



**blpc** report on operations



**2007** opened with the nation focused on preparations for hosting the World Cup Cricket final, which was successfully held at the newly rebuilt Kensington Oval. With the heightened activity leading up to this major sporting event, the Company recorded an increase in sales for the first half of the year of 5% and a new record peak demand of 162.4 megawatts. Sales continued to grow during the second half of the year, but at a much more modest rate, resulting in an overall sales increase for the year of 4.1%. It is anticipated that other projects presently under construction, including the Four Seasons Hotel, several large luxury condominiums, and a new Hall of Justice, will continue to provide the impetus for future growth.

### Oil Prices Soar

As the year progressed, international fuel prices soared and new record highs were set month after month, with the price hovering around US\$100 per barrel at year-end. While fuel prices have more than doubled since 2004, the average Fuel Clause Adjustment has increased by only 35%. The Company's investment in modern generating plant capable of operating on the least expensive, low grade, residual fuel oil helped to moderate the increases in electricity prices through this period. About 90% of the electricity produced during 2007 was generated on

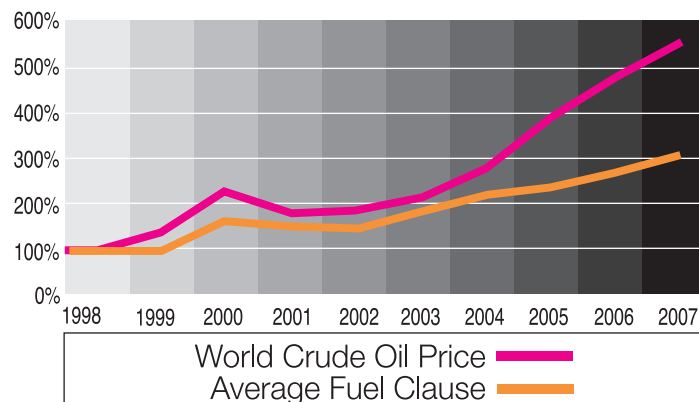
residual fuel, and the two new 30 MW low speed diesels that were installed in 2005 at a cost of Bds\$140 million have already saved the country and our customers over Bds\$160 million.

However, the Company's efforts to moderate the effects of fuel prices was of little comfort to our customers as the Fuel Clause Adjustment continued to climb, reaching a record high of 26.0279 cents per kilowatt-hour in November, 2007.

In response, and in a general effort to control the high cost of living, the Government of Barbados introduced a subsidy on heavy fuel oil used in electricity production for residential customers in order to maintain the Fuel Clause Adjustment at the October 2007 level. This measure was approved by the regulator, the Fair Trading Commission, and implemented by the Company in December.

### Seeking Alternatives to Oil

While our immediate future is tied to oil and the vagaries of oil prices, the Company recognizes the need to diversify the electricity supply away from this single source. During the past several years, much effort and investment have gone into pursuing other sources of energy to meet the growing demand for electricity.



10 Year Oil Prices & Fuel Clause Adjustment (1998 - 2007)

Early in the year, the Company held public “Open House” sessions to provide an opportunity for discussion on the 10 MW wind farm, which the Company proposes to construct at Lamberts, St. Lucy. The Company now awaits a response from the Town & Country Development Planning Office to its application for the wind farm. The Company has also started detailed discussions with the Cane Industry Restructuring Project for the supply of electricity into the grid from a proposed cogeneration plant which would utilize bagasse from the new sugar and ethanol processing facility that the Government proposes to commission at Bulkeley, St. George.

While both of the foregoing projects are important, neither would be sufficient to replace the significant quantity of oil that is used in electricity production. The Company was therefore very pleased when the Governments of Barbados and Trinidad & Tobago gave their blessing to the proposed undersea natural gas pipeline from Tobago to Barbados and work was able to proceed on the more detailed studies required for the financing and construction of this multi-million dollar project. The project, being undertaken by the Eastern Caribbean Gas Pipeline Company, is a complex one with many hurdles to overcome, but offers significant economic and environmental benefits to

Barbados and electricity customers.

### **Energy Efficiency**

Energy is a major cost to the economy, and the Company has been vigorous in its promotion of energy efficiency amongst all of its customers. In this regard, the Company conducted energy audits of several large hotels and made recommendations on the potential for energy savings. The Company's philosophy has long been that for it to be successful, its customers must be efficient in energy use, especially in the tourism business which is highly competitive in the Caribbean.

In its own operations, the Company's technical losses from the transmission and distribution of electricity, which for 2007 were about 6%, are among the lowest in the Caribbean and comparable to levels in well run utilities in Europe and North America.

### **A Tradition of Customer Service**

The Company has long been committed to continuously improving its service to customers. As the demand for electricity grows, and older plant and equipment nears the end of their economic and technical life, the Company is planning for new facilities to ensure that it can continue to meet the needs of its customers.

