



A FORTIS COMPANY

Belize Electricity Limited  
2 ½ Miles Northern Highway  
P.O. Box 327  
Belize City, BELIZE  
Corporate Tel.: 501-227-0954  
Customer Care: 0-800-235-2273  
Fax: 501-223-0891  
Email: [pr@bel.com.bz](mailto:pr@bel.com.bz)  
Website: [www.bel.com.bz](http://www.bel.com.bz)

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Contact: Dawn Sampson – Manager, Corporate Communications Department

E-mail: [dawn.sampson@bel.com.bz](mailto:dawn.sampson@bel.com.bz)

## **BEL Responds to PUC's TERP Decision**

Belize Electricity Limited (BEL) has reviewed the Public Utilities Commission's (PUC) decision on the Threshold Event Review Proceeding (TERP), delivered on March 28, 2008.

The Company acknowledges and understands that no one wants to see an increase in electricity rates, however, unless oil prices start to fall, BEL will not be able to meet its financial needs in 2008 and the Company's ability to supply power reliably will be compromised.

The Company provides the below information relating to the PUC's conclusions noted in its March 28 decision:

### **1) BEL can meet and satisfy its financial obligations in 2008.**

The Company's net earnings are at a moderate 10 per cent Rate of Return on Assets. With a Rate Stabilization Account (RSA) at over \$24 million, which represents cash paid out to power suppliers, the Company's net earnings, which represent booked income, is almost wiped out by the high RSA balance. Consequently, PUC's disapproval of the rate increase will result in severe cash flow difficulties, affecting the Company's ability to provide reliable service.

### **2) BEL can manage cash flow by reducing capital expenditure and operating expenditure.**

The cost of power continues to average as much as \$0.065 per kWh higher than provided for in the rates. With annual sales in excess of 400,000,000 kWh this equates to extra cost in excess of over \$26 million. To put this in perspective, BEL's operating expense in 2007 was approximately \$20 million. Further cutbacks in operating expenditures will not be sufficient to close the gap and will negatively affect service quality. Cutting capital expenditure will also adversely affect service quality and restrict the Company's ability to meet the growth in demand for services. At any rate, cutting capital expenditure is not a sustainable solution when costs are higher than revenues. BEL prudently manages its operations to ensure a balance between minimizing expenses and investing in service improvement initiatives.

**3) The PUC will further analyze and interrogate the balance of the CPRSA account and will address the escalating CPRSA, due to the rapid increase of oil prices in the ARP that commences in early April, while seeking ways to minimize the impact on rates.**

The delay in implementing the rate increase will result in an increasing RSA balance. If oil prices remain at the current levels, the RSA balance will be approximately \$36 million by the beginning of the next tariff period which commences July 1, 2008.

A similar situation occurred in 2005 when the RSA was escalating and BEL could not pay its power suppliers and was threatened with disconnection from Mexico. At that time, the PUC had argued that oil prices could go down and also that nothing could be done outside of the Full Tariff Review Period. As a result of the delays, the PUC eventually had to approve even higher increases than BEL had first requested. To avoid a repeat of that situation, the PUC introduced the TERP mechanism mandating timely adjustments to minimize increases.

The only sustainable solution to the problem of escalating oil prices is to diversify away from oil dependent sources of power. BEL will continue to work closely with the Government of Belize in efforts to achieve this goal.

BEL is currently preparing its application for the Annual Tariff Review Proceeding, which commences on April 2, 2008 and will remain committed to providing the best service possible to customers.

### **Related Facts – Electricity Rates in Belize**

- The PUC does not allow BEL to acquire generation except for peak shaving or emergency purposes. Any additional baseload generation must be bid for on a competitive basis. In fact BEL has been disallowed from participating in the generation bidding process and is mandated by the PUC to purchase power and energy from Independent Power Producers and Mexico.
- If BNE or Blue Sky produces local grade fuel oil and sells at rates which make the cost of producing power from BEL's diesel machines lower than Mexico's price, BEL will pursue that option. The quotations received in January 2008 for locally produced fuel equated to approximately \$0.44 per kWh for fuel only and was tied to world oil prices, similar to Mexico and other fossil based sources. For comparative purposes, in January 2008 Mexico's price was on average \$0.28 per kWh. So unless BEL is offered significant reductions in price of locally produced fuel, Mexico will continue to be the cheaper fossil fuel source.
- The Chalillo, Mollejon and Hydro Maya electric facilities, currently provide about 40 per cent of Belize's energy supply. If it were not for hydroelectricity, the average rate in 2007 would have had to increase to approximately \$0.60 per kWh, similar to the average rate in countries that have no alternative but to generate with diesel or heavy fuel oil. Hydroelectricity has helped, but the significant increases in oil prices and its consequent effect on the cost of power purchased from Mexico, have more than wiped out the savings from hydro production.

- The cost of power from hydroelectricity is only \$0.18 per kWh compared to the current cost of \$0.30 per kWh from Mexico and \$0.55 per kWh from diesel.
- The price of power from the recently completed Wartsila facility constructed by Belize Aquaculture Limited is similar to the price of power from Mexico and is also indexed to oil prices.
- At 10 per cent, BEL's Rate of Return on Assets is comparable to the lower end of the scale of earnings in the country by other businesses and is much lower than the return that oil companies are reaping. This moderate ROR is needed for the Company to meet its debt service commitments and other financial needs. The Company has to borrow money to be able to meet the extra cost of power, however this cannot continue indefinitely. Unless rates are adjusted or oil prices recede back to US\$65 per barrel, the Company will not be able to meet its financial obligations.

**END**