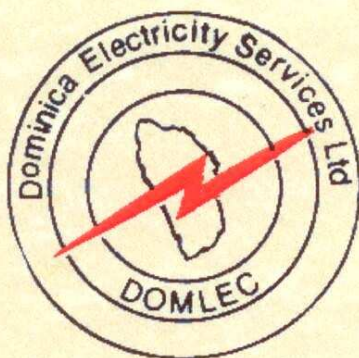


# **DOMINICA ELECTRICITY SERVICES LIMITED**



## **FORM ECSRC - Q**

Quarterly Report  
For the period ended June 30<sup>th</sup>, 2010

**FORM ECSRC - Q**

**QUARTERLY REPORT**

For the period ended June 30<sup>th</sup> 2010

Issuer Registration Number: DOMLEC30041975DM

**DOMINICA ELECTRICITY SERVICES LIMITED**

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

**DOMINICA**

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(Territory or jurisdiction of incorporation)

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

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(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 JUNE 30, 2010**  
(expressed in Eastern Caribbean Dollars)

	June 2010 \$	June 2009 \$	December 2009 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	218 879	632 221	563 162
Receivables and prepayments	12 778 915	12 758 557	13 644 139
Inventories	12 431 766	10 602 263	10 774 818
	<u>25 429 561</u>	<u>23 993 042</u>	<u>24 982 119</u>
<b>Capital work in progress</b>	13 182 009	27 219 032	7 056 159
<b>Property, plant and equipment</b>	106 162 491	85 806 929	111 849 155
	<u>144 774 060</u>	<u>137 019 003</u>	<u>143 887 433</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	5 406 162	3 581 334	8 378 121
Accounts payable and accruals	8 569 786	8 067 135	10 176 984
Due to related party	0	0	132 698
Income tax Payable	632 025	761 718	1 896 225
	<u>14 607 973</u>	<u>12 410 187</u>	<u>20 584 028</u>
<b>Borrowings</b>	50 938 298	45 822 807	40 296 635
<b>Deferred tax liability</b>	15 673 536	15 099 443	15 293 718
<b>Other liabilities</b>	9 042 727	7 570 937	8 464 818
<b>Capital grants</b>	1 053 824	1 340 695	1 197 260
	<u>91 316 358</u>	<u>82 244 069</u>	<u>85 836 459</u>
<b>Shareholders' Equity</b>			
<b>Share capital</b>	10 417 328	10 417 328	10 417 328
<b>Retained earnings</b>	43 040 374	44 357 606	47 633 646
	<u>53 457 702</u>	<u>54 774 934</u>	<u>58 050 974</u>
	<u>144 774 060</u>	<u>137 019 003</u>	<u>143 887 433</u>

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

	<b>June 2010 \$</b>	<b>June 2009 \$</b>	<b>December 2009 \$</b>
<b>Revenue</b>			
Energy sales	29 032 679	25 880 571	54 911 299
Fuel surcharge	15 100 473	8 228 909	20 393 259
Other revenue	300 933	1 104 915	1 505 300
	<u>44 434 085</u>	<u>35 214 395</u>	<u>76 809 858</u>
<b>Direct expenses</b>			
Operating	8 278 688	6 535 794	13 111 330
Maintenance	2 724 832	2 594 366	5 595 818
Depreciation	5 226 566	4 199 961	8 813 250
Fuel	18 971 441	11 280 959	27 697 284
	<u>35 201 527</u>	<u>24 611 080</u>	<u>55 217 682</u>
<b>Gross profit</b>	9 232 558	10 603 315	21 592 176
<b>Administrative expenses</b>	4 688 446	5 809 782	10 122 184
<b>Net operating income</b>	<u>4 544 112</u>	<u>4 793 533</u>	<u>11 469 992</u>
<b>Other expenses/(income)</b>			
Amortization of capital grants	(259 206)	(230 256)	(475 622)
Foreign exchange losses/(gains)	86 136	(11 733)	17 671
Loss/(Gain) on disposal of plant and equipment	(33 499)	(49 557)	(2 578)
	<u>(206 568)</u>	<u>(291 546)</u>	<u>(460 529)</u>
<b>Net income before finance</b>	4 750 680	5 085 079	11 930 521
<b>Finance charges</b>	<u>(1 387 143)</u>	<u>(1 496 638)</u>	<u>(2 955 959)</u>
<b>Net income before tax</b>	3 363 537	3 588 441	8 974 562
<b>Income tax</b>	<u>(7 175 511)</u>	<u>(1 494 340)</u>	<u>(2 823 122)</u>
<b>Net income/(loss) for the period</b>	<u>(3 811 974)</u>	<u>2 094 101</u>	<u>6 151 440</u>
<b>Earnings/(loss) per share</b>	<u>(0.37)</u>	<u>0.20</u>	<u>0.59</u>

