

DOMINICA ELECTRICITY SERVICES LIMITED



FORM ECSRC - Q

Quarterly Report
For the period ended September 30th, 2010

FORM ECSRC - Q

QUARTERLY REPORT
For the period ended September 30th 2010

Issuer Registration Number: DOMLEC30041975DM

DOMINICA ELECTRICITY SERVICES LIMITED

(Exact name of reporting issuer as specified in its charter)

DOMINICA

(Territory or jurisdiction of incorporation)

P.O. BOX 1593, 18 CASTLE STREET, ROSEAU, DOMINICA

(Address of principal executive Offices)

(Reporting issuer's:

Telephone number (including area code): (767) 255 6000

Fax number: (767) 448 5397

Email address: domlec@domlec.dm.

1. Financial Statements

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED BALANCE SHEET
AS AT SEPTEMBER 30, 2010
(expressed in Eastern Caribbean Dollars)

	September 2010 \$	September 2009 \$	December 2009 \$
Assets			
Current assets			
Cash and cash equivalents	358,791	(380,584)	563,162
Receivables and prepayments	11,927,940	12,250,579	13,644,139
Inventories	13,705,563	10,286,537	10,774,818
	<u>25,992,295</u>	<u>22,156,531</u>	<u>24,982,119</u>
Capital work in progress	16,253,801	31,133,920	7,056,159
Property, plant and equipment	103,900,957	83,540,582	111,849,155
	<u>146,147,053</u>	<u>136,831,033</u>	<u>143,887,433</u>
Liabilities			
Current liabilities			
Borrowings	3,501,410	1,798,419	8,378,121
Accounts payable and accruals	9,466,335	6,241,764	10,176,984
Due to related party	0	0	132,698
Income tax Payable	1,076,130	1,310,775	1,896,225
	<u>14,043,875</u>	<u>9,350,958</u>	<u>20,584,028</u>
Borrowings	50,938,298	45,823,016	40,296,635
Deferred tax liability	15,844,659	15,398,347	15,293,718
Other liabilities	9,233,751	8,232,569	8,464,818
Capital grants	1,023,474	1,268,977	1,197,260
	<u>91,084,056</u>	<u>80,073,868</u>	<u>85,836,459</u>
Shareholders' Equity			
Share capital	10,417,328	10,417,328	10,417,328
Retained earnings	44,645,670	46,339,838	47,633,646
	<u>55,062,998</u>	<u>56,757,166</u>	<u>58,050,974</u>
	<u>146,147,053</u>	<u>136,831,033</u>	<u>143,887,433</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF INCOME
FOR THE QUARTER ENDED SEPTEMBER 30, 2010
(expressed in Eastern Caribbean Dollars)

	September 2010 \$	September 2009 \$	December 2009 \$
Revenue			
Energy sales	15,222,957	14,563,743	54,911,299
Fuel surcharge	7,906,797	5,820,346	20,393,259
Other revenue	556,937	202,189	1,505,300
	<u>23,686,692</u>	<u>20,586,278</u>	<u>76,809,858</u>
Direct expenses			
Operating	4,310,566	3,308,083	13,111,330
Maintenance	1,899,190	753,748	5,595,818
Depreciation	2,225,763	2,263,611	8,813,250
Fuel	9,790,859	7,730,721	27,697,284
	<u>18,226,378</u>	<u>14,056,163</u>	<u>55,217,682</u>
Gross profit	5,460,314	6,530,115	21,592,176
Administrative expenses (schedule)	<u>2,593,232</u>	<u>3,074,784</u>	<u>10,122,184</u>
Net operating income	<u>2,867,082</u>	<u>3,455,333</u>	<u>11,469,992</u>
Other expenses/(income)			
Amortization of capital grants	(88,235)	(115,128)	(475,622)
Foreign exchange losses/(gains)	(70,452)	(11,188)	17,671
Loss/(Gain) on disposal of plant and equipment	(20,496)	0	(2,578)
	<u>(179,183)</u>	<u>(126,316)</u>	<u>(460,529)</u>
Net income before finance charges, exceptional items and tax	3,046,265	3,581,649	11,930,521
Finance charges	<u>(825,741)</u>	<u>(751,458)</u>	<u>(2,955,959)</u>
Net income before tax	2,220,524	2,830,191	8,974,562
Income tax	<u>(615,228)</u>	<u>(847,960)</u>	<u>(2,823,122)</u>
Net income/(loss) for the period	<u>1,605,296</u>	<u>1,982,230</u>	<u>6,151,440</u>
Earnings/(loss) per share	<u>0.15</u>	<u>0.19</u>	<u>0.59</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
AS AT SEPTEMBER 30, 2010
(expressed in Eastern Caribbean Dollars)

