Submission

In Response to the OUR's Consultation Document on Electricity Wheeling Charges

25th Jan 2013

OFFICIAL STATEMENT

The succeeding comments are not exhaustive and Digicel's decision not to respond to any particular issue raised by the OUR or any party does not necessarily represent agreement, in whole or in part with the OUR's position on these issues; nor does any position taken by Digicel in this document mean a waiver of any sort of Digicel's rights in any way. Digicel expressly reserves all its rights.

Any questions or remarks that may arise as a result of these comments by Digicel may be addressed to:

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INTRODUCTION

Thank you for the opportunity to comment on the Office's recommendations with respect to electricity wheeling charges. Digicel strongly supports all measures to bring down the cost of electricity to levels comparable with other countries and especially the more advance ones. Lower costs of electricity would lend great help to citizens and the economy and enable Jamaica to become significantly more competitive on the world stage.

RESPONSE

Renewable Energy

Digicel notes that the consultation appears to open the door to the wheeling of all forms of energy which we welcome. Can the Office verify that it will indeed be possible for companies to self-provide electricity using all forms of renewable energy including wind power and solar.

Ancillary Services Costs

The production of power through renewable energy leads to reduction in pollutants with associated benefits to health, and less damage to the environment. In contrast, oil fired stations such as the ones in Jamaica lead to negative externalities. As much as 10 to 15 US cents per kilowatt hour has been claimed elsewhere we believe although we imagine that the Office has likely collected information from other countries on this previously and could provide more detail. We presume that no comparable study as be undertaken in Jamaica. Nonetheless, the true cost of electricity production in Jamaica could be significantly higher than 40 cents per kwh if all costs are taken in to consideration. Even a few cents more could be significant in terms of the impact on consumers and the economy. In comparison, renewables such as solar and wind energy have very minimal externalised costs. We understand that these are generally considered to be in the region of a fraction of 1 US cent per kwh. The reduction in negative externalities and flip side benefits of renewables should be taken in to account if possible when considering the treatment of Ancillary Services Costs. Consequently we believe that there is a strong case for adopting a policy whereby any ancillary services costs associated with enabling the wheeling of electricity from renewable sources should be recovered from all electricity customers.

There is also a case for the socialisation of costs in respect of energy produced by all self-generators in that, as the government states, there will be positive impacts in terms of the competitive pressures that all self-generators will tend to exert on JPS. That may encourage JPS to make new investments, improve its operational efficiency and lower its prices in order to attempt to hold on to existing customers and even to win customers back.

Further, the enabling of greater numbers of self-generators will help to establish additional commercial sources of production that could be grown in to larger businesses competing with JPS in terms of electricity production for the general public when the JPS monopoly comes to an end.

Charging Methodology

The Office states that

> *"…it is essential that a balance be struck between economic efficiency, methodological simplicity and transparency in the rate structure while ensuring full cost recovery for JPS".*

On this basis the Office has recommended the MW-km flow based method.

Digicel should appreciate the Office's reassurance that JPS will continue to be scrutinised in terms of its operational efficiency, and transmission and distribution losses. Wheeling prices should be pitched so as to anticipate over time expected improvements in these respects as we understand them to be high when benchmarked internationally. Prices should also anticipate movement to alternative lower cost forms of fuel such as LNG.

Digicel would be grateful to know what in the view of consultants PPA Energy Consulting has proved to be the most successful charging methodology for wheeling charges elsewhere. We should also like to know how the outputs from that approach are likely to compare with the MW-km approach for Jamaica for different forms of self-generators connecting at different points to the JPS network.

We should also appreciate worked examples to help firms considering self-generation to determine whether an investment leading to connections at varying levels and locations within the JPS network will be worthwhile by inter alia enabling price estimates. Ideally the Office would also provide an adjustable model to help with viability checks.

Competitive Issues

JPS may lower its prices in reaction to investments in self-generation to the point that some self-generating sources would be rendered immediately uncompetitive and therefore turn them in to wasted investments. We should be grateful for the views on the Office and PPA consulting on whether that kind of risk has been realised in other countries, and what if any measures may have been put in place to mitigate the risk.

Points of Connection

Finally, we should be grateful if the Office could provide a clear roadmap and diagrammatic illustrations to demonstrate where and at what level in the JPS network, connections by self-generators would be made possible.