**DOMINICA ELECTRICITY SERVICES LIMITED**  
**UN-AUDITED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**  
**FOR THE QUARTER ENDED JUNE 30, 2010**  
**(expressed in Eastern Caribbean Dollars)**

	<b>June 2010 \$</b>	<b>June 2009 \$</b>	<b>December 2009 \$</b>
<b>Share capital</b>			
Ordinary shares, beginning and end of period	<u>10 417 328</u>	<u>10 417 328</u>	<u>10 417 328</u>
<b>Retained earnings</b>			
At beginning of period	47 633 646	43 044 805	43 044 805
Net income/(loss) for the period	(3 811 974)	2 094 101	6 151 440
Ordinary dividends (declared)	<u>(781 300)</u>	<u>(781 300)</u>	<u>(1 562 599)</u>
At end of period	<u>43 040 373</u>	<u>44 357 606</u>	<u>47 633 646</u>
<b>Shareholders' equity, end of period</b>	<u>53 457 701</u>	<u>54 774 934</u>	<u>58 050 974</u>

**DOMINICA ELECTRICITY SERVICES LIMITED**  
**UN-AUDITED STATEMENT OF CASH FLOW**  
**FOR THE QUARTER ENDED JUNE 30, 2010**  
**(expressed in Eastern Caribbean Dollars)**

	June 2010 \$	June 2009 \$	December 2009 \$
<b>Cash flows from operating activities</b>			
Net income/(loss) before tax	3 363 537	3 588 441	8 974 562
Adjustments for:			
Depreciation	5 226 566	4 199 961	8 813 250
Loss/(Gain) on disposal of property, plant and equipment	(33 499)	(49 557)	(2 578)
Exchange (gains)/Loss	0	(22 776)	5 386
Amortization of capital grants	(259 206)	(230 256)	(286 871)
Interest expense	1 387 143	1 496 638	2 955 959
<b>Operating profit before working capital changes</b>	<b>9 684 542</b>	<b>8 982 451</b>	<b>20 459 708</b>
Decrease (Increase) in receivables and prepayments	865 224	4 933 245	4 047 663
Decrease/(increase) in inventories	(1 656 948)	1 487 614	1 315 058
Increase/(decrease) in accounts payable and accruals	(1 607 198)	(6 039 128)	(3 929 279)
Increase/(decrease) in due to related party	(132 698)	(295 279)	(162 581)
<b>Cash generated from operations</b>	<b>7 152 922</b>	<b>9 068 903</b>	<b>21 730 569</b>
Interest paid	(1 336 094)	(1 416 695)	(2 925 047)
Income tax paid	(8 059 893)	(1 643 782)	(1 643 782)
<b>Net cash from operating activities</b>	<b>(2 243 066)</b>	<b>6 008 426</b>	<b>17 161 740</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(5 595 937)	(5 450 410)	(16 033 552)
Proceeds on disposal of property, plant and equipment	33 500	56 850	56 850
<b>Net cash used in investing activities</b>	<b>(5 562 437)</b>	<b>(5 393 560)</b>	<b>(15 976 702)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	10 641 663	2 500 000	4 500 000
Repayment of borrowings	(3 790 673)	(3 332 931)	(6 888 066)
Dividends paid	(781 300)	(781 300)	(1 562 599)
Increase in other liabilities	577 910	300 484	1 194 365
Increase in Capital grants	0	0	0
<b>Net cash generated from/(used in) financing activities</b>	<b>6 647 600</b>	<b>(1 313 747)</b>	<b>(2 756 300)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1 157 903)</b>	<b>(698 881)</b>	<b>(1 571 265)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>(395 945)</b>	<b>1 175 320</b>	<b>1 175 320</b>
<b>Net cash and cash equivalents, end of period</b>	<b>(1 553 847)</b>	<b>476 441</b>	<b>(395 945)</b>

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

Net profit before taxes at the end of the second quarter was EC\$3.363 million, compared with EC\$3.588 million for the comparable period of 2009, a decrease of EC\$0.225 million or 6.3%.

