



OFFICE OF UTILITIES REGULATION

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PRESS CONFERENCE

**WEDNESDAY, 18, 2013 AT 1 P.M.
AT THE OFFICE OF UTILITIES REGULATION**

STATEMENT TO THE MEDIA ON O.U.R. CURENT PROJECTS

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Within the last six months, the Office of Utilities Regulation (OUR) has been engaged with a number of matters of critical national importance across the regulated sectors. This press briefing presents an opportunity to provide members of the media and the public with updates on the status of some of these matters and especially on the process for procuring additional generation capacity in the electricity sector; a matter which has been very much in the news in recent weeks.

Telecommunications

I will begin with telecommunications which is always a busy sector and in the last six months it has held true to form. The most significant decision taken by the Office in the period however was the determination of rates for mobile termination. That decision has resulted in appreciable reductions in calling rates for mobile users and is delivering a bundle of benefits to consumers.

Water and Sewerage

In the water and sewerage sector, matters involving new rates for irrigation services and determination of a sewerage treatment rate for the Central Waste Water Treatment Company (CWTC) have been on the agenda.

The big ticket item, however, has been the application by the National Water Commission (NWC) for new rates which has been the subject of extensive island-wide consultations organized by the OUR. That process has involved exchanges between the OUR and the NWC regarding the required information and there is also some disagreement between us about issues of methodology and other things that we expect to resolve shortly. Indeed only last Friday, the NWC submitted comments on the OUR's draft decision. Those comments are both extensive and substantial, and are being reviewed as we speak. We expect to conclude that process in short order so that the public can know quickly what, if any changes will take place with regard to their water and sewerage rates.

Electricity

Turning to the electricity sector, two of the many initiatives that are currently underway and which are of considerable public interest are:

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

As you are aware, the OUR issued a Request For Proposal (RFP) in November 2012 inviting bids for renewable capacity to fill a quota of 115MW. These bids were submitted in June 2013 and going simply on the basis of the number of proposals there was significant oversubscription with some twenty eight (28) proposals submitted by twenty (20) interested entities amounting in total to a possible 828MW of capacity.

The OUR had indicated that the evaluation would be completed and preferred bidders advised by mid-September. **However, because of the unexpectedly large number of bids, and the need to seek clarification from bidders on a number of items (as provided for in the RFP process), it has proven impossible to keep**

to that timeline. Nevertheless, all bidders have now been informed that the OUR will issue its decisions by September 30, 2013.

Notably the evaluation of the proposals is being carried out by a local team led by OUR in house experts. **Not only does this showcase local expertise, but it also provides an opportunity to build- up internal capacity.**

Finally, to the evaluation of offers for base load capacity, and to the selection of a preferred project, both of which have been matters of considerable public interest and debate.

The background to this matter has been well and frequently rehearsed. Notwithstanding it is important to provide a proper overview. As was indicated by Director General Charvis, this process begun in March 2013, when in the wake of the termination of the procurement RFP process with the Jamaica Public Service Company to provide 360 MW of base load capacity, the OUR accepted unsolicited proposals from five entities. I should pause at this point to underscore that at this stage the OUR issued no rules for submission, established no processing time and indicated no minimum criteria, as it had no intention of embarking on what could be termed a bidding process.

Rather, what the OUR explicitly stated is that it would be examining such unsolicited proposals to see if any one, or combination of such offers, provided a basis to engage the entity or entities in negotiations to supply the required capacity, instead of doing a full blown competitive tender which would be protracted and the outcome uncertain, given our track record over the years. You may recall that only one bidder responded to the 2010 RFP.

As it turned out, only three of the five entities made submissions which the OUR, assisted by an international consultant Mott MacDonald, determined could be seriously considered, given among other things the timeframe within which the capacity is required. The OUR had hoped that it would have received proposals that were relatively firm and which would provide a basis for entering into negotiations for an award. As it turned out however, none of the submitted proposals, including the initial three selected, afforded that opportunity.

In view of this, and seeking the guidance of the National Contracts Commission (NCC), the OUR concluded that the proposals were at best expressions of interest, and that it could now proceed to draw up what it designated Instructions for Final Proposals (IFFP) which would allow all the selected entities a common basis for submitting proposals and which would clearly set out the OUR's requirements.

