submission, public notice was given that an ARP for BEL had commenced. This notice informed the public that written comments from the public would be accepted for twenty (20) days from the date of submission, establishing April 23, 2007 as the deadline for comments.

Eleven (11) written submissions were received from the public during the comment period, which were provided to BEL, duly considered by the PUC and made available to the public at the PUC offices and on the PUC website (www.puc.bz). The comments are summarised below:

- Higher residential users should pay for the removal of the \$10 residential service charge;
- BEL already has high profits. The level of customer service should benefit rate – no increase in rate should be given without improving customer service;
- Consumer was promised lower rates from the dams. It hasn't happened;
- Don't change the current tariff structure. BEL should be more efficient – they have large profits;
- Keep current rate structure. Should not allow the reconnection fee nor tampering liquidated damages proposals. Interest should be given on deposits;
- This means higher rates for BEL, on top of previous increases. You should get a discount the more electricity you use;
- Keep the existing tariff structure, with a fixed and variable element. Removing the peak and off-peak from industrial rates is not a good idea. Accept liquidated damages for tampering;
- This is more money for BEL on top of previous price increases. BEL profits are too high. Local energy mix should reduce the rate;
- Remove \$10 residential service charge with no other increases. BEL profits are too high;
- Keep the existing residential service charge and tariffs. Reconnection and liquidated damages proposals should not be allowed. BEL has record profits;
- Changes in tariff structures have been arbitrary. Why are the street lights proposed to increase? The cost of power is too high due to BEL not receiving the reduction in the cost of power that it was entitled to on transfer of the Mollejon transmission line from BECOL.

3.3 Initial Decision

On May 2, 2007 the PUC issued its Initial Decision. The Initial Decision contained the following decisions:

- Approval of a unit cost of power (sales) of \$0.252/kWh for ATP 2007/08. This was less than that forecast by BEL due to the disallowance of the CFE costs incurred under the August 2006 contract, which was not approved by the PUC. The PUC therefore used the costs contained in the CFE submission in the 2005 Request for Proposals;
- Approval of a CPRSA Balance of \$10,692,682 as at December 31, 2006. The PUC's calculation of the CPRSA balance included the disallowance of the CFE August 2006 contract costs (described above) and also the disallowance of interest costs incurred by BEL upon late payment of cost of power invoices and booked by BEL as part of the cost of power.
- Approval of a HCRSA Balance of \$282,737 as at December 31, 2006 and approval of BEL's proposal to transfer the balance of the HCRSA into the CPRSA as of 1 January 2007 due to the forecast balance in the HCRSA at the end of the current ATP being too small to recover as part of the new MER for the forthcoming ATP;
- Approval of a CPRSA Adjustment of \$0.024/kWh for ATP 2007/08, which was an increase over the existing \$0.023/kWh to accelerate the recovery of the outstanding balances in the rate stabilization accounts. Approval of a HCRSA Adjustment of \$0/kWh, following the decision to transfer the HCRSA balance;
- Approval of an Annual Correction of -\$4,768,955 equating to -\$0.012/kWh for ATP 2007/08 calculated according to the Methodology;
- Approval of a Mean Electricity Rate (MER) of \$0.432/kWh as a result of the above approved elements. This reduction in the MER was enabled (according to Byelaw 28(3)) by the prior acceleration of the CPRSA recovery;
- Approval of customer tariffs to achieve the MER above, with the differences between the existing tariffs and the new tariffs being:
 - Residential: The reduction in the MER described above was used to reduce the residential service charge from \$10 per month to \$5 per month. All other residential rates remained the same;
 - Commercial: unchanged;
 - Industrial: The peak and off-peak Industrial 1 and 2 rates have been replaced by a single energy rate for each category. This is because under the new CFE contract, BEL no longer pays a higher cost for power during CFE's peak hours,

and therefore there is no longer a requirement to increase rates during this period;

- Street lights: unchanged.
- Approval of a qualification process for a consumer to receive the Social Rate tariff;
- Denial of BEL's application for increases in Reconnection Fees;
- Denial of BEL's application for Liquidated Damages for Tampering;
- Approval of the same charges and fees for the 2007/2008 ATP as those currently in force;
- Denial of BEL's application to change the targets set in the FTRP Final Decision for the level of Commercial Losses.

3.4 Objections

Following the issuance of the Initial Decision, there was a ten (10) day period for the licensee and interested parties to file with the PUC written comments on the decision. Two written objections were received – from BEL and the Minister of Home Affairs & Public Utilities.

3.4.1 BEL's Objection

BEL objected to a number of elements of the Initial Decision as summarised below:

- The reduction of the forecast cost of power for 2007 by \$1,275,815; by \$1,141,961 for 2008 and \$1,766,626 for ATP 07/08 due to the disallowance of the full CFE cost of power under the August 2006 contract. 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 in the Request for Proposals process. The CFE cost is composed of three elements – Firm, Economic and Emergency – with Economic energy now available before firm energy and at lower prices which more than offset the increase in the price of firm power. This benefit which the company negotiated and agreed to without the PUC's approval is ignored by the PUC. The 2007 cost of power on a net generation kWh basis should remain at \$0.221 with the cost of power on a per kWh sold basis for calendar year 2007 and ATP 07/08 at \$0.255 and \$0.259 respectively.
- The PUC has used a set of formulae to calculate the CPRSA balance which BEL considers to contain inconsistencies. The PUC has arbitrarily reduced the CPRSA balance as at December 2006 by \$7,703,513 and the HCRSA balance by \$403,398. The PUC's calculations of the CPRSA balance 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. The PUC also shows more recoveries for both accounts than what was actually recorded. In addition, included in the \$9,789,218 CPRSA recovery noted by the PUC for 2006 is an additional \$0.01 per kWh sold 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.

- Amounts used by PUC in the \$4,768,955 AC calculation are not reconciling to amounts submitted to the PUC. 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. It should also be noted that included in the annual correction calculation are three components; 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 that is under dispute. These three components amount to -\$10,716,537. The AC calculation reduces the MER/Tariff Basket for the same amounts which have already been included in the CPRSA. This is double counting.
- BEL disagrees that by "accelerating the recovery of the CPRSA" the MER can be reduced from \$0.441 to \$0.432. This is contrary to discussion between BEL and the PUC prior to the byelaw finalization that the MER would not be reduced until the rate stabilization accounts had been fully recovered. In addition, it is misleading for the PUC to claim that the recovery of the CPRSA account has been accelerated when the \$0.001 increase in the CPRSA recovery is the transfer of the \$0.001 recovery of the HCRSA (now amalgamated with the CPRSA) to the CPRSA recovery.
- BEL objects to the PUC's decision not to remove the \$10 monthly residential service charge.
- Disapproval of increased reconnection fees. Another utility has higher disconnection/reconnection fees and does less physical work to disconnect customers than BEL. The increase in this fee will act as a deterrent. BEL has implemented budget billing, direct payments and email notifications but these have not reduced delinquencies, hence the request for the increase in the fee. Whilst there has been no material reduction in the number of disconnections since the increase in reconnection fee from \$5 to \$10 in the FTRP 2005, BEL requested the fee be \$25 at that time because analysis showed a \$10 fee would not be a sufficient financial disincentive.
- Disapproval of liquidated damages for tampering. The proposal conforms to the PUC's requirement for BEL to reduce commercial losses. The liquidated damages

approach is typical in contracts for services in many other businesses and is lawful because the basis of the liquidated damages lies in the law of contract and not in any purported area of criminal law.

- Non consideration of BEL's request to amend target commercial losses. BEL believes the PUC agreed to review the losses targets. BEL subsequently presented a revised commercial losses target of 10,738,815kWh. 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.
- BEL disagrees with the PUC's calculations of service quality achieved (SAIDI 10.03 and SAIFI 11.00) for the year 2006 since the data provided by BEL supports the BEL submission (SAIDI 9.28 and SAIFI 9.08).

3.4.2 Minister of Home Affairs & Public Utilities' Objection

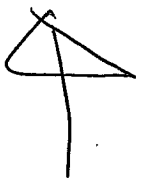
The Minister's objection was that the PUC had not completely removed the monthly \$10 service charge for residential customers with bills up to \$150. He regarded this as running counter to the Government's policy to provide relief to small consumers by a total elimination of the service charge. BEL had agreed to the removal of the charge and replaced it with a \$5.00 minimum charge coupled with small adjustment on the rates for larger users. This formula, if accepted by the PUC, would have satisfied both BEL's request as well as the Government's commitments to the Belizean public.



3.5 Independent Expert

Since written objections had been received, the Commission, in accordance with Byelaw 31, appointed an Independent Expert, Dr. Paul M. Sotkiewicz, to review the regulated values, mean electricity rate, tariffs, rates, charges and fees. Dr. Sotkiewicz issued his report on June 11, 2007.

The key points in Dr Sotkiewicz's report were:

- The existing Methodology lacks a coherent narrative describing the form of regulation, the incentive properties, the formulas stated, why they are used, how they are linked to the form of regulation, the logic behind stated formulae or how different formulas are linked. The language and notation that are used are "non-standard" and prevent easy understanding. A re-writing of the Methodology is strongly recommended.