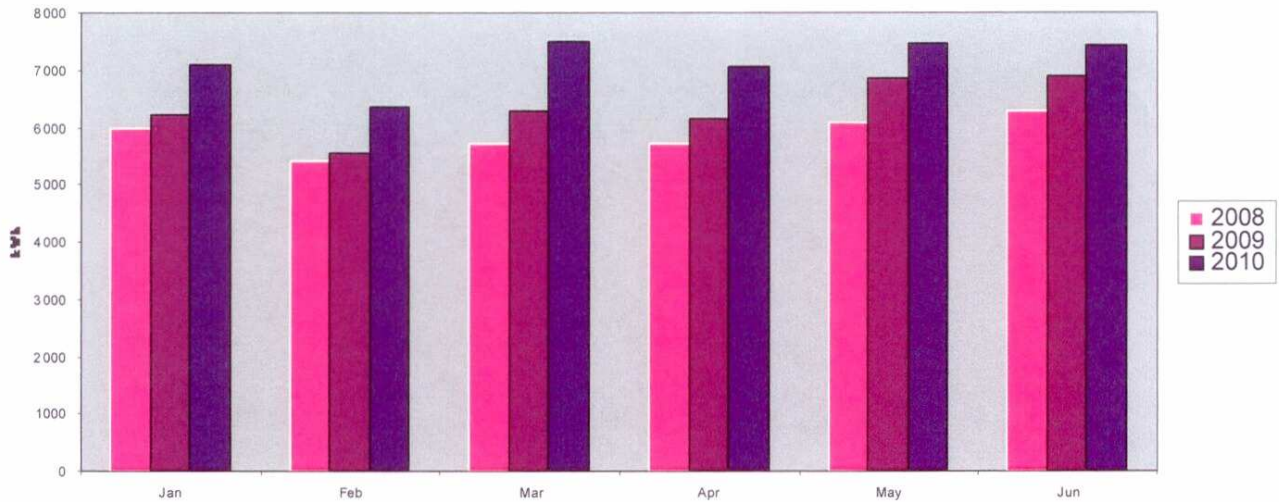
Net loss after taxes was EC\$3.812 million. This loss was as a result of an additional tax payment of EC\$6.1 million in June.

The additional tax payment came about as a result of the re-assessment of the income tax filings of the Company for periods 2001-2004 by the Inland Revenue Division. Costs that were originally written off in 2001 for the discontinued Tarou project were disallowed by the Inland Revenue Division, hence resulting in a tax liability (inclusive of interest) of EC\$6.1 million.

Total revenue for the period increased by EC\$9.256 million or 26% over the same period in 2009. This increase was caused by a combination of higher fuel surcharge and an increase in sales revenue. Due to the increase in oil prices, revenue from fuel surcharge increased by 84% from June 2009 to EC\$15.1 million in June 2010. The increase in fuel prices did not slow sales growth as revenue from sales for the period was 12% higher than revenue sales in 2009 and ended at EC\$29.032 million.

All sectors reported double digit growth, except the Industrial sector. Demand increased by 13.0%, compared with 7.9% over the same period last year. The Hotel sector saw a 33.5% growth rate but this growth is sporadic and seasonal. The Commercial and Domestic sectors combined make up 87.7% of total sales, and increased by 14% and 13.2% respectively from 2009. The suppressed growth of 2% in the Industrial sector was due to the closure of a research project by a large Industrial client that began in 2009 and ended earlier this year. The company's revenue was positively affected as systems losses and customer hours lost improved over the period.

