

**ELECTRICITY SECTOR ENTERPRISE TEAM**

**TERMS OF REFERENCE**

**June 3, 2014**

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## 1 BACKGROUND

The public electricity sector is currently facing critical issues relating to:

- Affordability of rates
- Sustainability of the operations of the main provider and sole licensed distributor
- Reliability of supply

This is largely due to the age and efficiency of the generating plant, the high cost of fuels currently used, high levels of system losses and stagnant/declining demand.

An unsustainable situation currently exists as follows:

1. Due to high electricity costs, larger consumers are moving to self-generate, resulting in higher costs being required from those who cannot afford to self-generate;
2. An increasing number of consumers cannot afford the rates and are resorting to theft;
3. Decreasing demand and increasing losses are making it more difficult for the Jamaica Public Service Company Limited (JPS), the main provider, to recover its cost of service resulting in the utility seeking increases in the rates charged to consumers, which takes us back to item 1.

With the economic and social well-being of the country inextricably tied to the cost and reliability of power supply, it is imperative that this cycle be broken as soon as possible. Any intervention to break this cycle must include replacement of the existing baseload generating facilities with more efficient plant utilizing lower cost fuel, and clear strategies to reduce the level of losses.

Following a series of failures over a decade to secure a suitable solution, and recognising that the national interest demands that the procurement of such new baseload generating facilities be pursued with due urgency, a decision was taken by the Honourable Prime Minister, with the approval of The Cabinet, to establish an Electricity Sector Enterprise Team (ESET) to ensure the procurement of new baseload generating plants, utilizing lower cost fuels, along with any related

facilities and shall review and make recommendations on the existing procurement policy.

## **2 POLICY, LEGAL AND REGULATORY FRAMEWORK**

### **2.1 General**

The ESET must operate within the GOJ stipulated policy, legal and regulatory framework for the electricity sector. Relevant aspects of the framework and the current roles of the respective entities regulating and operating within the sector are summarized below.

### **2.2 Policy, Legal and Regulatory Framework**

The legislation primarily impacting the procurement of additional generation capacity in the electricity sector includes:

- The Electric Lighting Act
- The Office of Utilities Regulation Act
- The Amended and Restated All-Island Electric Licence, 2011

### **2.3 Role of MSTEM includes**

- Establishment of Policy
- Issuance of Generation Licences to operators on the recommendation of the OUR

### **2.4 Roles of NCC and OCG includes**

- Monitoring of the award of Government contracts
- Monitoring the grant, issue, suspension or revocation of any prescribed licence

### **2.5 Role of the OUR includes**

- Regulation of the provision of prescribed utility services
- Overall regulation of the Electricity Sector
- Approval of electricity projects for implementation

### **2.6 Role of JPS includes**

- Electricity Generation

- Contract with IPPs
- Transmission, distribution and supply of electricity to consumers

## **2.7 Role of IPPs includes**

- Supply bulk electricity to JPS in accordance with their respective Generation Licences

## **3 RELATED RECENT DEVELOPMENTS**

An initial summary of the most recent initiatives to procure additional generating capacity is provided in Appendix 2. A status report on the project for which a licence was recently issued, is included at Appendix 3.

## **4 PURPOSE, OBJECTIVES AND FUNCTIONS OF THE ESET**

### **4.1 Purpose**

The purpose of the ESET is to lead and manage the procurement process in consultation with the OUR, JPS and the Minister for the development of additional baseload generation capacity and related facilities in the short term in order to significantly reduce the cost of electricity to consumers while ensuring diversification in the fuel supply mix, and to review and recommend changes to the current procurement policy.

### **4.2 Objectives**

The objectives of the ESET are to:

- (i) Lead and manage the implementation of a comprehensive programme to urgently replace baseload generation with more efficient plants, utilizing lower cost fuel in order to ensure that electricity is reliably provided to Jamaicans at affordable rates, including advice to the Minister on the terms of Licence(s) to be issued;
- (ii) review the current policy for the procurement of additional generation capacity to the national grid; and
- (iii) recommend, in accordance with principles of good governance, such changes in the said policy which it considers to be necessary to achieve a procurement process which has clarity, is fair, effective, consistent with

best practices, responsive to the national requirements, and which is designed to minimize or prevent similar failures to secure a suitable solution in the future.

### **4.3 Functions**

The functions of the ESET are to:

1. Perform a Rapid Assessment of the Electricity Sector and develop an overall strategy for the optimal development of the electricity sector in an integrated manner;
2. Within the context of the overall strategy, prepare an Action Plan for the short term implementation of new generating facilities to reduce the cost of electricity generation, while diversifying the fuel mix;
3. Lead and manage the procurement process to secure such additional baseload electricity generation capacity and related facilities;
4. Finalize the necessary contractual arrangements for the implementation of the facilities;
5. Facilitate necessary approvals and consents;
6. Monitor implementation of the facilities;
7. Recommend a fair and effective process or processes for future use in respect of procurement of additional generation capacity.

## **5 SCOPE OF WORK**

### **5.1 General**

In carrying out its mandate, the ESET shall utilize the services of technical experts of its choice including legal, financial and engineering consultants, as appropriate.

