



**PUBLIC UTILITIES**  
**COMMISSION**

**INITIAL DECISION**

**for the**

**ANNUAL REVIEW PROCEEDINGS**

**for**

**Belize Electricity Limited**

**MAY 2, 2008**

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## **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 reasonable. The PUC has the power to determine and prescribe rates that may be charged in respect of utility services and the standards which must be maintained in relation to such services. In addition, the PUC is responsible for the award of licenses and for monitoring and enforcing compliance with license conditions.

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 as amended by Act (No. 12 of 2007) and the Electricity (Tariffs, Charges and Quality of Service Standards) Byelaws, 2005 (the “Byelaws”). The Byelaws govern the tariffs, rates, charges and fees for the transmission and supply of electricity and for existing and new services to be charged by a licensee to consumers in Belize, and the mechanisms, formulas, and procedures whereby such tariffs, rates, charges and fees shall be calculated and determined for all purposes. It also governs the quality of service standards (service reliability) for existing and new services at anytime provided or to be provided by a licensee, and the mechanisms, formulas and procedures whereby such services shall be calculated and determined for all purposes. Further the Byelaws reference the methodology used for Review Proceedings.

## **Methodology**

The 2005 Full Tariff Review Proceedings (FTRP) introduced a Rate Setting Methodology (the “Methodology”) based on the principle of Incentive Based, Revenue Cap Regulation. This means that in the FTRP the PUC determined the revenues that Belize Electricity Limited (BEL) is allowed to earn and set financial incentives for BEL to improve their performance over the Full Tariff Period (FTP) of July, 1 2005 to June 30, 2009. Using benchmarking and assessments of BEL’s performance, improvement

targets were set for the cost of losses, operating expenses and service quality (network interruptions). The electricity prices were then set using these targets and a 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. This is the “incentive” element of the methodology. The returns BEL can receive over the FTP are capped so that they cannot exceed higher or lower limits.

In an Annual Review Proceeding (ARP) BEL submits forecasts of the cost of power and electricity generation, purchases and sales over the forthcoming calendar year and Annual Tariff Period (ATP), which the PUC verifies. BEL also submits the actual figures for sales, operating costs and cost of power for the previous calendar year, which are again checked by the PUC. In an ARP the PUC calculates the Annual Correction (AC) as the difference between the actual and forecast costs of the elements determined as outside of BEL’s control and therefore not incentivised; where these elements are unit cost of power purchased/generated, taxes and licence fees, tariff revenues received from consumers and other revenues. The AC is then included in the calculation of the mean electricity rate.

The calculation of the AC is described in the detailed rate setting methodology (Electricity Rate Setting Methodology – ElectricityRSMv1.pdf) which is available in the Electricity Sector Publications on the PUC website: [www.puc.bz](http://www.puc.bz)

## **Annual Review Proceedings**

The Annual Review Proceedings (ARP) for the Annual Tariff Period (ATP) July 1, 2008 to June 30, 2009 commenced on April 2, 2008 upon the submission by Belize Electricity Limited (BEL) to the PUC requesting the PUC’s approval of proposed regulated values, mean electricity rates, tariffs, charges and fees for the period July 1, 2008 to June 30, 2009.

### **Summary of BEL Submission**

The submission made by BEL contained the following key points:

- Increase the Reference Price of Power from \$0.253 to \$0.287
- The Rate Stabilisation Account (RSA) recovery rate was proposed to increase from \$0.02 to \$0.045.
- The Value Added of Delivery was proposed to remain the same at \$0.168/kWh.
- The Mean Electricity Rate (MER) for July 1, 2008 to June 30, 2009 was proposed to increase from \$0.441/kWh to \$0.50.