### Sales

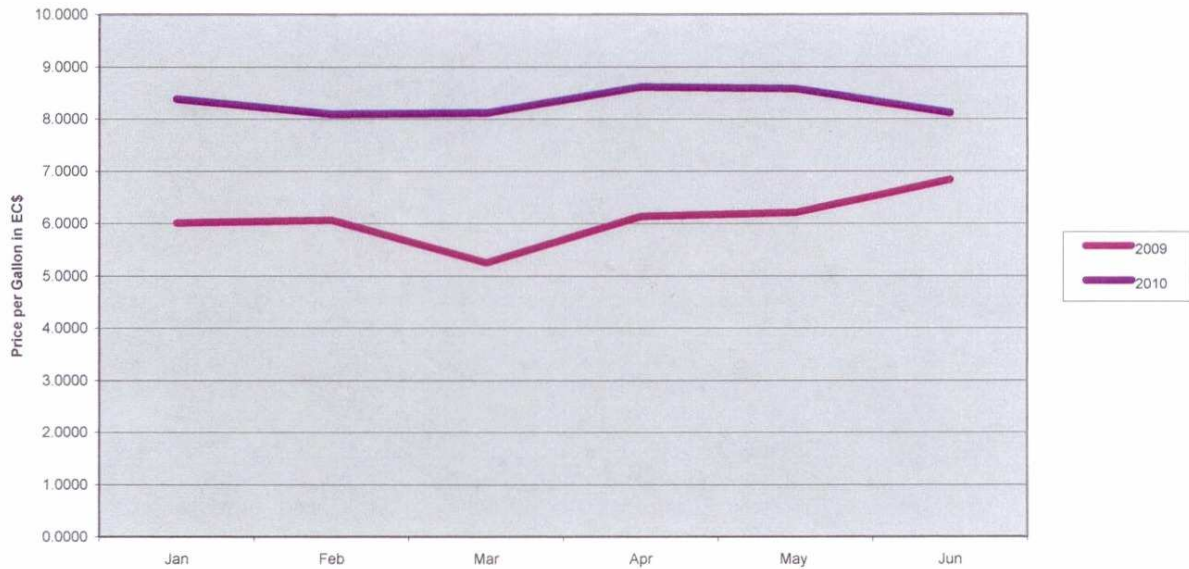


Fuel costs to date were EC\$18.971 million, an increase of 68% compared to June 2009. The driving forces behind this increase were simultaneous increases in sales, the average price of diesel and the unusually dry weather which caused lower production by the hydro units. The average price of fuel has been steadily increasing and moved from EC\$6.78 in June 2009 to EC\$8.16 in June 2010. In June 2010, 23.8% more fuel was used to generate electricity compared to the same period in 2009 for a total of 2,293,336 imperial gallons.

Diesel continues to be the primary source of energy production; it produced 82% of all energy generated, and increased over last year by 24%. More reliance was placed on diesel generation for two main reasons: the delayed restoration of the hydro plant that was destroyed by Hurricane Dean in 2007; and exceptionally low rainfall adversely affecting hydro production. Consequently, energy produced from Hydro decreased by 27% from last year and fell to 8,539,335 kWh.



Average Price of Fuel per Gallon



Direct Expenses increased EC\$10.59 million mainly as a result of steady increases in the cost of fuel. Direct expenses, net of fuel costs, were higher by EC\$2.9 million (21.8%) and currently stand at EC\$16.23 million. The concurrent drop in administrative expense and the rise in operating expenses were caused by a re-allocation of the provision for insuring the Transmission and Distribution assets from Central Overheads to Operating Expenses. Depreciation expenses have increased due to the addition of three medium sized engines to Fixed Assets in March of 2009 worth EC\$21.3 million.

## DOMLEC IN THE SECOND QUARTER OF 2010

<b>Operating Highlights</b>	<b>2010</b>	<b>2009</b>
Hydro generation (1,000 kWh)	8,539	11,757
Diesel generation (1,000 kWh)	40,203	32,353
Units sold (1,000 kWh)	42,894	37,954
Fuel efficiency(kWh per IG)	17.53	17.46
System losses	9.2%	11.3%

### (a) **Liquidity**

Trade receivables (excluding unbilled sales) improved over the comparable period in 2009; it was EC\$8.376 million at June 2010, and EC\$9.134 million at June 2009. Government's debt contributed significantly to the reduction in trade receivables with an EC\$1.365 million decrease. An improvement in collections also contributed to the lower receivables, where the average age of outstanding debt went from 55 days at June 2009 to 39 days at June 2010.

