
Office of Utilities Regulation

Brief to the Jamaica Energy Council on Current OUR Projects

October 4, 2013



OFFICE OF UTILITIES REGULATION

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This document contains the Office of Utilities Regulation's brief to the Jamaica Energy Council Meeting of October 4, 2013, presented at the Office of the Prime Minister.

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BRIEF TO THE JAMAICA ENERGY COUNCIL ON CURRENT OUR PROJECTS

Friday October 4, 2013

Overview

A few of the many initiatives that are currently underway at the Office of Utilities Regulation and which are of considerable public interest are:

1. The Procurement of Base Load Capacity, or what has been termed loosely the 360 MW Project,
2. The evaluation of bids for 115 MW of Electricity from Renewable Energy Sources
3. Electricity Wheeling, and
4. Net billing

Update on the Procurement of Base Load Capacity

In the pursuit of the national imperative to reduce the real cost of electricity to Jamaican consumers while meeting the need to secure capacity in the shortest possible time, the OUR has at every relevant point of this procurement process been diligent in ensuring that the process is conducted fairly and equitably.

The OUR does not propose to say more than what we have already placed in the public domain regarding the unfolding of this process to date. At this time we urge caution and state that it is important that we defer discussion on certain sensitive matters because of the delicate nature of the stage that we are at in this project. In the nation's best interest, we crave your understanding.

We wish to make one further observation regarding the procurement of base load generating capacity – the Office's estimate is that every one cent increase in the cost of electricity imposes just under three billion dollars in additional cost to Jamaica.

The upshot of this is that no one should make the mistake of regarding a difference of US six to eight cents as being marginal since these represent anywhere from twelve to twenty-four billion dollars in additional cost for electricity.

By way of update however, we wish to place on the record that yesterday the Office received correspondence from Azurest-Cambridge Joint Venture Partners requesting a further fifteen (15) days extension to allow it to post the bid security. The OUR by correspondence of same date advised Azurest-Cambridge LLC that unless the bid security was posted as per the requirement of the Instructions for Final Proposal (IFFP) it would proceed to engage the second ranked proposal in order of preference.

That eventuality has now arisen as the highest ranked bidder has failed to provide the bid security in the stipulated time period. We wish to reiterate that under the criteria in Section 3.7 EVALUATION CRITERIA of the IFFP, none of the proposals including that submitted by Energy World International achieved the pass mark that was a requirement to progress beyond their Ability to Implement the Project through to the Technical Evaluation and Economic Comparison sections of the IFFP.

We wish to reiterate that under the criteria in Section 3.7 EVALUATION CRITERIA of the IFFP, none of the proposals including that submitted by Energy World International achieved the pass mark that was a requirement to progress beyond their Ability to Implement the Project (the Financial Evaluation) through to the Technical Evaluation and Economic Comparison sections of the IFFP.

The OUR took the decision however, that since all the submissions faltered at this threshold, there would be no detriment to any party in completing the rest of the assessment for all the submissions but with the proviso that whatever entity is highest ranked would be required to demonstrate shortly thereafter its financial ability to perform the project within the specified time frame.

To better inform public discussion and to further clarify the reason for its decision, the OUR considers it important to furnish the following information with respect to its computation of the comparative rates that were offered by the selected entities.

The economic rankings were done in a standardised manner based on the impact of the proposed tariff schedule of each bidder on the system over the expected 20 years contract period. The Azurest /Cambridge natural gas proposal indicated an all-in price of US 13.90 cents per kWh with the EWI's two proposals also providing for natural gas showing a price of US 14.56 cents per kWh. Azurest/Cambridge's heavy fuel oil (HFO) proposal was next at US 16.35 cents followed by the Energise's offer at US 18.27 cents. Energise proposed to run the plant initially on HFO, at a price of US 21.54 cents, for one or two years until gas became available. Optimal's natural gas offer was at US 18.30 cents while it proposed two alternative solutions using HFO at US18.39 cents and US 19.21 cents. (See results below):

Rank	Bidder	Standardised Bid Price (US c/kWh)	Fuel Type
1	Azurest /Cambridge	13.90	Natural gas
2	EWI	14.56	Natural gas
3	Azurest /Cambridge	16.35	HFO
4	Energise	18.27	Natural gas
5	Optimal	18.30	Natural gas
	Energise	21.54	HFO

Notably, the OUR's calculations show that every one (1) US cent reduction in the price of electricity translates to just under J\$3billion in savings annually to consumers at the current exchange rate.

OUR's Response to the OCG's Report

The Contractor General has not answered the OUR's position that he applied the wrong procurement procedure, which is the fundamental issue and the basis on which he arrived at all his conclusions. The OUR maintains that no authority that properly considers the facts and applies the relevant provisions of law and policy would have arrived at the Contractor General's conclusions. Therefore the OUR maintains that EWI's inclusion in the list of selected entities invited to submit bids on August 8, 2013 was lawful and in accordance with the Government's

procurement guidelines and was based on the adoption of a process that afforded all the entities to compete on the same basis and subject to the same rules.

Procurement of 115 MW of Capacity from Renewable Fuel Sources

The Office completed its evaluation of bids on September 30th and advised bidders of the results. The evaluation was conducted by a panel comprised of two local consultants and an OUR team. The panel was chaired by an OUR's Senior Generation Planning Engineer. The Reference for Proposal (RFP) requested bids for both Firm Capacity (37MW) and Energy Only (78MW). None of the bids submitted in respect of Firm Capacity, made it through the evaluation process to be accorded preferred bidder status.

From the proposal for Energy Only, the Panel has recommended as preferred bidders capacity amounting to 78MW. These comprise two projects offering energy from wind amounting to 58MW and one offering solar amounting to 20MW. The proposed delivery price to the grid for these projects ranged from US\$0.1290 to US\$0.1880. The OUR is now awaiting the posting of bid securities due by October 15, 2013 by these entities.

The OUR has already indicated that in the absence of any recommendation for Firm Capacity, it will need to return to the market in short order but this will require clear policy decisions particularly with respect to Waste to Energy.

It should also be noted that Energy Only capacity cannot be substituted for Firm Capacity and that in determining the amount of Energy Only it can introduce to the grid, the OUR must consider such other critical concerns as inter alia: grid stability, the cost of spinning reserves and ensuring that there is still sufficient firm capacity to meet any loss of energy capacity.

Implementation of a Regime for Electricity Wheeling

The Office was scheduled to begin receiving and processing application for wheeling licences in August but applications to the Electricity Appeal Tribunal as well to the Supreme Court have placed the matter on hold. The Supreme Court has

stood down the matter to allow for the Tribunal process to take its course. Indications are that the Tribunal will commence the proceedings regarding the matter during this month. It should be noted however, that even while the legal issues are being addressed, the OUR is proceeding to put in place the provision for training and use of the Wheeling Model so as to ensure readiness for operation once these matters are settled.

Net Billing

As reported to the Council the last time we were present, progress in terms of actual connections to the Grid has been less than satisfactory. The most recently available report shows:

- a) 140 applications to date;
- b) 111 licences issued; but
- c) Only four (4) connected and supplying power.

The OUR has received correspondence from the Jamaica Solar Energy Association detailing a number of concerns and providing recommendations on how the process can be expedited. In initial discussions with the grid operator, the OUR has been advised that a comprehensive report will be presented by JPS during the course of the next week addressing a number of these concerns. The OUR awaits this report but has also included in its upcoming work plan resources to undertake a comprehensive review of the operation of net billing during this initial two year pilot programme to determine what adjustments will be required going forward.