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PUBLIC UTILITIES COMMISSION  
ANNUAL REPORT  
2006

## INTRODUCTION

*Vidiahar Persaud – Secretary/Legal Officer*



The Public Utilities Commission is pleased to present its Sixteenth Annual Report, in accordance with Section 85 of the PUC Act No. 10 of 1999, for presentation to Parliament.

This Report will serve to inform of the PUC's activities during the year 2006, and also of our resolve at all times to maintain the integrity of the utilities and the interest of consumers.

The Commission is a body corporate established by virtue of the Public Utilities Commission Act No. 26 of 1990 which came into effect on the 1<sup>st</sup> October, 1990. This Act was amended in 1991, 1994 and in 1999. The Commission is at present operating under Act No. 10 of 1999 which came into force on the 1<sup>st</sup> October 1999.

The Commission presently consists of a Chairman, who is a full time official, and three other Commissioners, who are appointed and serve on a part-time basis. There is provision (section 5 of the Act) for the appointment of four Commissioners, but the Commission does not necessarily at this point see the need for the appointment of a fourth Commissioner.

The present composition of the Commission is as follows:

- Justice Prem Persaud CCH - Chairman
- Mr. Badrie Persaud - Member
- Mr. John Caesar - Member
- Mr. Maurice Solomon - Member

During the year the terms of Messrs Justice Prem Persaud, Mr. Maurice Solomon and Mr. John Caesar came to an end. They were reappointed for a further period of three years.

## **The Public Utilities Commission**

### **Mission**

To ensure that regulated utilities offer an efficient service to consumers at a reasonable cost.

### **Vision**

To create an environment in which there is universal access to service in the public sector, as well as a high quality of service which are cost effective and beneficial to all stakeholders.

### **Objectives**

To establish and enforce rules and procedures for the regulation of public utilities, commensurate with internationally accepted regulatory standards.

To promote and regulate the efficient long-term provision of utility services for national development consistent with Government policy.

To provide a fair environment conducive to business interest, investment in the public utilities sector, and in the interest of consumers.

To investigate and seek to resolve in a timely manner complaints filed with the Commission against any public utility.

To carry out its functions in a fair, transparent and independent manner.

## **Functions**

The functions of the Commission are regulatory, investigatory, enforcement and such others as conferred on it by the Act. It also has the power to initiate and conduct investigations into the operations and standards of service of any public utilities under its purview.

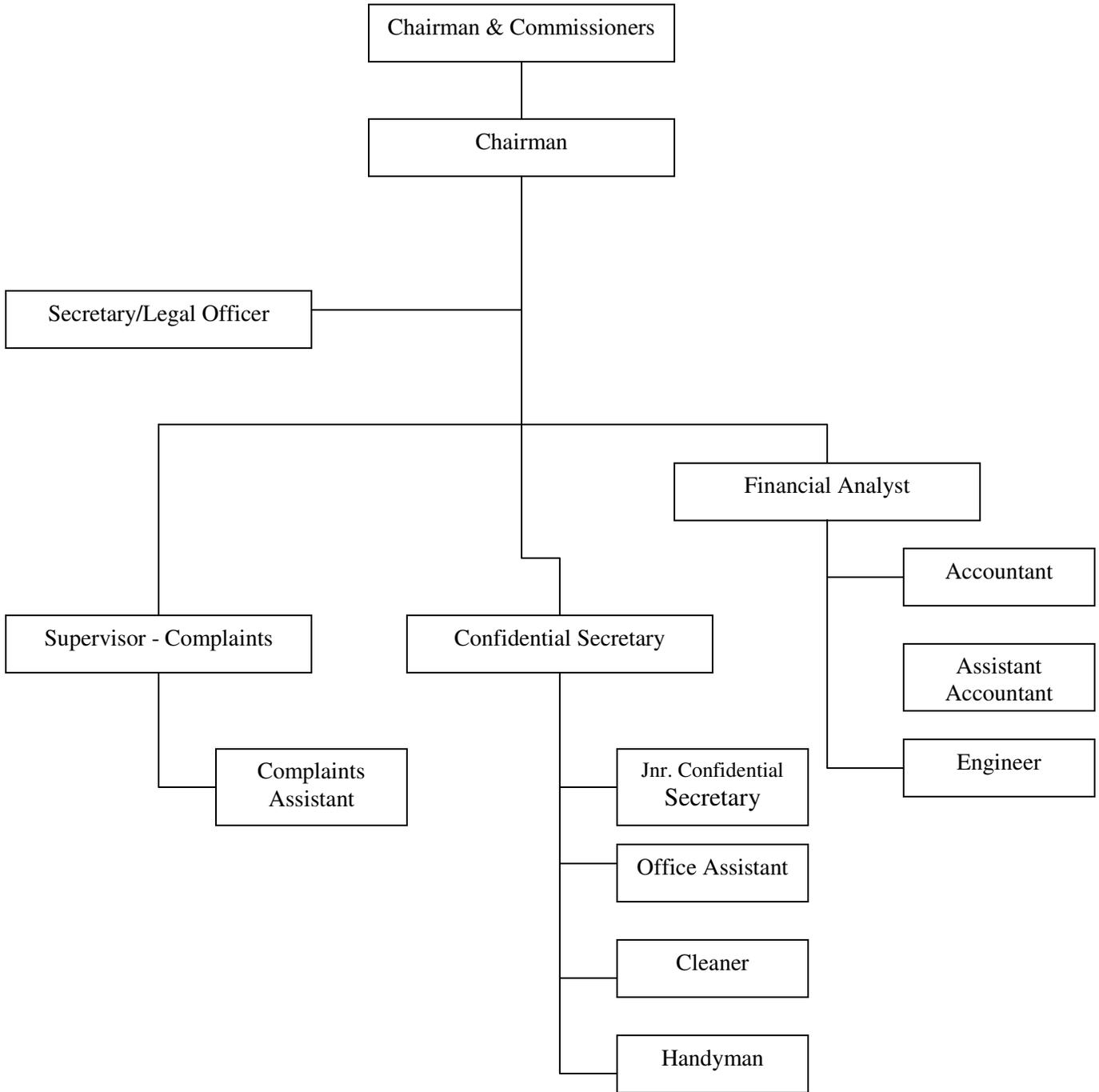
The Commission does not issue licences for the operation of any utility. This is the responsibility of the Office of the Prime Minister in the cases of telecommunication and electricity, and the Minister of Housing and Water in the case of water and sewerage services.

The Commission is not involved in the administration of the frequency management or spectrum allocation to the telecommunication sector. This is the purview of the National Frequency Management Unit.

The Public Utilities Commission is not involved in policy matters, but may be called upon to act in an advisory capacity to the Ministers responsible for utilities on such matters concerning the utilities as are referred to it by the relevant Ministers.

# PUBLIC UTILITIES COMMISSION

## ORGANISATION CHART



During the period under review the contracted term of Financial Analyst, Mr. Lancelot M<sup>c</sup>Caskey, came to an end. In June of 2006 Mr. Moorsalene Sankar was appointed to fill the vacancy. In keeping with our mandate to respond to technical complaints in a timely and professional manner an engineer, Mr. Keine Read was appointed.

*Staff members of the PUC*



### **Public Utilities**

The Act defines 'Public Utilities' as any person who or which owns facilities used to provide, or provides, the following services:-

- (a) The production, generation, storage, transmission, sale, delivery, furnishing or supplying, directly or indirectly, to or for the public, of electricity.

However, any person who is not a public utility, who provides a service only to a public utility, or only to himself or his employees or tenants, where such service is not resold to or used by others, shall not be deemed to be a public utility.

- (b) the conveyance or transmission of oral, written, digital or any other form of messages or communications by telephone, wireless telephony, telegraphy; or

wireless telegraphy, satellites, cable television, telecom service providers, pay telephone service providers, telecom resellers, internet and other telecom network service providers, radio common carriers or cellular mobile providers or any other method of transmission, currently offered to the public or offered as common carriage in the future.

The Minister may, by Order, place any of the following services under the purview of the Commission, that is to say:

- (i) carriage of passengers, in motor buses or hire cars;
- (ii) airport and airline services;
- (iii) carriage of goods for hire or reward by goods vehicles;
- (iv) lighterage or cargo handling;
- (v) dockage, wharfage or related cargo services;
- (vi) water supply services, except retail deliveries.

The public utilities under the purview of the Commission are:

- **Telecommunication Services**
- **Electricity**
- **Water and sewerage services.**

## OVERVIEW

### Telecommunications Sector

#### Short Messaging Service Promotions

A number of applications were made to the Commission by various organizations requesting preferred rates for the use of the SMS (Short Messaging Service) for the purpose of initiating sale promotions. These applicants were advised that the Commission may only fix rates to be charged by or paid to a public utility. The applicants not being public utilities within the context and meaning of the Act could not be considered.

#### Quality of Service

Guyana Telephone and Telegraph Company Ltd, was written to concerning a number of complaints that arose as a result of poor quality of cellular services offered to the consumers. On investigating the problems experienced by the consumers, the PUC ordered that GT&T suspend further activation of the cellular services, until such time as the company could provide an improved service acceptable to the Commission. GT&T acknowledged that a problem exists but explained that its allocation from the 900Mhz spectrum is inadequate to accommodate the flow of traffic during peak periods.