- The CPRSA balance should be recomputed using the following formula and eliminating the double counting from July 1, 2005 – resulting in a CPRSA balance of \$16,098,216 as of December 31, 2006 using the PUC disallowances for the CFE contract and interest for late payment to CFE. The balance of the CPRSA equals the difference between the actual revenues collected from power sales designed to cover the cost of power sold (unit cost of power sales multiplied by kWh) minus the actual, allowed cost of power (unit cost of power multiplied by the sum of power sales and target technical and commercial losses) – the “additions” – less the recovery charge multiplied by the number of kWh sold – the “recoveries”. BEL’s figures for the CPRSA of \$18,396,195 are overstated because they ignore the incentive represented by the target level of losses. 
- The PUC’s methodology is logically inconsistent in the use of forecast cost of power sales as a proxy for revenue. This disregards the actual sales at the forecast unit cost of power sales which translates directly to the tariff. This overstates the recovery of the CPRSA balance. 
- The PUC’s calculated balance of \$282,737 as of December 31, 2006 for the HCRSA is correct and is the amount that should be transferred to the CPRSA account.
- The PUC has overstated BEL’s revenues by \$479,278 and the revenue base that should be used is the \$158,138,893 figure submitted by BEL.
- The PUC has “disallowed” \$462,152 in the cost of power from CFE and late payment interest of \$172,849 for a difference of \$635,064. It is within the PUC’s rights to disallow costs considered imprudently incurred.
- The inclusion of the change in the cost of power in both the AC and CPRSA is double counting. Because the purpose of the CPRSA and HCRSA kWh charges are to pay down balances not related to current period costs, there is no need to “true-up” in the AC the difference between what was collected and what was forecast to be collected. Until the CPRSA and HCRSA balances are zero, the formula for AC should be the required revenue for the network (VAD) minus the revenue collected for network and administration plus the change in other revenue from forecast plus the change in taxes and license fees from forecast plus revenue not recovered from the AC in the previous period.
- Given the recommended changes to the AC calculation, the PUC should go back and recompute the AC for the 2006 ARP as well as the 2007 ARP. Preliminary calculations of the AC for the 2007 ARP result in an addition of \$1,195,510 to the revenue requirement for ATP 2007/2008 that translates to \$0.003/kWh.
- The PUC, in disallowing costs from the CFE August Contract, have simply disallowed the difference between actual (in the case of 2006) or forecast (in the case of 2007 and

2008) cost for firm power and the cost of that firm power had the price been the base price in the March Offer. There is no consideration of taking economy energy before firm in the August contract versus the March offer, and evaluating the resulting difference is difficult. The March Offer is less expensive in some months and more expensive in others, but on balance, for period examined, the August Contract was over \$1,000,000 higher in cost than the March Offer would have been. The PUC has within its authority to disallow costs it does not deem prudent and the PUC's decision to disallow part of the CFE costs is not without merit given the resulting higher costs. However, BEL's claim that the August Contract is less expensive is also not completely without merit as in some months the cost of power was lower in the analysis. A reversal of the PUC's partial disallowance of the CFE contract cannot be recommended, nor can any endorsement be given to the disallowance given the responsibility both parties share in the situation. If the PUC maintains its disallowance, BEL has within its power the ability to mitigate the amounts disallowed by taking full advantage of economy energy purchases when economy energy is less expensive than firm energy, and the contract is only two years in duration.



- The PUC should use caution in its use of prudence reviews to disallow costs. While disallowance protects consumers from what are considered poor utility decisions, the use of prudence reviews may be taken as a signal that the regulatory environment is riskier which raises BEL's cost of capital and/or encourages IPP entrants to ask for prices, terms, and conditions that will ultimately lead to price increase for consumers. Both BEL and the PUC share in the responsibility for the situation with the current CFE contract, and it is strongly recommended the PUC and BEL work together to develop a formal set of well defined rules for power procurement and to develop the regulatory framework that includes annual long-term supply planning and specific reserve margins.
- Given the purpose of the CPRSA and HCRSA to keep rates stable and the fact that these accounts are not down to zero, it makes little sense to reduce the MER when the RSAs can be paid off sooner rather than later. However, the Byelaws do not support BEL's objection and the PUC does seem to have the authority to reduce the MER if it accelerates the recovery of the CPRSA and HCRSA. It is not recommended to decrease the MER from the current \$0.441/kWh.
- As a procedural matter, it is determined the PUC need not have considered the request to change the commercial loss target which was made outside the formal submission process for the ARP. It is recommended the PUC investigate updating the loss targets in general and to examine a switch to percentage losses which automatically reflects the fact that losses increase as supply increases, rather than continue using gross kWh loss

targets. The distinction between commercial and technical losses is at best an approximation. It is recommended that BEL and the PUC review the NEI loss study and undertake a rigorous cost-benefit analysis to ensure viable options for technical loss reductions have not been left on the table as the technical losses seem to dwarf commercial losses. It is recommended BEL and the PUC undertake a rigorous benchmarking study of losses across countries (including BEL in the sample) to discern how well BEL is performing with respect to losses while accounting for system variations.

- The PUC should examine the merits of BEL's claim about the true costs for disconnection/reconnection as the price of any service should not be priced below cost. The PUC and BEL should jointly examine the possibility of a longer grace period following the due date of payments combined with a more aggressive campaign of reminding customers when their bills are due or delinquent as it seems power theft is not the ultimate goal of these customers.
- The PUC and BEL should confer on how to best deal with power theft, and in particular whether the PUC would consider the pass through of costs associated with the prosecution of meter tampering and power theft as an alternative to BEL's submitted proposal on tampering. The PUC and BEL should also confer on ways to eliminate the poor incentives provided by the current billing reassessment policy to prevent tampering and power theft.
- It is possible to allocate costs and set tariff rates in anyway seen fit, but there are consequences to the choice of tariff design. Eliminating the service charge means rates must increase elsewhere to make up for the revenue lost through the elimination of the service charge. BEL's proposal is less economically efficient than the existing tariff design or the PUC's tariff in its Initial Decision and leads to greater demand driven bill volatility which is much more pronounced for smaller residential consumers. The fixed charge provides greater bill stability and certainty. BEL's proposal provides an incentive for BEL to sell more power in order to cover its fixed costs, and rely more on the AC mechanisms to true-up fixed cost recovery, and leads to more volatile cash flows over time. BEL should be indifferent financially to how tariffs are designed so long as it is able to recover all of its costs both fixed and variable. It is recommended to continue with the use of fixed charges and expand their use to make the tariff structure more efficient, reduce demand driven bill volatility, and provide more stable cash flows for BEL. If cross-subsidies are desired for policy reasons, these can be done through differential fixed charges to different groups of customers which is more efficient than cross-subsidies through usage (kWh) charges.

- It is not immediately clear why differences exist in the computation of System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI). Possibilities include use of a different customer base number, different definitions of force majeure events, or differing reasoning for maintenance and whether it is a result of an Reliability Incentive Adjustment (RIA) event or not. It is recommended that the PUC and BEL confer to see where the differences are and how they can be resolved.

3.6 Final Decision

The PUC is required to deliver its Final Decision no later than fifteen (15) days after the date of issuance of the independent expert's report, establishing June 26, 2007 as the deadline.

The PUC hereby issues its Final Decision on the regulated values for the ARP regulated parameters.

4. Exercise of Regulatory Authority

The PUC with the authority given under the Byelaws read along with other governing legislation hereby renders the following final decisions:

Decision 1: Rate Stabilisation Account Balances

The PUC HEREBY APPROVES a CPRSA Balance of \$16,098,216 as at December 31, 2006 and a HCRSA Balance of \$282,737 as at December 31, 2006.

In the Initial Decision, the PUC approved a CPRSA Balance of \$10,692,682 and a HCRSA Balance of \$282,737 as at December 31, 2006. BEL had submitted balances of \$18,396,195 and \$686,134 for the CPRSA and HCRSA balance respectively. The Independent Expert agreed with the PUC's calculations of the HCRSA balance, but used an amended calculation of the CPRSA balance, which gave a figure of \$16,098,216. The PUC accepts the Independent Expert's revised figure (the amended calculation is explained in Annex 1). The RSA balances vary from those submitted by BEL due to several factors: cost of power disallowances, BEL's booking of actual losses rather than target losses and BEL's lower reported levels of RSA recoveries.

It should be noted that the CPRSA has been calculated from July 1, 2005, which was the last approval by the PUC of the CPRSA balance. The PUC was unable to approve RSA balances during the 2006 ARP due to non-completion of the RSA audit.

The PUC has maintained the disallowance of certain CFE costs and late payment interest as described below. It was the Independent Expert's position that the PUC has the right to disallow these costs.

In calculating the CPRSA balance the PUC has not allowed the full cost of firm energy supplied by Comision Federal de Electricidad, Mexico (CFE) under the new contract signed by BEL and CFE in August 2006. Whilst CFE was selected in the 2005 Request for Proposals (RFP) with a firm energy cost of US\$0.0847/kWh (subject to indexation); BEL and CFE signed a contract in August 2006 for US\$0.0999/kWh firm energy (subject to indexation and escalation). This contract was not approved by the PUC prior to signing and the PUC has not accepted the new price. BEL was notified of this intended disallowance in a letter dated September 12, 2006. The PUC has therefore only allowed a firm energy cost from CFE equal to the RFP energy cost of

US\$0.0847/kWh to be used in the calculations of the CPRSA balance. This translates to a reduction of \$462,152 in BEL's reported cost of power purchased and generated since August 2006.

