

"EXHIBIT 2"

APPLICATION FOR APPROVAL
OF THE DEPRECIATION POLICY
OF THE BARBADOS LIGHT &
POWER COMPANY LIMITED

AFFIDAVIT OF HUTSON BEST

I **HUTSON BEST**, of #15 Seaview Road, Chancery Lane in the parish of Christ Church in this island, being duly sworn hereby **MAKE OATH** and say as follows:

1. I am the Chief Financial Officer of The Barbados Light & Power Company Limited ("the Applicant"), a company registered under the Companies Act, Chapter 308 of the Laws of Barbados with its registered office situated at Garrison Hill in the parish of St. Michael. I am a Certified Accountant and a member of the Institute of Chartered Accountants of Barbados. I attach a copy of my curriculum vitae as Exhibit "HB1".
2. I am duly authorized to depose to the following facts and matters in this Affidavit and the statement of facts herein are within my personal knowledge unless otherwise stated.
3. I joined the Applicant in 1994 as financial controller and was appointed Chief Financial Officer in 2006. In my capacity as the Chief Financial Officer of the Applicant I have primary and direct responsibility for:
 - (a) financial accounting which concerns the preparation of the monthly financial accounting and annual financial audit and reports;

- (b) treasury accounting which concerns the management of (a) the cash flow of the Applicant, (b) the maintenance of the relationship with our lenders and compliance with our financial covenants; and (c) the payments which are made to our suppliers;
 - (c) internal auditing which involves responsibility for financial and operating audits for the Applicant; and
 - (d) management accounting which concerns the preparation of the accounts relating to the fixed assets and depreciable electric plant of the Applicant, reporting and compiling the fixed assets records and the preparation of the annual budgets.
4. The Applicant is seeking regulatory approval of a depreciation policy that results in a convergence of the depreciation policy used for regulatory purposes and setting electricity prices and that used for financial reporting purposes.
5. It is generally accepted in utility regulation that allowance for depreciation represents one of the most important aspects in the regulation of public utilities. Depreciation practices affect the rate base, the statement of income, cost of service, revenue requirements and the setting of tariffs.
6. The definition of depreciation which the Applicant applies in the preparation of its financial accounts is the same as that used by the Federal Energy Regulatory Commission for electric companies namely:

“Depreciation, as applied to depreciable electric plant, means the loss in service value not restored by current maintenance, incurred in

connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in art, changes in demand and requirements of public authorities.”

7. The Applicant intensively utilizes long-lived capital, and it is necessary that the depreciation policy that is applied for regulatory purposes and for financial reporting, accurately captures the Applicant's depreciation costs.
8. As Chief Financial Officer, I have reviewed the financial and accounting history and records of the Applicant to determine how the Applicant applied depreciation in its financial accounts prior to my employment with the Applicant. To the best of my knowledge and belief the Applicant has used the straight line depreciation method for at least forty (40) years.
9. The Applicant in the preparation of its current annual financial reports continues to calculate depreciation rates by using the remaining life technique which is a component of the straight-line depreciation method.
10. The Public Utilities Board's (the "PUB") decision of May 12, 1983, (the "PUB Decision") also approved of the straight line method in calculating the depreciation rates for generating plant & buildings, transmission & distribution equipment, and the general property of the Applicant. The lives of the assets as allowed by the PUB twenty-five (25) years ago differs from those now being used by the Applicant.

11. Actual experience and best practices have demonstrated that from time to time it is necessary, reasonable, fair and just to review and adjust the Applicant's depreciation rates. Since the PUB Decision the Applicant has caused a number of depreciation studies to be undertaken to determine the remaining lives of the assets used in the generation, transmission, and distribution of electricity to its customers. The depreciation studies have shown that periodic changes in depreciation rates should be made and going forward, corresponding changes were required in the levels of depreciation expense and accumulated depreciation as recorded in the Applicant's audited financial statements. These studies have also demonstrated that the remaining lives of the Applicant's assets have changed from the lives stated in the PUB Decision.

12. In the circumstances, the Applicant has depreciated its capital assets, for financial reporting purposes, in the manner that accords with the rates shown in the depreciation studies conducted by depreciation experts for the Applicant since the PUB Decision.