#### Cost Allocation Methodology for Telecommunications Service Providers

The PUC had commissioned a study on Cost Allocation Methodology (CAM) for Telecommunication Service Providers. This project was financed by DFID (Department for International Development [UK]) with the intention that the Commission would be better informed of the revenue flows and costs associated with those flows for the following services:

- domestic wire line access, transport and ancillary services

- Interconnection with other carriers
- Wireless service
- International service

A secondary function of the exercise was identifying whether any of the services mentioned below subsidized another in effect, and whether there was cross-subsidy:

- International
- Wireless
- Non-regulated services
- Interconnection and other carriers

The PUC needed to understand certain cost structures in anticipation of rate rebalancing and potential further market liberalization and incentive regulation.

A request was made to GT&T for there to be an allocation of costs with respect to expenses being matched to the revenue centers. GT&T responded indicating that the central obstacle in undertaking this kind of expense to revenue matching resided in the fact that meaningful cost separation requires an agreed cost allocation tool. GT&T indicated that they had a number of concerns with respect to the Terms of References, working methods and deliverables of the consultants. They also queried the assumptions and methodologies which informed the Consultant's final proposals and sought justification of the methodology proposed for Guyana and the justification of the CAM in the Guyana context.

#### *Ceiling and Floor Rates for the Cellular Services*

In May of 2006 the Commission advised the cellular operators, Guyana Telephone and Telegraph Co. Ltd and Cel\*Star (Guyana) Inc, and consumers organizations on the intended introduction of floor and ceiling rates and invited submissions from all parties. The Guyana Consumer Association advised, prior to the meeting, that they were against

‘having any kind of fixed minimum rates for cellular services’ and viewed the determination/establishment of a minimum rate as an anticompetitive practice.

At the meeting GT&T submitted a comparative analysis of cellular mobile rates across the Caribbean in which they sought to demonstrate that cellular rates in Guyana were the least expensive when compared with other Caricom States that have Cable and Wireless and Digicel as their service providers. They also posited that since an inter-connection fee was in force between the local service providers a floor rate already existed of which the Commission must take cognizance.

On the 6<sup>th</sup> of December 2006 a Public Hearing was fixed to determine a just and reasonable maximum and minimum rate which consumers would be required to pay for the use of the utilities cellular services. Both utility companies were supportive of the floor/ceiling concept. The Commission considered the objection by the Consumer Associations but was of the view that unless a floor rate was fixed, the companies may offer rates at such prices that may be below the cost to attract consumers and this could possibly encourage predatory pricing.

The year was completed without a decision of the Commission on this matter, however in early 2007, Order 1 of 2007 was issued fixing the floor and ceiling rates for the cellular operators.

### *Cel\*Star Guyana Inc*

#### **In the Matter of an Application for the Amendment of the Existing Rates.<sup>1</sup>**

Cel \*Star Guyana Inc. in August 2005 applied for a variation of the existing rates that had previously been approved. At the Hearing of this matter, Guyana Telephone and Telegraph Ltd. challenged the filing on the ground that it amounted to predatory pricing. The Commission after considering this preliminary issue, ruled that the applicant did not appear to be a dominant carrier, in that it offered only a cellular service. The Commission

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<sup>1</sup> See Appendix I

noted that GT&T operated a cellular service, and by virtue of its license, had a monopoly over the land line and other ancillary services, but not on cellular services. They found that GT&T appeared to be the dominant carrier, noting further that Cel\*Star Guyana Inc. depended on GT&T to operate its services via the interconnection agreement between the two companies.

In the premises, the Commission found that the filing by Cel\*Star (Guyana) Inc. was not predatory.

#### Hearing to determine the issue of confidentiality

Another issue that arose was whether the submissions of Cel\*Star Guyana Inc's financial statements was, as claimed, 'highly confidential and commercially sensitive', and therefore could not be released to any third party in any form without prior notification and approval by Cel\*Star Guyana Inc. This confidentiality claim was challenged by GT&T. At the Hearing the Commission ruled that having examined the returns filed with the Commission it found that the information filed was not such that could aid any competitor or any other public utility to the prejudice of Cel\*Star (Guyana) Inc.<sup>2</sup> The Commission therefore declined to hold the information submitted as confidential.

The Commission noted that all information and documents provided to it under the Act shall be publicly available, subject to the following caveat: that it shall not publish or make publicly available the trade secrets, third party confidential information or any other information that may aid a competitor of the company.

It is to be noted that the substantive application was not pursued by Cel Star (Guyana) Inc. and the PUC learnt shortly after, that the interests of the company were transferred to Digicel.

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<sup>2</sup> Appendix II

### *Cel\* Star Guyana Inc -New Management*

In November of 2006, the Public Utilities Commission was made aware via a press release to the print media that Cel\*Star (Guyana) Inc had changed its Management staffing and that the former Chief Executive Officer of Cel\*Star (Guyana) Inc. was replaced by Mr.Tim Bahrani of Digicel. At that time the PUC was aware that there were ongoing negotiations concerning the license as granted to Cel\*Star Guyana Inc, with Digicel indicating an investing interest in the cellular license.

### **Water Sector**

#### *Water Quality Concerns*

The Public Utilities Commission was written to on January 19, 2006 by Guyana Water Inc. and appraised of remedial works at the Lamaha Conservancy. This involved dredging works in the vicinity of the Conservancy. It was noted by GWI that they have had to cease water abstraction from the canal in order to maintain water quality and hence lost 60% of the water resources in the canal. As a result a large number of Georgetown customers received little or no water pressure during this period resulting in great inconvenience to the citizens of the capital city. It was a major cause for concern for the Commission.

GWI advised that there was little that could be done in this regard, rationalising that some water was better than no water.

#### *Pipe Installations*

The PUC wrote GWI on works being carried out by the utility in the Georgetown and Greater Georgetown areas involving the installation of underground pipes. The PUC noted that public roads were dug across and pipes installed, but the utility was tardy in not having the roadways resealed. The PUC drew attention to the inconvenience and danger to the public and the likely damage to vehicles using the roads. The Commission

stated that steps should be introduced immediately to correct these problems. GWI agreed and addressed this matter.

*“Boil Order” for Covent Garden and Linden*

The Commission wrote GWI after being in receipt of a facsimile dated 17<sup>th</sup> August, 2006 on a “Boil Order Advisory” to residents of Covent Garden and Linden. The Commission requested the reason for this and suggested that same be communicated to the residents.

GWI stated that the Company issues “boil orders” in the following circumstances:

- (i) When bacterial contamination within the distribution system is detected. In such a case, the order will remain until GWI is satisfied that this contamination has been removed by appropriate disinfection.
- (ii) When there is a concern that a possible source of contamination may exist but not yet proven. In this case the boil order is used as a precautionary measure.
- (iii) When there may be low water pressure and inadequate chlorination, leakages, high turbidity levels and inadequate treatment techniques.

The company indicated that the reason for issuing the “boil order” for Linden and Covent Garden is detailed in item one (i) and that work was continuing in these areas to correct the situation.

*“Boil Order” for Providence and Grove, East Bank Demerara*

The Commission wrote GWI expressing concern with respect to a “boil order advisory” issued by GWI to residents residing between Providence and Grove, East Bank Demerara. GWI responded that that was a precautionary measure as the utility was involved in maintenance works of the treatment plants servicing the area. They advised that as soon as the works were completed, the “Boil Order’ would be lifted.\

Order No. 5 of 2006<sup>3</sup>

On the 12<sup>th</sup> October, 2005 the Commission made an Order fixing the rates on an application by Guyana Water Inc. On the 22<sup>nd</sup> of May 2006, the Commission approved an amendment to the Order with respect to the metered commercial consumers. The Commission had agreed that metered residential consumers would pay an increase of 5% and the unmetered residential consumers would pay an increase of 10%. The Commission also approved for other specific categories of un-metered consumers a tariff increase of 10% (Ten Percent). The rationale for the variation between 5% and 10% was that the unmetered consumers may be negligent in the use of water and may rarely exercise enough concern to save water. Metered consumers, on the other hand, pay for what they actually consume.

Because of limitations with its billing system GWI was unable to programme these tariff changes to its software and was therefore unable to implement the increases. In 2006 GWI acquired a new billing system which incorporated the tariff increases.

The Commission subsequently received a number of complaints from consumers that GWI was unilaterally imposing a minimum charge of 10 cubic meters of water on residential consumers who utilized less than this amount in a billing month. The Commission noted that they had made no order with respect to the minimum or ancillary charges and called a Public Hearing to determine this issue. GWI at the Hearing explained that they inherited the classifications and charges and were not seeking to impose any new rates. They requested a change of name from ‘minimum charge’ to ‘fixed charge’.

The Commission after considering the representation made by the utility was of the view that the requests were reasonable and issued Order Number 5 of 2006. The order allowed for a minimum fixed charge of 10 cubic meters of water for residential consumers and 15 cubic meters of water for commercial users.

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<sup>3</sup> See Appendix III

It follows from the order that consumers using less than 10 or 15 cubic meters of water will have to pay the new minimum charge while consumers using above the minimum will not pay a fixed charge but will pay for the amount of water actually used.

The Commission also fixed increased rates for ancillary charges as they related to service connections, reconnections and tampering offences.

### **Electricity Sector**

#### *Allegations of theft at GPL*

The Commission expressed its concern to the Guyana Power and Light Inc. about alleged larceny of meters and meter seals and losses of millions of dollars as a result of theft and malpractices by employees of GPL. The power company acknowledged a number of malpractices were being investigated and indicated that decisive action would be taken against those employees who are involved in the alleged scams when the investigations were over.

The Commission noted that scams of this nature reflected poorly on the company's corporate image and fueled the perception by consumers that part of the reason for the high tariffs they are called on to pay is because of corruption within the company.

