

Jamaica Public Service Company, Limited 1996

Chairman's Letter

Financial Performance in a Challenging Year

The financial performance of the Jamaica Public Service Company Limited (JPSCo) showed mixed results at the end of fiscal year 1995/96. The Company realized net operating profits of \$196 million, 17.5% more than the \$166.8 million recorded for 1994/95. The company has thus succeeded in arresting the rapid decline in net operating profits which was first evident in 1993/94, when net operating profit fell from \$1003 Million to \$833M. This, however, was not sufficient to move the after-tax performance out of the loss position recorded in the previous fiscal year. Notwithstanding this, there was some improvement in the loss position. An after tax loss of \$124 million recorded at March 1996 compares to a restated loss of \$140 million in the preceding fiscal year.

Expenses related to the June 1994 explosion at Old Harbour which destroyed the Unit No.4 boiler continued to put a severe drain on the Company's finances during 1995/96 and was a major contributing factor to the loss recorded. The other major factor contributing to the loss was the absence, for the second year running, of a tariff increase. Thus in the face of rising inflation even though the Company made a net operating profit this was insufficient to generate net after tax profits.

The improvement in operating profit and shrinkage of the after tax loss position compared with the previous year is testimony to the Company's management and staff who have successfully contained costs while meeting the growth in the electricity market and maintaining a reasonable quality of service. This is especially the case when one considers that a significant component of the increase in expenses in 1995/96 was redundancy charges totalling \$170.8 M. Such charges were not incurred in the previous year.

Focus on Efficiency

The process which culminated with an improvement in the Company's financial results began towards the end of 1994/95 with the establishment of an Efficiency Review Task Force. Continuing its work in 1995/96 the Task Force identified cost-cutting strategies which led to the following actions:

Realignment and re-grouping of the core operations of the Company which led to the reorganization of the company into six divisions.

- . Reduction in the staff establishment.
- . Rationalization of district administration into two regions instead of five areas.
- . Consolidation of 14 emergency dispatch centres into five.
- . Introduction of company-wide security systems to reduce the use of external security personnel.
- . Introduction of a flexible work week for janitorial staff in the power stations.
- . The establishment of an Organization and Methods Department to support the Company's on going efficiency improvement efforts.

The successful implementation of these strategies combined with the full participation and involvement of the workers and their unions signifies the good state of relations between management and workers in JPSCo.

Technical Achievements

By most measures, the company achieved satisfactory results in 1995/96 with respect to its technical operations.

Another private power project which is providing an additional 72 MW of capacity was completed and added to the JPSCo grid. The first cogeneration project was commissioned into operation. The project located at Braco Resorts can export up to 2 MW into the JPSCo grid.

Other efforts to supply reliable power and improve efficiency at the least economic cost included the continuation of our maintenance and rehabilitation programmes. Overhaul of Unit No. 1 at Old Harbour and technological upgrade of gas turbine (GT) No. 3 at Bogue and No. 5 at Hunts Bay were carried out resulting in improved heat rates and reduced outages in these units.

A number of additions were made to the transmission and distribution systems in response to increased demand in major areas of the island notably in New Kingston and the Freezone areas of Kingston and St. Andrew and in the west of the island in the Negril area.

Technological Upgrading

The upgrading of the Management Information System which was undertaken over the last three years, continued. The new General Ledger (GL) system was put into full operation and implementation of the new Customer Information Service (CIS) was advanced considerably. The new CIS should be completely installed in the coming fiscal year.

Facing the Future

The JPSCo anticipates that it will be privatized in the very near future. The selection of the company with which to conduct negotiations for purchase has been narrowed down to two contenders. In tandem with divestment, the utility will come under the supervision of the Office of Utility Regulation (OUR) which is now being established. Work on defining the new regulatory framework is also in progress.

We have over the past 3 1/2 years been managing the company without rate increases. In the coming year, the company expects to focus on further improvements in all areas of operation in order to increase revenues, reduce operating, capital and fuel costs and to minimize its financing charges in an effort to further improve the profitability of the Company.

To achieve this goal, we will continue to rely on the expertise, dedication and commitment of our employees.

Gordon Shirley
Chairman of the Board