Subsequent to receipt and evaluation of the unsolicited proposals, the Cabinet advised the Office that it had been approached by a potential bidder whose proposal seems beneficial and requested that the OUR include this firm in the list of selected entities. Having considered the matter, the OUR, after consulting with, and receiving the guidance of the NCC, concluded that it would set a cut-off date for receipt of any further unsolicited offers and that if a proposal which was submitted by that date cleared the same threshold as those already selected it would be included among those to be invited to make final offers.

The OUR also took the view that given the need to secure lower rates in the shortest possible time, it was desirable to have as large a number of offers as possible from which the best could be selected. By the same reasoning, after reviewing an appeal from one of the five entities that had made submission and which was not selected, the OUR included that entity after it indicated it was now in a position to address a critical drawback that was cited by the evaluation.

Recognizing the risk that until it had indicated that it was now in a formal process, it would be obliged to consider any proposal submitted that at least met the criteria for those already selected, the OUR advised the Cabinet by way of letter dated May 20, 2013 that after May 22, 2013 it would be closing the window to any further unsolicited offers. The unsolicited proposal from EWI was submitted on May 22, 2013 the last day for which the OUR indicated it would consider any such further offer.

The NCC's advice was that any further unsolicited bid should be subject to the same process as that to which previous unsolicited bids were made subject. Having received the EWI bid on the May 22, 2013 and having determined that it met the threshold that was used to eliminate other unsolicited proposals, the OUR determined that it was not practical to halt the entire process to subject this proposal to an exercise that in any event would now have to be repeated for all

proposals. The EWI proposal was therefore included based on the OUR's judgement that it met the minimum threshold and that in any event, no proposal could be said to have been placed at a disadvantage now that the Office was going to establish clear rules applicable to all in the same way.

On May 27, 2013 therefore the OUR after meeting physically and virtually (in one instance) with representatives issued Instructions for Final Proposals (IFFP) for the supply of base load generating capacity on a Build Own and Operate basis to the following five (5) entities:-

- (a) Amourview Holdings Limited, Kingston (EIG Global Energy Partners, Tankweld Limited, Amourview Holdings Limited)
- (b) Azurest-Cambridge Joint Venture Association with Waller Marine Inc
- (c) Energy World International Ltd./ Pacific LNG
- (d) Jamaica Public Service Company Limited (JPS)
- (e) Optimal Energy

The IFFP included timelines for the various required activities that were very aggressive and in fact departed from the normal period widely established to conduct such activities but this was driven by such considerations as: the imperative of getting capacity in place at the earliest date, cognizance of the near public hysteria in some quarters about the interminable delays that have dogged previous processes and the expectations that potential bidders especially those who initially submitted proposals would be able to quickly refine such proposals.

The IFFP process provided for the selected bidders to request clarifications, provide feedback and make requests to the OUR. All the entities to varying extents made use of this process to request amendments and clarifications and to make recommendations. As provided in the IFFP, all requests for clarification and amendments and recommendations were shared with all entities without disclosing the origin.

Consistent with its position that the country needed to have a diversity of offers in order to select the best option, the OUR took a deliberate decision that while staying strictly within the bounds of the IFFP, it would adopt as flexible an approach to bidders as would afford the country the best deal. In this regard, a number of changes were made to the IFFP relating to such matters as extension of times and modification of bid requirement while at the same time focusing on the objective of obtaining electricity for the consumers at the lowest cost, in the shortest feasible time and with reasonable level of security and surety.

At the opening of bids on August 8, 2013 submissions were received from four (4) entities viz:

- Azurest-Cambridge Joint Venture Association with Waller Marine Inc
- Energise Jamaica Ltd (incorporating , Amourview Holdings Limited, Tankweld Limited and Seaboard Jamaica Corporation)
- Energy World International Ltd. (EWI)
- Optimal Energy

Consultant Mott MacDonald was further engaged to evaluate these proposals and to provide the OUR with a report setting out the result of its evaluation. The draft report flagged a number of issues that required resolution prior to finalizing the report.

