

# Jamaica Public Service Company, Limited 1997

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## Notes to the Financial Statements

31 March 1997

### 1. Regulation

The company operates under an exclusive thirty-nine year All-island Electric Licence granted on 31 August 1978. Under the provisions of the licence the operations of the company are subject to regulation by the Minister of Mining and Energy (through the Office of Utility Regulation established pursuant to the Office of Utility Regulation Act, 1995) with power and authority to require observance and performance by the company of its obligations under the licence, and to regulate the rates charged by the company.

### 2. Ownership

The Government of Jamaica is the owner of approximately 99% of the issued ordinary share capital of the company, through the Electricity Authority and the Accountant General.

### 3. Summary of Significant Accounting Policies

The records of the company are maintained in accordance with the Companies Act, the licence and the directives of the Minister and, where the Companies Act, the licence and the directives of the Minister allow, in accordance with the regulations prescribed for Public Utilities by the Federal Energy Regulatory Commission of the United States.

(a) Utility plant and depreciation

In accordance with the licence, utility plant and replacements of retirement units of property are capitalized and include direct labour, materials, indirect charges for administration, transportation and similar items, reduced by non-refundable contributions-in-aid of construction. The company capitalizes an allowance for funds used during construction based on its average cost of funds. Replacement of minor items of property are included in maintenance expenses. The replacement cost of depreciable units of plant retired is eliminated from utility plant accounts and such value plus removal expenses, less salvage, is charged to accumulated depreciation.

As permitted by the All-island Electric Licence 1978, the company computes the replacement value of substantially all of its equipment, using United States industry indices for equipment purchased from abroad, adjusted where applicable to reflect devaluations of the Jamaican Dollar, and indices for local costs, as of the period end dates. The net increment or decrement as a result thereof is reflected in capital reserve.

In accordance with the licence, depreciation of utility plant is computed using a straight line basis on the replacement cost of such assets in service at the beginning of each month. The rates used are in accordance with the licence. The composite rate of depreciation during the year was approximately 4% (1996- 4%).

(b) Materials and Supplies

These include construction materials, fuel stocks, meters, transformers and energy-efficient lamps and are stated at average cost.

(c) Revenue, receivables and unbilled revenue

Revenue consists of cycle billings rendered to customers monthly or bi-monthly with an accrual for revenue earned but billed subsequent to the end of the period. Receivables represent the amounts due from customers for billed services less a provision for doubtful accounts. Unbilled revenue represents the accrual for electricity supplied prior to the year end which is to be billed subsequently.

(d) Deferred expenditure

(i) Debt discount and expenses include issue expenses, commitment fees and similar items which are being amortised over the lives of the loans to which they relate.

(ii) Restoration costs and consequential losses consisted of the additional expenditure incurred in restoring plant and the additional cost of fuel consumed respectively resulting from the explosion on 3 June 1994 and were net of insurance proceeds received to date. At 31 March 1996, the restoration was substantially completed and the balances on this account in respect of replacement costs and the related insurance proceeds were allocated to utility plant and transferred to capital reserve respectively (Notes 7 & 14).

(iii) Other consists of costs which are expected to benefit future periods; these are deferred and are either amortized over their expected periods of benefit, transferred to plant and equipment or charged against income as appropriate.

(e) Foreign exchange translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing on the balance sheet date. Any losses or gains not forming part of the revaluation are reflected in income.

(f) Taxation

Taxation is only recorded if taxable income results from computations made in accordance with Note 6(a). No charges or credits for deferred taxation are recorded.

(g) Pension costs

Pension costs are charged to expense to the extent of actual company contributions payable based on a percentage of employee pensionable earnings (Note 18).

4. Purchase of Power

The company has entered into agreements with private power companies for the purchase of capacity and net energy output.

The major private power companies who have agreed to supply the company with electricity and the contract termination dates are:

- Kes Jamaica LP (KES) - September 1997
- Jamaica Energy Partners (JEP) - October 2014
- The Jamaica Private Power Company Limited (JPPC) - October 2014

All agreements are subject to termination prior to the contract dates upon the occurrence of certain events of default as specified in the said agreements.

