

DOMINICA ELECTRICITY SERVICES LIMITED



FORM ECSRC-Q

QUARTERLY REPORT

For the Period Ended September 30th, 2014

FORM ECSRC - Q

QUARTERLY REPORT
For the period ended September 30th 2014

Issuer Registration Number: DOMLEC30041975DM

DOMINICA ELECTRICITY SERVICES LIMITED

(Exact name of reporting issuer as specified in its charter)

DOMINICA

(Territory or jurisdiction of incorporation)

P.O. BOX 1593, 18 CASTLE STREET, ROSEAU, DOMINICA

(Address of principal executive Offices)

(Reporting issuer's:

Telephone number (including area code): (767) 255 6000

Fax number: (767) 448 5397

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1. Financial Statements

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED BALANCE SHEET
AS AT SEPTEMBER 30, 2014
 (expressed in Eastern Caribbean Dollars)

	September 2014 \$	September 2013 \$	December 2013 \$
Assets			
Current assets			
Cash and cash equivalents	12,540,040	5,350,686	6,579,947
Receivables and prepayments	17,171,423	18,830,088	16,583,503
Inventories	10,080,181	14,800,416	10,813,881
	<u>39,791,644</u>	<u>38,981,189</u>	<u>33,977,331</u>
Capital work in progress	4,421,574	5,389,106	448,645
Property, plant and equipment	<u>122,745,261</u>	<u>116,095,453</u>	<u>126,542,073</u>
	<u>166,958,479</u>	<u>160,465,749</u>	<u>160,968,049</u>
Liabilities			
Current liabilities			
Borrowings	4,739,420	4,502,141	4,539,667
Accounts payable and accruals	14,020,797	14,084,922	12,170,968
Due to related party	0	-	-
Income tax Payable	37,787	658,232	940,604
	<u>18,798,005</u>	<u>19,245,296</u>	<u>17,651,239</u>
Borrowings	32,907,234	37,619,615	36,485,708
Deferred tax liability	20,631,627	17,897,829	19,214,446
Other liabilities	12,503,297	12,247,830	12,075,657
Capital grants	421,352	555,154	521,702
	<u>85,261,515</u>	<u>87,565,722</u>	<u>85,948,752</u>
Shareholders' Equity			
Share capital	10,417,328	10,417,328	10,417,328
Retained earnings	<u>71,279,637</u>	<u>62,482,699</u>	<u>64,601,969</u>
	<u>81,696,965</u>	<u>72,900,027</u>	<u>75,019,297</u>
	<u>166,958,479</u>	<u>160,465,749</u>	<u>160,968,049</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF INCOME
FOR THE QUARTER ENDED SEPTEMBER 30, 2014
(expressed in Eastern Caribbean Dollars)

	September 2014 \$	September 2013 \$	December 2013 \$
Revenue			
Energy sales	16,232,685	15,611,841	60,830,368
Fuel surcharge	10,744,657	8,727,308	37,473,942
Other revenue	696,849	163,910	619,966
	<u>27,674,191</u>	<u>24,503,060</u>	<u>98,924,276</u>
Direct expenses			
Operating	3,926,032	3,610,329	15,135,189
Maintenance	1,691,931	2,853,815	7,901,348
Depreciation	2,178,896	2,340,704	8,388,831
Fuel	12,563,151	10,163,693	43,436,628
	<u>20,360,009</u>	<u>18,968,541</u>	<u>74,861,996</u>
Gross profit	7,314,182	5,534,519	24,062,280
Administrative expenses	<u>1,685,731</u>	<u>1,917,416</u>	<u>9,150,725</u>
Net operating income	<u>5,628,451</u>	<u>3,617,103</u>	<u>14,911,555</u>
Other expenses/(income)			
Amortization of capital grants/deferred revenue	(136,038)	(125,095)	(577,453)
Foreign exchange losses/(gains)	(10,887)	(15,847)	(29,548)
Loss/(Gain) on disposal of plant and equipment	<u>392,352</u>	<u>0</u>	<u>213,884</u>
	<u>245,427</u>	<u>(140,942)</u>	<u>(393,117)</u>
Net income before finance charges,	5,383,024	3,758,045	15,304,672
Finance charges	<u>(585,051)</u>	<u>(648,558)</u>	<u>(2,601,741)</u>
Net income before tax	4,797,973	3,109,487	12,702,931
Income tax	<u>(1,439,392)</u>	<u>(859,502)</u>	<u>(3,860,564)</u>
Net income/(loss) for the period	<u>3,358,581</u>	<u>2,249,985</u>	<u>8,842,367</u>
Earnings/(loss) per share	<u>0.32</u>	<u>0.22</u>	<u>0.85</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2014
(expressed in Eastern Caribbean Dollars)

