THE BARBADOS
LIGHT & POWER
COMPANY LIMITED

received by
Commission
Secretary

APPLICATION

PURSUANT TO SECTION 16

OF

THE UTILITIES REGULATION ACT

CAP. 282 OF THE LAWS OF BARBADOS

FOR A REVIEW OF ELECTRICITY RATES

VOLUME 4(a)

FAIR TRADING COMMISSION
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BARBADOS.

Before the PUBLIC UTILITIES BOARD

Mr. Gilbert B. Brandford, O.B.E.	Chairman
Mr. Marcel E. Murrell.	Member
Miss O. Patricia Symmonds, B.A., P.G.C.E.	Member
Mr. John A.H. Sealy, Dip. C.E.	Member
Mr. Phillip E. Serrao, Attorney-at-Law	Member

Mr. Peter N. Boos, F.C.A. Mr. Clement Jones, B.A.	Assessors appointed for the Rate Case in accordance with Section 4 of the Public Utilities Act. Cap. 282

Mr. Ezra E. Alleyne, LL.M. Attorney-at-Law	Legal Adviser to the Public Utilities Board

IN THE MATTER OF THE PUBLIC UTILITIES ACT CAP. 282 as amended

and

IN THE MATTER OF THE PROPOSED CHANGES IN THE RATES OF THE BARBADOS LIGHT AND POWER COMPANY LIMITED

Attorneys-at-Law for the
Barbados Light and Power Company Limited

Hon. J.S.B. Dear, CHB., Q.C.
Mr. O.M. Browne, Q.C.
Mr. A.H. Clarke

Objectors to the proposed increases

Senator A. Wendell A. McClean	- in person
Mr. Miles A. Rothwell	- in person
Mr. Frank W. Alleyne	- represented by Mr. LeRoy Inniss, Attorney-at-Law in association with Mr. S. Husbands, Attorney-at-Law.
Dr. Richard C. Haynes, M.P.	- represented by Mr. C.A. Phillips, Q.C. in association with Mr. LeRoy Inniss, Attorney-at-Law.

DECISION

12th May, 1983

By letter dated September 10th 1982 The Barbados Light and Power Company Limited (hereinafter called the applicant or the Company) gave notice to the Public Utilities Board (hereinafter called the Board) that the applicant Company proposed to effect certain changes in the rates charged for the supply of electricity in this island, and that the new rates were to take effect from the 15th of November, 1982.

The Company indicated in its application that it was asking for an increase of 8.8 cents per kilowatt hour on the basic rates charged for the supply of electricity, and at the same time it submitted a number of supporting documents relevant to the said proposal for the increase.

In accordance with the usual practice, the Board caused an advertisement to be placed in the Official Gazette and in the Advocate-News and Nation Newspapers setting out a schedule of the present and proposed rates and inviting members of the public who wished to complain against the proposed rates to do so in accordance with the provisions of the Public Utilities Regulations 1955.

In due course, the Board received written complaints from four persons. Those persons were Senator A.W.A. McClean whose complaint was received on the 13th October, 1982; and on the 18th of October, 1982 complaints were received from Mr. Frank Alleyne, Dr. Richard C. Haynes and Mr. Miles Rothwell. Copies of the complaints were sent to the applicant Company which was requested by the Board to reply to the said complainants and to copy such replies to the Board. The Board received copies of such replies signed by Mr. Oliver Browne Q.C. one of the applicant's Attorneys-at-Law.

Following a practice which was introduced in the last rate case, and which the Board proposes to adopt as standard practice, two pre-hearing conferences were held in an effort to define as clearly as possible, the matters which would be in issue in the rate hearing. As a result of the pre-hearing conferences, it appeared that there were some fourteen matters in issue and the Board entered upon the public hearing with the full expectation that the Company, and in due course the objectors, would be dealing with the matters identified in the pre-hearing conferences.

However, shortly after the public hearing began, it became obvious that the Company, probably as a result of the objections raised at the pre-hearing conferences, had second thoughts about some aspects of the case set out in the documents submitted to the Board, and several of those documents were amended in greater or lesser detail, and in a few instances completely new documents were submitted in place of documents already before the Board as the basis on which the application had been made.

Needless to say, this occurrence created some difficulty and delay during the rate hearing, because in order to be fair to the objectors who were seeing some of these documents for the first time, it was necessary to permit a degree of latitude in cross-examination, which it had been hoped would not have been necessary because of the introduction of the pre-hearing conferences.

The Board drew the Company's attention to this matter as it unfolded during the rate hearing but in view of the inconvenience which was suffered as a result, and in order to protect the public interest, the Board feels that some attempt must be made to define with greater precision the procedures to be followed at rate hearings; and the Board has drafted a set of rules which it proposes to adopt and to follow in all future rate hearings. These rules will be published and circulated in the near future. It is hoped that the adoption of these rules will prevent a recurrence of the unfortunate situation which occurred in this rate case.

The Board also serves notice that it will take steps to expand the functions of the pre-hearing conferences so as to eliminate any complaints which may not have any merit, and to ensure that all the issues to be raised at the full hearing are definitively set out and agreed upon at that time.

Before turning to an examination of the issues in this matter the Board feels that something must be said about general presentation of rate cases.

The responsibility of the Public Utility Board to determine rates which are fair and reasonable is a heavy one; equally heavy is the responsibility of the utility company to ensure that its presentation meets the exacting standards which are prescribed by the Act as well as the principles of public utility regulation in the United States, which have been adopted within this jurisdiction.

In this case the Board has been confronted with a situation in which arguments vital to the success of the Company's case have not been properly articulated, and where material relevant to the case and in the Company's possession was not produced and referred to at the hearing. In the Board's view inadequate research was undertaken on some issues and the Board derived little or no assistance from the Company in seeking to make its findings on some of these issues.

In the Board's view greater attention will have to be paid to the research, preparation and development of rate applications by the Company in the future.

TEST PERIOD

The Company presented its case on the basis of a fully projected test year period and sought to justify this presentation on the grounds that the rates asked for were rates for the future and that the case having been filed in September of 1982, 1983 would be the first year during which the rates would become effective.

Mr. Shorey was cross-examined on this issue and the Board took the view that the choice of the test year was a matter for the Company and therefore the evidence was examined and analysed against the background of fully projected test year data.

The Board noted that some jurisdictions in the United States of America had permitted companies to present rate cases on the fully projected test year while others had permitted presentations on the basis of historical data, and yet others on the partial historical, partial forecasted data.

However, in an effort to ensure that valuable time is not lost with this issue in future rate cases, the Board feels that a clearly defined policy on test periods should be enunciated in order that the Board may be in a position to carry out its duties under the Act to ensure that rates are fair and reasonable. The Board is of the view that when a Company chooses a fully projected test year that that Company should also produce the most recent twelve month operating experience including rate base broken down in at least the following details set out in Appendix A to this decision.

FUEL

In order to generate electricity for the use of its consumers, the Company has to purchase certain quantities of fuel, and it is permitted with the approval of the Public Utilities Board to recover such expenditure through two mechanisms. One of these mechanisms is the imposition of a 2.64 cents per Kilowat hour charge in the basic rates, and the other is the fuel adjustment clause which has been in operation since 1965, and which has been amended from time to time to reflect changes in the types of machinery in use by the Company, and to improve its efficiency.

According to Mr. Frank McConney, the Managing Director of the Company, the existing fuel clause suffers from the disadvantage that its operation results in the recovery from the consumer of amounts of money which are not exactly equal to the money to be collected through the fuel charge. In one month there may be an over recovery and in another month there may be an under recovery. The calculations are checked by the Board on a monthly basis and Mr. McConney at page 474 of the record gave three reasons for the variance between the fuel revenue on the one hand and the actual cost less the base cost of fuel on the other hand. The reasons were as follows:

> "MR. McCONNEY: There are three reasons. First of all, fuel prices keep changing. For example, when fuel prices rise the actual cost of fuel in the Company's tanks is less than the contract price used to calculate the fuel charge, resulting in a variance between the fuel revenue and the difference between actual cost and the base cost of fuel.
>
> Secondly, there are variances due to changes in billing. In 1982 the Company introduced monthly billing. This improved cash flows due to advancement in these billings including fuel revenue billings.
>
> Thirdly, there are variances due to plant availability. The actual production ratio during the billing month may be different from that in the formula which is the production ratio of the two calendar months preceding the month in which the bill is calculated."

Mr. McConney also said that these differences tend to cancel themselves out, and he went on to indicate that if there was an accumulation in one direction (over recovery) or the

other (under-recovery) the Public Utilities Board will order a temporary fuel adjustment surcharge either positive or negative to reduce the accumulation.

He produced an exhibit M/C7 which he said was the proposed new fuel clause for which the Company was seeking the Board's approval.

THE OBJECTORS' POSITION

Senator McClean and Mr. Miles Rothwell were the only objectors who had raised objections to the existing fuel clause. They both agreed with the Company that the clause should be amended, and at page 905 of the record Mr. Rothwell read into evidence his proposed fuel clause. It reads as follows:

> "....... the fuel charge should be the previous month's cost of 0.55 pounds of Bunker C fuel per net kWh of generation plus an annual allowance of Bds. $8 million for fuel used in the less efficient plant still needed in the public service."

Mr. Rothwell later produced a typewritten document in which the figure of 8.3 million replaces the amount of eight million.

Senator A.W. McClean cross-examined Mr. McConney and suggested that the proposed new fuel clause should be modified so that the basis on which the consumer is charged for fuel should be the preceding month basis rather than on the "month before the preceding month basis".

As a result Mr. McConney produced exhibit M/C7(a) which was a modification of exhibit M/C7 to reflect Senator McClean's suggestion

Mr. Miles Rothwell also questioned the Company's witnesses on the "generation mix" used by the Company and the consequences which that particular choice of generation mix imposed on the fuel requirements of the Company. In fact, Mr. Rothwell suggested that the Company could save $4.206 million more in fuel if there was a higher production ratio on the low speed diesels.

Mr. Rothwell returned to this issue when Mr. Andrew Gittens, the Manager of engineering operations at the Company, gave evidence. Mr. Gittens pointed out that the rating for each of the two low speed diesels was 12.5 megawatts, and Mr. Rothwell asked him why it was that the low speed diesels were persistently run at lower rating than that. Mr. Gittens said that he thought that the Company's practice was a good operating practice, from which certain operating advantages would accrue. The following passage taken from page 732 of the record contains his complete answer:

"MR. GITTENS: I think this is good operating practice. In talking, as I say, with the manufacturers and most other, if not all other, operating people, I think you will find that they run their, particularly the diesel engines, at about 80 to 85 per cent on a continuous basis. It can do it 100%. On the one hand the manufacturers will tell you that, on the other hand they say we recommend that you run it at about 85, and if you push them to 100% all the time, it is like a car. If you drive a car flat out all the time it is going to have a lot more problems than if you cruise at a comfortable rate."

Mr. Rothwell also implied in his further questioning of Mr. Gittens that the Company was not making enough use of the low speed diesels, which according to the evidence were much more fuel efficient than the steam plant. The evidence would seem to suggest that the steam plants were at least 5 cents per kilowatt hour more expensive to operate than the low speed diesels to which Mr. Gittens responded in the following manner:

"........ As I had mentioned, fuel is one consideration. The other one is the operating and maintenance cost, and although it is theoretically possible to run the low speed as you have suggested, the result of that would be that you would be moving the load on the steam units up and down fairly drastically and at times having to shut it down for a few hours and put it back on, and steam units just cannot be operated that way, so we have concluded that we have to operate all the plant in the most efficient manner."

Mr. Rothwell further questioned Mr. Gittens on the operation of the plant having regard to the fact that Mr. Gittens had said that the minimum load "probably varies between 28 and 30 megawatts. He was suggesting in effect that the low speed diesels, producing as they do about 12.5 megawatts each could have been consistently used since the minimum load on the system was below their full capacity. To this Mr. Gittens responded by pointing out, (at page 734 of the record), the practical difficulties involved in such an operation.

"Mr. GITTENS: Yes, but if we were to be running them at say 11, they would each be producing 11, that would mean 22,000kw. and if the load goes down to 28 it would only be leaving you about 6,000kw.

or even if you assume you shut one down early in the night and not starting it back until next morning, you would still only be left with about 6,000kws for one steam, and it is not stable at that kind of load. The operators tell me they like to run it at 10 megawatts or more; if you get below 10 megawatts it becomes unstable, and also they are not able to make water and the evaporators will not operate properly at below about 10 megawatts."

Mr. Rothwell continued to press Mr. Gittens on this important matter of the efficient operation of the plant as it relates to fuel and the following extract from page 735 of the record puts the matter in its clearest perspective.

"MR. ROTHWELL: Okay. I think then you will agree with me that with a night load minimum of 28 and a day maximum of 55 or 58 clearly one steam unit could be shut down at night.

MR. GITTENS: Theoretically it could be, but we have investigated this option of having to cycle the steam units. They are not designed for it. We have on record somewhere, I do not have it with me, something from the boiler manufacturer indicating that the boiler was not designed for that and there would be certain implications if you were to start and stop it. What in effect you are doing is allowing a large amount of metal that is operating at over 900 degrees to cool down and then to heat back, and I am sure that as an engineer you would know the stresses and strains you put on equipment that you operate in that way.

MR. ROTHWELL: Mr. Gittens, I have to put it to you that the equipment is not at the moment being operated in the most fuel efficient manner. You have explained that as an engineer you do not wish to do it and I can understand what you are saying. Nevertheless I put it to you that from the evidence you have just given, you are not at the moment operating this equipment in the most efficient manner.

MR. GITTENS: I have no problem with that comment. Although we might not be operating in the most fuel efficient manner, I think it would be false economy to save on fuel and incur tremendous possible maintenance bills or be without a unit. Now that we have the low speeds we are in a better position, but in the past when we took a steam unit out for maintenance

we have had to warn the public that one would be out for maintenance and there is a possibility of supply interruption."

Finally on page 736, the cross-examination of Mr. Gittens on this point was concluded in the following exchange between Mr. Rothwell and Mr. Gittens.

"MR. ROTHWELL: We do not want you to damage it, Mr. Gittens, but I have to put it to you, and it is a point which you have accepted that the plant is not being operated at the most fuel efficient way it can be.

MR. GITTENS: Not in a fuel efficient way, but the most efficient way possible."

In answer to the Board's Legal Adviser, Mr. Gittens developed his earlier statement that if the steam plant was run below "10 megawatts" it becomes unstable and is not able to "make water". He said that the temperature of the steam in the boiler is over 900°F and that at those temperatures one has to have a very pure water "for the steam production". He explained that in the process of providing "very pure water for the steam production", that some wastage occurs and the purpose of the evaporators is to produce water which replaces the amount which has been lost through wastage. According to Mr. Gittens "if your evaporator is not working and you are not making water to be able to add back into the boiler, you are going to run into problems." So a very important consideration for them is to maintain reserve stocks of feed water.

In answer to the Board's Legal Adviser, Mr. Gittens also said that without the steam plant he did not think that the service of the Company to the country would be as reliable as it will be with the steam plant working because according to him without the steam plants one would "be then starting and stopping large numbers of diesel engines every day and certainly costs would increase, because although ...... the steam plant uses more fuel than the low speed diesels, it is also much cheaper fuel." He went on "the fuel cost on the steam plant is cheaper than the diesels burning diesel fuel or the gas trubine."

THE BOARD'S FINDINGS

The importance of the costs of fuel cannot be overestimated, for as Mr. McConney pointed out, $56.00 in every $100.00 is spend on the purchase of fuel. The Board therefore

considered it important for the purposes of this decision to review the evidence most carefully, and to record its review especially in the light of the submissions made by Mr. Rothwell and in regard to the evidence generally on the question of fuel.

Having reviewed all the evidence the Board came to the conclusion that it would accept the Company's contentions that in all the circumstances it had been using the available plant in the most efficient manner having regard to all the circumstances to which Mr. Gittens adverted.

The Board was most impressed with the nature and quality of the evidence of Mr. Gittens. His responses to questions were immediate and forthright and he appeared to have a complete grasp of the details of those aspects of the Company's operations for which he was responsible and on which he was the principal witness. In those rare instances where he was not able to answer immediately, he said so frankly and even when he was not pressed to produce information requested by objectors, he willingly produced that information within twenty four hours. The Board was therefore able to prefer his evidence on material questions of generation mix and the use of his plant over the evidence given by Mr. Miles Rothwell, who on his own admission had no practical experience in managing the engineering functions of an electric utility, save for a period of two weeks when he acted as manager of an electric utility in the neighbouring island of Trinidad.

Therefore the Board found that the Company (to use Mr. Gittens's words) was operating its plant in the most efficient way possible and the submissions and the evidence of Mr. Rothwell on the particular point are hereby rejected.

The Board also considered the Company's evidence in relation to the proposed fuel clause, and in particular the Company's reaction to the submission by Senator Wendell McClean that the proposed new fuel clause exhibit M/C7 could be amended to permit billing to customers on the "preceding month basis." The Board has itself considered that matter and proposes to permit the Company to put into effect the new fuel clause as set out in exhibit M/C7(a). That amended fuel clause is attached to this decision and marked appendix B. The Board will of course monitor the new fuel clause on a monthly basis in the same way that it had been monitoring the fuel clause which was in operation prior to the coming into effect of this order.

OPERATING AND MAINTENANCE EXPENSES

The Company claimed the amount of $20,261,000 in respect of operating and maintenance expenses in the test period, and Mr. David Shorey produced exhibit D/S1 in support of the Company's application to be allowed that amount for its operating and maintenance expenses. Because the test period was a fully projected test period, the Company had to combine the actual results for the first six months of 1982 together with estimated operating and maintenance expenses for the second half of that year in order to determine what the estimated operating expenses would be for 1982. From this base, the Company projected forward into 1983 and reached the conclusion that the operating and maintenance expenses as were set out in exhibit D/S1. Certain areas of the Company's estimate for operating and maintenance expenses were questioned by the objectors.

OBJECTORS' POSITION

Senator McClean questioned the correctness of the amount included for the rate case expenses, and he gave evidence to the effect that the calculation for rate case expenses was excessive in that the Company had added an allowance of $200,000 for rate case expenses to the $160,000 which were to be amortized in 1983. He also questioned the global amount for estimated operating and maintenance expenses of $20,261,000 on the basis that it was an estimate for 1982, whereas exhibit M/C3 contained the actual operating and maintenance expenses for 1982.

Senator McClean also objected to the calculation of the amount claimed for exchange gains on the basis that the appropriate exchange rate ought to be $3.10 to the pound instead of $3.70 which the Company had used as the appropriate rate of exchange. Mr. Shorey said that $3.70 to the pound was the rate at the time when the case was prepared and that if one was making the projection today one would have to "look at the rates today and make your best estimate as to what it would be for the rest of 1983".

Mr. Miles Rothwell objected to the amount claimed in respect of advertising and public relations and he cross-examined the Company's Managing Director, Mr. Frank McConney, on the question whether he, Mr. McConney, considered the expense for public relations and custom advisory service to be "an expense necessary to produce and supply electricity to consumers in Barbados". Mr. McConney replied that it was and went on to indicate why in his opinion it was necessary to inform consumers about the factors and circumstances which might enable or impede the Company's progr in delivering a reliable electricity service.

Significantly, Mr. McConney denied a suggestion by Mr. Rothwell that "a lot of this public relations expenditure and advertising is an attempt to influence the Public Utilities Board among others, rather than present your case in the regular way at the Public Utilities Board hearing".

Later, in cross-examination by the Board's Letal Adviser he admitted that a "relatively small amount" of the $350,000 spent in 1982 on advertising and public relations would have been spent "to educate the public about the need for timely increases in the rates". No precise amount was given by Mr. McConney, but he said that the amount so spent would certainly not be more than 10%..

The Board regards this matter as important especially in the light of the evidence which seemed to focus on advertisements some of which were clearly designed for the purposes referred to by Mr. McConney.

The Board is conscious of the good faith which is to be presumed on the part of the managers of a utility business, and it is also conscious of the fact that it has been judicially stated that in the absence of a showing of inefficiency or improvidence, the court will not substitute its judgement for the judgment of the managers as to the measure of a prudent outlay.

However, the Board is conscious of the practice of some jurisdictions in the United States which regard advertising made to inform the public about a Company's application for a rate increase as "abnormal and non-recurring". The Board is also conscious of the statement by the Maine Public Utilities Commission which said in the New England Telephone and Telegraph Company case in 1949 that "the ratepayer should not be required to bear the expense" of advertising to advise the public as to the need of rate increases". At the same time, the Board has taken cognizance of the fact that the Ohio Public Utilities Commission has held that advertising expenses incurred by a Company to present its case in the newspapers while rates were being negotiated with city authorities should be included in service costs.

Professor Priest at page 64 of his book on the Principles of Public Utilities Regulation states thus:

> "When there is no disclosure of any benefits to the utility 'or the users of its service' resulting from advertising expenditures, they may well be excluded from operating expenses. Furthermore, excision is indicated if such advertising outlays have been improvident, wasteful, arbitrary,

> inimical to the public interest, involve the abuse of managerial discretion, or generally have been in excess of just and reasonable charges. But when advertising stands up to compensation, whether from another form of service or another source of energy, including tax-subsidized electric energy, when it tends to reduce unit costs, keep down the cost of money, enhance a Company's standing in financial circules, or assist customers in making more efficient use of utility service, it plainly benefits a utility and its ratepayers, and the cost of that advertising belongs in operating expenses."

THE BOARD'S FINDINGS

In these circumstances and having regard to all the evidence on this matter, but with particular reference to Mr. McConney's evidence, the Board does not propose to make any reduction in the amount claimed for advertising and customer advisory services at this time.

The Board would wish to draw the Company's attention however, to the general power imposed by the statute and by the principles of public utility regulation which would permit the Board to disallow any expenditure under any head whatsoever, if the Board finds that that expenditure has been shown to be improvident or excessive in the circumstances, in the result.

In respect of exchange gains, the Board came to the conclusion that no adjustment in the amount claimed will be made. Fluctuations in exchange rates is a matter over which the Company has no control and some estimate has to be made of the potential gain or loss. Rates cannot be fine tuned and in all the circumstances, the Board does not consider it unreasonable for the Company to choose the rate existing for the Company at the time when developing its application.

The Board rejected Senator McClean's submission that it should substitute the actual operating and maintenance expenses for 1982 as set out in exhibit M/C3, of $17,765,000 for the Company's projection of $18,530,000 set out in exhibit D/S10(b) for the following reasons.

1. Mr. Frank McConney at page 464 of the record, said that in the second half of 1982, "emergency action had been taken to conserve cash", and that there had to be a reorganization of "certain evening and weekend repair work".

2. The variation of 4.3% between the projection in exhibit D/S10(b) and the actual expenses set out in exhibit M/C3 is not unreasonable.

3. Mr. David Shorey at page 637 of the record said that in order to satisfy himself as to the Company's estimate for operating and maintenance expenses, he looked back at the Company's total operating and maintenance expenses for the period 1977 to 1981 and developed a trend line on the Company's operating expenses. The trended figure for 1983, worked out at $20,922,000 as against the estimate made by the Company of $20,175,000. The Board accepted Mr. Shorey's evidence on this matter.

The Board took note of the fact that the estimate of $20,175,000 adjusted to $20,261,000 to take account of previous decisions of the Board.

In the event, the Board concluded that the Company will be permitted to recover the amount of $20,261,000 in respect of operating and maintenance expenses in the test period.

DEFERRED TAXES

AND

INVESTMENT TAX CREDIT

The Company claimed the amount of $4,288,000 in respect of deferred taxes in the test year and included that amount in its revenue requirements computation. There was also a claim for deferred investment tax credit of $284,000, which was also included in the revenue requirements, and both these amounts are shown in exhibit D/S1. A memorandum on deferred taxes, exhibit D/S1, was produced into evidence by Mr. Shorey, and evidence was led by the Company to support the application to permit deferred taxes as an operating expense.

The Company sought to justify the inclusion of deferred taxes on the grounds that the Company was engaged in an expansion programme and, according to Mr. Shorey, he had read schedule 13, (the schedule dealing with the expansion programme). He stated that: "In my opinion the facts therein stated support the Company's application for the Board to exercise its discretion in favour of permitting the Company to include deferred taxes as an element of cost in the revenue requirements."

In relation to the deferred investment tax credit, Mr. Shorey put the Company's position into evidence in these words:

> "The deferred investment tax credit was calculated by taking the investment allowance on eligible plant and equipment as defined in section 12 of the Income Tax Act and the Income Tax regulations and taking 45 per cent of that investment allowance as the tax to be saved by this Company, which is a Company in a basic industry, in respect of plant and equipment purchased for the generation and distribution of electricity.
>
> It is recognised that the acquisition of plant and equipment in itself does not produce a benefit but rather the use of that property, plant and equipment. Since the eligible property, plant and equipment will be used in generating and distributing electricity over many years the tax which is saved by its use is being passed on to consumers benefiting from its use over a 20 year period. Accordingly, the Company is entitled to take the full tax saved in the year of the purchase of eligible plant and equipment and show it as a cost of service in the revenue requirements computation.

From that full tax saved the Company deducts an amount equivalent to 1/20th thereof and passes it back to the consumers by way of a reduction in the cost of service for investment tax credit.

Each time the Company applies for a rate increase, 1/20th of the said investment tax credit is deducted from the cost of service.

This treatment of the investment tax credit is in accordance with the order of the Public Utility Board (PUB) dated 16 May 1980."

THE OBJECTORS' POSITION

Senator McClean did not offer any specific evidence on the question of deferred taxes except to indicate that the Company used depreciation rates in the computation of the deferred taxes different from those which were used in the computation of the depreciation expense, and indeed he took the view that the question of deferred taxes was more a matter for argument than specific evidence itself. However, both Senator McClean and Mr. Inniss cross-examined Mr. Shorey on deferred taxes and the major point which emerged from Mr. Inniss's cross-examination was that there has not been what was described as "any global reversal", even though to quote Mr. Shorey's words; "there will be a reversal on individual items, but not as a total."

THE BOARD'S POSITION

The Board considers that the issue of deferred taxes and the deferred investment tax credit must be settled once and for all. The matter has arisen in the last four rate cases, and considerable time has been spent during the course of those hearings debating the issue whether deferred taxes are to be allowed as a proper cost of service. It is a matter of record that in the 1980 Review decision the Board permitted the Company to include as an operating expense a sum which represented the deferred portion of income taxes, and the Board went to great lengths to deal with the conceptual basis of deferred taxes in that decision. It is not necessary, therefore, for the Board on this occasion to recapitulate the conceptual basis upon which the deferred taxes principle is founded. However, there are certain apparent misconceptions about deferred taxes, and the Board considers it to be in the public interest to put these matters to rest once and for all.

Two of the misconceptions arose in this particular case. One was whether the Company must show that there is a "turn-around point" before it can be permitted to recover deferred taxes and the other is whether the "turn-around point" relates to specific items of plant or whether it relates to the "total global plant and equipment" in use by the Company. It is nothing short of disappointing that neither the Company nor the objectors seem to have grasped the significance of the Order F144 if the Federal Energy Regulatory Commission, which Order was referred to in the hearing which took place in the early part of 1982. An examination of that Order will show that these issues which had been debated in the Federal Power Commission's 530 series of Orders, were further debated and explained in Order F144.

To deal firstly with the question of the "turn-around point", it is perhaps important to quote from the Order F144 because this particular issue was specifically raised in that Order. In examining the arguments on the issue the Commission at page 44 put the matter this way:

> "The concern that a "permanent tax savings" will accrue to utilities and/or their investors under a tax normalization policy pervades some comments. It is argued that the Commission is attempting to define away the issue by asserting what the Commission's proposal actually suggests is a "continual deferral of tax savings". It is asserted that as long as a utility is experiencing stable or growing dollar investment, the phenomenon of permanent tax savings will occur.
>
> In response to this concern, other comments included analogies with other costs to show that the "pancaking", over time, of a group of transactions may create the appearance that a utility is continually putting off the payment of a cost. However, this is an illusion caused by the fact that a growing utility will necessarily have greater expenses each year corresponding to greater sales. Each transaction is completed but new higher value transactions replace the old ones. The Commission finds that the analysis given by Appalachian Power Company, et al., with an analogy to "accounts payable", helps make these points clearer:

......The opponents of normalization have confused the accounting of specific individual costs with their prediction of long-range historical patterns. They would lump together all deferrals, regardless of timing differences among them and their application to different service periods; and, if the lump grows, they would maintain that there is no reversal as to any deferral. But determining costs for purposes of ratemaking requires a calculation of pertinent individual costs. The issue is whether individual deferrals really do "turn-around". The Commission's definition of "timing differences" applies normalization only to true deferrals - to those transactions which really do reverse. As such, there can be no "permanent tax savings" under the proposed rules; and, there can be no continual deferral of any individual "timing differences".

An analogy can be made to the "accounts payable" of a growing firm. Such a firm will have an ever-increasing total of "accounts payable" because it must buy more if it is to sell more. However, since each individual account is paid when due, the fact that the total grows does not mean that there is a "permanent" deferral of any individual debt or that the firm is receiving a "permanent subsidy" from its creditors.

