

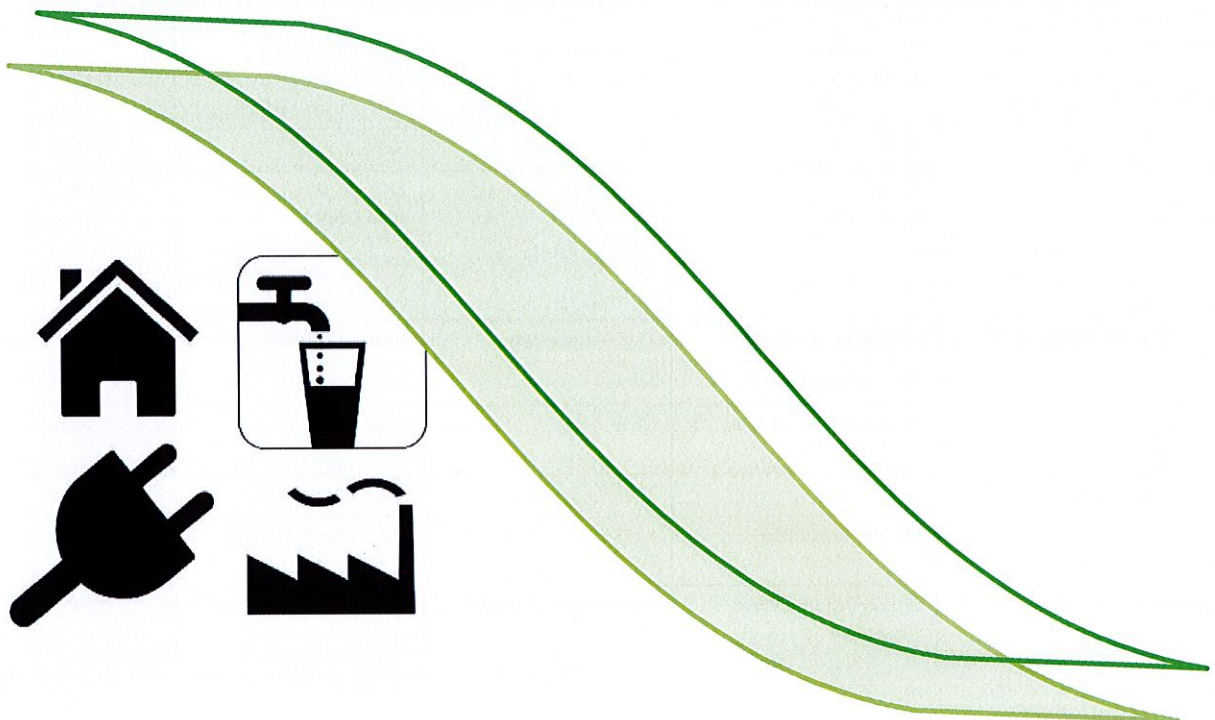
**Utilities
Regulatory
Authority**

Final Decision And Commission Order

Case U-0001-15

In the matter of VUI Limited's electricity tariffs

June 2015



Foreword

The Utilities Regulatory Authority (URA) Commission is pleased to issue this Final Decision and Order in the matter of the request from Vanuatu Utilities and Infrastructure Limited (VUI) for a tariff adjustment for electricity services in Luganville (case U-0001-15).

URA Staff (the Staff) has investigated and analysed VUI's 2011-2014 performance since assuming operations of Luganville electric system. Based on its analysis Staff has recommended a tariff adjustment. The adjustment is occasioned by a number of factors: significant drop in diesel prices in the global markets, improved hydro generation from Sarakata, improved collections and operating cost reductions from more efficient management.

A Preliminary Decision in this case issued on the 13th May 2015 proposed a price reduction of 18.37%. Based on comments and additional information provided by VUI and comments from the Government of Vanuatu (Director of Energy) Staff conducted further analysis. Based on Staff revised recommendation, the URA Commission (Commission) orders that the base rate be set at 40.52 VT/kWh. This represents 14% price reduction from December 2014. This base price includes continuation of the Santo customer fund contribution of 1.00 VT/kWh and a 2.00 VT/kWh payment to the Government by VUI.