#### *Proposed Guidelines by GPL*

The Commission wrote the power company noting that the company has for some time been involved in a country wide investigative campaign, aimed at identifying sources of commercial losses that were as a result of theft and faulty meters. The Commission expressed the view that while this was commendable on the part of the power company, it did not appear to be as effective as was intended, since the Commission was in receipt of many complaints alleging interference with the meters or tampering with the system.

There were several instances where “alleged defaulters” presented seemingly legitimate cases to the Commission which contradicted GPL’s assertions that the consumers were tampering. The view by the Commission was that the utility did not always present cases that proved beyond reasonable doubt that their investigations were carried out in such a manner that precludes questions of legitimacy. The Commission proposed to GPL that the utility company works with the Commission to establish formal guidelines that should be followed when investigative works are conducted. The utility agreed to this suggestion.

#### GPL’S New Management Structure

The Guyana Power and Light Inc. introduced its new Management Team as approved by the Board of Directors to the Commission. The PUC welcomed this initiative and was of the view that the new Management Structure appeared to be ably staffed to deal with the many problems that have beset the GPL for an inordinately long period of time.

#### Development and Expansion Program

GPL submitted its rolling five year Development and Expansion Programme for the period 2006 -2010 under the terms of its license, the Electricity Sector Reform Act (ESRA) 1999 and the Public Utilities Commission Act 1999.

GPL proposed to finance the Development and Expansion Programme from internally generated funds, IPP financing for generation projects and associated transmission infrastructure and IDB funding for the Un-served Areas Electrification Programme . This would introduce considerable private sector participation in the Electricity Sector.

The current D&E Programme contemplates outsourcing segments of the Transmission and Distribution maintenance activities to private contractors. These initial measures as proposed are to be undertaken in the first three years of the programme. Approximately

250 employees from the transmission division would be laid off when the outsourcing is completed.

The D&E plan is ambitious in its entirety and would challenge the resolve and commitment of the new management team.

#### Unserviced Areas Electrification Programme

The Unserviced Areas Electrification Programme is funded by the Government mainly through a loan provided by the Inter-American Development Bank (IDB). The programme aims to provide service connections to 40,000 (forty thousand) householders and the duration of the programme was expected to last for 5 (five) years. The cost of the programme is budgeted at \$26 million U.S with the IDB providing \$21 million U.S and the GPL \$5 million U.S. As part of cost recovery each un-served customer will be required to pay \$10,000 (G) for a service connection. The Commission welcomes this initiative.

#### Loss Reduction

GPL has noted that the loss reduction programme remained a key focus of the company in its five-year programme. It has long been recognised that the viability of the company rests with the speedy reduction of the system losses. At 30<sup>th</sup> June 2006 the system losses stood at 39.5%. GPL has since claimed a measure of success in progressively reducing these losses from its current high in June.

To further assist the company in reducing these losses the IDB has initiated a study to determine how the components of the commercial losses are made up and to prepare a strategy for the company to reduce these losses. In 2006 the exercise was completed and a report submitted to the GPL.

### Tariff Increase

The Company noted that though the key assumption is that rate increases will be in accordance with the license, the Board of GPL reserves the right to review electricity rates and forgo revenues in such instances as are determined by it, with the approval of the Commission, to protect the overall interest of the Company, taking into consideration the concerns of the consumers.

In 2005 Cabinet had amended GPL's Licence to reduce the rate of return on equity from 23% to 8%. Based on GPL'S trading results over the recent years it was entitled to a tariff increase under the terms of its license. But, as mentioned above, GPL had decided to forego these increases and absorb the losses it had incurred.

There are two possible reasons that may have influenced this decision. The first is that tariffs are already high and any further increases may put the service beyond the reach of those consumers who are in the lower income group. The second reason is that commercial consumers may see self generation as a cheaper alternative and may exit the national grid.

### IADB/PUC Grant

A Letter of Agreement between the Inter-American Development Bank (IADB) (in the capacity as administrator of the Multilateral Investment Fund) and the Public Utilities Commission was signed. The Agreement was to provide financing for the contracting of consulting services and the procurement of goods and services for the execution of a technical cooperation program for strengthening the Electricity Sector Regulations in support of private investment.

The Agreement catered for the provision of a grant of US\$500,000 by the IADB with the PUC providing counterpart funding of US\$233,000.

The specific objectives of the program were:

- (i) Consolidate and further develop sector transparent and consistent legislation and regulation geared towards facilitating private investment, through rules for establishing competition in generation, solicitation procedures for Independent Power Producers and model contracts for Power Purchase Agreements
- (ii) Strengthen the PUC's transparency and accountability of operation, as well as its administrative and analytical capacity to (i) apply the Government's system access, tariff and other policies pertaining to economic and technical regulation and (ii) evaluate, and advise on, proposals by private investors to pursue operations in the electricity sector.

Three components were required:

- (i) Strengthening the legal /regulatory/institutional framework for private investor participation.
- (ii) Strengthening the PUC's regulatory capacity
- (iii) Knowledge, development and dissemination.

By the middle of the year the project was at the stage where the first of three components, ***Strengthening the Legal/Regulatory/Institutional Framework for Private Investor Participation***, was on the verge of completion. This consultancy was awarded to *Hunton and Williams LLP* of the United States. The contract was signed on February 14, 2006. The Consultants arrived in Guyana for a two day visit on the 19<sup>th</sup> April, 2006, and in keeping with their contractual obligations, an Inception Report was submitted for the Commission's approval. The team then held its two on-site seminars in Guyana and later submitted in draft their Final Report for the Commission's comments and approval. After the finalizing of the report, component one of the programme would have been completed.

Component Two, *Strengthening PUC's Regulatory Capacity* and Component Three, *Knowledge Development and Dissemination*, were merged.

Invitations for Tender were issued and submissions invited for the remaining two components. An Evaluation Committee was appointed by the National Board for Procurement and Tender Administration, for the awarding of the contacts. The evaluation committee scored *Mercados Energeticos S.A* of Uruguay, as the best bid and offered them the contract which they accepted.

The public information aspect of **Knowledge Development and Dissemination** was split to allow for local bidding.

On the 5<sup>th</sup> November 2006, *Mercados Energeticos S.A.* arrived in Guyana for its inception visit. On this visit they met with various stakeholders, including officials from the Office of the Prime Minister, Consumer bodies, PUC staffers and Commissioners. The consulting firm submitted its Inception Report on the 4<sup>th</sup> December, 2006 for the Commission's attention and approval.

It is to be noted that the project was delayed for several reasons, crucial among them were the changes in staff at the Commission. It is important to note, that the project should have ended in September, 2006, but because of the unavoidable delays the life of the project was extended by the Bank to September 28<sup>th</sup> 2007.

### **Future Perspectives**

The PUC does not, at the moment, anticipate any difficulties in achieving the goals and new deadlines set by the project. Consultants are required to be employed and to advise on agreements with the Independent Power Producers chosen by the Guyana Power & Light Inc. for the generation of electricity, the training of staff and any other ancillary matters.

In its five year plan GPL alluded to a 25 MW IPP expected to come on stream sometime in 2007. To date, as far as the Commission is aware, no negotiations have begun with any IPP. The Commission looks forward to being involved in all IPP negotiations in which GPL may be involved. The reason for this is that in the final analysis it is the Commission which has to approve the rate structure of the IPP, and being involved in the negotiations from its inception would make such approval easier and less time consuming.

### **Legal Matters**

A number of court matters remain outstanding in 2006 which have impacted negatively on the Commission. The more important cases are:

#### **Guyana Telephone & Telegraph Ltd v. the AG and the PUC -Civil Appeal No. 94 of 2004.**

In this matter, GT&T filed an action in the High Court in 2002 seeking an order to set aside certain provisions of the 1999 PUC Act which deal with the annual assessment fees paid by the Public Utilities to the Commission. The Company alleged discrimination on the ground that one utility company was required to contribute a fixed amount whereas GT&T was required to contribute up to 1% of its gross income. GT&T argued that this was unconstitutional and discriminatory.

In November 2004, the Judge ruled against GT&T and GT&T has since appealed to the Court of Appeal. This matter is pending and awaiting a date for trial. It is to be noted that GT&T without prejudice to this action is paying to the Commission the same amount as is being paid by the other utility, which is approximately one seventh of one percent of its annual revenue.

There are a number of matters also engaging the courts with respect to the Electricity Sector. One of which deals with the issue of whether the utility should pay compensation to the consumer for loss suffered for failure of the utility to provide an efficient service.

Another matter engaging the Court's attention deals with the issue of meter tampering. In this matter the Commission had fixed a hearing with respect to GPL's claim of tampering of meters by consumers, and the miscellaneous charges in their bills. During the interval between sessions GPL sought and obtained an order from the High Court restraining the PUC from continuing the hearing. This matter is still pending.

As noted earlier the inordinate delays in the matters being adjudicated upon, have impacted negatively on the work of the Commission.

# FINANCIAL OVERVIEW OF THE SECTORS

*Moorselene Sankar – Financial Analyst*



- **Financial performance and Indicators:**
- **Guyana Telephone and Telegraph Company Ltd:**
- **Operating Revenues**

The GT&T continues to experience robust financial growth. Although we are not yet in receipt of their audited financial statements for 2006 the preliminary figures to November 2006 show operating revenues at \$17.2 billion, an increase of approximately 6% over the corresponding period to November '05. Operating revenues are projected at \$18 billion at the 31<sup>st</sup> December 2006.