Under the Commission's final regulations, only timing difference transactions qualify for tax normalization treatment and, by definition, every individual timing difference transaction "reverses or turns around". The effect on rates of more than one timing difference transaction is simply the sum of the effects of the individual transactions. It is only when new timing difference transactions of greater value arise that the accumulated deferred tax account grows. The growth of the deferred tax account, however, does not create a permanent savings."

After discussing the various other arguments for and against normalization, the Commission concluded on page 57 in these important words:

"3. Conclusion: Tax Savings versus Tax Deferrals
The Commission finds that the tax normalization policy as set out in the final rule, will not cause utilities or their investors to realize a permanent tax savings. Firms that are continuously growing may have continual tax deferrals measured by the total amount in the deferral accounts. Continual tax deferrals are not permanent tax savings since they do not confer a permanent tax benefit on utilities or their investors. When viewed in the aggregate, tax deferrals arising from timing differences can continue into the indefinite future. But the aggregate of all timing difference transactions is simply the sum of the invididual timing difference transactions and the individual transactions reverse as do their associated tax effects.

Permanent tax savings can arise from permanent differences as contrasted to timing differences. Permanent differences (in ratemaking) are differences between the amounts of expenses or revenues recognised in one period for income tax purposes and for ratemaking which do not reverse or turn around in one or more other periods. The final rule is not applicable to permanent difference transactions. It requires tax normalization only for timing difference transactions. To the extent that prior Commissions found that permanent tax savings arose from permanent difference transactions and denied tax normalization on that basis, we agree with and confirm that finding. However, prior Commissions appear to have used the term "permanent tax savings" to apply to "continual tax deferrals". Leaving aside this semantic distinction, the Commission does not believe a finding of evanescent versus continual tax deferrals should be the determinative factor in a decision to adopt a policy of tax normalization or flow-through."

Of course, it is trite regulatory policy that deferred taxes can only operate in a situation where there is a temporary timing difference, and the cause of a great deal of confusion has been the inability of some commentators to distinguish clearly between a permanent timing difference which gives rise to permanent tax savings and a temporary timing difference which does not give rise to a tax saving. The question of temporary timing differences, however, brings us to another aspect of deferred taxes which loomed large in this particular hearing and that is the question of the factual showing.

Once again, there seems to be a great deal of confusion about the question whether a factual showing is necessary and the subsidiary question of what can constitute factual showing. Judging from the evidence produced at the hearing, and having regard to some of the arguments put forward,it would appear that this confusion stems largely from inadequate comprehension of the 530 series of Orders and the Order F144, and the Board can do no better than to quote an extract from Order 530 B which puts this matter in its clearest perspective.

"In Order No. 530 the Commission ...... stated that normalization would be in the public interest and that "the Commission, as a matter of general policy, would favour ratemaking treatment upon a normalization basis, provided appropriate factual showings are developed in each instance. The nature

of these factual showings was not elucidated in Order No. 530 and in fact, reflected some ambivalence on the part of the Commission concerning both the legal permissibility and the policy desirability of allowing normalization when its use resulted in what is variously described as a tax deferral or a tax savings. In Order No.530-A the Commission asserted that "courts have required a finding that a tax deferral will occur rather than a permanent tax savings" in order to permit normalization of liberalised depreciation. And it stated that it would "of course .... require a showing by the utility requesting normalization .... that a tax deferral rather than a tax savings would occur ......"

The Commission in reconsidering Order 530-B admitted to earlier error.

> "Upon reconsideration, we find this reasoning to have been incorrect. For the reasons set forth below we find that there is no legal bar to the Commission's either permitting or denying normalization of the tax effect associated with timing differences in the recognition of expenses for tax purposes and for book purposes. The principles of setting just and reasonable rates forbid the normalization of tax effects only when there will in fact be a permanent difference between treatment of items for tax purposes and book purposes ......
>
> In the light of this conclusion, we reiterate our finding in Order No. 530 that the use of normalization for rate purposes would be beneficial and in the public interest, and announce that it shall be our policy to permit such normalization upon a showing simply that the tax effect being normalised relates only to timing differences rather than to permanent differences between book and tax treatment."

Further, the Commission continued,

> "The Commission's approval of normalization was upheld in a series of cases .... . In these cases, however, the courts specifically rejected the idea that Congress had intended that normalization be used. The court in El Pasó specifically recognised as an exception to the principle that ratemaking could only recognise the actual taxes paid in a given year, "the treatment to be afforded the tax saving or deferral resulting from the depreciation of new equipment. In practical effect this works a tax

deferral rather than a tax saving." Thus, the courts in considering Commission approval of normalization during this period upheld such approval even though they specifically found that such a treatment was not required by Congress and even though they were cognizant of the effect of an ever-increasing plant balance."

It ought to be clear now that what has been produced by the Company in evidence as the "factual showing" is not in fact a factual showing but is rather the factual basis upon which the Company is asking the Board to exercise its discretion in permitting the normalization of the temporary timing differences.

Applying the principles enunciated above to the evidence in this case, the Board finds that the Company has demonstrated that there are in fact temporary timing differences in the circumstances of this case and exhibits D/S8 and D/S9 clearly demonstrate the fact of such temporary timing differences. The Board therefore permits the Company to recover $4,288,000 for deferred taxes as claimed in D S/1 as an operating expense.

So far as the investment tax credit is concerned, the Board, in its decision in 1980 on the review of the 1979 decision, set out in some detail its analysis of the investment allowance permitted under section 12 of the Income Tax Act, 1968 as it applies to the Company and the issue of deferred taxes. In that decision the Board stated that there were striking points of similarity between the investment allowance in Barbados and the investment tax credit in the United States. The practice in the United States was to permit normalization of the investment tax credit and the Board adopted that practice and permitted the Company to normalize the investment allowance. It is not therefore necessary for the Board in this decision to recapitualte the analysis set out in the 1980 decision but it might be of some importance to recall some of the considerations expressed at that time. On page 24 of the decision the Board said,

"In the Board's view, the intention of this permitted recapture of sums laid out in capital is to allow Companies some relief. These amounts prematurely recaptured can then be used by companies either to repay their "capital loans" and/or to obtain new plant and equipment. In passing, one might reflect that in a regulated utility if the relief were flowed through to the customer, it would be lost to the Company."

The Board still holds the views expressed in the 1980

decision on this matter,and in view of the fact that the Company is still engaged in an expension programme, as revealed in the evidence in this case, the Board is of the opinion that the Company should be permitted to continue to normalize the investment allowance.

The amount claimed in respect of the deferred investment tax allowance in the test year as set out in exhibit D/S1 and schedule 83 is $284,000 which amount the Board allows the Company to recover as an operating expense in the test period.

CORPORATION TAX

The Company claimed the amount of $9,059,000 in respect of corporation taxes payable in the test period, and this amount can be seen in exhibit D/S1. The Company also produced a memorandum on corporation taxes designated exhibit D/S6, and Mr. David Shorey gave evidence for the Company on this matter.

The gist of Mr. Shorey's evidence was that the Company had to make provision for corporation taxes payable in the test period, and that unlike the practice adopted on previous occasions, the Company had not taken accumulated tax losses into consideration in computing the corporation taxes payable in the test period.

According to the evidence, tax losses of approximately $13,000,000 would be available to the Company for the test period, so that in fact no taxes would actually be paid by the Company, even though an amount was included in the Company's calculation of its revenue requirements. In his memorandum on corporation taxes, Mr. Shorey put the Company's case in this way:

> "Current income taxes at the rate of 45% less 25% for back-log tax capital allowances, 33.75% (rounded in this instance to 33%) has been provided for on the additional revenues of $27,569,000 i.e. $9,098,000. Based on the estimate of current taxes for 1982, a tax loss of $13,165,000 has been carried forward into 1983. Because of the loss brought forward, no taxes will be payable in 1983 on the taxable income of $12,981,000. The tax charge on $12,981,000 at 45% will be deferred."

He went on to indicate that for ratemaking purposes "taxes, as a cost of service have to be provided for on the basis of what would have been payable if the Company had been earning a fair return." He referred to the case of Galveston Electric Company -v- Galveston, a decision of the United States Supreme Court in 1922, as authority for the proposition that "the cost of service for ratemaking purposes does not necessarily require the use of the actual test year taxes paid." He went on to suggest that in accordance with a statement from the Galveston case, "a non-recurring test year item ordinarily would not be recognised in the computation of the test year taxes, and he argued that the tax losses brought forward was such a "non-recurring test year item".

THE OBJECTORS' POSITION

All the objectors took exception to the Company's submission that it should be awarded an amount for corporation taxes which amount would not flow directly to the treasury in respect of actual taxes paid. The crux of their submissions was that the Company would not in fact be paying any corporation tax in the test period and although it was not put in these words, the objectors were really saying that any such award would violate the "actual taxes paid" principle of utility regulation.

However, objector Senator W. McClean went a stage further, and gave evidence on this matter. He dealt not only with the principle of the issue, but went on to point out that in any event, in his view the corporation taxes had been incorrectly calculated and that the proper figure for corporation taxes payable in the test period, assuming that one ignored the tax losses, would be a figure of $3,209,000 instead of $9,059,000 which was the amount which the Company was claiming. He reached this conclusion by reference to exhibit D/S9 which sets out at lines 7 to 27 the calculation showing the tax computation for the test period based on the proposed rates.

In that exhibit, the taxable income of $12,981,000 is shown at line 27 and Senator McClean's submission was that that figure already includes provision for corporation taxes of $9,059,000. He contended that one would have to subtract the Company's estimate of corporation taxes from the taxable income, and multiply the amount derived by 9/11ths in order to arrive at the proper figure for taxes payable, ignoring the losses brought forward. This calculation results in an amount of $3,209,000 as the proper figure for corporation taxes payable instead of the amount of $9,059,000 which the Company was putting forward. Moreover, according to Senator McClean this calculation ignores the losses brought forward.

None of the other objectors gave any evidence on this matter.

THE BOARD'S FINDINGS

In considering the evidence and analysing the case as it related to corporation taxes, the Board took the view that there were two questions to be answered.

Firstly, should the Company be permitted to recover an amount for corporation taxes when the Company would not be called upon to pay any corporation taxes at all because of the application of the tax losses which would be taken into account by the taxing authority in determining the Company's corporation taxes payable in the test period.

Secondly, assuming that one ignored the tax losses in computing the Company's corporation taxes in the test period, had the Company incorrectly computed the corporation taxes payable.

The answer to the second question proved to be the simpler of the two, since all that was required was a detailed examination of exhibits D/S1, D/S2, D/S3, D/S6 and D/S9, together with the relevant portions of the sworn testimony of Mr. David Shorey and Senator Wendell McClean.

Having examined the several exhibits referred to earlier and having regard to all the evidence the Board came to the conclusion that the amount of $9,059,000 included in the Company's requirements for corporation taxes could not be supported. It was not in the Board's view, an accurate calculation of the corporation taxes payable in the test period, assuming that one ignored the tax losses. Exhibit D/S9 at line 8 clearly shows that the operating revenue for the test year is estimated at $113,856,000 and line 27 of the same exhibit calculates the taxable income for the test period as $12,981,000. Significantly, the taxable income for the year is arrived at according to exhibit D/S9 by deducting certain allowable expenses from the operating revenue for the year.

However, the operating revenue for the year estimated at $113,856,000 already includes the amount of $9,059,000 in respect of corporation taxes, and this can be demonstrated by reference to exhibit D/S2 lines 17 and 18 which exhibit shows that the total operating revenue for the test year is arrived at by adding operating revenues from basic rates of $71,249,000 to the revenues through the fuel adjustment clause of $42,607,000 giving a total operating revenue of $113,856,000.

An examination of exhibit D/S1 will demonstrate that the operating revenue of $71,249,000 includes the amount of $9,059,000 in respect of the corporation taxes payable in the test year. This demonstrates quite clearly that in calculating the corporation taxes payable in the test year as set out in exhibit D/S9, the Company took as its operating revenue for the test perio a figure which in itself contained an amount of $9,059,000 in

respect of corporation taxes payable. This was Senator McClean's point. In any event the tax payable, assuming one ignores the tax losses, on a taxable income of $12,981,000 is not $9,059,000 at all but is $5,841,000 if one assumes that the corporation tax rate is 45%; and this figure is to be found at line 34 of exhibit D/S9, at which line this is referred to as part of the net deferred tax charge for accounting financial purposes.

However, as has just been shown, that taxable income of $12,981,000, is derived from an operating revenue requirement estimated at $113,856,000, for the test year which estimated operating revenue already includes $9,059,000 in respect of corporation taxes. To that extent, any argument for the inclusion of the $5,841,000 in the current portion of income taxes can be attacked on precisely the same grounds on which Senator McClean attacked the argument that one should include $9,059,000 as a cost of service requirement for current income taxes in the test period.

There is, however, another aspect of this very complex and difficult matter. Mr. Shorey attempted to justify the inclusion of the $5,841,000 as an element of the cost of service by reference to the concept of "deferred taxes". He was obviously not referring to deferred taxes, as that concept is normally used and understood for ratemaking purposes, as the following answer by him to a question from the Board's Leagal Adviser demonstrates:

> "MR. SHOREY: .... You have tax losses brought forward. The portion deferred in respect of these tax losses as shown on D/S8 is $5,841,000. Now we have not included that deferred portion of $5,841,000 as a cost of service for deferred taxes on the basis (1) that it did not arise in the difference between book and tax depreciation, and (2) on the additional revenue generated at 8.8 cents per kwh. That deferred portion of $5,841,000 would not arise in 1984. It would not be representative of the future. So in effect if you have $9,051,000 and if you take these losses into account $13,165,000, the amount deferred is $5,841,000 and the balance which in effect would be the current portion attributable to the additional revenue of $27,569,000 would be $3,218,000. But it is my position that that $5,841,000 for rate-making purposes should properly be included as a cost of service in the current portion rather than as a deferred portion."

The Board gave this matter very thorough consideration, especially since this was the first occasion on which any

submission of this type had been made. Having examined all the material evidence on the point and having referred to the various exhibits already mentioned and indeed to the totality of the evidence the Board came to the conclusion that the amount of $9,059,000 included in respect of corporation taxes payable in the test period was the result of an incorrect calculation by the Company. The Board also concluded that the amount $5,841,000 could not be included as an element of the current portion of corporation taxes payable in the tests period since it was derived from a figure for operating revenue which in itself included a figure of $9,059,000 in respect of corporation taxes payable in the test period. The Board further concluded that the amount of $5,841,000 could not, for ratemaking purposes, be included as an element of the "deferred taxes" as that expression is used and understood in regulatory practice because it did not arised as a result of normalizing the tax effect of the differences between book and tax depreciation within the meaning of the 530 series of orders of the Federal Energy Regulatory Commission of the United States, which series of orders had been adopted for the purpose of permitting deferred taxes in this jurisdiction.

The Board, therefore, reached a conclusion which was consistent with the evidence of and the submissions of objector Senator McClean that the appropriate figure for Corporation taxes, ignoring tax losses, should be less than $9,059,000.

The Board then turned its attention to the question whether the Company should be permitted to recover an amount for corporation taxes when in fact no taxes would be payable in the test year by reason of the application of tax losses brought forward.

In attempting to persuade the Board to accept its argument, the Company made reference to the case of Galveston Electric Company -v- Galveston a decision of the United States Supreme Court in which it was held that income taxes are legitimate operating expenses. This was the only legal authority referred to by the Company and reference was also made to Professor Priest's book Principles of Public Utility Regulation and to the work by Professors Garfield and Lovejoy on Public Utility Economics. In view of the fact that the Company was submitting that the inclusion of corporation taxes was "vital to the Company's cash flow in 1983" as set out in exhibit D/S10 (c) and M/C10", the Board would have expected that greater care would have been taken by the Company in the research, development and presentation of its arguments in this respect.

After careful and thorough examination of the entire Judgement in the Galveston case, the Board came to the conclusion that Galveston did not speak to the question whether a public utility company could be permitted to recover an amount for corporation taxes, which would not in fact be paid, because of the availability of tax losses which might be brought forward.

In these circumstances, and in pursuance of its duty to make proper findings and decisions on the basis of submissions made at the hearing and in the light of the available information on the principles of utility ratemaking, the Board undertook further research into this matter, and discovered that there had been some recent cases dealing with the issue of tax losses in some United States jurisdictions. One such case was the case of the Muncie Water Works Company, an Indiana Corporation and a subsidiary of the American Water Works Company Incorporated. This case was finally decided on the 16th of September, 1981, and the decision and order of the Public Service Commission of Indiana, was examined and analysed by the Board.

In Muncie's case the Muncie Water Works Company as a subsidiary of the American Water Works Company Incorporated had participated in the filing of a consolidated tax return, which resulted in the Company incurring a tax expense which was lower than the tax expense would be, if the Company had not joined in the consolidated tax return and had filed a separate return. The difference in the two calculations resulted from the fact that under the rules relating to consolidated tax filing, the losses of one member of a group might be set off against the taxable income of another member of the same group.

The Commission therefore had to determine whether Muncie's cost of service calculations should reflect the comparatively lower effective tax rate of the group, or whether it should reflect the calculation of taxes payable at the rate of 48% which was the statutory rate for Companies in respect of federal income tax expense. The Commission gave detailed consideration to this matter and reached the conclusion that the Muncie Water Works Company could include in the calculation its cost of service an amount for federal income taxes calculated at the statutory rate of 48% rather than any amount calculated at the lower effective rate which resulted from the filing of the consolidated return. In other words, the Commission ignored the losses of other members of the group in determining the tax expense of the utility under question.

The Board also considered the decision of the City of

Charlottesville -v- Federal Energy Regulatory Commission (F.E.R.C.) which case had been decided on August 7th 1981, just five weeks before the Muncie Water Works decision. The Charlottesville decision was a decision of the United States Court of Appeals for the District of Columbia and the Board had access to that decision as well as to the Opinion No. 47 of the Federal Energy Regulatory Commission, which was the original decision which went before the Circuit Court. The issue in the hearing was succintly put in the opening paragraph of the opinion No.47 of the F.E.R.C. It reads thus:

> "The sole issue in these consolidated dockets concerns the claimed cost-of-service allowance by Columbia Gulf Transmission Company (Columbia Gulf) and Columbia Gas Transmission Corp (Columbia Gas) for Federal income tax expense. Each pipeline claims an income tax expense determined by the application of the statutory 48% tax rate to its respective taxable income for the adjusted test period, separately determined. Thus, each pipeline is asking the Commission to be treated on a "stand-alone" basis as though each files a separate income tax return. In fact, however, the pipelines join with other affiliates and their parent, Columbia Gas System, Inc., to file a consolidated income tax return which reduces the net tax liability for the combined Columbia System. The Commission staff has determined that each pipeline's claimed income tax allowance is proper, and the staff does not challenge the reasonableness of the resulting pipeline rates. Other parties to the instant proceeding, however, insist that the allowance claimed by the respective Columbia pipelines is excessive and that the rates filed by these Companies must be adjusted with appropriate refunds to the ratepayers of each."

The Commission after hearing arguments on behalf of nine interested parties came to the conclusion by a majority of three to two that the respective income tax allowances claimed by the pipeline companies as cost of service expenses in their rate filing were just and reasonable under the provisions of the Natural Gas Act.

One of the factors which appears to have moved the F.E.R.C. to its decision was the view that "to reduce the rates of a regulated pipeline because of affiliated exploration and development activities would be discouraging to the very enterprise we now want to encourage".

When the case was heard before the United States Court of Appeals District of Columbia Circuit in 1981 the Circuit Court held that the record was insufficient to support the contention of the Federal Energy Regulatory Commission that exploration and development of natural gas would result if the pipeline Companies were permitted to include in their rate base the tax cost they would incur if they separately filed federal income tax returns.

Significantly, the Circuit Court specially held that "the Commission had authority to allow the pipelines the benefits of consolidated tax savings as an incentive to exploration development by adjusting the tax component in the rates." It went on to say that, "adjustment of rates to encourage exploration for and development of natural gas is a proper commission activity." Where the court apparently disagreed with the Commission was on the matter of the record. In fact the court says specifically at page 953 of the record that:

> "While the Commission has legal authority to do what it did in the case, it lacked factual support for Orders 47 and 47(a). The Court continued, "The Commission's relianc on the incentive effect on retained tax benefits is not supported by evidence in the record .... The Commission was obviously aware of the conflict between the evidence of record and the Commission declaration on the incentive effect or retained tax savings." The Commission Council attempted to excuse the disparity between the savings retained and tax savings devoted to exploration and development. The Commission urged in its brief that tax savings not directly reinvested eventually find their way to the exploration and development Companies since the Parent Company finances exploration and development. The Commission cites no evidence that tax savings "trickled down from the parent exploration and development affiliates. Federal Energy Regulatory Commission asks this Court to take it on faith that such funnelling of tax savings does not occur.
>
> For this Court to uphold the Commission we must determine that the rate of order was premised on substantial evidence. We find evidence of the incentive effect offered as justification for corporate retention of tax savings insubstantial. Moreover there is substantial evidence that retained tax savings go for general corporate purposes.
>
> When the Commission acts in its ratemaking role, it must act with statutory authority and factual support. Having determined that the Commission and the statutory authority in this case, we reverse because the Commission's orders were not based upon substantial evidence."

In a concurring judgement, Mr. Justice Wald, the Circuit Judge, was even stronger in his condemnation of the Commission's action in the present case. He said, "In a specific case such as this, where evidence showing how the tax savings have or will effect exploration and development activity should be readily at hand, I can find no excuse for not requiring substantiation of F.E.R.C's predictions. Without such evidence, judicial review of agency decision making amounts to nothing more than an unquestioning judicial acceptance of unproven agency assumptions."

The Board also considered the case of the Federal Power Commission -v- United Gas Pipeline Company et al, a case decided on the 13th of March 1967 in the United States Supreme Court.

In that case, the Federal Power Commission instead of granting the applicant Company an allowance equal to the full federal income tax rate that would have been applicable if the Company had filed a separate return required a reduced tax allowance because the Company was a member of an affiliated group which had elected to file consolidated income tax returns and had thereby reduced the total tax which the group would have paid if the affiliates had filed separate returns.

The Fifth Circuit Court of Appeal held that the Commission had used an incorrect income tax rate in computing the Company's cost of service and the matter was appealed to the United States Supreme Court which held that the Commission's reduction of the Company's allowance of federal income taxes in calculating its cost of service was not erroneous and that the Commission had power to reduce the rates because of the circumstances extant in that particular case.

In holding that the Commission had not exceeded its powers by reducing the income tax allowance the court said "In our view what the Commission did here did not exceed the powers granted to it by Congress. One of its statutory duties is to determine just and reasonable rates which will be sufficient to permit the Company to recover its cost of service and a reasonable *return on its investment.* Cost of service is therefore a major focus of inquiry. Normally included in the cost of service is a proper allowance for taxes, including federal income taxes. The determination of this allowance, as a general proposition, is obviously within the jurisdiction of the Commission.

Three members of the court dissented from the majority opinion and Mr. Justice Harlan delivering the judgement for the minority, said that the majority opinion "departs from that sound analysis by sustaining a formula which allocates the entire "tax saving" to the regulated corporations and thus fails to take account of the congressional desire to benefit the loss corporations by allowing the profit corporations to retain earnings which could be passed on to them." He went on to say, "any rate formula which does not provide a means of allocating benefit to the loss corporations cannot then be just and reasonable.

The Board spent considerable time discussing this issue and took the view that the principle enunciated in the Muncie case showed that an amount could be included in the revenue requirements on a cost of service basis for corporate taxes even in circumstances where it was clear that the amount so included would not in fact be paid over to the Treasury. The Board also took the view that it was necessary in such circumstances for the record of the hearing to reflect a need by the Company for the sum represented by those corporate taxes, and further that the record should also show how the sum collected in respect of those taxes was likely to be spent. In considering whether the Company should be permitted to recover an amount for corporation taxes therefore, the Board took the following matters into consideration.

1. The actual taxes paid principle to which reference has already been made is a principle which can in appropriate circumstances be subsumed in the interest of the higher principle that the total rate ordered must be fair and reasonable in all the circumstances. In any event the actual taxes paid principle has already given way to the principle of deferred taxes which development in the Board's view has arisen specifically out of the need to provide utility Companies in periods of high inflation with increased cash flows necessary to enable them to maintain their financial integrity.

2. In any event, as was stated in the Muncie Water Works case, "the extent to which actual cash liability for federal income taxes differs from the booked tax expense because of the normalization of the timing difference adjustments to taxable income and investment tax credit deductions renders such actual cash liability an inappropriate basis for determining the proper federal income tax expense for ratemaking purposes." The case went on to point out that that statement was true regardless of whether the entity filed a separate return or participated with others in the filing of a consolidated return.

The evidence of Mr. McConney at page 527 of the record was that the bank overdraft on March 3, 1983, (the date when he gave his evidence), was $7,674,000, and that the Company was obliged to pay the Royal Bank Nassau the amount of $5,432,814 on Monday 7th March, and that at that time the Company was holding an unpaid fuel bill which was due for payment on February 29th of $2,095,000. He further indicated that the overdraft would increase to $15, 203,340 on the afternoon of Monday 7th March, 1983, provided that the Bank would extend the appropriate credit. He drew to the Board's attention the fact that the Company had an overdraft limit of $10,000,000. In his exhibit M/C10, Mr. McConney was demonstrating that one of the reasons why the rates were requested was to permit the Company to reduce its overdraft to zero.

While the Board does not necessarily agree that the Company should be placed in a position to clear its overdraft completely, it does, however, feel that some attempt should be made in giving the appropriate rates to ensure that the Company is able to maintain its financial integrity.

It is the Board's view that in the special circumstances of this case that an award for corporation taxes in the test year is required, in order to enable the Company to maintain its financial ingegrity and specifically to assist the Company in reducing its overdraft in the test period.

In any event, the Board recognises that even though no corporation tax will be paid in the test year, corporation tax will be paid in 1984 and probably in 1985.

3. The Board recognised that it had the power, in the appropriate circumstances, to make such pragmatic adjustments as may be called for by the particular facts before it so long as the rate ordered was fair and reasonable. This principle was recognised in the Hope Natural Gas case when the "end result" doctrine was enunciated.

In the circumstances, the Board will permit the Company to recover the amount of $3,242,000 in respect of corporation taxes in the test period, and attached to this decision is Schedule No.2 which sets out the appropriate calculation of the said corporation tax.

DEPRECIATION

The Company claimed the amount of $8,074,000 in respect of depreciation expense in the test year and this amount is set out at line 10 of exhibit D/S1. According to the evidence of Mr. Shorey, the amount of $8,074,000 was calcualted by applying the pre 1967 depreciation rates to the historical cost of the assets used and useful in the public service in the test year 1983.

It must be noted, however, that when the Company presented the application in September of 1982 that an amount of $12,000,000 had been included for depreciation expense on a revalued assets basis, and that the Board had requested the Company to produce a calculation showing the depreciation expense on a historical cost basis. At the hearing itself, Mr. Shorey said, "in my professional opinion the appropriate rates of depreciation which should be used in this case are, dealing with ratemaking, those in exhibit D/R13 (i.e. the pre-1967 depreciation rates)." He sought to explain the conflict between the Company's claim for depreciation on historical cost and the original presentation claiming depreciation on a revalued assets basis in this way.

> "Mr. Shorey: The original Schedule 12 contains depreciation on the fully revalued assets of the company at the rates presently in use by the Company, and that is the depreciation that would have to be used in arriving at the rate of return on the formula included in certain financial agreements. For this rate hearing though I would want to remove that Schedule on Depreciation and have that removed from evidence.
>
> Mr. Chairman: Which one is this?
>
> Mr. Shorey: That is Schedule 12.
>
> Mr. Brown: On which depreciation was calculated at fully revalued fixed assets, Mr. Chairman."

THE OBJECTORS' POSITION

In his sworn evidence, Mr. McClean dealt with the question of depreciation and his general points were that the steam plant equipment A and B at the Garrison, the diesel plant equipment GMs Garrison, would, on the basis of depreciation rates used by the Board, be fully depreciated.

He also gave evidence to the effect that if one added the two elements of steam plant building equipment together that the cost shown in D/S13 was higher than the cost on the Company's books as at the 31st of December, 1982. He said that this would mean that the depreciation expense shown in D/S13 was higher than it would have been if the cost in D/S13 was the same as the historical cost shown in the Company's books.

His third point was that in relation to distribution plant there were many variances between the historical cost in D/S13 and the historical cost in the Company's books. According to him the position was as follows, "Some up, some down, but mostly down. The net effect that the cost in D/S13 is overstated also in relation to the distribution plant, and by interpretation, depreciation expense is also overstated." When he gave his evidence, Senator McClean stated that the depreciation expense was not correctly computed because of what he said had become evident from MC3, and that his calculation for depreciation expense would be lower than the $8,074,000 claimed by the Company. He did not give a specific figure. He said that he had a part calculation somewhere but did not have a full calculation of what the figure would be. Later in cross-examination by the Board's Legal Adviser, he said that his part calculation showed that the appropriate figure for depreciation on production plant was $5,333,917. This is to be contrasted with the figure $5,400,000 which was the Company's calculation in accordance with the method which they had adopted.