- Tariffs were proposed to be changed as follows:

<b>Annual Tariff Review Proceeding</b>		
Tariff Class	Current Tariff	Proposed Tariff
<b>Social</b>		
Flat Rate	\$ 4.00	\$ 4.00
0000 - 0050 kWh (minimum \$4.00)	0.26	0.318
<b>Residential (Include small commercial less than 2,500 kWh/month)</b>		
	\$	\$
Flat Rate	5.00	5.00
0000 - 0050 kWh	0.35	0.408
0051 - 0200 kWh	0.44	0.498
Above 0200 kWh	0.47	0.528
<b>Commercial (Commercial greater than 2,500 kWh/month)</b>		
	\$	
Service Charge	100.00	\$100.00
00,000 - 10,000kWh	0.45	0.508
10,000 - 20,000 kWh	0.44	0.498
Above 20,000 kWh	0.43	0.488
<b>Industrial 1 (Using greater than 30,000 kWh/month)</b>		
	\$	
Service Charge	100.00	\$100.00
Demand Charge per kVA/month	35.00	35.00
Off - peak energy	0.33	0.388
Peak energy (6 p.m. 9 p.m. Mon to Fri)	0.33	0.388
<b>Industrial 2 (Avg Peak Load of 1.5 MW &amp; greater)</b>		
	\$	
Service Charge	100.00	\$100.00
Demand Charge per kVA/month	21.00	\$ 21.00
Off - peak energy	0.28	\$ 0.338
Peak energy (6 p.m. 9 p.m. Mon to Fri)	0.28	\$ 0.338
<b>Street Lighting</b>		
	\$	
	0.55	\$ 0.608

## Proceedings

Three hundred and fifty interested parties sent comments in writing to the Public Utilities Commission (PUC) on BEL's submission in the ongoing Annual Review Proceeding (ARP).

The comments were received from members of the general public, as well as eight businesses including three hotels, two hundred members of the Orange Walk Business Association, National Fishermen Producers Cooperative Society Ltd, Succotz Village Council, Maya Leaders Alliance of Southern Belize, Toledo Institute for Development and Environment, the Peoples National Party and the Peoples United Party.

All comments received asked the PUC to deny the increase requested by BEL. One interested party suggested a smaller increase of 5% in this time of austerity.

Justification for the objections ranged as follows:

- Net profits and the cost of living and production make it unconscionable to grant such an increase. It will affect struggling families and stifle economic and social growth, and the country's development.
- The cooperative said its electricity bill is \$23,000 per month which makes the electricity component of producing a pound of seafood \$0.43. In other countries electricity cost is \$0.25 per lb. A rise in rates will make production cost too high, cutting into the cooperative's competitive edge.
- Electricity cost is highest operating expense in many businesses and the increase will have harmful effects on both the businesses and consumers.
- Belizeans have been forced to resort to austerity measures due to the rising cost of living and BEL must take a look at its bottom line and decide that a reduction in profits is the acceptable thing to do.
- Rates are unreasonable, resulting in high profits.

- Belizeans cannot afford an increase.
- BEL provides no acceptable justification for passing on increased expenses to the public. It is an insult to tell Belizeans that investors need a return in the face of the difficult economic times.
- All should sacrifice until the hard time passes.
- BEL's accounting practices hide a lot.
- It is in the best interest of the public.
- PUC must prevent exploitation by a monopoly and protect the local economy.  
We cannot sacrifice the society for continual growth capitalism of a foreign corporation.
- Value added element of taxes and business costs and 10% guaranteed profit need to be dissolved to make BEL operate on a normal business level. Profits should be capped at \$20 million with earnings above applied to rate reduction.
- Turbine is wasteful and unnecessary. The guaranteed ROR discourages normal commercial situation and economy resulting in excessive head counts, salaries and management fees.

During the proceedings the PUC engaged BEL in responding to queries on the application and providing additional data as required.

The PUC is required to deliver an Initial Decision within thirty days of BEL's submission, establishing May 2, 2008 as the deadline for this Initial Decision.

## Exercise of Regulatory Authority

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

### Decision 1: Rate Setting Methodology

The PUC HEREBY APPROVES the amended First Schedule (Rate Setting Methodology) attached as ANNEX 1.

### Decision 2: Reference Price of Power

The PUC HEREBY APPROVES a revised reference price of power (sales) of \$0.307 per kilowatt hour.