An analysis of the revenues under its various income streams as at 30<sup>th</sup> November 2006 is shown below:

|                         | 2005      | 2006      |
|-------------------------|-----------|-----------|
| Operating Revenue       | \$'000    | \$'000    |
| Local Exchange Service  | 5,743,972 | 6,169,678 |
| Network Access          | 1,094,383 | 1,164,561 |
| Inbound Overseas Calls  | 6,415,864 | 6,639,818 |
| Outbound Overseas Calls | 2,159,097 | 2,029,735 |
| Other Revenues          | 983,024   | 1,319,852 |
| Bad Debts Provision     | (120,196) | (113,804) |

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16,276,144

17,209,840

### **Operating Expenses:**

Operating expenses have risen by approximately 6% over the corresponding period November '05, reaching \$9.771 billion at the end of the 30<sup>th</sup> November 2006. The expenses at the 30<sup>th</sup> November 2005 were \$ 9.231 billion. Included in the expense total of 2006 is a charge designated “Advisory Fees”. At the end of the 30<sup>th</sup> November 2006 the “Advisory Fee”, which represents 6% of gross revenue is expensed in the operating statement at \$1.032 billion. For the previous year to November '05 the figure was \$976 million.

The Commission’s view on this expense has been well documented in the past. Suffice to say that in consideration of any tariff increases the Commission ignores the Advisory Fee charge and refuse to consider it when applications were made by GT&T for rate reviews.

### **Cel\* Star (Guyana) Inc**

In September 2006 Digicel acquired as a going concern the operations of Cel\*Star (Guyana) Inc. The company which had been trading continuously since December '04 as a cellular service provider had been sustaining significant losses.

At the time of the acquisition in September 2006 its un-audited financial statement recorded a cumulative loss of approximately \$ 1.3 billion. Cel\*Star was heavily dependent on cash transfers from its parent company to finance its day to day operations and at the time of its closure its indebtedness to its parent company stood at approximately \$ 2.9 billion.

### **Guyana Water Incorporated**

The Commission is very concerned about the financial state of affairs at the Guyana Water Incorporated.

In 2003 and 2004 the audited financial statements were heavily qualified and in 2005 the statutory auditors issued a disclaimer on the financial statements.

The Commission requested and received management reports from the GWI. Unfortunately these reports were so flawed that the Commission was unable to place any credence on the information provided for decision making purposes. Because of the inadequacies of the reports the Commission requested a meeting with the company. The meeting, however, did not materialize in 2006 consequent to changes in the Management and personnel.

Of immediate concern to the Commission are:

- The lack of an acceptable level of internal control as it relates to cash on hand and at bank.
- The lack of an acceptable level of internal control as it relates to the utility's inventories.
- An apparent incomplete Fixed Asset Register.
- The inability of the service provider to adequately quantify the level of its non-revenue water.
- The length of time it takes for metered consumers to receive a bill.
- A perception by the Commission that GWI may have migrated its corrupt data from its old data base to its new Affinity Data Base.
- The inability of the utility to collect its billings in a timely manner and the inadequacy of the collections to effectively manage the company's operations in an efficient manner.

## **Guyana Power and Light**

### **Operating results**

At the time of preparing this report we are not yet in receipt of GPL audited financial statements for 2004 and 2005.

The Commission noted that the un-audited financial statement for 2006 reflects a loss of \$1.261 billion dollars. The main reason for this significant loss has been blamed on the high price of fuel throughout 2006.

Based on the final return certificates for 2005 and 2006 GPL was entitled to a tariff increase of 25 % and 15% respectively under the terms and conditions of its operating license. However it opted not to increase tariffs and to absorb the losses in the short term. One of the main problems faced by GPL is that it is at a point where an increase in tariffs may lead existing maximum demand users to self generate as an alternative to purchasing power from the GP&L.

### **System losses**

To the 30<sup>th</sup> June 2006 GPL's system losses net of station use stood at 39.5%. Since then the company has claimed major successes in reducing these losses and has so informed the general public through press releases. The Commission is yet to receive a statement from the utility showing the level of the reduction. Based on where they claim the current loss is, the reduction appears to be in the vicinity of 7%

These reductions should impact positively on increased sales to the utility and or a reduction in generation cost if in fact the system losses do not translate in increased sales.

The Commission is yet to assess the impact these reductions have had on the utility's financial statements.

### **Un-served Areas Electrification Programme:**

The threats made by the IDB in 2006 that it will stop funding of this project if GPL did not reduce its system losses to an acceptable level materialized in 2007. This is unfortunate; especially coming at a time when the company in several releases indicated that it was winning the battle against system losses.

### **GPL Five Year Plan 2006:**

The Commission received during the year GPL'S five year Development and Expansion Programme for 2006 to 2010. The Commission while wishing GPL every success with its plan nevertheless believes the plan to be overly optimistic.

The salient features of the plan are:

#### **Capital Expenditure:**

The plan projects a capital expenditure of approximately \$10 billion Guyana dollars over the five year period. \$4.6 billion of which is earmarked to be spent in 2006. The major allocation is a sum of \$3.8 billion to be spent on the construction of transmission lines by an IPP. Unfortunately this did not materialize in 2006 and presumably the construction of these lines would be rolled over to 2007.

#### **Profit and Loss Account:**

GPL is projecting a net income after taxes of approximately \$6.064 billion over the life of its five year plan. In 2006 the budgeted projected profit after taxes was anticipated at \$269 million. Based on the company's un-audited financial statement it is now projecting a loss of \$1.261 billion in 2006. Part of the reason for this high negative variance has been the high price of fossil fuels during the ensuing year.

#### **Cash flow Statement:**

In the company's five year plan a cash surplus of approximately \$8 billion dollars is projected from the company's operations. This, however, is unlikely to materialize unless the price of fossil fuels falls dramatically on the world market. This appears unlikely at the present time.

**GPL'S Work Plan 2006:**

In its five year plan is a work summary for each year. Below is a summary of the main works envisaged in 2006 and the status at the end of the year:

| <b>Workplan</b>                           | <b>Status at the end of the year:</b> |
|-------------------------------------------|---------------------------------------|
| Begin construction on a 35 MW IPP         | yet to commence                       |
| Building of transmission lines            | yet to commence                       |
| Building and upgrading of substations     | partially completed                   |
| Replacing 20,000 meters                   | about 30% completed                   |
| Adding 25,000 new connections to the grid | about 30% completed.                  |
| Construct new T&D building                | yet to commence                       |

Most of these unfinished works are likely to be rolled over to 2007.

## REVIEW OF COMPLAINTS

*Devika Nandranie – Supervisor of Complaints*

### **Overview**



The Consumer Affairs Department had a busy year in 2006. In addition to the complaints handling process, there were consumer awareness campaigns designated as Outreaches and Awareness Programmes. These campaigns, a continuation from the previous year, helped to create a greater awareness of the role and functions of the PUC. At these outreaches much emphasis was placed on the complaints resolution process.

The staffers of the department also participated in a Workshop, Seminar and Annual Conference hosted by the Organization of Caribbean Utility Regulators (OOCUR) in 2006.

The Department noted a reduction in complaints pertaining to Guyana Power & Light Inc. with respect to contravention of the laws governing the supply of electricity. However, miscellaneous matters have increased. These are complaints addressed directly to GPL by consumers. An advantage this arrangement has is that in the event the consumer wishes to challenge the utility's ruling the PUC would have already been acquainted with the nature of the complaint.

Complaints regarding Guyana Telephone & Telegraph Co. Ltd. have increased approximately two-fold from the previous year.

Complaints from the water sector continue to be low although a slight increase was noted in the current year.

In the latter part of 2006, Digicel, the telecommunications utility took over the management of Cel\*Star (Guy.) Inc. Feedback received from the public suggested high expectations of reduced tariffs for cellular rates and for the cost of handsets. There is

also the perception that with competition in the mobile telecommunications industry, there will be improvements in the quality of cellular transmission.

The Commission did not receive any complaint in 2006 relating to the services provided Cel\*Star (Guy.) Inc.

An engineer joined the Commission in September 2006. Technical information received from this division proved invaluable to the Consumer Affair Department in assisting it to determine matters that required a technical input. .

### Complaints Analysis

The Complaints Department received a total of 570 complaints in 2006 which included 182 miscellaneous matters. In comparison, there were 509 complaints received for 2005 of which 132 were miscellaneous matters.

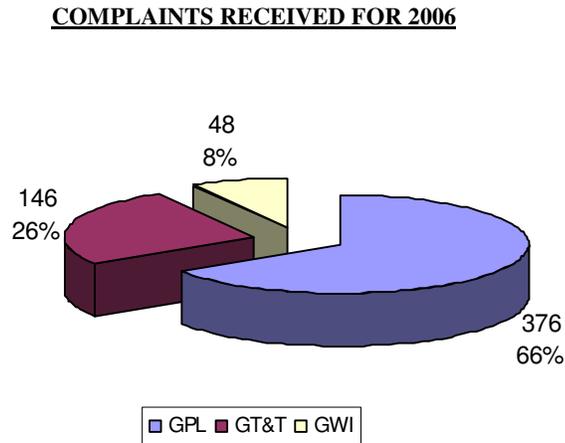
| COMPARATIVE ANALYSIS OF COMPLAINTS RECEIVED FOR 2005 & 2006 |                              |                              |                                     |           |
|-------------------------------------------------------------|------------------------------|------------------------------|-------------------------------------|-----------|
| UTILITY                                                     | COMPLAINTS RECEIVED FOR 2005 | COMPLAINTS RECEIVED FOR 2006 | AVERAGE NO. OF COMPLAINTS PER MONTH |           |
|                                                             |                              |                              | 2005                                | 2006      |
| GPL                                                         | 410 (88)                     | 376 (145)                    | 33                                  | 31        |
| GT&T                                                        | 75 (31)                      | 146 (16)                     | 6                                   | 12        |
| GWI                                                         | 33 (13)                      | 48 (21)                      | 3                                   | 4         |
| CEL*STAR                                                    | -                            | -                            | -                                   | -         |
| <b>TOTAL</b>                                                | <b>509 (132)</b>             | <b>570 (182)</b>             | <b>42</b>                           | <b>47</b> |

*Miscellaneous matters are bracketed.*

The Department dealt directly with 388 (68%) complaints which were filed with the various utilities. At December 31, 2006 there were about 200 matters still unresolved. GPL in particular takes an inordinately long time to respond to queries.

