Grenada Geothermal Resource Development

Final Report to Organization of American States

August 2012
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1 Introduction

The General Secretariat of the Organization of American States (GS/OAS) hired Legal and Drafting Services LTD (LDS) to assist the Government of Grenada (the Government) to draft and negotiate a Heads of Terms as part of the project ‘Build-up of the Legal Framework for the Development of Geothermal Energy in Grenada’. LDS subcontracted several members of Castalia LLC to be part of the LDS-Castalia team that provided this support. The LDS-Castalia team completed this work from 16 July 2012, until 30 August 2012.

The Government’s goal in pursuing geothermal resource development is to stabilize and eventually reduce power costs, in accordance with the strategy and targets set out in Grenada’s National Energy Policy and the Greenada Vision 2030.

The objective of this assignment was to help the Government set the direction of a Geothermal Resource Development Agreement (‘the Agreement’) in a way that responds to the Government’s policy and protects its interests while being acceptable to Grenada Electric Services, Ltd (GRENLEC).

The scope of this assignment was to:

- Set the direction for the Agreement;
- Draft a Heads of Terms for the Agreement;
- Discuss and finalize the Heads of Terms; and
- Contingency for follow-up support on the Heads of Terms.

The LDS-Castalia team drafted the Heads of Terms, and provided pre-negotiation support to the Government in preparing the Heads of Terms (HOT). Afterwards, the Government and Grenlec met to negotiate the HOT, with support from the LDS-Castalia team. The HOT set out the parties’ intention to conclude a binding Geothermal Resource Development Agreement by the end of the year, and set out the key commercial terms that the parties agreed should be included in that Agreement. The LDS-Castalia team also provided follow-up support, proposing additional legal language for amending the draft Geothermal Bill and Environmental Regulations, and a Roadmap with next steps toward concluding a Geothermal Resource Development Agreement.

The Final HOT is a confidential document and in the hands of the Government and GRENLEC. It is confidential because the HOT contains the terms that will be part of the Geothermal Resource Development Agreement, a commercial agreement between the Government and GRENLEC. However, the Government may be contacted if needed to confirm the Government’s receipt of the Final HOT.

The sections below describe our work (section 2), and the proposed changes to the draft Geothermal Bill and Environmental Regulations identified through this work (section 3). We also discuss next steps and provide a Roadmap for implementing these steps to further geothermal development in Grenada (section 4).
2 Execution of Project Activities

LDS’s Scope of Work comprised three activities: (1) Set the direction for the Agreement, (2) Draft a HOT for the Agreement, (3) Discuss and finalize the HOT, and (4) Contingency for follow-up support on the HOT.

Below we describe these three activities, and how they were done.

2.1 Activity 1: Set the Direction for the Agreement

During the week prior to the HOT negotiations, the LDS-Castalia team worked with the Government and GRENLEC to set the direction for the Agreement. First, we drafted and sent the Government and Grenlec a draft HOT for the Geothermal Resource Development Agreement. The HOT included draft terms for each party to review and comment on to determine if each term is desirable, may be acceptable, or is unacceptable. Afterwards, we organized and led a set of pre-negotiation consultations to discuss the draft HOT. Initially, we held a Framing Meeting with both the Government and GRENLEC to go over the processes for the pre-negotiation preparations, the negotiation meetings in Washington, DC, and to determine where each party would like to end up at the end of the HOT negotiations.

Afterwards, we held separate meetings with the Government and GRENLEC by conference call to obtain comments on the draft HOT. The purpose of these pre-negotiation consultations were to agree on the sections of the HOT that were acceptable to both parties ahead of negotiations, while clearly identifying the topics in the HOT on which the parties have different interests that would need to be negotiated in person.

We met with GRENLEC first to clarify what was in the HOT, and to obtain GRENLEC’s comments on the HOT. We also received written comments from GRENLEC on the HOT. Afterwards, we met with just the Government to clarify what was in the HOT, to obtain the Government’s comments, and to support the Government to frame its response to GRENLEC’s comments. Then we revised the HOT based on the comments received from the Government and GRENLEC, and sent it back to both parties for review prior to the starting the HOT negotiations.

