Jamaica Public Service Company, Limited 1997

Chairman's Report

The financial year ended March 31, 1997 may best be described as the beginning of a transition to sustainable levels of efficiency comparable to international standards, tariffs based on these efficiencies and a reasonable rate of return to our investors.

In plotting the way forward, a new beginning was necessary. Further to extensive deliberations on privatization and an independent review of operations, it became evident that the carrying value of the company's plant in service was overstated; that management's expectations of recovering purchased power costs by way of a tariff adjustment would not be realized and that recovery from insurers of claims associated with the Old Harbour explosion of 1994 and damages to a gas turbine at Hunts Bay were at best doubtful. The net loss of $2.5 billion reported for the year reflects these adjustments.

For comparative purposes, operating revenue of $9.9 billion in 1997 represents a 19.3% increase over the reported 1996 revenue adjusted for un-recovered purchased power costs of $1.5 billion. This was achieved while holding the tariff constant.

The company continued its expansion of generating capacity through Independent Power Producers (IPPs) in 1997. IPP capacity, computed in terms of months, was 108% higher in 1997 than that provided in 1996. This resulted in an increase of 112% (i.e. $830 million) in the related cost over 1996. The increase, however, did not contribute proportionately to increased revenue as the additional capacity supplied exceeded the required demand and the reserve margin needed for the system. Expansion in this manner is normal and necessary to accommodate future growth without disruption of service. The increase in purchased powers capacity costs together with a 21% increase (i.e. $404 million) in operating costs accounted substantially for a $1.5 billion increase in total operating costs over 1996. Claims against insurers written off accounted for a further $0.9 billion of the losses incurred in 1997. The carrying value of the company's net plant in service was written down by $10.4 billion (i.e. by 43%) further to a valuation by independent valuators.

Therefore on close scrutiny of the 1997 performance, it will be observed that the loss of $2.5 billion was caused by adjustments needed to put the company on a sure footing. The adjustments and their implications for reported performance were painful but necessary.

Against this background the company's shareholders have contractually mandated the management, commencing April 1, 1997, to improve the company's operating and financial performance within the framework of a fixed tariff over a three-year period.

The process of establishing a solid foundation for growth and profitability is well underway but not yet completed. Further changes are yet to be made in other critical areas of the company's operations and will require tough decisions.

A new JPSCo. is being created to meet the 21st century. In this context, the company is committed to providing quality service to our customers at reasonable rates. We are confident in our efforts to control costs, improve efficiency and generate a reasonable return over time for our shareholders.

I would like to recognize the contribution and support of our Managing Director and the Members of the Board at this critical point in the company's development. To each of the over two thousand employees of the company, let me express my thanks for your commitment and for sharing in this vision of a new JPSCo.

Gordon Shirley, Chairman of the Board
October 12, 1998