The PUC has also disallowed the penalty costs paid by BEL due to late payment of their electricity supplier invoices in the calculation of the CPRSA balance. This amounts to a reduction of \$620,770 in BEL's reported cost of power purchased and generated since July 1, 2005.

The PUC has approved the transfer of the balance of the HCRSA (\$282,737 as at December 31, 2006) into the CPRSA as of 1 January 2007. This means that as of 1 January 2007, the HCRSA balance will be \$0. If not transferred, the HCRSA balance would be so small (approx \$112,500) at end of the current ATP that the PUC would be unable to set a HCRSA recovery figure in the new MER coming into force July 1, 2007 to take the account to zero by the end of the ATP. The HCRSA recovery figure in the existing MER is \$0.001/kWh which is already the smallest figure the PUC can set. The alternative to transferring the account would be to retain the \$0.001/kWh recovery, which would result in BEL over-recovering the HCRSA. The clearing of the HCRSA is an exceptional circumstance, and therefore the PUC finds it reasonable to use this mechanism to recover the remaining balance. The HCRSA recovery amounts generated during the second half of the current ATP (January – June 2007) will be posted to the CPRSA.

Details of the CPRSA and HCRSA calculations are contained in Annex 1.

Decision 2: Electricity Sales Forecasts

The PUC HEREBY APPROVES BEL's forecast of monthly electricity sales, which gives 12-month forecast totals of 380,937,852kWh for 2007, 401,959,446kWh for 2008 and 391,001,985 kWh for ATP 2007/2008.

BEL experienced 3% sales growth in 2006 against a forecast of 6%. However BEL has demonstrated that it achieved 9% greater sales in the first three months of 2007 versus the same period in 2006. This indicates that the annual forecast growth of 6% for 2007 and 2008 is still realistic.

	Regulated Values
Regulated Parameter	ARP 2007 Final Decision

		2007/08
Electricity sales	kWh	391,001,985



Decision 3: Cost of Power (COP)

RSM 2008 = 410,401,000

The PUC HEREBY APPROVES a reference unit cost of power of \$0.218/kWh for 2007 expressed per volume of electricity generated and purchased, and a reference unit cost of power per volume of electricity generated and purchased of \$0.218/kWh for the ATP 2007/08. Expressing the ATP figure as the cost of power per volume of forecast electricity sales gives a unit cost of power (sales) of \$0.252/kWh for ATP 2007/08¹.

Regulated Parameter		Regulated Values		
		ARP 2006 Final Decision 2006/07	ARP 2007 Adjustments	ARP 2007 Final Decision 2007/08
Unit cost of power (sales)	\$/kWh	0.253	-0.001	0.252

The values above are less than those forecast by BEL (\$0.221 per volume of electricity generated and purchased; \$0.255 per volume of forecast electricity sales for ATP 07/08). The PUC's approved costs of power are based on the forecasts provided by BEL; however, the PUC has not allowed the full cost of firm energy supplied by CFE under the new contract signed by BEL and CFE in August 2006. The PUC has only allowed a firm energy cost from CFE equal to the RFP energy cost of US\$0.0847/kWh to be used in the cost of power forecasts.

Decision 4: Value Added of Delivery (VAD)

The PUC HEREBY APPROVES a forecast Value Added of Delivery of \$65,624,447 for ATP 2007/08 which was the value set in the 2005 FTRP. This equates to a VAD per volume of forecast electricity sales of \$0.168/kWh for ATP 2007/08.

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Regulated Parameter		Regulated Values		
		ARP 2006 Final Decision 2006/07	ARP 2007 Adjustments	ARP 2007 Final Decision 2007/08
Value Added of Delivery	\$/kWh	0.162	+0.006	0.168

¹ It should be noted that the difference between the volume of electricity generated and purchased, and the volume of electricity sales comprises the electricity lost through technical and non-technical losses.

The unit VAD has changed from that forecast in the FTRP for the following reason: in the FTRP the power sales forecast for 2007 was 410GWh, giving a unit VAD of \$0.160/kWh. However due to reduced sales in 2006, BEL's latest forecast for power sales in 2007 is 391GWh, meaning that the VAD per volume of forecast electricity sales has increased to \$0.168/kWh. This is shown in the table below:

	<u>FTRP</u>	<u>ARP 2007</u>
Forecast sales for ATP 2007/8 (kWh)	410,400,777	391,001,985
Total VAD	\$65,624,447	\$65,624,447
Unit VAD	\$0.160/kWh	\$0.168/kWh

The VAD is the sum of target cost of network services including targeted costs such as operating expenses, depreciation, target return, and forecasts of pass-through costs such as non-tariff revenues, taxes and license fees, and force majeure costs.

Decision 5: Annual Correction

The PUC HEREBY APPROVES an Annual Correction of \$697,760 which equates to \$0.002/kWh for ATP 2007/08. This Annual Correction was calculated in accordance with the Independent Expert's recommended modifications to the calculations of the AC.

The AC corrects for the impact of the difference between forecast and actual sales on the network costs; that is, the difference between the required VAD and AC to be collected versus what was actually collected. A detailed explanation of the AC calculation is given in Annex 2.

The PUC's calculated value is different from that calculated by the Independent Expert due to the choice of forecast VAD for 2005. Since the Methodology was introduced in the FTRP 2005, it came into effect July 1, 2005. Therefore, the ARP 2006 Annual Correction has to be calculated on the forecast VAD for 6 months July – December 2005. However, forecasts are made for 12 month periods – either calendar year or ATP. The Independent Expert used half the forecast VAD over ATP 2005/06 whereas the PUC used half the forecast VAD for calendar year 2005. As can be seen in the detailed explanation in Annex 2, all values in the formulae are calendar year values, and therefore for consistency, the PUC used the calendar year forecast.

Regulated Parameter	Regulated Values		
	ARP 2006 Final Decision 2006/07	ARP 2007 Adjustments	ARP 2007 Final Decision 2007/08

Annual Correction	\$/kWh	0.002	+0.002	0.002
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In the Initial Decision, the PUC calculated the AC to be -\$4,768,955, equating to -\$0.012/kW. It should be noted that BEL did not include a calculation of the AC in their ARP submission. The Independent Expert, in his report, demonstrated why the Methodology calculation of the AC used by the PUC for the Initial Decision was flawed in that it did not account for the CPRSA (thereby double counting the correction for cost of power differences) and treated the forecast sales as if they were actually collected, then multiplying them by the forecast unit cost of power as a proxy for revenues. The Independent Expert calculated the AC as \$1,195,510 equating to \$0.003/kWh. As explained above, the PUC used a different forecast figure in the revised AC calculations, resulting in an AC that is \$0.001kWh lower than that of the Independent Expert.

Decision 6: Rate Stabilisation Account Adjustments

The PUC HEREBY APPROVES a CPRSA Adjustment of \$0.019/kWh for ATP 2007/08.

The CPRSA Adjustment has been reduced from the existing rate of \$0.023/kWh to \$0.019/kWh maintain the MER at \$0.441/kWh. Projections show that this adjustment in the 2007/08 MER combined with the same value in the 2008/09 MER will result in the balance of the CPRSA forecasted to be zero before the end of the FTP, as intended in the FTRP².

This value is significantly lower than the \$0.024/kWh approved in the Initial Decision because the revised calculation of the AC (Decision 5) has increased the AC, meaning that the MER can no longer be reduced. In the Initial Decision, the CPRSA recovery had to be increased in order to effect a reduction in the MER (as required in the Byelaw). Since there is no longer an opportunity to reduce the MER, the CPRSA recovery is now set at a value which maintains the existing MER.

The HCRSA Adjustment has been set to zero, following the decision to transfer the HCRSA balance into the CPRSA as detailed in Decision 1.

Regulated Parameter	Regulated Values		
	ARP 2006 Final Decision	ARP 2007 Adjustments	ARP 2007 Final Decision

² It should be noted that it is highly unlikely that the CPRSA will actually be zero by the end of the FTP, since the projections are based on forecasted figures which will, by definition, be wrong. The actual balance of the CPRSA will depend on the actual volumes sold during the next two ATPs and the actual cost of power – versus what has been forecast. However, using the current best estimates, the CPRSA is forecast to be zero before FTP end.

		2006/07		2007/08
Cost of Power Rate Stabilisation Account Adjustment	\$/kWh	0.023	-0.004	0.019
Hurricane Cost Rate Stabilisation Account Adjustment	\$/kWh	0.001	-0.001	0.000

Decision 7: Mean Electricity Rate

The PUC HEREBY APPROVES a forecast Tariff Basket Revenue (TBR) for BEL of \$172,211,262 for ATP 2007/08 which equates to Mean Electricity Rate (MER) of \$0.441/kWh resulting from the decisions made in Decisions 2, 3, 4, 5 and 6 above.

