

Jamaica Public Service Company, Limited 1996

Operations Review

GENERATING FACILITIES

Net generation from the Company's plants was 1963 GWh, a decrease of 16% from the 2333 GWh generated in the previous year. Contribution of steam units to net generation was 66.4% while gas turbines contributed 16.7% and hydro plants, 1.4%.

The lower production from the Company's plants in 1995/96 reflects the increased role of private power producers in the system. Purchases from privately produced power increased from 84,805 MWh in 1994/95 to 488,439.MWh in 1995/96.

During the year another Independent Power Producer (IPP), Jamaica Energy Partners JEP), began supplying power to JPSCo. The JEP 72MW Wartsila Medium Speed Diesel barge, the Doctor Bird, located at Old Harbour Bay was commissioned into service in September 1995. Operation of the barge has augmented the supply of purchased power from Kenetech Energy Systems (KES) which has been selling power to the JPSCo since November 1994.

There was also substantial progress with the Jamaica Private Power Company's 60 MW slow speed diesel project at Rockfort which is expected to be commissioned in September 1996.

The financial year was highlighted by the Company completing its recovery from the Old Harbour explosion. The damaged unit No. 4 was restored to service.

This was significant since although the explosion occurred in June 1994, the financial effects persisted well into 1995/96.

From a position where 124 MW (22% of the then existing capacity) was lost, leaving the Company with a mere 16% reserve margin, generating capacity has been restored to the extent that a margin of 43% over the peak demand of 424 MW existed at year-end 1995/96.

At March 31, 1996, total generating capacity stood at 606 MW, comprising 492 MW of JPSCo plant and 114 MW of independent power producer units.

In fact the peak demand of 424 MW recorded in 1995/96 was a new all-time record and represented an 8% increase on the 1994/95 peak of 392 MW.

The Company's recovery from the 1994 explosion and its generation expansion strategy were therefore successfully executed during 1995/96.

Tribute of the highest order is due to the management and staff of the Company, particularly the operations, maintenance, materials support and planning staff as well as to the many suppliers of goods and services without whom the high degree of success attained would not have been possible.

PRODUCTION EFFICIENCY

The restoration of the generating reserve margin to the relatively comfortable figure of 43% has afforded the Company two "luxuries" which it has not enjoyed for a long time. Firstly it has allowed room for implementing technological upgrades to some of its generating units and secondly it has facilitated scheduled maintenance of other units.

During the year, we were able to revert to our original retirement schedule rather than continuing to use old and inefficient units to make up the reserve margin thus yielding significant savings in fuel, maintenance and staff costs. Furthermore, with such a relatively comfortable reserve margin, the Company can now schedule routine maintenance of its units in a more orderly fashion. This will yield a pay-off in the near term via the reduction in forced outages as units are maintained on a more preventative basis.

With this approach, a number of programmes focussing on different aspects of plant efficiency and reliability have been established.

Broadly grouped these programmes are aimed at:

- . raising the performance of individual plants through a combination of major rehabilitation and technological upgrade; and
- . optimizing the dispatch and operation of available units.

Implementation of these programmes in 1995/96 were reflected in the following projects:

- . Life extension of the turbine on Old Harbour No.4 to match the fact that a new boiler was installed in the course of its restoration.
- . Technological upgrade of Gas Turbines No. 3 and 5 which resulted in the restoration of their design capacities and improved heat rates.
- . Overhaul of Old Harbour Unit No. 1 resulting in heat rate improvement and fuel savings.

Overall, the heat rate for the Company-owned plants improved in 1995/96 over 1994/95, moving down from 14.255kJ/kWh to 14,085 kJ/kWh.

FINANCIAL MANAGEMENT

The Company's financial performance, particularly since 1994/95, when a significant downturn in its profitability occurred, must be viewed against the background of rising inflation in the economy and the inadequacy of the current electricity rates to recover costs.

For the second consecutive year our application for a tariff increase was denied. The adverse effects of the 1994 explosion continued to be felt during the year in the form of higher fuel and maintenance costs. The Company's cash flow was also affected by the initial delays in receiving the proceeds of its insurance claim from the explosion. In fact, to expedite the generation plant capacity recovery process the Company had to expend its own funds in anticipation of collections from the insurers as well as secure some interim financing.

JPSCo's improved financial performance under these adverse conditions reflects the sound financial management carried out by the Company.