The LDS-Castalia team also supported the Government to organize the negotiations. We prepared an agenda for the negotiations that included a session for each topic of the HOT which the parties had not yet agreed upon. The agenda indicated the topic and objective for each session to guide the negotiations (see Appendix A with the agenda). We supported the Government with the logistics for the negotiations (securing the venue, audiovisual equipment, coffee break). We thank the OAS for providing a meeting room at the OAS and audio visual equipment for the four days of meetings to negotiate the HOT.

We held a final check-in meeting at the end of the week to discuss the terms that were agreed during the week, the terms on the agenda to be negotiated, and to make sure that everyone was up to date on the logistics for the negotiation meetings in Washington, DC.

2.2 Activity 2: Draft a HOT for the Agreement

The LDS-Castalia team prepared a first draft of the HOT for discussion before the start of the pre-negotiation consultations. We drew from our understanding of the Government’s strategic issues and the Government’s and GRENLEC’s objectives for geothermal development. We made sure that the elements of the HOT are consistent with the draft
Geothermal Bill and Environmental Regulations. We also considered terms used in similar agreements internationally to flesh out the HOT in ways that are consistent with international Agreements, the laws of Grenada, and the intent of the parties. Then, we submitted the draft HOT to the Government and GRENLEC for review.

Based on the comments received during the pre-negotiation consultations, we revised the HOT and sent the Government and GRENLEC the second draft of the HOT. During the subsequent HOT negotiations that we describe below, we revised the HOT at the end of each day to reflect the terms agreed that day and circulated the revised HOT with the Government and GRENLEC.

2.3 Activity 3: Discuss and Finalize the HOT

The Government and Grenlec met from 24 July 2012 to the 27 July 2012 to negotiate a HOT. The LDS-Castalia team provided legal, technical, and commercial support to the Government to negotiate the HOT with GRENLEC.

The Government negotiating team was:

- Mr. Timothy Antoine – Permanent Secretary, Ministry of Finance;
- Mr. Rohan Phillip – Attorney General, Government of Grenada; and

The Government team was also assisted by Dr Raymond Nurse, Chair of the Geothermal Energy Committee, and Kaisha Ince, Senior Crown Counsel-Commercial from the Attorney General’s Chambers. Dr Nurse and Ms. Ince joined in team deliberations by conference call from Grenada.

The GRELEC negotiation team was:

- Mr. Clive Hosten – Acting Chief Executive Officer, Grenlec;
- Mr. Robert Blenker – Vice President Renewable Energy, WRB Enterprises; and
- Mr. Murray Skeete – Vice President Engineering, WRB Enterprises.

The LDS-Castalia team was made up of:

- Barbara Vargas – Project Director and Caribbean Legal Draftsperson, LDS;
- David Ehrhardt – International Legal and Transactions Advisor, Castalia; and
- Laura Berman – Renewable Energy Specialist and Project Manager, Castalia.

The HOT meetings kicked off with the Government and Grenlec presenting their respective objectives for the HOT, and their commitment to reaching an Agreement to further the development of Grenada’s geothermal resources. During Day 1 of the meetings, the parties discussed and agreed on the terms to include in the HOT on the Concession Area, Land Use, and Rights to Explore for the geothermal resource. The parties also discussed the Rights to Use the geothermal resource. The LDS-Castalia team revised the HOT based on what was agreed during Day 1, and sent it to the Government and GRENLEC at the end of Day 1.
On Day 2, the parties discussed and agreed on the terms to include in the HOT on Preventing Over-exploitation if the Resource, Royalties, and also discussed Supervision of Exploration Progress. The LDS-Castalia team revised the HOT based on what was agreed during Day 2 and sent it to the Government and GRENLEC at the end of Day 2.

On Day 3, the parties discussed and agreed on the HOT terms related to Environmental Permitting, Carbon Credits, Lender Provisions, Confidentiality and Access to Information, and Events for Termination and Payments. The parties also discussed Government Shareholding in the Geothermal Company, and Adjustments for Unforeseen or Uncontrollable Events that will be worked out in a separate Tariff HOT. The LDS-Castalia team revised the HOT based on what was agreed during Day 3 and sent it to the Government and GRENLEC at the end of Day 3.

