

## Director's Report to Shareholders for the Period Ended 30th June 2011

The Directors are pleased to report on the unaudited results for the Company for the half year ended June 30, 2011.

The operating environment continued to present challenges, despite the Government's expectation of a return to positive economic growth based on the recent 2010/11 budget presentation.

As a result of gradually increasing fuel prices the monthly Fuel Surcharge Cost Adjustment Factor averaged EC\$0.08 per unit for the period compared to a tariff reduction averaging EC\$0.28 during the same period in the previous year.

### Results of Operations

Total revenue of EC\$138.3M registered an increase of 27.2% over the EC\$108.7M registered in the same period in the previous year. This was largely attributable to the increased sales and higher average tariffs.

Sales growth registered an increase of 8.1% over the previous year. The Domestic sector improved by 9.3%, the Commercial sector by 7.4%, Hotel sector by 11.4% and Streetlights by 2.0%. The Industrial sector registered a decline of 2.4%.

The year to date increase reflected customer base growth, the positive impact from Saint Lucia Jazz Festival, the ICC World 20/20 cricket tournament and generally improved tourism performance. Sales for the period were also impacted by the unusually high ambient temperatures and drought conditions that persisted early in the year which created additional demand for cooling and use of other electrical equipment and appliances. It is expected that this rate of growth will decline in the remainder of the year though an overall positive trend is expected to continue.

Gross profit of EC\$39.5M, recorded an increase of 3.9% over last year's position of EC\$38.0M. Profit before tax was EC\$22.3M, an increase of 8.3% over the corresponding period last year of EC\$20.6M, all as a direct result of the increased sales.

Overall, results are ahead of expectations and developments will be monitored over the remainder of the year so as to ensure that the general trend remains for that period.

### Technical Operations

With the official start of the 2010 Atlantic Hurricane Season on June 1, 2010 the Company reviewed all emergency plans in an effort to ensure that it is in a state of preparedness for what has been forecasted to be a very active season.

System reliability performance to date is 2.99 hours and slightly higher than the same period in 2009 (2.96 hours) this will be monitored more closely now that we are in the hurricane season.

A new peak demand of 59.0 MW was recorded on June 28, 2010. Continuing high ambient temperatures are driving increased use of air conditioning and other cooling equipment resulting in increased demand on the system.

The year to date fuel efficiency was 4.28 kWh per litre, which is lower than the 4.40 kWh per litre achieved in the same period last year. The decrease was experienced because of the unexpected higher demand loads which required the Company to increase the use of the less efficient generating units in an effort to meet the demand for power. There were some planned and unplanned generator plant outages during the period under review.

System losses recorded at 9.84% at the end of the period were up from the 8.94% recorded in the same period last year, partly reflecting the significant increase in load growth. A complete review of the operating regime of the system is currently in progress in an effort to identify other possible causes so as to bring this figure back in line with the anticipated year end position of 9.0%.

## STRATEGIC INITIATIVES

### Generation Expansion and Alternative Energy

The evaluation process continued during the quarter with regard to the provision of new generating capacity estimated to be required by 2013. A suitable location has been identified in the south of the island and negotiations aimed at securing the property are ongoing. Analysis on other related matters such as the optimal fuel source, generation mix including renewables, required capacity, tariff impact and funding requirements are ongoing.

The Company is also evaluating other potentially suitable sites for its Wind farm as part of its fuel diversification initiative aimed at reducing the country's fuel import bill and more importantly protection of the environment.

Both the Government and the Company made contractual advances with UNEC for the development of the geothermal resource in Soufriere.

The Company has also been in dialogue with the Government and other relevant parties to further explore the potential for conversion of Waste to Energy on the island.

### Fuel Price Hedging

The Company's strategic objective of reduced volatility, price stability and higher level customer care continued to be met during the period under review as a result of the hedging of fuel prices. During the period under review 75% of monthly fuel purchases were being hedged and based on the results achieved so far the Board approved the extension of the programme to December 31, 2011.

### Automated Metering Infrastructure

Following a meeting with the local standards board the Company is optimistic that the delays in the further rollout of the Automated Metering Infrastructure (AMI) due to local certification issues will be resolved. Results from the meters installed so far have confirmed the efficiencies and benefits associated with this system for both customers and the company.

## Distribution Automation

Rollout of the installation of Distribution Automation (DA) equipment has continued and is providing positive results. It has allowed for more efficient system operations particularly in the area of outage management. It is also reducing staff and equipment costs through the remote management of the system.

## Customer Information System

Funding approval for the Customer Information System (CIS) implementation was given by the Board, and the various aspects of the implementation plan, such as contract execution, project governance and scheduling and logistics are being concluded.

## Regulatory Reform

The Company continues to monitor developments relating to proposed regulatory reform and has made submissions on this matter to the relevant authorities. Stakeholder engagement, staff training and internal strategy review are in process.

## Outlook

Based on available information, the Company remains optimistic on meeting all major objectives set for the year; however the Board continues to monitor industry, financial, economic, climatic and other conditions that may impact its current and future operations.

Dr. Trevor A. Byer  
Chairman

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