BELIZE ELECTRICITY LIMITED
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Our Ref:

March 20th, 2020

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

Dear Mr. Avery,

Re: Objection to PUC's Initial Decision on BEL's 2020 FTRP Submission

Belize Electricity Limited (BEL), pursuant to Section 22 of the Electricity (Tariffs, Fees and Charges) Byelaws (Statutory Instrument No. 145 of 2005 as amended by Statutory Instruments No. 116 of 2009 and No. 21 of 2012) hereby objects to the Public Utilities Commission's Initial Decision, issued on March 6, 2020, on BEL's submission for the 2020 Full Tariff Review Proceeding.

Enclosed are BEL's written comments on the Initial Decision, setting out the basis for our objection. Most critically, in our view, the PUC's Decision, if adopted, will preclude BEL from achieving one of its key strategic objectives of stabilizing the cost of power in Belize over the medium-to-long term by building up in-country reserves from indigenous, renewable sources of energy.

Furthermore, in light of the disruptive nature of the COVID-19 pandemic, the Company urges the PUC to consider extending the timelines for the proceedings to accommodate probable delays in the procurement of the Independent Expert.

Sincerely,
Belize Electricity Limited

John Mencias
Chief Executive Officer

BEL Written Comments on Initial Decision Issued by the Public Utilities Commission in Respect of the 2020 Full Tariff Review Proceeding for Belize Electricity Limited
March 20, 2020

Belize Electricity Limited (BEL) hereby registers its objection to the Public Utilities Commission's (PUC) Initial Decision on BEL's Full Tariff Review Proceeding submission on the grounds that:

(1) The Reference Cost of Power, as set out in Schedule 3 of the decision, is the product of overly optimistic projections for historically volatile energy sources and based on a generation plan that ultimately undermines BEL's ability to stabilize cost of power and meet its sustainability goals in the long term.

(2) The Regulated Asset Value (RAV), as set out in Schedule 2 of the decision, defers consideration of certain strategic investments that the Company's own market intelligence and technical analyses indicate are urgent investments necessary to secure the viability of the National Electricity Grid.

Below, BEL sets out in detail the specifics of the PUC's Initial Decision to which it objects and the grounds for its objection.

Schedule 3: Approved Cost of Power (COP) Parameters for Full Tariff Period (FTP) July 1, 2020 to June 30, 2024

PUC Decision on BEL's Energy Plan and Cost of Power Projections

In its *Written Comments related to the Belize Electricity Limited 2020 Full Tariff Review Proceeding Initial Decision*, the Commission explains that it adjusted BEL's COP forecast by:

(a) Increasing the forecasted supply from Hydro Maya, BELCOGEN and SSEL;
(b) Reducing forecasts for supply from solar facilities pending consultation;
(c) Reducing the forecast power purchase price for CFE and gaseous fuel generation; and
(d) Increasing the quantities sourced from CFE in 2020 and 2021 and gaseous fuel generation in 2022 through to 2024.

BEL Objection to PUC's Decision on BEL's Generation/Energy Supply Plan and Cost of Power Projections

The PUC's assumptions as to the cost of power from CFE and gaseous fuel generation are overly optimistic and increasing supply from these sources are at odds with the Company's strategy to reduce its dependence on external sources subject to dynamic market forces.

The PUC assumes an average price per kWh of energy purchased from CFE of approximately 15 cents compared to BEL's own projection of 24 cents from 2021 through to 2024. Mexico dramatically reshaped its energy sector in 2016 with legal reforms to promote competition in the sector and help drive down electricity prices. However, destructive explosions in 2015 and 2016 at Mexico's major offshore production facility created a shortage of gas in the Mexican Peninsula forcing the country to rely more on expensive fuel sources, consequently driving up the market price for electricity. The five-year average annual price for CFE imports prior to the 2015 event was 29 cents and the five-year average annual price prior to 2019 was 21 cents per kWh purchased.[1] All indications are that Mexican energy prices remain high (between 21 and 29 cents) as long as the gas shortage persists in the country and market analysis indicates that this will be the case for the near future (S&P Global Platts Analytics, 2020; NGI, 2019).

The PUC similarly relies on optimistic LPG/NG prices in its projections, assuming an annual average 21 cents per kWh purchased in contrast to BEL's projected 29 cents per kWh from 2022 through to 2024. While BEL concedes that the prices for gaseous fuels are generally lower and less volatile than heavy fuel oil and diesel fuels, the Company insists on its conservative estimates as natural gas prices are a function of market and geopolitical forces that can dramatically increase prices within a short cycle.

Substituting prices that are more conservative for CFE and LPG would bring PUC's cost of power estimates closer in line with BEL's own estimates for the FTP.

