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NotiCen

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The Dominican Republic has been suffering an electricity shortage that now threatens, implied second-term President Leonel Fernandez (see *NotiCen*, 2004-05-20), to bring his government down. Blackouts have become a way of life in the country, so much so that the problem was incorporated into Fernandez's inauguration speech last Aug. 16, when he spoke of seeking private bank loans to shore up the failing power-generating and distribution system.

The Superintendencia de Electricidad reported in September that the system produces less than half the country's demand. Several plants were out of service for lack of fuel, while others functioned at a fraction of capacity. Blackouts of as long as 20 consecutive hours were experienced as aging machinery labored to crank out 600 megawatts against a demand of 1,635 MW per hour.

A presidential spokesperson called it a "critical situation," mentioning a US-owned plant, AES, which usually supplies 300 MW, but has reduced its output to 70 MW. AES has since sold off half its ownership in the Empresa Distribuidora del Este (Edeeste). Small businesses have failed, and unemployment has increased as factories and other work sites that do not have their own generators have closed. The grid was also severely damaged by Hurricane Jeanne, which left many population centers without power.

Post-privatization shuffle

The AES sell-off is just the latest in a string of deals involving several foreign companies repositioning themselves in the Dominican market. AES owns several generating plants in the country, including AES Los Mina, with a 210 MW capacity, and AES Andres, with 304 MW, and a 25% interest in Itabo, with 433 MW. The Edeeste sale was first announced in January, after the company rang up a fourth-quarter loss in 2003. The sale, to TCW, a California company and general partner of Dominican Energy Holdings LP, does not take AES out of Edeeste. AES will continue to operate the plant under contract to the new owners.

"We will continue with this company as well as with our business of generation in the country," said Julian Nebreda, president of AES Dominicana. He said the company would honor its commitment to "help resolve the electricity crisis in the Dominican Republic."

The AES sale followed the September sale by Union Fenosa, a Spanish company, of its 50% stake in Edenorte and Edesur to Corporacion Dominicana de Empresas Electricas Estatales (CDEEE). Conjuring an image of ouroboros morphing to mobius, CDEEE was privatized in 1999 when Edenorte and Edesur, subsidiaries of Union Fenosa and AES, bought it from the first Leonel Fernandez government (1996-2000). Since privatization, service has deteriorated, consumer prices have risen considerably, and Fernandez's Technical Secretary Temistocles Montas says ratepayers could look forward to another increase of 30%.

Government must pay

The government, meanwhile, struggles on to come up with money to pay the coming year's energy bill. Fernandez, saying, "it will be a difficult year in everything having to do with electricity," added that he is working on an emergency plan to reduce a projected US$600 million shortfall for the sector to only US$200 million. He has received a little help from an improved fiscal picture that has seen a rise in the value of the peso against the dollar and a small (2%) growth forecast for 2005. The rise in the peso, he warned, cannot be counted on to bail the country out, however, "because that is not done by decree nor by will, but by what the market decides."

To augment electricity production for the longer term, Fernandez presided last month over the beginning of construction of a US$131 million hydroelectric project, Hidroelectrica Pinalto on the Rio Tireo. For immediate needs, Superintendente de Electricidad Francisco Mendez said that generation had begun to improve in December as the government has begun to pump US$30 million a month into the hands of distributors to pay the generators to produce more.

Fernandez told financiers in New York at a William J. Clinton Foundation symposium on energy policy that improvement in the energy sector is a "critical priority" and that it could soon turn into a "social threat."

"For us," Fernandez said, "resolving the energy problem is critical, because for many people it is becoming a problem of survival. The persistent lack of electricity can become a social threat in a situation of instability, that can make governments fall."

Fernandez told the financiers, among whom was James Wolfensohn, president of the World Bank, that the problem was not one of capacity, but rather of financing and lack of investment. He said he has pressed the companies to repair infrastructure to minimize technical losses, in which electricity just bleeds out of the system and never reaches consumers. Another source of loss is illegal connection, where consumers hook up to the grid at the nearest pole, creating hotwire jungles and sucking away power from the grid. He has asked the distribution companies to crack down on the practice and make sure that users pay

Power to the people

That citizens steal electricity, however, was not Fernandez's main concern. He was more concerned that these same people might, in their discontent, destabilize his government. He said his policy now must be based on meeting power needs in the short term to avoid "discontent and disillusion among the population." To that end, he has sealed a deal with Venezuela to finance oil imports.

Fernandez got the support and attention of Wolfensohn. Speaking at the same event where Fernandez made his remarks, the World Bank chief emphasized meeting energy needs as crucial to growth in developing countries. "Without energy, there can't be growth, nor development, nor improvement in labor conditions. There can't even be emancipation of women, if in the home there is no electricity," said the banker.

More important, Wolfensohn put the bank's money behind his rhetoric. Following the symposium, Fernandez met with the banker for 45 minutes, and, soon after that, Francisco Mendez, back in Santo Domingo, announced that the World Bank would finance US$150 million in improvements to the electrical-distribution system through an action plan that had already been negotiated between the government's energy cabinet, the World Bank, and the US Agency for International Development (USAID).

Mendez said all the money would be invested in the electrical sector, according to mechanisms contained in a government-prepared sustainability plan completed in August. The plan, to go into effect in 2005, aims at stabilizing electricity production and distribution with a revision of a Programa de Reduccion de Apagones (PRA), reallocation of tariffs and energy subsidies in the barrios, and a campaign to get people to pay for electricity and reduce fraud. In return for paying up, Mendez cast doubt on Montes' prediction of a 30% increase, saying the WB financing, together with the peso's strength, could hold tariffs stable through 2005. He called upon the population to go along with distributor's efforts to collect on electrical bills as part of the overall plan to cut losses and improve the shortfall by midyear.

With financing now in place, the plan awaits only approval from the International Monetary Fund (IMF) for implementation.

[Sources: Spanish news service EFE, 09/21/04, 11/16/04; Listin Diario (Dominican Republic), 11/17/04, 11/18/04, 11/23/04, 12/07/04]