



A FORTIS COMPANY

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Electricity Act, PUC Act and PUC's Order

Belize Electricity Limited (BEL) categorically rejects the Public Utilities Commission's (PUC's) allegation that the Company has contravened and is contravening the conditions of its licence.

Both the Electricity Act and the Public Utilities Commission Act impose a duty upon the PUC to carry out its functions in a manner calculated to:

- a. **Secure that all reasonable demands for electricity are satisfied**
- b. **Secure that licenceholders are able to finance the carrying on of the activities which they are authorized by their licences to carry on**
- c. **Afford the licenceholder a reasonable opportunity to recover the reasonable costs of providing service and**
- d. **Afford the licenceholder to secure a reasonable rate of return on its investment.**

These various objectives are intertwined. If for instance, BEL cannot recover its reasonable costs of providing service and make a reasonable return on its investment then it follows that the Company will not be able to satisfy all reasonable demands for the supply of electricity [including through population or settlement expansion].

Dr. Jonathan Lesser, the Independent Expert who was appointed by the PUC to inquire into and report on recent Annual Tariff Review Proceedings for the setting of electricity rates for the period 1st July 2008 to 30th June 2009, stated in effect that the PUC must approach and exercise its functions on the basis of a “**Regulatory Compact**” by which the Commission should both “*protect the interests of consumers*” and “*maintain the financial integrity of [the] regulated utility*”. It is BEL's contention that the PUC has not complied with its statutory objectives and has not exercised its powers in accordance with the “Regulatory Compact” principle.

BEL points out that the PUC refused to follow the recommendation for an increase in electricity rates which was made by the said Independent Expert which it appointed - Dr. Jonathan Lesser. On its part BEL has consistently protested to the PUC both orally and in writing, including suggesting that the issues [which are often complex] be addressed through discussions and even the assistance of independent experts.

The Final Decision made by the PUC not only refused to approve any increase in electricity rates but also made substantial changes in costs and allowances which had been approved by the previous PUC. This Decision has had a critical adverse effect on BEL's finances. BEL therefore has had to take all steps it considers reasonable and proper to shore up its financial position and maintain its operations. This includes necessarily serious steps to contain its expenses and reduce its monetary and capital outlay. BEL has also lodged its complaint with the Supreme Court. This complaint is pending and BEL will not at this time go into the details of the complaint. These circumstances have naturally impacted BEL's approach to new connections and line extensions.

The Allegation that BEL is contravening its licence

As far back as 2005, BEL submitted a draft proposal to the PUC, whereby the Company would discontinue charging prospective customers for the installation of one and two pole line extensions to provide new service. This would be on the understanding that, as other customers are connected to the line extension, BEL would be allowed to recover such costs in the tariff at the then approved return of 12 per cent. That draft policy was never finalized nor approved by the PUC.

Current Situation

Now, BEL is experiencing severe financial difficulties and has had to require customers to pay the full cost of service installation upfront, with refunds to be provided, as other customers connect to the line extension.

On average, it costs \$3,600 to supply power to a residential customer who needs two poles installed. BEL spends approximately \$1.4 million per year on these installations. The average bill for a residential customer is currently \$100 per month, of which approximately \$93 is for cost of power and other services such as meter reading, billing and maintenance. The average bill for more than 7,000 residential customers on the social rate is \$7.50 per month and the cost of serving these customers is approximately \$20 per month.

BEL continues to experience serious cash flow challenges and in fact the Government of Belize has had to provide the Company with security to enable the Company to maintain power supply from Comision Federal de Electricidad in Mexico. Also pointing to BEL's financial problems, one of the Company's main bankers recently declined to renew its credit facilities, citing concerns about BEL's financial health. BEL is also in breach of several of its loan covenants and is prevented from raising capital and cannot finance its operations.

Pending the determination of the issues and challenges, the Company (including its officers and employees) will continue to do its best under these difficult circumstances to maintain acceptable service to customers. The Company reiterates that it has suggested to the PUC that these matters be resolved with the assistance of an independent expert or experts, for the reason that the Company is quite ready and prepared to address any allegations or insinuations that it has acted unreasonably or improperly.

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