The MER was calculated as follows:

Regulated Parameters		Regulated Values		
		ARP 2006 Final Decision 2006/07	ARP 2007 Adjustments	ARP 2007 Final Decision 2007/08
Unit Cost of Power (sales)	\$/kWh	0.253	-0.001	0.252
Value Added of Delivery	\$/kWh	0.162	+0.006	0.168
Cost of Power Rate Stabilisation Account Adjustment	\$/kWh	0.023	-0.004	0.019
Hurricane Cost Rate Stabilisation Account Adjustment	\$/kWh	0.001	-0.001	0.000
Annual Correction	\$/kWh	0.002	0.000	0.002
Mean Electricity Rate	\$/kWh	0.441	0.000	0.441

BEL has submitted that the MER remain at the existing rate of \$0.441/kWh for ATP 07/08. However the PUC, in the Initial Decision, approved a reduced MER of \$0.432/kWh. At that time the PUC was able to reduce the MER as a result of the negative AC. However, the AC has now been recalculated (as described in decision 5) meaning that the MER can no longer be reduced. This conforms to the Independent Expert's recommendations to leave the MER unchanged at \$0.441/kWh.

Decision 8: Customer Tariffs

The PUC HEREBY APPROVES the following Customer Tariffs allocated to the different classes of customers in a manner calculated to achieve the TBR approved in Decision 7 above.

	ARP 2006	ARP 2007
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	Final Decision July '06 – June '07	Final Decision July '07 – June '08
Social Rate Customers		
Minimum Monthly Charge ³	\$4.00	\$4.00
0 – 50 kWh	\$0.26	\$0.26
Residential Customers		
Minimum Monthly Charge ³		\$5.00
Monthly Service Charge	\$10.00	\$0.00
0 – 50 kWh	\$0.29	\$0.35
51 – 200 kWh	\$0.41	\$0.44
Above 200 kWh	\$0.46	\$0.47
Commercial Customers		
Monthly Service Charge	\$100.00	\$100.00
0 – 10,000 kWh	\$0.44	\$0.45
10,001 – 20,000 kWh	\$0.43	\$0.44
Above 20,000 kWh	\$0.42	\$0.43
Industrial 1 Customers		
Monthly Service Charge	\$100.00	\$100.00
Monthly Demand Charge per kVA	\$35.00	\$35.00
Off Peak Energy Rate per kWh	\$0.32	\$0.33
Peak Energy Rate per kWh	\$0.46	\$0.33
Industrial 2 Customers		
Monthly Service Charge	\$100.00	\$100.00
Monthly Demand Charge per kVA	\$21.00	\$21.00
Off Peak Energy Rate per kWh	\$0.26	\$0.28
Peak Energy Rate per kWh	\$0.46	\$0.28
Street Lights		
Energy Rate per kWh	\$0.52	\$0.55

The differences between the existing tariffs and the new tariffs are as follows:

- Residential: Removal of the \$10 monthly service charge, and replacement with a \$5 per month minimum charge. Increase of the tariffs for all residential tariff bands;
- Commercial: Increased by 1c/kWh across all bands;
- Industrial: The peak and off-peak Industrial 1 and 2 rates have been replaced by a single energy rate for each category. This is because BEL no longer pays a higher cost for power during CFE's peak hours, and therefore there is no longer a requirement to increase rates during this period;
- Street lights: increased by 3c/kWh to assist the recovery of the service charge removal.

With the Initial Decision option of using the reduced MER to fund a residential service charge reduction no longer available, the PUC has accepted the BEL submitted tariff design. The BEL proposal recovers the residential service charge removal by increasing the tariffs of residential customers, commercial customers and street lights.

³ Minimum monthly charge is a flat rate fee which is only applied where a customer's bill is less than this amount.

The PUC has noted the objections made by BEL and the Minister of Home Affairs and Public Utilities, and also noted the Independent Expert's statement that tariff design is flexible. This tariff structure incorporates the residential service charge into the kWh rate, resulting in a purely variable charge. This places the management of monthly electricity costs in the hands of the consumer, and accepts the potential increased bill volatility described by the Independent Expert⁴.

An explanation of the tariff calculation is given in Annex 3.

Decision 9: Social Rate Qualification

The PUC HEREBY APPROVES the following qualification process for a consumer to receive the Social Rate tariff.

A consumer qualifies to receive the Social Rate if he/she applies to BEL in person, and is a residential customer with only one service connection. Once a consumer has qualified for Social Rate he/she will be billed at the Social Rate in the next billing period as long as his/her consumption is less than or equal to 50kWh per month.

In any month in which a Social Rate customer uses more than 50kWh he/she will automatically be charged Residential rates for that month. However when his/her consumption returns to below 50kWh he/she will be charged at Social Rate again.

This decision is unchanged from that of the Initial Decision.

Decision 10: Reconnection Fees

The PUC HEREBY DISAPPROVES BEL's application for increases in Reconnection Fees.

The PUC does not agree with BEL's assertion that an increased fee will act as a deterrent, since the PUC has demonstrated (as shown in Annex 5) that the majority of disconnections are not repeat offenders, nor customers with the intent of power theft. The PUC agrees with the Independent Expert recommendation to investigate extending the grace period following the due

⁴ It should be noted that the tariff structure is totally independent of the General Sales Tax (GST) which is applied to any BEL bill of value greater or equal to \$150 per month.

date of bills, combined with an aggressive campaign of reminding customers of when their bills are due or delinquent, as a mechanism for reducing the total number of disconnections.

The reasons for this decision are expanded further in Annex 4.

Decision 11: Liquidated Damages for Tampering Policy

The PUC HEREBY DISAPPROVES BEL's application for Liquidated Damages for Tampering.

The PUC's Final Decision in the 2005 FTRP disapproved BEL's request to charge penalties for Tampering, pointing out that the Electricity Act requires matters of this nature to be dealt with on summary conviction. As BEL made clear in their ARP proposal, the use of Liquidated Damages would be a mechanism for achieving BEL's stated objective of levying a penalty on consumers. The PUC's legal opinion is that BEL cannot be allowed to be judge and jury of such matters as it would be a breach of the law of natural justice. The PUC therefore reaffirms its FTRP decision of July 14th, 2005. It should be noted that the Independent Expert, not being an expert in Belizean Law, would not comment on the legal basis for any of the arguments made by BEL or PUC.

The reasons for this decision are expanded further in Annex 5.

Decision 12: Charges and Fees

The PUC HEREBY APPROVES the following charges and fees for the 2007/2008 ATP. The charges and fees are unchanged from those currently in force. BEL is not permitted to charge any other fee than those approved by the PUC and listed below; it should be noted that there is no disconnection fee for non payment and that there is no tampering charge.

SERVICE CHARGE:	
New Connection	\$200.00
Temporary supply	\$120.00
Service Upgrade	\$55.00
Service Relocation	\$55.00
Move In	\$40.00
Transfer	\$40.00
Temporary Disconnection by Request	\$0.00
Reconnection by Request	\$10.00
Reconnection (following disconnection for non payment)	
Residential	\$10.00
Commercial	

Polemount Transformer Service	\$25.00
Padmount Transformer Service	\$25.00
On Site Meter Test	\$0.00
Meter Change for Testing	\$18.00
Replace Damaged Meter (Customer Negligence)	\$98.00
Replace Broken Meter glass (Customer Negligence)	\$31.61
DEPOSIT FEES:	
60 amps service	
Residential	\$50.00
Commercial	\$100.00
100 amps service	
Residential	\$50.00
Commercial	\$100.00
120 amps service	
Residential	\$100.00
Commercial	\$200.00
150 amps service	
Residential	\$100.00
Commercial	\$200.00
200 amps service	
Residential	\$100.00
Commercial	\$200.00
112.5 kVA Padmount transformer	\$3,000.00
225 kVA Padmount transformer	\$8,000.00
500 kVA Padmount transformer	\$15,000.00
1000 kVA Padmount transformer	\$30,000.00
<i>As per the 2005 FTRP Final Decision, starting 1 July 2007, residential customers who have not been disconnected within the previous 24 months are entitled upon request to BEL to a refund of their deposit fee.</i>	

Decision 13: Commercial Losses

The PUC HEREBY DISAPPROVES BEL's application to change the targets set in the FTRP Final Decision for the level of Commercial Losses.

As part of the ARP 2007 submission, BEL requested that the Regulated Values for Commercial Losses be "corrected" to reflect the outputs of a Losses Study commissioned by BEL and conducted by NEI Electric power Engineering Inc. BEL did not submit proposed "corrected" values for the Regulated Values. It should be noted that the PUC did not agree to change the targets during the FTRP 2005, which is why the FTRP Final Decision established the targets over the FTP.

The FTRP Final Decision set the base value for commercial losses and a percentage year on year efficiency improvement factor. The Byelaws define this annual efficiency improvement factor as a Regulated Parameter whose regulated value may only be varied in a FTRP.

It is the PUC's opinion that it therefore cannot change the Commercial Loss targets outside of a FTRP.

Decision 14. Service Quality

The PUC HEREBY APPROVES a System Average Interruption Duration Index (SAIDI) for outages classified as qualifying for Reliability Incentive Adjustment (RIA) as 10.03 hours per customer and a System Average Interruption Frequency Index (SAIFI) for outages classified as qualifying for RIA as 11.00 interruptions per customer.

Since the PUC figures are calculated from the daily outage and customer figures provided by BEL, the differences between PUC's figures and those submitted by BEL are most likely to occur from the outage classification – especially regarding Force Majeure. The PUC has classified lightening and vandalism as Force Majeure events. This classification was agreed with BEL in the 2006 ARP.

