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How Should the Dominican Republic Improve its Power Sector?

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Q and A: How Should the Dominican Republic Improve its Power Sector?

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Dominican President Leonel Fernández on Oct. 11 inaugurated the largest wind energy farms ever built in the Caribbean nation. The Los Cocos and Quilvio Cabrera farms, which cost some $100 million, will save the country the cost of annual imports of 200,000 barrels of oil, the government said. However, critics say the 33 megawatts that the facilities will inject into to the national grid will do little to address its 600 megawatt "energy deficit," and that the blackouts and other inefficiencies that have plagued the country's electricity grid will not be resolved by the wind farms alone. Is the Dominican Republic on the right track to improve its electricity system, and if not, what else should be done? What are the most financially responsible long-term options? Will the country's continued electricity shortages and disputes over energy policies play a big role in the race leading up to the May 2012 presidential election?

A: Jeremy Martin, director of the energy program at the Institute of the Americas:

"Energy is a vital, but complicated, cog in the Dominican Republic's economy. Given the long-standing issues surrounding the sector, there is a need for bold, political action. Indeed, energy should figure prominently across the candidates' platforms and as the campaign unfolds. The good news is that the next president will be able to build upon recent progress made. An increasing level of candor and realistic approaches from government officials has yielded important changes in rhetoric. Talk of creating a culture of payment across all facets of the nation has been coupled with efforts to reverse years of inattention to system losses and lack of payment of electric bills. And the twin wind farms inaugurated last week mark a key milestone in the push to diversify the nation's energy matrix. Huge strides have also been made with regard to natural gas. In just over 10 years, it has come to represent one-third of the nation's energy matrix, which experts say equates to annual power sector savings of roughly $600 million. Power savings are critical as they underscore a fundamental challenge for energy in the Dominican Republic: the subsidy price tag. Continuing to confront the reasons for unsustainable energy subsidies—budgeted at $350 million this year—must top the list of the next government's energy policy priorities. Further steps toward reducing subsidies and fostering citizen responsibility, both in terms of electric payments and in terms of energy consumption, must be taken. Consolidating the advances made to date will have a hugely positive impact on both the energy sector and the national treasury. But, as evidenced by this year's still too-high price tag, more must be done at all levels."

A: Jesus Tejeda, regional energy specialist at the Inter-American Development Bank:

"Today's deficit in the Dominican Republic's electricity sector could be explained by two factors intertwined in a vicious cycle: the level of electricity losses and the quality of service. Both factors result in customer dissatisfaction, high cost of electricity, inadequate subsidies and finally, a permanent energy deficit. On the side of electricity losses, there are different causes: electricity theft, inadequate infrastructure and inefficient operation of the system. In 2010, one of every seven kilowatt hours produced dissipated in the form of heat before being delivered to the consumer, also contributing to global warming. Similarly, one of every three kWh was lost during the commercialization of the electricity. The recent investments in the sector are aimed at addressing these issues through the rehabilitation of existing distribution network and the implementation of necessary policy sector reforms. In the short-term, it is expected that these investments will contribute to improving the efficient operation and sustainability of the utilities, thereby reducing the deficit in the sector. Additional power generation is necessary to help cover the growing demand but this should be catalyzed, in part, as a result of improvements in the service. In order to mitigate the impact associated with fossil fuel dependence and the cost of electricity, the Dominican Republic is moving in the right direction through diversification of its energy generation matrix by tapping into its natural resources: hydro, wind and solar. Both of these efforts, investments in efficient operation of the utilities and investments in additional installed capacity using low carbon technologies should pay off in the recovery of the sector in the next years."

A: Mark Konold, project manager of the Energy & Climate Program at Worldwatch Institute:

"Yes, the Dominican Republic is on the right track. In addition to Los Cocos and Quilvio Cabrera, the IDB recently agreed to help fund two additional wind parks which will bring another 80.6 MW online. Each project will include a 138 kV transmission line to increase grid stability and in August, a 345 kV transmission line was introduced to the grid, the first of its kind, to help service the country's highest load centers and prepare for additional capacity, including that of renewables. What's more, the government recently cleared net metering legislation and prepared a climate-compatible development plan with a 2030 horizon. Regarding responsible long-term finance options,Worldwatch suggests in its upcoming Sustainable Energy Roadmap that the Dominican Republic should find ways to better-execute its Law 57-07, which sets a strong foundation for renewable energy development. Our research shows that the administrative process for obtaining tax credits and exemptions under the law can be cumbersome. Streamlining it will go a long way toward investors taking full advantage of the law's incentives. Another sound move would be to adjust the feed-in tariff established in Law 57-07 that has not yet been fully implemented. Grid operators and distribution companies agree the price is too high and that lowering it will increase renewable energy development and reduce long-term uncertainty. As for the upcoming elections, Worldwatch believes the electricity situation will play an important role. However, we also feel that the positions of the two main parties, with respect to electricity, are quite similar and that both are serious about addressing the related challenges."

A: Elena Viyella de Paliza, president of Inter-Química in Santo Domingo and a board member of the Inter-American Dialogue:

"The state-owned electricity company Corporación Dominicana de Empresas Eléctricas Estatales (CDEEE), under the leadership of Celso Marranzini, is actively focused on addressing collections improvement and the energy deficit. Renewable projects help, but the country still needs base energy to supply its deficit. Significant investment in efficient, reliable power generation is required if we are to address this deficit. However, it is not only about the existing deficit, but also about the upcoming requirements in the coming years. We are on the right track. Blackouts have been consistently diminishing in numbers and frequency as collections improve and many more areas are today 24- hour circuits, which means there are no blackouts in those areas. The recently commissioned 345kV North-South bound transmission line has brought stability to the transmission system, but more investments in the distribution network are also required. A major improvement will be in Los Alcarrizos, a well-populated area in the outskirts of Santo Domingo, where the whole distribution network is being upgraded to a strong, well-protected and reliable distribution network, and where visible improvements in collections are already there. The most financially responsible long-term options are therefore to negotiate competitive power purchase agreements that can secure the construction of new power plants to supply the existing deficit and prepare for a bidding process to further develop more power plants that could be commissioned and should be ready to do so as the Madrid Accord and its related power purchasing agreements expire in the next three to five years. In the race leading up to the presidential election, we are focused on continuity; specifically, keeping the same administration for the sector, so we can continue to implement the plan to improve and maintain solid basic fundamentals for the sustainable real solution to the problem."

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*