October 13, 2011

CUC's Statement on Hedging

The Electricity Regulatory Authority (whose Board was appointed by the Government in June 2009) requested CUC to hedge its fuel prices. In response to that request CUC proposed a simple hedge of 40% of its fuel volume consisting of call options which in return for a fixed premium added to fuel costs would cap the fuel costs at a pre-determined level. This proposal was approved by the ERA in March 2011.

Pursuant to such approval, CUC purchased call options to cap the cost of fuel purchased on the US Gulf Coast at US$3.55 per gallon. In September 2008 the price of diesel purchased in the US reached over US$3.79 per gallon before falling to under US$1.50 per gallon in late 2009. Since late 2010 the price has risen to a recent peak of approximately US$3.00 per gallon, which remains below the price cap.

The premium for this price cap is CI $1.7 million dollars per annum which currently represents CI 0.35 cents (less than half a cent) per kilowatt-hour (kWh) for the total annual generation of electricity. Prior to September 2009, the effective rate of duty on fuel was CI 30 cents per Imperial Gallon (IG) taking into account the then existing duty rebate programme. In September 2009, the present Government abandoned the rebate programme which restored the rate of duty to CI 50 cents per IG. In June 2010 the rate of duty was further increased by another CI 25 cents for a total of CI 75 cents per IG or an overall increase in the rate of duty of 150% from the pre-September 2009 level.

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The net effect of this increase is an additional sum of CI$ 2.65 cents per kWh or CI$14.4 million dollars per year for Government duty as compared to the one time premium of CI$1.7 million for hedging. The present one-year hedge will expire in March of 2012 and no further premium will be payable as a cost to consumers unless a new hedge is requested by the ERA.

CUC estimates that duty of CI$24 million will be collected by the Government in 2011 on the fuel it uses to generate electricity.