Commission also adopts a revised tariff structure to reflect the operating cost breakdown and to create better incentives for efficient use of electricity and fair application of pricing for electricity. This new base rate and tariff structure will be applied to customer bills issued after July 1, 2015. The proposed breakdown of different customer charges is shown in the table below:

Table 1: Comparison of customer charges per Customer category from charge tariff of Dec-2014

Customer category	Charge	Tariff of Dec-2014	New Tariff	Change
Low Voltage (including small domestic, business license holders, and other low voltage customers)	Unit charge per kWh			
	Up to 60 kWh	17.88 VT per kWh	16.61 VT per kWh	-7.10%
	61-120 kWh	45.65 VT per kWh	38.90 VT per kWh	-14.79%
	Over 120 kWh	56.86 VT per kWh	57.13 VT per kWh	0.47%
	Monthly fixed charge	None	None	None
	Security deposit for new connections	3,294 VT for connections up to 2.2kVA 7,059 VT per subscribed kVA for connections over 2.2 kVA	2,836 VT for connections up to 2.2kVA 6,078 VT per subscribed kVA for connections over 2.2 kVA	-13.90%
Sports Fields	Unit charge per kWh	47.07 VT per kWh	40.52 VT per kWh	-13.90%
	Monthly fixed charge	None	None	None
	Security deposit for new connections	None	None	None
High Voltage	Unit charge	32.94 VT per kWh	31.20 VT per kWh	-5.28%
	Monthly fixed charge	1,177 VT per subscribed kVA	1,013 VT per subscribed kVA	-13.90%
	Security deposit for new connections	7,059 VT per subscribed kVA	6,078 VT per subscribed kVA	-13.90%

The reconciliation provision established in Final Order of case U-0001-14 shall remain in place to track variations in fuel prices, hydro operation and other variable costs estimated. In the reconciliation report, U-0005-15 issued in June, the Staff reconciled VUI's 2014 operating costs and did not find any substantial gap triggering a forward adjustment of the base rate according to the established procedure.

Johnson Naviti Matarulapa Marakipule, Chairman

Hasso Bhatia, *PhD*, CEO and Commissioner

John Obed Alilee, Executive Commissioner

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1. Introduction

Table 2: Case information

Case number	U-0001-15
Applicant	Vanuatu Utilities and Infrastructure Limited
In the matter of	VUI Limited's Electricity Tariff decrease
Commencement date	13 January 2015
Date of Preliminary Decision	13 May 2015
Date of Final Order	15 June 2015

On May 13, 2015, URA issued the Preliminary Decision in response to Vanuatu Utilities and Infrastructure Limited's (VUI) request for an electricity tariff reduction. The Preliminary Decision proposed a reduction in the tariff of 18.37%. A revised customer categories and proposed tariffs for each customer category were attached to the Preliminary Decision. It also included continuation of the Santo Fund and a payment to the Government of Vanuatu as VUI's contribution towards use of its assets.

The Preliminary Decision was based on the Staff's investigation and recommendations in the case. The Staff collected data from past tariff reviews of the Luganville electricity concession, VUI's annual financial and operating reports and from additional data requests made. The economic data was taken from various government sources (Ministry of Finance and Economic Management, the Vanuatu National Statistics Office website and recent reports of the URA).

This is a comprehensive review of VUI operations during 2014 with the aim of revising the base rate that will reflect the current performance and cost conditions of electricity services in Luganville. The review includes adjusting the retail tariff structure and cross-subsidy among consumer groups.

The Preliminary Decision sought comments from VUI and DoE on various aspects of the proposed Preliminary Decision, continuity of the "Santo Fund" and on the proposal on "Governmental asset contribution" acknowledging the Government granting the use of electrical facilities and assets to VUI in Luganville.

The Final Decision and Order discusses comments received from VUI and the Department of Energy (DoE) and renders opinion on issues raised on the Preliminary Decision.

The revised tariffs for the reviewed customer categories are attached to this Final Decision and Order.

1.1 Legal context

The legislation governing the regulation of generation, supply and sale of electricity in Santo is established by the Electricity Supply Act NO.13 of 2010 and the Utilities Regulatory Authority Act N.11 of 2007.

Following the Supreme Court's verdict vacating the 2010 government's grant of concession to VUI, and pending the retendering process, a stay order was issued by the court and VUI has been extended the right to operate the Luganville Electricity system on the terms of the earlier MOU.

2. Discussion

Presented below are the Commission's discussions on the comments and suggestions received.

2.1 System losses

In its comments, DoE questioned whether the system losses assumed in the Preliminary Decision were reasonable. The Staff has forecasted losses at 12.28% on the total generation for 2015.