The improvement in performance was achieved through strict cost control combined with innovative strategies for managing exchange and interest rate risks. The Company's actions effectively lowered the cost of short term credit during 1995/96 from an average of 9.1% to around 8%.

Through competitive tendering for fuel the Company was able to obtain significant savings which contributed to the control of costs.

Although there was no tariff increase, the Company's revenues grew by 29%, a combination of increased sales and the automatic 75% compensation in the tariff via the foreign exchange adjustment mechanism. Notwithstanding the impact of inflation, operating costs were contained at the same level of increase as revenues. It was through exercising rigorous cost containment measures and improved efficiency that we were able to realize 17% increase in net operating profits.

Long term debt rose to \$8.3 billion, up 16% from 1994/95.

Despite the increase in debt, the level of debt to equity fell by four percentage points to 45%. Net fixed assets amounted to \$24.9 billion as recorded at March 1996. This reflects a 23% increase over the level recorded at March of the preceding year.

During the year the company was also commended by one of its multilateral creditors for the high standard of its project accounting, citing JPSCo's performance in this regard as the best of all its loan recipients in Jamaica.

We also have in place a Project Control Services Department mandated to monitor major capital projects, a function which minimizes cost overruns and ensures implementation schedules are closely followed.

INFORMATION SYSTEMS

Upgrading of the Company's technological capability is critical to attaining improved internal management and customer service.

We have, therefore, developed a Strategic Information System Plan (SISP) a five-year development programme, addressing all major corporate systems - customer service, financial management, systems records and mapping, materials management, stock/inventory control, system control operations, network management, human resources, electricity pricing together with the hardware, software and data communication requirements of the Company.

The implementation of the SISP began three years ago with work on installation of a new Customer Information System (CIS) and General Ledger System (GL) as a matter of priority. Installation of the new GL system which features state-of-the-art on-line information technology was completed and put into operation in June 1995.

Significant progress was made with the installation of the CIS which will provide a number of improvements in customer service. The CIS will be supported by a wide-area network which will connect locations islandwide. The CIS will provide improved services such as reduced turn-around time in processing contracts, automated follow-up procedures for customer information and on-line access to customer contact information.

CUSTOMER SERVICE

Our motto "We Do Care" is taken very seriously by JPSCo. In keeping with this spirit, the Company does everything possible to meet its customers' needs while seeking to improve the quality of the service.

The Company took significant steps to maintain its customer focus during 1995/96.

In the drive to facilitate ease of payment of bills by customers, the Company joined with Island Victoria Bank to develop a new payment vehicle under the Power Link programme. IVB customers can now sign up to have their electricity bills automatically paid via their credit card accounts. This is a landmark payment facilitation scheme and the Company will be seeking to expand this collections vehicle by bringing other banks on board.

During the year certain changes in the customer service organization were implemented aimed at achieving greater efficiency. Emergency dispatch centres were consolidated on a regional basis, resulting in the reduction of the number of such centres from 14 to 5. There has been a consequent improvement in the Company's response time to emergency calls. The 1995/96 figures indicate that we are well on the way to the ultimate target of 90%. Eighty-five per cent (85%) of the calls were dealt with within 6 hours, up from 72% in 1994/95.

For 1995/96, perhaps the greatest customer service challenge faced by the Company was coping with the growth in customers. To have successfully met this challenge in the face of financial constraints is a cogent testimony to the quality of the Company's Customer Service Staff and its striving to live up to our motto.

The number of customers increased from 371,755 to 390,367 or growth of approximately 5%. Growth in electricity sales was even higher at 8%, rising from 1,890 GWh to 2.037 GWh

LOSS REDUCTION

A major effort in JPSCo's efficient improvement strategy is the reduction of system losses - technical and non-technical. For the year, the Company set a target for losses not to exceed 17.5%; the ultimate goal being 13%.

In support of this target, implementation of a number of projects aimed at reducing the technical losses continued.

The main project to lower technical losses is the Voltage Standardization Programme. During the year another 486 circuit-kilometers of primary distribution lines were upgraded to 24,000 volts.

The Revenue Protection Department which targets non-technical losses due to illegal extraction of power continued to step up their activities. In 1995/96, some 37,000 locations were visited and 10,000 cases of irregularities were uncovered. A total of 1,200 arrests were made as a result of these activities. In addition, a special collections drive led to the detection of 2,500 accounts with irregularities and the collection of over \$25 million.

TRANSMISSION

JPSCo's overall objective is to provide and maintain reliable supply of electricity throughout its transmission system and permit economic and adequate evacuation of power from generating sources.

