



# HM GOVERNMENT OF GIBRALTAR

## PRESS OFFICE

No.6 Convent Place

Gibraltar

Tel:20070071; Fax: 20043057

## PRESS RELEASE

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### **Government Committed to Security of Electricity Supply**

- Ministerial Committee on Power Generation includes Minister for the Environment.
- work continues on seeking best options for Gib for today and for future generations.

The Government's decision not to proceed with the ETDE / Volker Stevin Joint Venture proposal for the new power station at Lathbury Barracks is based on a number of factors, the principal one of which is the escalated costs which had risen from an initial estimate of £114 to €148m<sup>1</sup> excluding external civil engineering infrastructure work which have been assigned to done under other projects. This would therefore have been the largest capital infrastructure project in Gibraltar's history.

The costs of the works had increased as a result of the delays experienced in securing funding, the judicial review arising from the Clifftops noise issue and the increasing cost of materials. Moreover, the financing available and agreed by the GSD administration required increases of 5% per year in the cost of electricity charged to the consumer for a period of at least 18 years.

The decision has been taken by a Ministerial Committee on Power Generation constituted by the Chief Minister, Hon Fabian Picardo, and involving the Minister for the Environment and Health, Hon John Cortes, the Minister for the Utilities, Hon Steven Linares and the Minister for Enterprise, Hon Joe Bossano. The committee was advised by the Chief Secretary, the Chief Technical Officer, the Financial Secretary, and officials from the Gibraltar Electricity Authority.

The Government nonetheless remains committed to the establishment of a new power station for Gibraltar, using Best Available Technology principles in order to minimise the impact on the environment and it continues to be committed to closing the existing three diesel power stations which are over the years have been surrounded by residential areas.

The works to upgrade Gibraltar's electricity distribution network, which are essential works to improve the resilience of the electrical supplies to the consumers, will continue.

The other considerations leading the Government to make the decision not to proceed alongside the main costs issue, included:

1. the type of technology chosen for the engines. In the tender issued by the previous GSD administration, the engines sought were designed exclusively as diesel engines. The new Government believes that, given the level of investment that is required for electricity generation and that the estimate life of the engines bought will be in excess of 30 years, that there is a need to ensure that the technology chosen is sufficiently flexible to be able to adapt emerging sustainable technologies whilst at same time take into consideration the reality of escalating fuel costs and its future availability. For this reason, the Government is looking at the possibility of "dual fuel" engines which can switch between burning different types of fuels (diesel, bio-diesel and gas) without the need for modification. These type engines will also be more environmentally friendly as they have lower emissions;
2. the need to comply with EU targets (and to be even more ambitious than the EU targets require) on the use of renewable energy sources. The tender for the proposed new power station issued by the GSD administration did not, in the new Government's view, sufficiently take these issues into consideration. Although it may be necessary that any renewable energy sources be procured separately from the main new power station to be provided, this does need to be reviewed holistically;
3. the need to upgrade the Gibraltar electrical distribution network was going to be part of the same tender and the cost thereof was becoming more and more prohibitive. The Government believes that the Gibraltar Electricity Authority is able to carry out these works with the same level of competence and professionalism as the Joint Venture and at considerably lower cost, which will be better value for money for the taxpayer. The works to renew and upgrade the high voltage distribution network will commence in the new financial year and will be undertaken by the GEA; and
4. the determination of whether the Lathbury Barrack site remains the best location for the new power station will be established, once the issues as to technology, fuel and renewable energy have been finally determined.

The previous GSD administration entered into a Deed of Variation which extended the period for a decision to be made to make a final decision to proceed or not with the Joint Venture proposal for the new power station until 16th January 2012. Given that this was just over five weeks after the election, the new Government entered into a similar Deed of Variation which extended the period for decision to the 16th March 2012. The decision not to proceed was communicated to representatives of the Joint Venture in person by the Chief Minister and in writing by the Government's lawyers on Wednesday 14th March.

Works have already been completed under the terms of agreements initially entered into by the GSD administration to extend the period by which the Government had to make a final decision to proceed. These works remain relevant and the costs are not "thrown away".

The process of analysing all the options available in respect of which technology is the most appropriate to secure Gibraltar's electricity needs for the coming generations, how best to integrate the use of renewable sources of energy and whether to retain Lathbury Barracks as the preferred site now continues, with the Ministerial Committee on Power Generation. The Committee will consult closely with the GONHS and the ESG amongst others to ensure that its considerations are informed by all interested NGO's.

A number of entities and organisations have already been in touch with the Government to make proposals suggesting alternatives which the Ministerial Committee is considering in careful detail.

The Chief Minister said: "The contract to build a new power station for Gibraltar is not just for today, it is for upwards of 30 years and we have to get it right for present and future generations of Gibraltarians. In our judgement, the proposal that was on the table from the Joint Venture was not right financially or technologically for Gibraltar today or for the future. We have tried to work with the Joint Venture to make changes to the proposal to make it financially viable, but we have not been able to reach a satisfactory agreement. In the circumstances, we have - in our judgement - had no alternative but to take the option contractually available to us not to proceed with the building of the new power station at Lathbury Barracks as presently proposed. We are nonetheless working hard to ensure that we make the right decision financially, environmentally and technologically as soon as possible to ensure the integrity and security of electricity supply. This is now our top priority."

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<sup>i</sup> The figure is quoted in Euros as provided to the previous administration.