



May 18, 2023

Mr. Dean Molina
Chairman
Public Utilities Commission
#4 Princess Margaret Drive
2nd Floor, Marina Towers
Belize City, Belize

Dear Chairman Molina,

Re: Comments on the PUC's Initial Decision on BEL's 2023 ARP 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 presents its comments on the Public Utilities Commission's Initial Decision, issued on May 5, 2023, on BEL's submission for the 2023 Annual Review Proceeding.

Enclosed are BEL's written comments on the Initial Decision as well as BEL's Fixed Asset Register balances, reconciled with our audited financial statements, as at the end of December 2022. While there are no formal objections that would trigger an Independent Expert Review, BEL requests that the Commission reconsiders its Initial Decision on issues highlighted in our comments with a view to reflecting our recommendations in its Final Decision. Furthermore, BEL reserves the right to call on an Independent Expert and invoke other remedies available under law to resolve any and all matters previously raised in its comments to the PUC decisions in this FTP which remain unresolved, including cost of power charges that have been dismissed by the PUC without merit or due cause and which understate the regulatory account balance.

BEL thanks the PUC for accepting its recommendation to retain the mean electricity rate at 40 cents per kWh notwithstanding appreciable increases in business costs and to defer recovery of those costs into the future when economic conditions allow for recovery without distress to customers. BEL's strategy to modernize and expand the grid network to accommodate emerging technologies and transform the energy sector will play a key role in improving economic conditions and allowing for cost recovery at stable rates. We look forward to the PUC's support of these plans and initiatives.

Sincerely,
Belize Electricity Limited

Leon Westby
Manager, Strategy, Innovation & Regulatory Affairs



BELIZE ELECTRICITY LIMITED

2023 Annual Review Proceeding

BEL Comments on Initial Decision
Issued by the Public Utilities
Commission in Respect of the 2023
Annual Review Proceeding

May 17, 2023

1 REVIEW OF PUC FINAL DECISIONS VERSUS RATE CASE SUBMISSIONS OF *EX POST* REVENUE REQUIREMENTS AS OF 2020

1.1 FULL TARIFF REVIEW PROCEEDING 2020

The PUC issued its Final Decision in respect of the 2020 Full Tariff Review Proceeding (“FTRP 2020”) on October 28, 2020. This decision finalized the *ex post* approved revenue requirements as well as the ending Regulated Account Balance (RAB) for the ATP 2018-2019; and was accepted by BEL.

Table A: 2018-2019 PUC Final Decision vs BEL Submission

ATP Reviewed	BEL Submission 2018 2019	PUC Final Decision 2018 2019	BEL vs PUC Variance
VAD Components			
OPEX	29,798,691	29,798,691	-
Return	36,964,096	36,964,096	-
Depreciation	15,712,634	15,712,634	-
Net annual Corrections	(105,800)	(105,800)	-
Taxes/License fees	6,053,089	5,963,382	89,708
Sub-total (VAD)	88,422,710	88,333,002	89,708
Ref Cost of Power	184,271,942	179,959,419	4,312,523
Less: Other Income	3,668,456	3,253,225	415,231
Revenue Requirements	269,026,197	265,039,196	3,987,001
Actual Revenues	233,156,016	233,156,016	-
General Correction	\$ 35,870,181	31,883,180	3,987,001
Deficit in Corrections for 2017 2018		3,485,471	
Total Corrections c/f		35,368,651	
Regulated Account Balance		35,368,651	

1.2 ANNUAL TARIFF REVIEW PROCEEDING 2021

The PUC issued its Final Decision in respect of the 2021 Annual Tariff Review Proceeding (“ARP 2021”) on June 24, 2021. This decision finalized the *ex post* approved revenue requirements for the ATP 2019-2020 resulting in a difference of \$3.73 M in corrections applied by the PUC versus BEL’s submission (due to the penalty for the delay in completing the Caye Caulker Interconnection) and hence in the RAB¹.