	September 2014 \$	September 2013 \$	December 2013 \$
Share capital			
Ordinary shares, beginning and end of period	<u>10,417,328</u>	<u>10,417,328</u>	<u>10,417,328</u>
Retained earnings			
At beginning of period	67,921,056	60,232,714	57,843,068
Net income/(loss) for the year	3,358,581	2,249,985	8,842,367
Ordinary dividends (declared)	<u>0</u>	<u>0</u>	<u>(2,083,466)</u>
At end of period	<u>71,279,637</u>	<u>62,482,699</u>	<u>64,601,968</u>
Shareholders' equity, end of period	<u>81,696,965</u>	<u>72,900,027</u>	<u>75,019,296</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CASH FLOW
FOR THE QUARTER ENDED SEPTEMBER 30, 2014
(expressed in Eastern Caribbean Dollars)

	September 2014 \$	September 2013 \$	December 2013 \$
Cash flows from operating activities			
Net income/(loss) before tax	4,797,973	3,109,487	12,702,931
Adjustments for:			
Depreciation	2,178,895	2,340,704	8,388,831
Loss/(Gain) on disposal of property, plant and equipment	392,352	-	213,884
Foreign exchange (gains)/Loss	0	-	-
Provision for inventory obsolescence	-	-	(239,384)
Amortization of deferred revenue	(102,585)	(91,644)	(443,648)
Amortization of capital grants	(33,451)	(33,451)	(133,805)
Interest expense	585,051	648,558	2,601,741
Operating profit before working capital changes	7,818,236	5,973,654	23,090,550
Decrease (Increase) in receivables and prepayments	1,200,238	(1,082,317)	2,643,690
Decrease/(increase) in inventories	46,545	(564,001)	1,507,014
Increase/(decrease) in accounts payable and accruals	(450,831)	3,180,592	(1,397,081)
Increase/(decrease) in due to related party	0	-	(90,120)
Cash generated from operations	8,614,188	7,507,928	25,754,053
Interest paid	(585,051)	(648,557)	(2,601,741)
Income tax paid	(783,251)	(355,540)	(1,892,291)
Net cash from operating activities	7,245,886	6,503,830	21,260,020
Cash flows from investing activities			
Purchase of property, plant and equipment	(3,123,133)	(3,773,465)	(10,295,923)
Proceeds on disposal of property, plant and equipment	0	-	40,500
Net cash used in investing activities	(3,123,133)	(3,773,465)	(10,255,423)
Cash flows from financing activities			
Proceeds from borrowings	0	-	-
Repayment of borrowings	(1,138,454)	(1,074,274)	(5,372,465)
Dividends paid	(0)	-	(2,083,466)
Increase in other non-current liabilities	167,438	472,099	1,082,509
Net cash generated from/(used in) financing activities	(971,016)	(602,175)	(6,373,422)
Net increase/(decrease) in cash and cash equivalents	3,151,737	2,128,191	4,631,175
Cash and cash equivalents, beginning of period	9,388,302	3,222,495	1,948,772
Net cash and cash equivalents, end of period	12,540,039	5,350,685	6,579,947

