



Minister Kenred Dorsett

Address to the Bahamas Chamber of Commerce Luncheon

September 11th, 2013

British Colonial Hilton

Topic: Energy Sector Reform in The Bahamas

(Greetings and Salutations)

Good Afternoon Ladies and Gentlemen.

Let me begin by thanking you for having me this afternoon.

I am happy to be here to discuss a topic that in my opinion is long overdue and desperately needed in our country, that is the topic of Energy Reform. It is no secret that the cost of electricity especially in recent years has become a vexing problem not only to the average Bahamian citizen but also to those endeavoring to do business in The Bahamas. So much so that it has become a burden on Bahamian households and businesses. These days in some businesses the choice has to be made whether to make payroll, to purchase merchandise, to maintain machinery or to pay the electricity bill. Some businesses opt to make a payment on the electrical bill just to keep it on. This government made a commitment while in opposition in our Charter for Governance to reduce the cost of electricity and we have

embarked on a course of action to do just that.

It has become an imperative to conducting and attracting new business ventures successfully in this country for the government of the day, of which I am apart, to move ahead with plans to reduce the burden which this essential service has become on not only the Bahamian people but the Bahamian economy. In February of this year the Prime Minister spoke in Parliament on this very subject stating that, "These are issues that concern us and let me just state it for you. The cost of electricity is an extraordinary drain and has an extraordinary impact on Bahamian families. We all agree with that." In the same presentation the Prime Minister stated that the government had been advised by a senior official at the Bahamas Electricity Corporation (BEC) that the "operational cost for investors and commercial entities was as high as twenty percent. Anyone looking at the economic

situation in our country and saying that they want to invest, whether it is in Bimini, whether it is in Grand Bahama, they face this extraordinary, intimidating circumstance of the costs.”

As we all are aware the electricity in most of this country is generated and distributed by the Bahamas Electricity Corporation. This electricity is generated by heavy fuel oil, diesel, and bunker C fuelled generation equipment which is costly to acquire and maintain, relatively inefficient compared to newer fuel technologies, and very environmentally unfriendly. For some years we have experienced rising monthly costs due to the cost of fuel and operational inefficiencies at BEC. We have also experienced what is called load shedding which means that on any given day electricity services could be cut for hours on end. We have tried to ensure that load shedding becomes a thing of the

past but when it is experienced, this unreliability only adds to the cost of doing business because of the need to ensure that your business is equipped with a generator. The cost of electricity in The Bahamas has become a problem that we cannot allow to continue to increase while expecting growth within the economy of this country. The two can no longer co-exist.

For these reasons and others the government of The Bahamas has sought to reduce operational costs at BEC by improving on operational efficiencies and reducing waste wherever possible. We have established an Energy Task Force which has been charged with advising the government on solutions to reducing the high cost of electricity. We eliminated the excise tax on fuel used by BEC in the 2013-2014 budget which was forecasted to reduce energy cost by six percent. We also eliminated tariffs on inverters for solar

panels and LED appliances to ensure that more of our citizens would be able to afford these energy saving devices. All of this is a part of our continuing efforts to reduce the cost of electricity thereby reducing the cost of doing business in The Bahamas and bringing the much needed relief to business persons like yourselves in this country.

Most recently the government of The Bahamas through a statement released by Prime Minister Christie revealed its plans moving forward to further reform the energy sector of The Bahamas. We stated that a "Request for Proposals to seek a partner or partners to assist us in turning around our energy sector. Our objective is to realign BEC, and to create efficiencies which will allow for significant reductions in the cost of energy, increased energy security, environmental responsibility, reliability, and increased competitiveness as a country." In that statement it was also announced that "it is

our intent to create two new BEC entities into which the relevant assets, liabilities and operations of the Bahamas Electricity Corporation will be transferred: The first is a new Transmission and Distribution company (“NewCo”) which will be wholly owned by BEC. This company will be responsible for the operation, maintenance, repair, and expansion of NewCo’s electricity transmission and distribution systems and for billing, collection, customer services and other relevant services across The Bahamas. The second company will be a new Generation Services company. This company will be responsible for the operation, maintenance, repair, financing of BEC’s current electricity generation facilities and certain other assets located across The Bahamas, as well as the development of new power generation plant. It will enter into a Power Purchase Agreement with Newco.

We are seeking a partner to manage the operations of Newco, bringing state of the art business practices, processes

and technology to the Transmission and Distribution systems. We expect to have clear cost reduction targets and incentives, as well as performance benchmarks embedded into the contract. The performance benchmarks will address issues such as network reliability, average outage periods, frequency of outages, system losses, speed of restoration of power, speed of reconnections, billing punctuality and a number of other issues we currently suffer from.

In the case of the new Generation Services company, we are seeking a management and joint venture partner who will offer a sustainable solution for the reduction of electricity generation costs through state of the art management practices, processes, and enhanced maintenance of equipment, as well as managing and assisting with the financing and implementation of new more efficient generation equipment.

The above will be underpinned not only by robust contracts

with the preferred bidder(s), but also by a new regulatory regime which, amongst other benefits, will bring direct and independent oversight of the cost of electricity. The framework of this new regime is being developed as we speak, and we expect to pass the relevant legislation in early 2014.

