



December 31, 2022

Mr. Dean Molina
Chairman
Public Utilities Commission
4 Princess Margaret Drive
Marina Towers
Belize City, Belize

Dear Chairman Molina,

Re: BEL's Comments on the PUC's Draft Final Decision 2022 ARP Amendment

Belize Electricity Limited (BEL) is in receipt the PUC's Draft Final Decision on its 2022 ARP Amendment submission which affirms BEL's request to retain electricity tariffs, fees, and charges without amendment through to June 30, 2023, and to defer recovery considerations for accumulated variances between actual costs and approved costs until the 2023 Annual Review Proceedings. However, BEL must, for the record, provide clarifications to the presumptions underlying the logic of the PUC's decision. These comments are set out below for the benefit of the public, enhancing awareness of the regulatory process, as well as for the edification of the PUC in their role as a conscientious arbiter of utility performance standards and costs.

Recognition of Cost of Power Variances

The record will show that BEL's request was to recognize \$28.467 MN in under collected revenues ascribable to cost of power being higher than the reference cost of power approved by the PUC for the period July 1, 2021, through to December 31, 2022. This sum represents BEL's best estimate of variances impacting the Regulatory Account Balance (RAB) and is based on verifiable data for July 1, 2021, through to October 31, 2022, and reliable estimates for November through December 2022.

BEL did not request, as the PUC asserts, for the PUC to "...recognize an additional \$14.746 MN for excess costs on electricity purchases that the company anticipates it will incur between January and June of 2023." This forecast sum was provided *in the annex* as a regulatory requirement for informational purposes and is only indicative of expectations that cost of power will remain high.

The PUC's comment that BEL's amendment submission amounts to a \$43.213 MN claim (*\$28.467 MN plus \$14.746 MN*) in under collection is an unfortunate – or, perhaps, willful - misstatement of facts. BEL was clear that the sum affecting tariffs was exclusively \$28.467 MN and, even then, only recoverable "...pending further analysis and recommendations to be submitted in the upcoming 2023 Annual Review Proceedings". The PUC is asked to exercise greater care in its communications going forward and BEL hereby requests that the PUC clarifies and rectifies this misstatement in its final decision.



Sufficiency of Evidence for COP Variances (July 1, 2021, through December 31, 2022)

The PUC claims that BEL's submission did not substantiate the \$28.467 MN variance in COP above approved costs for the following reasons:

- (1) BEL used the Reference Cost of Power ("RCOP") approved in the ARP 2021 Decision of \$0.2254, rather than the higher RCOP approved in the 2022 ARP Decision being \$0.2563.
- (2) The PUC could not account for the sum of \$3.856 MN based on submitted IPP invoices and other supporting documentation.
- (3) The sum of \$28.467 MN includes extra-ordinary charges of \$1.550 MN that was previously accounted for in the PUC's 2021 (ARP 2021 Amendment) Decision for BEL.

We respond to each of these assertions in turn.

Unit Reference Cost of Power

The PUC misapplies the regulations when it suggests that it is appropriate to use the higher RCOP approved in the ARP 2022 instead of the RCOP approved in the ARP 2021. In order to appreciate why the PUC approach here is wrong, both in theory and in practice, we must revisit the basics of the Rate Setting Methodology (RSM).

The RSM is designed for BEL to recover all its reasonable costs by setting a price that is equal to the total costs, or Tariff Basket Revenue (TBR), divided by the total energy sales (kWh). At the start of an ARP, the PUC sets the price based on a forecast TBR and forecast energy sales. If BEL, at the PUC-approved price, under collects for its total costs, or conversely over collects, then the PUC adjusts the price upward or downward, respectively, into the future. The balance that is carried forward, which moves the price upward or downward, is known as a correction. Corrections, the variances between approved costs and collections (BEL actual revenues) are registered in the RAB to keep track of changes over time.

At the start of ARP 2021, the PUC set the mean electricity rate (MER) at \$0.4050 effective July 1, 2021, through to June 30, 2022, this included a provision of \$0.2254 per kWh (of sales) for RCOP and a further provision of \$101,580,789 for VAD less Other Income. A year later, during the ARP 2022, the PUC indeed revised the RCOP to \$0.2563 to reflect anticipated increases in energy import costs, and further adjusted the other components such that the provision for VAD less Other Income changed to \$99,672,851. *It should be borne in mind that this was based on actual data up to February of 2022.* The PUC's own calculated MER for the period was \$0.4265 per kWh. However, the PUC, in concurrence with BEL, did not adjust the underlying tariffs, and BEL collected revenues at a rate of approximately \$0.4050 cents per kWh.

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The following table shows the variance between the PUC approved cost for the period and BEL’s recorded revenues. It is important to note that all the VAD cost elements for the period have been assessed and/or fixed as “true costs” in the ARP 2022. This means that only COP and Other Income would need to be updated with actual costs and Taxes and Fees to account for actual revenues, and in doing so we note a variance over the period of \$22,339 MN¹ in favor of BEL. The Company’s estimate for the same period using the \$0.2254 RCOP was \$26.406 MN in favor of BEL. It is for this reason that we made clear that we were registering “*this sum with the PUC as recoverable in future tariff adjustments and pending further analysis and recommendations to be submitted in the upcoming 2023 Annual Review Proceedings*”: The difference between that the RCOP estimate and this variance analysis likely being the result of savings from higher than forecast sales impacting VAD given that energy sales were as much as 3.5% higher than forecasted. We do the full analysis here to demonstrate that the PUC’s approach, which estimated a COP variance of \$4.405 MN, grossly understates reality, is erroneous, misleading, and should be avoided in practice.

