

energised

LUCELEC monthly e-newsletter
From the Desk of the Managing Director

August 2011

Welcome to this first edition of *Energised!* *Energised* will be a monthly two-page publication from my desk. It seeks to update our major stakeholders on LUCELEC's policy position on energy and electricity matters and provide first hand information on our development plans and projects.

Energised will also provide statistical, operational and benchmarking data that will provide a better understanding of our operations and how we stack up against other electric utilities in the region.

Energised is part of a wider public awareness campaign through which we seek to stay in touch with our stakeholders and customers with a view to engaging them on the services we provide.

We know that you're bombarded with tons of information on a daily basis, and the last thing you want to see is another publication, but we promise to make *Energised* relevant and useful for you and appreciate your taking time to review it. Finally, we'd really like to get some feedback from you on how useful you think the information is to you or if there is a specific issue you would like us to address in this newsletter.



Trevor Louisy, Managing Director
St. Lucia Electricity Services Ltd.

Trevor Louisy
Managing Director

Fuel Price Hedging Yielding Positive Results

Since June 2009 LUCELEC has been engaged in a fuel price hedging programme aimed at stabilising the price that the Company pays for fuel.

The price that LUCELEC pays for fuel is a pass through cost (at no mark-up) to the customer via the fuel surcharge mechanism. As oil prices fluctuate, so does the surcharge. These changes in the price of oil on the world market are outside of the Company's control. By hedging the price LUCELEC pays for fuel over a period of time, the company seeks to pay a more stable price for fuel and thereby smooth out the spikes and troughs in what customers pay for electricity. This in turn makes expenditure on electricity a little easier to predict.

Generally LUCELEC hedges up to 75% (the maximum allowed) of its fuel requirements usually by the start of each quarter for that quarter. Although 25% of LUCELEC's fuel volumes are not hedged (in accordance with prudent practice) over the period the hedging programme has reduced some of the volatility in what customers pay for electricity and, so far for 2011, has provided some level of cushioning from the impact of the fuel price spikes seen this year.

The accompanying graph (page 2) shows the impact on the electricity rates.

By the Numbers

5th ...that's where St. Lucia ranks among 23 utilities in the Caribbean for the **lowest rates** for domestic customers using 100 kwh (units).

(Source: CARILEC's 2010 Tariff Study)

42% better than the Caribbean average for electric utilities.

That's how LUCELEC's **labour productivity** stacks up in a study of regional electric utilities.

(Source: CARILEC Benchmark Study of Caribbean Utilities Report; KEMA, April 2010)

Myth Busters

Comparison of Relative Capital Cost of Developing Generating Capacity

Building electricity generating capacity is expensive business. The choice of energy source or fuel determines the technology and costs. Below is a simple comparison.

- **Diesel - US\$1,200 per kW**
- **Wind - US\$2,800 per kW**
- **Solar - US\$5,000 per kW**
- **Geothermal - US\$5,000 per kW**

Connected

Catch Connected, a 5 minute Radio Programme that educates customers on LUCELEC's operations and services.

Connected airs in **English** as follows: *Mondays* - Radio 100 @ 8:55 a.m.; *Tuesdays* - HOT FM @ 7:45 a.m.; *Thursdays* - RSL @ 7:30 a.m., The WAVE @ 9:15 a.m., RCI @ 3:20 p.m.

Connected airs in **Kwéyòl** as follows: Radio 100 - *Mondays* @ 6:20 a.m.; *HOT FM* - *Thursdays* @ 4:45 a.m.; *RSL* - *Tuesdays* @ 7:45 p.m.