Since March 2014 as per Final Order of case U-0001-14, the responsibility of operating and maintaining energy supply for Luganville street lighting, has been transferred to VUI.

Energy generated and used for street lighting is considered as unmetered energy and classified as internal consumption and included as non-technical losses.

Staff recommends that with this consideration of additional internal use, projected system losses for VUI is reasonable. The Commission adopts the Staff's recommendation and sets VUI's system losses for 2015 at 12.28% of generation. The Staff is also instructed to monitor VUI's system losses and establish a benchmark loss factor from electric utilities similar to VUI.

2.2 Hydro generation efficiency and diesel burning efficiency

In its submission DoE challenged the hydro efficiency set at utilisation rate of 71% or 7,463,520 kWh. DoE stated in its submission that due to El Niño effect, 2015 may be a dryer year and therefore the assumed utilisation rate may be too high for the utility¹ to reach considering the weather forecasted by the Department of Meteorology.

VUI states, in its comments, that the hydro generation cannot be improved from its last performance in 2014 which was a utilisation rate of 70%. The reason for this, VUI argues is the maximum capacity utilisation the utility can produce out of the plant. Moreover, VUI commented that with a raised hydro performance, the burning efficiency² for diesel generation will decrease.

The Commission understands the constraints placed by weather on the hydro generation for VUI. However, Staff investigation on recent hydro performance has revealed that for the first four months of 2015, the hydro plant has attained a higher utilization rate than even the assumed rate by the Staff. The actual average rate year-to-date is 74%. The Staff's review of burning efficiency for diesel generation revealed that in April 2015, the utility was able to attain a heat rate of 0.2919 while using the hydro plant at 74% capacity. The Staff is convinced that the utilisation rate of the hydro plant at 71% while still achieving a heat rate of 0.290 in its diesel units is reasonable and justified.

2.3 Fuel and lubricants

VUI challenged the fuel price of 97.50 VT/L assumed by the Staff and included in the Preliminary Decision. VUI argued that prices on the international market have been rising again. The utility suggested in its comments that the fuel price should be decreased by only 16% from 2013 level instead of the 23.97% proposed by the Staff. DoE also commented that fuel prices have been rising again due to pressures on the international fuel market and as indicated by the raised forecast of oil prices by OPEC.

¹ In this report, "the utility" refers to VUI.

² Burning efficiency of the diesel generators is measured by the litres of diesel burned to produce 1 kWh. The lower the rate is, the better the efficiency the less costly the generation.

The comment also stated that main fuel supplier in Vanuatu, SSP, may keep prices steady throughout 2015 or increase the prices according to international trend. DoE therefore stated that the Staff's forecast may be too low if prices were to increase again.

Based on its investigation earlier this year, Staff found that there is a three to four months lag between the international oil price trends and their impact on the Vanuatu market. The Staff estimated that the fall in oil prices will be realised in Vanuatu during the first semester of 2015. The Staff further performed a review of VUI's fuel costs for the first six months of this year. In March diesel price dropped to 105.59 VT/L; and again in April it dropped to 82.64 VT/L where it remained in May. Until tariff is adjusted, the utility's prices reflect a fuel price of 122.54 VT/L, which is significantly higher than the current fuel price in Luganville and the assumed price in this case. The review led the Staff to conclude that VUI has over-collected around VT 3.35 million on fuel cost in the first six months of 2015. Furthermore, the Staff notes that the difference between 105.49 VT/L (price proposed by VUI) and 97.50 VT/L (price proposed by the Staff) is 7.99 VT/L. For an average diesel usage of 40,000 L/month and 6 months operation, VUI would under collect VT 1,917,600. At the year-end 2015 reconciliation, VUI would have an over collection balance of VT 1,436,873. Hence, the Staff's recommendation to use 97.50 VT/L is reasonable.

Based on the comments stated above, the Commission adopts the Staff's recommendation on fuel price at 97.50 VT/L for setting base tariffs. Using forecasted kWh generation and generation mix, the fuel and lubricant costs for 2015 is estimated at VT 40,043,708.

2.4 GPOBA impact on cost of labour and new installations materials

VUI commented that installing new connections under the GPOBA program has created an increase in the costs for labour and new installations materials.

2.4.1 Labour

VUI commented that due to GPOBA, labour cost has increased as additional labour had to be hired to undertake increased workload.

The Staff is aware that the aim of the GPOBA program is to increase electricity access to low-income consumers. However the GPOBA implementation costs incurred by the utilities were to be fully offset by donations from World Bank.