No other objector gave evidence and there was no significant cross-examination by any other objector on the question of depreciation.

THE BOARD'S FINDINGS

The question of depreciation expense is another of those issues which has given rise to a considerable degree of controversy in recent rate hearings; and much of the confusion centres around the question of the appropriate depreciation rates which should be used by the Company. It is now clear that some time in 1967 the Company, apparently with the concurrence of the Board revised the rates of depreciation charged concurrently with the revaluation of the Company's assets. Much of Senator McClean's cross-examination, for example, related to this particular question and Mr. Shorey admitted in cross-examination that if the pre 1967 rate had been consistently applied, then some of the Company's assets (on which depreciation is still being charged) would have been fully depreciated.

Indeed the difference of $150,000 between Senator McClean's calculation for depreciation expense on production plant and the Company's calculation relates specifically to this matter.

In the Board's view, several things need to be said about depreciation. In the first place, depreciation is properly regarded as an operating expense, and it is nothing more than an attempt by the regulatory authority to permit the Company to recover the cost of capital employed in the public service. To that extent, the charge for depreciation represents nothing more than an estimate of the amount of capital consumed in the service of the public during the appropriate test year. That the amount of depreciation expense recovered in a particular year could never be an accurate reflection of the amount of capital consumed, is evidenced by the fact, that in order to determine what the appropriate depreciation expense will be in a particular year, one has to make a genuine estimate of the useful service life of the plant and then dividing the cost of the plant by the projected number of years during which it is expected that the plant would be in service.

The second point which has to be made is this. Whatever may be the criticisms of the Company's method of calculating depreciation expense in the past, it is clear that it is not now possible to return to the pre 1967 rates and to re-compute the depreciation expense on a straight line basis without any regard to the actual factual situation which has existed in the Company's history. For better or for worse the rates were changed in 1967, and the assets were revalued. The Board has recently determined that the appropriate method for calculating depreciation expense is by applying the pre 1967 rates to the original cost of the assets. The Company having originally claimed for depreciation expense on the basis of revalued assets, has now revised its submission in accordance with the Board's determination and has calculated its depreciation expense by applying the pre 1967 rates to the historical cost of the assets. On that basis the amount claimed for depreciation by the Company in the test period is $8,074,000. However, the Board has come to the conclusion that there must be two adjustments to the depreciat expense as claimed by the Company.

Firstly, since the last rate hearing in 1982, the Company has put into service at Spring Garden two low speed diesel engines and these are included for the first time in the computation of the Company's assets used and useful in the public service. During the course of the hearing Senator Wendell McClean questionc Mr. McConney on the depreciation rate being used in respect of these low speed diesels. In exhibit D/S13 the Company

is shown as using a depreciation rate of 4% in respect of these engines, whereas in respect of the other diesel equipment, the depreciation rate in use is 6%. The evidence shows that Mr. McConney rejected Senator McClean's suggestion that the Company might submit a 5% depreciation rate to the Board for its ruling.

However, the Board has also given this matter its very serious consideration especially in view of the fact that as Mr. McConney, in reply to Senator McClean, stated that the loans which provide the financing for such equipment have to be repaid over a 10 to 12 year period whereas in some cases the useful service life of the plant is estimated to be 25 years and the Company is attempting to recover through depreciation that amount that was invested in that plant.

Secondly, the Board has adjusted the value of the low speed diesels in accordance with the value shown on exhibit M/C3 as at 31st December, 1982, and the Board has substituted the value shown therein for the value shown in D/S13.

The Board is also of the opinion that the Company should be permitted to depreciate the low speed diesels at a rate of 6% which rate is the same rate at which the Company is depreciating the other diesel equipment for rate making purposes.

Thirdly, the Board is of the view that the Company has not taken into account the additions to plant and equipment during the last year, in the calculation of its depreciation expense. The evidence shows that the amount of $10,719,000 is to be spent during the test period in additional plant and equipment. Examination of exhibits D/S13, D/S36, D/S45 and D/S46 shows that the amount represented by the construction programme for 1983 are not included in the Company's calculation of its depreciation expense.

The Board has made these adjustments to the depreciation expense claimed by the Company and has determined that the reasonable estimate for depreciation expense in the test year is $9,915,000 as shown in Schedule 3 to this decision.

RATE BASE

The Board then turned its attention to a determination of the rate base. In his book "Principles of Public Utility Regulation" Professor Priest defines rate base to mean "the total investment in, or fair value of, the facilities of the utility employed in providing its service." He continues, "The rate base on which a return may be earned is the amount of property used and useful, at the time of the rate inquiry, in rendering a designated utility service."

The first question of importance was the determination whether Barbados is an original cost jurisdiction or a fair value jurisdiction. This question appears to have been answered in the case of the Barbados Light & Power Company Limited which was heard before the Chief Judge, His Lordship Sir Stanley Gomes whose decision was delivered on the 1st day of August, 1957. At page 9 of that decision His Lordship stated that there were various methods of valuation used in the United States. He also said "I consider therefore that in determining whether the rates are fair and reasonable, the criterion is that which will produce a fair return on the fair value of the Company's property used and useful in the public service. Further, in the case of the Barbados Telephone Company Limited -v- the Attorney General Barbados et al, Mr. Justice Williams at page 5 of that decision said, "There is no dispute that a public utility is entitled to get a fair return upon the fair value of its property used and useful in the public service." The Learned Judge goes on, "This formula is derived by inference from section 20 subsection 2 of the Act and Gomes C.J. laid it down in 1957 as the appropriate basis for determining the profit the public utility should get. He went on to indicate that the Board itself in the case then under consideration regarded it as settled law that ours is a "fair value" jurisdiction.

The Board therefore came to the conclusion that Barbados was a fair value jurisdiction and that the rate base ought to be determined on the principles applicable to a fair value jurisdiction rather than those applicable to a historical cost jurisdiction.

Professor Priest at page 140 of his book to which reference has already been made, sets out the considerations which apply in a fair value jurisdiction. He writes,

"When a fair value rate base is to be established, however, other factors are considered. Reproduction

costs new, or the amount required to replace the property as it exists, specific price indices giving expression to the original cost of existing plant in current dollars (trended original cost) and such established combinations as the consumers' price index, the wholesale price index - all commodities, and the gross national Fair Capital, Gross National Produce Implicit Price Deflater .... have all been looked at and given their varying rates. When such criteria are examined, the facts of inflation receive at least minimal consideration."

It is clear that current economic conditions, present price levels and production cost amongst other things must be taken into consideration in determining the fair value of the Company's property used and useful in the public service. For example, the Supreme Court of Ilinois in 1953 stated that in order to ascertain fair value.

"the original cost of construction, the amount expended in permanent improvements, the present cost of construction, the probable earning capacity of the property under the particular rates prescribed by statute, and the sum required to meet operating expense, are all matters .... to be given such rate as may be just and right in each case."

Bearing these principles in mind, the Board changed to an examination of the evidence in order to determine what was the fair value of the Company's assets used and useful in the public service.

THE COMPANY'S POSITION

Mr. David Shorey produced a memorandum entitled Re-evaluation of fixed assets and the calculation of the capital fair value rate base and it was marked exhibit D/S14, and was read into evidence. Mr. Shorey gave evidence of the method which he used to arrive at a valuation of the Company's property, plant and equipment and this is to be found at pages 97 to 99 of the record. He said,

"We obtained from Stone and Webster Appraisal Corporation adjustment factors for property in service at December 31, 1977 and for property acquired since 1977. The adjustment factors represent the trending of the recorded 1977 values to the price levels prevailing at June

1982 for steam plant, transmission and distribution plant and general property. For high speed and medium speed diesels, we used quoted prices for 1980 and 1981.

The adjustment factors used are set out in Schedules 9/1, 9/2 and 9/3. It will be observed that in carrying out this valuation, we assumed no price escalation factor for 1983, and accordingly, the valuation is a very conservative one."

The witness also went on to say that he had tested the revaluation against the valuation which was carried out "in-house" for the 1982 rate case and that the two valuations compared favourably with the in-house valuation being higher than the valuation used in the Stone and Webster adjustment factors. Having arrived at the gross revalued fixed assets, Mr. Shorey said that he then deducted (a) work-in- progress, (b) accumulated depreciation (c) assets not used and useful in the public service and (d) deferred taxes since 1979. To this he added cash working capital of $8.896 million dollars representing 1/8 of total operating and maintenance expenses including fuel and materials and supplies of $10.2 million dollars. Supporting exhibits showing the calculations for the various adjustments (referred to above) which were made to the gross revalued fixed assets of the Company were also produced by Mr. Shorey and of these, exhibit D/S14 sets out the appropriate calculation showing the rate base as calculated at $263,868,000.

OBJECTORS' POSITION

Senator McClean did not agree with the Company's calculation of the rate base. He said that "the main thing wrong" with the rate base was the computation of accumulated depreciation. He suggested that the accumulated depreciation should have been calculated on a "straight line" basis on rates approved by the Public Utilities Board for ratemaking purposes. He also argued that the rate base was too large in relation to the financial convenants.

Senator McClean also contended that there were assets included in the rate base which to use his words "are not part of the Company's actual rate base on that date". He was not, however, able to say what his calculation of the rate base would be.

His final objection to the rate base was that it was in two parts. By this he meant that the Company had taken the Stone and Webster Engineering Valuation of 1977 and had applied factors other than engineering factors to the Stone and Webster Engineering valuation.

THE BOARD'S FINDINGS

The Board has already referred to the factual situation in relation to depreciation expense, and having considered this matter, accepts the Company's calculation of accumulated depreciation.

Ratemaking is an art and not a precise science and the determination of the rate base involving as it does calculations of accumulated depreciation, is nothing more than a reasonable estimate of the valuation of the Company's property used and useful in the public service.

The Board accepted the Company's calculation of the accumulated depreciation.

In respect of Senator McClean's point that the valuation is in two parts, the Board has examined this issue, and concludes that it was reasonable for the Company to update the Stone and Webster revaluations of 1977 by the adjustment factors which were in fact used.

In the circumstances, the Board came to the conclusion that the rate base was reasonably estimated at $263,868,000.

THE RETURN

In exhibit DS.1, the Company produced a revenue requirements exhibit in which it claimed the amount of $20,380,000. as the return in the tests period. Mr. Shorey produced a Memorandum on Fair Rate of Return and indicated that that amount represented a fair return to the Company on its assets used and useful in the public service. The controversy in the case centred around the question of the return to common equity, and the Company's case was to the effect that it required the amount of $9,421,000. in order to enable it to earn a fair rate of return on its common equity because of a number of factors to which Mr. Shorey alluded in his evidence.

He indicated that the dividend for ordinary shares had been paid at 8% since 1974, but that in his opinion, the appropriate dividend which should now be paid would be a dividend of 10%. He based this opinion on what he referred to as the "sluggishness" in the trading of the Company's shares and the prospect of the Company's going to the market with an issue of 775,000 shares during the next nine months. He also arrived at the amount for dividends after "carrying out an analysis of the dividends paid by a number of public companies in Barbados". He took into account the fact that the amount allowed for dividends by the Public Utilities Board in 1974 was 13% and that the Company had reduced the figure to 8% to conserve cash. In his view, given the rates of interest paid on bonds in Barbados, guaranteed by the Government of Barbados in 1982, an 8% dividend would be inadequate to attract buyers of new shares in the Company. He further supported his calculation of the amount of $9,421,000. by reference to the pay out ratios used by the Board in its 1980 review decision, and indeed the dividend pay out ratio in the instant case assuming a 10% dividend on ordinary shares is 35:65. This ration would be very similar to that adopted by the Board in the 1980 case.

In considering this matter, the Board paid particular attentio to exhibit DS.47 in which the performance of the ordinary shares of the Barbados Light and Power Company Limited was compared with the performance of the ordinary shares in a number of other local companies.

In the Board's view, such an examination shows that there has been no capital growth in the Barbados Light and Power Company Limited since 1974 and in fact there has been on the evidence produced, a reduction in the value of the shares of the applicant Company since that time.

The Board also considered the judgement of Mr. Justice Hanschell delivered on the 29th day of January 1970 in the application by the Barbados Telephone Company Limited for increased rates. At page 16 of that decision the Learned Judge said:

> "In view of the effects of inflation on replacement costs and in view of the continuing increase in telephone plant investment which occurs as a result of rising demand, and in view of the necessity for the Company to continue to operate in a manner that will attract investment, it is clear that a substantial measure of retained earnings is a requisite of telephone company operation. In the circumstances the Court finds that a sum approximately equivalent to 1.25% of the rate base should be included in addition to the bare necessities of interest dividends and operating expenses in order to provide the Company with a fair return."

To allow the Company to recover $20,380,000 as the return income will enable the Company to discharge its obligations in respect of long term interest and short term interest and will leave the amount of $9,421,000 as the return on common equity. The Board considers that this amount represents a fair and reasonable return for common equity.

The Board also recognises that this allowance will permit the Company to satisfy the rate of return convenants into which it has entered, and that the Company will also be able to satisfy the Earnings Coverage Ratio Test contained in the Debenture Trust Deed into which the Company entered in 1974.

In these circumstances the Board accepted the Company's evidence on this matter, and came to the conclusion that the amount requested for the return income was fair and reasonable in all the circumstances and it is hereby allowed.

OUTAGES

Objector Mr. Miles Rothwell raised the issue of outages and the Company on the Board's order produced exhibit AG 2 which set out the details of outages during the year 1982. This exhibit showed that there were 72 outages during 1982 and Mr. Rothwell cross-examined Mr. Gittens, the Company's Manager of engineering operations on this matter.

In respect of outages, the Board wishes to make it quite clear that it regards the quality of service as an important matter in rate proceedings. As Professor Priest said at page 263 of Volume 1 of his Principles of Public Utility Regulations:

> "Service complaints naturally become a commission yard stick for measuring the efficiency of the utilities operations. If patrons are silent (even though sour), the utility is doing an acceptable job, but when a regulatory agency receives complaints in volume, it must act, not only for the customer's sake, but also for the utility's....... Disrupted railroad and bus schedules, dead telephones, freight undelivered, a plane held on its runway by defective parts, will cause much gnashing of teeth, but they are fleanips when compared with a wholesale failure of electric service, which turns any community upside-down."

The Board will monitor the number and frequency of outages, and will take such action as it may deem desirable in respect of future outages.

EMPLOYEES' RATES

The Board has studied the evidence, and the submissions made by the Company in respect of the rates which its employees pay for the supply of electricity.

The Company submitted to the Board that it should be permitted to maintain the rates charged to employees at the level existing in September of 1982 when the application for increased rates was lodged. At that time, employees were paying a rate of 3 cents per kWh in addition to the fuel charge. The Company submitted that the reduced rate to employees was part of the Employees' Compensation Package and that based on past experience the Union will exact back into the wage rate any increase in the employees' rate which increase will then be compounded for ever and ever and will cost the consumer more.

In considering this submission, the Board has also taken into account Section 18 of the Public Utilities Act which states, "No public utility shall supply or furnish to any person any service at rates which are unduly preferential or discriminatory."

In the Board's view it would be unduly preferential and discriminatory to permit the Company to continue to supply electricity to its employees at 3 cents per kWh. However, the Board recognises that some discount is in order and will order that the basic rate to be charged to employees will be 8 cents per kWh in addition to the fuel charge.

REGULATORY LAG

When the Company submitted its rate case presentation in September 1982 it was proposed that the new rates should come into effect from 15th November 1982. However, a temporary rate of 5 cents per kilowatt hour was imposed with effect from the 1st October 1982, and approximately $1.9 million was collected through the temporary rate to 15th November, 1982.

The Company has also over collected on the fuel adjustment clause an amount of approximately $1.6 million, making a total of $3.5 million over collected.

However, if the increase given in this decision had been in force from November 15th 1982 to May 15th 1983, the Company would have recovered the amount of $3.9 million, which it has not recovered by reason of the time taken to consider and decide upon the application.

After making an adjustment to the amount of $3.9 million to take account of the amounts over-recovered in respect of fuel and the temporary rate, the Board finds that the Company has suffered a loss of approximately $400,000 due to regulatory lag.

The Company will therefore be permitted to recover the amount of approximately $400,000 and is hereby required to submit to the Board, a Schedule setting out proposals for the collection of this amount over a period of not less than 5 months.

OBJECTORS' COSTS

The Board has been asked to exercise its discretion under Section 56 of the Public Utilities Act to award costs to the objectors. The Board has considered this matter and proposes to exercise its discretion in favour of the objectors by ordering that costs should be awarded to the objectors to be agreed between the parties or determined by the Board in the event that the parties cannot agree.

In making this order, the Board has been influenced by the following considerations:

1. In September of 1982, when the Company filed its application, its depreciation expense was calculated on the basis of a revaluation of the Company's depreciation base. The objectors objected to that base, and suggested that the appropriate base should be the historical cost base. At the hearing itself the Company conceded this objection and claimed depreciation on the historical cost basis.

2. The Board has found that the Company's claim for corporation tax was incorrectly calculated and to that extent has upheld one of Senator McClean's submissions.

3. In respect of fuel, both Senator McClean and Mr. Rothwell contributed to the hearing by their cross-examination and evidence on this matter. The fuel clause which the Board proposes to allow the Company to put into effect has been modified in accordance with a suggestion made by Senator McClean, and important evidence respecting the "generation mix" of the Company's production plant has been elicited in cross-examination by Mr. Rothwell.

It is the Board's view that the allowance for rate case expenses will be enough to satisfy a reasonable amount in respect of costs for the objectors.

In any event, the Board will determine these costs if the parties are unable to agree them between themselves.

CONCLUSION

In the Board's opinion the revenue requirements of the Company in the test year is reasonably estimated at $67,273,000 as shown in Schedule 1, attached to this decision.

Included in this calculation, is an amount of $8,297,000 in respect of the base cost of fuel, as well as the other amounts already allowed to the Company in this decision.

To meet these requirements, the Company will need to increase its rates by approximately 7.5 cents per kilowatt hour. The Order which the Board has made permits the Company to increase its rates by this amount.

APPENDIX A

1. Operating Revenue

Operating revenues should be detailed by customers class, with growth pattern percentages and all relevant information showing how these revenues are arrived.

Any miscellaneous revenues should also be supported by schedules showing how they are calculated.

2. Operating Expenses

Operating and maintenance expenses should be broken down at least by functional groups. Those functional groups which are subdivided between operation and maintenance should be further subdivided for this purpose.

Depreciation, operating taxes, and income taxes should be supported by schedules breaking these items down into sufficient detail to be useful for making projections.

3. Rate Base

Rate base should be shown in the detail now provided for historical test year presentations. Major plant additions from the end of the historic period should be separately identified, indicating actual or estimated in-service dates.

4. Cost of Capital

To assure that a complete and useful record is complied the following information should be submitted at the time of the filing:

A. a. The latest available construction estimates with detail of major items.

b. Internal sources of funds, eg., depreciation accruals, retained earnings, deferred taxes etc. The basis for the retained earnings estimate should be described, including the assumed returned on common and payout ratio.

c. Estimated short term debt balances, and available lines of credit.

d. External financing requirements: projected issues of debt preferred and common equity, including sources such as dividend reinvestment.

B. Projected capitalization ratios and a statement of the Company's objectives.

C. Estimates of interest and preferred dividend coverages computed in accordance with the provisions of the appropriate indenture.

The Board would expect that the forecasts should be developed from the historical base and that changes in prices and in operational expenses should be fully set out and classified by functional groups and elements of costs.

The Board will expect to see a suitable analysis of changes between the historical and forecasts periods for matters such as revenue, taxes payable and the rate base and it will also expect to see properly supported data for all assumptions fed into the projections.

/2.........

In the Board's view, the provision of this detailed information should make it easier for the Board and the objectors to see the link between the historical data and the forecasts, and should have the effect of reducing the amount of time spent in dealing with these matters at the rate hearing.

APPENDIX B

FUEL CLAUSE

1) As the price of fuel increases or decreases, the monthly kWh charge for energy shall be increased or decreased by an amount calculated according to the following formula:

$$\frac{\text{Cost of fuel}}{\text{kWh sales}} - 2.64 \text{ cents}$$

2 a) The cost of fuel shall be calculated by the Company using fuel prices provided by the fuel supplier, and the quantity of fuel used by the Company during the month preceding the billing month.

b) The kWh sales shall be the number of kWh sold during the month preceding the billing month.

3) A monthly reconciliation shall be made of the fuel revenue and the actual cost of fuel above or below 2.64 cents per kWh sold. Any over or under-recovery shall be deducted from or added to the projected monthly cost of the fuel in the second month following the month billed.

4) The calculation of the actual cost of fuel used in the above reconciliation shall include amounts paid for purchased power.

Barbados Light & Power Co. Ltd
Revenue Requirements
1982/83 Rate Case

	Initials	Date
Prepared by		
Approved by		

Schedule 1

000's.

Line	Item	Amount
1		
2	Operating Revenue	$ 67273
3		
4	Operating Expenses	
5	Fuel – Base cost	5297
6	Operating & Maintenance	20261
7	Taxes other than income	11235
8	Income Taxes	
9	Current portion (See Schedule 2)	3242
10	Deferred portion	4298
11	Deferred Invest. Tax Credit	284
12	Depreciation on Historical Cost (See Schedule 3)	9915
13		
14	TOTAL	47418
15		
16	Operating Income	19861
17	Exchange gain	519
18		
19	Return Income	20380
20		
21	Other deductions	
22	Interest	10681
23	Preference dividends	278
24		
25		10959
26		
27	Balance for Common equity	9421
28–30		
31	Increase ($67273 – $43680 for 1982 in D/S1)	$ 23593
32		
33	K.w.h. Sales	314280.0
34–35		
36	Increase in base rates (line 31 ÷ 33) =	[illegible]
37–45		

0842

Barbados Light & Power Co. Ltd.
Corporation Tax Computation.
1982/83. Rate Case

	Initials	Date
Prepared by		
Approved by		

Schedule 27

Line	Description	Amount
1		
2	Operating Income for year (see Schedule I)	67773
3	Gain on exchange	19
5		67792
7	Less: (see D/S9)	
8	Fuel - Base Cost - S/54	(8297
9	Operating & Maintenance	(20156
10	[illegible] other than income	(1125
11	Directors' fees	(19
12	Interest expense	(10681
13	Investment allowance	(1603
14	Initial allowance	(16267
15	Annual allowance	(22
16	Industrial building's allowance	(469
17	Balancing allowance	(120
18	Profit on sale of motor vehicles	(14
19	5½% Preference dividend	(28
21		8991
22	Balancing charge	14
24	Income for year	9005
26	Less back-log depreciation - 25%	(2251)
28		6754
31	Corporation tax at 48%	$ 3242

Depreciation Schedule
1982/83 Rate Case

Schedule 3

	Adjusted Historical Cost 3/S.13	Additions net of contributions 3/S 36 & 3/S 10(c)	Retirements 1983 3/S 10(c)	Adjusted Historical Cost at 31/12/83	Depreciation Rates %	Depreciation Expense
PRODUCTION PLANT						
Steam plant buildings – [illegible]					2.5	
[illegible] 1&2 – [illegible]	2163517			2163517	4.0	86540
[illegible] equipment	106257			106257	4.0	4251
[illegible] equipment	39911			39911	4.0	1596
Equipment [illegible]	34954770	627900		35582670	4.0	1423107
Natural Gas [illegible]	1174400			1174400	5.3	62243
Diesel plant building	637422			637422	5.0	31871
Equipment – General					6.0	
– [illegible]	1136389			1136389	6.0	68183
– [illegible]	2777046			2777046	6.0	166623
– [illegible]	7761570			7761570	6.0	465717
Gas Turbine	5465712			5465712	4.0	218628
Fuel tank	663770			663770	6.0	39826
Diesel plant 3.5 KW [illegible]	33005			33005	10.0	3301
Low Speed Diesel plant – building	13546750			13546750	6.0	812805
– Equipment	57927503			57927503	6.0	3475668
Work in progress						
	128435655	627900		129061555		6563354
DISTRIBUTION PLANT						
Substation buildings	715319			715319	5.0	35926
Substation Equipment	9931461	1536500		11472261	4.0	458981
Substation – work in progress						
Poles and accessories	10615566	2403020	(475592)	12438694	4.0	497548
Overhead Conductors	7171312	1454500	(109520)	8476292	4.0	339050
Underground Cable	2441189	263780		2704969	4.0	105199
Transformers	7109357	663700	(177600)	7595657	4.0	303827
Services & Street lighting	4846216	1544400	(330094)	5060522	4.0	202421
[illegible] & [illegible] facilities	3351729	477500	(156651)	3602579	4.0	144103
Work in progress						
	45780579	7263700	(973511)	52070765		2090005
GENERAL PROPERTY						
Buildings	2568665	2137922	(1700)	5037590	5.0	251894
[illegible] & [illegible] Equipment	963958	95300	(194449)	567809	10.0	56781
Transportation Equipment	2034105	461400		2495185	25.0	623897
Work in progress		(355424)		(355424)		
	5931814	2289200	(195149)	8012865		963572
Lands & Rights of way	2166539	543500		2219539		
	181807354	10719300	(1170560)	191354734		9915931

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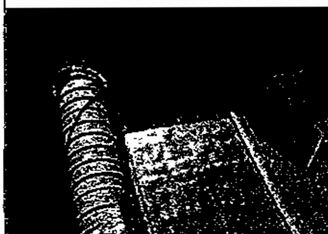
Light & Power Holdings Ltd.

ANNUAL REPORT 2007

L&PH

Light & Power Holdings Ltd. is an investment company with electricity being its core business. The Company has a wholly owned regulated electric utility, The Barbados Light & Power Company Ltd. which has been serving electricity customers in Barbados since 1911. Electricity service is available to the entire island community.

Two new ventures, intended to help Barbadian consumers, are the telecom projects. TeleBarbados and the Antilles Crossing Group, in which Light & Power Holdings has invested. These projects have increased international telecommunications capacity to Barbados by more than twenty times and helped reduce the cost of telecommunications service between Barbados and the rest of the world by more than fifty million dollars.



Sixty-one per cent of the shares in Light & Power Holdings Ltd., are held by approximately 2,700 Barbadian shareholders. The Common Shares of the Company are quoted on the Barbados Stock Exchange.

directors' letter to the shareholders

While the Barbados economy expanded again in 2007, there are signs that the global economy is beginning to slow down. Light & Power Holdings continues to support the needs of the people of Barbados, and is also actively seeking ways to keep operating costs under control. As it has for the past 25 years, the Company's main subsidiary, The Barbados Light & Power Company Limited, continued to meet increases in demand for electricity and provided superior service for customers without an increase in the basic rate, a remarkable feat. Electricity prices in Barbados are the second lowest when compared with other islands in the Caribbean. Only in Trinidad & Tobago, where there is abundant and inexpensive natural gas, are electricity rates lower than in Barbados.

The Barbados Light & Power Company has worked hard and made efficiency gains with the aim of keeping customer electricity prices stable. It is worth noting that, over the years, the electricity prices, including fuel adjustment, have increased by much less than the increases in the retail price index. It is therefore very frustrating to see recent skyrocketing fuel costs negatively impacting customer bills by driving up fuel clause adjustments which are linked to changes in fuel oil prices.

In every area the utility has held the line on production and distribution costs. Almost all of the electricity is manufactured with generating plant that burns residual fuel in an efficient manner. The newest low speed generating plant installed at Spring Garden Power Station in 2005 has already saved Barbados some $160 million in foreign exchange through December 2007.

During 2007, investment in electric utility property, plant and equipment increased to almost six hundred million dollars. In December, the Barbados Government reduced corporation taxes for all manufacturing companies, including The Barbados Light & Power Company. While this resulted in a reduction in deferred tax liabilities of twelve million dollars on the consolidated balance sheet and a corresponding one time increase in income on the consolidated statement of income, it had no impact on the cash flows of the company available for needed investment in plant, property and equipment.

In Barbados, where it is not possible to interconnect with other power systems, the utility's planning engineers cannot be complacent in the belief that when new capacity is needed new power plant will somehow be available just in time.

They know that when someone turns on a light or a television set, the electric system needs to have power generating capacity to satisfy this additional power requirement instantaneously on demand. Unlike telecommunications where a busy signal is the indicator of lack of capacity, the signal of the unavailability of electric capacity comes in the form of a blackout.

Construction costs and the cost of manufactured components common in electric utility infrastructure projects have increased significantly due to high global demand for commodities and manufactured goods, higher production and transportation costs, in part owing to high fuel prices, and a weakening of the U.S. dollar.

Large proposed transmission projects have undergone cost revisions, and distribution system equipment costs have been rising rapidly. In electricity generation, all technologies have experienced huge cost increases. As an example, the newest low speed generating plant at Spring Garden Power Station which was constructed for BDS$140 million in 2005 would cost approximately fifty percent more for an identical plant, if ordered in 2008.

It is remarkable that, for many years, the electric utility has been able to add new plant and equipment without an increase in basic electricity rates. This has been possible because increases in electricity sales offset increases in operating costs. With increases in the cost of all inputs to producing electricity now escalating at a rate greatly exceeding increases in sales, we are confronting a different future.