In 1995/96, 47 major transmission projects were implemented of which 27 were completed for a total expenditure of \$535 million. The majority of these were aimed at providing for evacuation of power from new generating projects or improving service reliability in high growth areas of the island.

One of these, the Rockfort Power Evacuation project involves the expansion of the transmission delivery system to accommodate the additional power from the 60 MW private power plant being installed at Rockfort. The other, the Old Harbour Evacuation project will enable greater load carrying capacity as a result of the 72MW private power barge added to the system at Old Harbour Bay.

Improvement of service reliability continued to focus on the western and northern parishes. This involved extensions to the system to accommodate the rapidly growing demand in those sections of the island.

Expansion of the Bogue and Queens Drive substations and construction of interconnecting transmission lines were completed and should be commissioned shortly. The Paradise to Orange Bay project which involves the construction of 31km of lines, a new substation at Orange Bay as well as expansion of the Paradise substation was completed.

Another project will see the construction of a new substation at Ocho Rios, expansion of the substation at Roaring River and construction of 8 km of interconnecting transmission lines.

DEMAND SIDE MANAGEMENT (DSM)

Since 1993/94 the Company has been promoting a demonstration project through its DSM Department. During 1995/96 the Department continued the implementation of its demonstration project with the launch of Phase II of the Residential Programme.

Over the next three years 30,000 households will be randomly selected to receive energy efficient devices and equipment at discounted market prices. Phase II implementation follows the successful completion of Phase I which benefitted 100 households. The results from the phase were encouraging, with annual energy savings estimated at 58,000 kWh. This was worth over \$270,000 to householders at current energy rates.

The Company also led by example in retro-fitting its own Head Office building with energy, efficient devices. This project will serve to demonstrate to owners of commercial buildings islandwide, the potential for reducing electricity costs through energy conservation. The DSM demonstration project has a specific component to address the needs of commercial building customers.

ENVIRONMENT

JPSCo has now developed a solid record for responsible performance regarding the environment, which is in keeping with the Company's pledge to Promote the use of Energy in Harmony with the Environment.

The Environmental Management Department which has been in existence since 1993 has positioned the Company as a leader in the protection and conservation of the Jamaican environment.

One of the Company's crowning achievements for the year was the receipt of the Deloitte Touche Tohmatsu Award for Environmental Protection awarded by the Jamaica Chamber of Commerce. In addition, the World Bank supervision mission which visited Jamaica in January 1996, issued commendations to the Company on its environmental mitigation programme at the Hunts Bay Power Station.

The Company's environmental programme impact all aspects of its operations ranging from the design and construction of generation plants, transmission and distribution its facilities, the monitoring of ambient air quality, to the control of effluent.

During the year, the Company completed and commissioned the Paradise to Orange Bay transmission line. The routing and construction of the line was conducted according to the most modern standards for environmental protection which seek to preserve flora and fauna in their original habitat. The ultimate goal of preserving the natural environment is as close to original condition as technically possible and financially feasible will be the standard for all such construction in the future.

One of the more ambitious programmes launched during the year was the drive to eliminate PCB (poly chlorinated biphenyl) containing material from the system. A survey of material and equipment used through the Company was completed and the withdrawal of equipment containing more than 50 parts per million of PCB was commenced. The next phase of the programme is the shipment of PCB laden cargoes from Jamaica to France for safe disposal. The Company's new technical standards also specify PCB free-equipment for the future.

HUMAN RESOURCES

One of the factors which contributed to the successes during the year under review is the calibre of the JPSCo staff. It is the quality of this staff that has positioned the Company as a leader in the economy, not merely in the utilities, but in several other spheres.

The Company recognizes the value of its human assets and invests a considerable portion of resources on their continued development.

The Organizational Development Department leads the efforts in this regard by designing and/or procuring training programmes to address the mutual needs of the staff and the Company.

During 1995/96 some 1,400 trading opportunities were provided to the staff in a wide range of technical and non-technical areas.

The identification of training needs is a function integrated into the Company's Performance Appraisal Scheme which also supports a merit based bonus payment plan.

JPSCo also seeks to foster the academic and professional development of its staff through the Educational Assistance Programme. This offers opportunities for staff members to attend tertiary institutions to upgrade their qualifications.

