Antigua Public Utilities Authority
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March 5, 2018

Hon. Gaston Brown
Prime Minister of Antigua and Barbuda
Prime Minister's Office
Queen Elizabeth Highway
St. John's, Antigua

Dear Hon. Prime Minister:

As directed, I hereby respond to your request. The following depicts the components of the electricity utility tariff throughout the industry:

1. Base Rate
2. Demand Charge
3. Fuel Variation

The latter, fuel variation, is the sole item that fluctuates based on movements in the fuel prices. The Authority has adhered to this principle over the years adjusting its rates one (1) cent upwards or downwards for every 10¢ increase or decrease consistent with the movement in fuel prices. APUA has also on numerous occasions absorbed potential increases so as to provide relief to its customers. In addition, a 10% discount is a staple component of our price point once bills are paid by the due date.

The Management of APUA is therefore, objectively satisfied that the existing tariff is adequate. This assertion is supported by a World Bank Study that has recommended comparable rates. An immediate decision by the Government to reduce the fuel variation by 25% would have far reaching adverse implications.

More specifically, the Electricity Business Unit's revenue would decline by EC$37.5 Million per year if that proposal was effected.

For an organization that experiences persistent cash flow challenges because of its obligations to Central Government, its remittances of at minimum EC$1 Million in subsidy (monthly) to the Water Business Unit, it would be detrimental.

APUA would not be able to meet its recurrent expenditure or execute critical feeder maintenance, resulting in increased outages and losses. Debt servicing would be rendered impossible, and wages and salaries would not be paid timely. The Management of APUA would not recommend a reduction in the fuel variation.

The reduction in water rates would pose a more dire proposition for the Authority. The Water Business Unit has been a perpetual loss leader over the years, even during period of high levels of surface and ground water resources. At present, the Authority employs the most expensive production methods with Reverse Osmosis (R. O.) as its primary source. Its existing tariff structure is inadequate and below production costs; hence the need for subsidy.

It is APUA's reality that the Water Business Unit's budgetary projections are approved annually with the comprehension that expenses exceed revenues by 20%. Its current tariff is not structured to realize the desired revenues that would ensure profitability and self-sustainability.

Without subsidies from the Electricity and Telecoms Business Units, the Water Business Unit would not exist. It cannot, at current rates, meet its operational expenses.

The challenge is further compounded by the fact that Central Government, some Statutory Institutions, other Government Agencies and Officers do not pay water bills. This negative cash flow position has impacted the Unit's ability to execute the capital projects necessary for the Business Unit to ensure a sustainably reliable service.

APUA's consumers constantly request first world service. This is evidenced by the comments posted on social media and supported by results of interactions with focus groups.... The participants indicate that they would prefer higher rates and a consistent stable supply as opposed to an infrequent unreliable supply

As indicated prior, APUA cannot absorb the impact of reduction in its tariff. As a matter of fact and urgency, the Authority is desirous of higher water rates thereby increasing revenues and the requisite margins to produce yields that would facilitate capex to meet the desperate need to replace mains thereby reducing losses.

Respectfully,

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Mr. Esworth Martin
General Manager

cc: Hon. Sir Robin Yearwood, Minister of Public Utilities, Aviation and Transportation
Mr. Andre Matthias, Electricity Business Unit Manager
Mr. Ivan Rodrigues, Water Business Unit Manager
Mr. Roger Tonge, Financial Controller