The agreements with JEP and JPPC are renewable for additional periods provided the parties seeking the extensions shall have given written notice not less than five years nor more than six years prior to the end of the initial terms.

#### 5. Exceptional Items

	1997	1996
Fuel over-recovery credited to income	1,985,721	-
Deferred purchased power costs written off	(1,985,72)	-
Write-off of insurance claim for damage to gas turbine #10 at Hunts Bay Power Station	( 80,285) ( 80,285)	- -

At 31 March 1997 the amount over-recovered by the company and refundable to customers under the fuel clause of its tariff structure was \$2,008,203,000. Of this amount, the sum of \$1,985,721,000 has been credited to income as the Minister, in accordance with Cabinet Decision No. 9/98 dated 3 March 1998, has approved its retention by the company and the set-off against it of deferred purchased power costs of a similar amount unrecovered from customers.

6. Taxation

(a) The principal differences in computing the results for accounting purposes and the taxable profit are:

- (i) investment allowances equivalent to 20% of the cost of the additions to plant and expenditure incurred on capital additions or improvements charged to construction work-in-progress are claimed for tax purposes;
- (ii) tax depreciation is significantly less than depreciation charged against profit;
- (iii) the allowance for funds used during construction is not included in the profit for tax purposes nor is the allowance included in the written down value of fixed assets for tax purposes;
- (iv) preference dividends are deductible for tax purposes; and
- (v) interest is claimable for tax purposes when paid instead of when charged.

(b) Taxation is based on the results for the year adjusted for taxation purposes and comprises:

	1997 \$'000	1996 \$'000
Income tax at 33 1/3%	-	86,327
Special tax credit arising from issue of bonus shares	-	
Prior year underprovision		(21,582)
	<u>12,246</u>	<u>-</u>
	12,246	64,745

The special tax credit claimed in 1996 was based on a bonus issue of shares amounting to \$86,327,000 in October 1996.

(c) Taxation losses available for offset against future taxable profits, subject to agreement by the Commissioner of Income Tax, amounted to \$ 1,475,720,000 at 31 March 1997 (1996 - \$Nil).

7. Extraordinary Item

	1997 \$'000	1996 \$'000
Write-off of restoration costs and consequential losses relating to Old Harbour explosion (Note 14)	869,633	-

8. Capital Reserve

	1997 \$'000	1996 \$'000
Balance at Beginning of Year	13,870,537	10,894,502
Net increment on revaluation of utility plant to replacement value (Note 3(a))	260,133	4,453,111
Net decrement on revaluation of utility plant by Stone & Webster	(10,449,370)	-
Net foreign exchange gains/(losses)	1,818,446	(601,920)
Transfer to revenue and expenses of incremental depreciation	(1,197,317)	(891,369)
Incremental write down of fixed assets due to rehabilitation	(389,646)	-
Grant from the Global Environmental Trust Fund in respect of the Demand Side Management Project	15,226	16,213
Balance at End of Year	<u>3,928,009</u>	<u>13,870,537</u>

An appraisal of the company's Utility Plant in Service was conducted as of 31 March 1997 by Stone & Webster Management Consultants Inc. of Boston, Massachusetts in the United States of America. The appraisal assumes that the value of the fixed assets is that amount that can be supported by future economic value (the capitalized earnings approach) and took into consideration future revenues, operating expenses, identifiable capital expenditures, existing financing and existing government policy. This amount so derived has been treated as the company's net carrying value and the gross amounts and accumulated depreciation have been computed by reference to the estimated useful lives and the remaining useful lives of the assets, as also estimated by Stone & Webster.

The resultant reduction in net carrying amount of the assets has been debited to revaluation of utility plant and included in capital reserve.

The transfer to revenue and expenses represented that portion of depreciation expense that arose from general inflation excluding the effects of currency fluctuations.