	September 2010 \$	September 2009 \$	December 2009 \$
Share capital			
Ordinary shares, beginning and end of period	<u>10,417,328</u>	<u>10,417,328</u>	<u>10,417,328</u>
Retained earnings			
At beginning of period	47,633,646	43,044,805	43,044,805
Net income/(loss) for the year	(2,206,677)	4,076,333	6,151,440
Ordinary dividends (declared)	<u>(781,300)</u>	<u>(781,300)</u>	<u>(1,562,599)</u>
At end of period	<u>44,645,670</u>	<u>46,339,838</u>	<u>47,633,646</u>
Shareholders' equity, end of period	<u>55,062,998</u>	<u>56,757,166</u>	<u>58,050,974</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CASH FLOW
AS AT SEPTEMBER 30, 2010
(expressed in Eastern Caribbean Dollars)

	September 2010 \$	September 2009 \$	December 2009 \$
Cash flows from operating activities			
Net income/(loss) before tax	2,220,524	2,830,190	8,974,562
Adjustments for:			
Depreciation	2,225,763	2,263,611	8,813,250
Loss/(Gain) on disposal of property, plant and equipment	(20,499)	0	(2,578)
Exchange (gains)/Loss	0	1,461	5,386
Amortization of capital grants	(30,350)	(71,718)	(286,871)
Interest expense	825,741	751,458	2,955,959
Operating profit before working capital changes	5,221,179	5,775,001	20,459,708
Decrease (Increase) in receivables and prepayments	850,975	507,978	4,047,663
Decrease/(increase) in inventories	(1,273,792)	315,726	1,315,058
Increase/(decrease) in accounts payable and accruals	896,549	(1,825,371)	(3,929,279)
Increase/(decrease) in due to related party	0	0	(162,581)
Cash generated from operations	5,694,910	4,773,335	21,730,569
Interest paid	(892,875)	(729,039)	(2,925,047)
Income tax paid	0	0	(1,643,782)
Net cash from operating activities	4,802,035	4,044,296	17,161,740
Cash flows from investing activities			
Purchase of property, plant and equipment	(3,036,028)	(3,912,149)	(16,033,552)
Proceeds on disposal of property, plant and equipment	20,500	0	56,850
Net cash used in investing activities	(3,015,528)	(3,912,149)	(15,976,702)
Cash flows from financing activities			
Proceeds from borrowings	0	0	4,500,000
Repayment of borrowings	(1,606,081)	(1,650,803)	(6,888,066)
Dividends paid	0	0	(1,562,599)
Increase in other liabilities	191,022	661,630	1,194,365
Increase in Capital grants	0	0	0
Net cash generated from/(used in) financing activities	(1,415,059)	(989,173)	(2,756,300)
Net increase/(decrease) in cash and cash equivalents	371,448	(857,026)	(1,571,265)
Cash and cash equivalents, beginning of period	(1,553,848)	476,441	1,175,320
Net cash and cash equivalents, end of period	(1,182,400)	(380,585)	(395,945)