For these reasons, the electric utility will find 2008 and beyond to be much more challenging than ever before.

Light & Power Holdings maintains its focus on improving the quality of life for individuals as well as the society at large. The new international telecom projects, TeleBarbados and the Antilles Crossing Group in which the Company invested, have

made a positive impact on telecommunications service and cost to all the consumers in Barbados.

Leadership in these telecom projects came from Light & Power Holdings' largest shareholder, Leucadia National Corporation. Leucadia's investment in these projects, with Light & Power Holdings' support, has created significant value for Barbados and considerable savings for customers.

For example, residential data customers have benefited from price reductions of about 30% representing savings of approximately $9 million annually. Business long distance rates have declined by about 50% amounting to $10 million annually to business customers. Business data prices have dropped 65% resulting in savings of $23 million annually. Private line and professional services prices have also come down with savings in these areas amounting to about $14 million annually. The market is growing and prices are continuing to come down.

A French business enterprise, Group Loret, based in Martinique, has also been building international telecom capacity in the Caribbean. Following discussions with Group Loret, it has been decided to combine the sub-sea fiber assets of the Antilles Crossing Group and Group Loret to form a joint venture, Global Caribbean Fiber. The primary business of Global Caribbean Fiber is the sale of telecommunication services to regional governments, carriers and other parties requiring large amounts of bandwidth.

Effective January 1, 2008, Leucadia and Light & Power Holdings together own forty percent of the shares in Global Caribbean Fiber through a newly formed entity Caribbean Fiber Holdings that is owned seventy-five percent by Leucadia and twenty-five percent by Light & Power Holdings.

Global Caribbean Fiber is serving a number of Eastern Caribbean islands including Martinique, Guadeloupe, St. Lucia and Barbados. An extension to St. Vincent, Grenada and Trinidad is currently under construction. Future expansions are planned north to Haiti and the Dominican Republic and south to Guyana, Suriname & French Guyana.

The Company continues to be interested in playing a pro-active role in helping to enhance the positive aspects of the Garrison and Bay Street neighbourhoods to demonstrate how all the elements of this unique heritage area can be improved for the common good.

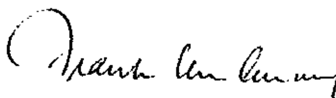
For several years the sensitive restoration of the Old Eye Hospital and derelict Savoy Hotel property on Bay Street has been a project of interest to the Company. The desire is to help create a civic development with significant public view corridors and access to the beach and ocean. This project is currently being reviewed.

Since the last Annual Meeting of Shareholders in 2007 there have been some changes to the Board. We extend congratulations to Mr. Ian Carrington who was awarded a fellowship to pursue post graduate studies in Public Administration at Harvard University, and welcome Mr. Almroth Williams, Acting Director of the National Insurance Department, who was appointed as his alternate. We also welcomed Mr. Justin Wheeler, President of Leucadia's Asset Management Group who replaced Mr. H.E. 'Bud' Scruggs who resigned from Leucadia to take up a voluntary position with his church.

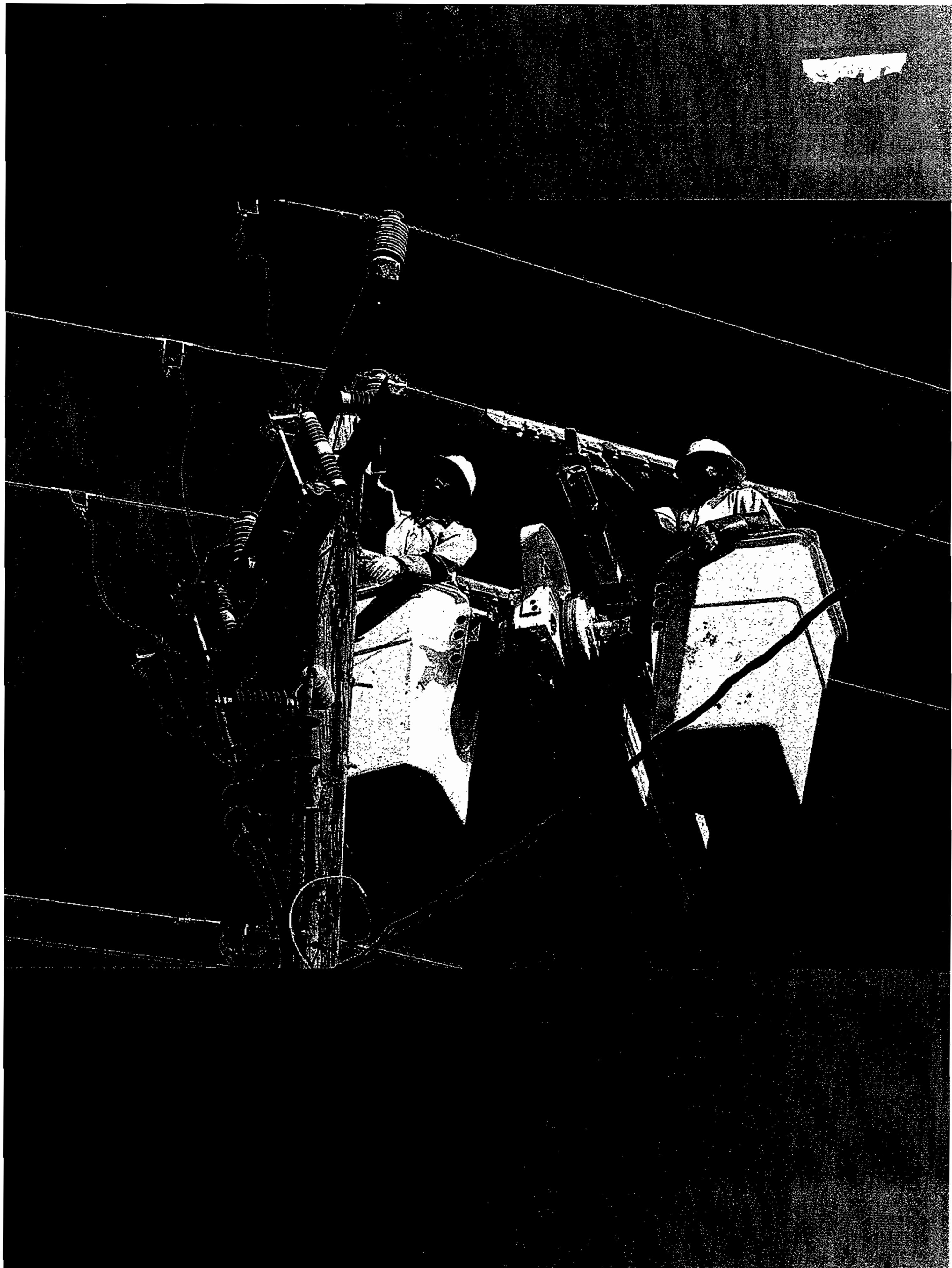
The Company's key objectives remain very clear. The focus is on continuing to provide superior customer service to meet increases in demand, to maintain a good working environment for exceptional employee performance and to earn a fair return on shareholder investment.

It is an honour for the Directors to serve. We thank customers, employees, and shareholders for their continued support as we look to the future with confidence.

On behalf of the Directors



On behalf of the Board of Directors
Light & Power Holdings Ltd.
February 28, 2008



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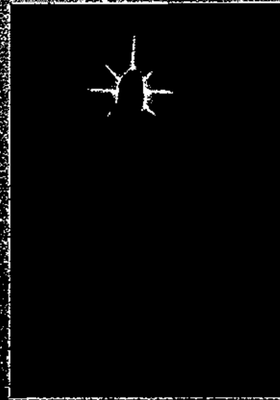


blpc report on operations

0850 **2007** opened with the nation focused on preparations for hosting the World Cup Cricket final, which was successfully held at the newly rebuilt Kensington Oval. With the heightened activity leading up to this major sporting event, the Company recorded an increase in sales for the first half of the year of 5% and a new record peak demand of 162.4 megawatts. Sales continued to grow during the second half of the year, but at a much more modest rate, resulting in an overall sales increase for the year of 4.1%. It is anticipated that other projects presently under construction, including the Four Seasons Hotel, several large luxury condominiums, and a new Hall of Justice, will continue to provide the impetus for future growth.

Oil Prices Soar

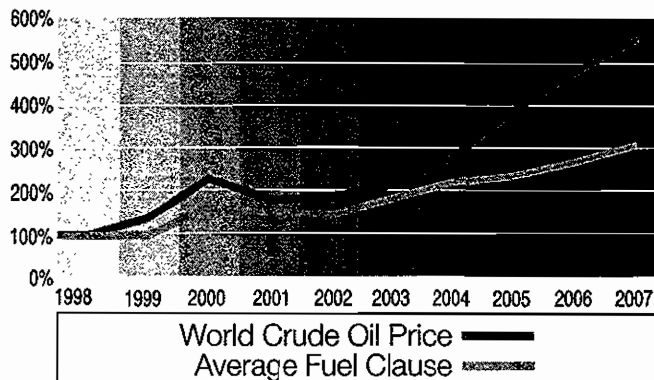
As the year progressed, international fuel prices soared and new record highs were set month after month, with the price hovering around US$100 per barrel at year-end. While fuel prices have more than doubled since 2004, the average Fuel Clause Adjustment has increased by only 35%. The Company's investment in modern generating plant capable of operating on the least expensive, low grade, residual fuel oil helped to moderate the increases in electricity prices through this period. About 90% of the electricity produced during 2007 was generated on residual fuel, and the two new 30 MW low speed diesels that were installed in 2005 at a cost of Bds$140 million have already saved the country and our customers over Bds$160 million.

However, the Company's efforts to moderate the effects of fuel prices was of little comfort to our customers as the Fuel Clause Adjustment continued to climb, reaching a record high of 26.0279 cents per kilowatt-hour in November, 2007.

In response, and in a general effort to control the high cost of living, the Government of Barbados introduced a subsidy on heavy fuel oil used in electricity production for residential customers in order to maintain the Fuel Clause Adjustment at the October 2007 level. This measure was approved by the regulator, the Fair Trading Commission, and implemented by the Company in December.

Seeking Alternatives to Oil

While our immediate future is tied to oil and the vagaries of oil prices, the Company recognizes the need to diversify the electricity supply away from this single source. During the past several years, much effort and investment have gone into pursuing other sources of energy to meet the growing demand for electricity.



10 Year Oil Prices & Fuel Clause Adjustment (1998 - 2007)

Early in the year, the Company held public "Open House" sessions to provide an opportunity for discussion on the 10 MW wind farm, which the Company proposes to construct at Lamberts, St. Lucy. The Company now awaits a response from the Town & Country Development Planning Office to its application for the wind farm. The Company has also started detailed discussions with the Cane Industry Restructuring Project for the supply of electricity into the grid from a proposed cogeneration plant which would utilize bagasse from the new sugar and ethanol processing facility that the Government proposes to commission at Bulkeley, St. George.

While both of the foregoing projects are important, neither would be sufficient to replace the significant quantity of oil that is used in electricity production. The Company was therefore very pleased when the Governments of Barbados and Trinidad & Tobago gave their blessing to the proposed undersea natural gas pipeline from Tobago to Barbados and work was able to proceed on the more detailed studies required for the financing and construction of this multi-million dollar project. The project, being undertaken by the Eastern Caribbean Gas Pipeline Company, is a complex one with many hurdles to overcome, but offers significant economic and environmental benefits to Barbados and electricity customers.

Energy Efficiency

Energy is a major cost to the economy, and the Company has been vigorous in its promotion of energy efficiency amongst all of its customers. In this regard, the Company conducted energy audits of several large hotels and made recommendations on the potential for energy savings. The Company's philosophy has long been that for it to be successful, its customers must be efficient in energy use, especially in the tourism business which is highly competitive in the Caribbean.

In its own operations, the Company's technical losses from the transmission and distribution of electricity, which for 2007 were about 6%, are among the lowest in the Caribbean and comparable to levels in well run utilities in Europe and North America.

A Tradition of Customer Service

The Company has long been committed to continuously improving its service to customers. As the demand for electricity grows, and older plant and equipment nears the end of their economic and technical life, the Company is planning for new facilities to ensure that it can continue to meet the needs of its customers.

"... the Company recorded an increase in sales for the first half of the year of 5% and a new record peak demand of 162.4 megawatts"

Land was purchased for a new generating site at Trents, St. Lucy and the necessary planning permission was obtained after completion of a thorough Environmental Impact Assessment. Given progress on the project to import natural gas, and the increasing viability of this as an option over expensive oil, the Company has issued a request for tenders for a new 20,000 kilowatt gas turbine which will be used for intermediate and peaking duty in the short term. Should natural gas be imported, this unit will be ideally suited to operation on gas.

Work is also well advanced on the installation of new underground cables to connect the new generating station at Trents to the grid, as well as to interconnect the distribution substations located along the route. During 2007, ABB High Voltage Cables of Karlskrona, Sweden completed the installation of underground high voltage cables along Highway 2A from the electrical substation near St. Thomas Parish Church to North Substation at Maynards, St. Peter at a cost of approximately Bds$37 million. These new underground transmission cables are designed to operate at 132,000 volts, but could be connected at 24,000 volts initially, until the full capacity is required. During 2008 ABB is expected to commence work on the connection between Maynards and Trents in time for the commissioning of the new generating unit at Trents in 2009. Significant work has also taken place with the completion of civil works for substation upgrades at St. Thomas and North substations and the installation of new indoor 24,000 volt and 11,000 volt switchgear to replace older outdoor switchgear at these locations.

With the ever present threat of storms and hurricanes, the Company installed ducts in and around the Bridgetown area for underground high voltage transmission cables. The major projects include circuits between the Garrison and Belmont substations and Belmont and Marhill Street substations, as well as along Fontabelle.

The Royal Bank of Canada has provided financing for a portion of this expansion through a Bds$25 million loan.

Information Technology - Driving Future Opportunities

Rapid advances in information technology are driving tremendous changes in our society. The Company has embarked on a number of initiatives to provide enhanced customer service and improve reliability through the deployment of modern IT systems.

Perhaps the most significant project is the planned implementation of a new Customer Care & Billing system which is being supplied by SPL, a division of ORACLE, a large international software supplier. Months of design and testing have already been carried out and training is underway for launch of the new system in 2008.

The Company has been a leader in the use of Information Technology for its Distribution SCADA (Supervisory Control and Data Acquisition) system, which was installed in 1984 and has been upgraded with more modern technology on a number of occasions since. The Company is now installing a modern fiber optic network to provide a faster and more secure communication network with the electrical substations located throughout the island and to provide enhanced system control and protection. The Company will also be considering other advanced computerized technologies, including

advanced metering systems which would allow remote reading of meters at customer premises.

As our dependence on information systems increases, there is an increased need for disaster recovery and better computer security. The Company has therefore established an off-site backup for its Information Systems operations which would allow quick recovery in the event of failure at its main location.

In the event of a disaster

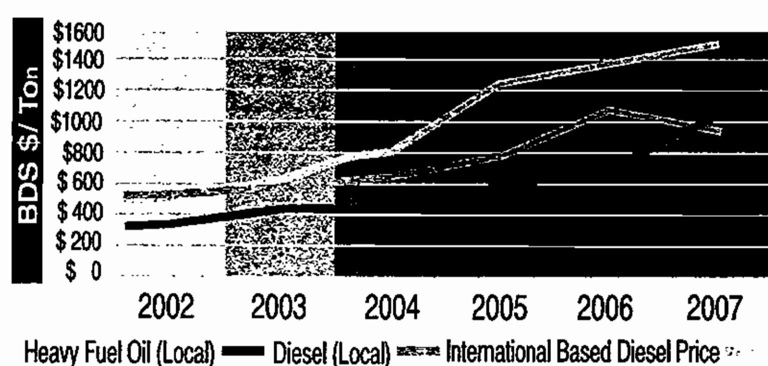
We are thankful that another hurricane season has passed without major event, and pray that we will continue to be spared the ravages of hurricanes. Hurricane Janet, which struck the island over 50 years ago in September 1955, was the last major hurricane to affect Barbados. Nonetheless, the potential for major loss is always present and the Company's Self Insurance Fund continues to be strengthened in the event a major storm does strike. Towards the end of 2007 we engaged a risk consultant to review the fund and make recommendations to ensure the continued security and solvency of the fund.

On the regional front, Hurricane Dean lashed Dominica and Jamaica and also affected other islands. Over the years, the Company's linemen have participated in several regional hurricane recovery efforts, and stood ready to assist again, but help was not required on this occasion.

Self Generation - A Growing Concern

Of continued concern is self-generation by manufacturing customers who benefit from heavily subsidized diesel fuel. Indeed, by November 2007 the controlled price of diesel was below that of heavy fuel oil on the local market. As shown in the following chart, this is a substantial price distortion, as the international price of diesel is approximately 60% higher than heavy oil.

The Company uses very little diesel fuel in its operations, and has invested millions in efficient plant capable of operating on low grade heavy fuel oil. This diesel pricing policy has the unintended effect of undermining this investment, causing uneconomic substitution by customers operating small generating units on diesel fuel, and increasing the overall cost of fuel imports to the island. The Company believes that support to the manufacturing sector should be structured in other ways.



Heavy Fuel Oil and Diesel Prices 2002-2007

0854

Preparations for a Rate Review

Surveys conducted by the Caribbean Association of Electric Utilities (CARILEC) have placed electricity rates in Barbados amongst the lowest in the Caribbean, and while high international oil prices have affected the Fuel Clause Adjustment, there has been no increase in the basic price of electricity since 1983.

For the past few years the Company has come under increasing pressure as the cost of inputs, such as copper and aluminium, commodities required for the manufacture of transformers, overhead conductors and other items used in the generation and distribution of electricity have risen to record highs. In addition, existing residential rates are below cost of service, and rates for commercial customers are above cost. Some twenty manufacturers presently generate their own electricity, encouraged in large part by the subsidy on diesel fuel, but also because of the present rate structure. If this situation is allowed to continue it could be detrimental to the remaining customers who would bear the cost of maintaining the electricity plant and distribution network.

During 2007, the Company engaged Christensen Associates Energy Consulting, a consulting firm with extensive experience in utility rate making to assist in a comprehensive review of the existing rates and rate structures. It is anticipated that an application will be submitted to the Fair Trading Commission in 2008 for a review of the existing rates. The objective is to develop an approach that will give consumers efficient price signals about the true cost of electricity service and encourage energy efficiency, whilst providing the Company with sufficient revenue to operate and expand a reliable system.

The needs of low-income earners for a minimum amount of affordable electricity will also be taken into account in this exercise. Altogether, this is a significant undertaking and will take several months to complete.

At the same time we strive to maintain a high level of service to all our customers. The Fair Trading Commission issued its report on the Company's performance after the first full year since the implementation of the Service Standards. The Commission noted that compliance was high, and opportunities for compensation under the standards were few.

Our People - Our Strength

We recognize that our success depends on our ability to attract and retain talented individuals, recognize their contribution and provide the environment in which they can be productive.

The team working on the Health, Safety, Environment & Quality (HSEQ) management system has made significant progress and continues to put in long hours to achieve its objective and communicate the importance of the new quality management system to all of its colleagues throughout the Company.

Our Environmental Health & Safety Officer worked closely with Government's Coastal Zone Management Unit and the Environmental Protection Department to coordinate reuse of old generator engine blocks, each weighing several tons, as moorings, instead of disposing of them at the dump.

Daily, our distribution teams travel hundreds of miles to various work sites across the island. They do so safely and courteously as they manoeuvere their large vehicles in and out of the heavy traffic that they meet on our roads.

Electricity cannot be readily stored and is delivered to our customers a fraction of a second after it has been produced. Our SCADA and generating plant operators are concerned every time the lights go out and work to resolve the problems that cause supply interruptions. Ensuring that all systems work in a coordinated manner requires a great deal of teamwork and their efforts have resulted in 2007 being one of the best years on record for system reliability.

We continue to build relationships with major stakeholders, and members of our team worked with the Government Electrical Engineering Department to present seminars and training sessions for the many electricians and electrical contractors to keep them informed of current standards and practices for electrical installations.

The Company also recognizes the importance of its partnership with the Union in fostering good labour relations and the need for a responsible union with the strength to play a wider role in society. In this regard, we were pleased that after several months of strong, but respectful negotiations we were able to reach agreement with the Barbados Workers' Union for a new three year agreement for employees in the operations area of the Company.

Many of our employees are also pursuing various diploma, degree and masters programmes. During the past five years, some 40 employees have successfully completed studies in areas such as electrical and mechanical engineering, business, accountancy, finance, human resource management, electrical power systems and a wide range of other subjects relevant to the Company's operations. We are also proud that our employees have taken leadership roles in their communities, churches, professional organizations and sports clubs. They are ambassadors for the Company.

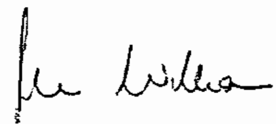
The Company continues to support and sponsor wholesome activities in our community to help our continued development as a nation. Perhaps the most meaningful contribution during the year was the donation of a specialized refrigeration unit for storage of blood at the Queen Elizabeth Hospital blood collection unit. Our relationship with the Blood Unit goes back almost 20 years and this donation was made possible through the generosity of many of our employees who are blood donors, supported by a matching contribution from the Company.

We were also very proud of our in-house steelband 'Reddy Panners', which reached the final of the National Independence Festival for the Creative Arts (NIFCA) and earned a Silver Award. This is one of several activities that the Company, together with its Employee Relations Council, encourages to foster excellent relationships amongst all members of staff.

Management Team

Mr. Hartley Richards, Manager Corporate Services, retired on March 30, 2007 after 25 years with The Barbados Light & Power Company Limited. The Board of Directors wishes to place on record its appreciation for his leadership and dedicated service.

Thank you to all members of our team for their hard work during 2007 and their continued support.



Peter W.B. Williams
Managing Director
The Barbados Light & Power Co. Ltd.
February 28, 2008

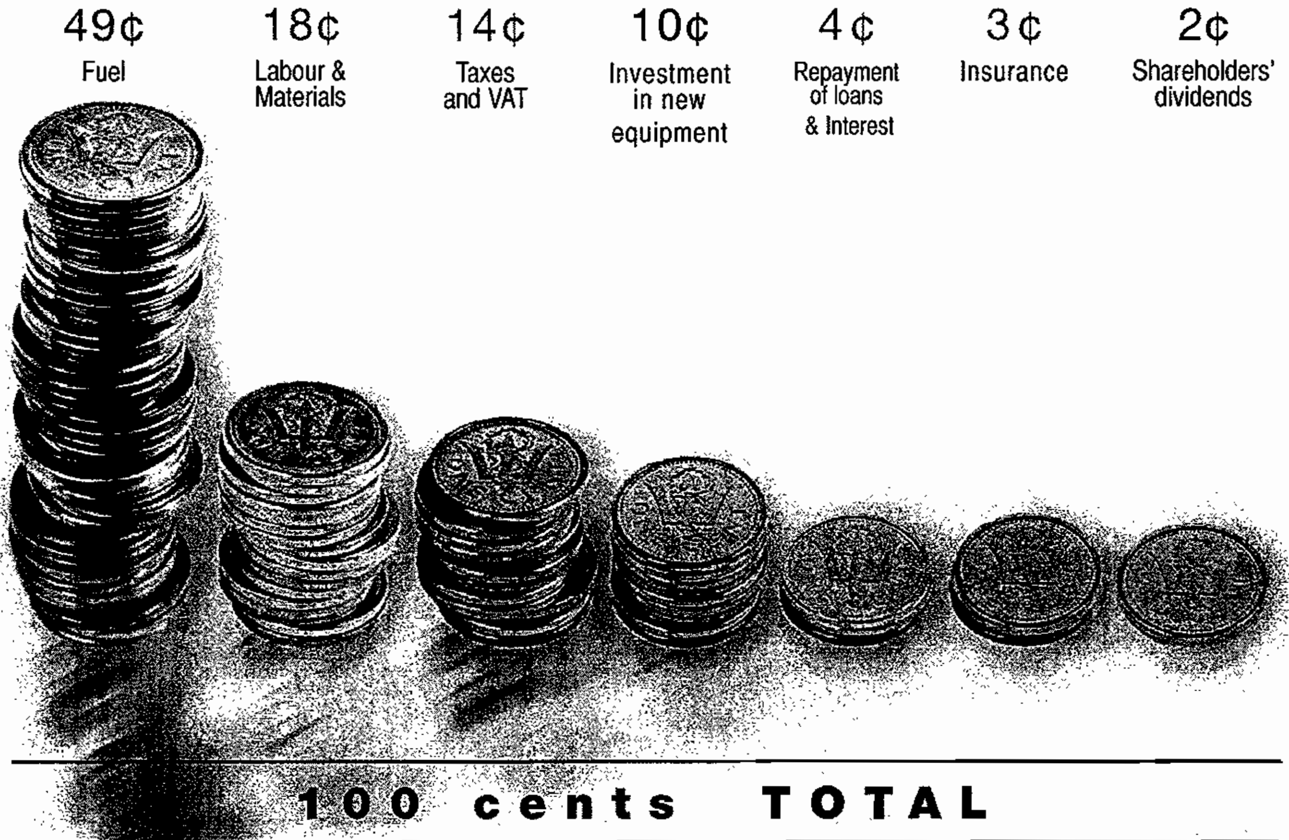
blpc

The Barbados Light & Power Co. Ltd.

Simplified Financial Statement

How each electricity customer dollar was spent in 2007

0856



Senior Management

Managing Director	- Peter Williams	Chief Operating Officer	- Mark King
Chief Financial Officer	- Hutson Best	Senior Manager, Distribution	- Keith Richards
Senior Manager, Generation	- Hallam Edwards	Chief Marketing Officer	- Stephen Worme
Information Systems Manager	- Sandra Franklyn	Human Resources Manager	- Wayne Yearwood
Customer Services Manager	- Hallam Hunte		

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Light & Power Holdings Ltd.

PricewaterhouseCoopers
The Financial Services Centre
Bishop's Court Hill
P.O. Box 111
St. Michael BB14004
Barbados, W.I.
Telephone (246) 436-7000
Facsimile (246) 436-1275

We have audited the accompanying consolidated financial statements of Light & Power Holdings Ltd. ("the company") and its subsidiaries (together "the Group") which comprise the consolidated balance sheet as of December 31, 2007, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 16-39.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

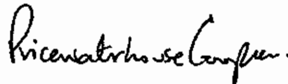
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
Bridgetown, Barbados
March 31, 2008

PricewaterhouseCoopers refers to the East Caribbean firm of PricewaterhouseCoopers and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. A full listing of the partners of the East Caribbean firm is available on request at the above address.