The SAIDI and SAIFI values are logged each year of the FTP.

A more detailed explanation of the service reliability calculations is included in Annex 6.

BY ORDER OF THE OFFICE

SIGNED THIS 26th DAY OF JUNE 2007

Roberto Young
Chairman

5. Annexes

Annex 1 – RSA Balances



The Independent Expert's revised calculation of the CPRSA balance has two components – deferred cost of power and CPRSA recovery.

The deferred cost of power is calculated as the difference between the actual revenues collected from power sales designed to cover the cost of power sold (unit cost of power sales multiplied by kWh sold) minus the actual, allowed cost of power (unit cost of power multiplied by the sum of actual power sales and target technical and commercial losses).

This calculation can be represented using the following formula;

$$\Delta\text{COP}_t = \sum_{m=1}^{12} p_m \cdot (E_{\text{PS},m} + E_{\text{TL},m}^* + E_{\text{CL},m}^*) - \sum_{m=1}^{12} p_{\text{COP},m} \cdot E_{\text{PS},m}$$

where

t = calendar year

m = month

ΔCOP = the difference between the allowed cost of power and the cost of power revenues collected

p = price per kWh of electricity purchased and generated (wholesale price)

p_{COP} = price per kWh (of sales) charged in MER for cost of power

E_{PS} = volume of electricity sold to customers

E_{TL}^* = target for electricity lost through technical losses

E_{CL}^* = target for electricity lost through technical losses

It should be noted that the PUC has disallowed 2 elements of the historic cost of power – late payment interest and the difference in firm energy cost from CFE between the August 2006 signed contract price and the 2005 RFP price. These elements have therefore been stripped from the cost of power used in the CPRSA calculation

The CPRSA recovery is calculated as the CPRSA recovery charge in the MER multiplied by the kWh sold. This calculation can be represented using the following formula;

$$\Delta\text{CPRSA}_t = \sum_{m=1}^{12} p_{\text{CPRSA},m} \cdot E_{\text{PS},m}$$

where

ΔCPRSA = CPRSA recoveries received from consumers

p_{CPRSA} = price per kWh (of sales) charged in MER for recovery of the CPRSA

The calculations of the CPRSA balance are shown below:

Total Generation	kWh	30,987,960	28,914,881	35,381,077	34,991,582	37,383,319	36,351,870	37,120,165	38,212,662	36,413,140	36,450,784	32,099,838	33,379,465
Cost of Wholesale Power	Bz\$	6,521,235	6,273,745	7,206,694	7,220,331	8,583,382	8,023,230	8,069,392	8,801,956	6,441,566	6,578,511	6,843,247	6,169,814
Adjustments													
Late Payment Interest	Bz\$	-	(36,995)	(14,609)	(27,666)	(35,981)	(39,493)	-	(17,481)	(667)	-	-	(0)
CFE firm power difference	Bz\$	-	-	-	-	-	-	-	(162,578)	(51,363)	(65,398)	(100,707)	(82,106)
Net Cost of Wholesale Power	Bz\$	6,521,235	6,236,751	7,192,085	7,192,665	8,547,401	7,983,745	8,069,392	8,621,897	6,389,536	6,513,113	6,742,540	6,087,708
Total Sales (EPS)	kWh	28,220,816	25,439,025	26,037,255	30,332,479	31,416,160	31,667,823	31,741,070	31,735,871	32,451,007	31,191,925	30,981,195	28,378,725
Price per kWh of generated & purchased (p)	Bz\$/kWh	0.210	0.216	0.203	0.206	0.229	0.220	0.217	0.226	0.175	0.179	0.210	0.182
Price per kWh of electricity sold (pCOP)	Bz\$/kWh	0.255	0.255	0.255	0.255	0.255	0.255	0.253	0.253	0.253	0.253	0.253	0.253
Forecast technical losses (EYL*)	kWh	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876	3,808,876
Forecast commercial losses (ECL*)	kWh	434,612	434,612	434,612	434,612	434,612	434,612	434,612	434,612	434,612	434,612	434,612	434,612
Revenue received	Bz\$	7,196,308	6,486,951	6,639,500	7,734,782	8,011,121	8,075,295	8,030,491	8,029,175	8,210,105	7,891,557	7,838,242	7,179,817
Allowed cost of power	Bz\$	6,831,923	6,402,324	6,155,315	7,107,234	8,153,297	7,886,988	7,822,523	8,117,999	6,438,906	6,331,684	7,398,910	5,949,601
Total Additions	Bz\$	(364,385)	(64,627)	(484,185)	(627,549)	142,177	(188,307)	(207,968)	88,823	(1,771,198)	(1,559,873)	(439,332)	(1,230,217)
ΔCPRSA per kWh	Bz\$/kWh	0.021	0.021	0.021	0.021	0.021	0.021	0.023	0.023	0.023	0.023	0.023	0.023
Total Recoveries	Bz\$	592,637	534,220	546,782	636,982	659,739	665,024	730,045	729,925	746,373	717,414	712,567	652,711
brought forward	Bz\$	27,954,647											
balance before carrying charge	Bz\$	26,997,625	26,653,539	25,892,201	24,891,747	24,629,425	24,024,975	23,331,479	22,928,382	20,643,300	18,585,033	17,630,370	15,929,506
carrying charge	12%	274,761	269,630	264,077	255,240	248,882	244,516	238,005	232,489	219,021	197,237	182,063	168,710
BALANCE OF CPRSA	Bz\$	27,272,386	26,923,169	26,156,278	25,146,987	24,878,307	24,269,492	23,569,484	23,160,872	20,862,321	18,782,270	17,812,434	

The HCRSA balance calculation has only one component – HCRSA recovery. The HCRSA recovery is calculated as the HCRSA recovery charge in the MER multiplied by the kWh sold. This calculation can be represented using the following formula;

$$\Delta HCRSA_t = \sum_{m=1}^{12} p_{HCRSA,m} \cdot E_{PS,m}$$

where

ΔHCRSA = HCRSA recoveries received from consumers

p_{HCRSA} = price per kWh (of sales) charged in MER for recovery of the HPRSA

The calculations of the HCRSA balance are shown below:

Total Sales (EPS)	kWh	28,220,816	25,439,025	26,037,255	30,332,479	31,416,160	31,667,823	31,741,070	31,735,871	32,451,007	31,191,925	30,981,195	28,378,725
ΔHCRSA per kWh	Bz\$/kWh	0.003	0.003	0.003	0.003	0.003	0.003	0.001	0.001	0.001	0.001	0.001	0.001
Total Recoveries	Bz\$	84,662	76,317	78,112	90,997	94,248	95,003	31,741	31,736	32,451	31,192	30,981	28,379
brought forward	Bz\$	925,115											
balance before carrying charge	Bz\$	840,453	772,963	702,963	619,386	531,786	442,572	415,731	388,312	359,902	332,472	304,971	279,797
carrying charge	12%	8,828	8,111	7,420	6,649	5,789	4,901	4,316	4,042	3,761	3,481	3,205	2,940
BALANCE OF HCRSA	Bz\$	849,281	781,075	710,383	626,835	537,575	447,472	420,047	392,353	363,664	335,952	308,176	

Annex 2 – Annual Correction

The Methodology is a hybrid method using elements of a revenue cap form of regulation with pass-through of certain “uncontrollable costs” and specific cost target incentives for other cost drivers. Taking into account the recommendations of the Independent Expert, the Annual Correction (AC) has been calculated as follows:

The mechanism for pass-through of the uncontrollable costs is that the values are forecasted when the tariffs are set in an ARP and then corrections are made in the subsequent ARP according to the actual value experienced. The corrections are included in the tariffs using the AC.

Simply put, the AC should equal the difference between the actual, allowed required revenue for the company and the actual tariff revenue it collected from customers. The actual, allowed revenue is the combination of the actual cost of the uncontrollable elements, and the target cost of the incentivised (controllable) elements. If the actual revenue is less than the required revenue, then the AC should be added to the required revenue for the next ATP, and all else equal, tariffs would rise. Conversely, if the actual revenue exceeds the required revenue, the AC is used to reduce the required revenue in the next ATP, and all else equal tariffs would fall.

The AC can be broken up into component parts isolating the difference between the amount collected to recover the cost of power through sales and the actual, allowed cost of power; the difference between the required VAD and AC to be collected versus what was actually collected. The charges for CPRSA and HCRSA recoveries are posted direct to the relevant accounts, and as such they are not subject to the AC mechanism.

However the difference between the actual, allowed required revenue for the cost of power and the actual tariff revenue collected towards the cost of power is already being booked to the CPRSA. Therefore it is the remainder which is in the AC, that is the difference between the required VAD and previous year's AC to be collected versus what was actually collected.