¹ It should be noted that the RAB under BEL’s submission reflects BEL’s objections throughout the current FTP of the penalty for the delay in completing the Caye Caulker Interconnection and the disallowance of certain COP charges and RAV recovery. These objections were presented to the PUC by way of Comments on the understanding and promise by the PUC that a bi-partisan committee would be formed to address the differences at a later point in time.

BEL had earlier agreed to not formally object to the PUC’s Initial Decision but rather to state its concerns/objections in writing as ‘Comments’ to the PUC on the understanding that they would be addressed at a later point in time by a bi-partisan committee of the PUC and BEL. BEL therefore principally stated its objection to the penalty applied for the delay with the Caye Caulker interconnection project on the grounds that they were arbitrary and disproportional to the anticipated performance outcome and did not fully consider factors outside of BEL’s control.

Table B: 2019-2020 PUC Final Decision vs BEL Submission

ATP Reviewed	BEL Submission 2019 2020	PUC Final Decision 2019 2020	BEL vs PUC Variance
VAD Components			
OPEX	30,245,671	30,245,671	-
Return	37,325,637	37,325,637	-
Depreciation	17,458,394	17,458,394	-
Net annual Corrections - FTRP	12,574,255	12,574,255	-
ARP 21			
ARP 22			
ARP 23			
Taxes/License fees	5,715,999	5,536,778	179,222
Sub-total (VAD)	103,319,956	103,140,735	179,222
Ref Cost of Power	146,831,364	146,831,364	(0)
Less: Other Income	3,893,097	3,893,097	-
Revenue Requirements	246,258,223	246,079,002	179,221
Actual Revenues	243,410,139	243,410,139	-
General Correction	2,848,083	2,668,862	179,222
<i>Add: IE for 2020 FTRP</i>	<i>48,245</i>	<i>48,245</i>	
<i>Disallowed Costs (CCK Penalty)</i>	<i>-</i>	<i>(3,732,564)</i>	<i>3,732,564</i>
<i>Taxes & License Fees Correction</i>	<i>(179,222)</i>	<i>-</i>	<i>(179,222)</i>
Total Corrections c/f	2,717,106	(1,015,457)	3,732,564
Regulated Account Balance	38,085,758	34,353,194	3,732,564

1.3 ANNUAL TARIFF REVIEW PROCEEDING 2022

On June 30, 2022, the PUC issued its Final Decision in respect of the 2022 Annual Tariff Review Proceeding (“ARP 2022”). This decision finalized the *ex post* approved revenue requirements for the ATP 2020-2021² resulting in a difference of \$6.1 M in corrections applied by the PUC versus BEL’s submission which further added to the difference in the RAB.

Once again, BEL had chosen to not formally object to the PUC’s Initial Decision but rather to state its concerns/objections as ‘Comments’ in writing to the PUC. These concerns/objections surrounded the

² Ibid note 1.

continued imposition of the penalty for the delay in the completion of the Caye Caulker interconnection and disallowance of \$2.03 M in cost of power charges.

Table C: 2020-2021 PUC Final Decision vs BEL Submission

ATP Reviewed	BEL Submission 2020 2021	PUC Final Decision 2020 2021	BEL vs PUC Variance
VAD Components			
OPEX	32,524,967	32,524,967	-
Return	38,765,031	38,606,111	158,920
Depreciation	17,492,707	17,492,707	-
Net annual Corrections - FTRP	8,842,163	8,842,163	-
ARP 21	-	-	-
ARP 22	-	-	-
ARP 23	-	-	-
Taxes/License fees	4,913,482	4,863,197	50,285
Sub-total (VAD)	102,538,350	102,329,145	209,205
Ref Cost of Power	120,093,293	118,067,620	2,025,673
Less: Other Income	4,254,659	4,254,659	-
Revenue Requirements	218,376,984	216,142,105	2,234,879
Actual Revenues	222,913,189	222,913,189	-
General Correction	(4,536,205)	(6,771,085)	2,234,880
<i>Disallowed Costs (CCK Penalty)</i>	-	(3,860,611)	3,860,611
Total Corrections c/f	(4,536,205)	(10,631,696)	6,095,491
Regulated Account Balance	33,549,552	23,721,497	9,828,055

