Jamaica Public Service Company, Limited 1998

NOTES TO THE FINANCIAL STATEMENTS

31 March 1998

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.

   In addition, the company has entered into a five year performance contract with the National Investment Bank of Jamaica Limited (as agent of the Government of Jamaica) effective 1 April 1997. The contract specifies various financial and non-financial performance targets.

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 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.

These financial statements have been prepared under the historical cost convention as modified by the revaluation of utility plant in service and are stated in Jamaican dollars unless otherwise identified.

(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 revalues 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.

With effect from 1 April 1997, an expansion was approved of the Schedule to All-island Electric Licence granted 31 August 1978 to identify retirement units to be used for the purposes of utility plant accounting. A revised schedule of remaining useful lives as determined by Stone and Webster (note 8) was also approved as the basis for depreciating the adjusted values of the assets existing as at 31 March 1997. The revised useful lives do not apply to plant additions subsequent to 31 Marrh 1997. The depreciation rates specified in the licence continue to apply to such additions. 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% (1997 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) Other consists of costs which are expected to benefit future periods; these are deferred and are either amortised 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 19).

4. PURCRASE 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

	1998 $'000	Restated 1997 $'000
Deferred purchased power costs written off	-	(867,025)
Write-off of insurance claim for damage to gas turbine #10 at Hunts Bay Power Station (Note 23(c))	-	(80,285)
	-	(947,310)

Fuel over-recovery and deferred purchased power costs at 31 March 1997 have been adjusted to take into account the fuel component of purchased power costs. This is based on a determination that the fuel clause of the company's tariff structure provides that all fuel used in the generation of electricity including that used by independent power producers be taken into account in arriving at fuel over or under-recovery. Fuel costs amounting to $1,118,696,000 incurred by independent power producers have been deducted from both the fuel over-recovery and deferred purchased power costs as previously reported at 31 March 1997. This restatement has no net effect on either the Balance Sheet at 31 March 1997 or the Statement of Revenue and Expenses for the year then ended.

At 31 March 1997, deferred purchased power costs unrecovered from customers were written off and an equivalent amount of fuel over-recovery payable to customers was credited to income pursuant to Cabinet Decision No. 9/98 dated 3 March 1998. By resolution dated 16 December 1998, Parliament recommended that a full rebate of the fuel over-recovery be made to customers.

The financial statements for the year ended 31 March 1997 have been restated to reflect the Parliamentary Resolution. The effect of this restatement is as follows:

(i) Payables as reflected in the Balance Sheet at 31 March 1997 have increased by $867,025,000 and retained earnings reduced by the same amount.

(ii) The net loss, as reflected in the Statement of Revenue and Expenses for the year then ended, has increased by $867,025,000.

6. TAXATION

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

	1998	1997
	$'000	$'000
Prior year underprovision	-	12,246

(b) Taxation losses available for offset against future taxable profits, subject to agreement by the Commissioner of Income Tax, amounted to $4,752,504,000 at 31 March 1998 (1997 (restated) - $2,342,745,000).

(c) 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.

7. EXTRAORDINARY ITEM

	1998 $'000	1997 $'000
Write-off of restoration costs and consequential losses relating to Old Harbour explosion.	-	869,633

Included in the above write-off was an amount equivalent to US$15.5 million that the company had sought to recover from its insurers (Note 23(c)).

8. CAPITAL RESERVE

	1998 $'000	1997 $'000
Balance at Beginning of Year	3,928,009	13,870,537
Net increment on revaluation of utility plant to replacement value (note 3(a))	876,772	260,133
Net decrement on revaluation of utility plant by Stone & Webster	-	(10,449,370)
Net foreign exchange (losses)/gains	(106,329)	1,818,446
Transfer to revenue and expenses of incremental depreciation	(692,230)	(1,197,317)
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	29,249	15,226
Balance at End of Year	4,035,471	3,928,009

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 assumed that the value of the fixed assets is that amount that can be supported by future economic value (the capitalised earnings approach) and took into consideration future revenues, operating expenses, identifiable capital expenditures, existing financing and existing Government policy. The amount so derived was treated as the company's net carrying value and the gross amounts and accumulated depreciation were 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 was charged to capital reserve.

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

9. RETAINED EARNINGS

	1998	Restated 1997
Balance at beginning of year:		
As previously stated	2,612,006	4,022,413
Prior year adjustment (note 5)	(867,025)	-
As restated	1,744,981	4,022,413
Transfer to Revenue and Expenses	(1,346,032)	(2,277,432)
Balance at end of year	398,949	1,744,981

10. NATIONAL HOUSING TRUST

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

11. CASH AND SHORT TERM DEPOSITS

This includes cash restricted for use of approximately $63,564,000 (1997 - $102,694,000).

12. RECEIVABLES

These are shown net of a provision for bad debts of $214,905,000 (1997 - $167,641,000).

