



A FORTIS COMPANY

# Threshold Event Review Proceeding

## COMMON QUESTIONS AND ANSWERS

MARCH 2008

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### **What is the average rate increase being proposed?**

The average increase being proposed is 6.5 cents per kilowatt hour (kWh).

This increase is only for Cost of Power, which is indexed to oil prices.

Since the last rate adjustment in January 2006, oil prices have increased from an average of US\$65 per barrel to US\$111 per barrel as of March 13, 2008.

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### **What would be the average increase for a typical residential and social customer?**

The average residential customer using 100 kWh per month would see their bill increased from \$39.50 to \$45.90 per month. Social customers would see an increase from \$13 to \$16.15 per month.

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### **BEL reports healthy profits yearly. How does the Company justify these requests for rate increases?**

The increases that BEL has had to implement are only to meet the increased cost of power, which is indexed to oil. BEL makes a 10% return which is the minimum allowed by the Public Utilities Commission. This return enables the Company to service its debts and pay a reasonable return to shareholders. On average BEL pays 10% to 15% interest on loans and 8% return to shareholders.

#### **It is important to note that of every \$1 BEL receives:**

- 50 cents is used to pay for Cost of Power
- 23 cents is used to invest in service improvement
- 10 cents is used for operating expenses
- 8 cents is used for debt servicing
- 8 cents is used to pay dividends to BEL shareholders
- 1 cent is used to pay taxes

#### **Note that the tariff setting mechanism for electricity rates is divided into three components:**

**Cost of Wholesale Power** – BEL makes no profit on the Cost of Power. The Cost of Wholesale Power component is a direct pass through to customers.

**Value Added of Delivery** – The VAD covers the cost of delivering electricity through the wires and transformers etc. and allows the Company to make a return in order to maintain investment and service its loans and other financial needs.

**Rate Stabilization Account** – The RSA component allows the Company to defer increases in the cost of power to this account to be recovered when the cost would decrease. This effectively should stabilize rates for customers. BEL has had to request rate increases because the cost of power has been rapidly increasing due to rising oil prices. At the end of February 2008 the balance in the RSA stood at \$24.5 million.

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### **With Chalillo, Mollejon and Hydro Maya on line, why is BEL returning for another rate increase?**

If it were not for hydroelectricity, the average rate in 2007 would have had to increase to approximately 60 cents per kWh, which is the average rate in Caribbean countries that have no alternative but to generate with diesel. Hydroelectricity helped to maintain stable rates in 2007.