We have said we are not averse to the same bidder providing a solution to the management of both entities in the short to mid term. The primary reason for this is our desire to effect the smoothest possible transition and restructuring of BEC into the two new entities. That said we are also open to other possible solutions for ensuring these two new companies are set up and run in the most efficient manner possible.

The separation of generation and transmission/distribution is not a new thing. Several countries within the Caribbean and

many countries in the wider global community have done just that. In Trinidad and Tobago we see where the generation of electricity has been liberalized while transmission and distribution remain publicly owned through the government. In the Dominican Republic, there is also unbundled energy generation and transmission/distribution. In the early 2000s Jamaica privatized its energy sector with the sale of 80% of Jamaica Public Service Company. Since 2004 the Jamaican power generation sector has been opened to competition and transmission and distribution is subject to a license.

There are a number of key benefits to separating, or “unbundling” generation from the other aspects of the sector.

Three critical benefits include:

- 1. Specialization – the business of transmitting, distributing and the retail of electricity are in fact very different skill sets to generating power. Separation

allows experienced management teams to exert focus and discipline on each area. Indeed there are many entities around the world that operate purely in one or other of generation, transmission, distribution and even the retail of electricity in larger markets.

- 2. Transparency in the cost of power – today we do not have a crystal clear picture of the true cost of generating, transmission and distribution. These costs are all comingled in BEC’s accounts. In the planned unbundled market, we will have a far clearer picture of costs, but more importantly we expect to be able to contractually, and through regulation, hold these entities more accountable for their individual cost structures. Indeed, our advisors have already been examining the many thousands of line items in BEC’s accounting ledgers and allocating these to the two new companies.
- 3. Competition – ultimately, the planned structure allows

for the introduction of competition in generation, be it with other Independent Power Producers bidding to provide renewable solutions to meet the Government's goals for renewable energy, or other IPPs in the future as base load requirements change over time.

With respect to the RFP process, we are pleased with the response to the RFP. Based on the information we have to date, we see a number of quality companies and consortia that have registered, and we look forward to receiving technical bid submissions by September 13. We expect to move into a second stage of the bidding process around October 1, inviting qualified bidders to undertake detailed due diligence and submit detailed commercial proposals. Qualified bidders will be those which we believe are technically qualified and which propose an approach that we believe is executable and makes sense for The Bahamas. Evaluation of the proposals will in the first instance be made

by our advisors, including KPMG Advisory Services, DNV Kema, and Hogan Lovells, with recommendations being made to the Government. An evaluation committee is being established by the Government in this regard.

KPMG is one of the largest accounting and advisory firms in the world and they bring local and regional expertise as well as members of their dedicated international energy sector advisory team. DNV Kema is one of the leading energy technical and business consultants in the world. Hogan Lovells have one of the largest energy industry legal practices in the world.

I would be remiss as Minister of the Environment and Housing if I did not mention as a part of reducing the cost of energy in The Bahamas, the use of conservation and renewable energy sources. Energy conservation not only benefits our environment by reducing our carbon footprint but it is also known to benefit our pocketbooks by reducing

our energy consumption. We all should know by now that the use of CFL and LED bulbs are more energy efficient than regular incandescent light bulbs and also last longer. We should also all know that for some if not most of you the use of air conditioning is imperative to your businesses. I would advise then purchasing the most energy efficient A/C unit possible and that you pay close attention to the Seasonal Energy Efficiency Ratio (SEER). The higher the units SEER rating the more energy efficient it is. Depending on the type of business you run, you can only look into installing a Variable Refrigerant Volume A/C system. These systems allow for one unit to be connected to several different evaporators thereby giving each room its own temperature setting. This is the suggested A/C energy saving model especially for hotels. I also suggest that investigation be made into the use of solar energy. As we live in a country which most days are filled with sunshine, I suggest to you

that solar energy is the most attainable form of renewable energy. Part of the government's commitment to energy sector reform is the introduction of renewable energy in total energy generation, for which we plan to complete the regulatory framework by early 2014. We also hope to have a Residential Energy Self Generation Programme in place by mid 2014. By the year 2030 we would like for at least thirty percent of our energy to be generated from renewable energy sources.

In August of last year I made a presentation to Parliament on the topic of 'Planning our Electric Future' in which I made public my ministry's plans to advance several measures as part of a plan to reduce energy cost. I am proud to announce that a lot of them have come to fruition already, however I still would like for my ministry to "explore along with the Ministry of Finance a programme to encourage

businesses to conduct independent energy audits, whose cost would be deductible from revenues that form the basis on which the business must pay its business license fees for the year the audit is carried out as promised in the Charter for Governance.” These energy audits would assist you in finding the inefficiencies within your businesses and point out where you can save energy.

This government is fully aware of the hindrance the cost of energy has become to attracting new investments to this country and to the continued success of existing businesses. We have committed to bringing about solutions to this vexing problem thereby bringing relief to businesses persons such as yourselves and also making The Bahamas more competitive within the world of investments. We understand and hope that you understand that this is not going to be something that will happen overnight but over time. As you

can see by the measures that we have taken already and the commitments that we have made, we have and continue to make serious and notable strides toward our goals as it relates to energy sector reform. We are doing our part and sincerely hope that you will do your part by supporting our efforts in this regard.

As I close I would like to thank you for having me once again and wish you every success in your various businesses. Good Afternoon.