The Commercial and Domestic sectors continue to represent a large portion of gross receivables at 41% and 29% respectively. Government debt has been progressively decreasing, and at June 2010, it accounted for 12.5% of all debt receivable, much lower than 26% at the end of June 2009.

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

### (b) **Capital Resources**

The company has committed EC\$8.73 million during the period to acquire fixed assets and has spent EC\$5.72 million to date. This capital expenditure was partly funded from internal funds and from a previously negotiated loan facility from a local financial institution.

### 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**

The most significant risk to which the company is exposed is the continuing uncertainty in the Company's regulatory environment.

#### **Tariff Mechanism**

A Decision Document titled "*Tariff Regime for Dominica Electricity Services Limited*" was issued by the IRC at the end of June, following a process which commenced in the third quarter of 2008. The document does not consider levels of tariff but rather lays down the principles that will govern the development and setting of a new tariff regime. The Commission has accepted the model for a structure comprising a two-part tariff, viz:

- A non-fuel base rate and
- A fuel charge which fully recovers the cost of fuel (subject to efficiency factors)

In addition to the foregoing, the rates shall consist of two other components:

- Extraordinary costs related to government imposed obligations and
- Regulatory fees imposed by the IRC.

These new tariff rules take effect on 30<sup>th</sup> April 2010. The new tariff mechanism does not specify an allowable rate of return. At the time of application for a new rate the company is expected to apply for the rate of return it wishes to achieve and the IRC will determine what rate will be given. Domlec may file an application for a tariff review in accordance with these rules at any time it wishes. Until that time the rate structure will remain the same as currently in place. The Commission, however, advises that the company will eventually need to submit a detailed Rate Design Application, including proposals for tariff development.

## **Operating Environment**

### Uninsured Transmission and Distribution Assets

The company continues to explore options for self insurance of its T & D assets against hurricane and other damages caused by natural disasters. The risk of a storm and the wind related damage to T & D assets is relatively high in this region. Currently, the insurance premium is approximately twenty percent of the value of the assets. The company has proposed a self insurance scheme to the government. While details of the self insurance scheme are being finalised, Domlec has made arrangements with a local commercial bank for an emergency facility if it is ever needed. The company is also exploring joint insurance with twelve other utilities companies through the Caribbean Association of Electrical Utilities (CARILEC)

#### **4. LEGAL PROCEEDINGS.**

On December 22<sup>nd</sup> 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 licence 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 licence, granting Domlec a non-exclusive licence which would expire at the end of 2015. The demand for Arbitration claims that the purported revocation of Domlec’s exclusive licence 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 8<sup>th</sup> 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.

The hearing of the High Court application has been set for October 4<sup>th</sup> to 7<sup>th</sup> 2010.

#### **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.**

MAY 5<sup>th</sup> 2010      36<sup>TH</sup> ANNUAL GENERAL MEETING OF SHAREHOLDERS

The following directors were elected unopposed to serve for the periods indicated:

Murray Skeete	Three Years
Yvor Nassief	Three Years
Alexander Stephenson	Three Years
Robert Blanchard Jr.	Three Years
Malcolm Harris	Three Years
Nigel Wardle	Three Years

PricewaterhouseCoopers were appointed as auditors for the year ending December 31<sup>st</sup>2010 on a majority vote by a show of hands.

CLASS	NUMBER
Common	10,417,328

**SIGNATURES**

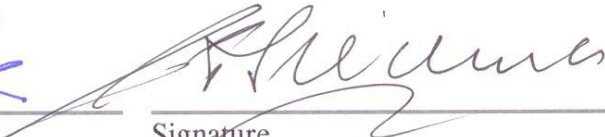
Name of Chief Executive Officer:

Name of Director:

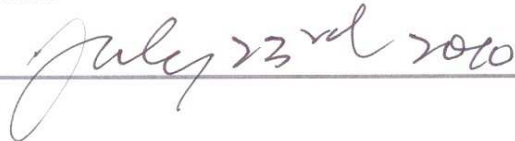
Collin Cover

Grayson Stedman

  
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