PUC ARP 22 Decision	2021 2022	
	Jul - Dec	Jan - Jun
OPEX	16,506,129	16,506,129
Return	19,694,509	19,694,509
Depreciation	8,746,354	8,746,354
Corrections b/f	4,251,839	4,251,839
Taxes & License Fees	2,825,115	2,972,492
Value-Added of Delivery (VAD)	52,023,944	52,171,322
Cost of Power	75,988,655	82,119,274
Other Income	-2,451,935	-2,179,830
Approved Revenues (TBR)	125,560,664	132,110,765
Collected Revenues	120,633,128	114,699,218
Variance	-4,927,536	-17,411,547

Unsubstantiated claim amounting to \$3.856 MN

The PUC arrives at its COP estimate by summing the IPP invoices, provided by BEL to the regulator, on a monthly basis. These invoices do not include transactional costs such as bank charges (transfer and translation fees). These transactional costs are also not provided as invoices to BEL. The PUC is aware of this fact but has yet to advise on what constitutes documentation sufficient to support these charges which are recoverable under the law.

¹ Note this sum is still material at \$18.670 MN assuming PUC’s incomplete COP estimates for the period which excludes bank and other transactional charges.

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We have reviewed our submission and restate BEL's COP for the period July 1, 2021, through to October 30, 2022, as \$215.931 MN this being the sum of \$183.121 MN in IPP invoices, \$0.711 MN in associated interest expense, \$4.690 MN in associated bank charges, and \$27.411 MN in fuel and capacity charges for BEL own-generation and BAPCOL. These sums are supported by invoices and digital banking transactions that are expected to meet the standards of our external auditor. The table below provides the details by month for the PUC's reference.

Month	BEL COP Invoice	Other Balance (GT, Mobiles, BAPCOL)	Interest Expense	Bank Charges	Adjustments	BEL COP	PUC COP	Variance
Jul-21	9,503,585	2,034,225	186,212	163,216	-	11,887,239	11,899,149	11,910
Aug-21	11,389,178	626,725	175,053	164,348	-	12,355,304	12,357,885	2,581
Sep-21	12,231,449	826,013	176,596	515,412		13,749,470	13,433,835	- 315,635
Oct-21	11,384,961	4,078,989	173,495	282,194	-	15,919,639	15,594,758	- 324,881
Nov-21	7,321,977	1,986,883		272,440		9,581,300	9,362,763	- 218,537
Dec-21	8,862,054	3,241,289		392,359		12,495,703	10,647,715	- 1,847,988
Jan-22	8,551,175	1,669,348		290,991	-	10,511,514	10,359,223	- 152,291
Feb-22	9,280,491	1,054,397		313,385		10,648,273	10,445,670	- 202,603
Mar-22	11,186,398	1,551,829		197,611	2,655	12,938,493	12,949,161	10,669
Apr-22	13,645,393	1,641,201		259,712	- 3,136	15,543,169	15,482,532	- 60,638
May-22	14,416,246	2,145,699		345,613	481	16,908,038	16,789,027	- 119,011
Jun-22	13,889,945	1,392,148		287,693		15,569,786	15,200,042	- 369,744
Jul-22	14,103,587	1,716,514		292,740	- 1,119	16,111,722	16,120,385	8,662
Aug-22	14,199,012	1,381,143		313,427		15,893,581	15,936,098	42,517
Sep-22	13,356,768	1,153,528		353,633		14,863,929	14,804,683	- 59,245
Oct-22	9,798,331	911,132		244,847		10,954,310	11,017,622	63,312
Total	183,120,551	27,411,062	711,356	4,689,620	- 1,119	215,931,471	212,400,549	- 3,530,922

BEL accepts the PUC's assertion that the burden of proof rests with the Company to show that costs incurred in the course of its service to customers are reasonable and prudent. However, PUC is reminded that there is a presumption of accuracy that attends to BEL's submissions. BEL is a reputable institution, known for its transparency – it unfailingly publishes annual audited financials and frequently engages with its stakeholders on critical business/sectoral matters. More recently, the Company undergoes quarterly audits as well. The PUC cannot, and should not, pretend to be able to provide the public with greater assurance of the accuracy of BEL's financials than that provided by renowned, qualified auditing firms in Belize, and, in the interim, by the Company itself that is subject to strict accounting and financial reporting standards.



Restatement of CFE Extra-ordinary charges of \$1.550 MN

The PUC misinterprets the effect its decision on the CFE extra-ordinary charges of \$1.550 MN during ARP 2022. The PUC is reminded that invoices are booked in the month they are received (billing month). The \$1.550 MN was retrospectively assessed by CFE for the month of February 2021. This sum was registered with BEL in September 2022 but only invoiced to Company in December 2021. As a matter of accounting practice, the invoiced sum must appear in the December 2021 financials which was outside of the period under review for ARP 2022 (July 1, 2020, through June 30, 2021). The amount is properly recorded in the period where it was incurred.

