



January 28, 2009

Dear Editor,

On January 14, 2009, CUC, together with the Electricity Regulatory Authority (ERA) announced the Customer Owned Renewable Energy (CORE) programme under which customers with an interest in generation from renewable sources such as solar (photovoltaics) or wind could do so while remaining connected to CUC's transmission and distribution grid. There have been various articles and letters in the media related to this announcement that, in my opinion, unfairly judged the intent of the programme and have relied on an inaccurate assessment of the facts in their analysis. I would therefore like to correct some important misconceptions about the intent of the CORE programme and the relative cost of renewable energy sources as a component of reliable electricity service in Grand Cayman.

One of the assertions made is that CUC aims to profit on the backs of the CORE customers by buying their energy at a low cost and selling to other customers at a higher cost. The difference between the variable credit rate that CUC will give to the CORE customer and CUC's selling rate is to cover the cost of CUC's poles, wires and generators which have to remain in place to meet the electricity demand of all customers, including the CORE customer for the hours that he or she is not able to self generate. The fixed costs of these facilities do not go away. As CUC will compensate the CORE customers for all of the savings he or she generates, I fail to see how it can be interpreted that CUC is profiting from the CORE agreement. Moreover, to give the CORE customer greater credit would shift an inequitable portion of fixed costs over to the non-generating customers while the CORE customer continues to enjoy the reliability of the CUC system free of cost.

Another assertion is that net metering is fair to all. While many jurisdictions in North America and elsewhere do provide such incentives through mechanisms such as net metering, it must be recognized that these are financed either through allocated tax dollars or by rate rebalancing, that is, passing additional fixed costs to non-generating customers as mentioned above. Net metering could therefore be considered unfair to those who do not generate electricity using renewable means if they are required to pay higher rates to subsidise renewable generators.

Valid questions have been raised on the size restriction and we understand that there are potential CORE customers with generators greater than 10 kiloWatts (kW) who may be affected by this restriction. The 10 kW was considered to be sufficiently large for residential application given that a home with a peak demand of 10 kW typically consumes approximately 4,500 kiloWatt-hours (kWh) per month which is four



times the average residential consumption level. Notwithstanding this, we are currently reviewing the size limit with the view of including only the restriction to the size of the residential customer's peak load.

The fact is that renewable energy is presently significantly more expensive on a per kWh basis than conventional sources and requires a subsidy to be financially viable. This CORE programme is not intended to provide a financial incentive to those who choose to install and connect renewable generation sources; it is intended to introduce the ability for CORE customers to interconnect their renewable generators to CUC's grid for a reliable energy source, on a cost and revenue neutral basis to CUC.

If the cost of renewable energy continues to decline and the cost of conventional sources such as diesel rise beyond the levels experienced last summer, renewable sources may indeed become financially viable without subsidy. Until such time, if we are to adopt renewable sources for the environmental benefit only, customers would pay a premium. Such a decision to provide energy from more expensive energy sources cannot be taken by CUC on behalf of consumers; it must be directed by Government policy which CUC would implement subject to the approval of the ERA.

In closing, it was certainly not our intention for the CORE programme to evoke negative responses from some customers. We intended that the introduction of CORE would be a positive first small step to enable the adoption of renewable energy sources. Although, the negative response is disappointing, we are not discouraged and wish to work with those who are interested to advance the cause of utilizing renewable energy sources in Grand Cayman. While encouraging such pioneers, we cannot lose focus on the interests of the vast majority of our customers that do not own renewable energy generation.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard Hew', is written over a white background.

Richard Hew
President and CEO
Caribbean Utilities Company, Ltd.

