

Electricity Not the Biggest Threat to Local Businesses - JPS empathizes with community

The Jamaica Public Service Co. Ltd., has noted with concern, the challenges of the business community, as it pertains to the cost of electricity and its impact on business operations. While JPS is in total sympathy with fellow operators of commercial enterprises, the Company wishes to state that Jamaica is impacted by both international and local circumstances. Let us examine these in order to make a fair assessment of what is truly the biggest threat to us all.

The big picture - the international environment

Since the latter part of 2007 to the present time, we have been experiencing the sharp and far-reaching effects of a global recession. Even the biggest economies (like the United States of America), as well as emerging markets, have felt the effects of this worldwide phenomenon.

Of great relevance to us, is the fact that the global recession resulted in skyrocketing food prices; escalating fuel costs; and a shrinking job market. According to an article entitled "USAID Responds to Global Food Crisis," dated May 22, 2009 - taken from the agency's website - "Overall, increased food prices particularly affect developing countries, and the poorest people within those countries, where populations spend a larger proportional share of income on basic food commodities". In fact, the International Monetary Fund notes that between 2007 and 2008 global food prices increased an average of 43%. While the US Department of Agriculture noted that basic products like wheat spiked by as much as 146%, soybean by 71% and corn by 41%. Imagine then the knock-on effect on bread, animal food, and consequently meat and dairy products.

This of course means that the disposable income of populations across the world and in particular developing nations has shrunk - leaving less money to purchase consumer goods and services.

Add to that the significant job loss prevailing in countries where our diaspora are present, which has translated to reduced remittances to our country - again impacting the disposable income of some members of our citizenry.

Escalating fuel costs have also been affecting the global population - and not just in the cost of electricity. We feel it at the gas pumps - but not there alone - it works its way into the already rising food costs, through increased manufacturing, packaging and transportation costs.

The local picture - closer home

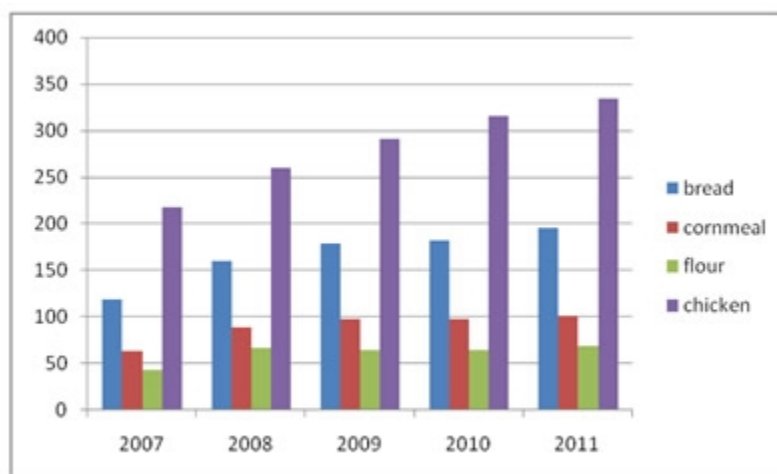
Then we have our own set of circumstances at home to consider, against this international backdrop. These include inflation, increased taxes, increased general living expenses and high shop rental costs.

An overview by the Planning Institute of Jamaica, on the country's economic performance in 2010, says: "The point-to-point inflation was 11.7%, largely reflecting the impact of global and domestic impetus... Domestic influences included:

- a new tax package implemented on January 1, 2010, which resulted in a 1.0 percentage point increase in the GCT rate as well as the application of a 10 % GCT charged to residential users with electricity consumption above 200 kilowatt hours per month.
- increased bus and taxi fare;
- the impact of weather-related shocks on food prices."