#### 9. Retained Earnings

	1997 \$'000	1996 \$'000
Balance at beginning of year	4,022,413	3,255,237
Transfer (to)/from Revenue and Expenses	<u>(1,410,407)</u>	<u>767,176</u>
Balance at end of year	2,612,006	4,022,413

#### 10. Long Term Receivable

In June 1995, the company converted loans and interest of \$308,736,000 and utility billings of \$335,264,000 owed by the National Water Commission to three promissory notes from the Government of Jamaica with interest at the average yield rate applicable to Government of Jamaica average 6 month Treasury Bill tender plus 1/2% to 1 1/2%. Two notes in the amounts of \$161,000,000 and \$322,000,000 were outstanding at 31 March 1996 and were repaid during the year.

	1997	1996
	\$'000	\$'000
Long-term receivable	-	187,834
Long-term receivable due within one year	<u>-</u>	<u>295,167</u>

11. National Housing Trust

This consists of contributions to the National Housing Trust up to 31 July 1979, which are, under the National Insurance Amendment Act 1976, refundable in the years 2001-2004.

12. Cash and Short Term Deposits

This includes cash restricted for use of approximately \$102,694,000 (1996 - \$108,019,000).

13. Receivables

Included in receivables are deposits held on behalf of the company's pension scheme amounting to \$78,481,000 (1996 - Nil). The liability to the pension scheme is reflected in payables.

14. Deferred Expenditure

Restoration Costs and Consequential Losses:

On 3 June 1994, there was an explosion at the Old Harbour Station which caused severe damage to Units 3 and 4, auxiliary plant equipment, the main store building and the chemical and water treatment laboratory.

Unit 3 was restored and recommissioned into service in December 1994. The Unit 4 boiler, which suffered irreparable damage was replaced and recommissioned into service in January 1996.



Costs incurred were as follows:

	1997 \$'000	1996 \$'000
Material damage	-	1,630,810
Consequential loss	-	<u>1,311,830</u>
	-	2,942,640
Less insurance proceeds received	-	<u>2,073,007</u>
	-	<b><u>869,633</u></b>

In September 1995, the company reached agreement with its insurers on a settlement of approximately US\$72 million based on a recommendation by the loss adjusters. The insurers have paid US\$56.5 million and an action has been filed for the remainder since certain insurers are denying liability (Note 22). The remainder, amounting to US\$15.5 million has been written off due to the uncertainty surrounding its recoverability (Note 7).

#### 15. Share Capital

	Issued and Fully Paid		
	Authorised Capital \$'000	1997 \$'000	1996 \$'000
Cumulative Preference Shares			
7% Shares "B" of \$2 each	1,133	841	841
5% Shares "C" of \$2 each	133	133	133
5% Shares "D" of \$2 each	2,098	1,359	1,359
6% Shares "E" of \$2 each	1,027	600	600
Ordinary Stock Units of 50¢ each	157,867	157,867	71,540
Ordinary Shares of 50¢ each	<u>483,481</u>	<u>483,481</u>	<u>357,031</u>
	<b><u>645,739</u></b>	<b><u>644,281</u></b>	<b><u>431,504</u></b>

At the company's annual general meeting held on 26 September 1996, the following ordinary resolutions were passed:

- (a) To increase the authorised share capital of the company by the creation of 323,201,000 ordinary shares at a par value of \$0.50 per share, having a total value of \$161,600,500. These new shares are to rank pari-passu in all respects with the existing ordinary shares of the company.
- (b) To capitalise the sum of \$86,327,000 from retained earnings by means of a bonus issue of shares to all holders of ordinary shares on record at 11 October 1996.
- (c) To capitalise the sum of \$126,450,000, being equity advances by the Government of Jamaica. This was applied to the issue of 252,900,000 fully paid up ordinary shares of \$0.50 to the Accountant General on behalf of the Government of Jamaica (Note 16).

The ordinary shares issued as bonus shares were subsequently converted to stock units.