13. The most recent depreciation study is that undertaken by American Appraisal Associates, Inc. (American Appraisal) in respect of the Applicant's annual depreciation (capital recovery) rates for the depreciable electric plant as of December 31, 2006. In June 2007 the Applicant authorized Christensen Associates Energy Consulting, LLC, ("Christensen") the Applicant's external consultants, to retain American Appraisal to: (i) undertake a review of existing depreciation rates for all plant and equipment and develop appropriate rates for submission in the rate application; (ii) review the depreciation rates that were set in the Applicant's last rate hearing in 1983

and the Applicant's depreciation rates for financial reporting in order to consider the implications of the differences in these approaches ("the Depreciation Study")¹. American Appraisal assigned Mr. Peter Huck with the responsibility for the preparation of the Depreciation Study.

14. In order to assist Mr. Huck with his assignment I made available to him such information as he requested including the basic accounting data from the Applicant's plant accounting records.

15. The information provided in the Depreciation Study supports the Applicant's submission in relation to the difference between the accumulated depreciation based on depreciation rates approved by the PUB Decision for generating plant & buildings, transmission & distribution (T&D) equipment, and general property, and the accumulated depreciation based on depreciation rates used by the Applicant as a result of depreciation studies undertaken since 1983.

16. The PUB's and the Applicant's depreciation rates and the service lives on which they are based are as set out in the Depreciation Study and are summarized in **Table 1**.

¹ In addition to the 2007 depreciation study, the Applicant has undertaken the following depreciation studies since the PUB Decision namely:
1989 – depreciation study review by Canadian International Power Services Inc based on December 31, 1988 data.
1996 – depreciation study as of January 1, 1996 by Stone & Webster Management Consultants, Inc
2002 – depreciation study as of January 1, 2002 by E Wotring Associates, Inc.

Table 1

Asset Description	PUB Lives (May 1983)	PUB Rates (May 1983)	BLPC Lives (Jan 2007)	BLPC Rates (Jan 2007)
	Years	%/Year	Years	%/Year
Generating Plant				
- Low Speed Diesel & Steam	17	6 %	26 to 30	2.69 to 3.53%
- Gas Turbines	25	4 %	22 to 25	3.69 to 4.51%
Generation Buildings				
- Low Speed Diesel Station	25	4 %	30 to 32	2.77%
- Steam Station	40	2.5 %	36	2.78%
Transmission & Distribution				
- Substation building	20	5 %	37	2.86%
- All other T & D	25	4 %	13 to 32	3.28 to 5.74%
General Property				
- Buildings	20	5 %	45	2.41 to 2.81%
- Vehicles	4	25 %	9 to 13	5.28 to 7.58%
- Furniture	10	10 %	6 to 14	7.21%

17. It can be seen from the above Table that, the assumed asset lives and resulting depreciation rates of the PUB Decision and that of the Applicant's differ. Similarly, the charges involving depreciation including the annual depreciation expense and the net value of capital, for components of capital identified above, also show differences.

18. Individually, there are differences between the values remaining in the various asset categories using the depreciation rates set out in the PUB Decision and the depreciation rates used by the Applicant. Collectively, the difference is not significant because the depreciation rates used by the Applicant in its financial presentations for the Transmission & Distribution (T&D) plant and some General Property are higher than the depreciation rates of the PUB, whilst the depreciation rates used by the Applicant for

Generation Plant & Equipment are lower than the depreciation rates of the PUB Decision. Importantly, as shown in **Table 2**, the net capital balances as at December 31, 2007 across all assets, reflected as total plant in service net of accumulated depreciation is small (\$596.2 million minus \$588.5 million = \$7.7 million) taking into account that the plant in service is in excess of \$580 million. Similarly, the annual depreciation charge for 2007 is not materially different (\$33.7 million \$32.9 million = \$0.8 million).

Table 2

Historic Cost	PUB Bds\$000	BLPC Financial Bds\$000
Generating Plant & Equipment		
Historic Cost	461,684	461,684
Less Accumulated Depreciation	(264,690)	(225,177)
Net Value – Generation Dec 31, 2007	196,994	236,507
Transmission & Distribution Lines		
Historic Cost	382,426	382,426
Less Accumulated Depreciation	(87,461)	(142,745)
Net Value – T&D Dec 31, 2007	294,965	239,681
General Property		
Historic Cost	76,069	76,069
Less Accumulated Depreciation (33,656)	(41,720)	
Net Value – General Prop at Dec 2007	34,348	42,413
Work in Progress	69,858	69,858
Total Assets	596,166	588,459
Depreciation charge	32,870	33,646

19. As a consequence, the impact on the overall electricity price level from adopting a regulatory depreciation policy consistent with the Applicant's financial reporting practice is small. In addition, the adoption of the Applicant's depreciation rates and amounts for accumulated depreciation would result in a slightly lower rate base.