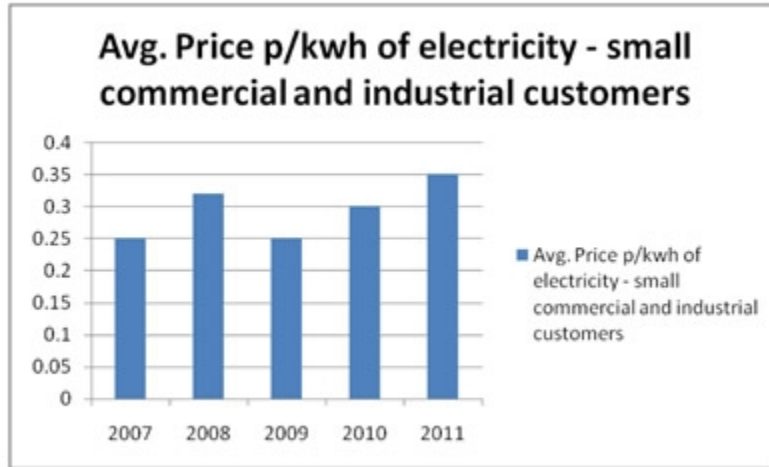
The PIOJ's overview of the Wholesale and retail trade is also useful. The industry declined by 2% and accounted for 18.9% of overall GDP in 2010. The lower value added was a result of contractions in domestic demand, associated with the prolonged effects of the global economic recession on the Jamaican economy. There was a decline in purchasing power associated with decreased average employment levels, a real decline in remittance inflows and a real reduction in the stock of loans and advances for private consumption... Additionally, distributors encountered higher operational costs and taxes. The contraction of the industry was stymied by an increase in merchandise goods imports."

Shop rental prices are no less a concern. In the Kingston Metropolitan area, shop rental space can be seen advertised for a modest \$30,000 for relatively small shop space (roughly 200 sq. ft.) to rentals of \$200,000 for 1,200 sq. ft.



Price increases of basic items (J\$) since 2001, which have impacted on consumers' disposable income.

This clearly speaks for itself. Jamaicans have less purchasing power because of international shocks and local factors, including job loss, increased taxation and general increase in cost of living. This means they have less resources to support local businesses. At the same time, JPS would not for a moment attempt to claim that rising electricity costs have not impacted businesses. Regrettably, they have - as seen in the chart below which shows the movement of electricity costs for small commercial and industrial customers. But to claim that they are the biggest threat to businesses in Jamaica is simply not true.



Price increase of electricity (US\$) for small commercial and industrial customers as a result of the rise in global fuel costs.

The most recent survey from the Jamaica Manufacturers' Association (JMA), entitled "Hidden Cost Survey", for March 2009, carried out by Focal Point Consulting Ltd., notes that JMA members have identified the primary drivers of "hidden costs" as follows:

Systemic Criminal Violence

Corruption/Can't do Bureaucracy

Poor Utility Services

Lack of "Joined-up" Government

User Fees, Permits and Taxation Policy

Workforce Education and Training

How JPS tries to help

Given the challenges of our circumstances, JPS stands ready to help its commercial

customers. We do this in several ways. First, we are always ready to listen and assist by discussing possible payment arrangements to help our customers in difficult situations.

Additionally, the Company carries out - or directs customers as to how they can have an energy audit of their enterprise conducted. This is quite helpful, as it can lead to more efficient use of energy. Furthermore, JPS through its corporate social responsibility programme has sponsored activities for several business groups in the country.

On the technical side, JPS has been improving its operational efficiency each year. As such, customers benefit from a real rate reduction of 2.72% each year in the non-fuel price of electricity, as recently handed down in July 2011. Unfortunately, this tends to be over shadowed by the significant increases in oil prices.

Also, we are proud to say we have reduced the electricity theft from an estimated 13% in 2010 down to 11.7% in 2011. This is the result of committing \$3 billion dollars in resources over the last year and mobilizing a team of over 500 persons between full time dedicated staff, security force personnel and contractors. We are prepared to do this every year for the next 4 years with a view to reducing electricity theft down to 6%.

But the single most important thing that can be done to help reduce the cost of electricity is to build newer more efficient power plants and diversify away from oil-fired generation units.

That's why today, JPS stands ready, once approval is granted, to build a 360 MW natural gas-fired power plant (if natural gas is the energy choice of the Government of Jamaica). The investment will cost in excess of \$50 Billion but has the potential to reduce the overall cost of electricity by 30%.

Even so, it is the Company's hope, along with all Jamaica, that not only will fuel prices descend from their all time high, but that the anticipated growth of the economy by roughly 1.5% will materialize.