The confusion of the restatement is of the PUC's own making when, in the ARP 2022, the PUC substituted its own calculations of COP invoices in place of BEL's submission and mistakenly applied the \$1.550 MN to the July 2020 through June 2021 period. The PUC was advised in a letter dated 09 August 2022 of this error as well as other miscalculations which understated COP for that period. A full reconciliation with supporting documents was provided and is shared again with this letter for ease of reference.

Consequently, the effect of the PUC's Decision could only be to acknowledge the CFE extra-ordinary charges as recoverable in the ARP 2023, where the PUC would review the COP for the period July 1, 2021, through to June 30, 2022. The PUC must be mindful of the nuanced interplay between accounting standards and regulatory principles to avoid misapplication of the latter. Again, we implore the PUC to take greater care in its analysis and communications going forward.

Sufficiency of Forecast Data for November 1, 2022, through to June 30, 2023

BEL does not find it necessary to address the PUC's commentary on the sufficiency of its forecast data for two reasons. Firstly, BEL's amendment filing was to request the recognition of COP variance for the period where costs were known and/or reliably estimated (July 1, 2021, through to December 2022). Secondly, BEL advised in the notes to its submission that the forecast information was preliminary as its Business Plan was still under development and review at the time of filing. Altogether, the forecast was immaterial at that juncture since no rate increase was being requested and BEL unequivocally stated that costs will be reviewed fully at the upcoming 2023 Annual Review Proceedings, by which time the Company expects to have more robust cost forecasts.

The PUC is reminded that the purpose of the amendment review, as per the regulations, is to detect material variances in the RCOP (being the most volatile element of the TBR) and adjust tariffs when necessary to avoid price shocks. Even ignoring the forecast data from November 1, 2022, through to June 30, 2023, there is material variance, as shown in BEL's submission and validated here, signaling a need for tariff adjustments. However, BEL is not prepared to pass on this burden to our customers who continue to recuperate from the economic challenges of the COVID-19 pandemic. Our customers have demonstrated great loyalty by keeping current with their bill...



...payments in the hardest of times. We instead prefer to register this variance in the RAB and seek to collect it when it is less burdensome to customers.

Call for a Standing Joint BEL-PUC Committee

BEL repeats its call for a standing joint committee with the PUC and BEL. There are too many instances now in which the PUC finds itself at odds with - or incapable of sorting its way through - its own regulations and practices as well as international financial reporting standards. A clear example of the latter is the refusal of the PUC to accept software expenditures as capital assets in spite of a global business community that sees it as a critical asset for enhancing customer value. A joint committee is needed to resolve these issues and chart a way forward that better balances the needs of the Company with the requirements of the regulator.

Call for an Impartial Performance Regime

BEL accepts the PUC's position that the Company must demonstrate that dispatching promotes fairness, minimizes costs, and provides for better rate stability for customers. This is a key pillar of our strategy and something we manage practically minute-by-minute every hour of every day. However, the PUC cannot arbitrarily make assertions that BEL fails to live up to performance standards where no performance standard has been imposed, particularly when faced with the fact that BEL is one of the most cost-competitive utilities in the Latin American and Caribbean region.

It appears to us that the PUC is much too often prey to hindsight bias in their evaluation of dispatching performance, believing, falsely, after the fact and in possession of all the data, that they would have accurately predicted the outcome. We have demonstrated before, in our letter of December 8, 2021, when the PUC made allegations of COP mismanagement, that our dispatching was, given the data available at the time, near optimal. We also proved that PUC's apprehensions that "the consequence of BEL's actions and omissions will adversely impact the cost of power to consumers for the foreseeable future" were misplaced and likely due to the PUC's lack of understanding of how dynamic dispatch is conducted in practice. We reiterate that it is always possible, when you have feedback on the outcome, to conclude how things could have been done better – that is the luxury of hindsight; but BEL operates judiciously within the very real constraints of foresight.

BEL is on the record, and repeats, that it welcomes the opportunity to jointly develop a performance regime with rewards and penalties for reasonable performance standards. In the meantime, and in the absence of PUC taking on this task, BEL advises that it is working to implement internal Commercial Service Standards as a first step in this direction. Also, accompanying this letter is a copy of our Quarterly Regional Comparative Report which provides...

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...empirical evidence that BEL's financial and operational performance is, at a minimum, at parity with select leading utilities in the Caribbean and North America.

In closing, we thank the PUC again for affirming BEL's request to retain tariffs as they are through to June 30, 2023, when we can revisit the regulatory account balance in the context of BEL's expansion plans and the impacts of its strategic investments. The PUC is expected to correct itself, in its Final Decision, on the critical misstatements of its Draft Final Decision in light of the evidence and clarifications provided.

Sincerely,
Belize Electricity Limited

Leon Westby
Manager, Strategy & Business Innovation
Regulatory Affairs Liaison