

The future of power in Jamaica

Is there an energy problem in Jamaica? The growing energy crisis in Jamaica has been a cause for concern ever since the Government divested the Jamaica Public Service Company (JPS).

Consumers and producers complain about the high cost of energy. Firms often blame their low productivity, low output, high price for final goods and services, as well as low profitability, on the high cost of energy in Jamaica. The lowest consumers pay in Jamaica is \$40, or US39 cents per kilo watt hour, compared to the United States where energy cost is as low as 12 cents per kilo watt hour in some places. Jamaica consumes approximately 605 mega watts of energy per day. The country has the capacity to produce in excess of 700 mega watts per day from the old, inefficient power plants across the island. However, plans are being put in place to replace 475 mega watts of our daily usage with cleaner, more efficient sources; a 360-mega watt plant and 155 mega watts from renewable sources including, but not limited to, solar, wind mill and hydro. These two projects combined, are expected to reduce the cost of energy to the consumer by 25 to 30 per cent by 2016. What is being done about the issue? The winner of the bid to establish the renewable-energy sources has not yet been announced, but Azurest Cambridge Consortium has won the bid to possibly build this new energy plant that will supply 360 mega watts of Jamaica's daily usage. The estimated cost, including buildings, barges, the plant and other infrastructure is US\$690 million. Total cost, minus labour, is estimated to be US\$580 million. In total, the plant will use three barges, the first barge will be delivered 17 months after Azurest and JPS sign off on a power-purchase agreement. Negotiation are expected to start within the next three weeks, and should take about three to four months. Azurest plans to sell the energy to JPS, at a price between 13 and 22 cents US per kilo watt hour, earning no more than 20 per cent return on its investment. The US\$100 million core equity committed to project, with hopes of raising US\$50 million locally, and the rest overseas, in a 78 per cent to 22 per cent debt-equity ratio. How will they finance the rest? The International Finance Corporation plans to raise funds to possibly support the establishment of the 360 mega watt-power plant project in Jamaica, by issuing bonds on the domestic market. IFC plans to raise US\$500 million, or J\$51 billion, from the issue. The bonds will have a triple-A rating and will be targeted at pension funds, banks and other investors. The bonds will also carry lower interest rates than the Bank of Jamaica Treasury Bill Rates. This strategy to raise funds is not new as it was employed in the Dominican Republic to raise approximately US \$10 million to fuel two micro-finance operations in the country. The IFC is unsure as to the exact date these bonds will reach the market, but know it will occur during the course of Jamaica's four-year agreement with the IMF. Upon establishment of the plant, Azurest will sell all the energy it produces to the JPS, who operate both a monopoly and a monopsony market. What is a monopoly market? This is a situation where there is only one seller of goods and/or services in the market. There is no competition as other firms cannot enter the market freely due to barriers to entry. In this case, based on JPS's contract with the Government, no other firm can supply electricity in Jamaica. Given that JPS is the only supplier in the market, if unregulated; it can charge any price it desires. The company usually charges a price higher and supply less than what is efficient. What is a monopsony market? A monopsony market is the other way around, instead of one sell such as the case with the monopoly, in this case there is only one buyer of goods and/or services. JPS is the only company that buys energy in Jamaica. Any company can produce energy, but given that JPS is the only distributor of electricity, it is the only company that buys energy. In this case, if unregulated once more, the JPS can push the cost price down because there are no other firms in this purchasers market. Who regulates? In Jamaica, The Office of Utilities Regulation monitors JPS's activities. It regulates and prevents any abuse of monopoly and/or monopsony power that the JPS might be tempted to exercise. Dr André Haughton is a lecturer in the Department of Economics on the Mona campus of the University of the West Indies. Follow him on twitter @DrAndreHaughton; or email editorial@gleanerjm.com. Source: Jamaica Gleaner