One of the conditions contained in license of the GPL is that they are required to respond within 40 days to any complaint filed by the PUC. GPL habitually deviates from this condition and as a result consumers are made to suffer the inconveniences caused by this delay.

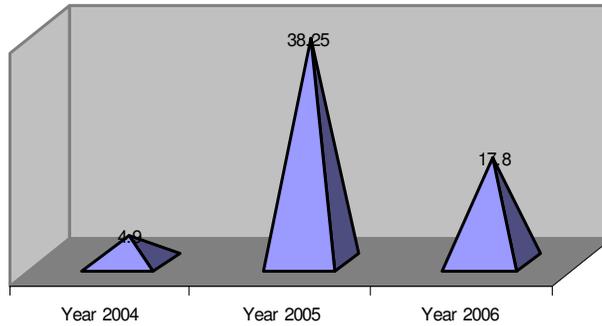
The telecommunications providers in comparison are committed to customer service and respond to complaints raised by the Commission in an expeditious manner.



### **Guyana Power & Light Inc**

The majority of complaints received in 2006 related to the power sector—as was the case in 2005. In the previous year there were 153 cases of alleged tampering which represented 38.25% received for that year. In comparison, there were 67 cases for the current year, which represents 17.8% of the overall total complaints for 2006. In 2004, tampering issues accounted for a mere 4.9% of the total amount of complaints received for the same year.

**Complaints related to Tampering Allegations**



While complaints relating to tampering allegations have decreased, there has been an increase in the incidence of regular and miscellaneous matters. In 2005 there were 160 regular and 88 miscellaneous matters. The Commission received 164 regular and 145 miscellaneous matters in 2006.

**Comparative Analysis**

| REGULAR MATTERS |      | TAMPERING CASES |      | MISC. MATTERS |      | TOTAL |      |
|-----------------|------|-----------------|------|---------------|------|-------|------|
| 2005            | 2006 | 2005            | 2006 | 2005          | 2006 | 2005  | 2006 |
| 160             | 164  | 153             | 67   | 88            | 145  | 401   | 376  |

In addition to defective meters, changes of tenancies, applications for service, disconnections and technical faults—the majority of the regular matters pertained to billing queries which included estimated billings, tariff issues and debit adjustments.

The Commission filed 231 complaints with GPL in 2006 and as at December 31, 2006 there were 142 responses outstanding. The Operating Standards and Performance Targets (OSPT) to which GPL is committed to observe, stipulates that the utility has 40 working days to respond to a complaint filed by the Commission. Should the utility be unable to meet the deadline it should inform the Commission by writing, stating the reasons why it cannot respond in the stipulated and request a new time period when it will respond to the complaint. This has seldom happened. There are cases where GPL

took over 150 days to respond to issues represented by the Commission, pleading that the matters were still under investigations!

A recommendation was made by the PUC in March 2005 to the Hon. Prime Minister for a review of the 40 days response period. The Prime Minister agreed and advised GPL to make the necessary modifications to the OSPT to have the 40 days reduced to 14 days. On March 23, 2005 GPL replied to the Prime Minister requesting one week to review the matter. The power company did not respond until December 2005 stating that Section 13 of the Electricity Sector Reform Act of 1999 (ESRA) must be followed by the Prime Minister in affecting amendments to the OSPT. The Prime Minister correctly disagreed and directed that GPL incorporate the changes proposed and submit same to him for approval in the shortest possible time.

In cases where consumers have lodged complaints with the Commission, the Commission normally requests upon filing of the complaint with the utility, to waive disconnection of the supply pending the resolution of the matter; while at the same time advising the complainants to ensure that current charges are paid, if the issue has to do with a billing query.

In instances where consumers were wrongfully disconnected and suffered financial losses or in instances where GPL's voltage fluctuation damages consumers' appliances, the Commission has been successful in obtaining financial relief for them.

Consumers who are alleged to have tampered with GPL's meters normally have their meters changed to one of the newer versions which, it is claimed, are more difficult to adjust. GPL is within its legal rights to back bill consumers who tamper for financial losses suffered.

There are two methods used by GPL for this exercise. The first is by the Installed Capacity test, in which the company takes an inventory of the consumers' electrical

appliance and on this basis, makes an assessment on the additional level of consumption the consumer should be charged for.

The other is to install the new meter and note the actual consumption over a defined period. The company then uses the new monthly average consumption as a basis to back bill the consumer over the period as defined in the Act.

The procedure adopted by the power company has not, however, been always transparent. In back billing consumers it does not give a breakdown on how the amount has been calculated. Customers seeking an explanation have often been rudely treated by GPL'S staff. The Commission has been prevailing on the company to have a computation attached to each back billed invoice so that consumers may see how the amounts were arrived at.

There are instances where a potential consumer applies for a new service at a premise that has an outstanding balance on the meter. This may happen in instances where a dishonest consumer removes from the residence without settling the account. GPL sometimes demand that the new applicant settle in full the outstanding amount due on the defaulting consumer's account. This is unlawful and contravenes Section 20 of the Third Schedule of the ESRA, No. 10 of 1999 which states that GPL shall not be entitled to require payment of amounts due from a consumer who has applied for service at the premises where there is an outstanding amount owing on the account. On several occasion the Commission had to intervene and direct the officials of GPL to comply with the statutory requirements.

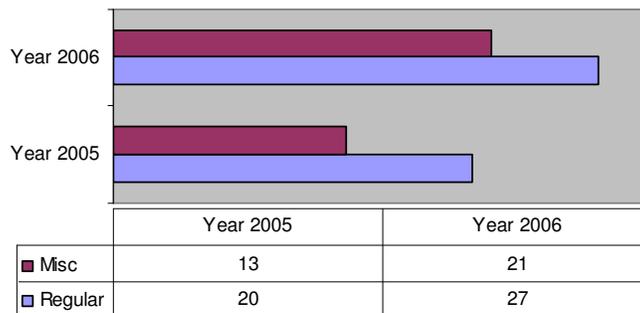
There is a matter pending before the Court which evolved from a Public Hearing put forward by the PUC in early 2005 involving 19 consumers who were accused by GPL of contravening the laws governing the supply of electricity.

Nineteen consumers complained to the Commission in late 2004 about having their accounts back billed for various amounts due to alleged unauthorized interference with

GPL installations. Eight consumers had their matters reviewed and their accounts credited. The power company refused to favourably consider the remaining 11 cases. The PUC held a public hearing on the issue. During the course of the hearing, GPL applied for and was granted an injunction by the Court on the grounds that the Commission did not serve the Power Company with a notice of and of the complaints!!! As at December 31, 2006, 36 complainants received credits from GPL in the sum of \$2,508,634.00 as a result of the Commission's representation. As indicated earlier there are still 142 responses outstanding for 2006.

**Guyana Water Inc.**

The Commission received 48 complaints that included 21 miscellaneous matters from GWI—15 more than for the year 2005.



The majority of the complaints related to billing queries such as charges for 10m<sup>3</sup> of water for metered customers when less than that amount was used. Pensioners being billed for water which was paid for by Government and from customers from certain areas who complained that they should not pay for water when the company did not provide any.

There were also two similar complaints of particular interest. Two customers complained that they were called upon by GWI to pay for water meters that were allegedly stolen for their copper contents. The company responded that since the meters are situated on the complainants' properties, they are responsible for the safety of the instruments.

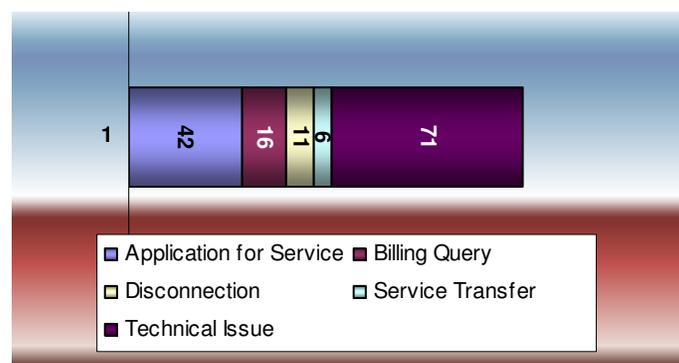
The response rate for complaints filed with GWI is not good. As at December 31, 2006 there are 69% of responses still outstanding.

In 2006 GWI embarked on a disconnection campaign in a bid to collect outstanding amounts. The exercise enjoyed a measure of success but came up short on the results envisaged. GWI remains cash strapped and this is due in the main to irregular billing and a poorly organized debt collection plan. The division feels that many of the consumers' complaints received at the Commission and at the outreaches could have been avoided if GWI had taken steps to have its liquidity improved.