On Day 4, the parties discussed and agreed on the HOT terms on the Rights to Use the Geothermal Resource, and Government Shareholding in the Geothermal Company. Next, both parties reviewed the HOT and gave the LDS-Castalia team final comments. The LDS-Castalia team then prepared the Final HOT based on what was agreed during Day 4, and the final comments received from the Government and GRENLEC.

After the LDS-Castalia team prepared the Final Heads of Terms, the Permanent Secretary of the Ministry of Finance, and the Chief Executive Officer of Grenlec signed the Final HOT at the end of the day on 27 July 2012.

Box 2.1 contains the heading titles for the terms that were included in the Final HOT.
Box 2.1: Heading Titles in the Final Heads of Terms

The headings titles in the Final Heads of Terms that contains the key commercial terms that the Government and GRENLEC agreed should be included in a future Geothermal Resource Development Agreement are:

1. Defined Terms
2. Passage of Geothermal Law
3. Rights to Explore for Geothermal Resource
4. Rights to Use the Geothermal Resource
5. Abandonment of the Right to Use the Resource
6. Resource Development Zone
7. Land Use
8. Environmental Permitting
9. Preventing Over-Exploitation of the Resource
10. Electricity Tariffs
11. Carbon Credits
12. Royalty Payments
13. Fiscal Incentives for Geothermal Power Generation
14. Resolution Process
15. Submission to Arbitral and Judicial Processes
16. Assignability
17. Sourcing Project Financing
18. Confidentiality and Access to Information
19. Insurance and Key Contracts
20. Standard Representations and Warranties
21. Events for Termination and Payments
22. Lender Provisions
23. Government Shareholding in Geothermal Company

2.4 Activity 4: Contingency for Follow-up Support on the HOT

The LDS-Castalia team provided additional support to the Government. First, we led the discussion on next steps for geothermal resource development on 27 July 2012 with the Government and GRENLEC. The Government asked us to send them proposed changes to the draft Geothermal Bill and Environmental Regulations, and a Roadmap for implementing the next steps for geothermal development. We sent the Government and GRENLEC this information on 10 August 2012. We have included the proposed legislative changes (section 3) and roadmap with the next steps (section 4) that we sent to the Government below.
3 Proposed Changes to Geothermal Bill and Environmental Regulations

During the HOT meetings the language and a few aspects of the Geothermal Resource Development Bill (‘the Bill’) and the Geothermal Resources Environmental and Planning Regulations (‘the Regulations’) came up in discussions. The Attorney General indicated that his office intended to make minor changes to the Bill and Regulations and was open to suggestions for improvements. It was agreed that the following changes would improve the Bill and Regulations:

3.1 Changes to Geothermal Resource Development Bill

1. **Concession Area**: Replace “Concession Area” wherever it occurs in the Bill with “Resource Development Zone”;

2. **Exploration**: Revise the Definition of “Exploration” in the Bill by deleting the following words which appear at the end of the definition, ‘but does not include such activity by a geothermal resource developer in its concession area’;

3. **Geothermal Resource Concession**: Replace “Geothermal Resource Concession” wherever it occurs in the Bill with an acceptable term that does not use ‘concession’;

4. **Use a Geothermal Resource**: Replace ‘any drilling’ with ‘exploration’;

5. **Dispute Settlement**: Make sure that the Dispute Settlement provisions in the Bill that mention the International Centre for Settlement of Disputes (ICSID), refer to the Rules of Arbitration of the International Chamber of Commerce (ICC);

6. **Royalties**: Change the requirement of a fixed maximum Royalty; make it either a minimum or else a maximum percentage of the value of the output of the plant;

7. **Protection of Geothermal Resource**: Determine whether to include provisions to protect the geothermal resource from activities by owners of the surface land, (including drilling, contamination, and allowing infiltration of cold water) that could damage the geothermal resource in the Resource Development Zone. Also decide on any compensation that would have to be paid to reimburse the geothermal developer that has the rights to use the resource, if the resource is damaged. These provisions would supplement the framework under the Environmental Planning Regulations for managing competing developments.