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Land was purchased for a new generating site at Trents, St. Lucy and the necessary planning permission was obtained after completion of a thorough Environmental Impact Assessment. Given progress on the project to import natural gas, and the increasing viability of this as an option over expensive oil, the Company has issued a request for tenders for a new 20,000 kilowatt gas turbine which will be used for intermediate and peaking duty in the short term. Should natural gas be imported, this unit will be ideally suited to operation on gas.

Work is also well advanced on the installation of new underground cables to connect the new generating station at Trents to the grid, as well as to interconnect the distribution substations located along the route. During 2007, ABB High Voltage Cables of Karlskrona, Sweden completed the installation of underground high voltage cables along Highway 2A from the electrical substation near St. Thomas Parish Church to North Substation at Maynards, St. Peter at a cost of approximately Bds\$37 million. These new underground transmission cables are designed to operate at 132,000 volts, but could be connected at 24,000 volts initially, until the full capacity is required. During 2008 ABB is expected to commence work on the connection between Maynards and Trents in time for the commissioning of the new generating unit at Trents in 2009. Significant work has also taken place with the completion of civil works for substation upgrades at St. Thomas and North substations and the installation of new indoor 24,000 volt and 11,000 volt switchgear to replace older outdoor switchgear at these locations.

With the ever present threat of storms and hurricanes, the Company installed ducts in and around the Bridgetown area

for underground high voltage transmission cables. The major projects include circuits between the Garrison and Belmont substations and Belmont and Marhill Street substations, as well as along Fontabelle.

The Royal Bank of Canada has provided financing for a portion of this expansion through a Bds\$25 million loan.

### **Information Technology - Driving Future Opportunities**

Rapid advances in information technology are driving tremendous changes in our society. The Company has embarked on a number of initiatives to provide enhanced customer service and improve reliability through the deployment of modern IT systems.

Perhaps the most significant project is the planned implementation of a new Customer Care & Billing system which is being supplied by SPL, a division of ORACLE, a large international software supplier. Months of design and testing have already been carried out and training is underway for launch of the new system in 2008.

The Company has been a leader in the use of Information Technology for its Distribution SCADA (Supervisory Control and Data Acquisition) system, which was installed in 1984 and has been upgraded with more modern technology on a number of occasions since. The Company is now installing a modern fiber optic network to provide a faster and more secure communication network with the electrical substations located throughout the island and to provide enhanced system control and protection. The Company will also be considering other advanced computerized technologies, including

advanced metering systems which would allow remote reading of meters at customer premises.

As our dependence on information systems increases, there is an increased need for disaster recovery and better computer security. The Company has therefore established an off-site backup for its Information Systems operations which would allow quick recovery in the event of failure at its main location.

**In the event of a disaster**

We are thankful that another hurricane season has passed without major event, and pray that we will continue to be spared the ravages of hurricanes. Hurricane Janet, which struck the island over 50 years ago in September 1955, was the last major hurricane to affect Barbados. Nonetheless, the potential for major loss is always present and the Company's Self Insurance Fund continues to be strengthened in the event a major storm does strike. Towards the end of 2007 we engaged a risk consultant to review the fund and make recommendations to ensure the continued security and solvency of the fund.

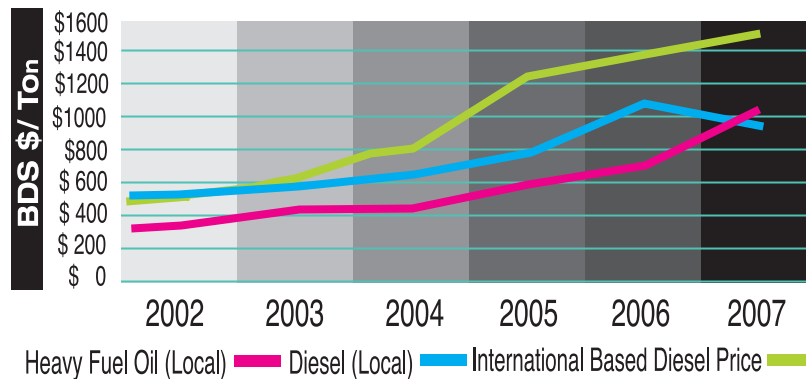
On the regional front, Hurricane Dean

lashed Dominica and Jamaica and also affected other islands. Over the years, the Company's linemen have participated in several regional hurricane recovery efforts, and stood ready to assist again, but help was not required on this occasion.

**Self Generation - A Growing Concern**

Of continued concern is self-generation by manufacturing customers who benefit from heavily subsidized diesel fuel. Indeed, by November 2007 the controlled price of diesel was below that of heavy fuel oil on the local market. As shown in the following chart, this is a substantial price distortion, as the international price of diesel is approximately 60% higher than heavy oil.

The Company uses very little diesel fuel in its operations, and has invested millions in efficient plant capable of operating on low grade heavy fuel oil. This diesel pricing policy has the unintended effect of undermining this investment, causing uneconomic substitution by customers operating small generating units on diesel fuel, and increasing the overall cost of fuel imports to the island. The Company believes that support to the manufacturing sector should be structured in other ways.