The Company manages to keep the major portion of these benefits because of the low staff turnover rates which it enjoys. During the year, a survey of employees attitude towards the Company as an employer was conducted. The results revealed that an overwhelming majority of employees regarded JPSCo as a good Company to work for.

The Company's own analysis of data published by the Jamaica Employers' Federation also revealed that the Company's employees are among the best-compensated worker groups in the nation.

JPSCo also strives to provide a safe working environment for its employees. This is part of the Company's mission statement and is regarded with equal importance to the main mission of providing electricity services to customers. During the year the Company recruited a Manager for Safety to restore the Safety Department to its full prominence.

PLANNING

The process of privatizing the Company which was embarked on in 1995 has had significant impact on its planning and strategic outlook.

Our initial response to privatization was an investment proposal in the form of a ten-year Business Plan (1996-2005). In it we submitted plans for operating the company along true private sector lines while remaining under existing ownership. It outlined the various strategic issues, the implementation strategies and the associated resource requirements based on assumptions underlying the economic outlook over the period as well as financing strategies necessary for the Plan to work.

The impending privatization of the company has necessarily influenced our long term strategy and shortened our planning horizon. Until the privatization process is completed, we will continue to operate with the objective of providing a reliable supply of electricity as efficiently as possible.

ELECTRICITY PRICING

JPSCo is committed to providing reliable service at the lowest economic costs. It is of utmost importance to us that our rates remain competitive in order to attract foreign investment, encourage expansion of domestic industries and make the prices of our goods and services internationally competitive.

Electricity rates have not been increased since December 1991. In fact, consumers benefitted from a decrease in overall rates and the fuel rate component of the tariff in October 1992 and in August 1993 respectively.

The cost of electricity is the function of many factors including the cost of inputs, type of fuel, indigenous fuel resources, economies of scale among other things. All things considered, our rates are among the lowest in relation to other Caribbean countries. A comparative look at our rates in comparison with Caribbean and Latin American countries is taken elsewhere in this Report.

Our tariff is based on cost of service principles and all our operating and maintenance expenses are met from revenues obtained through the rates. As part of our customer orientation, we are undertaking studies to refine our tariff structure so as to ensure that it is appropriately designed to facilitate the recovery of costs for providing energy and capacity to each customer category.

Providing a reliable and adequate supply of electricity in an economy troubled with high inflation while maintaining stable rates has only been possible through successful management of internal costs, implementation of innovative cost containment measures and the competence and dedication of a highly skilled work force.

Nevertheless, the extent to which internal costs can be contained is limited because of external factors beyond our control. We have been unsuccessful in obtaining rate increases in the last two years. Bearing in mind the need to facilitate the country's growth and productivity, we believe that the proposed increases were not of the order to constrain economic development.

THE FUTURE

We have effectively laid the foundation for developing the Company into a world class provider of electricity.

The many projects in the pipeline are aimed at meeting expected demand and providing improved system reliability to facilitate the provision of energy to enhance economic growth and encourage investment.

With privatization of the energy sector, the Company will be required to operate according to the regulatory standards of the Office of Utility Regulation (OUR) which is being established. The OUR will impact on the provision of electricity via three broad areas of regulation - economic, technical and customer service.

The trend towards lower internal output and higher reliance on private sector generation is likely to continue as more Independent Power Producers (IPPs) enter the market. More involvement in cogeneration projects will be pursued as an attractive alternative to generation expansion leaving the company to focus and concentrate its resources on improving and expanding its transmission and distribution systems.

Current electricity prices are inadequate to meet revenue requirements to fund operations, service debt, contribute to capital expenditure and provide a moderate profit margin. A rate increase in the near future is therefore inevitable. Notwithstanding this in the coming year the Board of Directors and Management of the Company will be focusing relentlessly on further improvements in all areas of the Company's operation in an effort to enhance its profitability.

ACKNOWLEDGEMENT AND APPRECIATION

The year saw the retirement of Mr. Earl Richards as Chairman of the Board of Directors and the departure of a number of other members from the Board through resignation or as a result of the conclusion of their terms of office. On behalf of the management and staff, I thank them for their leadership and commitment during their years of service and wish them the very best for the future.

On behalf of the present Board, I take this opportunity to thank the Management and staff for their invaluable support and hard work throughout the year which have enabled the Company to maintain its mission.

I especially appreciate the efforts of the staff considering they worked so assiduously under circumstances marked by uncertainty and anxiety that always accompany changes such as those expected from an occurrence as significant as privatization.

Gordon Shirley

Chairman of the Board