3.2 Changes to Environmental and Planning Regulations

1. **Register of Persons for Environmental Impact Assessment (EIA)**: Make it possible that, in the interim period until there is a register of persons authorised to do the EIA, the Government can approve the persons authorized to conduct and prepare an EIA for geothermal resource development. A geothermal developer could propose 2 or 3 options and submit them to the Government. The Government would then give its no objections to one or more of those persons, if it is satisfied with their qualifications.
2. **Qualifications for inclusion in the Register**: In regulation 4(2)(d), add ‘and Hydrogeology’ after geology. In regulation 4(2)(e) remove ‘renewable’ and put ‘geothermal’;

3.3 **Miscellaneous**

1. Reconcile 5(1)(b) and 5(5) of the Bill for the selection of Vice President;
2. The Bill refers to ‘hot rocks’. Consider whether the term ‘enhanced geothermal systems’ should also be used; and
3. In the Regulations, 9(2) change ‘matrix’ to ‘metrics’.

4 **Next Steps for Geothermal Resource Development in Grenada**

The LDS-Castalia team guided the discussion between the Government and GRENLEC on the next steps, and timeline for implementing for geothermal resource development in Grenada. The Government and Grenlec agreed to the following next steps for geothermal resource development:

1. **Passage of Bill**
   - Cabinet Note, HOT and Amended Bill will be submitted to Cabinet and approved by end of August;
   - First House reading in October, and 2nd and 3rd readings and Senate reading, in November;
   - Enactment and effectiveness of the Bill by 31 Dec 2012.

2. **Tariff HOT**
   - Grenlec prepares and submits to the Government a note or position paper on tariff changes by end September 2012;
   - Government reviews tariff note, with support from technical, financial and legal experts as needed, before Geothermal Resource Development Agreement goes into effect; and
   - Government and Grenlec meet to agree on HOT for Tariff Changes in December 2012, with assistance from technical, financial and legal experts as needed.

   - Cabinet Approval of HOT
   - Grenlec, Government, or external experts prepare a first draft of GRDA by end of August, based on the signed HOT that is approved by Cabinet and Grenlec’s Board;
   - Government and Grenlec discuss draft GRDA by email and phone for two to three weeks in September, with assistance to Government from technical, financial and legal experts as needed;
• Government and Grenlec meet for four to five days to negotiate the draft GRDA in October, with assistance to Government from technical, financial and legal experts as needed;

• Second Draft of GRDA is prepared, based on the negotiations;

• Government submits Second Draft of GRDA to Cabinet for approval, while Grenlec submits it to Grenlec’s Board for approval.

• The Cabinet and Grenlec’s Board give their respective approvals by end October. Such approval may be qualified in certain respects and may contain additional points which the party concerned wishes to achieve through further negotiations

• Government and Grenlec discuss the Second Draft GRDA with mark-ups by email and phone for two to three weeks in November, with assistance to the Government from technical, financial and legal experts, and inputs from possible financers as needed; and

• Government and Grenlec meet for four to five days to negotiate, settle, and sign the GRDA in December, with assistance to Government from technical, financial and legal experts as needed.

Table 4.1 below shows a Roadmap for implementing these activities that the LDS-Castalia team prepared and submitted to the Government and GRENLEC after the HOT negotiations:
Table 4.1: Roadmap for Geothermal Development in Grenada

