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The Economics of Energy in the Dominican Republic: A View From Abroad

Franco A. Uccelli, Managing Director
Emerging Markets Sovereign Research
fuccelli@bear.com
561-672-4780

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Bear, Stearns & Co. Inc.
383 Madison Avenue
New York, New York 10179
www.bearstearns.com

Please see the addendum to this presentation for important disclosures and analyst certification.

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Energy Sector Indicators

- Installed capacity

  3,500 megawatts

- Total demand

  2,000 megawatts

- Total energy production

  2006: +9.9%

  2007: +4.3%

- Total energy consumption

  2006: +5.7%

  2007: +10.7%

- Losses in transmission & distribution

  2006: +15.4%

  2007: -3.1%

- Losses / total energy production

  2006: +2.2%

  2007: -3.3%

Note: Values reflect percentage change during January-September of each year compared with the same period of the previous year.

The Thirst for Oil

- Electricity generation in DomRep is heavily fuel-dependent.
- Thermal vs. hydro: approximately 81% of electricity generated relies on fuel (57% depends directly on fuel oil, 13% on coal and 10% on natural gas), the remaining 19% relies on water.
- DomRep produces no fuels (oil, coal or natural gas).
- After averaging US$66 in 2006, the price of a barrel of oil has averaged US$71 so far this year.
- DomRep's oil import bill totaled US$2.3 billion between January-September 2007 to record a 9.4% increase over the same period of last year (it totaled US$2.8 billion in all of 2006).
- Oil & its derivatives accounted for almost one-fourth (23.3%) of total imports during the first nine months of 2007 (they accounted for 24.9% of total imports in all of 2006).
- Between January-September, oil imports (US$2.3 billion) surpassed national exports (US$2.0 billion), FDI (US$1.2 billion) and remittances (US$2.1 billion).
- DomRep must endeavor to reduce is heavy dependence on oil and its derivatives for electricity generation.

Culture of Non-Payment?

- Cash recovery index (CRI)

4Q06 actual:	56.0%
3Q07 target:	64.9%
3Q07 actual:	57.7% (-7.2% deviation from target)
4Q07 target:	66.0%

- In 3Q07, 42.3% of the electricity distributed was not paid for: 7.5% due to actual technical losses and 34.8% due to theft, fraud and voluntary non-payment.

- Congress passed legislation criminalizing electricity theft in July 2007. While the new law imposes steep financial sanctions and significant prison terms for violators, Bear Stearns believes that the willingness to enforce it remains suspect.

Fiscal Implications of Subsidies

- The government's budget assumed an average oil price of US$60 per barrel for 2007; oil has averaged more than US$71 instead.
- **Electricity subsidies** totaled US$450 million in 2005, US$490 million in 2006 and US$320 million between January-November 2007.
- US$335 million in electricity subsidies were budgeted for this year.
- Electricity subsidies exceeded US$100 million in both December 2005 and December 2006. A comparable amount in December 2007 would take total electricity subsidies for the year to US$425 million. Bear Stearns views this estimate as conservative, however.
- **Gas subsidies** totaled US$38 million in 2005, US$172 million in 2006 and US$132 million between January-November 2007.
- **Subsidies to essential government institutions** ("no cortables") totaled US$62 million in 2005, US$82 million in 2006 and US$73 million between January-October 2007.
- US$83 million in subsidies to essential government institutions were budgeted for this year.
- **Total subsidies** between January-October 2007 accounted for 8.9% of total government expenses (including public debt amortizations), compared with 7.9% spent in health and 11.2% in education.
- Amount spent in subsidies between January-October 2007 was 113% and 79% of the amount spent in health and education, respectively.
- Bear Stearns expects subsidies to total at least US$670 million, equivalent to 1.6% of GDP, this year.

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Final Comments

- Slow progress.
- Oil dependence.
- Paying the bill.
- The fiscal trade-offs.
- The importance of a relatively strong and stable foreign exchange rate.
- Unsustainable subsidies and the need to restore financial viability to the sector.
- Political sensitivity: upcoming elections and the urgency to “keep the lights on”.

Addendum

Addendum

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Addendum (Continued)

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