2 COMMENTS ON THE PUC INITIAL DECISION FOR ARP 2023

2.1 PUC’S INITIAL DECISION VERSUS BEL’S SUBMISSION OF EX POST REVENUE REQUIREMENTS FOR THE ATP 2021-2022

The PUC issued its Initial Decision in respect of the 2023 Annual Tariff Review Proceeding (“ARP 2023”) on May 5, 2023. This initial decision, *inter alia*, proposes to finalize the *ex post* approved revenue requirements for the ATP 2021-2022 as shown further below and has resulted in approved corrections of \$13.5 million in favour of BEL, instead of the \$23.6 million correction submitted by BEL.

The PUC’s corrections amount reflects:

- a) the continuing application of a penalty for the delay in the completion of the Caye Caulker Interconnection in the form of a \$3.78 million deduction;
- b) downward adjustments to the return and cost of power by \$1.43 million and \$3.81 million respectively; and
- c) revision of the actual revenues downwards by \$0.92 million due to a perceived reporting error.

Table D: 2021-2022 Outcomes PUC Initial Decision vs BEL Submission

ATP Reviewed	BEL Submission 2021-2022	PUC Initial Decision 2021-2022	BEL vs PUC Variance
VAD Components			
OPEX	33,012,258	33,012,258	-
Return	39,232,153	37,803,242	1,428,911
Depreciation	18,220,765	18,195,859	24,906
Net annual Corrections - FTRP	8,842,163	8,842,163	-
ARP 21	(338,486)	(338,486)	-
ARP 22	-	-	-
ARP 23	-	-	-
Taxes/License fees	5,825,678	5,704,429	121,248
Sub-total (VAD)	104,794,530	103,219,465	1,575,065
Ref Cost of Power	158,424,419	154,610,675	3,813,744
Less: Other Income	4,299,949	4,299,949	-
Revenue Requirements	258,919,001	253,530,191	5,388,809
Actual Revenues	235,332,346	236,251,598	(919,252)
General Correction	23,586,655	17,278,592	6,308,062
<i>Disallowed Costs (CCK Penalty)</i>	-	<i>(3,780,324)</i>	<i>3,780,324</i>
Total Corrections c/f	23,586,655	13,498,268	10,088,386
Regulated Account Balance	57,136,207	37,219,766	19,916,441

2.2 CAYE CAULKER INTERCONNECTION DELAY PENALTY

The PUC states in its Initial Decision that, “BEL failed to record the sum of \$3,780,324, representing the penalty for the Company’s failure to interconnect Caye Caulker to Ambergris Caye pursuant to the PUC’s Decision in ARP 2018 and the subsequent recommendation of Independent Expert, Mr. Ian McMillian.”

BEL reiterates its position taken as of ARP 2021 that “...penalty for delays with the Caye Caulker interconnection project is arbitrary and disproportional to the anticipated performance outcome and does not fully consider factors outside of BEL’s control legitimately excusing delays.” BEL further expressed doubts in ARP 2022 as to whether the PUC has the legal authority to enact a penalty that reduces the rate of return given the PUC’s statutory powers as presently enacted. BEL abides by those comments and refers the PUC to them once again.

Furthermore, the PUC is asked to give full and fair consideration to the recommendations of Independent Expert, Mr. Ian McMillian, who when reviewing the Caye Caulker penalty, made the following observation (emphasis added): “*Implicit to the notion of the adjudicated penalty is that that the delays could have been avoided by BEL. The PUC has, through its 2018 ATRP decision, sought to penalize BEL on the basis of harm to ratepayers et al. We note that the cable by design will provide significant savings to ratepayers in CCK by reducing BEL’s cost-of-delivery which would in turn manifest*

lower user rates to rate-payers. The basis of the value of the penalty is the value of lost savings to affected rate-payers. The imposition of the ROR 1% reduction equates to such value and therefore is being used as a justifiable proxy for same.”