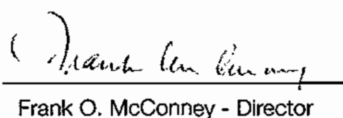
Consolidated Balance Sheet

As of December 31, 2007 (expressed in Barbados dollars)

0858

	Notes	2007 $000's	2006 $000's
Assets			
Non-current assets			
Property, plant and equipment	5	592,291	567,785
Investment in associates	6	14,170	15,965
Financial investments	7	79,818	70,863
Other assets	8	615	220
		686,894	654,833
Current assets			
Cash resources	9	59,907	39,994
Trade and other receivables	10	56,632	39,378
Corporation tax recoverable		82	102
Inventories	11	34,308	30,093
		150,929	109,567
Total assets		837,823	764,400
Equity			
Share capital	12	119,074	119,433
Other reserves	13	207,939	200,310
Retained earnings		252,373	208,359
		579,386	528,102
Non-current liabilities			
Borrowings	14	108,972	96,699
Customers' deposits	15	20,201	19,819
Deferred credits	16	42,537	45,439
Deferred tax liability	17	20,287	32,197
Provisions for other liabilities and charges	19	2,973	2,973
		194,970	197,127
Current liabilities			
Trade and other payables	18	48,890	25,629
Provisions for other liabilities and charges	19	1,850	1,128
Current portion of borrowings	14	12,727	12,414
		63,467	39,171
Total equity and liabilities		837,823	764,400

Approved by the Board of Directors on February 28, 2008 and signed on its behalf by:



Frank O. McConney - Director

E. L. Greaves - Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2007 (expressed in Barbados dollars)

	Preference shares $000's	Common shares $000's	Revaluation surplus $000's	Other reserves $000's	Retained earnings $000's	Total $000's
Balance at December 31,2005 as previously reported	500	89,340	154,636	109,522	195,520	549,518
Change to the cost model of accounting for property, plant and equipment	-	-	(154,636)	-	-	(154,636)
SIC 12 adjustment - re Self Insurance Fund	-	-	-	79,342	-	79,342
Balance at December 31, 2005 as restated	500	89,340	-	188,864	195,520	474,224
Dividends paid	-	-	-	-	(6,119)	(6,119)
Issue of common shares	-	29,652	-	-	-	29,652
Repurchase of common shares	-	(59)	-	-	-	(59)
Share issue costs (note 13)	-	-	-	(494)	-	(494)
Transfer to Self Insurance Fund	-	-	-	11,408	(11,408)	-
Change in fair value of financial investments	-	-	-	532	-	532
Net income for the year	-	-	-	-	30,366	30,366
Balance at December 31, 2006	500	118,933	-	200,310	208,359	528,102
Dividends paid	-	-	-	-	(7,001)	(7,001)
Issue of common shares	-	585	-	-	-	585
Repurchase of common shares	-	(944)	-	-	-	(944)
Transfer to Self Insurance Fund	-	-	-	7,335	(7,335)	-
Change in fair value of financial investments (note 7)	-	-	-	294	-	294
Net income for the year	-	-	-	-	58,350	58,350
Balance at December 31, 2007	500	118,574	-	207,939	252,373	579,386

Consolidated Statement of Income

For the year ended December 31, 2007 (expressed in Barbados dollars)

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	Notes	2007 $000's	2006 $000's
Operating revenue	20	397,636	361,653
Operating expenses			
Fuel		225,299	195,447
Generation		40,747	44,496
General		38,460	36,148
Distribution		12,470	12,585
Depreciation		33,660	37,630
Foreign exchange loss/(gain)		9	(111)
		350,645	326,195
Operating income		46,991	35,458
Finance income	21	4,962	5,028
Interest and finance charges		(6,323)	(6,808)
Share of loss of associated companies	6	(2,195)	(2,800)
Income before taxation		43,435	30,878
Taxation credit (expense)	17	14,915	(512)
Net income for the year		58,350	30,366
Basic and diluted earnings per share (cents)	24	314.7	174.3

Consolidated Statement of Cash Flows

For the year ended December 31, 2007 (expressed in Barbados dollars)

	2007 $000's	2006 $000's
Cash flows from operating activities		
Income before taxation	43,435	30,878
Adjustments for non-cash items:		
Share of loss of associated companies	2,195	2,800
Depreciation	33,660	37,630
Loss/(gain) on foreign exchange	9	(111)
Gain on disposal of property, plant and equipment	(146)	(5)
Finance income	(4,962)	(5,028)
Interest expense	6,323	6,808
Net change in provisions for other liabilities and charges	722	(3,010)
Deferred finance charges	(396)	29
Operating income before working capital changes	80,840	69,991
Increase in trade and other receivables	(17,254)	(5,865)
(Increase)/decrease in inventories	(4,215)	883
Increase in trade and other payables	23,261	1,092
Cash generated from operations	82,632	66,101
Interest paid	(6,087)	(6,716)
Corporation tax recovered/(paid)	20	(45)
Net cash from operating activities	76,565	59,340
Cash flows (used in)/from investing activities		
Additions to property, plant and equipment	(64,196)	(62,476)
Purchase of financial investments	(8,743)	(8,700)
(Increase)/decrease in fixed term deposits and restricted cash	(8,270)	9,688
Investment in associates	(400)	(18,765)
Proceeds on disposal of property, plant and equipment	187	10
Interest received	4,903	4,344
Net cash used in investing activities	(76,519)	(75,899)
Cash flows from/(used in) financing activities		
Share issue costs	-	(494)
Repurchase of common shares	(944)	(59)
Issue of common shares	585	29,652
Dividends paid	(7,001)	(6,119)
Proceeds from borrowings	25,000	-
Repayments of borrowings	(12,414)	(13,842)
Customers' contributions	5,989	3,248
Customers' deposits	382	2,173
Net cash from financing activities	11,597	14,559
Net increase/(decrease) in cash and cash equivalents	11,643	(2,000)
Cash and cash equivalents - beginning of year	26,135	28,135
Cash and cash equivalents - end of year (note 9)	37,778	26,135

Notes to the Consolidated Financial Statements

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1 General information

Light & Power Holdings Ltd. ("the Company") was incorporated on October 9, 1997 under the Companies Act, Chapter 308 of the Laws of Barbados and is listed on the Barbados Stock Exchange. The principal activities of the Company and its subsidiaries (including special purpose entities) ("the Group") include the generation, distribution and supply of electricity, the provision of telecommunication services and the operation of a self insurance fund to manage certain of the Group's insurance risks.

The registered office of the Company is located at Garrison Hill, St. Michael.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of available-for-sale financial investments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

a) Standards, interpretations and amendments to published standards effective in financial year 2007

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group in the current financial year. The Group has assessed the relevance of all such new standards, amendments and interpretations and has concluded that only IFRS 7- Financial Instruments: Disclosures, and the complementary amendment to IAS1 - Presentation of financial statements - Capital disclosure will have any impact on the Group's financial statements. The 2006 comparative figures have been amended as required, in accordance with the relevant requirements.

• IFRS 7 - 'Financial instruments: Disclosures' and the complimentary amendment to IAS 1, 'Presentation of financial statements - Capital disclosures', introduces new disclosures relating to financial assets and liabilities and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation, trade and other payables.

b) Standards, interpretations and amendments to published standards effective in financial year 2007 but not relevant.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2007 but they are not relevant to the Group's operations:

- IFRS 4 - Insurance contracts
- IFRIC 7 - Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Re-assessment of embedded derivatives
- IFRIC 10 - Interim Financial reporting and impairment

c) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods, but the Group has not early adopted them. Management is currently reviewing these for implementation.

• IAS 23 (Amendment), 'Borrowing costs' (effective January 1, 2009). This requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

• IFRS 8, Operating segments. This new standard requires that segment information be presented on the same basis as that used for internal reporting purposes.

In addition the following have been issued but are not relevant to the Group's operations.

- IFRIC 12 - Service concession arrangements
- IFRIC 13 - Customer loyalty programmes
- IFRIC 14 - The limit on a defined benefit asset, minimum funding requirements

2.2 Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the parent company and its subsidiaries (including special purpose entities) ("the Group") as disclosed in Note 29. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-company balances and transactions have been eliminated in full.

a) Subsidiary Companies

Subsidiary companies are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights and is able to exercise control over the operations.

Subsidiaries are fully consolidated from the date on which control is transferred and continue to be consolidated until the date that such control ceases. The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of acquisition is measured at the fair value of shares issued, assets given up, or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition.

b) Associated Companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on the behalf of the associate.

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2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Barbados dollars which is also the Group's functional currency.

Transactions and balances

Foreign currency transactions are translated into Barbados currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group operates in one geographical segment.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the acquisition of the items and includes cost of materials, direct labour, supervision and engineering charges and interest incurred during construction which is directly attributable to the acquisition or construction of a qualifying asset.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Contributions received towards construction of electric plant are credited to the cost of work in progress or are shown as deferred credits in the case where construction has not yet started.

Interest cost on property, plant and equipment is capitalised and included in the appropriate capital asset account until the asset is made available for service. During the year, the Group capitalised interest of $1.2 million (2006: $0.9 million)

Land is not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use. For financial reporting purposes depreciation on other property, plant and equipment is calculated by the straight line method using rates required to allocate the cost of the assets less salvage over their estimated service lives as follows:

Generation equipment	2% - 5%
Transmission and Distribution	3% - 6%
Other	2% - 33%

When depreciable property, plant and equipment other than motor vehicles and property are retired, the gross book value less proceeds net of retiral expense is charged to accumulated depreciation. For material disposals of motor vehicles and property, the asset cost and accumulated depreciation are removed with any gain or loss credited or charged to current operations.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. (Note 2.7)

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of income.

2.6 Financial investments

The Group has classified its financial investments as available-for-sale. Management determines the classification at initial recognition and reviews the designation at every reporting date. The classification depends on the purpose for which the financial investments are acquired.

Available-for-sale financial assets are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose within 12 months. Available-for-sale financial assets are carried at fair value based on current bid prices on the market. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised directly in equity until the financial investment is sold, or otherwise disposed of, or until the financial investment is determined to be impaired at which time the cumulative gain or loss will be included in net income or loss for the period.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase and sell the asset. Cost of purchase includes transaction costs.

2.7 Impairment of non-financial assets

Assets that have an indefinite life, e.g. land, are not subject to amortisation and are reviewed for impairment annually.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Notes to the Consolidated Financial Statements

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2.8 Cash and cash equivalents

These consist of cash held in hand and at bank, deposits held at call with banks and other short-term highly liquid investments with original maturities of three (3) months or less.

2.9 Trade receivables

Trade receivables are recognised initially at fair value less provision for discounts. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In addition, a provision for discounts based on historical experience, is created in anticipation of accounts that will be settled prior to the scheduled due date. The amount of the provisions is recognised in the income statement. When a trade receivable is uncollectible it is written off against the impairment provision for trade receivables. Subsequent recoveries of amounts previously written off are credited to the statement of income.

2.10 Inventories

Inventories of fuel, materials and supplies are valued at cost, which is determined on an average cost basis. Engine spares are carried at cost less provision for obsolescence.

2.11 Share capital

Common shares are classified as equity. Redeemable preference shares are treated as equity because they cannot be converted by the holders thereof at any time nor is the Company mandatorily required to redeem them on a specific date.

Where the Company repurchases its own shares, the consideration paid is deducted from equity, until such shares are reissued or cancelled.

Incremental costs directly attributable to the issue of new shares are shown as a deduction from equity in accordance with IAS 32 and included in other reserves in the statement of changes in equity.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

2.13 Taxation

a) Deferred income tax

Taxation expense in the statement of income comprises current and deferred tax. Taxation expense is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax assets can be utilised.

b) Investment tax credit
The tax credit from investment allowances associated with the acquisition of plant and equipment is being deferred and amortised to income over the useful lives of the respective assets. In the prior years, the Group amortised the tax credit to income over a period of 20 years. This change resulted to an adjustment to net income of $2.8 million and a corresponding decrease in deferred investment tax credit.

c) Manufacturing tax credit
The tax credit from manufacturing allowances associated with the acquisition of plant and equipment is being deferred and amortised to income over the lives of the respective items of plant and equipment.

2.14 Customers' deposits

Commercial and all other customers except Barbadian residents categorised under the Domestic Service tariff are normally required to provide security for payment. However, Barbadian residents under this tariff may be asked to provide security if they are delinquent in paying their bills. The cash deposit is refunded with accumulated interest when the account is terminated or arrangements made to provide alternative security (e.g. a banker's guarantee).

Given the long term nature of the customer relationship, customer deposits are shown in the balance sheet as non-current liabilities (i.e. not likely to be repaid within twelve months of the balance sheet date). Interest accrues on deposits at 8% per annum.

2.15 Revenue recognition

Revenue comprises the value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

The Group records revenue, other than fuel clause revenue, as billed to its customers, net of value-added tax and discounts and does not recognise any unbilled portion which exists at the end of the accounting period. Fuel clause revenue is recognised on the basis of the amount actually recoverable for the accounting period. The unbilled revenue at year-end is not material.

Interest income is recognised on an accrual basis using the effective interest rate method.

Dividend income is recognised when the Group's right to receive payment is established.

2.16 Employee benefits

The Group operates a fully insured purchased annuity plan pension scheme. This scheme takes the form of a defined benefit scheme in that it defines the amount of pension benefit that an employee will receive upon retirement. Pension costs are accounted for on the basis of contributions payable in the year, as the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior periods. (Note 25)

2.17 Share purchase scheme

The employees of the subsidiary company, The Barbados Light & Power Company, have the option to receive their annual bonus in cash and or common shares of the parent company under General By-Law No.1, Section 12.1 of the parent company's Articles of Incorporation and General By-Laws. The shares are issued at 80% of market value. The 20% discount is recognised as an expense, which is included in employee benefits.

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2.18 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividend is declared by the directors.

2.19 Related parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Individuals, associates or companies that directly or indirectly control or are controlled by or are under common control with the Group are also considered related parties.

2.20 Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

3 Financial risk management

3.1 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets of the Group include cash resources, trade receivables and available-for-sale financial investments initially measured at fair value.

Financial liabilities of the Group include borrowings, trade payables and customer deposits initially measured at fair value.

The accounting policies for financial assets and liabilities are set out in note 2 or the individual notes associated with each item.

3.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, price risk and cash flow and interest rate risk), liquidity, credit and underinsurance risks. The Group's overall risk management policy is to minimise potential adverse effects on its' financial performance and to optimise shareholders' value within an acceptable level of risk.

The Group's exposure and approach to its key risks are as follows:

a) Market risk

I. Foreign currency risk

This is the potential adverse impact on the Group's earnings and economic value due to movements in exchange rates.

The Group is exposed to foreign exchange risk arising primarily from foreign currency borrowings and purchases of plant, equipment and spares from foreign suppliers.

All borrowings have been formally fixed to the United States dollar (US$) to mitigate exposure to fluctuations in foreign currency exchange rates, since there is a fixed exchange rate between the Barbados dollar and

United States dollar. Additionally, most foreign currency purchases are denominated in United States dollars. The Group has not entered into forward exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates.

II. Price risk
The Group is exposed to equity securities price risk because of financial investments held by the Group and classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

III. Cash flow and fair value interest rate risk
Interest rate risk is the potential adverse impact on the earnings and economic value of the Group caused by movements in interest rates.

The Group's interest bearing assets expose it to cash flow interest rate risk. Interest margins may increase or decrease as a result of such changes, and may reduce or increase losses in the event that unexpected movements arise.

The Group's interest rate risk also arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's policy is to maintain its borrowings in fixed rate instruments thereby minimising cash flow interest rate risk. Exposure to fair value interest rate risk on its borrowings results from fluctuations in the fair value of borrowings in response to changes in market interest rates.

The Group's exposure to interest rates and the terms of borrowings are disclosed in notes 9 & 14.

b) Liquidity risk
Liquidity risk refers to the risk that the Group cannot generate adequate cash and cash equivalents to satisfy commitments as they become due.

Management monitors the Group's liquidity reserve (comprises undrawn borrowing facility (note 26) and cash and cash equivalents (note 9)) on the basis of expected cash flow and is of the view that the Group holds adequate cash and credit facilities to meet its short-term obligations.

The below table is an analyses of the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Balances due within 12 months equal their carrying balances.

	Less than 1 year $000's	Between 1 & 2 years $000's	Between 2 & 5 years $000's	Over 5 years $000's
At December 31, 2007				
Borrowings	12,727	28,352	41,158	39,462
Trade and other payables	48,890	-	-	-
At December 31, 2006				
Borrowings	12,414	25,777	36,866	34,056
Trade and other payables	25,629	-	-	-

c) Credit risk

Credit risk is the inherent risk that counterparties may experience business failure or otherwise avoid their contractual obligations.

The Group's financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of bank deposits and trade receivables. The Group's bank deposits are placed with highly rated financial institutions to limit its exposure. Credit risk with respect to trade receivables is substantially reduced due to the policies implemented by management. Deposits are required from commercial customers upon application for a new service and management performs periodic credit evaluations of its general customers' financial condition. Management does not believe significant credit risk exists at December 31, 2007.

d) Underinsurance risk

The subsidiary company, The Barbados Light & Power Company has established a "Self Insurance Fund" to set aside funds on an annual basis to mitigate this risk.

The Fund is periodically reviewed by a risk consultant who makes recommendations to ensure the continued security and solvency of the Fund.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2007 and 2006 were as follows:

	2007 $000's	2006 $000's
Total borrowings (note 14)	121,699	109,113
Less: cash and cash equivalent (note 9)	(37,778)	(26,135)
Net debt	83,921	82,978
Total equity	579,386	528,102
Total capital	663,307	611,080
Gearing ratio	13%	14%

3.4 Fair value estimation

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no obligation to act and is best evidenced by a quoted market price, if one exists.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price.

The carrying values of trade payables and receivables less impairment provision are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

4.1 Critical accounting estimates and assumptions

The development of estimates and the exercise of judgement in applying accounting policies may have a material impact on reported assets, liabilities, revenues and expenses.

Other than in the establishment of routine provisions against trade receivables, inventories and provisions for liabilities and other charges no significant estimates or judgements have been required in applying accounting policies which may have a material impact on the Group's reported assets, liabilities, revenues and expenses.

4.2 Critical judgements in applying the entity's accounting policies

Special Purpose Entity/(SPE) - Self Insurance Fund

The Group has established a special purpose entity (SPE) primarily for the purpose of building an insurance fund to cover risk against damage and consequential loss to transmission and distribution systems as a result of catastrophe as well as certain machinery breakdowns. In making a judgement that the Group controls the SPE, management considered that in substance the activities of the SPE are being conducted on behalf of the Group according to a specific business need so that the Group obtains benefits of the SPE's objectives. Additionally, because the Group has rights to all benefits of the SPE, it is therefore exposed to the risk incident to the activities of the SPE and in this case the SPE is consolidated.

Notes to the Consolidated Financial Statements

5 Property, plant and equipment

	Generation $000s	Transmission & distribution $000s	Other $000s	Work in progress $000s	Total $000s
At December 31, 2005					
Cost	462,211	343,210	67,489	18,638	891,548
Accumulated depreciation	(201,623)	(112,672)	(31,053)	-	(345,348)
Net book amount	260,588	230,538	36,436	18,638	546,200
Year ended December 31, 2006					
Opening net book amount	260,588	230,538	36,436	18,638	546,200
Additions and transfers	3,360	16,464	2,734	36,671	59,229
Disposals	-	-	(14)	-	(14)
Depreciation charge	(15,948)	(19,211)	(2,471)	-	(37,630)
Closing net book amount	248,000	227,791	36,685	55,309	567,785
At December 31, 2006					
Cost	459,786	356,998	68,312	55,309	940,405
Accumulated Depreciation	(211,786)	(129,207)	(31,627)	-	(372,620)
Net book amount	248,000	227,791	36,685	55,309	567,785
Year ended December 31, 2007					
Opening net book amount	248,000	227,791	36,685	55,309	567,785
Additions and transfers	7,592	27,741	8,325	14,549	58,207
Disposals	-	-	(41)	-	(41)
Depreciation charge	(15,283)	(15,851)	(2,526)	-	(33,660)
Closing net book amount	240,309	239,681	42,443	69,858	592,291
At December 31, 2007					
Cost	461,684	382,427	76,203	69,858	990,172
Accumulated depreciation	(221,375)	(142,746)	(33,760)	-	(397,881)
Net book amount	240,309	239,681	42,443	69,858	592,291

Notes to the Consolidated Financial Statements

6 Investment in associates

	2007 $000's	2006 $000's
Balance - beginning of year	15,965	-
Investment in associates	400	18,765
Share of loss for year	(2,195)	(2,800)
Balance - end of year	14,170	15,965

The Group has a 100% ownership in LPH Telecom Limited, a telecommunications company incorporated in Barbados. LPH Telecom Limited has a 25% ownership in the companies listed in the table below and effectively the Group owns 25% of these companies.

The Group's share of the results of its principal associates and its share of the assets and liabilities are as follows:

Name	Assets $000's	Liabilities $000's	Revenues $000's	Loss $000's
2006				
Antilles Crossing International, LP	10,940	11,338	57	(398)
Tele (Barbados) Inc.via Antilles Crossing Holding Co. St.Lucia Ltd.	3,190	5,141	219	(1,870)
Antilles Crossing, LP via Antilles Crossing Int'l., LP	2,391	2,624	-	(96)
Antilles Crossing – St. Croix Inc.	1,454	1,802	-	(348)
Antilles Crossing (St. Lucia) Ltd. Via AC (Barbados) IBC, Inc	1,312	1,403	-	(88)
	19,287	22,308	276	(2,800)
2007				
Antilles Crossing International, LP	8,617	893	693	(183)
Tele (Barbados) Inc.via Antilles Crossing Holding Co. St.Lucia Ltd.	4,184	2,947	1,862	(1,546)
Antilles Crossing, LP via Antilles Crossing Int'l., LP	(2,851)	2,288	-	(122)
Antilles Crossing - St. Croix Inc.	1,391	236	-	(157)
Antilles Crossing (St. Lucia) Ltd. Via AC (Barbados) IBC, Inc	2,788	-	48	(187)
	19,831	6,364	2,603	(2,195)

7 Financial investments

	2007 $000's	2006 $000's
Balance at beginning of year	70,863	61,766
Additions	8,743	8,700
Unrealised foreign exchange loss	(82)	(135)
Change in fair value	294	532
	79,818	70,863

There were no disposals or impairment provisions for financial investments in 2007 or 2006.
Financial investments include the following:

	2007 $000's	2006 $000's
Listed securities		
US Common Shares	3,217	2,597
US Mutual funds	862	-
US Corporate Bonds, Debentures, Short & Medium term notes	59,529	54,429
US Government Bonds	16,210	13,837
	79,818	70,863

These available-for-sale financial investments include assets held in trust on behalf of the Self Insurance Fund that are not available to the Group for use in its operations.

Financial investments are denominated in US dollars.

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as financial investments. None of the financial investments are either past due or impaired.

8 *Other assets*

	2007 $000's	2006 $000's
Deferred finance charges	604	208
Other	11	12
	615	220

Deferred finance charges associated with the financing of The Barbados Light & Power Company Limited's *expansion programme are being amortised over the lives of the loans with which they are associated.* Other deferred charges include the cost of work carried out for customers not yet billed.

9 Cash resources

	2007 $000's	2006 $000's
Cash in hand and at bank	15,745	11,562
Short term bank deposits	22,033	14,573
Cash and cash equivalents	*37,778*	*26,135*
Fixed term bank deposits - Self Insurance Fund	20,186	13,670
Cash at bank - Self Insurance Fund	1,943	189
Cash resources	59,907	39,994

The interest rates on short-term bank deposits ranges between 4.85% and 6.50% (2006 - 4% and 5.75%) per annum. These deposits have an average maturity of 90 days.

The interest rates on the fixed term bank deposits ranges between 4% and 7.4% (2006 - 3% and 7.5%).

The cash and term deposits of the Self Insurance Fund are not available for use in the Group's operations.

10 Trade and other receivables

	2007 $000's	2006 $000's
Trade receivables	39,031	28,279
Less provision for impairment and discounts	(380)	(300)
Trade receivables, net	38,651	27,979
Other receivables	11,188	5,013
Prepayments	6,793	6,386
	56,632	39,378

The fair values of trade and other receivables equals their carrying values due to the short term nature of these assets.

The movement in the provision for impairment was as follows:

	2007 $000's	2006 $000's
Balance - beginning of year	300	260
Increase in provision - general	80	40
Balance - end of year	380	300

The increase in provision for impairment of receivables of $0.08 million is included in general operating expenses in the statement of income. Direct write offs for impaired receivables to the statement of income were $0.3 million (2006 - $0.2 million).

11 Inventories

	2007 $000's	2006 $000's
Fuel	10,153	6,878
Materials and spares	21,716	18,489
Goods in transit	2,439	4,726
	34,308	30,093

The cost of inventories written down and recognised as an expense is included in operating expenses in the amount of $1.1 million, (2006 - $0.5 million).

12 **Share capital**

Authorised
100,000 - 5.5% Cumulative preference shares
500,000 - 10% Cumulative redeemable preference shares
100,000,000 - Common shares
10 - Class A redeemable preference shares

Issued

	2007 $000's	2006 $000's
100,000 - 5.5% Cumulative preference shares	500	500
17,412,611 (2006 - 17,447,157) Common shares of no par value	118,574	118,933
	119,074	119,433

	2007 No.	2006 No.
Common Shares		
Shares outstanding beginning of year	17,447,157	14,488,457
Repurchased during the year	(89,974)	(5,646)
Issued during the year	55,428	2,964,346
Balance at end of year	17,412,611	17,447,157

The Directors of the Company have agreed to set aside 600,000 common shares to be issued to the employees of Light & Power Holdings Ltd. and the subsidiary company, The Barbados Light & Power Company Limited under General By-Law No 1, Section 12.1 of the Articles of Incorporation and General By-Law of the Company. In November 2007, 55,428 common shares at $10.55 per share were issued under this Scheme. The Company also repurchased 89,974 shares (2006 - 5,646) at prices ranging from $10.30 to $10.55 per share (2006 - $10.50), which were cancelled.

13 **Other reserves**

		2007 $000's	2006 $000's
i)	Capital Reserve		
	Balance - beginning and end of year	109,522	109,522
ii)	Self Insurance Fund		
	Balance - beginning of year	91,282	79,342
	Transfer from retained earnings	7,335	11,408
	Change in fair value of investments	294	532
	Balance - end of year	98,911	91,282
iii)	Share issue costs		
	Balance - beginning and end of year	(494)	(494)
	Total other reserves	207,939	200,310

i) This represents an amount of retained earnings that was capitalised in the subsidiary company, The Barbados Light & Power Company Limited and is no longer available for distribution.

ii) Funds set aside by the subsidiary company, The Barbados Light & Power Company Limited to build an insurance reserve to cover risk against damage and consequential loss to its transmission and distribution system as a result of a catastrophe.

Under the Insurance Regulation 1998, the Self Insurance Fund shall only be utilized by the subsidiary company, The Barbados Light & Power Company Limited, for the purpose of replacing or reinstating the self insured assets which are damaged by catastrophe and compensating for any financial loss suffered as a result of such damage. Where the Fund is utilized for any other purpose any monies withdrawn shall be subject to corporation tax.

The total funds set aside plus investment income accrued less related expenses is consolidated with the group's accounts in accordance with IAS 27 - SIC 12.

iii) This represents the incremental costs directly attributable to the Offering of Rights issue in 2006. In accordance with IAS 32, these costs are shown as a deduction from equity.

14 Borrowings

	2007 $000's	2006 $000's
Royal Bank of Canada BDS $25,000 7% repayable 2021	25,000	-
European Investment Bank - Protocol 11 US$ 7,872 (2006 - US $9,697) 6.23% repayable 2011	16,049	19,771
European Investment Bank - Protocol 111 US $ 21,749 (2006 - US $25,012) 4.27% repayable 2013	44,340	50,993
National Insurance Board - Debenture Stock Certificates (Total facility BDS $20,000) 5% repayable 2020	20,000	20,000
First Caribbean International Bank (Cayman) Ltd US $8,000 (2006 - US $9,000) 5.98% repayable 2015	16,310	18,349
Total long term borrowings	121,699	109,113
Less current portion	(12,727)	(12,414)
Non-current portion	108,972	96,699

The long-term loans, with the exception of the European Investment Bank loans, are secured under a Debenture Trust Deed, which creates a first and floating charge on the Company's property, present and future. The Debenture Trust Deed restricts the subsidiary company from issuing debentures ranking pari passu with the floating charge created, unless the Company can meet the earnings coverage ratio and the equity/debt ratio set out in the Trust Deed. The subsidiary company, The Barbados Light & Power Company Limited, may however issue a first security to manufacturers in respect of individual items of plant and machinery of up to 90% of the purchase price thereof and for a period not exceeding fifteen years. The financial ratios were met by the subsidiary company for 2007.

The European Investment Bank loans are guaranteed by the Government of Barbados.

The maturity of borrowings is as follows:

	2007 $000's	2006 $000's
Less than 1 year	12,727	12,414
Between 1 and 2 years	28,352	25,777
Between 2 and 5 years	41,158	36,866
Over 5 years	39,462	34,056
Total	121,699	109,113

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair values	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Borrowings	108,972	96,699	106,970	89,590

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7.00% (2006 -7.40%).

15 Customers' deposits

Commercial and non-resident customers are required to pay security deposits for energy connections that are refundable when service is no longer required. Interest accrues on these deposits at a rate of 8% per annum (2006 - 8% p.a.).

	2007 $000's	2006 $000's
Balance - beginning of year	19,819	17,646
New deposits	1,800	1,773
Deposits refunded	(2,711)	(885)
Net interest	1,293	1,285
Balance - end of year	20,201	19,819

Notes to the Consolidated Financial Statements

16 Deferred credits

	2007 $000's	2006 $000's
Accumulated investment tax credit	27,957	32,240
Accumulated manufacturing tax credit	13,692	12,412
Customer contributions for work not yet started	888	787
	42,537	45,439

17 Taxation

a) Corporation tax expense

	2007 $000's	2006 $000's
Current tax	(2)	-
Deferred tax charge/(credit)	969	(2,111)
Deferred investment tax credit	(4,283)	138
Deferred manufacturing tax credit	1,280	2,485
	(2,036)	512
Deferred tax arising from change in tax rate in subsidiary	(12,879)	-
Taxation (credit)/expense	(14,915)	512

The tax on income before taxation differs from the theoretical amount that would arise using the corporation tax rate of 25% for the following reasons:

	2007 $000's	2006 $000's
Income before taxation	43,435	30,878
Corporation tax at 25% (2006- 25%)	10,858	7,719
Effect of different tax rate in subsidiary 15% (2006 -25%)	(3,486)	-
Depreciation on assets not qualifying for capital allowances	74	97
Tourism development fund allowance	(21)	(34)
Environmental allowance	(7)	-
Tax loss of which no deferred tax asset is recognised	641	929
Income not subject to tax	(2,784)	(2,851)
Manufacturing allowance net of deferred portion	(1,657)	(2,611)
Investment tax credit net of deferred portion	(5,654)	(2,753)
Tax effect of the different tax rate on deferred tax liability	(12,879)	-
Over-provision of prior year's tax	-	16
	(14,915)	512

b) Deferred tax liability

The net deferred tax liability is calculated in full on temporary differences under the liability method using a tax rate of 15% (2006 - 25%). The movement on the account is as follows:

	2007 $000's	2006 $000's
Balance - beginning of year	32,197	34,308
Transfer to the income statement - current year charge/(credit)	969	(2,111)
- adjustment for change in rate	(12,879)	-
Balance - end of year	20,287	32,197

The deferred tax liability on the balance sheet consists of the following components:

	2007 $000's	*2006* $000's
Accelerated tax depreciation	178,668	166,600
Taxed provisions	(12,435)	(11,214)
Unutilised tax losses	(30,984)	(26,596)
	135,249	128,790
Deferred tax liability at corporation tax rate of 15% (2006 - 25%)	*20,287*	*32,197*

The Group has a deferred tax asset of $0.6 million arising from losses in the parent company (2006 - $0.6 million) that has not been recognised due to the uncertainty of its recovery in future periods.