#### 16. Equity Advances

These represented funds contributed by the Government of Jamaica which were converted to shares during the year (Note 15).

	1997 \$'000	1996 \$'000
Free Zone substation	-	10,734
Rural Electrification Programme	-	115,716
	<u>-</u>	<u>126,450</u>

17. Long Term Debt

		1997	1996
	Source		
	Currency	\$'000	\$'000
Secured:			
First mortgage sinking fund registered debenture stock 11 1/8% Series "Q" due 2003	J\$	<u>611</u>	<u>705</u>
		<u>611</u>	<u>705</u>
Loans from International Bank for Reconstruction and Development (World Bank):			
No. 2188-JM, 11.6% due through 1999	US\$	279,412	494,894
No. 2869-JM, 6.94% (var.) due through 2004	US\$	367,909	526,117
No. 3502-JM, 6.94% (var.) due through 2009	US\$	579,048	718,684
No. 3944-JM, 5.79% (var.) due through 2010	US\$	<u>351,642</u>	<u>17,107</u>
		<u>1,578,011</u>	<u>1,756,802</u>
Term Loans:			
Government of Jamaica 5% Rural Electrification due through 2016	US\$	296,020	469,144
Back Rio Grande 7% due through March 1998	US\$ & J\$	3,143	4,401
Italian Exim Bank 1.77% due through 2007	US\$	46,426	57,785
Inter-American Development Bank No. 605 OC-JA 6.76% (var.) due through 2011	US\$	2,391,089	2,253,183
Inter-American Development Bank No. 738 OC-JA 6.76% (var.) due through 2018	US\$	300,700	272,145
Kreditanstalt fur Wiederaufbau of Frankfurt/Government of Jamaica 7% due through 2003	DM & J\$	66,582	110,028
Kreditanstalt fur Wiederaufbau of Frankfurt/Government of Jamaica No. 93-65 941 4.5% due through 2015	DM&J\$	6,354	
The OPEC Special Fund 4.0% due through 2003	US\$	10,352	19,738
The Overseas Economic Co-operative Fund 5.75% due through 2008	Japanese Yen	1,760,474	2,496,668
Jamaica Export Credit Insurance Corp. Ltd 2.5%			

due through 1997	US\$	10,116	22,786
Meccania Finanziaria International SA, 9.47%			
due through 1998	US\$	55,131	94,352
Meccania Finanziaria International SA, 9.65%			
due through 1999	US\$	34,931	55,794
Meccania Finanziaria International SA, 9.24%			
due through 2001	US\$	57,079	81,400
Meccania Finanziaria International SA, 9.73%			
due through 2003	US\$	131,175	199,551
Meccania Finanziaria International SA, 7.48%			
due through 2003	US\$	42,351	48,321
Societe Generale 5.79% (var.) due through 2001	US\$	560,589	620,768
European Investment Bank 4% due 1998			
through 2010	US\$	258,342	235,756
Dehring Bunting & Golding variable rate due			
through 1997	US\$	-	192,081
Caribbean Development Bank/Rural			
Electrification 2% due 2000 through 2004	US\$	178,361	132,701
		<u>6,209,215</u>	<u>7,366,602</u>
Total long-term debt		7,787,837	9,124,109
Less: Current portion of long-term debt (Note 17(d))		803,937	823,868
		<b><u>6,983,900</u></b>	<b><u>8,300,241</u></b>

- (a) Unless otherwise stated, interest rates are fluctuating and are based on prevailing North America or Eurodollar rates at 31 March 1997.
- (b) Total long-term debt maturing in the years 1998 through 2002, based on amounts outstanding at 31 March 1997, is as follows:

	\$'000
1998	803,937
1999	1,059,436
2000	970,957
2001	851,420
2002	728,125

(c) Government of Jamaica - Rural Electrification Loan

This loan represents the on-lending of funds received by the Government from the Inter-American Development Bank to the company through Rural Electrification Programme Limited for rural extension work.