<table>
<thead>
<tr>
<th>Activity</th>
<th>Month</th>
<th>Aug-12</th>
<th>Sep-12</th>
<th>Oct-12</th>
<th>Nov-12</th>
<th>Dec-12</th>
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<tbody>
<tr>
<td><strong>1 Pass Geothermal Law and Environmental Regulations</strong></td>
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<td>1.1 Make Changes to Geothermal Bill and Environmental Regulations</td>
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<td>1.2 Meeting with Minister of Physical Planning and Development on Regulations</td>
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<td>1.3 A.G./Parliamentary Counsel to make any final changes to Regulations</td>
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<td>1.4 Preparation of briefing note for Cabinet on Bill and Regulations</td>
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<td>1.5 Cabinet Review and Decision on Bill and Regulations</td>
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<td>1.6 Meeting with Parliamentarians to present Bill and Regulations</td>
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<td>1.7 A.G./Parliamentary Counsel to make any final changes to Bill and Regulations</td>
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<td>1.80 Cabinet Approval of Bill (and Regulations)</td>
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<td>1.90 Making of Regulations by Minister of Physical Planning and Development</td>
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<td>1.10 First reading of Bill by the House</td>
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<td>1.11 Second and Third reading of the Bill by the House</td>
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<td>1.12 Submission of the Bill to the Senate</td>
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<td>1.13 Assent by the Bill by the Governor General</td>
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<td>1.14 Bringing into force the Bill and Regulations</td>
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<td><strong>2 Tariff HOT</strong></td>
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<td>2.1 Grenlec prepare and submit note with tariff proposal</td>
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<td>2.2 Government review tariff proposal</td>
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<td>2.3 Prepare Draft Tariff HOT</td>
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<td>2.4 Government and Grenlec negotiate and agree on Tariff HOT</td>
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<td>2.5 Determine if any legal changes would be needed to existing tariff regime</td>
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<td>2.6 Prepare draft legal language for statutes on proposed tariff changes if needed</td>
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<td><strong>3 Negotiation of the Geothermal Resource Development Agreement</strong></td>
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<td>3.1 Cabinet and Board Approval of HOT</td>
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<td>3.2 Prepare and submit Draft GRDA based on HOT</td>
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<td>3.3 Government and Grenlec discuss Draft GRDA by email and phone</td>
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<td>3.4 Government and Grenlec meet to negotiate Draft GRDA</td>
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<td>3.5 Prepare Second Draft GRDA based on negotiations</td>
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<tr>
<td>3.6 Submit Second Draft GRDA for Cabinet and Board Approval</td>
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<td>3.7 Government and Grenlec discuss Second Draft GRDA by email and phone</td>
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<td>3.8 Government and Grenlec meet to negotiate and agree Final GRDA</td>
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<td>3.9 Sign GRDA</td>
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# Appendix A: Agenda of HOT Negotiation Meetings

**GEOTHERMAL RESOURCES LICENSE AND CONCESSION AGREEMENT**  
Term Sheet Meetings Agenda  
**Tuesday 24 July 2012 to Friday 27 July 2012**