### **5.2 Preparation of Optimized Integrated Resource Plan**

In order to ensure that projects being selected for implementation are consistent with an overall long term strategy, it will be necessary to review and perform a rapid assessment of the existing long term strategy and plans for the electricity sector.

Arising from the rapid assessment an Integrated Resource Plan (IRP) will be prepared which will take into consideration factors relating to:

- Fuel and fuel supply sources
- Plant site(s)
- Power generation facilities
- Transmission system requirements
- Existing electricity demand
- Expected new electricity demand and the potential for synergies with other developments and sectors.

### **5.3 Selection of Projects for Implementation**

Based on the IRP, projects will be identified either specifically or in general terms for implementation in the short term. This shall include major new baseload generation capacity to replace existing baseload plants, while allowing for demand growth, as well as other generation options such as cogeneration at bauxite/alumina and other facilities. The ESET may consider existing and new project proposals to determine suitability and ability to deliver a project that will meet all objectives in the shortest time. The ESET shall employ procedures which are consistent with applicable procurement guidelines, including but not limited to direct contracting.

### **5.4 Development of Financing Strategies**

The financing strategies shall be determined based on proposed modalities for implementation of the new facilities.

Potential financiers shall be consulted and, if possible, engaged as soon as possible, to minimize project financing risks.

### **5.5 Procurement Process**

The ESET shall ensure fairness, transparency, and full compliance with applicable guidelines in leading and managing the procurement process.

### **5.6 Contract Negotiation**

The ESET in consultation with the Director General of the OUR shall facilitate and/or lead the negotiations depending on the financing modality.

### **5.7 Oversight and Facilitation of Approvals and Licencing**

The ESET shall ensure that adequate arrangements are in place to facilitate requisite approvals, consents and licencing of facilities.



## **5.8 Implementation Monitoring**

The ESET shall monitor the implementation of the facilities up to commercial operations date.

## **5.9 Reporting, Consultations and Public Education**

The ESET shall report directly to the Cabinet through the Office of the Cabinet.

The ESET is expected to operate in a transparent manner, consulting with relevant institutions as required and keeping the general public consistently updated on its various activities.

## **6 OUTPUTS AND SCHEDULE**

Pursuant to its objectives, the ESET shall remain in place until the completion of all facilities related to the establishment of the baseload generating plants and related facilities as identified for implementation in section 5.3 hereof.

The Rapid Assessment, Overall Strategy and Action Plan are to be completed within three (3) months of the establishment of ESET.

Specific timelines relating to the other activities will be based on the Action Plan, which shall take into account the urgency and national implications of the project.

## **7 COMPOSITION AND ADMINISTRATIVE SUPPORT**

The members of the ESET shall be as follows:

1. Dr. the Hon. Vincent Lawrence – Chairman
2. Mr. Winston Hay, former Director General of the OUR and Energy Consultant
3. Professor Alvin Wint, Professor of International Business UWI and Member Coordinating Committee of the Partnership Council
4. Mrs. Helene Davis-Whyte, Trade Unionist
5. Mr. Josph M Matalon, Businessman
6. Mr. William Mahfood, Businessman

The ESET shall be provided with administrative support by the GOJ /OUR.

Appropriate indemnities will be provided to members of the ESET by the GOJ.

## **8 TECHNICAL SUPPORT FOR ESET**

Significant technical support will be required by the ESET for it to achieve its mandate. This will include electric utility planning and engineering consultants, legal officers and financial analysts.

## **9 FINANCING OF ESET**

### **9.1 Technical Support**

- GOJ/OUR
- Multi-lateral Institutions

### **9.2 Administrative Support**

- GOJ/OUR

## **10 APPENDICES**

### **10.1 Appendix 1: List of Relevant Documents**

1. OUR Act
2. Electric Lighting Act
3. JPS Amended and Restated All-Island Electric Licence
4. Jamaica Electricity Generation Code (2013)
5. Generation Least Cost Expansion Plan (2010)
6. Guidelines for Addition of New Generating Capacity (2006)

## **10.2 Appendix 2: Recent Initiatives to Procure Additional Generating Capacity**

[SUMMARY DOCUMENT TO BE PROVIDED LATER]

### **10.3 Appendix 3: Status of 381 MW Project for which a Licence was Granted**

[SUMMARY DOCUMENT TO BE PROVIDED LATER]

## 10.4 Appendix 4: Acronyms

|         |  |
|---------|--|
| ESET    | Electricity Sector Enterprise Team               |
| GOJ     | Government of Jamaica                            |
| IPPs    | Independent Power Purchasers                     |
| IRP     | Integrated Resource Plan                         |
| JPS     | Jamaica Public Service Company Limited           |
| MSTEM   | Ministry of Science, Technology, Energy & Mining |
| NCC     | National Contracts Commission                    |
| OCG     | Office of the Contractor General                 |
| OPM     | Office of the Prime Minister                     |
| OUR     | Office of Utilities Regulation                   |
| OUR Act | Office of Utilities Regulation Act               |