BEL maintains that a reasonable penalty for delays with the Caye Caulker project is one which reflects the lost savings from delaying the interconnection. The application of the 1% deduction of Return to the extent that it does not equate to such value is arbitrary and does not reflect the expert recommendation. This is one of the outstanding issues that the PUC Chairman and BEL CEO had agreed would be put to the bi-partisan committee for further analysis and final resolution.

2.3 ADJUSTMENTS TO RAV AND RETURN ON RAV

The PUC approved, in its Final Decision on ARP 2022, a Regulated Asset Value (RAV) of \$393.9 million and a target rate of return of 10% which resulted in a validated return of approximately \$39.4 million for the 2021|2022 ATP. Unusually, the PUC seems to have revisited this decision and revised the RAV downwards to \$378.0 million, resulting in a return of \$37.8 million. The PUC provides no justification for this action other than to imply that BEL made a late submission for its Fixed Asset Register (FAR) in ARP 2022. However, the FAR submission was in fact made in time for the Final Decision, and certainly the PUC would not assert that it is empowered to penalize BEL by disallowing costs due to late submissions: The PUC is legally required to “...afford a licensee a reasonable opportunity to recover the reasonable costs of providing service and secure a reasonable rate of return on investment when operating in a manner compatible with international standards of an efficiently operated power system of similar characteristics to that of Belize”.

The PUC should explain why it reverses its final decision on the RAV for 2021|2022 ATP, and further, on what basis does it disallow the \$1.4 million from the RAV. Otherwise, its Final Decision on RAV in ARP 2022 holds, and the return used in the corrections for ATP 2021|2022 is to be increased by \$1.4 million.

BEL’s FAR updated as of December 31, 2022 is being submitted along with these Comments to inform the PUC’s Final Decision.

2.4 ADJUSTMENTS TO COP

The PUC reduced BEL’s recorded cost of power (COP) for the period under review (ATP 2021|2022) by \$3.8 million to \$154.6 million from \$158.4 million. The reduction is in part due to an invoice for \$1.5 million from CFE for extraordinary costs that the PUC believes they have previously considered and, the remainder, associated interest charges and bank fees for payments to Independent Power Producers (IPPs). The PUC apparently disallows these interest charges and bank fees on the specious basis that an undertaking by IPPs “*to implement such measures or processes to avoid imposing additional economic hardship on customers and clients who may already be suffering same as a direct or indirect consequence of the pandemic*” amounts to a carte blanche authority to waive late payment fees and bank charges.

BEL resubmits \$158.4 million as its COP claim for ATP 2021|2022 and refers the PUC to *BEL's Comments on the PUC's Initial Decision in ARP 2022* in which the Company provided a full exposition of its costs, including an explanation as to why the \$1.5 million CFE invoice was not correctly recognized in any previous ARP. BEL asks the PUC to deeply consider whether it has the authority to disallow interest charges and bank fees from BEL on the basis of a resolution it solicited from IPPs. Further, BEL advises that it is unacceptable for a regulator to substitute verifiable facts with suppositions – the PUC should rely on BEL's audited financials in its cost reviews and in the interim rely on BEL's unaudited financials to guide its decision-making.