### **Guyana Telephone & Telegraph Co. Ltd**

There were 146 complaints lodged against GT&T in 2006 compared to 75 in 2005, an increase of almost 50%. Technical issues/faults constitute the majority of these complaints. The Commission represented 130 cases to the GT&T. The remaining 16 were miscellaneous matters.

The response rate for complaints filed with GT&T was good. The company dealt with the complaints in an efficient and courteous manner.



The rate for application for fixed line service has increased from 13% in 2005 to 32% in 2006. Many households are desirous of having the fixed line service not only because it remains a cheaper alternative to cellular but because it is more reliable.

With respect to billing queries, two issues dominated. Customers complained that they were billed for cell calls made on their fixed line phone that they did not make. The other complaint concern customers that were billed for calls allegedly made internationally while browsing the internet. The company indicated that this situation is more commonly known as “*modem hijacking*”. In the first instance, some customers’ accounts were credited, while in the latter instance, customers were held responsible for the charges.

### **Creating Public Awareness of the PUC**

The Commission continued with its public awareness campaigns—creating a greater awareness of the role and functions of the PUC, with emphasis on consumer affairs and the role of the Commission in resolving disputes between consumers and service providers.

While the Consumer Outreach Programme was developed to target consumers in the out-of-town communities, the Consumer Awareness Programme concentrates on consumers in and around Georgetown. The target audience for the Outreach meetings is usually informed via the media (newspaper and television) and use of the bell cryer.

With respect to the Outreaches, representatives are invited from all of the utilities under the purview of the Commission and public notices are issued in the print and electronic media. The attendances from the utilities have been good for 2006. Except for a few, the Outreach programmes were successful in terms of not only accomplishing the basic objective of creating an awareness of the PUC—but highlighting the problems consumers are experiencing in the various communities.

### **Consumer Awareness Programme**

Staffers of the Consumer Affairs Department visited five areas in 2006 in an effort to reach consumers in and around Georgetown. These visits are done primarily to get the views of consumers on various aspects of the services provided by the utilities and any suggestion they may have for an improvement in the service. The places visited were:

1. Guyana Post Officer Corporation in Robb Street, on Friday, March 10.
2. On Friday, May 19 the Department met with shoppers at Guyana Stores Limited in Water Street.
3. Staff members handed out advisories to motorists on Friday, September 15 at the Texaco Service Station on Vlissengen Road.
4. There was a visit to the Georgetown Public Hospital Corporation—Outpatient Department on Friday October 20.
5. Staff members interacted with shoppers at Fogarty’s Department Store on Friday, November 17.

### **Consumer Outreach Programme**

During the year the Commission targeted six communities in its outreach programme. The areas visited, complaints raised and actions taken are detailed below:

1. The first Outreach took place on Friday, February 17, in the community of Linden. The Commission met with the regional people and the representative utilities and discussed issues on enhancing the services of the various sectors.
2. The Commission visited Wakenaam Essequibo Island, on Saturday, April 29. The response was good. The Island used to be served with power from 4 p.m. to 8 a.m. on Monday through Thursday and from 11 a.m. on Friday, through to the entire weekend until 8 a.m. on Monday. However, the PUC was instrumental in getting GPL to generate a few hours extra of electricity to facilitate the Information Technology program at the only Secondary School on the island. The island is now supplied with power from 8 a.m. instead of 11a.m. on Fridays.

3. Saturday, July 15, the Commission visited Parika on the East Bank of Essequibo. At this outreach water or rather the lack of it due to non functioning wells dominated the meeting. The Commission was instrumental in having GWI supply water to the residents by utilizing a trucking service until the wells become fully operational.



*PUC at Parika – July 2006 – Consumer Outreach*

4. Saturday, September 30, an Outreach meeting was held at Good Intent Village, West Bank Demerara. Water problems again dominated the meeting. GWI reported that the well at Bell Vue did not have the capacity to supply the target area. The PUC made representations to GWI on behalf of those consumers who were affected and the company responded by taking water to the affected community using a trucking service.
5. Friday, October 27, Bush Lot Village, West Coast Berbice. The turn out by residents in this area was very good. The meeting had less to do with utilities' problems and more to do with issues related to problems pensioners are experiencing in collecting their pensions; and deteriorating road infrastructure. Although these complaints are outside the ambit of the PUC the Commission nevertheless promised to represent their concerns with the relevant authorities. The PUC was also instrumental in securing a banner for Bush Lots Women's Group.
6. On Saturday November 25 the Commission visited the island of Leguan. As in Wakenaam power to the island is not continuous. This arrangement is however

acceptable to the residents. The complaint of the residents was that they would appreciate longer generation hours on Sunday so that a social need of the community could be fulfilled. This involved the additional generation of power for an additional two hours on Sundays. The Commission was instrumental in having GPL increased its supply hours on Sundays to meet this need.

### **Staff Training**

Staff members of the PUC participated in three regulatory staff enhancement sessions organized by the Organisation of Utility Regulators (OOCUR) in 2006. These were:-

- A workshop at the Crown Plaza Hotel, Port-of-Spain, Trinidad in April. The theme of this Workshop was the Role of the Consumer in the Regulatory Process. The Chairman and two staff members of the PUC's Consumer Affairs Department attended this Workshop.
  
- A seminar on the Judicial Review Process in Regulatory Affairs was held in June at the Le Meridien Pegasus, Georgetown, Guyana. This seminar was historical for Guyana in the sense that it was co-hosted by the PUC for the first time since the formulation of OOCUR in 2002. Participants from all over the Caribbean presented topics of interest to the regulatory agencies in attendance. The featured address at this Seminar was delivered by the Hon. Prime Minister, Samuel Hinds. A presentation was also made by the Hon Carl Singh, Chief Justice of Guyana.



*OOCUR Seminar – JUNE 2006, Le Meridien Pegasus, Georgetown, Guyana*

- The OOCUR annual conference was held in November at the Rex Resort in Grenada. The conference was attended by members of regulatory institutions from all over the Caribbean and the USA. Five staff members of the Commission attended this Conference and presentations were made by the Supervisor of the Consumer Affairs Department the Engineer of the PUC.

## PUC FINANCIAL REVIEW

*Orin Edgill*



The Commission is anxious to have its 2005 and 2006 financial statements audited. The Auditor General's office has indicated that most of its staff is assigned to Central Government audits and it may be some time before they will be in a position to do the Commission's audit.

The Commission is cognizant of its mandate under the Act and the consequences to the public if it fails to achieve same. Central to the dynamism of the Commission is adequate funding that will allow for effective execution of its functions. The case between the GT&T and the Commission has already been documented. The inordinate time the Court is taking to deal with this matter is impacting negatively on the Commission. Should the case however go against the Commission a review of the PUC Act as it relates to assessments may be necessary.

The decision by the Minister of Water and Housing not to allow the GWI to pay an assessment fee to the Commission will be cause for concern by the other utilities who may demand that assessment fees be paid by all the utilities in a fair and equitable manner for the upkeep of the Commission.

What follows is the unaudited statements financial statements for the year ended 31<sup>st</sup> December, 2006.

Income Statement for Year Ended December 31, 2006

Unaudited

|                                       | <b>Notes</b> | <b>2005</b>           | <b>2006</b><br>\$     |
|---------------------------------------|--------------|-----------------------|-----------------------|
| <b>Income:</b>                        | <b>5</b>     |                       |                       |
| Assessment Fees                       |              | 50,123,141.00         | 50,499,422.00         |
| Interest Earned                       |              | 6,007,988.51          | 5,290,232.14          |
| Other Income                          |              |                       | 195,000.00            |
| <b>Total Income</b>                   |              | <b>56,131,129.51</b>  | <b>55,984,654.14</b>  |
| <b>Expenses:</b>                      |              |                       |                       |
| Employment Cost                       |              | 40,205,899.00         | 48,269,378.00         |
| Training Conference & Official Visits |              | 4,776,372.00          | 2,373,690.00          |
| Admin Expenses                        |              | 3,010,493.74          | 2,186,774.57          |
| Utility Charges                       |              | 1,653,341.00          | 1,580,344.00          |
| Professional Fees                     |              | 1,323,000.00          | 15,000.00             |
| Bank Charges                          |              | 23,850.00             | 25,925.00             |
| Depreciation                          |              | 1,962,739.00          | 1,997,977.00          |
| Repairs & Maint. Equip, Building etc  |              | 328,735.00            | 610,947.00            |
| Rental of Building                    |              | 2,805,950.00          | 2,520,000.00          |
| Security Expenses                     |              | 2,076,845.00          | 2,082,460.00          |
| Counterpart Funding                   |              | 153,817.00            | 703,615.00            |
| OOCUR Conference Charges              |              |                       | 234,131.00            |
| <b>Total Expenses</b>                 |              | <b>58,321,041.74</b>  | <b>62,600,241.57</b>  |
| <b>Net Surplus(Loss)</b>              |              | <b>(2,189,912.23)</b> | <b>(6,615,587.43)</b> |

**Statement of Accumulated Fund**

|                                       | 2006<br>\$            |
|---------------------------------------|-----------------------|
| Balance as at 31 December 2005        | 121,185,430.52        |
| Net Surplus/(Deficit) For the Period  | (6,615,587.43)        |
| <b>Balance as at 31 December 2006</b> | <b>114,569,843.09</b> |

**PUBLIC UTILITIES COMMISSION  
NOTES TO THE ACCOUNTS**

- (1) The Public Utilities Commission is a body corporate established by virtue of the Public Utilities Commission Act No.26 of 1990 which came into effect on 1st October 1990. This Act was amended in 1991 and 1994 and again in 1999. The Commission currently operates under Act No.10 of 1999 which came into force on the 1st October 1999.
- (2) The main objective of the PUC is to perform regulatory,investigatory,enforcement and other functions conferred on it by the PUC Act.
- (3) **Accounting Policies**

**Accounting conventions**

The financial statements have been prepared under the historical cost convention, and in accordance with International Accounting Standards adopted by the Institute of Chartered Accountants of Guyana.