Accelerated tax depreciation and taxed provisions have no expiry dates. The expiry dates of the unutilised tax losses are disclosed in note 17 (c).

c) Tax losses

The Group has tax losses of $33.3 million (2006 $28.6 million) available to be carried forward and applied against future taxable income. The losses are as computed by the Group in its tax returns and have not been confirmed nor disputed by the Commissioner of Inland Revenue. The losses and their expiry dates are as follows:

Income Year	Amount $000's	Expiry date
1999	28	2008
2000	15	2009
2001	11	2010
2002	9	2011
2003	9	2012
2004	13	2013
2005	7,582	2014
2006	20,912	2015
2007	4,755	2016
	33,334	

18 **Trade and other payables**

	2007 $000's	2006 $000's
Trade payables	35,980	18,702
Accrued expenses	8,703	2,302
Other payables	4,207	4,625
	48,890	25,629

19 **Provisions for other liabilities and charges**

	Environmental restoration $000's	Bonuses $000's	Regulatory fees $000's	Total $000's
At beginning of year	2,973	584	544	4,101
Charged to income				
- Additional provisions	-	2,641	464	3,105
- Unused amounts reversed	-	-	(72)	(72)
Used during year	-	(1,835)	(476)	(2,311)
At end of year	2,973	1,390	460	4,823

	2007 $000's	2006 $000's
Analysis of total provisions		
Non-current (environmental restoration)	2,973	2,973
Current	1,850	1,128
	4,823	4,101

a) Environmental restoration

The subsidiary company, The Barbados Light & Power Company Limited commenced investigations to identify and assess potential remedial work to be done at the Garrison Generating Plant site which was tested for free hydrocarbons (mixture of diesel fuel and bunker C) in the subsurface. A provision is recognised for the present value of costs to be incurred for the recovery of the hydocarbons and for restoration of the site.

b) Performance and other bonuses

The provision for profit-sharing is payable within three (3) months of finalisation of the audited financial statements. The provision for other bonuses is payable before December 31, 2008.

c) Regulatory fees

The subsidiary company, The Barbados Light & Power Company Limited, is regulated by the Fair Trading Commission (FTC) which determines amounts to be levied upon utility service providers annually. The Company is also currently involved in reviewing the rate structure which was fixed in 1983. The provision for regulatory fees represents the estimate for annual FTC fees as well as professional fees for consultants contracted to assist with the rate process.

20 Segmental reporting

The revenue collection of the subsidiary company, The Barbados Light & Power Company, is organised into domestic, commercial, street lighting and miscellaneous revenue segments.

Costs and assets cannot be readily allocated to revenue segments, as common property, plant and equipment, other assets, labour and overheads are used to generate electricity for all revenue segments.

An analysis of revenue by business segment is detailed as follows:

	2007 $000's	2006 $000's
Business segments		
Domestic service	119,699	111,318
Commercial service	271,740	244,382
Street lights	4,396	4,109
Miscellaneous	1,801	1,844
Total operating revenue	397,636	361,653

21 Finance income

Finance income is comprised as follows

	2007 $000's	2006 $000's
Investment income - Self Insurance Fund	3,659	4,027
Interest income	1,303	1,001
	4,962	5,028

22 Expenses by nature

	2007 $000's	2006 $000's
Fuel	225,299	195,447
Maintenance of plant	22,142	26,040
Employee benefits (excluding amounts charged to capital projects)	39,133	38,501
Depreciation	33,660	37,630
Insurance	4,715	4,271
Other expenses	25,696	24,306
Total operating expenses	350,645	326,195

Employee benefits comprise:

	2007 $000's	2006 $000's
Wages and salaries	38,152	38,057
Social security costs	2,217	2,139
Pension (note 25)	3,858	3,669
Other benefits and share discount	1,194	1,408
	45,421	45,273

Alloocated as follows:

	2007 $000's	2006 $000's
Operating expenses	39,133	38,501
Capitalised	6,288	6,772
	45,421	45,273
Average number of persons employed by the Group during the year	512	506

23 Related party transactions

Key management compensation

	2007 $000's	2006 $000's
Salaries & other short term benefits	3,072	3,267
Directors' fees	89	97
Pension	774	584
Share discount	30	35
	3,965	3,983

24 **Earnings per share**

The earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares in issue during the year.

	2007 $000's	2006 $000's
Net income for the year	58,350	30,366
Less: Loss/(income) from restricted funds (Self Insurance Fund)	(3,524)	(3,838)
Profit attributable to equity holders of the Company	54,826	26,528
Weighted average number of common shares	17,422,113	15,217,493
Basic earnings per share (cents)	314.7	174.3

The Company has no dilutive potential ordinary shares, therefore, diluted earnings per share is the same as basic earnings per share.

25 **Retirement benefits**

The Group operates a defined benefit pension plan for its employees. It pays a pension premium to fund the post employment benefit plan and will not have a legal or constructive obligation to either:

a) pay the employee benefits directly when they fall due; or
b) pay for the benefits if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

In light of the above, and due to the fact that benefits due to employees would have been secured by the prior payment of premiums, and the insurer has sole responsibility for paying the benefits, the plan has been accounted for as if it were a defined contribution plan as allowed by IAS 19. Pension cost for the year was $3.9 million (2006 - $3.7 million)

26 **Bank overdraft facilities**

The subsidiary company, The Barbados Light & Power Company Limited, entered into an agreement with Royal Bank of Canada on September 28, 2007 to create a debenture for $15,000,000. This was issued in accordance with the provisions of the Debenture Trust Deed (note 14) to secure overdraft facilities granted to the Company.

27 **Capital commitments**

The Group has budgeted capital expenditure of $86.2 million for the 2008 income year of which $30.0 million was contracted for at December 31, 2007.

28 **Contingent liabilities**

The Group is contingently liable in respect of various claims brought during the normal course of business. The amounts are considered negligible and are usually covered by insurance.

29 Subsidiaries and associated companies

	Country of Incorporation	Equity %
Subsidiaries		
The Barbados Light & Power Company Limited (Generation, Supply & Distribution of Electricity)	Barbados	100%
LPH Telecom Ltd. (Telecommunications)	Barbados	100%
The Barbados Light & Power Company Limited Self Insurance Fund (Special Purpose Entity)	Barbados	100%
Associated Companies		
LPH Telecom Ltd. has investments in the below entities:		
Antilles Crossing International, LP	Delaware, USA	25%
Antilles Crossing - St. Croix Inc.	St. Croix - USVI	25%
Antilles Crossing LP via Antilles Crossing Int'l LP	Barbados	25%
Antilles Crossing (St. Lucia) via AC (Barbados) IBC, Inc.	St. Lucia	25%
TeleBarbados Inc. via Antilles Crossing Co. St. Lucia Ltd.	Barbados	25%

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	2007 $000's	2006 $000's	2005 $000's	2004 $000's	2003 $000's
Property plant and equipment	990,172	940,405	891,548	862,854	764,731
Less accumulated depreciation	(397,881)	(372,620)	(345,348)	(317,828)	(293,689)
Net fixed assets	592,291	567,785	546,200	545,026	471,042
Capital employed	763,020	714,065	673,515	649,262	571,428
Represented by:					
Long term debt (%)	15.9	15.3	18.3	20.7	16.8
Deferred credits (%)	8.1	10.7	11.3	11.3	14.8
Shareholders' equity	76.0	74.0	70.4	68.0	68.4
Total	100.0	100.0	100.0	100.0	100.0
Revenue and expenses					
Operating revenue	397,636	361,653	339,231	301,593	272,490
Expenses					
Fuel	(225,299)	(195,447)	(176,669)	(149,010)	(124,964)
Operating and maintenance	(91,677)	(93,229)	(77,366)	(73,696)	(65,326)
Depreciation	(33,660)	(37,630)	(39,574)	(30,692)	(32,229)
(Loss/gain) on exchange	(9)	111	(60)	(114)	(206)
Operating income	46,991	35,458	45,562	48,081	49,765
Investment income	4,962	5,028	3,235	1,344	693
Income before interest & taxation	51,953	40,486	48,797	49,425	50,458
Interest & finance charges	(6,323)	(6,808)	(7,067)	(3,756)	(3,892)
Share of loss of associated companies	(2,195)	(2,800)	-	-	-
Income before taxation	43,435	30,878	41,730	45,669	46,566
Taxation	14,915	(512)	(2,779)	7,292	(7,870)
Net income	58,350	30,366	38,951	52,961	38,696
Add/(deduct)					
Preference dividends	(27)	(27)	(27)	(27)	(27)
Common dividends	(6,974)	(6,092)	(5,791)	(5,784)	(5,773)
Transfer to Self Insurance reserve	(8,050)	(11,409)	(9,606)	(8,275)	(7,743)
Transfer from special reserve	-	-	-	7,368	51,346
Capitalisation of retained earnings	-	-	-	(109,522)	-
Reinvested earnings	43,299	12,838	23,527	(63,279)	76,500

Operating Statistics

of the subsidary company The Barbados Light & Power Company Limited

	2007	2006	2005	2004	2003
GENERATING PLANT (Megawatts)					
Installed capacity					
Steam	40.0	40.0	40.0	40.0	40.0
Diesel	113.1	113.1	113.1	66.0	66.0
Gas turbine	86.0	86.0	86.0	103.5	103.5
TOTAL	239.1	239.1	239.1	209.5	209.5
PEAK DEMAND	162.4	157.0	154.2	143.0	141.6
GENERATION AND SALES (GWh)					
Gross Generation					
Steam	261.9	210.0	239.1	256.9	256.5
Diesel	663.4	706.5	568.3	369.3	361.8
Gas turbine	123.9	103.9	185.4	302.6	282.2
TOTAL	1,049.2	1,020.4	992.8	928.8	900.5
Net generation	1,002.9	976.4	953.4	896.4	867.6
Sales (GWh's)					
Domestic	300.0	294.8	293.7	275.7	267.9
Commercial	640.8	608.6	591.0	555.6	538.0
TOTAL	940.8	903.4	884.7	831.3	805.9
Load factor (%)	73.8	74.2	73.5	73.9	72.6
Losses (%)	5.9	7.2	6.9	7.0	6.8
NUMBER OF CUSTOMERS AT YEAR END					
Domestic	97,801	96,486	95,223	94,045	92,809
Commercial	18,857	17,775	16,520	15,443	14,423
TOTAL	116,658	114,261	111,743	109,488	107,232
No of Streetlights	27,846	27,308	26,666	25,962	25,417

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Corporate Information

Company Registered Office, Garrison Hill, St. Michael.

Company Officers
F. O. McConney, G.C.M., Managing Director
H. B. Richards, Secretary

Registrar & Transfer Agent
The Barbados Central Securities Depository Inc.

Attorneys-at-Law
Clarke, Gittens & Farmer
Carrington & Sealy

Auditors
PricewaterhouseCoopers

Dividend Payments

The Board of Directors sets the record and payment dates for quarterly dividends.

At the first meeting for 2008 the Directors declared a dividend of 10 cents per share that will be paid in March 2008.

Projected record dates for the remainder of 2008 are May 30, August 29 and November 28.

Projected payment dates for dividends declared during the remainder of 2008 are June 13, September 12 and December 12.

Common Stock

The common stock of Light & Power Holdings Ltd. is listed and traded on the Barbados Stock Exchange Inc.

Board of Directors
I. M. Cumming, Chairman
I. St. C. Carrington / A. A. Williams (Alternate)
R. L. V. Edghill
Sir Henry Forde, K. A., Q.C.
A. A. Gittens
E. L. Greaves
F. O. McConney, G.C.M.
J. R. Wheeler
P. W. B. Williams

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2008

Annual Report

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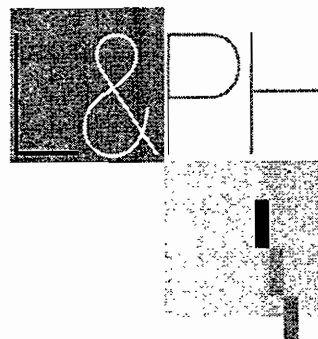
Light & Power Holdings Ltd. is an investment company with electricity supply being its core business. The Company's wholly owned regulated electric utility, The Barbados Light & Power Company Ltd., has been serving electricity customers in Barbados since 1911. Electricity service is available to the entire island community. Light & Power Holdings Ltd. has invested in telecommunication services and operates a self insurance fund.

Sixty per cent of the shares in Light & Power Holdings Ltd. are held by approximately 2,700 Barbadian shareholders. The Common Shares of the Company are quoted on the Barbados Stock Exchange.



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Letter to the Shareholders

During 2008, fuel and production costs for the Company's main subsidiary, The Barbados Light & Power Company Limited, increased substantially. Kilowatt hour sales for 2008 were only marginally higher when compared to 2007 due to the effects of conservation as customers found ways to cut back on electricity usage. The financial performance for 2008 fell back to the level of financial year 2006. For 2007 it had been boosted by a reduction in the tax rate requiring a substantial write-back of deferred taxes. The Self Insurance Fund performed reasonably in 2008 with investments being held primarily in Government instruments. There were no claims against the Fund in 2008.

The oil price decline in the latter part of the year resulted in welcome relief to customers. On December 17, 2008 the Barbados Nation newspaper editorial stated in its opening paragraph "If ever there was an occasion of pleasant hope, it was the news of the decline in energy and fuel costs to levels not seen for some five years. Last month, fuel costs disclosed in Barbados Light & Power bills gladdened the heart."

Customer hearts were certainly gladdened that oil prices plunged more than US $100 a barrel and as a consequence, the fuel clause adjustment on electricity bills dropped from BDS 49.5 cents in August to BDS 12 cents per kilowatt hour in December.

Increases and decreases in the cost of fuel are automatically passed on to customers through the fuel clause adjustment on electricity bills.

Electricity customers in Barbados have experienced a remarkable twenty-five year period with basic rates, other than fuel clause adjustment, remaining unchanged since 1983, while the Retail Price Index climbed more than 100 percent.

Regrettably, the service that will be required by customers in the future just cannot be provided with the same basic rates that were granted by the Public Utilities Board in 1983 and the electric utility is forced to apply to the Fair Trading Commission for a review of the rates.

Very simply, here is the challenge. With simultaneous recessionary conditions being experienced in North America, Europe and the Far East, the utility is proceeding cautiously with its capital expenditure program, but the capital-intensive electric utility cannot put off capital work indefinitely, because it needs to be ready when demand resumes. Once the recession ends, the need for power can bounce back fast, as has happened in the past, and the utility's job is to have reliable electricity available when needed to satisfy customer requirements.

To meet service obligations to customers and to maintain and develop the generation and distribution plant required to furnish power for homes, hotels, businesses, manufacturers and government projects, the utility has to raise money through bank borrowings and from investors.

New investments will continue to be needed in the future to replace facilities that have reached the end of their useful lives and to maintain reliable, affordable and environmentally sustainable electric service to customers. It is planned that these new investments will be made in a gradual way in order to minimise electricity price increases to customers.

In seeking a rate review, the utility will submit detailed financial information about revenues and expenses, with a request that a needed small adjustment in basic rates should be urgently approved to enable the utility to access loan capital from banks as needed to continue to provide a reliable electricity service.

The Company through its subsidiary, LPH Telecom Ltd., has twenty-five percent interest in a multi-million dollar international telecommunications carrier, Antilles Crossing, which has a fiber optic cable network from the United States to Barbados, via a dedicated 940 kilometer, 20 gigabit sub-sea cable from St. Croix to Barbados with a branch to St. Lucia.

In 2008, the Antilles Crossing sub-sea fiber assets were combined with those of a French business enterprise, Group Loret, based in Martinique, which had also built a sub-sea fiber optic cable system in the Caribbean.

Group Loret and Antilles Crossing formed a Joint Venture, Global Caribbean Fiber with sixty percent being held by Group Loret. The Company's largest shareholder, Leucadia National Corporation, and Light & Power Holdings together own forty percent of the shares in Global Caribbean Fiber through a newly formed entity Caribbean Fiber Holdings that is owned seventy-five percent by Leucadia and twenty-five percent by LPH Telecom Ltd.

LPH Telecom Ltd. also owns twenty-five percent of the telecommunications company, TeleBarbados, which provides international high-speed internet connections and private leased circuits to customers in Barbados.

TeleBarbados provides a full range of top-quality telecommunications solutions to a customer base that comprises nearly all of the leading Barbados business enterprises, as well as Government departments and statutory corporations that require fast, robust, reliable telecommunications services.

The TeleBarbados on-island fiber optic network stretches from the west coast to the south coast and a wireless network deploying modern technologies allow businesses just about anywhere in Barbados to connect to the Antilles Crossing sub-sea fiber system.

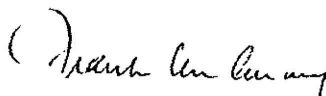
With the internet playing an increasingly large part in producing and distributing services, telecommunications is now a hi-tech sector and will be a driving force in the economic and social development of Barbados. The skilled people who work for TeleBarbados are to be commended for the establishment of this venture in a relatively short time.

Thanks to Leucadia's initiative with support from Light & Power Holdings, these telecom ventures have created tremendous value for Barbados and considerable cost savings for customers.

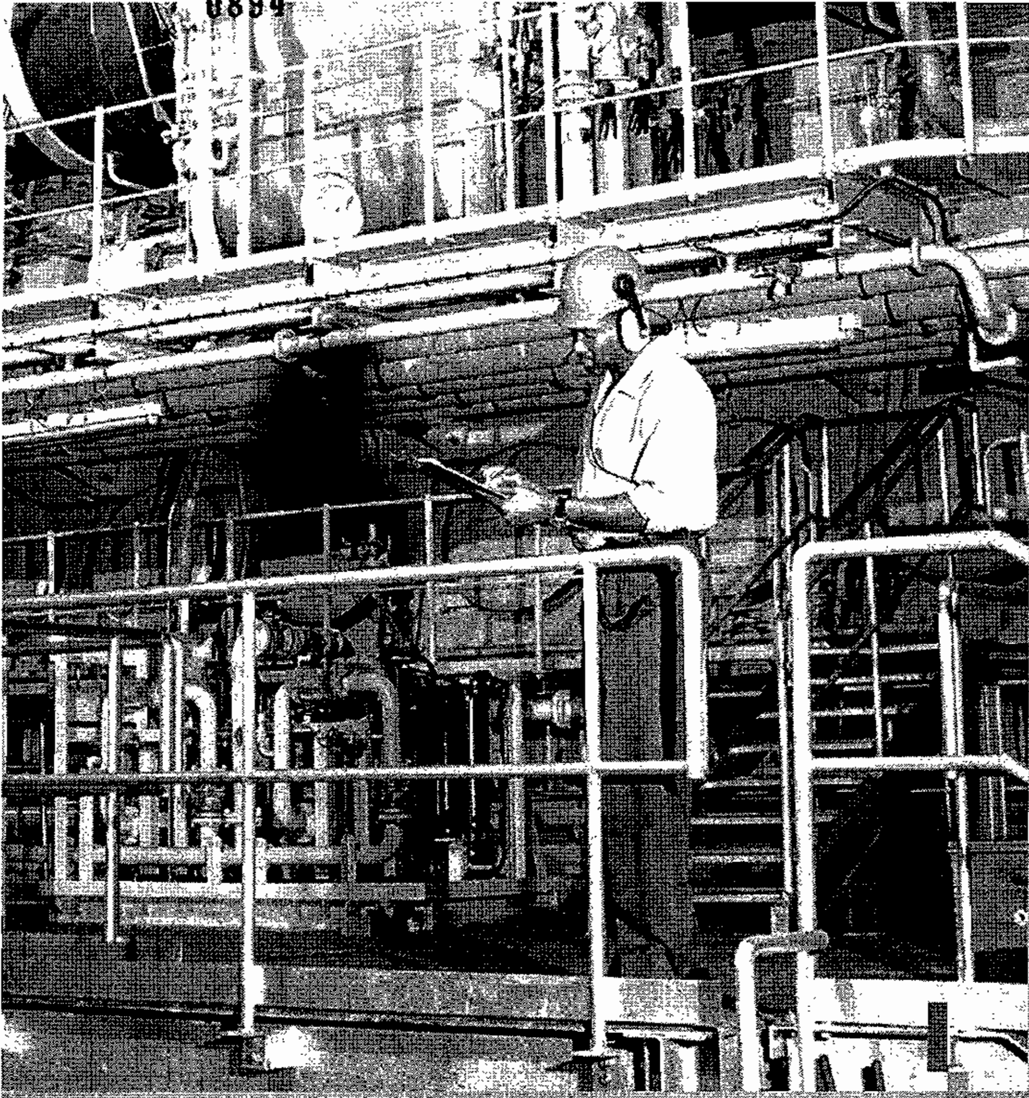
The Government is rethinking its position on the real estate project to redevelop the Old Eye Hospital and derelict Savoy Hotel properties on Bay Street. The Company and Leucadia had reached an agreement with the Barbados Tourism Investment Inc. to redevelop these properties to create civic buildings with significant public view corridors and access to the beach and ocean.

The Company maintains its interest in the original concept which is to enhance the positive aspects of this site and to demonstrate how the area could be developed for the good of the neighbourhood.

Quality electricity service continues to be the top priority for the Company. A critical component of the electric system operations calls for knowledge and skills that build on a reputation for service. Individuals within the enterprise perform these roles on behalf of the organisation as they focus on the Company's core energy business to deliver safe, reliable and reasonably priced electricity to the people who power the Barbados economy.



Frank McConney
On behalf of the Board of Directors,
Light & Power Holdings Ltd.
February 19, 2009



0895

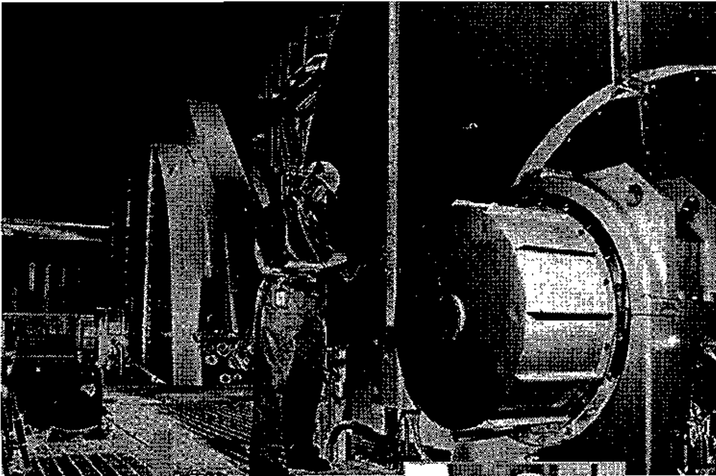
Report on Operations of The Barbados Light & Power Co. Ltd.

0896

Barbados, like the rest of the world, felt the effects of high oil prices in the first half of the year, followed by the economic turmoil that jolted the world towards the end of the year. As a result, electricity sales growth was flat in 2008, and with continued uncertainty in the financial world, it is anticipated that electricity sales growth in 2009 will be modest at best.

The Oil Price 'Tsunami'

International oil prices, which started 2008 at a record high of around US$100 per barrel, continued their unprecedented climb, reaching almost US$150 per barrel by July. After a fifth straight year of price increases, the total cost of fuel purchased by the Company amounted to $297 million dollars, representing approximately two-thirds of the cost of electricity.



The Company's investment in modern generating plant capable of operating on the least expensive, low grade, residual fuel oil has helped significantly to moderate the increases in electricity prices through this period. Over 81% of electricity produced during 2008 was generated on residual fuel, and the two new 30 MW low speed diesels, which were installed in 2005 at a cost of Bds$140 million, have already saved the country and our customers about Bds$200 million through reduced fuel costs.

Henry Scantlebury
Supervisor of the Year

Commercial customers felt the full impact of the dramatic increase in the cost of fuel, as the Fuel Clause Adjustment reached an all time high of about 49.5 cents per kilowatt hour in August. As the world economies stumbled, oil prices also fell dramatically, ending the year at US$38 per barrel, with the Fuel Clause Adjustment for all customers dropping as a consequence to about 12 cents per kilowatt hour in December.

Commercial customers felt the full impact of the dramatic increase in the cost of fuel...

Residential customers however, were cushioned from the full impact of the increase, through a government subsidy on fuel oil used in the production of electricity for these customers. The subsidy, which was introduced in December 2007, held the Fuel Clause Adjustment at 23.5375 cents per kilowatt-hour and cost the Government some $36 million up to the time it was discontinued in November 2008 when the Fuel Clause Adjustment fell below the subsidized level as international oil prices eased.

The Ongoing Quest for Renewable Energy

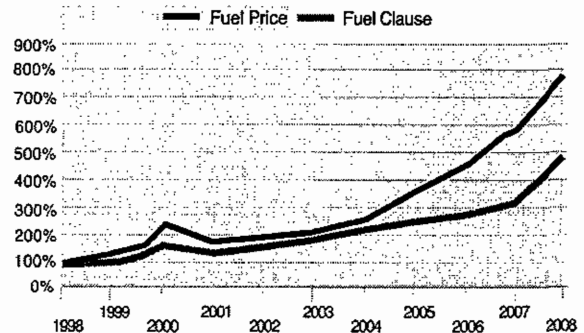
Oil has been the main source of energy for Barbadians since the beginning of electricity service in 1911. Oil prices during the past year have reinforced the need to diversify energy sources. However, there is no single replacement for oil, and several alternatives need to be considered to transition us to new energy sources over the coming decades.

The new Democratic Labour Party administration, which was elected in January 2008 under the leadership of now Prime Minister, the Honourable David Thompson, has stated its support for the increased use of renewable energy and has announced initiatives to reduce our dependence on oil.

Importing natural gas from Trinidad & Tobago via undersea pipeline also offers a means by which Barbados can secure a clean source of fuel and do so on terms that provide price stability over the longer term. The Company has discussed with government the benefits associated with the proposal to import natural gas and, together with the project's proponents, perseveres in its efforts to bring the project to fruition.

Renewable sources such as wind and solar are intermittent in nature, and therefore do not add firm generating capacity which can be dispatched as needed to meet customer demand for electricity. These sources do, however, provide a means to replace a modest amount of imported oil.

The Company has been seeking to introduce wind energy into the electricity mix for several years and at year-end was still awaiting a decision on its application to the Town & Country Development Planning Office to construct a 10 megawatt wind farm at Lamberts, St. Lucy. The Company has completed a comprehensive Environmental Impact Assessment on the project and is disappointed that the process has taken so long. The Lamberts site has long been identified as a preferred location for wind energy development, and is included in the National Physical Development Plan for this kind of wind energy development. The Company will continue to pursue this and other wind energy opportunities.



The Company is also preparing for the interconnection of small, customer owned solar photovoltaic systems into the grid. These units, generally less than 5 kilowatts in size, are designed to connect directly to a customer's electrical panel and offset the amount of energy required from the grid, with any excess feeding back into the grid. While electricity from solar photovoltaic panels is still not price competitive, these systems would add to the portfolio of energy sources when oil prices increase again. It is anticipated that the necessary technical and regulatory framework will be in place towards the end of 2009.

As stated in last year's report, the Company continues to promote energy efficiency among all of its customers. The Company has long held the philosophy that for it to be successful its customers must be energy efficient in this highly competitive world. It also strives to be efficient in its own operations, and technical losses from the transmission and distribution of electricity, which for 2008 stood at 6.3%, continue to be among the lowest in the region and comparable to levels in utilities in Europe and North America.

Delivering Quality Service - Helping Barbados to Compete

The Company recognises that a reliable and efficient electricity service with high levels of customer service is essential for the continued growth and development of the Barbadian economy. The Company therefore places a great deal of importance on its ability to continuously improve on its service, develop its staff and help Barbados compete on the world stage.

During 2008, the Company reached a significant milestone in its Quality Management initiative when it achieved certification under the ISO 9001:2000 Quality Management standard. Auditors from National Quality Assurance in the United States conducted the certification audit during October and shortly thereafter confirmed that the Company had been successful in gaining certification. The Company is now among eight companies in Barbados achieving this milestone.

The team charged with responsibility for the HSEQ (Health Safety Environment and Quality) management initiative received much deserved kudos for this achievement, and is now pressing ahead with efforts to guide the Company to certification under the ISO14001 Environmental Management Standard, and OHSAS18001, the Occupational Health & Safety Assessment standard. This is an ongoing journey to ensure that the Company is prepared to meet the highest standards required in this demanding world.