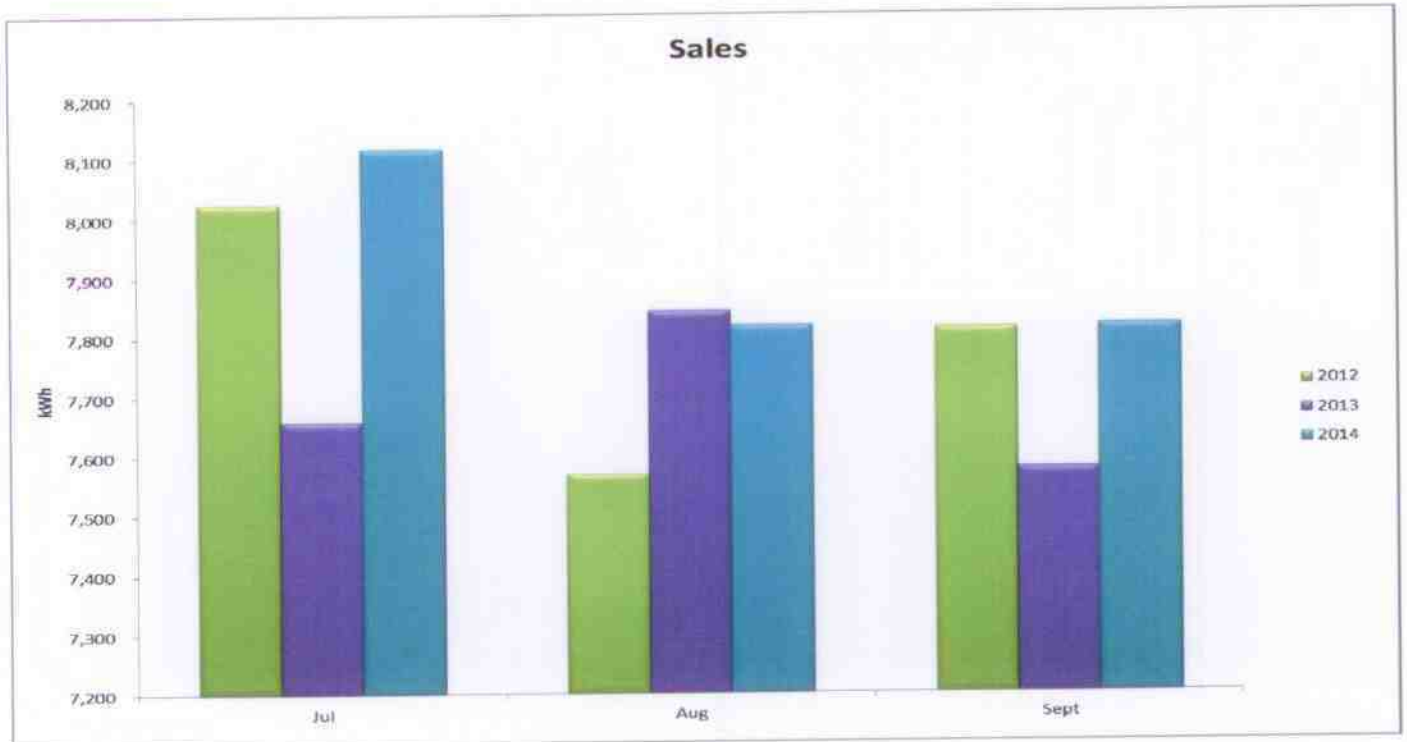
2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As at September 30, 2014, the Company recorded net profit before taxes of EC\$4.79 million compared with EC\$3.11 million for the comparable period of 2013, an increase of EC\$1.69 million or 54.3%.

Total revenue for the period was EC\$27.67 million, an increase of 12.9% from EC\$24.50 million in gross revenue earned in 2013. This quarter, there was an increase in all sources of revenue. Revenue from electricity sales has grown by EC\$0.62 million (4.0%) to \$16.23 million. Revenue from fuel surcharge was also higher by EC\$2.01 million (23.0%). The average fuel surcharge rate for the quarter relative to the same period of 2013 moved from 40.17 cents to 43.32 cents per kWh due to an increase in fuel prices and diesel consumption.

Total unit sales were up by 2.9% to 23.8 GWh from the same period last year. The growth in revenue from electricity sales has been driven by positive growth recorded in the key sectors. The Hotel and Industrial sectors recorded the most significant increase, growing by 61.7% and 10.5% respectively. The Hotel sector in particular showed a marked improvement which can be attributed to two factors, i.e. customers involved in self-generation purchased power from DOMLEC during the quarter and the addition of a new customer to the grid. Additionally, electricity sales to the Domestic sector have grown by 3.0% over last year while the Commercial sector remained on par with 2013 third quarter results at 9.8 GWh. Overall, sales growth at the end of this quarter was driven mainly by lower energy costs brought on by lower fuel prices, less self-generation by key customers and an improvement in reliability which allowed the company to serve increased demand.

In addition, miscellaneous revenue recorded an increase of EC\$0.53 million due to the receipt of the final payment from the insurance company as settlement of a claim filed last year for the breakdown of one of the major diesel generating units.



Fuel costs for this quarter totalled EC\$12.56 million, an increase of EC\$2.40 million (23.6%) from the comparable period of 2013. This is due largely to an increase in diesel consumption although the average price per imperial gallon of diesel moved from EC\$11.90 in the third quarter of 2013 to EC\$11.05 this quarter. A total of 1,057 204 imperial gallons of diesel was used in the generation of electricity, an increase of 129,367 or 13.9 % over 2013.

Total energy generated was 26.66 GWh, an increase of 0.33 GWh or 1.3% from the comparable period last year. For this quarter, 71% of energy produced was from diesel generation, compared to 61% in 2013. Meanwhile, output from hydro generation declined by 24.2% to 7.75 GWh. The decreased hydro production resulted from lower rainfall when compared to the similar period of 2013.



Direct expenses totalled EC\$20.36 million, an increase of EC\$1.39 million, mainly due to an increase in fuel cost and operating expenses of EC\$2.40 million and EC\$0.32 million respectively.