Renewable Energy

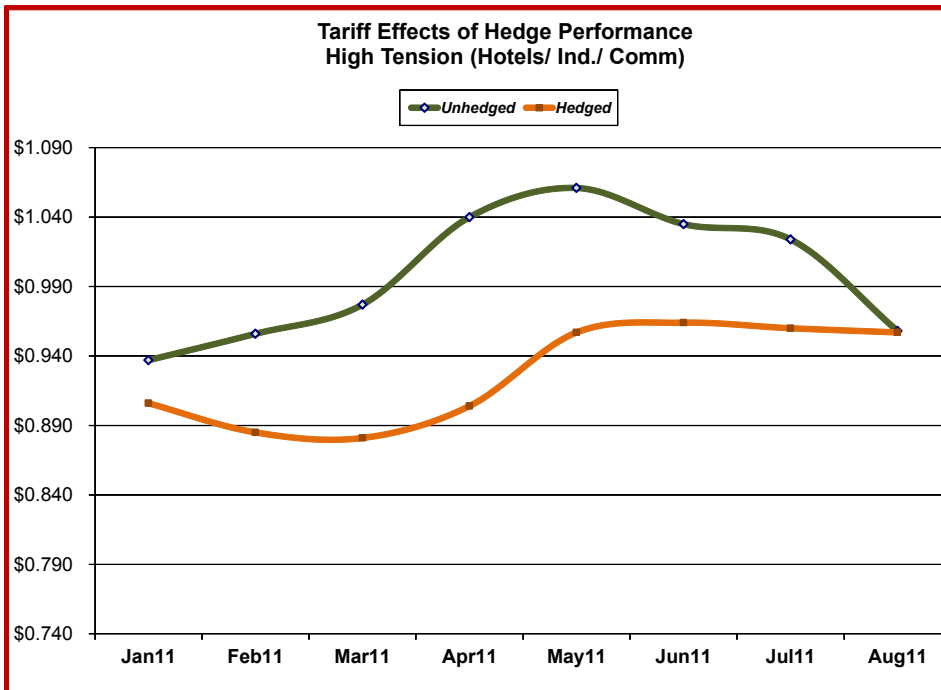
There is perhaps no other subject on which LUCELEC has been so misunderstood as on the matter of renewable energy. LUCELEC views the development of alternative and renewable energy as critical to ensuring energy security, sustainability and fuel diversification to reduce the country's current dependence on fossil fuels for electricity generation given the volatility of oil prices and our vulnerability in the region to these prices.

To this end LUCELEC has been actively involved in the development of the National Energy Policy which also seeks to encourage the development of renewable energy.

Consistent with this LUCELEC has been working assiduously at the establishment of a 12 megawatt wind farm for the past several years. Land acquisition continues to be a major obstacle as it has been difficult to secure the approximately 230 acres required. Several of the most suitable sites identified have been given over to alternative use. The most recent stumbling block was an injunction filed against the land acquisition. However, LUCELEC is not being deterred, and we are currently reviewing other sites.

In furtherance of our attempts to ensure energy security, LUCELEC has been collaborating fully with the current developers of the geothermal resource in Soufriere. We signed a term sheet with that Company in April 2010 as a precursor to a power purchase agreement (PPA) and we are actively engaged in finalising a PPA and inter-connection agreement. It should be clear that at this point LUCELEC is not involved in the exploration and development aspect of the project. We are committed, solely, to purchase, at the best possible price, whatever amount of electricity is generated.

Similarly, with the waste to energy project being proposed. We are active participants in a select committee comprising various stakeholders established by the Ministry of Sustainable Development and Energy to review all waste to energy proposals. Our role will be to buy, on mutually acceptable terms, the power produced. Our underlying principles remain the same – transparency and the best value for money for the customer.



Graph showing how LUCELEC's Fuel Price Hedging Programme has reduced the volatility of the fuel surcharge and the impact on what hotels, industrial and commercial customers pay for electricity delivered at high tension. The trend is similar for other tariff categories.

Generation Expansion



The old Union Power Station will shortly house 2 new high speed units to meet short term capacity requirements

As early as 2005 LUCELEC began exploring optimal solutions for the next phase of generation expansion, estimated to be needed by 2013.

To date LUCELEC has devised a three stage plan to meet short, medium and long term capacity requirements. The short term plan involves installing two High Speed Units at the old Union Power Station during the third quarter of 2011.

The medium term plan will see a new 10 megawatt tri-fuel engine installed and commissioned at Cul de Sac Power Station by July 2012. Preliminary work on this project has started.

The long term plan entails the construction of a new power plant by 2014 to be located in the south of the island primarily for risk mitigation purposes, to facilitate economic activity in the south, and to meet projected power requirements. A site has been identified and geotechnical and environmental impact studies are scheduled to take place during this year.

A critical factor is selection of a suitable generation technology, which must have a proven operational track record and the potential to reduce operating costs while increasing energy efficiency. Initial cost estimates range between US\$60M and US\$100 million depending on the generation technology and the size of the plant.

During this year the project cost and a financing plan will be finalised. The overall plan will ensure that the Company meets its statutory requirements for generation capacity. It will also ensure alignment with the renewable portfolio standard outlined in the National Energy Policy and the GOSL Sustainable Energy Plan. Critically too, the generation expansion plan seeks to ensure fuel diversity (the use of different types of fuel) for energy security (less dependence on oil or other fossil fuels) and mitigating risks associated with price volatility (sudden and large fluctuations in the fuel prices).

**We'd appreciate your feedback.
Send comments to energised@lucelec.com.**