13. NOTE RECEIVABLE

This represents a promissory note from the Government of Jamaica in respect of outstanding utility billings due from various Government ministries and departments. The promissory note bears interest at one percentage point above the yield applicable to Government of Jamaica Six Month Treasury Bills and is repayable in two equal instalments in June and December 1998.

14. SHARE CAPITAL

	Authorised Capital	Issued and Fully Paid 1998	Issued and Fully Paid 1997
	$'000	$'000	$'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 50c each	157,867	157,867	157,867
Ordinary Shares of 50c each	483,481	483,481	483,481
	645,739	644,281	644,281

15. EQUITY ADVANCES

These represent funds contributed by the Government of Jamaica in respect of the Rural Electrification Programme which are to be converted to shares.

16. LONG TERM DEBT

	Source Currency	1998 $'000	1997 $'000
Secured:			
First mortgage sinking fund registered debenture stock 11 1/8% Series "Q" due 2004	J$	517	611
		517	611
Loans from International Bank for Reconstruction and Development (World Bank):			
No. 2188-JM, 11.6% due through 2000	US$	167,099	279,412
No. 2869-JM, variable, due through 2004	US$	319,714	367,909
No. 3502-JM, variable, due through 2010	US$	572,337	579,048

	Source Currency	1998 $'000	1997 $'000
No. 3944-JM, LIBOR + 0.5% due through 2010	US$	419,615	351,642
		1,478,765	1,578,011

	Source Currency	1998 $'000	1997 $'000
Term Loans:			
Government of Jamaica/Rural Electrification Programme, 5% due through 2016	US$	283,883	296,020
Back Rio Grande 7% due through March 2000	US$ & Js	1,886	3,143
Italian Exim Bank 1.77% due through 2007	US$	43,937	46,426
Inter-American Development Bank No. 605 OC-JA, variable, due through 2011	US$	2,665,467	2,391,089
Inter-American Development Bank No. 738 OC-JA, variable, due through 2018	US$	327,407	300,700
Kreditanstalt fur Wiederaufbau of Frankfurt/Government of Jamaica 7% due through 2003	DM &J$	43,293	66,582
Kreditanstalt fur Wiederaufbau of Frankfurt/Govemment of Jamaica No. 93-65-941, 7% due through 2015	DM&J$	13,347	6,354
The OPEC Special Fund, 4.0% due through 2003	US$	3,541	10,352
The Overseas Economic Co-operative Fund, 5.75% due through 2008	Japanese Yen	1,554,827	1,760,474
National Export - Import Bank of Jamaica Ltd., 2.5% due through 1999	US$	2,902	10,116
Meccania Finanziaria International SA, 9.47% due through 2000	US$	28,697	55,131
Meccania Finanziaria International SA, 9.65% due through 1999	US$	21,818	34,931
Meccania Finanziaria International SA, 9.24% due through 2000	US$	44,570	57,079
Meccania Finanziaria International SA, 9.73% due through 2003	US$	91,039	131,175
Meccania Finanziaria International SA, 7.48% due through 2003	US$	44,089	42,351
Societe Generale, LIBOR + 0.25% due through 2001	US$	431,351	560,589
European Investment Bank,			

4% due 1998 through 2010	US$	273,041	258,342
Citibank N.A., LIBOR+3.65% due through 2000	US$	124,991	-
Caribbean Development Bank/Rural Electrification Programme, 2% due 2002 through 2025	US$	235,297	178,361
Bank of Nova Scotia Jamaica Limited, 31% due through 2001	Js	350,000	-
The Republic Bank of Trinidad/Canadian Imperial Bank of Commerce, 10.25% (var.) due through 2000	US$	546,757	-
		7,132,140	6,209,215
Total long-term debt		8,611,422	7,787,837
Less: Current portion of long-term debt		1,259,828	803,937
		7,351,594	6,983,900

(a) The variable interest rates at 31 March 1998 were as follows:

(i)	World Bank	6.50%
(ii)	LIBOR	5.70%
(iii)	Inter-American Development Bank	6.60%

(b) Total long-term debt matures as follows:

	$'000
Year ending 31 March 1999	1,259,828
2000	1,392,096
2001	1,257,551
2002	871,650
2003	790,629
2004 and beyond	3,039,668

(c) 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 1998 and 31 March 1997.

(d) 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 1998 was US$3,449,961 (1997 - US$5,783,041).

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$97,751 (1997 - US$144,296).

17. BANK OVERDRAFT AND SHORT TERM LOANS

The bank overdraft and short term loans are secured by a letter of undertaking from the Government of Jamaica.

18. PAYABLES

Included in payables is an amount of $1,624,184,000 (1997 (restated) - $889,507,000) refundable to customers under the fuel clause of its tariff structure (Note 23(b)).