Heavy Fuel Oil and Diesel Prices 2002-2007

## **Preparations for a Rate Review**

Surveys conducted by the Caribbean Association of Electric Utilities (CARILEC) have placed electricity rates in Barbados amongst the lowest in the Caribbean, and while high international oil prices have affected the Fuel Clause Adjustment, there has been no increase in the basic price of electricity since 1983.

For the past few years the Company has come under increasing pressure as the cost of inputs, such as copper and aluminium, commodities required for the manufacture of transformers, overhead conductors and other items used in the generation and distribution of electricity have risen to record highs. In addition, existing residential rates are below cost of service, and rates for commercial customers are above cost. Some twenty manufacturers presently generate their own electricity, encouraged in large part by the subsidy on diesel fuel, but also because of the present rate structure. If this situation is allowed to continue it could be detrimental to the remaining customers who would bear the cost of maintaining the electricity plant and distribution network.

During 2007, the Company engaged Christensen Associates Energy Consulting, a consulting firm with extensive experience in utility rate making to assist in a comprehensive review of the existing rates and rate structures. It is anticipated that an application will be submitted to the Fair Trading Commission in 2008 for a review of the existing rates. The objective is to develop an approach that will give consumers efficient price signals about the true cost of electricity service and encourage energy efficiency, whilst providing the Company with sufficient revenue to operate and expand a reliable system.

The needs of low-income earners for a minimum amount of affordable electricity will also be taken into account in this exercise. Altogether, this is a significant undertaking and will take several months to complete.

At the same time we strive to maintain a high level of service to all our customers. The Fair Trading Commission issued its report on the Company's performance after the first full year since the implementation of the Service Standards. The Commission noted that compliance was high, and opportunities for compensation under the standards were few.

## **Our People - Our Strength**

We recognize that our success depends on our ability to attract and retain talented individuals, recognize their contribution and provide the environment in which they can be productive.

The team working on the Health, Safety, Environment & Quality (HSEQ) management system has made significant progress and continues to put in long hours to achieve its objective and communicate the importance of the new quality management system to all of its colleagues throughout the Company.

Our Environmental Health & Safety Officer worked closely with Government's Coastal Zone Management Unit and the Environmental Protection Department to coordinate reuse of old generator engine blocks, each weighing several tons, as moorings, instead of disposing of them at the dump.

Daily, our distribution teams travel hundreds of miles to various work sites across the island. They do so safely and courteously as they manoeuvre their large vehicles in and out of the heavy traffic that they meet on our roads.

Electricity cannot be readily stored and is delivered to our customers a fraction of a second after it has been produced. Our SCADA and generating plant operators are concerned every time the lights go out and work to resolve the problems that cause supply interruptions. Ensuring that all systems work in a coordinated manner requires a great deal of teamwork and their efforts have resulted in 2007 being one of the best years on record for system reliability.

We continue to build relationships with major stakeholders, and members of our team worked with the Government Electrical Engineering Department to present seminars and training sessions for the many electricians and electrical contractors to keep them informed of current standards and practices for electrical installations.

The Company also recognizes the importance of its partnership with the Union in fostering good labour relations and the need for a responsible union with the strength to play a wider role in society. In this regard, we were pleased that after several months of strong, but respectful negotiations we were able to reach agreement with the Barbados Workers' Union for a new three year agreement for employees in the operations area of the Company.

Many of our employees are also pursuing various diploma, degree and masters programmes. During the past five years, some 40 employees have successfully completed studies in areas such as electrical and mechanical engineering, business, accountancy, finance, human resource management, electrical power systems and a wide range of other subjects relevant to the Company's operations. We are also proud that our employees have taken leadership roles in their communities, churches, professional organizations and sports clubs. They are ambassadors for the Company.

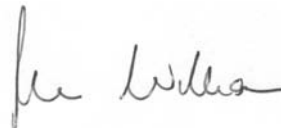
The Company continues to support and sponsor wholesome activities in our community to help our continued development as a nation. Perhaps the most meaningful contribution during the year was the donation of a specialized refrigeration unit for storage of blood at the Queen Elizabeth Hospital blood collection unit. Our relationship with the Blood Unit goes back almost 20 years and this donation was made possible through the generosity of many of our employees who are blood donors, supported by a matching contribution from the Company.

We were also very proud of our in-house steelband 'Reddy Panners', which reached the final of the National Independence Festival for the Creative Arts (NIFCA) and earned a Silver Award. This is one of several activities that the Company, together with its Employee Relations Council, encourages to foster excellent relationships amongst all members of staff.

### **Management Team**

Mr. Hartley Richards, Manager Corporate Services, retired on March 30, 2007 after 25 years with The Barbados Light & Power Company Limited. The Board of Directors wishes to place on record its appreciation for his leadership and dedicated service.

Thank you to all members of our team for their hard work during 2007 and their continued support.



Peter W.B. Williams  
Managing Director  
The Barbados Light & Power Co. Ltd.  
February 28, 2008