The Company also launched a new Customer Care & Billing computer system to provide customers with new and improved ways to transact business. The old system was developed almost twenty years ago and the software and hardware are no longer supported. We therefore appreciate the efforts of our employees who continue to work through the challenges that often accompany a change of this magnitude, as well as the patience of our customers as we adjust to the workings of the new system.

... the Company is prepared to meet the highest standards required in this demanding world

Tiffani Straker
Employee of the Year

The Company views advancements in information technology as a strategic opportunity and during 2008 continued the expansion of its fiber optic network to provide faster and more reliable communications between its various sites, as well as to provide a means for quickly identifying and isolating faults on the electrical network through modern protection systems. During 2009, the Company will be conducting a study on the feasibility of introducing advanced metering systems which would allow remote reading of meters at customer premises as well as the introduction of automatic outage management systems.

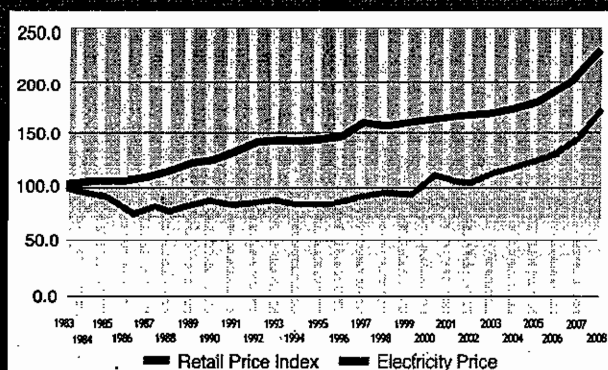
In response to the flat sales and in anticipation of a possible further deterioration in the economic situation, the Company deferred a number of capital projects during 2008. However, work is continuing on projects that were already well advanced, including the installation of new 24,000 and 132,000 volt underground cables along the Ronald Mapp Highway to strengthen the transmission system supplying the north of the island, as well as the upgrade of substations along the route. As demand for electricity grows, and older plant and equipment nears the end of their economic and technical lives, the Company will continue to plan for new facilities to ensure that it is ready to meet the needs of its customers.

Securing Against Hurricanes

The 2008 hurricane season was an active one, but once again Barbados was spared the devastating effects of these powerful storms. Some of our sister utilities were less fortunate, and the Company, as part of the Caribbean Electric Utility Service Corporation (CARILEC) mutual aid programme, sent a six man team from its Distribution Department to assist with restoration efforts in Grand Turk, Turks & Caicos Islands, following the passage of Hurricane Ike in September. BLPC engineers, supervisors, and linemen have participated in several restoration efforts in other Caribbean islands and have thereby gained considerable experience in the reconstruction of distribution systems after a hurricane.

Prudent management requires that a Company protect its assets against catastrophe and other risks. A reliable electric service is one of the cornerstones of the economy and the Company therefore needs to be able to restore supply as soon as possible following any natural disaster but commercial insurance is not available against hurricanes for the transmission and distribution network. In order to protect its customers and investors, the Company continues to build its self-insurance fund. The Company has made meaningful progress towards placing new transmission links underground and constructing 'indoor' substations which house switchgear and controls in hurricane resistant buildings. The cost of placing the entire distribution network underground would be prohibitively expensive.

The Company has made efforts to hold the line on production and distribution costs while striving to improve service, and is very proud of the fact that it has been able to avoid an increase in basic electricity rates for the past 25 years since the last increase in basic electricity rates was granted on May 12, 1983 by the Public Utilities Board (the "PUB").



The most recent CARILEC survey again confirms that electricity rates in Barbados are among the lowest in the region. A comparison of electricity prices in 2008 compared to the Consumer Price Index (CPI) indicates that while the CPI has risen by 109% since 1983, the price of electricity has increased by only 48% excluding VAT, due to increased fuel prices alone. In 1997, the Government of Barbados introduced a 15% Value Added Tax ("VAT"), which was applied to all electricity sales. Commercial customers are VAT registered and typically are able to recover the input VAT. However, Domestic customers have seen an increase in electricity bills since VAT was introduced.

Inputs into the electricity business have since increased significantly and the Company requires an adjustment in electricity rates to allow it to maintain the high level of service required by the modern, developed society that Barbados has become, while meeting its commitments to its lenders and investors.

As a prerequisite for a review of its rates, the Company requires a determination of the rates to be used to depreciate the plant and equipment used in electricity service. On November 9, 2008, the Fair Trading Commission, the utility regulator, issued a notice advising that the Company had submitted an application for a "re-prescription of the useful lives of the assets and plant in service", in essence, depreciation rates, and invited persons wishing to intervene in the proceeding to file a letter of intervention. At year-end the Company was awaiting a public hearing on this issue.

The regulations governing an application for a review of rates require that the Company submit proposed standards of service. On October 29, 2008 the Commission initiated a Public Consultation on a Review of Standards of Service for the Company and invited written comments from the public. Service Standards were first introduced in June 2006, and the Company has generally performed well since their introduction. At year-end the Company was awaiting the decision of the Commission regarding any proposed changes to the Service Standards.

0900

The Company exists to provide service to our community

Peter Williams
Managing Director

Goodbyes ... & Hellos

This year we said goodbye to Mr. Keith Richards, Senior Manager Distribution, who retired at the end of 2008 after 28 years with the Company. The Board of Directors wishes to place on record its appreciation for his leadership of the Distribution Department and to welcome his successor, Mr. Rohan Seale, to the management team.

The Company exists to provide service to our community and is known to its customers by the individuals that represent the Company on a daily basis. Many members of our staff are long serving. 167 employees, or about one third of our staff, have served for over 25 years with the Company and we acknowledge that all of our employees are our ambassadors. We continue to attract and retain talented and dedicated individuals, people who share our values, and thrive on the opportunity to grow and achieve. Every year, several members of our staff take the initiative to further their own studies and professional development. The Company continues to support these initiatives, and is proud when these individuals achieve excellence. Their success assures the Company and Barbados of the skills that are needed to succeed in this competitive world. During 2008, several employees graduated with first degrees from part-time studies at the University of the West Indies, while others achieved their Masters degrees, with two members of our professional staff being the sole recipients of distinctions in this year's graduating class in the Durham University MBA programme.

We value our relationship with the Barbados Workers' Union (BWU) and continue to work to build good labour relations. Several employees participated in courses at the BWU Labour College, thus enhancing their understanding of modern labour and supervisory practices. In-house training also continues to be upgraded to meet the growing demands of a highly specialised workforce that is required to maintain our generating plant and operate an electricity system that delivers power to each and every customer at the speed of light and at voltages as high as 69,000 volts.

Our commitment to excellence also extends to assisting our schools. This year we celebrated the 10th anniversary of the launch of the popular Student's Planner, a convenient booklet viewed by both pupils and teachers as a positive and meaningful aid towards effective time management and goal setting. We are pleased with the success of this initiative which is supporting the development of the youth of our nation, helping them develop good study habits and preparing them for life after school.

We are grateful for the kudos that we receive when we exceed customer expectations, and we take seriously the criticisms which point to improvements that we need to make. Our Company works to satisfy customer requirements, and I thank each and every member of our team for their hard work during 2008.

Peter W. B. Williams
Managing Director
The Barbados Light & Power Co. Ltd.
February 19, 2009

2008

Financial Statements & Corporate Information of Light & Power Holdings Ltd.

The Barbados Light & Power Co. Ltd. Senior Management

Managing Director	- Peter Williams
Chief Financial Officer	- Hutson Best
Senior Manager, Generation	- Hallam Edwards
Information Systems Manager	- Sandra Franklyn
Customer Services Manager	- Hallam Hunte
Chief Operating Officer	- Mark King
Distribution Manager	- Rohan Seale
Chief Marketing Officer	- Stephen Worme
Human Resources Manager	- Wayne Yearwood

2008 Simplified Financial Statement

The Barbados Light & Power Co. Ltd

How each electricity customer dollar was spent in 2008

55¢	Fuel excluding VAT
17¢	Labour & materials
14¢	Taxes and VAT
7¢	Capital Investments
2¢	Repayment of borrowings
2¢	Insurance
2¢	Shareholders' dividends
1¢	Interest
100 cents	**TOTAL**

PricewaterhouseCoopers
The Financial Services Centre
Bishop's Court Hill
P.O. Box 111
St. Michael BB14004
Barbados, W.I.
Telephone (246) 436-7000
Facsimile (246) 436-1275

Independent Auditors' Report

To the Shareholders of
Light & Power Holdings Ltd.

We have audited the accompanying consolidated financial statements of **Light & Power Holdings Ltd.** which comprise the consolidated balance sheet as of December 31, 2008, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 14 to 49.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Light & Power Holdings Ltd.** as of December 31, 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
March 23, 2009
Bridgetown, Barbados

PricewaterhouseCoopers refers to the East Caribbean firm of PricewaterhouseCoopers and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. A full listing of the partners of the East Caribbean firm is available on request at the above address.

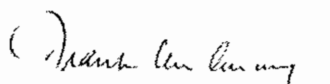
0904

Consolidated Balance Sheet

As of December 31, 2008 (expressed in thousands of Barbados dollars)

	Notes	2008 $	2007 $
Assets			
Non-current assets			
Property, plant and equipment	5	604,130	592,291
Investment in associates	6	15,379	14,170
Investments - available-for-sale	7	81,834	79,818
		701,343	686,279
Current assets			
Cash resources	8	46,861	60,216
Trade and other receivables	9	49,971	56,334
Corporation tax recoverable		133	82
Inventories	10	30,209	34,308
		127,174	150,940
Total assets		828,517	837,219
Equity			
Share capital	11	115,090	119,074
Other reserves	12	218,890	207,939
Retained earnings		266,285	252,373
		600,265	579,386
Non-current liabilities			
Borrowings	13	95,211	108,368
Customers' deposits	14	22,449	20,201
Deferred credits	15	44,131	42,537
Deferred tax liability	16	18,359	20,287
Provisions for other liabilities and charges	17	2,973	2,973
		183,123	194,366
Current liabilities			
Trade and other payables	18	30,121	48,567
Provision for other liabilities and charges	17	1,471	1,850
Current portion of borrowings	13	13,537	13,050
		45,129	63,467
Total equity and liabilities		828,517	837,219

The accompanying notes form an integral part of these financial statements.
Approved by the Board of Directors on March 12, 2009 and signed on its behalf by:



Frank O. McConney - Director

E. L. Greaves - Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2008 (expressed in thousands of Barbados dollars)

	Preference shares $	Common shares $	Other reserves $	Retained earnings $	Total $
Balance at December 31, 2006	500	118,933	200,310	208,359	528,102
Dividends paid	-	-	-	(7,001)	(7,001)
Issue of common shares	-	585	-	-	585
Repurchase of common shares	-	(944)	-	-	(944)
Transfer to Self Insurance Fund/reserve	-	-	7,335	(7,335)	-
Change in fair value of financial investments (note 7)	-	-	294	-	294
Net income for the year	-	-	-	58,350	58,350
Balance at December 31,2007	500	118,574	207,939	252,373	579,386
Share issue costs reclassified	-	(494)	494	-	-
Dividends paid	-	-	-	(6,856)	(6,856)
Issue of common shares	-	534	-	-	534
Repurchase of common shares	-	(4,024)	-	-	(4,024)
Transfer to Self Insurance Fund/reserve	-	-	10,948	(10,948)	-
Change in fair value of financial investments (note 7)	-	-	(491)	-	(491)
Net income for the year	-	-	-	31,716	31,716
Balance at December 31,2008	500	114,590	218,890	266,285	600,265

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Income

For the year ended December 31, 2008 (expressed in thousands of Barbados dollars)

	Notes	2008 $	2007 $
Operating revenue	19	473,310	397,636
Operating expenses			
Fuel		297,612	225,299
Generation		51,061	40,747
General		36,683	33,745
Distribution		11,738	12,470
Insurance		4,810	4,715
Depreciation		37,275	33,660
Foreign exchange loss		83	9
	20	439,262	350,645
Operating income		34,048	46,991
Finance income	21	4,319	4,962
Interest and finance charges		(6,502)	(6,323)
Share of loss of associated companies	6	(1,229)	(2,195)
Income before taxation		30,636	43,435
Taxation	16	1,080	14,915
Net income for the year		31,716	58,350
Basic and diluted earnings per share (cents)	23	166.0	314.7

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2008 (expressed in thousands of Barbados dollars)

	2008 $	2007 $
Cash flows from operating activities		
Income before taxation	30,636	43,435
Adjustments for non-cash items:		
Share of loss of associated companies	1,229	2,195
Depreciation	37,275	33,660
Loss on foreign exchange	83	9
Gain on disposal of property, plant and equipment	-	(146)
Finance income	(4,319)	(4,962)
Interest and finance charges	6,502	6,323
Net change in deferred revenue	746	101
Net change in provision for liabilities and other charges	(379)	722
Operating income before working capital changes	71,773	81,337
Decrease/(increase) in trade and other receivables	6,363	(16,945)
Decrease/(increase) in inventories	4,099	(4,215)
(Decrease)/increase in trade and other payables	(18,446)	23,261
Cash generated from operations	63,789	83,438
Interest and finance charges paid	(6,541)	(6,188)
Corporation tax (paid)/recovered	(51)	20
Net cash from operating activities	57,197	77,270
Cash flows used in investing activities		
Additions to property, plant and equipment	(52,866)	(64,196)
Purchase of financial investments	(2,590)	(8,743)
Decrease in term deposits	6,000	3,700
Increase in restricted cash	(4,714)	(8,270)
Increase in investment in associates	(2,438)	(400)
Proceeds on disposal of property, plant and equipment	-	187
Interest received	4,319	4,903
Net cash used in investing activities	(52,289)	(72,819)
Cash flows used in financing activities		
Repurchase of common shares	(4,024)	(944)
Issue of common shares	534	585
Dividends paid	(6,856)	(7,001)
Proceeds from borrowings	-	25,000
Repayment of borrowings	(12,727)	(12,414)
Issue costs	96	(396)
Customers' contributions	3,752	5,989
Customers' deposits and accrued interest	2,248	382
Net cash (used in)/from financing activities	(16,977)	11,201
Net (decrease)/ increase in cash and cash equivalents	(12,069)	15,652
Cash and cash equivalents - beginning of year	28,087	12,435
Cash and cash equivalents - end of year (note 8)	16,018	28,087

The accompanying notes form an integral part of these financial statements.

1 General information

Light & Power Holdings Ltd. ("the Company") was incorporated on October 9, 1997 under the Companies Act, Chapter 308 of the Laws of Barbados and is listed on the Barbados Stock Exchange. The principal activities of the Company and its subsidiaries (including special purpose entities) ("the Group") include the generation, distribution and supply of electricity, the provision of telecommunication services and the operation of a self insurance fund to manage certain of the Group's insurance risks.

The registered office of the Company is located at Garrison Hill, St. Michael.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of available-for-sale financial investments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

a) Standards, amendments and interpretations effective in 2008

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after January 1, 2008:

- IAS 39 (Amendment), 'Reclassification of financial assets'. An amendment to the standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The amendment has no impact on the Group's financial statements as the Group has continued to classiify these assets as available-for-sale.

- IFRIC 11, 'IFRS 2 - Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

- IFRIC 14,'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group does not have a defined benefit asset or is not subject to any minimum funding requirements.

b) Standards and amendments early adopted by the Group

There were no standards, interpretations or amendments which were early adopted by the Group in 2008.

c) Interpretations effective in 2008 but not relevant to the Group's operations

- IFRIC 12, 'Service concession arrangements', is mandatory for accounting periods beginning on or after January 1, 2008, but is not relevant to the Group's operations.

d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 2009 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from January 1, 2009. It is likely that two performance statements will be presented.

- **IAS 23 (Revised), 'Borrowing costs'** (effective from January 1, 2009). The new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Revised) retrospectively from January 1, 2009; this is not expected to have any impact on the financial statements as the Group currently capitalizes borrowing costs on qualifying assets.

- **IAS 23 (Amendment), 'Borrowing costs'** (effective from January 1, 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

- There are a number of minor amendments to **IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting'**, which are part of the IASB's annual improvement project published in May 2008. These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

e) **The following standards, interpretations and amendments to existing standards are not yet effective and are not relevant to the Group's operations:**

IAS 1 (Amendment)	-	Presentation of financial statements
IAS 16 (Amendment)	-	Property, plant and equipment
IAS 19 (Amendment)	-	Employee Benefits
IAS 20 (Amendment)	-	Accounting for government grants and disclosure of government assistance
IAS 27 (Revised)	-	Consolidated and separate financial statements
IAS 28 (Amendment)	-	Investments in associates
IAS 29 (Amendment)	-	Financial reporting in hyperinflationary economies
IAS 31 (Amendment)	-	Interest in joint ventures
IAS 32 (Amendment)	-	Financial instruments: Presentation
IAS 38 (Amendment)	-	Intangible assets
IAS 40 (Amendment)	-	Investment property
IAS 41 (Amendment)	-	Agriculture
IFRS 1 (Amendment)	-	First time adoption of IFRS
IFRS 2 (Amendment)	-	Share-based payment
IFRS 3 (Revised)	-	Business combinations
IFRS 5 (Amendment)	-	Non-current assets held-for-sale and discontinued operations
IFRS 8	-	Operating segments

IFRIC 13	-	Customer loyalty programmes
IFRIC 15	-	Agreements for construction of real estates
IFRIC 16	-	Hedges of a net investment in a foreign operation
IFRIC 17	-	Distribution of non-cash assets to owners

2.2 Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the parent company and its subsidiaries (including special purpose entities) ("the Group") as disclosed in Note 28. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-company balances and transactions have been eliminated in full.

a) Subsidiaries

Subsidiary companies are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a share holding of more than 50% of the voting rights and is able to exercise control over the operations.

Subsidiaries are fully consolidated from the date on which control is transferred and continue to be consolidated until the date that such control ceases. The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of acquisition is measured at the fair value of shares issued, assets given up, or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition.

b) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Barbados dollars which is also the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into Barbados currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group operates in one geographical segment.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the acquisition of the items and include cost of materials, direct labour, supervision and engineering charges and interest incurred during construction which is directly attributable to the acquisition or construction of a qualifying asset.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Contributions received towards construction of electric plant are credited to the cost of work in progress or are shown as deferred credits in the case where construction has not yet started.

Interest cost on property, plant and equipment is capitalised and included in the appropriate capital asset account until the asset is made available for service.

Land is not depreciated. No depreciation is provided on work-in-progress until the assets involved have

been completed and are available for use. For financial reporting purposes depreciation on other property, plant and equipment is calculated by the straight line method using rates required to allocate the cost of the assets less salvage over their estimated service lives as follows:

Generation equipment	2% - 5%
Transmission and distribution	3% - 6%
Other	2% - 33%

When depreciable property, plant and equipment other than motor vehicles and property are retired, the gross book value less proceeds net of retiral expense is charged to accumulated depreciation. For material disposals of motor vehicles and property, the asset cost and accumulated depreciation are removed with any gain or loss credited or charged to current operations.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of income.

2.6 Financial investments

The Group has classified its financial investments as available-for-sale and loans and receivables. Management determines the classification at initial recognition and reviews the designation at every reporting date. The classification depends on the purpose for which the financial investments are acquired.

(a) Available-for-sale financial assets

Available-for-sale financial assets are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose within 12 months. Available-for-sale financial assets are carried at fair value based on current bid prices on the market. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised directly in equity until the financial investment is sold, or otherwise disposed of, or until the financial investment is determined to be impaired at which time the cumulative gain or loss will be included in net income or loss for the period.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise cash resources and trade and other receivables.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase and sell the asset. Cost of purchase includes transaction costs.

2.7 Impairment of non-financial assets

Assets that have an indefinite life, e.g. land is not subject to amortisation and is reviewed for impairment annually.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8 Cash and cash equivalents

These consist of cash held in hand and at bank, deposits held at call with banks and other short-term highly liquid investments with original maturities of three (3) months or less.

2.9 Trade receivables

Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost less provision for impairment and discounts. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In addition, a provision for discounts based on historical experience, is created in anticipation of accounts that will be settled prior to the scheduled due date. The amount of the provisions is recognised in the income statement. When a trade receivable is uncollectible it is written off against income. Subsequent recoveries of amounts previously written off are credited to the statement of income.

2.10 Inventories

Inventories of fuel, materials and supplies are valued at the lower of cost or net realisable value. Cost is determined on an average cost basis. Generation spares are carried at cost less provision for obsolescence.

2.11 Share capital

Common shares are classified as equity. Redeemable preference shares are treated as equity because they cannot be converted by the holders thereof at any time nor is the Group mandatorily required to redeem them on a specific date.

Where the Group repurchases without cancellation its own shares, the consideration paid is deducted from equity, until such shares are reissued.

Incremental costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in the statement of changes in equity.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least twelve (12) months after the balance sheet date.

2.13 Taxation

a) Deferred income tax

Taxation expense in the statement of income comprises current and deferred tax. Taxation expense is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax assets can be utilised.

b) Investment tax credit

The tax credit from investment allowances associated with the acquisition of plant and equipment is being deferred and amortised to income over the useful lives of the respective assets.

c) Manufacturing tax credit

The tax credit from manufacturing allowances associated with the acquisition of plant and equipment is being deferred and amortised to income over the lives of the respective plant and equipment.

2.14 Customers' deposits

Commercial and all other customers except Barbadian residents categorised under the Domestic Service tariff are normally required to provide security for payment, however, Barbadian residents under this tariff may be asked to provide security if they are delinquent in paying their bills. The cash deposit is refunded with accumulated interest when the account is terminated or arrangements made to provide alternative security (e.g. a banker's guarantee).

Given the long term nature of the customer relationship, customer deposits are shown in the balance sheet as non-current liabilities (i.e. not likely to be repaid within twelve months of the balance sheet date).

2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

2.16 Revenue recognition

Revenue comprises the value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

The Group records revenue, other than fuel clause revenue, as billed to its customers, net of value-added tax and discounts and does not recognise any unbilled portion which exists at the end of the accounting period. Fuel clause revenue is recognised on the basis of the amount actually recoverable for the accounting period. The unbilled revenue at year-end is not material.

Interest income is recognised on an accrual basis using the effective interest rate method.

Dividend income is recognised when the Group's right to receive payment is established.

2.17 Employee benefits

The Group operates a fully insured purchased annuity plan pension scheme. This scheme takes the form of a defined benefit scheme in that it defines the amount of pension benefit that an employee will receive upon retirement. Pension costs are accounted for on the basis of contributions payable in the year, as the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior periods. (Note 24)

2.18 Share purchase scheme

The employees of the subsidiary company, The Barbados Light and Power Company, have the option to receive their annual bonus in cash and or common shares of the parent company under General By-Law No. 1, Section 12.1 of the parent company's Articles of Incorporation and General By-Laws. The shares are issued at 80% of market value. The 20% discount is recognised as an expense, which is included in employee benefits.

2.19 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividend is declared and approved by the Board of Directors.

2.20 Related parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Individuals, associates or companies that directly or indirectly control or are controlled by or are under common control with the Group are also considered related parties.

2.21 Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

3 Financial risk management

3.1 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets of the Group include cash and cash equivalents, term deposits, trade and other receivables and available-for-sale financial investments initially measured at fair value.

Financial liabilities of the Group include borrowings, trade and other payables and customer deposits initially measured at fair value and subsequently carried at amortised cost.

The accounting policies for financial assets and liabilities are set out in note 2 or the individual notes associated with each item.

3.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, price risk, cash flow and interest rate risk), liquidity, credit risk and underinsurance risks. The Group's overall risk management policy is to minimise potential adverse effects on its' financial performance and to optimise shareholders' value within an acceptable level of risk.

Risk management is carried out by the Group's management under direction from the Board of Directors. The Group's exposure and approach to its key risks are as follows:

a) Market risk

i) Foreign exchange risk

This is the potential adverse impact on the Group's earnings and economic value due to movements in exchange rates.

The Group is exposed to foreign exchange risk arising primarily from foreign currency borrowings and purchases of plant, equipment and spares from foreign suppliers.

Borrowings have been formally fixed to the United States dollar (US$) to limit exposure to fluctuations in foreign currency exchange rates, since there is a fixed exchange rate between the Barbados dollar and United States dollar. Additionally most purchases are transacted in United States dollars.

The Group has not entered into forward exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates.

ii) Price risk

The Group is exposed to equity securities price risk because of financial investments held by the Group and classified on the consolidated balance sheet as available-for-sale. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The equities held in the portfolio are indexed to the S&P 500 index.

The below table shows the effect of a 5% increase/decrease in equity prices of the Group's available-for-sale financial assets at December 31, 2008 with all other variables held constant.

	Impact on other components of equity	
	2008	2007
	$	$
Equity securities	96	161

The carrying value of listed securities would increase/decrease as a result in the change of values. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity (copper, aluminum) prices. Prices for these commodities are impacted by world economic events that dictate the levels of supply and demand.

To minimise the risks associated with fluctuations in the prices of these commodities, the Group requests that suppliers bidding for major cable products utilise financial derivatives to hedge against commodity risks.

iii) Cash flow and fair value interest rate risk

Interest rate risk is the potential adverse impact on the earnings and economic value of the Group caused by movements in interest rates.

The Group's interest bearing assets expose it to cash flow interest rate risk. Interest margins may increase or decrease as a result of such changes and may reduce or increase losses in the event that unexpected movements arise. At December 31, 2008, a 1% increase/decrease in interest rates would have resulted in an increase/decrease in profit of $0.8 million (2007 $0.7 million) respectively.

The Group's interest rate risk also arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's policy is to maintain its borrowings in fixed rate instruments thereby minimising cash flow interest rate risk. Exposure to fair value interest rate risk on its borrowings results from fluctuations in the fair value of borrowings in response to changes in market interest rates.

The Group's exposure to interest rates and the terms of borrowings are disclosed in notes 8 and 13.

b) **Liquidity risk**

Liquidity risk refers to the risk that the Group cannot adequately generate sufficient cash and cash equivalents to satisfy commitments as they become due.

Management monitors the Group's liquidity reserve which comprises undrawn borrowing facility (note 25) and cash and cash equivalents (note 8), on the basis of expected cash flows and is of the view that the Group holds adequate cash and credit facilities to meet its short-term obligations.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Balances due within 12 months equal their carrying balances.

	Less than 1 year $	Between 1 & 2 years $	Between 2 & 5 years $	Over 5 years $
At December 31, 2008				
Borrowings	17,704	39,644	34,351	50,768
Trade and other payables	24,826	-	-	-
Customer deposits	-	-	-	22,449
At December 31, 2007				
Borrowings	17,557	40,084	46,464	55,632
Trade and other payables	44,360	-	-	-
Customer deposits	-	-	-	20,201

The amounts included in the above table for borrowings and trade and other payables will not reconcile to the balance sheet as they are the contractual cash flows.

c) Credit risk

Credit risk is the inherent risk that counterparties may experience business failure or otherwise avoid their contractual obligations.

The Group's financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of bank deposits and trade receivables. The Group's bank deposits and financial instruments are placed with highly rated financial institutions to limit its exposure. Credit risk with respect to trade receivables is substantially reduced due to the policies implemented by management. Deposits are required from commercial customers upon application for a new service and management performs periodic credit evaluations of its general customers' financial condition. Management does not believe significant credit risk exists at December 31, 2008.

d) Underinsurance risk

Prudent management requires that a company protect its assets against catastrophe and other risks. In order to protect its customers and investors, the Subsidiary Company, The Barbados Light & Power Company has established a "Self Insurance Fund" in accordance with the Insurance Act - Insurance (Barbados Light & Power Company Limited) (Self Insurance Fund) Regulations 1998 (Act 1996-32) to set aside funds on an annual basis to mitigate this risk. The Fund was required under the Act in order to self insure the schedule of assets of The Barbados Light & Power Company Limited against damage and consequential loss as a result of a catastrophe.

The Fund is periodically reviewed by a risk consultant who makes recommendations to ensure the continued security and solvency of the Fund.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2008 and 2007 were as follows:

	2008 $	2007 $
Total borrowings (note 13)	108,972	121,699
Less: Cash and cash equivalents (note 8)	(16,018)	(28,087)
Net debt	92,954	93,612
Total equity	600,265	579,386
Total capital	693,219	672,998
Gearing ratio	13%	14%

3.4 Fair value estimation

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no obligation to act and is best evidenced by a quoted market price, if one exists.

The carrying value of cash, trade receivables less impairment provision and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

4.1 Critical accounting estimates and assumptions

The development of estimates and the exercise of judgement in applying accounting policies may have a material impact on reported assets, liabilities, revenues and expenses.

Other than in the establishment of routine provisions against trade receivables, inventories and current provisions for liabilities and other charges no significant estimates or judgements have been required in applying accounting policies which may have a material impact on the Group's reported assets, liabilities, revenues and expenses.

4.2 Critical judgements in applying the entity's accounting principles

Special Purpose Entity/(SPE) - Self Insurance Fund

The Group has established a special purpose entity (SPE) (Note 3.2 (d)) primarily for the purpose of building an insurance fund to cover risk against damage and consequential loss to certain generating, transmission and distribution systems. In making a judgement that the Group controls the SPE, management considered that in substance, the activities of the SPE are being conducted on behalf of the Group according to a specific business need so that the Group alone obtains benefits from the SPE's operations. Additionally, because the Group has rights to all the benefits of the SPE it is therefore exposed to the risks incident to the activities of the SPE and in this case the SPE is consolidated.