<table>
<thead>
<tr>
<th>Time</th>
<th>Tuesday, 24 July 2012</th>
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| 9:00-10:15am  | **Opening Session**  
Welcome and Work Plan for Meetings (Laura Berman, Castalia)  
Overview of Government Objectives for Geothermal Agreement (Permanent Secretary, Government of Grenada)  
Overview of GRENLEC Objectives for Geothermal Agreement (Clive Hosten, GRENLEC)  
Recap of What was already Agreed, and Main Topics to be Discussed During the Meetings (David Ehrhardt, Castalia) |
| 10:15-10:30am | Coffee Break                                                                         |
| 10:30-11:15am | **Discussion on Concession Area**  
Objective: Agree on the area of the concession (map)                                  |
| 11:15-12:00pm | **Discussion on Land Use**  
Objective: Agree on terms for payments for acquiring land (whether or not to include all expenses & disbursements directly and uniquely related to project) |
| 12:00-1:30pm  | Lunch Break                                                                           |
| 1:30-3:00pm   | **Discussion on Rights to Explore for Geothermal Resource**  
Objective: Agree on whether it is sufficient to rely on the use or lose provisions in the Bill, or whether additional milestones are needed to keep exploration rights alive |
| 3:00-3:15pm   | Coffee Break                                                                         |
| 3:15-5:00pm   | **Discussion on Rights to Use the Geothermal Resource**  
Objective: Agree on if concession rights granted for both indirect and direct uses of geothermal resources, and wording of use or lose it term (if fails to use the resource for a period of 3 consecutive years) |
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<tr>
<th>Time</th>
<th>Wednesday, 25 July 2012</th>
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| 9:00-11:00am | Discussion on Preventing Over-Exploitation of the Resource  
Objective: Agree on new wording on the process for setting and approving Maximum Sustainable Use Rate, intended to make the steps clearer. |
| 11:00-11:15am | Coffee Break |
| 11:15-1:00pm | Discussion on Royalty Payments  
Objective: Agree on the terms of the royalty payments that will be made and set the value |
| 1:00-2:00 pm | Lunch |
| 2:00-3:00pm | Discussion on Royalty Payments  
Objective: Agree on the terms of the royalty payments that will be made and set the value |
| 3:00-3:15pm | Coffee Break |
| 3:15-5:00pm | Discussion on Supervision on Progress of Exploration  
Objective: Agree on what Grenlec will accept in terms of complying with what is in the Exploration Plan. What type of supervision or regulation will Grenlec accept to make sure it sticks to the plan? |
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<tr>
<th>Time</th>
<th>Thursday, 26 July 2012</th>
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| 9:00-10:00am | **Discussion on Environmental Permitting**  
**Objective:** Agree on what environmental standards for exploration and use should cover (include vibrations, and percolate), and new wording on procedure for protecting of surface and ground water to make the process clearer. |
| 10:00-10:45am| **Carbon Credits**  
**Objective:** Agree on who will receive the carbon credits, or if they will be shared. |
| 11:00-12:00am| **Discussion on Assignability**  
**Objective:** Agree on terms revised text for how rights under the Agreement can be transferred to financial institutions and to third parties, and on the time period to approve the assignability (number of months) |
| 12:00-1:00pm | **Discussion on Lender Provisions**  
**Objective:** Agree on if there will be terms that if both parties agree, the Agreement will be modified to accommodate lender provisions, if in the public interest |
| 1:00-2:00pm  | Lunch Break                                                                              |
| 2:00-3:00pm  | **Discussion on Confidentiality and Access to Information**  
**Objective:** Agree on confidentiality and access to information terms (type of information, use of the information, government access to the information, and public disclosure of the information, and timeframe involved) |
| 3:00-3:15pm  | Coffee Break                                                                               |
| 3:15-4:15    | **Discussion on Events for Termination and Payments**  
**Objective:** Agree on standard termination events/grounds for termination and termination payments |
| 4:15-5:30pm  | **Discussion on Shareholding in the Geothermal Company**  
**Objective:** Agree on the Government's Shareholding in the Geothermal Company |
| 5:30-6:00pm  | **Discussion on Adjustments for Unforeseen or Uncontrollable Events**  
**Objective:** Agree on if will include any Adjustments for Unforeseen or Uncontrollable Events |
<table>
<thead>
<tr>
<th>Time</th>
<th>Friday, 27 July 2012</th>
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<tbody>
<tr>
<td>9:00-10:00am</td>
<td><strong>Discussion on Rights to Use the Geothermal Resource</strong>&lt;br&gt;<strong>Objective</strong>: Agree on if concession rights granted for both indirect and direct uses of geothermal resources, and wording of use or lose it term (if fails to use the resource for a period of 3 consecutive years)</td>
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<td>10:00-10:15am</td>
<td>Coffee Break</td>
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<td>10:15-11:00am</td>
<td><strong>Discussion on Shareholding in the Geothermal Company</strong>&lt;br&gt;<strong>Objective</strong>: Agree on the Government’s Shareholding in the Geothermal Company</td>
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<td>11:00-12:00pm</td>
<td><strong>Final Review of Term Sheet</strong> (Government and GRENLEC)</td>
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<td>12:00-1:30pm</td>
<td>Lunch</td>
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<tr>
<td>1:30-2:00pm</td>
<td><strong>Signing of Term Sheet</strong> (Permanent Secretary, Government of Grenada; Clive Hosten, GRENLEC)</td>
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<td>2:00-4:00pm</td>
<td><strong>Discussion on Passage of Geothermal Law, and Next Steps</strong>&lt;br&gt;<strong>Objective</strong>: Agree on date when Geothermal Law should be passed by and how long HoT is effective. Discuss next steps to move from Term Sheet to Final Agreement, discuss tasks, responsibilities and timeframe for: drafting Agreement, negotiation and approval of Agreement, revising Geothermal Bill, passage of Geothermal Bill, and approval of Environmental Regulations. Discuss the process and steps required to make any changes to tariff regime for electricity production from geothermal (renewable) energy</td>
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<tr>
<td>4:00-4:30pm</td>
<td><strong>Closing Session</strong>&lt;br&gt;Closing Remarks from Castalia (David Ehrhardt, Castalia)&lt;br&gt;Closing Remarks from Government (Permanent Secretary, Government of Grenada)&lt;br&gt;Closing Remarks from GRENLEC (Clive Hosten, GRENLEC)</td>
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