BEL's strategy is to reduce its dependence on exogenous energy sources, specifically energy imports with cost structures driven by external market forces. Optimizing utility-scale solar generation is BEL's immediate opportunity to displace, competitively, energy imports (CFE and fossil fuel generation) with sustainable and stably priced indigenous energy.

PUC Decision on Introducing Performance Based Regulation (PBR) for Economic Dispatching

In its *Written Comments related to the Belize Electricity Limited 2020 Full Tariff Review Proceeding Initial Decision*, the Commission intimated that it will "...introduce a method for measuring the efficiency of dispatch by BEL and disallowing pass through where it is shown that BEL has been egregiously negligent."

BEL's Objection to PUC Decision on Introducing PBR for Economic Dispatching

Any performance-based management of economic dispatching must take into consideration the fact that the present purchase arrangement with Mexico forces BEL to commit to a purchase quantity at a pre-

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determined price two days in advance of the actual sale. If the actual price is higher than expected, BEL may opt to forgo the purchase but will be liable for the cost if the supplier is unable to resell the sum forgone and/or if there is a financial loss from the resale. Under these conditions, BEL is always at a disadvantage in optimizing and operationalizing its economic dispatch plan. The methodology must avoid penalizing BEL for this intractability.

Furthermore, as the disallowance of portions of cost of power on an ex-post basis can have significant negative and irrecoverable financial loss, BEL insists on full participation in the development process to ensure the mechanism is robust and reflective of operational realities. BEL further insists that this mechanism be given effect as part of a comprehensive Performance Based Regulation amendment to the Statutory Instrument governing the rate setting process.

Schedule 2: Approved Regulated Asset Value (RAV) for Full Tariff Period (FTP) July 1, 2020 to June 30, 2024

PUC Decision on BEL's Schedule of Capital Investments in Energy Supply and Capacity

In its *Written Comments related to the Belize Electricity Limited 2020 Full Tariff Review Proceeding Initial Decision* and at its *March 10, 2020 Press Briefing on the Initial Decision*, the Commission explains that it adjusted BEL's strategic investments as follows:

(a) Deferred consideration of BEL investments for interconnecting 30MW of Utility-Scale Solar pending further analysis;
(b) Deferred consideration of BEL's proposal to construct a 2nd transmission line between La Democracia and Dangriga pending an appropriate analysis to show need;
(c) Deferred consideration of communications and smart grid technology investments pending a cost/benefit analysis;
(d) Removed approximately $10.2 MN of capital expenditures related to standards and safety investments in the distribution network; and
(e) Introduced a $60 MN investment to construct a second transmission line from Mexico, with a $10 MN provision for grant funding from the Inter-American Development Bank (IADB).

BEL's Objection to PUC Decision on BEL's Schedule of Capital Investments in Energy Supply and Capacity

The delayed consideration of interconnecting the 30MW of utility-scale solar to the National Electricity Grid leaves BEL extremely vulnerable to continued volatility in the Mexican energy market, and encourages further reliance on fuel imports as a primary source of energy for the country. This represents a radical and irreconcilable departure from BEL's strategy to enhance energy security, meet sustainability goals and stabilize the cost of power as urgent priorities for the energy sector.

BEL maintains that it's proposal to add 45 MW of Utility Scale Solar and 25 MW of gas-powered generation to the existing portfolio of energy sources better serves the goal of stabilizing energy costs compared to PUC's proposal to add only 15 MW of Solar and supplement with higher levels of gas-powered generation.

BEL also maintains that energy imports from CFE maximally serve the country's energy needs when market prices are low and the Company can capitalize on the imports as a cost savings opportunity. As such, it agrees that a second line to Mexico is useful but not urgent compared to building in-country generation. This investment can be deferred to the next business cycle/FTP.

Given that these investments represent divergent strategies between BEL, which operationalizes the country's energy plan and the PUC that regulates the industry, an impartial expert opinion is required to ascertain the most appropriate strategic direction for the development of the generation portfolio.

PUC Decision on BEL's Schedule of Standards & Safety Investments in the Distribution Network

The PUC amendments to BEL's capital investment schedule also reduce proposed investments in the distribution network by $10.2 MN. These disallowed investments came under the Safety and Standards asset category for which PUC furnishes no justification in their written comments or at the public hearing held to explain their initial decision.

BEL's Objection PUC Decision on BEL's Schedule of Standards & Safety Investments in the Distribution Network

BEL objects to the removal of the $10.2 MN of distribution network expenditures as these expenditures represent routine investments in the health and robustness of the grid. The removal of the investments without justification appears to be arbitrary.

END