5 Property, plant and equipment

	Generation $	Transmission & distribution $	Other $	Work in progress $	Total $
At December 31, 2008					
Cost	462,652	400,267	87,613	76,922	1,027,454
Accumulated depreciation	(235,228)	(150,654)	(37,442)	-	(423,324)
Net book amount	227,424	249,613	50,171	76,922	604,130
Year ended December 31, 2008					
Opening net book amount	240,309	239,681	42,443	69,858	592,291
Additions and transfers	968	26,314	13,153	7,064	47,499
Disposals	1,458	157	-	-	1,615
Depreciation charge	(15,311)	(16,539)	(5,425)	-	(37,275)
Closing net book amount	227,424	249,613	50,171	76,922	604,130
At December 31, 2007					
Cost	461,684	382,427	76,203	69,858	990,172
Accumulated Depreciation	(221,375)	(142,746)	(33,760)	-	(397,881)
Net book amount	240,309	239,681	42,443	69,858	592,291
Year ended December 31, 2007					
Opening net book amount	248,000	227,791	36,685	55,309	567,785
Additions and transfers	7,592	27,741	8,325	14,549	58,207
Disposals	-	-	(41)	-	(41)
Depreciation charge	(15,283)	(15,851)	(2,526)	-	(33,660)
Closing net book amount	240,309	239,681	42,443	69,858	592,291

During the year, the Group capitalised interest of $1.7 million (2007: $1.2 million)

If plant, property and equipment were stated on the revaluation cost basis, the net book value would be as follows:

	Generation $	Transmission and distribution $	Other $	Work in progress $	Total $
At December 31, 2008					
Cost	719,132	757,639	128,201	76,922	1,681,894
Accumulated depreciation	(383,682)	(322,413)	(35,280)	–	(741,375)
Net book amount	335,450	435,226	92,921	76,922	940,519
At December 31, 2007					
Cost	639,837	669,779	113,891	69,858	1,493,365
Accumulated depreciation	(321,161)	(283,499)	(30,396)	–	(635,056)
Net book amount	318,676	386,280	83,495	69,858	858,309

6 Investment in associates

	2008 $	2007 $
Balance - beginning of year	14,170	15,965
Investment in associates	2,438	400
Share of loss for year	(1,229)	(2,195)
Balance - end of year	15,379	14,170

The Group has a 100% ownership in LPH Telecom Limited, a telecommunications company incorporated in Barbados.

During the year as part of a restructuring exercise, LPH Telecom Limited transferred its 25% shareholding in Antilles Crossing International, LP, Antilles Crossing - St. Croix Inc. and AC (Barbados) IBC. Inc., the immediate parent company for Antilles Crossing (St. Lucia) Limited to Caribbean Fiber Holdings, LP. Further to that restructuring the net assets of Antilles Crossing, LP were transferred to AC Barbados, LP newly formed Delaware partnership which is wholly-owned by Caribbean Fiber Holdings, LP.

During the year Caribbean Fiber Holdings, LP created two wholly-owned subsidiaries Tele (St. Lucia) Inc. a telecommunication company based in St. Lucia along with its immediate parent company Antilles Crossing (Barbados) IBC Inc.

Advances of $2.4million (2007 - $0.4million) were made during the year to LPH Telecom Limited.

The Group's share of the results of its principal associates and its share of the assets and liabilities are as follows:

Name	% Interest	Assets $	Liabilities $	Revenues $	Profit/(loss) $
2008					
Caribbean Fiber Holdings, LP	25%	10,325	4,888	-	(1,168)
Tele (Barbados) Inc.	25%	7,504	698	3,844	199
WAMCO Technology Group Limited	25%	70	-	-	(75)
Tele (St. Lucia) Inc.	25%	253	299	84	(185)
		18,152	5,885	3,928	(1,229)
2007					
Antilles Crossing International, LP	25%	8,617	893	693	(183)
Tele (Barbados) Inc. via Antilles Crossing. Holding Co. St. Lucia Ltd.	25%	4,184	2,947	1,862	(1,546)
Antilles Crossing, LP via Antilles Crossing Int'l, LP	25%	2,851	2,288	-	(122)
Antilles Crossing - St. Croix Inc.	25%	1,391	236	-	(157)
Antilles Crossing (St. Lucia) Ltd. via AC (Barbados) IBC, Inc	25%	2,788	-	48	(187)
		19,831	6,364	2,603	(2,195)

7 Investments - available-for-sale

	2008 $	2007 $
Balance at beginning of year	**79,818**	70,863
Additions	**2,590**	8,743
Unrealised foreign exchange loss	**(83)**	(82)
Change in fair value	**(491)**	294
	81,834	79,818

There were no disposals or impairment provisions for financial investments in 2008 or 2007.

Financial investments include the following:

	2008	2007
	$	$
Listed securities		
US Common Shares	1,919	3,217
US Mutual funds	676	862
US Corporate Bonds, Debentures, Short & Medium term notes	48,101	59,529
US Government Bonds	31,138	16,210
	81,834	79,818

These available-for-sale financial investments include assets held in trust on behalf of the Self Insurance Fund are not available to the Group for use in its operations.

The financial investments are denominated in United States dollars.

At December 31, 2008 the maturity profile of debt securities is as follows:

	2008	2007
	$	$
Maturity within 1 year	54,220	51,908
Maturity in 1 - 5 years	25,019	21,699
Maturity greater than 5 years	-	2,132
	79,239	75,739

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as financial investments. None of the financial assets are either past due or impaired.

8 Cash resources

	2008	2007
	$	$
Cash in hand and at bank	5,029	15,745
Short term bank deposits	10,989	12,342
Cash and cash equivalents	16,018	28,087
Bank deposits	4,000	10,000
Term deposits - Self Insurance Fund	17,744	20,186
Cash at bank - Self Insurance Fund	9,099	1,943
Cash resources	46,861	60,216

The interest rates on short-term bank deposits ranges between 4.00% and 6.50% (2007 – 4.85% and 6.50%) per annum. These deposits have an average maturity of 90 days.

The interest rates on the fixed term bank deposits ranges between 4% and 6.5% (2007 - 4% and 7.4%).

The cash and term deposits of $26.8 million (2007 - $22.1million) of the Self Insurance Fund are not available for use in the Group's operations.

9 Trade and other receivables

	2008 $	2007 $
Trade receivables	40,332	35,228
Less provision for impairment and discounts	(450)	(380)
Trade receivables, net	39,882	34,848
Other receivables	3,948	14,692
Prepayments	6,141	6,794
	49,971	56,334

The fair values of trade and other receivables equal their carrying values due to the short term nature of these assets.

The movement in the provision for impairment was as follows:

	2008 $	2007 $
Balance - beginning of year	380	300
Increase in provision – general	70	80
Balance - end of year	450	380

Based on the historic trend and expected performance of customers, the Group believes that the above allowance for doubtful receivables sufficiently covers the risk of default.

The increase in provision for impairment of receivables of $0.07 million is included in general operating expenses in the statement of income. Direct write offs for impaired receivables to the statement of income were $0.5 million (2007 - $0.3 million).

The ageing of trade and other receivables is as follows:

	2008		2007	
	Trade receivables $	Other receivables $	Trade receivables $	Other receivables $
Less than 30 days	20,934	1,875	27,317	6,535
31 - 60 days	9,479	189	6,832	6,594
61 - 90 days	1,339	1,012	920	842
Over 90 days	8,580	872	159	721
	40,332	3,948	35,228	14,692

As of December 31, 2008, trade receivables of $30.4 million (2007 $34.1 million) were fully performing.

As of December 31, 2008, trade & other receivables of $10.8 million (2007 - $1.7million) were past due but not impaired. These relate to a few customers experiencing economic difficulties but with whom pay arrangements have been implemented to settle liability. The ageing analysis of these trade and other receivables is as follows:-

	2008		2007	
	Trade receivables $	Other receivables $	Trade receivables $	Other receivables $
61 - 90 days	1,332	342	847	109
Over 90 days	8,478	649	146	626
	9,810	991	993	735

As of December 31, 2008, trade and other receivables of $0.2m (2007 - $0.2m) were impaired and provided for. The individually impaired receivables mainly relate to domestic and general service customers experiencing difficult economic situations.

	2008		2007	
	Trade receivables $	Other receivables $	Trade receivables $	Other receivables $
61 - 90 days	7	-	74	-
Over 90 days	102	62	13	79
	109	62	87	79

10 Inventories

	2008 $	2007 $
Fuel	7,358	10,153
Materials and spares	21,849	21,716
Goods in transit	1,002	2,439
	30,209	34,308

The cost of inventories written down and recognised as an expense during the year is included in operating expenses in the amount of $1.3 million (2007 - $1.1million).

11 Share capital

Authorised
100,000 - 5.5% Cumulative preference shares
500,000 - 10% Cumulative redeemable preference shares
100,000,000 - Common shares
10 - Class A redeemable preference shares

Issued	2008 $	2007 $
100,000 - 5.5% Cumulative preference shares	500	500
17,106,110 (2007 - 17,412,611) Common shares of no par value	114,590	118,574
	115,090	119,074

	2008		2007	
	No.	$	No.	$
Common Shares				
Shares outstanding - beginning of year	17,412,611	118,574	17,447,157	118,933
Repurchased during the year	(353,161)	(4,024)	(89,974)	(944)
Costs reclassified	-	(494)	-	-
Issued during the year	46,660	534	55,428	585
Balance - end of year	17,106,110	114,590	17,412,611	118,574

The Directors of the Company have agreed to set aside 600,000 common shares to be issued to the employees of Light & Power Holdings Ltd. and the subsidiary company, The Barbados Light & Power Company Limited under General By-Law No 1, Section 12.1 of the Articles of Incorporation and General By-Law of the Company. In November 2008, 46,660 common shares at $11.45 per share were issued under this Scheme.

The Company also repurchased 353,161 shares at prices ranging from $10.55 to $11.45 per share, which were cancelled.

12 Other reserves

		2008	2007
		$	$
i)	Capital Reserve		
	Balance - beginning and end of year	109,522	109,522
ii)	Self Insurance Fund		
	Balance - beginning of year	98,911	91,282
	Transfer from retained earnings	10,948	7,335
	Change in fair value of investments	(491)	294
	Balance - end of year	109,368	98,911
iii)	Share issue costs		
	Balance - beginning of year	(494)	(494)
	Reclassified to capital	494	-
		-	(494)
	Total other reserves	218,890	207,939

i) This represents an amount of retained earnings that was capitalised in the subsidiary company, The Barbados Light & Power Company Limited and is no longer available for distribution.

ii) Funds set aside by the subsidiary company, The Barbados Light & Power Company Limited, to build an insurance reserve to cover risk against damage and consequential loss to its transmission and distribution system in the event of a catastrophe.

Under the Insurance Regulation 1998, the Self Insurance Fund shall only be utilized by the subsidiary company, The Barbados Light & Power Company, for the purpose of replacing or reinstating the self insured assets which are damaged by catastrophe and compensating for any financial loss suffered as a result of such damage. Where the Fund is utilized for any other purpose any monies withdrawn shall be subject to corporation tax.

The total funds set aside plus investment income accrued less related expenses is consolidated with the Group's accounts in accordance with IAS 27 - SIC 12.

iii) This represents the incremental costs directly attributable to the Offering of Rights issue. In accordance with IAS 32, these costs are shown as a deduction from equity.

13 Borrowings

	2008 $	2007 $
Royal Bank of Canada BDS $25,000, repayable in annual instalments of $1.9m commencing in 2010 - interest rate 7%	25,000	25,000
European Investment Bank - Protocol 11 US$ 5,991 (2007 - US $7,872) repayable by 2011 in semi-annual instalments of blended principal and interest - interest rate 6.23%.	12,215	16,049
European Investment Bank - Protocol 111 US $ 18,387 (2007 - US $21,749) repayable by 2013 in semi-annual instalments of blended principal and interest - interest rate 4.27%	37,486	44,340
National Insurance Board - Debenture Stock Certificates (Total facility BDS $20,000) repayable in full in 2020. Interest is payable semi-annually - interest rate 5%.	20,000	20,000
First Caribbean International Bank (Cayman) Ltd US $7,000 (2007 - US $8,000) repayable by 2015 in semi-annual instalments of $0.5m - interest rate 5.98%.	14,271	16,310
Total long term borrowings	108,972	121,699
Add: Accrued interest	284	323
Less: Issue costs	(508)	(604)
	108,748	121,418
Less: Current portion including accrued interest	(13,537)	(13,050)
Non-current portion	95,211	108,368

The long-term loans, with the exception of the European Investment Bank loans, are secured under a Debenture Trust Deed, which creates a first and floating charge on the Company's property, present and future. The Debenture Trust Deed restricts the subsidiary company from issuing debentures ranking pari passu with the floating charge created, unless the Company can meet the earnings coverage ratio and the equity/debt ratio set out in the Trust Deed. The subsidiary company, The Barbados Light & Power Company Limited, may however issue a first security to manufacturers in respect of individual items of plant and machinery of up to 90% of the purchase price thereof and for a period not exceeding fifteen years. The financial ratios were met by the subsidiary company for 2008.

The European Investment Bank loans are guaranteed by the Government of Barbados.

The maturity of borrowings is as follows:

	2008 $	2007 $
Less than 1 year	13,252	12,727
Between 1 and 2 years	29,721	27,892
Between 2 and 5 years	26,435	37,816
Over 5 years	39,564	43,264
Total	108,972	121,699

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2008 $	2007 $	2008 $	2007 $
Borrowings	95,720	108,972	89,586	106,970

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.85% (2007 - 7%).

14 Customers' deposits

Commercial and non-resident customers are required to pay a security deposit for energy connections that are refundable when service is no longer required. Interest accrues on these deposits at a rate of 8% per annum (2007 - 8% p.a.).

	2008 $	2007 $
Balance - beginning of year	20,201	19,819
New deposits	1,580	1,800
Deposits refunded	(797)	(2,711)
Net interest	1,465	1,293
Balance - end of year	22,449	20,201

15 Deferred credits

	2008 $	2007 $
Accumulated investment tax credit	26,761	27,957
Accumulated manufacturing tax credit	15,736	13,692
Customer contributions for work not yet started	1,634	888
	44,131	42,537

16 Taxation

a) Corporation tax expense

	2008 $	2007 $
Current tax	-	(2)
Deferred tax	(1,928)	969
Deferred investment tax credit	(1,196)	(4,283)
Deferred manufacturing tax credit	2,044	1,280
Taxation credit	(1,080)	(2,036)
Deferred tax arising from change in tax rate in subsidiary	-	(12,879)
	(1,080)	(14,915)

The tax on income before taxation differs from the theoretical amount that would arise using the corporation tax rate of 25% for the following reasons:

	2008 $	2007 $
Income before taxation	30,636	43,435
Corporation tax at 25% (2007 - 25%)	7,659	10,858
Effect of different tax rate in subsidiary 15% (2007 – 15%)	(2,156)	(3,486)
Depreciation on assets not qualifying for capital allowances	71	74
Tourism development fund allowance	(21)	(21)
Environmental allowance	(7)	(7)
Tax loss on which the deferred tax asset is not recognised	161	91
Share of loss of associate	307	550
Income not subject to tax	(2,737)	(2,784)
Manufacturing allowance net of deferred portion	(1,774)	(1,657)
Investment tax credit net of deferred portion	(2,583)	(5,654)
Tax effect of the different tax rate on deferred tax liability	-	(12,879)
Taxation credit	(1,080)	(14,915)

b) Deferred tax liability

The net deferred tax liability is calculated in full on temporary differences under the liability method using a tax rate of 15% (2007 - 15%). The movement on the account is as follows:

	2008 $	2007 $
Balance - beginning of year	20,287	32,197
Transfer to the income statement - current year charge	(1,928)	969
- adjustment for change in rate	-	(12,879)
Balance - end of year	18,359	20,287

The deferred tax liability on the balance sheet consists of the following components:

	2008 $	2007 $
Accelerated tax depreciation	200,031	178,668
Taxed provisions	(13,854)	(12,435)
Unutilised tax losses	(63,782)	(30,984)
	122,395	135,249
Deferred tax liability at corporation tax rate of 15% (2007 - 15%)	18,359	20,287

The Group has a deferred tax asset of $0.7 million arising from losses in the parent company (2007 - $0.6 million) that has not been recognised due to the uncertainty of its recovery in future periods.

Accelerated tax depreciation and taxed provisions have no expiry dates. The expiry dates of the unutilised tax losses are disclosed in note 16 (c).

c) Tax losses

The group has tax losses of $66.7 million (2007 $33.3 million) available to be carried forward and applied against future taxable income. The losses are as computed by the Group in their tax returns. The losses and their expiry dates are as follows:

Income Year	Losses brought forward $	Incurred/ (Expired) $	Losses carried forward $	Expiry date
1999	28	(28)	-	2008
2000	15	-	15	2009
2001	11	-	11	2010
2002	9	-	9	2011
2003	9	-	9	2012
2004	13	-	13	2013
2005	7,582	-	7,582	2014
2006	20,912	-	20,912	2015
2007	4,755	-	4,755	2016
2008	-	33,430	33,430	2017
	33,334	33,402	66,736	

17 Provision for other liabilities and charges

	Environmental restoration $	Bonuses $	Regulatory fees $	Total $
At beginning of year	2,973	1,390	460	4,823
Charged to income				
- Additional provisions	-	2,265	1,164	3,429
- Unused amounts reversed	-	(63)	-	(63)
Used during year	-	(2,543)	(1,202)	(3,745)
At end of year	2,973	1,049	422	4,444

	2008	2007
	$	$
Analysis of total provisions		
Non-current (environmental restoration)	2,973	2,973
Current	1,471	1,850
	4,444	4,823

a) Environmental restoration

The subsidiary company, The Barbados Light & Power Company Limited commenced investigations to identify and assess potential remedial work to be done at the Garrison Generating Plant site which was tested for free hydrocarbons (mixture of diesel fuel and bunker C) in the subsurface. A provision is recognised for the value of costs to be incurred for the recovery of the hydrocarbons and for restoration of the site.

b) Performance and other bonuses

The provision for performance bonus is payable within three (3) months of finalisation of the audited financial statements. The provision for other bonuses is payable before December 31, 2009.

c) Regulatory fees

The subsidiary Company, The Barbados Light & Power Company Limited is regulated by the Fair Trading Commission (FTC) which determines amounts to be levied upon utility service providers annually. The Company is also currently involved in reviewing the rate structure which was fixed in 1983. The provision for regulatory fees represents the estimate for annual FTC fees as well as professional fees for consultants contracted to assist with the rate process.

18 Trade and other payables

	2008	2007
	$	$
Trade payables	16,723	35,981
Other payables	8,103	8,379
Accrued expenses	5,295	4,207
	30,121	48,567

19 Segmental reporting

The revenue collection of the subsidiary company, The Barbados Light & Power Company, is organised into domestic, commercial, street lighting and miscellaneous revenue segments.

Costs and assets cannot be readily allocated to revenue segments, as common property, plant and equipment, other assets, labour and overheads are used to generate and distribute electricity for all revenue segments.

An analysis of revenue by business segment is detailed as follows:

	2008 $	2007 $
Business segments		
Domestic service	144,133	119,699
Commercial service	321,721	271,740
Street lights	5,239	4,396
Miscellaneous	2,217	1,801
Total revenue	473,310	397,636

20 Expenses by nature

	2008 $	2007 $
Fuel	297,612	225,299
Maintenance of plant	31,167	22,142
Employee benefits (excluding amounts charged to capital projects)	40,199	39,133
Depreciation	37,275	33,660
Insurance	4,810	4,715
Other expenses	28,199	25,696
Total operating expenses	439,262	350,645

Employee benefits comprise:

	2008 $	2007 $
Wages and salaries	40,960	38,152
Social security costs	2,362	2,217
Pension (note 24)	3,616	3,858
Other benefits and share discount	1,071	1,194
	48,009	45,421
Allocated as follows:		
Operating expenses	40,199	39,133
Capitalised	7,810	6,288
	48,009	45,421
Average number of persons employed by the group	504	512

21 Finance income

Finance income is comprised as follows:

	2008 $	2007 $
Investment income - Self Insurance Fund	3,396	3,659
Interest income	923	1,303
	4,319	4,962

22 Related party transactions

Key management compensation

	2008 $	2007 $
Salaries & other short term benefits	3,367	3,072
Directors' fees	89	89
Pension	713	774
Share discount	32	30
	4,201	3,965

23 Earnings per share

The earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares in issue during the year.

	2008 $	2007 $
Profit attributable to equity holders of the Company	31,716	58,350
Less: Income from restricted funds (Self Insurance Fund)	(3,292)	(3,524)
Profit attributable to equity holders of the Company	28,424	54,826
Weighted average number of common shares	17,124,706	17,422,113
Basic earnings per share (cents)	166.0	314.7

The Company has no dilutive potential ordinary shares, therefore, diluted earnings per share is the same as basic earnings per share.

24 Retirement benefits

The Group operates a defined benefit pension plan for its employees. It pays a pension premium to fund the post employment benefit plan and does not have a legal or constructive obligation to either:

a) pay the employee benefits directly when they fall due; or
b) pay for the benefits if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

In light of the above, and due to the fact that benefits due to employees would have been secured by the prior payment of premiums, and the insurer has sole responsibility for paying the benefits, the plan has been accounted for as if it were a defined contribution plan as allowed by IAS 19. Pension cost for the year was $3.6 million (2007 - $3.9 million)

25 Bank overdraft facilities

The subsidiary company, The Barbados Light & Power Company Limited entered into an agreement with Royal Bank of Canada on September 28, 2007 to create a debenture for $15 million. This was issued in accordance with the provisions of the Debenture Trust Deed (note 13) to secure overdraft facilities granted to the Company.

26 Capital commitments

The Group has budgeted capital expenditure of $42.7 million for the 2009 income year of which $17.6 million was contracted for at December 31, 2008.

27 Contingent liabilities

The Group is contingently liable in respect of various claims brought during the normal course of business. The amounts are considered negligible and are usually covered by insurance.

28 Subsidiary and associated companies

	Country of Incorporation	Equity %
Subsidiaries		
The Barbados Light and Power Company Limited (Generation, Supply & Distribution of Electricity)	Barbados	100%
LPH Telecom Ltd. (Telecommunications)	Barbados	100%
The Barbados Light and Power Company Limited Self Insurance Fund (Special Purpose Entity)	Barbados	100%
Associated Companies		
Caribbean Fiber Holdings, LP	United States of America	25%
Tele (Barbados) Inc.	Barbados	25%
WAMCO Technology Group Limited	Barbados	25%
Antilles Crossing Holding Co. St. Lucia Ltd.	St. Lucia	25%
Tele (St. Lucia) Inc.	St. Lucia	25%
Antilles Crossing (Barbados) IBC, Inc.	Barbados	25%
Antilles Crossing, LP	United States of America	25%

Financial Statistics

	2008 $000's	2007 $000's	2006 $000's	2005 $000's	2004 $000's
Property plant and equipment	1,027,454	990,172	940,405	891,548	862,854
Less accumulated depreciation	(423,324)	(397,881)	(372,620)	(345,348)	(317,828)
Net fixed assets	604,130	592,291	567,785	546,200	545,026
Capital employed	770,092	763,020	714,065	673,515	649,262
Represented by:					
Long term debt (%)	14.2	15.9	15.3	18.3	20.7
Deferred credits (%)	7.9	8.1	10.7	11.3	11.3
Shareholders' equity	77.9	76.0	74.0	70.4	68.0
Total	100.0	100.0	100.0	100.0	100.0
Revenue and expenses					
Operating revenue	473,310	397,636	361,653	339,231	301,593
Expenses					
Fuel	(297,612)	(225,299)	(195,447)	(176,669)	(149,010)
Operating and maintenance	(104,292)	(91,677)	(93,229)	(77,366)	(73,696)
Depreciation	(37,275)	(30,660)	(37,630)	(39,574)	(30,692)
Gain/(loss) on exchange	(83)	(9)	111	(60)	(114)
Operating income	34,048	46,991	35,458	45,562	48,081
Investment income	4,319	4,962	5,028	3,235	693
Income before interest & taxation	38,367	51,953	40,486	48,797	49,425
Interest & finance charges	(6,502)	(6,323)	(6,808)	(7,067)	(3,756)
Share of loss of associated companies	(1,229)	(2,195)	(2,800)	-	-
Income before taxation	30,636	43,435	30,878	41,730	45,669
Taxation	1,080	14,915	(512)	(2,779)	7,292
Net income	31,716	58,350	30,366	38,951	52,961
Add/(deduct)					
Preference dividends	(27)	(27)	(27)	(27)	(27)
Common dividends	(6,829)	(6,974)	(6,092)	(5,791)	(5,784)
Transfer to Self Insurance reserve	(10,948)	(7,335)	(11,409)	(9,606)	(8,275)
Transfer from special reserve	-	-	-	-	7,368
Capitalisation of retained earnings	-	-	-	-	(109,522)
Reinvested earnings	13,912	44,014	12,839	23,527	(63,279)

Operating Statistics

of the subsidary company The Barbados Light & Power Company Limited

	2008	2007	2006	2005	2004
GENERATING PLANT (Megawatts)					
Installed capacity					
Steam	**40.0**	40.0	40.0	40.0	40.0
Diesel	**113.1**	113.1	113.1	113.1	66.0
Gas turbine	**86.0**	86.0	86.0	86.0	103.5
TOTAL	**239.1**	239.1	239.1	239.1	209.5
PEAK DEMAND	**164.0**	162.4	157.0	154.2	143.0
GENERATION AND SALES (GWh)					
Gross Generation					
Steam	**204.7**	261.9	210.0	239.1	256.9
Diesel	**658.6**	663.4	706.5	568.3	369.3
Gas turbine	**190.4**	123.9	103.9	185.4	302.6
TOTAL	**1,053.7**	1,049.2	1,020.4	992.8	928.8
Net generation	**1,010.5**	1,002.9	976.4	953.4	896.4
Sales (GWh's)					
Domestic	**301.0**	300.0	294.8	293.7	275.7
Commercial	**643.0**	640.8	608.6	591.0	555.6
TOTAL	**944.0**	940.8	903.4	884.7	831.3
Load factor (%)	**73.1**	73.8	74.2	73.5	73.9
Losses (%)	**6.3**	5.9	7.2	6.9	7.0
NUMBER OF CUSTOMERS AT YEAR END					
Domestic	**99,000**	97,801	96,486	95,223	94,045
Commercial	**19,798**	18,857	17,775	16,520	15,443
TOTAL	**118,798**	116,658	114,261	111,743	109,488
No of Streetlights	**28,101**	27,846	27,308	26,666	25,962

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Corporate Information

Company Registered Office, Garrison Hill, St. Michael.

Company Officers
F. O. McConney, G.C.M., Managing Director
H. B. Richards, Secretary

Registrar & Transfer Agent
The Barbados Central Securities Depository Inc.

Attorneys-at-Law
Clarke, Gittens & Farmer
Carrington & Sealy

Auditors
PricewaterhouseCoopers

Dividend Payments

The Board of Directors sets the record and payment dates for quarterly dividends.

At the first meeting for 2009 the Directors declared a dividend of 10 cents per share that will be paid in March 2009.

Projected record dates for the remainder of 2009 are May 29, August 31 and November 27.

Projected payment dates for dividends declared during the remainder of 2009 are June 15, September 14 and December 14.

Common Stock

The common stock of Light & Power Holdings Ltd. is listed and traded on the Barbados Stock Exchange Inc.

Board of Directors

I. M. Cumming, Chairman
I. St. C. Carrington
R. L. V. Edghill
Sir Henry Forde, K. A., Q.C.
A. A. Gittens
E. L. Greaves
F. O. McConney, G.C.M.
J. R. Wheeler
P. W. B. Williams

Annual Meeting

The Annual Meeting of Shareholders will take place at 5:00 p.m. on Thursday, May 21, 2009 at the Accra Beach Hotel, Rockley, Christ Church, Barbados.

Additional Information provided in accordance with the rules of the Barbados Stock Exchange Inc.

The principal Country of operation of each subsidiary and particulars of each company in which an interest of 20% or more is held, are disclosed in note 28.

Subsidiaries	Equity %	Country of Operation
The Barbados Light & Power Company Limited	100% owned	Barbados
LPH Telecom Ltd.	100% owned	Barbados

Directors Interest in the share capital of the Company:

No. of shares held at December 31, 2008

Frank O. McConney, G.C.M.	60,498
Andrew A. Gittens	46,899
Peter W. B. Williams	25,247
Richard L. V. Edghill	3,000

Note: There has been no change in the ownership interest of the persons listed above between December 31, 2008 and March 31, 2009.

Interest of persons other than Directors holding more than 5% of the issued shares as at December 31, 2008.

No. of shares held

C.I. Power Company Limited	6,592,351
The National Insurance Board	3,979,388
The Sagicor Group	1,322,238

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