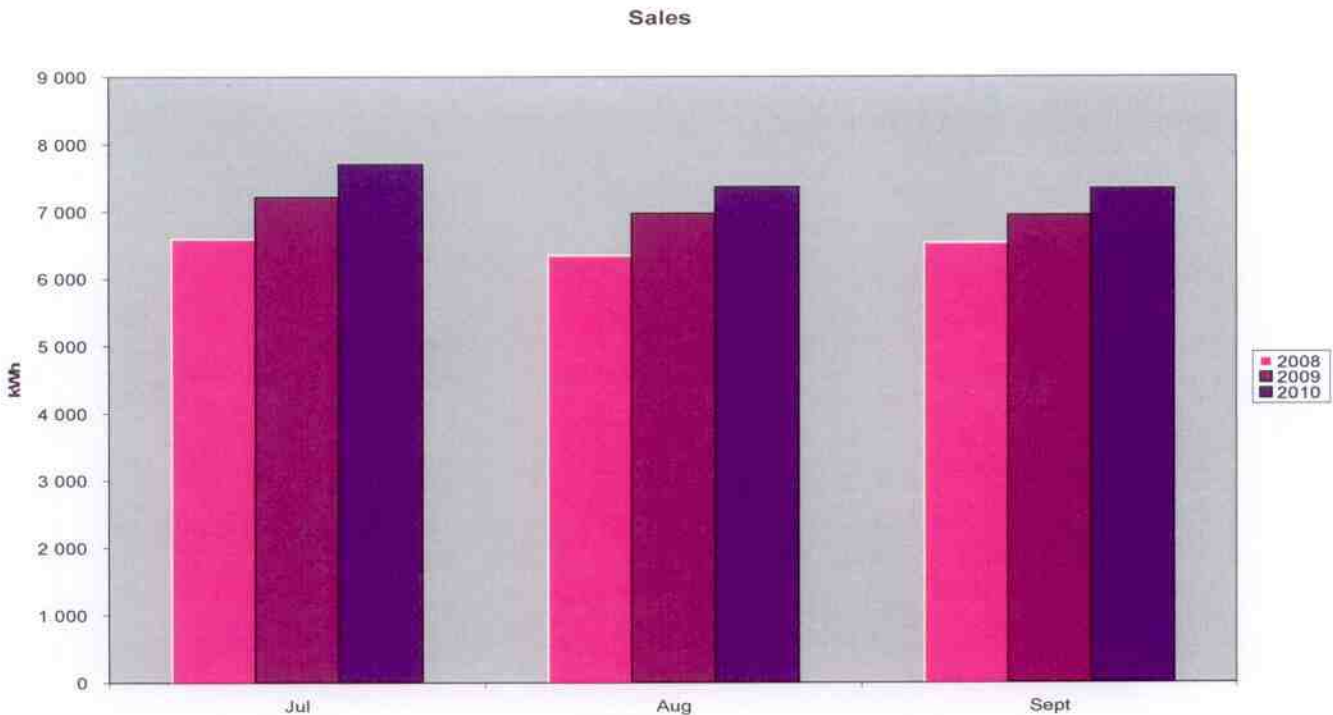
2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net profit after taxes for the third quarter was EC\$1.605 million, a decrease of EC\$0.377 million or 19% from net profits earned in the third quarter of 2009.

Total Revenue for the quarter was EC\$23.687 million, of which EC\$15.222 million represented electricity sales net of fuel surcharge. Both total revenue and revenue net of fuel surcharge have grown from the comparable period of 2009. Total revenue is higher by EC\$3.1 million or 15%, while third quarter revenue from electricity sales is 5% higher in 2010.

Revenue from fuel surcharge was 36% higher than the third quarter of 2009 due to the higher than average cost per gallon of diesel in the quarter. A comparable increase in total fuel consumed and in the fuel cost was recorded.