This calculation can be represented using the following formula:

$$AC = \text{Revenue Requirements for VAD \& AC in year } t - \text{Tariff Revenue for VAD \& AC in year } t$$

$$= VAD_t^* + \Delta OR_t - \Delta TL_t - \Delta FM_t + AC_t - (TB_t - \sum_{m=1}^{12} (E_{PS,m} (p_{COP,m} + p_{CPRSA,m} + p_{HCRSA,m})))$$

where

t = calendar year

m = month

VAD* = allowed value added of delivery

ΔOR = difference between forecast & actual non tariff revenues (Other Revenue)

ΔTL = difference between forecast and actual taxes and licence fees

ΔFM = difference between actual and forecast Force Majeure costs

AC = Annual Correction

TB = total revenues received from customers (Tariff Basket)

E_{PS} = volume of electricity sold to customers

p_{COP} = price per kWh (of sales) charged in MER for cost of power

p_{CPRSA} = price per kWh (of sales) charged in MER for recovery of the CPRSA

p_{HCRSA} = price per kWh (of sales) charged in MER for recovery of the HPRSA

Due to the revised calculation of AC, the AC generated in the 2006 ARP has to be recalculated using the formula above. Since the Methodology was introduced at July 1, 2005, the AC is only calculated over the 6 month period July – December 2005.

Allowed, Required Revenue for VAD & AC in July – December 2005

Forecast VAD required: VAD ₂₀₀₅ *	Difference between forecast & actual Other Revenue: ΔOR_{2005}	Difference between forecast & actual Taxes & Licence Fees: ΔTL_{2005}	Difference between forecast & actual Force Majeure: ΔFM_{2005}	AC from previous period: AC ₂₀₀₅	Allowed, Required VAD & AC Revenue
\$28,424,002	\$(171,875)	\$99,092	\$0	\$0	\$28,153,035

Tariff Revenue Collected for VAD & AC in July – December 2005

Actual Tariff Revenue: TB ₂₀₀₅	Revenue recovered for COP: $\Sigma(E_{PS,m} \times P_{COP,m})$	Revenue recovered for CPRSA: $\Sigma(E_{PS,m} \times P_{CPRSA,m})$	Revenue recovered for HCRSA: $\Sigma(E_{PS,m} \times P_{HCRSA,m})$	Tariff Revenue Collected for VAD & AC
\$71,206,123	\$38,229,628	\$2,730,688	\$546,138	\$29,699,669

$$\begin{aligned}
 \text{Annual Correction, AC} &= \text{Allowed, Required Revenue for VAD \& AC Jul-Dec 2005} - \text{Tariff Revenue Collected for VAD \& AC Jul-Dec 2005} \\
 &= \$28,153,035 - \$29,699,669 \\
 &= \$(1,546,634)
 \end{aligned}$$

This is different from the value calculated by the Independent Expert, due to the use of different values for forecast/allowed VAD over July – December 2005. The FTRP forecasts were made over 12 month periods; the Independent Expert used half the forecast/allowed VAD over the ATP 2005/06 whereas the PUC felt it is more consistent, since all other forecast and actual values are over calendar years, to use half the forecast/allowed for calendar year 2005. All other values are the same.

It should also be noted that since the AC would have been applied in the MER for the ATP 2006/2007, that the AC that was applied during calendar year 2006 is half the above calculated value, that is, \$(773,317). This value is then used in the AC calculation for ATP 2007/2008 as follows:

Allowed, Required Revenue for VAD & AC in 2006

Forecast VAD required: VAD ₂₀₀₆ *	Difference between forecast & actual Other Revenue: ΔOR_{2006}	Difference between forecast & actual Taxes & Licence Fees: ΔTL_{2006}	Difference between forecast & actual Force Majeure: ΔFM_{2006}	AC from previous period: AC ₂₀₀₆	Allowed, Required VAD & AC Revenue
\$60,830,921	\$(1,247,101)	\$(72,566)	\$0	\$(773,317)	\$58,883,069

Tariff Revenue Collected for VAD & AC in 2006

Actual Tariff Revenue: TB ₂₀₀₆	Revenue recovered for COP: $\Sigma(E_{PS,m} \times p_{COP,m})$	Revenue recovered for CPRSA: $\Sigma(E_{PS,m} \times p_{CPRSA,m})$	Revenue recovered for HCRSA: $\Sigma(E_{PS,m} \times p_{HCRSA,m})$	Tariff Revenue Collected for VAD & AC
\$158,138,893	\$91,323,345	\$7,924,420	\$705,820	\$58,185,308

$$\begin{aligned}
 \text{Annual Correction, AC} &= \text{Allowed, Required Revenue for VAD \& AC in 2006} - \text{Tariff Revenue Collected for VAD \& AC in 2006} \\
 &= \$58,883,069 - \$58,185,308 \\
 &= \$697,760
 \end{aligned}$$

which equals \$0.002 /kWh on forecast sales of 391,001,985kWh

Annex 3 – Tariffs

The PUC establishes customer tariffs sufficient to meet the revenue requirement (Tariff Basket Revenue, TBR) of BEL. The TBR is comprised of the COP, the VAD, the recovery of the RSAs and the AC.

The forecast revenues from each customer category are calculated using the forecast sales. The service charges and tariffs for each tariff band are adjusted until the total forecast tariff revenues are equal to the revenue requirement.

BEL’s revenue requirement for the ATP July 2007 to June 2008 has been established in this Final Decision to be \$172 million. The revenue requirement is to be obtained from the sale of 391GWh to 70,957 customers in the five customer classes as shown in the following table:

Category	Demand (annual)	Customers	Forecast sales ATP07/08 (kWh)	Rate	Forecast Revenue
Minimum Charge				\$ 4.00	
0-50 kWh		9,459	5,693,871	\$ 0.26	\$ 1,480,407
Minimum Charge				\$ 5.00	
Service Charge		60,866		\$ -	\$ -
0-50 kWh			35,734,499	\$ 0.35	\$ 12,507,074
51-200 kWh			72,594,197	\$ 0.44	\$ 31,941,447
> 200 kWh			107,047,058	\$ 0.47	\$ 50,312,117
Service Charge (per month)		628		\$ 100.00	\$ 753,600
0-10,000 kWh			44,214,545	\$ 0.45	\$ 19,896,545
10,001-20,000 kWh			16,406,067	\$ 0.44	\$ 7,218,669
> 20,000 kWh			64,287,119	\$ 0.43	\$ 27,643,461
Service Charge (per month)		1		\$ 100.00	\$ 1,200
Demand Charge per KVA per mth	3,524			\$ 35.00	\$ 123,340
Off Peak Energy, kWh			1,876,910	\$ 0.33	\$ 619,380
Peak Energy, kWh (6-9pm, Mon-Fri)			175,276	\$ 0.33	\$ 57,841
Service Charge (per month)		2		\$ 100.00	\$ 2,400
Demand Charge per KVA per mth	42,386			\$ 21.00	\$ 890,106
Off Peak Energy, kWh			15,569,578	\$ 0.28	\$ 4,359,482
Peak Energy, kWh (6-9pm, Mon-Fri)			1,632,378	\$ 0.28	\$ 457,066
Totals		70,957	391,001,985	\$ 0.441	\$ 172,437,904

The revenue generated in each category is made up of monthly service charge, usage rate and for industrial customers, demand charge.

The differences between the existing tariffs and the new tariffs are as follows:

- Residential: Removal of the \$10 monthly service charge, and replacement with a \$5 per month minimum charge. Increase of the tariffs for all residential tariff bands;
- Commercial: Increased by 1c/kWh across all bands;
- Industrial: The peak and off-peak Industrial 1 and 2 rates have been replaced by a single energy rate for each category. This is because BEL no longer pays a higher cost for power during CFE's peak hours, and therefore there is no longer a requirement to increase rates during this period;
- Street lights: increased by 3c/kWh to assist the recovery of the service charge removal.

Annex 4 – Reconnection Fees

BEL, in its ARP submission, requested the PUC to approve increases in Reconnection Fees for residential and commercial customers. BEL asserted that the proposed level of fees would serve as a deterrent and thereby enable improved operational efficiency and revenue collection.

In this Final Decision, the PUC has denied this request.

An analysis of BEL's disconnection for the past three calendar years indicated that BEL disconnects approximately 4,000 customers on a monthly basis which equates to six percent of the customer base, with approximately 4% having multiple disconnections. In 2006, residential customers accounted for 99% (34,166) of the 34,258 disconnections executed by BEL. BEL indicated that disconnection occurs two days after the due date and since the majority of these customers are reconnected within the same day, it is apparent that it is not the best approach for BEL to utilize disconnection as an immediate mode for collecting on late accounts. It is possible that many of these customers can be induced to make their payments through more customer caring and cost efficient methods, and BEL should seek to further expand its collection approaches. While it must be recognized that BEL is now able to notify customers via email of approaching due dates for bill payments, it must be noted that those customers who have access to and benefit from an email facility are in the minority.

Where BEL indicated that "the new fee will be a much needed deterrent to those customers who are disconnected monthly for non-payment", BEL inferred a policy approach of utilizing disconnection fee as a penalty. 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. Modern customer care practice suggests that disconnection should function as a final measure within a detailed collection process governed by a policy that seeks to assist customers in retaining their service. As previously stated only 4% of the customers disconnected on a monthly basis had multiple disconnections indicating that the majority of disconnected customers are not delinquent and consequently, a penal approach for addressing the situation is not an appropriate response.

Electricity is an essential service and effort should be taken to understand and facilitate the needs of residential customers, especially those who may be experiencing financial hardship. It is the considered decision of the PUC that BEL's disconnection policy must be underpinned by a more customer-friendly and comprehensive approach to servicing customers.