**Fixed Assets and Depreciation**

Fixed assets are stated at cost and depreciated on the straight line method at rates, which are estimated to write-off assets over the term of their useful lives, as follows

|                      |     |
|----------------------|-----|
| Office Equipment     | 20% |
| Furniture & Fittings | 20% |
| Vehicles             | 20% |

(4) **Fixed Assets**

|                        | <b>Office Equip</b> | <b>Furniture&amp;<br/>Fittings</b> | <b>Vehicle</b>   | <b>Total</b>      |
|------------------------|---------------------|------------------------------------|------------------|-------------------|
|                        | \$                  | \$                                 | \$               | \$                |
| <b>Cost as at:</b>     |                     |                                    |                  |                   |
| 1 Jan 2006             | 2,650,090           | 2,116,593                          | 5,047,000        | 9,813,683         |
| Additions              | 186,415             | 44,260                             | Nil              | 230,675           |
| 31 Dec 2006            | <b>2,836,505</b>    | <b>2,160,853</b>                   | <b>5,047,000</b> | <b>10,044,358</b> |
| <b>Depreciation:</b>   |                     |                                    |                  |                   |
| 1 Jan 2006             | 1,961,280           | 1,693,280                          | 4,037,600        | 7,692,160         |
| Charge for the year    | 562,247             | 426,330                            | 1,009,400        | 1,997,977         |
| 31 Dec 2006            | <b>2,523,527</b>    | <b>2,119,610</b>                   | <b>5,047,000</b> | <b>9,690,137</b>  |
| <b>Net Book Value:</b> |                     |                                    |                  |                   |
| 1 Jan 2006             | 688,810             | 423,313                            | 1,009,400        | 2,121,523         |
| 31 Dec 2006            | 312,978             | 41,243                             | 0                | 354,221           |

**PUBLIC UTILITIES COMMISSION  
NOTES TO THE ACCOUNTS**

(5) **Income**

Assessments

These fees represents income received from utility companies as follows:

|                                  |                   |
|----------------------------------|-------------------|
| Cell*Star                        | 196,363           |
| Atlantic Cable TV                | 303,059           |
| Guyana Power & Light             | 25,000,000        |
| Guyana Telephone & Telegraph Co. | 25,000,000        |
| <br>                             |                   |
| Total                            | <u>50,499,422</u> |

(6) **Interest Earned**

This represents interest received from the Commission's Bank accounts held at New Building Society and interest from loans repaid by employees.

(7) **Other Income**

This represents income from other miscellaneous sources.

# ENGINEER'S REPORT

*By Keine Read*



Our Engineering Department came on stream in September 2006. This became necessary because the Commission was disadvantaged when dealing with matters of a technical nature. There also arose the need for the institution to monitor the technical performance of the Utilities, as it relates to their “Quality of Service” and an Engineer was appointed.

He has been working with the Complaints Department, primarily in an advisory capacity. On a number of occasions the Engineer accompanied representatives from the Guyana Power and Light to re-investigate complaints that became necessary as a result of technical inconsistencies and seemingly flawed reports submitted to the Commission by the Utility.

He has to date been afforded the opportunity to have had limited attachment with GPL (mainly in the loss reduction department). As a result of these assignments the division has submitted recommendations to the GPL in areas where improvements can be made when conducting future investigations. This was accepted and implemented by the utility.

A number of attempts were made by the Engineering Department to develop lines of communications with the relevant personnel of both the Guyana Telephone and Telegraph Company and the Guyana Water Inc. This by the end of 2006 did not materialise.

One of the objectives of wanting to liaise with the relevant personnel of the utilities is to obtain technical information in order to craft and monitor “quality of service standards” that are consistent with international standards.

In November the annual OOCUR Conference was held in Grenada. A paper was presented by the Engineer titled “System Losses in the power utility and the impact of pre-paid electric meters as relates to loss reduction: A Guyanese perspective”. It is of interest to note that this question of pre-paid meters was discussed with GPL prior to the presentation of this paper. The officials there indicated that it was not practical in Guyana because of the cost factor. The OOCUR experience also provided exposure to technical personnel from other sister Commissions. The exchange of information and contacts made at that conference will prove invaluable to our Commission and particularly to the engineering division.

The Department is still in its embryonic stage and in time, will prove invaluable to the Commission as it continues to effectively execute its mandate.

# CHAIRMAN'S REPORT

*Justice Prem Persaud CCH*



In discharging its functions under the provisions of the P.U.C. Act No 10 of 1999, the Commission did reasonably well, within its limitations, to investigate and regulate the utilities companies under its purview, and enforced Orders which it took in the execution of its duties.

The utility services which the Commission regulates are the Telecommunications, the Electricity and the Water & Sewerage services. The Water & Sewerage and the Electricity services are monopolies operating under licences granted by the Government.

## **Telecommunications**

The Telecommunications sector has two operators which provide services to citizens, and each operates under its own licence granted by the Government. The GT&T was issued with a licence which granted it exclusive right to operate local land line and international service, and a non-exclusive licence to operate a cellular radio telephone service. The cellular service is open to competition and Cel\*Star Guyana has a share of the market. GT&T operates in both the land line and cellular sectors.

The licence granted to Cel\*Star Guyana is a non-transferable one, but its interests have been acquired by the DIGICEL Corporation which now operates under the same terms and conditions granted to Cel\*Star Guyana.

We look forward to, as we anticipate, very interesting times ahead when there will be free, open and stiff competition between these two Corporations. The consumers are likely to benefit from extended and innovative services, and the Commission is ready able and willing to play its part to protect consumers interests to have a safe and adequate service at reasonable costs, and concomitantly to seek to protect the investors interests which will undoubtedly assume commensurate risks, and to assure the financial integrity

and viability of the enterprises.

### **Complaints of Disruptions**

The Commission has been receiving many complaints of disruptions of the telephone and internet services. Upon inquiry the Commission learnt that some of these interruptions were caused by reckless and/or wanton digging up of roadways and parapets by some contractors which necessitated the digging up of the sites when they undertook certain contractual works. The Commission issued a public release<sup>4</sup> warning of the adhoc diggings and suggested guidelines to be adopted to prevent any reoccurrences.

Consequent upon that release, I conveyened a meeting in January 2006, with officials, engineers and other personnel of GT&T, GPL, GWI and the Ministry of Works, to put in place a strategy to avoid these occurrences. It was a full, frank and interesting discussion among the participants, leading to a resolution of this problem.<sup>5</sup>

### **Electricity**

We continued to receive many complaints against GPL with respect to their public relations approach, and billings. Several consumers have been receiving bills claiming miscellaneous amounts, opportunities not afforded them to comment on these alleged infractions and are called upon to pay first when they challenge the billings. It is only when the Commission intervenes that reviews are done and in many instances the Utility's decisions are reversed and consumers are credited for various amounts. For the year under review (2006) the Commission has been successful in getting credit in the amount of \$2,508,634.00 for consumers so far. There are still some responses outstanding for matters filed with GPL in 2006.

### **Cost of Fuel and Electricity - and Stealing**

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<sup>4</sup> Notice/Request to Contractors and Utility Companies may be found in Appendix IV.

<sup>5</sup> Copy of Minutes of this Meeting dated January 31, 2006 may be found in Appendix V.

One of the burning issues is the high cost of electricity to consumers. GPL’s response is that the cost of fuel on world market, and on which it depends, is inordinately high. This is a fact. And because of the dire economic circumstances in which some of our citizens find themselves they can ill afford to pay for electricity. This is a perennial problem with negative consequences for the utility, the ordinary business consumers and the economy as a whole. But system losses which, at the 30<sup>th</sup> June 2006, stood at 39.50% resulted in billions of dollars in losses each year and with it the resultant hardships it brings to bear on the ordinary Rate “A” consumers.

In 2006 the IDB initiated a study to determine and analyse the components of this loss. In their report they concluded that the commercial losses were higher than originally thought. Shown below is a summary of the losses based on their investigation and field work.

| <b>Non Technical Losses as % of Net Generation</b> |                            |       |                     |
|----------------------------------------------------|----------------------------|-------|---------------------|
| Illegal Connection                                 | 11.04                      |       |                     |
| Billing Problems                                   | 6.46                       |       |                     |
| Metering Problems                                  | 11.29                      |       |                     |
| Subtotal Non-Technical Losses                      |                            | 28.79 |                     |
| <b>Technical Losses as % of Net Generation</b>     |                            |       |                     |
| Sub transmission and primary transformers          | 1.80                       |       |                     |
| Distribution Network                               | 3.00                       |       |                     |
| Distribution Transformers                          | 1.40                       |       |                     |
| LV Network                                         | 5.40                       |       |                     |
| Subtotal Technical Losses                          |                            | 11.60 |                     |
|                                                    | <b><u>Total Losses</u></b> |       | <b><u>40.39</u></b> |

Their report provides a working document that GPL may act on. In the latter half of 2006 GPL seems to be addressing these losses with vigour and has claimed success in reducing it by a few percentage points. In their five year plan (2007 – 2011) the utility is projecting that commercial losses will be reduced from its current high to about 3%. We wish the utility every success in their endeavors.