(d) Repayments

As required by Government regulations, the company paid on the due dates during the period to the Bank of Jamaica the Jamaican dollar equivalent of the payments due under its foreign loan agreements. All payments were remitted by the Bank of Jamaica at 31 March 1997 and 31 March 1996.

(e) In September 1993, the company entered into a five-year interest rate swap transaction with Citibank N.A. Jamaica in order to reduce the interest cost on its 11.6% fixed rate World Bank loan No 2188-JM, which matures in 1999. The loan balance as at 31 March 1997 was US\$5,783,041 (1996 US\$8,116,121).

Pursuant to this transaction, the company will pay to Citibank an interest rate based on six month LIBOR and will receive from Citibank the lower of 4.90% or the difference between 9.8% and six month LIBOR on a notional amount equivalent to the principal owing to the World Bank on the above mentioned loan. However, because of rising interest rates in the U.S., the net effect of this transaction during the year was an additional cost of US\$144,296 (1996- US\$146,945).

## 18. Pension Plan

The company's pension plan requires company contributions determined as a percentage of pensionable earnings of employees with employers being required to contribute a like amount. Such contributions, which are actuarially determined, provide for current costs and amortization of prior service costs over thirty years.

The preliminary actuarial valuation carried out as at 31 December 1992 revealed that the plan was adequately funded.

In the year to 31 March 1997 the company's contributions amounted to \$66,692,000 (1996 - \$44,901,000).

19. Statutory Disclosures

	1997 \$'000	1996 \$'000
Directors' emoluments		
Management remuneration	4,389	2,446
Pension to former directors	82	82
Auditors' remuneration		
Current year	5,000	4,450
Prior year underprovision	<u>100</u>	<u>-</u>

20. Commitments

(a) Commitments for capital expenditure at 31 March 1997 totalled approximately \$204,421,000 (1996- \$521,569,000).

(b) The company has lease commitments as follows:

	\$'000
1998	18,204
1999	9,056
2000	4,734
2001	<u>601</u>

(c) The company has power purchase commitments for capacity as follows:

	US\$'000
1998	37,326
1999	35,222
2000	36,777
2001	39,908
2002	<u>39,540</u>

21. Exchange Rates

The rate of exchange against the US dollar ranged between J\$40.10 and J\$34.71 during the year.

22. Contingency

A writ has been filed against International Insurance Brokers Limited and Compagnie Transcontinentale de Reassurance to recover the amount of US\$15,454,000 on the grounds that the brokers failed to exercise reasonable care, skill and professionalism in the performance of their duties. Any recoveries will be credited to Revenue and Expenses when received.

23. Subsequent Event

- (a) The company has entered into a five-year performance contract with the National Investment Bank of Jamaica (as agent of the Government of Jamaica) effective 1 April 1997. This contract specifies various financial and non-financial performance targets and a tariff structure applicable for the first three years of the contract.
- (b) As stated in Note 3, the records of the Company are maintained in accordance with the Companies Act, the licence and directives of the Minister, and where the Companies Act, the licence and directives of the Minister allow, in accordance with regulations prescribed for Public Utilities by the Federal Energy Regulatory Commission (FERC) of the United States.

In respect of Plant in Service, the Minister has approved for use as of 1 April 1997 an expansion of the Schedule to the All Island Electric Licence granted on 31 August 1978 to identify the Retirement Units to be used for the purposes of depreciation. The Minister has also approved the use by the Company of the remaining useful lives of the assets as determined by Stone and Webster as the basis for depreciating the adjusted values of the assets from 31 March 1997 onwards.

(c) As of 1 January 1998 FERC issued a new rule on retirement units, permitting companies to maintain their own catalogue of Retirement Units. This rule amends part 116/216 of the Uniform System of Accounts, under which companies in the United States were required to use the prescribed list of retirement units, although the standard list could be broken up into smaller units. This change is not inconsistent with the expanded schedule to the licence approved by the Minister.

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