



**The Organization of Caribbean
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**THE PRIVATIZATION OF THE ELECTRICITY
SECTOR. THE CASE OF THE JAMAICA PUBLIC
SERVICE COMPANY [JPSCo]: A REGULATORY
GOVERNANCE PERSPECTIVE.**

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ORGANIZATION OF THE PRESENTATION

SECTION 1 – Introduction/methodology

SECTION 2 – The Decision to Privatize in 1996

SECTION 3 – The Privatization of JPSCo. in 2001 and Beyond

SECTION 4 - An Evaluation of JPSCo's Performance: A
Regulatory Governance Perspective

SECTION 5 – Lessons Learnt, Conclusion, Recommendation



SECTION 1 - INTRODUCTION/METHODOLOGY

There is no one universal 'best-fit' for privatization/electricity privatization at the micro/macro-economic levels. It is a two-edged tool - having the propensity for positive implications (national economic development, efficiency, generation expansion), as well as, negative ones (unemployment, inequality, inefficiencies, and the thwarting of welfare development).

METHODOLOGY

- * One thousand questionnaires were administered to residents throughout the 14 parishes of Jamaica.
- * Interviews were conducted with gurus at the policy-making level.
- * SPSS was used to analyze data.



SECTION 2 – THE DECISION TO PRIVATIZE JPSCo. IN 1996

* Government's objective to privatize were to:

- ✓ relieve the country's debt burden;
- ✓ enhance revenue collection;
- ✓ maximize fuel efficiency/improve fuel storage capability;
- ✓ improve productive efficiency

* The objectives were dependent on the NIBJ criteria of offer price; tariff path; development plan; acquisition financing; technical capability/experience; human resource policies, transfer of knowledge and technology; and commitment to the establishing of linkage industries.



SECTION 2 contd....

- ✓ The bidders did not meet the criteria by the NIBJ, hence the rise of the Management Contract. A MOU was signed by the management of JPSCo, the NIBJ and the Ministry of Mining and Energy as a partial divestment.
- ✓ Under this contract, certain financial targets were expected to be met. Failure of this, as well as the destruction of the Old Harbour plant, resulted in another reconsideration for privatizing of JPSCo in 2001.
- ✓ A change in the regulatory position OUR 1995 (repealed the PUC Act).



SECTION 3 – PRIVATIZATION OF JPSCo IN 2001 AND BEYOND

- * The NIBJ criteria, along with the Government's objectives for privatizing JPSCo resurfaced.
- * Bidders were short-listed, and Mirant Corp was selected. Mirant obtaining 80% of ordinary shares & Govt 20% for a price of US\$201M.
- * Regulatory framework amended 2000, giving the OUR the autonomy to fix tariffs, issue and revoke licences, set performance standards, and others without reporting to the Minister.



SECTION 4 –

AN EVALUATION OF THE PERFORMANCE OF JPSCo: A Regulatory Governance Perspective

Transparency
Issues

Regulatory
Safety Net

Were Govt's
objectives met?

SECTION 4 Contd...

- * THE EFFECTS OF THE TRANSFER FROM PUBLIC TO PRIVATE OWNERSHIP: THE RESPONDENT'S PERSPECTIVE

jpsco customer * rate jpsco Crosstabulation

| | | rate jpsco | | | | | Total |
|-----------------|------------------|------------|--------|--------|-------------------|----------|-------|
| | | the same | poorer | better | needs improvement | not sure | |
| jpsco custc yes | Count | 166 | 112 | 148 | 226 | 50 | 702 |
| | % within jpsco c | 23.6% | 16.0% | 21.1% | 32.2% | 7.1% | 00.0% |
| no | Count | 11 | 36 | 8 | 18 | 9 | 82 |
| | % within jpsco c | 13.4% | 43.9% | 9.8% | 22.0% | 11.0% | 00.0% |
| Total | Count | 177 | 148 | 156 | 244 | 59 | 784 |
| | % within jpsco c | 22.6% | 18.9% | 19.9% | 31.1% | 7.5% | 00.0% |

SECTION 5 –

LESSONS LEARNT, CONCLUSION, RECOMMENDATION

LESSONS LEARNT:

If privatization occurs too quickly, this could harm policy, ignore socio-economic development and increase transaction costs.

Policy Failure in utility sometimes stems from a blurred definition between ownership and control; an over/under expansion of the sector causing bankruptcy; too much clientelism; unrealistic profit motive.

Regulation is not always in the public's interest especially it increases uncertainty cost because of complexities; and makes competition rigid, thus limiting consumer's choice. If regulation is incomplete this could foster dispute in the privatization process (non-transparency, anomaly in negotiations; and loopholes in trade policy).



SECTION 5 contd.....

CONCLUSION

Although the Neo-Classical, Neo-Liberal, and the World Bank ideologies contend that privatization results in increase in productivity, employment and efficiency. Efficiency in social welfare cannot always be achieved. The success or failure of electricity privatization is heavily dependent on the legal and political frameworks installed, as well as the transparency between the investor and the role of the state.

The Jamaican Government's objectives in privatizing JPSCo is still not altogether met, coupled with the NIBJ criteria which was also not fully realized. There should be added considerations. Namely: conduct a social cost benefit analysis; incorporate a clear definition of regulatory governance; define new economic parameters for growth; etc.

SECTION 5 contd..... CONCLUSION

IMPACT OF THE TRANSITION ON THE FOUR PLAYERS

Table 2 – Legal, Illegal and Semi Legal Access

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|------------|-----------|---------|---------------|--------------------|
| Valid | Legal | 824 | 82.4 | 88.2 | 88.2 |
| | Illegal | 50 | 5.0 | 5.4 | 93.6 |
| | semi-legal | 60 | 6.0 | 6.4 | 100.0 |
| | Total | 934 | 93.4 | 100.0 | |
| Missing | System | 66 | 6.6 | | |
| Total | | 1000 | 100.0 | | |

CONSUMER

WORKER

GOVERNMENT

INVESTOR



SECTION 5 Contd....

RECOMMENDATIONS

- * Although the arguments for divestment are based on reason of govt/market failure, government need not fail if there is proper budgetary forecasting, technical capabilities, proactive measures, competencies and transparency.
- * While the RPI-X is commendable, the $\pm Q$ should be reviewed, re JPSCo.
- * The system of a vertical integrated monopoly is not working. Consideration should be made to unbundle the sector with some control by the State.
- * Examine blackout risks by reviewing frequency, length of period & costs.
- * The % amount deducted (for illegal connec.) from legal customers should be reflected on their bills. Fine charged to culprits for illegal connec. should be increased & be redirected to legal customers' accounts & not to the court/Govt.. – because, it is the Govt/political representatives who protect garrison communities from sanctions against illegal connections.
- * Other sources of energy (solar, biomas, biogas) should be encouraged.
- * Self Regulation – citizens should police their utility activities and be cognizant of the legislations that protect their interests (eg. the guaranteed standards).