Electricity is no longer considered a luxury but rather a necessity. And of course the maxim –‘necessity is the mother of invention’ triggers in. Because consumers cannot afford the cost of the service, and in some cases where they can afford and/or are willing to pay but cannot get it because their area may not be “regularized”, they steal same by resorting to many ingenious ways to access electricity without paying for it. The means adopted are indeed dangerous and despite the fact that many have suffered fatal consequences as a result of this illegal act the show goes on!!

So soon as the losses can be contained and reduced so soon will the rates come down to more affordable costs.

### **GPL Public Relations Department**

The public relations department of GPL leaves much to be desired. Officials are rude to consumers bordering on uncouth behaviour. This is one of our constant complaints. Management claims to be looking into it but no noticeable improvement is apparent. When consumers query their accounts they are told to pay first and then the matter will be investigated.

There are instances where consumers are disconnected even though their accounts have been settled in full before the due date. This situation has developed because of the inordinate time it takes to have consumers’ accounts updated after payments are effected at one of the payment points external to the company’s payment offices. The Commission urges greater efficiency in this phase of the utility’s operations.

Sometime ago the Commission had represented to GPL the hardships that consumers faced when they are disconnected on Fridays. We suggested that GPL suspend indefinitely disconnections on Fridays. GPL accepted the Commission’s suggestions only to renege on the commitment made without informing us. This action by GPL does not inspire trust and confidence between the Commission and GPL.

## **PUC's Public Relations Exercise**

The participation and involvement of consumers are vital to the functioning of the Commission. We need to be constantly aware of their problems, their hopes for a proper service and their suggestions in dealing with the many questions and issues with which they are faced daily.

To this end we have accelerated our consumer awareness and outreach programmes to meet with consumers on their terms and turf.

In our **awareness programmes** we visited schools, public hospitals and shopping centres. We also visited Post offices on days when Old Age and Social Assistance benefits are paid to our senior citizens. We interfaced with them and encouraged them to tell us things. We have benefited from these exchanges, and our younger members of staff have apparently mellowed in some of their views and activities, hearing and seeing the discontent of our older generation. How many of us really look forward to old age and what it may bring!

Our **outreach programmes** have also been very successful. We visited citizens in all areas across the country and listen to their complaints. On each visit the utility Companies, at our request, sent representatives. Many issues have been resolved on the spot with the involvement of the agents of the utility companies. We visited the Essequibo and Islands, West Demerara, East Demerara, West and East Berbice. And this, like the Awareness programme, is a continuing exercise.

## **Guyana Water Inc**

Of the three utilities the Guyana Water Incorporated gives the most cause for concern. Their 2003 and 2004 financial statements were heavily qualified and the auditors issued a disclaimer on their 2005 financial statement. The Commission is yet to receive an

audited financial statement for 2006, but is not optimistic that the 2006 statement will be any different from the 2005 audited statement.

It is quite apparent that the systems of internal control and checks have broken down within their finance division. This is particularly worrying to the Commission since it is quite possible that irregular transactions involving significant amounts may go undetected.

The Commission intends to follow up with, and to impress on the management of GWI, the necessity to get their systems back on track in the shortest possible time.

GWI has been restricted from operating an efficient service because of financial constraints. To some extent it has only itself to blame. The inability to bill in a timely manner has been a major failing of the utility. In mitigation GWI was constrained by an ineffective billing system which has been replaced by a new state of the art system which, it is hoped, will improve the billing and collection regime in 2007.

This Utility Company is committed to improve the quality of its water so as to comply with international standards, as set out in its licence. In some geographic areas it is a far way off target, and because of the financial constraints alluded to earlier, there may be only marginal improvements of this commodity in the immediate future.

### **Training**

The Commission has an ongoing programme to train staff members and to equip them with the necessary knowledge in the discharge of their day-to-day activities. The Commission is a member of the Organisation of Caribbean Utility Regulators (OOCUR), a body comprising the Regulatory Commissions of all Caricom member States. It was established in 2002 and I was appointed the first chairman and served for two consecutive years. I am currently the Secretary/Treasurer.

Our Commission enjoys benefits from OOCUR, the purpose of which is to assist in the improvement of utility regulation in member countries, including enhancing regulatory methods and practices; to foster the development of transparent and stable utility regulation through autonomous and independent regulators, and co-operation among utility regulators.

In April, 2006, three members of staff attended an OOCUR workshop in Trinidad. The theme of that workshop was “COMMUNICATION and PARTICIPATION in UTILITY PROCESSES in the CARIBBEAN”.

In June our Commission hosted an OOCUR workshop in Guyana, the theme of which was ‘JUDICIAL REVIEW OF UTILITY REGULATORY PROCESSES’. The Prime Minister (Hon Samuel Hinds, MP) declared the seminar open and the feature address was delivered by the Hon Chancellor of the Judiciary (ag) / Chief Justice, Justice Carl A. Singh. About thirty overseas delegates attended and participated.

Members of staff benefited tremendously from these workshops.

In October 2006 I was invited to and I attended the WORLD FORUM ON ENERGY REGULATION 111 in Washington, DC, USA, where I delivered a paper entitled, ‘OVERCOMING CHALLENGES TO ENERGY AVAILABILITY AND DELIVERABILITY – RENEWABLE/ALTERNATIVE ENERGY SOURCES’.

In November 2006 Commissioners and four members of staff attended the 4<sup>th</sup> OOCUR Annual Conference in Grenada, and participated in all the proceedings. The theme of that Conference was ‘CHALLENGES TO PUBLIC UTILITIES IN THE CARIBBEAN’. At that meeting it was agreed that the 5<sup>th</sup> OOCUR Annual conference will be held in Guyana, in November, 2007. It is expected that participants from the Caribbean, USA, Canada and the UK and numbering about 100 are expected to be present and to participate.

Through an agreement between the Inter American Development Bank (IDB) and the PUC, staff at all levels received training by Hunton & Williams, LLP, Consultants from the USA. That training dealt with the strengthening of the PUC regulatory capacity.

### **Funding**

At the moment the Commission is operating under adverse financial constraints. Section 64 of the PUC Act No. 10 of 1999 mandates that our Annual budget shall be funded by assessments upon the Public Utilities under our jurisdiction. This Act provided for GPL to pay a flat annual assessment fee of \$25.million. It also provides for the Telecommunications Sector to pay up to 1% (one percent) of their gross turnover derived from services. In the case of GWI, such assessment is contingent upon the Minister, responsible for that utility, making an Order and prescribe an assessment fee for the Commission.

Upon our request to GWI/Minister to make its contribution to the Commission, we received a response from the Hon. Minister indicating that GWI cannot afford to make any payment at this time. The Commission is, therefore, without any contribution from GWI.

GT&T has approached the Court challenging the Act as discriminatory against them when it fixed the assessment of GPL on terms and conditions 'more favourable' to GPL than to GT&T. The High Court has ruled against them and declared that the Act is non-discriminating, and that GT&T's constitutional rights are not violated. GT&T has appealed that Order and the matter is now pending before the Court of Appeal.

The Commission does not operate from its own premises. We are renting offices from a landlord (The Queenstown Mosque) and pay a monthly rental of \$281,000.00. Our space is very limited and we need to expand, but we are constrained because of limitation of financing.

We receive no funding or subvention from the Government, and because of the current limitation of assessment fees received from the utilities the Commission cannot execute all its development plans to a level that will enable it to more effectively carry out its mandate under the Act.

### **The Future**

Our immediate plans include meeting with the relevant sector of GPL at least once per month to discuss disputes between consumers and the Corporation. This course has become necessary in order to facilitate the urgent resolution of pending matters since GPL takes an inordinately long time to respond to correspondences from the Commission.

We have, in train, plans to visit secondary schools to interface with teachers and students - to explain what the PUC and regulation is all about, and why our duties are necessary and important – to protect the consumers’ interests.

With stiff competition in the telecommunication sector imminent, our role as a Regulator will be more demanding. Contrary to the belief expressed in certain quarters that there ought to be no regulation, we find that without our oversight of the utilities, consumers will be held to ransom. As competition progresses so will be the mandate and responsibility of the Commission. We have to be alert to cross-subsidies, and the possibility of collusion among service providers to give the consumers a raw deal.

*During the year Parliament has passed and in May His Excellency, President Bharat Jagdeo, gave his assent to “**Competition and Fair Trading Act 2006—No. 11 of 2006.** This Act is intended to promote, maintain and encourage competition and to prohibit the prevention, restriction and distortion of competition, and the abuse of dominant positions in trade; to promote the welfare and interests of consumers, to establish a Competition Commission and for matters connected therewith.” To date, however, the Commission has not been established.*

**I would, however, like to end with this caution. There can be no consumer movement or body representing consumers unless there are utility companies and businesses which provide services and commodities for the consumption of the public. So when we make strong, relevant, necessary and robust representation on behalf of consumers we must at the same time ensure the financial integrity of those enterprises. In demanding our pound of flesh, we must not bleed the service companies to death.**

### **Conclusion**

The Public Utilities Commission wishes to express its thanks to its entire staff who have worked diligently during the year, enabling us to be an effective regulator despite adverse circumstances.

We look forward to working with all the stakeholders in the future to ensure that the regulated utilities offer efficient service to the consumer at a reasonable cost.

## APPENDICES