### Decision 3: Cost of Power Rate Stabilization Account (CPRSA) Recovery

The PUC HEREBY APPROVES a Rate Stabilization Account recovery rate of \$.004 per kilowatt hour.

### Decision 4: Value Added of Delivery (VAD)

The PUC HEREBY APPROVES a Value Added of Delivery of \$0.13.

### Decision 5: Mean Electricity Rate

The PUC HEREBY APPROVES a Mean Electricity Rate (MER) of \$0.441 per kilowatt-hour resulting from the decisions made in Decision 2, Decision 3 and Decision 4 above, set for the Annual Tariff Period (ATP) July 1, 2008 to June 30, 2009.

The MER was calculated as follows:

		Regulated Values		
		ARP 2007 Final Decision 2006/07	ARP 2008 Adjustments	ARP 2008 Initial Decision 2008/09
<b>Regulated Parameters</b>				
Unit Cost of Power (sales)	\$/kWh	0.253	+\$0.054	0.307
Value Added of Delivery	\$/kWh	0.168	-\$0.038	0.130
Cost of Power Rate Stabilisation Account Adjustment	\$/kWh	0.02	-\$0.016	0.004
Mean Electricity Rate	\$/kWh	<b>0.441</b>	<b>\$0.00</b>	<b>0.441</b>

## **Decision 6: Customer Tariffs**

The PUC HEREBY DISAPPROVES any changes to the tariffs. The Present tariffs shall remain in effect for the Annual Tariff period July 1, 2008 to June 30, 2009.

### **APPROVED TARIFF SCHEDULE FOR JULY 1, 2008 TO JUNE 30, 2009**

<b>Customer Class and Consumption</b>	<b>Approved Tariffs</b>
<b>Social Rate Customers</b>	
Minimum Monthly Charge	\$4.00
0 – 50 kWh	\$0.26
<b>Residential Customers</b>	
Minimum Monthly Charge	\$5.00
0 – 50 kWh	\$0.35
51 – 200 kWh	\$0.44
Above 200 kWh	\$0.47
<b>Commercial Customers</b>	
Monthly Service Charge	\$100.00
0 – 10,000 kWh	\$0.45
10,001 – 20,000 kWh	\$0.44
Above 20,000 kWh	\$0.43
<b>Industrial 1 Customers</b>	
Monthly Service Charge	\$100.00
Monthly Demand Charge per kVA	\$35.00
Off Peak Energy Rate per kWh	\$0.33
Peak Energy Rate per kWh	\$0.33
<b>Industrial 2 Customers</b>	
Monthly Service Charge	\$100.00
Monthly Demand Charge per kVA	\$21.00
Off Peak Energy Rate per kWh	\$0.28
Peak Energy Rate per kWh	\$0.28
<b>Street Lights</b>	
Energy Rate per kWh	\$0.55

## **Basis for the Decision**

The PUC has reviewed the ARP submission by BEL, other information and projections requested by the PUC from BEL and the submissions by the general public and interested parties. Based on the PUC's review:

- 1) The PUC reviewed BEL's Financial and Operational performance and allowed a reasonable return given prevailing conditions.
- 2) The PUC recalculated allowed Operational Expenditure (OPEX) for 2008 and 2009.
- 3) The PUC applied depreciation and return corrections as allowed by the amended Rate Setting Method (RSM). As a result the 2008 beginning balance of the Cost of Power Rate Stabilization Account (CPRSA) was significantly reduced.
- 4) The PUC adjusted the Regulated Asset Value (RAV) for contributed capital from private individuals, which resulted in further corrections to the allowed depreciation cost and return.
- 5) These corrections as found in 3) and 4) above resulted in a reduction of the Value Added of Delivery (VAD) component of the rates.
- 6) The PUC also decided to disallow all previous HCRSA charges to customers as they were not deemed justifiable.
- 7) The PUC did not fully allow for BEL's claimed deferrals into the CPRSA for January, February and March, 2008.

**BY ORDER OF THE OFFICE**

**SIGNED THIS 2<sup>nd</sup> DAY OF MAY 2008**

**John Avery**

**Chairman**