Table E: Cost of Power Breakdown ATP 2021|2022

Month	BEL COP Invoice	Other Balance (GT, Mobiles, BAPCOL)	Interest Expense	Bank Charges	Adjustments	BEL COP excl CC	PUC COP
Jul-21	9,503,585.43	2,034,225.17	186,212.14	163,216.22	-	11,887,238.96	11,899,148.79
Aug-21	11,389,178.32	626,724.51	175,052.98	164,348.28	-	12,355,304.09	12,357,885.08
Sep-21	12,231,449.46	826,012.88	176,595.80	515,412.10	-	13,749,470.24	13,433,834.78
Oct-21	11,384,960.94	4,078,988.73	173,495.40	282,193.86	-	15,919,638.93	15,594,757.85
Nov-21	7,321,976.93	1,986,883.34		272,439.78		9,581,300.05	9,362,763.50
Dec-21	8,862,054.45	3,241,289.33		392,358.74		12,495,702.52	10,647,714.64
Jan-22	8,551,175.01	1,669,348.40		290,990.70	-	10,511,514.11	10,359,223.49
Feb-22	9,280,491.09	1,054,397.16		313,384.62		10,648,272.87	10,445,670.13
Mar-22	11,186,397.83	1,551,828.57		197,611.29	2,655.00	12,938,492.69	12,949,161.40
Apr-22	13,645,392.53	1,641,201.02		259,711.80	3,135.94	15,543,169.41	15,482,531.71
May-22	14,416,245.88	2,145,699.03		345,612.58	480.94	16,908,038.43	16,789,027.29
Jun-22	13,889,945.24	1,392,147.62		287,693.28		15,569,786.14	15,200,041.79
Total	131,662,853.11	22,248,745.76	711,356.32	3,484,973.24	-	158,107,928.43	154,521,760.44

2.5 REVISION OF ACTUAL REVENUES

The PUC notes that “BEL submitted that in its last ATP, it collected \$235,332,346; however, BEL Monthly Revenue Reports in this same period record collections in the sum of \$236,251,598. BEL provided no explanation for the difference in the sum of \$919,251 and as such, the Commission has determined that it should accept the \$236,251,598 as submitted in the monthly reports.”

BEL hereby submits that the variances are due to post-billing cash adjustments that are not reflected in the Monthly Revenue Reports provided to the PUC. The reports provided to the PUC only reflect customer bills as the product of blocks of consumption and their respective tariffs. The post-bill adjustments for the period under review are mainly due to our *Golden Citizen* program, which are BEL's own expenses and as such should not reduce the collections amount for the period. We therefore accept the \$235.3 million as the basis for calculating corrections in this ARP.

2.6 DIFFERENCES IN TBR PER PUC'S INITIAL DECISION VERSUS BEL'S SUBMISSION

The PUC arrives at a lower TBR substantially by reducing projections of BEL' capital expenditures and associated recovery of those investments and the returns on those investments through to the end of the FTP. The Initial Decision on the corrections for ATP 2021|2022 also accounts for a large part of the

variance. BEL’s comments on those corrections are previously discussed and the PUC is asked to make appropriate revisions in its Final Decision.

Table F: TBR for 2020-2024 FTP - PUC Initial Decision vs BEL Submission

FTP Reviewed	BEL Submission 2020-2024	PUC Initial Decision 2020-2024	BEL vs. PUC Variance
VAD Components			
OPEX	133,052,897	133,052,897	-
Return	146,793,007	139,196,741	7,596,266
Depreciation	79,834,206	74,738,203	5,096,003
Net annual Corrections - FTRP	35,368,653	35,368,653	-
ARP 21	-1,015,457	-1,015,457	-
ARP 22	-10,631,696	-10,631,696	-
ARP 23	22,667,403	13,498,270	9,169,133
Taxes/License fees	22,866,895	24,097,172	-1,230,277
Sub-total (VAD)	<u>428,935,908</u>	<u>408,304,783</u>	<u>20,631,125</u>
Ref Cost of Power	604,400,130	593,001,551	11,398,579
Less: Other Income	17,029,577	17,029,577	-
TBR	<u>1,016,306,462</u>	<u>984,276,758</u>	<u>32,029,703</u>

It is sufficient to say here that neither the opinion of the PUC or BEL takes precedence over the fact that BEL is legally entitled to recover all prudently incurred costs to provide safe, reliable, and sustainable energy consistent with BEL’s license and the provisions of the Electricity Act. The Company will continue to work with the PUC to deliver on its strategy and business plan in service of customers and the development of the country, and expects the PUC, in turn, to discharge its duties in accordance with the law which governs the recovery of investments and other business costs for utilities.