Failure of Financial Conditions by all Bids

First the consultant observed that as the IFFP was designed, none of the four (4) bidders achieved the minimum score required to qualify any of them in the category ‘Ability to Finance the project’ which would have operated as a filter to proceed to the next round. This was set at 75%.

The consultant had in fact made this point in an earlier progress report but observed in that same report that it was perhaps unrealistic to have expected bidders at this stage to provide the level of financial certainty stipulated in the RFP. In the circumstances rather than simply terminating the process the OUR advised the consultant to proceed to complete both the technical and economic evaluations

of the proposals in order to establish a ranking order in the event that the OUR could proceed to negotiate with any of the bidders.

The above issues apart, there were a couple of other matters which raised specific questions on which the OUR needed to seek guidance:

1. One of the entities proposed an 'all-in' tariff without providing a break out of its components. The absence of this breakout prevented modelling and would not have allowed for full economic comparison on all levels. At the same time, the OUR was not sure whether it was at liberty to simply request the additional break down of information or simply disregard the bid especially given the decision to continue the evaluation after all had failed to clear the threshold.
2. Late in the evaluation process, the OUR received communication from a partner in one of the entities that submitted a bid, indicating that the other partner had withdrawn from the consortium. However, the other party indicated in response to an enquiry, that while there was disagreement between the partners it still remained a part of the consortium.

In the circumstances, the OUR took the decision that it would seek the guidance of the National Contracts Commission (NCC) as has been its practice.

The NCC indicated no objection to the decision to assess the submissions even though none passed the financial threshold but sought an assurance that the OUR would set clear time line and criteria for the selected entity to provide assurances of its ability to finance the project.

The NCC also had no objection to the OUR assessing the bid that was submitted without a break out of the components of the proposed all-in tariff but recommended that the OUR should obtain this information before settling on a preferred bidder.

As regards the consortium mentioned above, by the time representatives of the OUR appeared before the NCC, communication was received, signed by both of the original partners and a third party indicating that the disagreement had been

resolved and that the composition of the entity remained as had been originally submitted. The NCC therefore provided no comment on this issue.

In accordance with the guidance of the NCC, the OUR obtained the required break down of the information from the requisite entity and the appropriate modelling comparison has been done.

All the entities submitted proposals with some kind of natural gas solution, but only two made proposals which manifested a great degree of certainty. Indeed, two of the proposals were for initial start-up based on HFO with natural gas to follow at a later date as and when gas became available. As a general observation, natural gas-based proposals yielded lower prices than HFO options.

Preferred Bidder

In the end the selection of a preferred bidder came down to the ranking of the technical proposal on offer and the lowest price. With regard to technical proposal it should be noted however that all entities received passing grades. As regards pricing the range of prices varied significantly from a high of US\$0.2203 to a low of US\$0.1390 per kWh. Perhaps at this point it is instructive to remark that the OUR has computed that the difference in cost to the Jamaica consumer for every one US cent difference in price of generation per kWh is something in the order of three billion Jamaican dollars.

Given the result of the assessment with special emphasis on the points outlined above the OUR has determined the following ranking of bidders:

1. Azurest-Cambridge Joint Venture Association with Waller Marine Inc.;
2. Energy World International Ltd. (EWI);
3. Energise Jamaica Ltd (incorporating , Amourview Holdings Limited, Tankweld Limited and Seaboard Jamaica Corporation); and
4. Optimal Energy

Azurest-Cambridge Joint Venture Association with Waller Marine Inc. (Azurest-Cambridge) has therefore been designated the preferred bidder. Azurest-Cambridge has been so advised. Azurest-Cambridge is now required to furnish the OUR with its bid security representing 1% of the total investment cost of the

proposed project within fifteen days. If Azurest-Cambridge fails to post this bond the OUR will proceed to offer the opportunity to provide the facility to the next ranked entity.

We also wish to underscore that this decision is conditional on the completion of aspects of due diligence on the Company and its principals which the Financial Investigation Division (FID) is assisting the OUR with carrying out. Azurest-Cambridge is also required to provide the OUR with unequivocal evidence of its ability to execute the project as part of the lead up to signing the Power Purchased Agreement.

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