20. Based on the results of the Depreciation Study, the Applicant seeks regulatory approval of the capital balances, remaining lives and depreciation rates as shown in Exhibit A of the Depreciation Study. If the depreciation rates are approved as requested, the depreciation policy used for regulatory purposes and that used for financial reporting purposes will be the same. Accordingly, the Applicant hereby requests that the Fair Trading Commission adopt depreciation rates which the Applicant uses for financial reporting purposes, and which themselves have been based on depreciation studies prepared by independent consultants retained by the Applicant and that the Applicant be allowed to continue to calculate its depreciation rates using the remaining life method.

SWORN TO by the said HUTSON BEST)

At the Law Courts, Coleridge Street, Bridgetown)

this 10th day of November 2008)



Before me:


LEGAL ASSISTANT (ag)

APPLICATION FOR APPROVAL
OF THE DEPRECIATION POLICY
OF THE BARBADOS LIGHT &
POWER COMPANY LIMITED

EXHIBIT "HB 1"

This is a copy of my curriculum vitae marked Exhibit "HB 1" mentioned and referred to in paragraph 1 of my Affidavit.

SWORN TO by the said HUTSON BEST)
At the Law Courts, Coleridge Street, Bridgetown))
this 10th day of November 2008)

Hutson Best

Before me:

N. Padman
LEGAL ASSISTANT (99)

HUTSON R. BEST

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PROFESSIONAL EXPERIENCE

THE BARBADOS LIGHT & POWER COMPANY LIMITED. – *Bridgetown, Barbados* 1994 – to present *Chief Finance Officer*

The Barbados Light & Power is the sole electric utility in Barbados with assets of Bds\$700 million and annual revenues of Bds\$390million.

- Responsible for all financial reporting to the board of directors and management.
- Responsible for the annual budget and five year financial forecasts.
- Responsible for negotiating loans to finance the capital program.
- Direct the efforts of the finance department team and ongoing professional development.
- Lead monthly meetings of management to discuss the Company's performance.
- Interact with representatives of the external auditors, tax authorities, commercial banks and Lenders.
- Ensure appropriate internal control procedures and adherence to International Accounting Standards and International Financial Reporting Standards.

THE BARBADOS MUTUAL LIFE ASSURANCE SOCIETY (NOW SAGICOR) – *Bridgetown, Barbados* 1991 – 1994 *Treasurer and assistant vice president of finance*

The Barbados Mutual (now Sagicor) is the largest insurance company in Barbados and operates in seventeen countries in the Caribbean.

- Responsible for all financial, budgeting and regulatory reporting of the Group throughout the Caribbean.

PLANTATIONS HOLDINGS LIMITED – *Bridgetown, Barbados* **Financial Controller**

1987 – 1990

A retail food and hardware group in Barbados

- Responsible for all financial reporting and budgeting of the group

ERNST & YOUNG – *Bridgetown, Barbados* **Audit senior**

1983 – 1987

An international firm of Chartered Accountants

Supervising the audits of its large and varied clientele including hotels, banking, manufacturing, and retail, wholesale and special assignments. Assisting clients with improvements to their internal controls and system reviews.

HUTSON R. BEST

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EDUCATION

FCCA – The Association of Chartered Certified Accountants (United Kingdom) 1983
Membership in 1983 and admitted to be a fellow in 1988

MBA – University of the West Indies 1994

PROFESSIONAL TRAINING

University of Michigan Business School 1995
Corporate Financial Management Program

Stone & Webster Management Consultants 1996
Utility Management Development Program

Harvard Business School 2001
Driving Corporate Performance: From Scorekeeping to Strategy

University of Pennsylvania – Wharton Business School 2003
The CFO – Becoming a Strategic Partner

American Management Association 2006
Chief Financial Officer's workshop

MEMBERSHIPS

Fellow of the Institute of Chartered Accountants of Barbados

Member of the American Management Association