Direct expenses, net of fuel cost, on the other hand, declined by 11.5% to EC\$7.79 million from EC\$8.80 million in 2013. Maintenance expenses recorded a positive variance of EC\$1.16 million or 40.7% when compared to last year. This was as a result of the transfer of major spares to fixed assets as well as planned overhauls for three of the major generating units being deferred to next year while one was rescheduled to November this year. Further, there was a decrease in depreciation expense of EC\$0.16 million or 6.9%. The new depreciation rates recommended from the depreciation rate study were applied resulting in lower depreciation expense when compared to 2013. Of note, earnings per share for the quarter remained at 32 EC cents.

DOMLEC IN THE THIRD QUARTER OF 2014

Operating Highlights	2014	2013
Hydro generation (MWh)	7,746	10,221
Diesel generation (MWh)	18,918	16,111
Units sold (MWh)	23,755	23,080
Fuel efficiency(kWh per IG)	17.89	17.40
System losses (MAT)	8.1%	8.1%

(a) **Liquidity**

Trade receivables (excluding unbilled sales) at the end of the third quarter stood at EC\$12.29 million compared to EC\$11.54 million at September 2013, an increase of EC\$0.75 million. The main contributor to this increase was Government debt totalling EC\$3.93 million, exceeding last year by EC\$1.52 million. Government debt accounted for 32.0% of the total debt outstanding. The Commercial sector also represented a large portion of gross receivables at 38.4%. The average age of outstanding debt moved from 47 days at September 2013 to 49 days at September 2014.

The company remains in a stable liquid position at the end of the third quarter of 2014.

(b) **Capital Resources**

The company has committed EC\$8.44 million during the period to acquire fixed assets and has spent EC\$7.43 million to date. This capital expenditure was financed entirely from internal funds.

(c) **Financial Outlook**

The company has revised its outlook for 2014 and now expects average sales growth of 0.98% for the rest of the year given the existing economic conditions at. The company continues to closely monitor fuel prices despite prices being lower than anticipated, as rising prices could further stifle demand for electricity. The company is also monitoring and has revised its key discretionary spending areas which will help manage the effect of the flat sales growth. Consequently, with prudent management of resources the company expects continued profitability for the rest of the year. More so, the company anticipates an EPS of .at least EC 78 cents for this financial year.

3. DISCLOSURE OF RISK FACTORS

Financial assets, which potentially subject the Company to concentrations of credit risk, consist principally of bank deposits, available-for-sale financial assets and trade receivables. The Company's bank deposits are placed with high credit quality financial institutions. Trade receivables are presented net of provision for impairment of receivables. Credit risk with respect to trade receivables is limited due to the large customer base and their dispersion across different economic sectors. Management performs periodic credit evaluations of its customers' financial condition and does not believe that significant credit risk exists at September 30th 2014.

However, the most significant risks to which the company is exposed include: firstly, the possibility of losing a significant share of its generation production to power produced by geothermal energy within approximately five years; secondly the lack of insurance for the transmission and distribution assets, and thirdly the continuing uncertainty of the outcome of the tariff review.

Competition from Geothermal Production

Exploratory drilling for geothermal energy was successfully completed in the Roseau Valley. It is envisaged that a geothermal power plant will be commissioned to supply electricity to Dominica and possibly to Martinique and Guadeloupe via submarine cables. DOMLEC could potentially lose a major portion of its generation production to this project. To mitigate this DOMLEC is taking steps to try and become a key player involved in the production of electricity from geothermal energy. Additionally, the company remains open to exploring partnerships with other stakeholders in the geothermal market to ensure that DOMLEC's stakeholders benefit from the project.

Operating Environment

The Transmission & Distribution (T &D) assets remain uninsured. The company continues to explore options for self-insurance of its T & D assets against hurricane and other damages caused by natural disasters. The company has proposed a self-insurance scheme to the Government which enables it to set up a fund from which capital would be readily available for financing restoration after a catastrophic event. The details of the self-insurance scheme have been finalised with the Government. However Parliament has not yet enacted into law the regulation that will enable the company to set up the self-insurance as a tax free entity. Meanwhile, a standby facility has been arranged with a financial institution to cover any catastrophic events on the T & D assets.

Regulatory Environment and Impending Tariff Filing

The outcome of the 2015 tariff filing will have a major effect on the returns shareholders will get over the next 3 years. The rate of return that the company will be allowed is unknown and will be determined by the Independent Regulatory Commission.

4. LEGAL PROCEEDINGS.

None

5. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None

6. DEFAULTS UPON SENIOR SECURITIES.

There have been no defaults on the payment of securities during the period under review.

7. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

CLASS	NUMBER
Common	10,417,328

SIGNATURES

Name of Chief Executive Officer:
 Solange Bertilia Le Blanc McKenzie

Name of Director:
 Grayson Stedman

Solange Bertilia Le Blanc McKenzie
 Signature
November 6, 2014
 Date

Grayson Stedman
 Signature
7/11/14
 Date