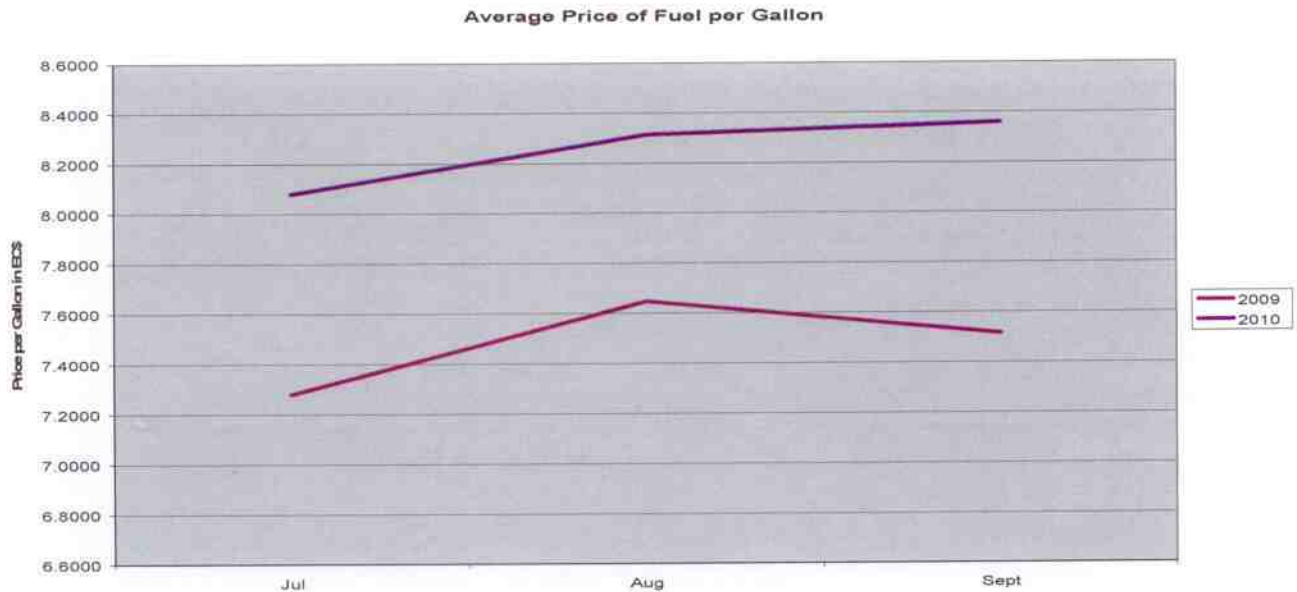
Electricity demand in the third quarter has grown 6% from the comparable period of 2009 and stands at 22,396 GWh. Unit sales increased in all sectors save the Industrial sector, where sales fell 8% from the comparable period of 2009. The Hotel sector recorded the strongest percentage growth of 26%, while the Commercial and Domestic sectors grew by 7% and 6% respectively.



Fuel costs in this Quarter totalled EC\$9.791 million, 27% higher than the EC\$7.730 million spent on fuel in the third quarter of 2009. Further, 1,193,816 imperial gallons of diesel were used in the generation of electricity, 181,466 gallons more than was used in the 3rd Quarter of 2009. The driving forces behind this increase were simultaneous increases in sales, the average price of diesel and lower output from the hydro units.

The average cost of fuel this quarter was EC\$8.20 per IG, compared to the EC\$7.63 per IG from the third quarter of 2009.

Energy production continues to come mainly from diesel generation, with 77% of all energy generated in this quarter coming from this means. More reliance was placed on diesel output this year compared to similar period in 2009, when 74% of total energy generated was through diesel generation. Energy produced from hydro was 23% of total production, a decline from 26% in the third quarter in 2009. Scheduled maintenance during this quarter resulted in two hydro units being unavailable for two weeks and this is almost solely responsible for the drop in hydro output in the quarter.



Direct Expenses increased by EC\$4.1 million mainly as a result of steady increases in the cost of fuel. Direct expenses, net of fuel costs, were higher by EC\$2.11 million (33.4%) and currently stand at EC\$8.44 million. The major overhaul of a generator at Sugar Loaf costing approximately EC\$0.496 million contributed to this result, along with increased plant maintenance over the previous year. Additionally, a provision of EC\$0.521 million was made for fire and peril insurance which was previously allocated under administration expenses. Further, cost was incurred for the disposal of retired engines.

DOMLEC IN THE THIRD QUARTER OF 2010

Operating Highlights	2010	2009
Hydro generation (1,000 kWh)	5,691	6,428
Diesel generation (1,000 kWh)	20,041	18,097
Units sold (1,000 kWh)	22, 397	21,142
Fuel efficiency(kWh per IG)	16.78	17.87
System losses (MAT)	9.0%	11.1%

(a) **Liquidity**

Trade receivables (excluding unbilled sales) improved over the comparable period in 2009; at September 2010 receivable was EC\$8.610 million, compared with EC\$9.658 million at September 2009. Government's debt contributed significantly to the reduction in trade receivables with an EC\$1.526 million decrease. An improvement in collections also contributed to the lower receivables, where the average age of outstanding debt moved from 55 days at September 2009 to 39 days at September 2010.