The PUC agrees with the Independent Expert's recommendation that the possibility of a longer grace period following the due date of payments should be examined, combined with a more aggressive campaign of reminding customers when their bills are due or delinquent as it seems power theft is not the ultimate goal of the late payment customers.

Annex 5 – Liquidated Damages for Tampering

Tampering can encompass a variety of illegal activities; namely self-reconnection, meter tampering and power diversion. These activities with the exception of self-reconnection do contribute to BEL's commercial losses.

BEL's submission included a proposal for what the company has titled as "Liquidated Damages for Tampering Policy" (the Policy) which tabled differing sums to be paid to BEL according to different customer categories. The Policy states that the company was legally advised to utilize an expression of "Liquidated Damages for Tampering" instead of "Tampering Penalties", on the basis that "In the law of contract, provisions in the contract which amount to "penalties" are struck down by a Court of law, whereas "liquidated damages" is permissible...." However, also included in the Policy submission is BEL's objective "To levy penalties on customers who are caught stealing power in an effort to minimize the increasing incidents and to deter repeat cases of customer tampering thereby reducing commercial losses"

In this Final Decision, the PUC denies BEL's request to impose Liquidated Damages for Tampering. The PUC also states categorically that the fee of \$100.00 which BEL stipulated in its submission is being levied on customers found tampering is an illegal charge.

The PUC, in the exercise of its regulatory responsibilities and in response to BEL's request for approval to charge penalties for Tampering, clearly stated in its July 14, 2005 Final Decision for the First Full Tariff Review Proceedings (FTRP) for BEL, that while the company is expected to effectively manage these types of practices it must do so in compliance with the law. The PUC's decision further pointed out that the Electricity Act requires matters of this nature to be dealt with on summary conviction. Consequently, the PUC disallowed the Tampering charges proposed by BEL on the basis that illegal activities and any resulting fines are matters for the court to consider. As BEL made clear in their proposal, the use of Liquidated Damages would be a mechanism for achieving BEL's stated objective of levying a penalty on consumers. The PUC's legal opinion is that BEL cannot be allowed to be judge and jury of such matters as it would be a breach of the law of natural justice. The PUC therefore reaffirms its FTRP decision of July 14th, 2005. It should be noted that the Independent Expert did not feel able to opine on the legality of the proposed liquidated damages.

Annex 6 – Service Quality

In the 2005 FTRP the PUC set incentive targets for service quality. The reliability indicators being measured are:

The System Average Interruption Frequency Index (SAIFI):

$$SAIFI = \frac{\sum_{i=1}^n U_i}{U_{tot}}$$

The System Average Interruption Duration Index (SAIDI):

$$SAIDI = \frac{\sum_{i=1}^n (U_i \cdot d_i)}{U_{tot}}$$

where

i = the interruption;

U_i = the number of customers affected during interruption i;

d_i = the duration of interruption i, in hours;

U_{tot} = the total number of customers served by the licensee at the end of the calendar year;

n = the total number of interruptions for a given calendar year.

According to the Methodology, BEL is required to measure and report the SAIFI and SAIDI reliability indicators for all interruptions with duration longer than five minutes. The interruptions are classified into two distinct categories as follows:

RIA Interruption

- unplanned;
- transmission and distribution network related;
- origin in Belize;
- plant and facilities owned and controlled by the licensee;
- non Force Majeure events.

Non RIA Interruption

- planned;
- generation related;
- origin outside Belize;
- plant and facilities not owned and controlled by the licensee;
- Force Majeure events.

The targets and Methodology for regulating the reliability performance of BEL apply only to those interruptions that are classified as Reliability Incentive Adjustment (RIA) Interruptions.

The service quality achieved by BEL over the calendar year 2006 as calculated by the PUC in this Final Decision is as shown below:

		<u>Target values for RIA interruptions</u>	<u>Actual values for RIA interruptions</u>	<u>Actual values for Non-RIA interruptions</u>
SAIDI	hours/customer	9.93	10.03	20.84
SAIFI	interruptions/customer	9.93	11.00	14.96

This is calculated for 68,635 customers (figure supplied by BEL).

Since the PUC figures are calculated from the daily outage figures provided by BEL, the difference in the PUC's figures is most likely to occur from the outage classification – especially regarding Force Majeure. The PUC has classified lightening and vandalism as Force Majeure events. This classification was agreed with BEL in the 2006 ARP.

6. Acronyms

AC	- Annual Correction
ARP	- Annual Review Proceedings
ATP	- Annual Tariff Period
BEL	- Belize Electricity Limited
CFE	- Comision Federal de Electricidad, Mexico
COP	- Cost of Power
CPRSA	- Cost of Power Rate Stabilisation Account
FTP	- Full Tariff Period
FTRP	- Full Tariff Review Proceedings
GWh	- Gigawatt-hour
HCRSA	- Hurricane Rate Stabilisation Account
kVA	- kilovolt-Amp
kWh	- kilowatt-hour
MER	- Mean Electricity Rate
MW	- Megawatt
MWh	- Megawatt-hour
OPEX	- Operational Expenditures
OR	- Other Revenue
PUC	- Public Utilities Commission
RIA	- Reliability Incentive Adjustment
RSA	- Rate Stabilisation Accounts
RFP	- Request for Proposals (for Base Load Generation)
SAIDI	- System Average Interruption Duration Index
SAIFI	- System Average Interruption Frequency Index
TBR	- Tariff Basket Revenue
VAD	- Value Added of Delivery

Attachment F

Approval Letters from PUC on power purchase




41 Gabourel Lane
P.O. Box 300
Belize City
Belize
Central America

December 14, 2007

PUC/ES/COMM/B3 (13) 2007

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

Dear Mr. Sukhnandan.

In reference to your letter EXE2/320/01/2007(75) please note that the Public Utilities Commission (PUC) approves the pass through of the cost for the extra 5MW firm capacity to address the concerns faced with increasing frequency of economic cancellations and to use the terms of the CFE contract dated August 18, 2006. The PUC also agrees with the increased firm 2 capacities as indicated in your letter to address your dry season requirements and approves the pass through of the cost. 

Kindly keep the PUC apprised of any abnormalities that may arise.

Sincerely,
PUBLIC UTILITIES COMMISSION



Roberto Young
Chairman

cc: Mr. Victor Lewis – Director, Electricity - PUC



PUBLIC UTILITIES
COMMISSION

41 Gabourel Lane
P.O. Box 300
Belize City
Belize
Central America

January 11, 2008

PUC/ES/COMM/B3 (1) 2008

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

Dear Mr. Sukhnandan,

This is to acknowledge receipt of your letter reference EXE/320/01/2007(74) to which was attached a Power Purchase Agreement (PPA) negotiated between BEL and Belize Aquaculture Limited (BAL) for the supply of 10 MW firm capacity and associated energy for the first two years and increasing to a 15 MW firm capacity and associated energy thereafter for a total term of 15 years.

Notwithstanding that there is a formal process agreed to between BEL and the PUC to initiate RFP's from which PPA's then originate, that there is pending litigation in relation to the PUC's mandate to approve PPA's and that the PUC's position is that BEL unilaterally chose to close the RFP of 2005, the PUC hereby approves the pass through as described in article 17 (compensation) of the PPA, without prejudice; based on the following determination:

- 1) For the Dry Season 2005 BEL requested, the PUC approved and BEL contracted with CFE, firm capacity of 6 MW to 7 MW and associated power for the period March to June, for cost of power pass through.
- 2) For the Dry Season 2006 BEL and PUC reviewed the forecast and evaluated the possible scenarios. The Chalillo Facility became operational in late 2005, and was able to satisfy the expected Dry Season needs for 2006.



- 3) For the Dry season 2007 BEL requested, the PUC approved and BEL contracted with CFE, firm capacity of 2 MW to 7.5 MW and associated power for the period February to June, for cost of power pass through.
- 4) For the Dry Season 2008 BEL requested, PUC approved the cost of power pass through of 3 MW to 20 MW of firm capacity and associated power from CFE for the period January to August. This request also included an increase of the Firm Capacity of the existing agreement with CFE from 15 to 20 MW to mitigate the effects of increasing cancellations of "economic energy".
- 5) By inference there will be a request for Dry Season requirements in 2009 and for some time thereafter to ensure continuity of supply and capacity reserve margin.
- 6) The Becol and Belcogen projects are targeted to be in service in September and June 2009 respectively but are encountering delays as normally occurs with these types of projects.
- 7) The CFE contract is up for renewal in August 2008.
- 8) This energy supply will be made available from in country which further enhances in-country security of energy supply.
- 9) The Scheduled Commercial Operating Date for the BAL Facility is January 2009.
- 10) The site location of the Facility offers the potential to assist in: reduction in transmission technical losses, black starting in the event of a major system failure and in system support for the Toledo district in the event of transmission line maintenance or repair.

The PUC therefore approves the cost of power pass through conditional that this supply be replacement to the estimated yearly request for dry season requirements and to offset the requirement from CFE to mitigate the increasing frequency of economic cancellation. Additionally, in any possible renegotiating of supply from CFE following August 2008, this supply from BAL must be first satisfied, with full regard to the lowest economic cost of energy to the system.