The Commercial and Domestic sectors continue to represent a large portion of gross receivables at 30% and 45% respectively, but these sectors also respectively account for 40% and 45% of sales. Government debt, which has been progressively decreasing, accounted for 10.9% of all debt receivable. To date 79% of debts receivables are current, that is, outstanding for less than 30 days.

The company remains in a stable liquid position at the end of the third quarter of the year.

(b) **Capital Resources**

The company has committed EC\$12.43 million during the period to acquire fixed assets and has spent EC\$8.80 million to date. This capital expenditure was partly funded from internal funds and from a previously negotiated loan facility from a local financial institution.

(c) **Financial Outlook**

It is expected that the better than budgeted sales performance will continue throughout the rest of the year as the main customer sectors of Commercial and Domestic have seem unfettered from the global economic slowdown. The company now expects that unit sales during 2010 will exceed 2009 by 9% resulting in increased revenue (excluding fuel surcharge) of about EC\$4.3 million dollars.

Even with the improved sales performance, the company now anticipates to declare a loss after taxes of EC\$1.4 million due to the payment of an outstanding tax liability of EC\$6 million discussed in the second quarter report. Preliminary analysis shows that the company is expected to return to profitability in the coming financial year.

3. DISCLOSURE OF RISK FACTORS

Financial assets, which potentially subject the Company to concentrations of credit risk, consist principally of bank deposits, available-for-sale financial assets and trade receivables. The Company's bank deposits are placed with high credit quality financial institutions. Trade receivables are presented net of the provision for impairment of receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's customer base and their dispersion across different economic sectors. Management performs periodic credit evaluations of its customers' financial condition and does not believe that significant credit risk exists at June 30th 2010.

Regulatory Environment and Tariff Mechanism

There has been no change in the Regulatory Environment during this quarter.

As stated in the last quarter's report the significant risk still remains that the rate of return the company will be allowed when filing for a new tariff is unknown and will be at the discretion of the Independent Regulatory Commission.

Operating Environment

As reported in the second quarter the T&D assets remain uninsured. There has been no response from the government on the self-insurance proposal that the company has put forward. The facility that the company has negotiated with a local bank for storm and hurricane emergencies is still in place. The risk of storm damage is low for the remainder of 2010, and will remain so through most of the first half of 2011.

4. LEGAL PROCEEDINGS

On December 22nd 2009, the Dominica Electricity Services Limited ("Domlec") served a demand for arbitration against the Commonwealth of Dominica, seeking relief against the Commonwealth of Dominica for violating Domlec's rights as expressed in the Electricity Supply Act 1996 (the "1996 Act"), which granted Domlec an exclusive license to provide electricity services to Dominica through the end of 2025.

In 2006, the Commonwealth of Dominica enacted a new Electricity Supply Act that purported to both repeal the 1996 Act and revoke Domlec's exclusive license, granting Domlec a non-exclusive license which would expire at the end of 2015. The demand for Arbitration claims that the purported revocation of Domlec's exclusive license to provide electricity services was in violation of Domlec's rights, and amounts to expropriation of Domlec's assets and investment. The value of the arbitration claim is US\$100 million. On January 8th 2010 the Government served the company with an application filed in the High Court (DOMHCV0009/2010) for a declaration by way of administrative order that the arbitration proceedings were unlawfully filed and further requested the court to issue an injunction to restrain the company from proceeding with the arbitration until the hearing of the application in the High Court.

At the hearing of the matter on October 4th 2010 the matter was adjourned by the court on the application of the parties to facilitate discussions recently entered into by them with a view to settlement. The parties undertook to report to the court on the outcome of their discussions.

5. **CHANGES IN SECURITIES AND USE OF PROCEEDS**

None

6. **DEFAULTS UPON SENIOR SECURITIES**

There have been no defaults on the payment of securities during the period under review.

7. **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None

CLASS	NUMBER
Common	10,417,328


SIGNATURES

Name of Chief Executive Officer:

Name of Director:

Collin Cover

Grayson Stedman



Signature



Signature

27th Oct 2010

Date

October 27th 2010

Date