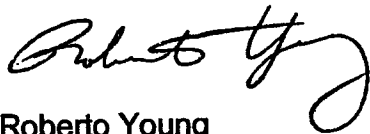
The PUC hereby advises that it will not approve except for emergency purposes any further cost of power pass through despite BEL's satisfactory negotiations until:

- 1) Both BEL and PUC mutually agree on a definition of "registered" as it appears in the Electricity (Tariffs, Charges, and Quality of Service Standards) (Amendment) Byelaws, 2007.

- 2) BEL and PUC agree on the continuation of the existing process, or to an amended process, for triggering a RFP.
- 3) BEL and PUC agree on establishing an independent body for full implementation of the RFP process.
- 4) BEL and PUC develop a RFP process that can stand to scrutiny for: transparency, accountability and fairness to stakeholders.

The PUC looks forward to the continued cooperation of BEL to ensure that the consumer obtains a quality service at an affordable rate.

Sincerely,
PUBLIC UTILITIES COMMISSION



Roberto Young
Chairman

cc. Mr. Victor Lewis – Director, Electricity



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@bti.net

REF: PUC/ES/COMM/B3 (5) 2007

April 30, 2007

Mr. Joseph Sukhnandan
Vice President
Engineering & Supply
Belize Electricity Limited (BEL)
2 ½ Miles Northern Highway
Belize City,
Belize

Dear Mr. Sukhnandan,

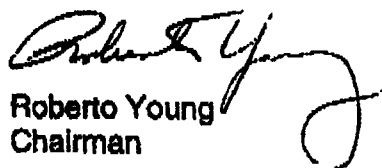
As a follow up to our letter PUC/ES/COMM/B3 (2) 2007, the examination of the proposed Power Purchase Agreement (PPA) between Belize Electricity Limited (BEL) and Belize Electric Company Limited (BECOL) dated 26th January 2007 and my e-mails dated 25th and 27th April 2007, note that the PPA is approved subject to the following:

- 1) The average energy to be delivered annually is 89 gigawatt-hours;
- 2) The estimated as-built price of the Vaca Hydroelectric Project (Project) is \$US 52.5 million dollars;
- 3) The PUC will have authority to audit the Project. Price changes in the range of plus or minus \$US1.0 million will not affect the agreed tariff. For price changes outside the range of plus or minus \$US1.0 million, BECOL will seek the approval of the PUC for a change in the agreed tariff.
- 4) For firm capacity of 18 megawatts the "capacity charge" will be \$US200 thousand per month;

- 5) For energy associated with the firm capacity, the "energy charge" will be \$US.0755 per kilowatt-hour;
- 6) Both the "capacity charge" and the "energy charge" will be escalated from year one (1) at 50% of the United States of America (US) Consumer Price Index (CPI).

It must be noted that in this agreement you have agreed to pay BECOL in US dollars despite the fact that you have experienced difficulties in the past to obtain US dollars while other agreements do not reflect this condition.

Sincerely,



Roberto Young
Chairman

cc: Mr. Victor Lewis – Director, Electricity
Ms. Anna Rossington – Director, Rate Setting and Q.O.S.
Ms. Danalyn Myvett – Director, Consumer Affairs

Attachment G

Agreement on Mollejon Transmission Facility

October 19 2001

**Memorandum of Understanding on Principal Revisions
to Franchise and Power Purchase Arrangements
between the Government of Belize,
Belize Electric Company Limited and Belize Electricity Limited**

Following discussions at meetings held between representatives of the Government of Belize (GOB), the Public Utilities Commission (PUC), Belize Electricity Limited (BEL) and Belize Electric Company Limited (BECOL), the representatives of the GOB, BEL and BECOL agrees to the points listed below, subject to approval by the Cabinet and the BEL/BECOL principals, and the PUC acknowledge the discussions and agrees to the amendments in the Power Purchase Agreement as described below.

Chalillo

Belize Electric Company Limited (the "Producer") will agree to build the Chalillo project subject only to (i) approval by the Belize DOE of the project and agreement between the DOE and the Producer on an environmental compliance plan (and that neither the approval nor compliance plan requires the Producer to expend more than is currently contemplated) and (ii) the Government agreeing to reimburse the Producer for the costs it incurs if the Chalillo project is commenced but the Government subsequently elects to terminate the project.

Power Purchase

The prices payable under the Power Purchase Agreement for Mollejon and Chalillo energy will be amended as follows:

<u>Energy</u>	<u>Price</u>
(i) ≤100,000,000 Kwh	US\$0.0875 (with a 1.5% escalation each year commencing April 1, 2001, with the last such escalation occurring on April 1 st 2036); and
(ii) >100,000,000 Kwh	greater of (a) US\$0.05 and (b) 90% of the off-peak Mexican rate under the current principal Power Purchase Agreement with Comision Federales de Electricidad (CFE).

The existing capacity charge under the Power Purchase Agreement will be eliminated effective as of April 1, 2001. The 5% operations and maintenance fee will continue to apply. The term of the Power Purchase Agreement will be extended until the fiftieth anniversary of the first energy sale from Chalillo (or March 31, 2051 if Chalillo is not built through no fault of GOB or BECOL). If the cost of the construction of the Chalillo project is materially different than that currently budgeted as a result of factors beyond the Producer's control, Belize Electricity Limited (the "Utility") and the Producer will agree to negotiate appropriate changes to the prices.

Transmission Line

The Utility will agree to pay to the Producer the unamortized cost (US\$14.9 million) of the existing Mollejon transmission line in monthly installments over a 10 year period, with a 10% interest rate. The Government will confirm (i) that its existing guaranty of the obligations of the Utility covers the payments with respect to the transmission line, (ii) the payments can be made in US dollars, (iii) the payments can be received by the Producer free of tax and (iv) the payments can be freely transferred out of Belize. These obligations and confirmations will be contained in a new agreement that is separate from the Power Purchase Agreement.

Upper Macal River Franchise Agreement

The term of the existing Franchise Agreement will be extended to the fiftieth anniversary of the first energy sale from Chalillo (or March 31, 2051 if Chalillo is not built through no fault of GOB or BECOL).

The Producer will agree to lease the Mollejon Project from the Government from April 1, 2036 to the fiftieth anniversary of the date of the first energy sale from Chalillo (or March 31, 2051 if Chalillo is not built through no fault of GOB or BECOL) for US\$500,000 a year, escalated by US\$100,000 a year.

The Government will agree to upgrade the existing Ballerina Road to an "all weather" road suitable for two way traffic and to extend that road to the site of the Chalillo project.

The right of the Government to purchase the Mollejon Project that had been contained in Section 13.5 of the Franchise Agreement to purchase the Mollejon Project for 10 times Mollejon's annual revenues will be removed.

The Government will agree to take reasonable steps to protect the Mountain Pine Ridge, Chiquibul Vaca, Bladen Branch, Columbia River, Maya Mountain, Siburn, Sittee River and Swasey Bladen watersheds.

The Government will agree to amend the *Mollejon Tax Act* to (i) expand its scope so that it includes the activities of the Producer (and its affiliates other than the Utility) with respect to Chalillo and other future projects on the Macal River, other rivers in Belize and thermal generation projects and (ii) extend its term so that the Producer (and its affiliates other than the Utility) enjoy the benefits of the Act until the expiry of the lease term for the Mollejon Project.

Additional Franchise

The franchise will be broadened to include all rivers in Belize (subject to Hydro Maya's existing franchise) and, to allow voltage support and back up, thermal generation. For each new project, environmental approval will have to be obtained from the DOE and a mutually acceptable compliance plan negotiated. All of the new projects will enjoy the same terms relating to licencing, the environment, taxation, import and export controls, employee immigration and currency exchange as are contained in the Franchise Agreement. These benefits would also apply to the

diesel assets currently owned by the Utility if those assets were sold to the Producer or one of its affiliates.

The franchise rights with respect to the Macal River (including the Mollejon and Chalillo projects) will be contained in the existing Franchise Agreement (which will be amended and restated to avoid the need to work through the various amendments) and the franchise rights with respect to thermal assets and hydro projects on rivers other than the Macal will be contained in a new, separate non-exclusive Franchise Agreement, which will be guaranteed by a new, separate Government Guaranty Agreement. That new Guaranty Agreement will also guarantee payments by the Utility for thermal and hydroelectric power generated by the projects contemplated by the new Franchise Agreement for a period of the amortization plus 5 years or until 2036, whichever is greater. The new Franchise Agreement and new Guaranty Agreement may be assigned to an affiliate of the Producer, which will facilitate future non-recourse financing of the thermal and hydroelectric projects. The new Franchise Agreement will terminate on the fiftieth anniversary of the date that it is signed.

Additional Issues

The parties will consider the Lenders request that English, not Belize, law will govern the Franchise Agreement, the Power Purchase Agreement and the Guaranty Agreement on the basis that (i) it is the market practice to have the law of a neutral jurisdiction govern those types of agreements and (ii) English commercial law has had more time to develop than Belize commercial law and, accordingly, may provide greater certainty as to the precise obligations of the parties.

The Government will confirm the conveyance it granted to BECOL with respect to the Mollejon site.

The *Electricity Act* will be amended to recognize the establishment and operation of the Cost of Power Rate Stabilization Account.

Signed
October 19th 2001


Lynn Young
Belize Electricity Limited


John Evans
Belize Electric Company Limited


Hon. Ralph Fonseca
Government of Belize


Dr. Gilbert Canton
The Public Utilities Commission