The Commission affirms that costs of connections for customers under the GPOBA program should be recovered through donor contributions. The incremental expenses of VT 2,329,210 for GPOBA are added to the labour cost offset by revenues of same amount. The Commission adopts the revised Staff's calculation of 2015 labour cost at VT 116,000,000.

2.4.2 New installations materials

The utility challenged the Staff's estimate of materials for new installations cost of VT 15,000,000. VUI argued that the Staff recognised the revenue from GPOBA and not the cost of materials of the program. Based on additional information received from VUI on this cost item, the Staff has reviewed its estimations and impact of GPOBA on its estimations. The review led the Staff to set VT 15,000,000 as the normal average yearly expense to be incurred by VUI for new installations. The GPOBA program's impact on this cost item is of additional VT 10,000,000. Since the contributions from GBOBA are recognized as other revenues the additional expenses should also be recognized.

The Commission agrees with the Staff's revised cost for new installations and sets VUI's new installations costs for 2015 at VT 25,000,000.

Taken together the total expenses and revenues assumed from GPOBA is VT 12,329,210.

2.5 Goods and Other costs

VUI challenged the Staff's estimated goods and other costs in the Preliminary Decision, valued at VT 45,190,637. VUI comments that costs have increased in the last two years to above VT 51,000,000. Due primarily to the GPOBA inside wiring installations and legal fees incurred in 2014.

The Staff's investigation presented in the Preliminary Decision forecasted Goods and other costs for 2015 at VT 45,190,637. The Staff considers that GPOBA costs are recovered by the revenue collected from the program. Further legal fees incurred by VUI to defend its concession award and MOU are costs that should not be borne by customers of the utility and are thus excluded by the Staff. The Staff believes its estimates to be reasonable for Goods and other costs.

Considering the comments from the utility and the Staff's review, the Commission adopts the Staff's estimations as set in the Preliminary Decision. The Commission sets the 2015 Goods and Other costs for VUI at VT 45,190,637.

2.6 Provisions for bad debts

In case U-0001-14 Commission allowed VT 1.8 million for bad debts. In actuality VUI collected VT 2.5 million over and above its billed revenues in 2014. For 2015, VUI had forecasted a similar over collection in the material submitted for the tariff review but later commented that recoveries made in 2014 are not likely to be repeated in 2015.

Following this comment, the Staff requested additional data on VUI's bad debts account. Based on bad debt provisions allowed by the Commission in its Final Order of case U-0001-14 and the improvement in debt collections in 2014 as being a one-off occurrence, the Staff estimates that a provision of VT 500,000 suggested in the comments received is reasonable.

The Commission adopts the Staff's estimations and sets the provisions for bad debts for 2015 at VT 500,000.

2.7 Governmental asset contribution fee

Under the MOU agreement signed by VUI and the Government, the utility is granted use of the Government's assets for producing and supplying electricity to Luganville consumers and to charge the URA's approved tariffs. The Staff has recommended in the Preliminary Decision that VUI collect a fee of VT 2.00/kWh billed and transfer the amounts collected to the Government.

DoE commented that the Government of Vanuatu is already considering incorporating such a fee in the new electricity concession contract for Luganville. DoE further commented that the amount of the fee will be set by the Government with the collaboration of the URA. No comments were received from VUI on this.

The Staff recommends that the fee shall be made effective at this Final Order and continue until the Luganville concession tender is completed and granted to the winning bidder.

The Commission adopts the Staff's recommendation and sets the Governmental asset contribution fee at VT 2.00/kWh billed. The collected amount is to be paid to the Government on an annual basis. The payment is to be made by the end of the first quarter of the following calendar year. The Commission orders that this fee be collected by VUI and paid to the Government until the Luganville concession is re-tendered and the winning bidder commences operation under the concession.

2.8 Santo Fund

DoE commented that the aim of the Santo Fund should be narrowed down to only fund projects to increase network extensions.

The Staff recommends that the Santo Fund established in March 2014 be kept in place. The purpose of the fund is to improve access to electricity to Santo residents and businesses. A Fund Committee was created, represented by Luganville city council, VUI and the URA to select and approve electricity projects to be funded by the Santo fund. It has operated well and three extension projects have been completed or are underway. The scope of the fund shall remain as defined in the Final Order to allow for off-grid solutions and rural electrification projects in addition to network extensions.

The Commission agrees with the Staff's review and justification on the fund and rules that the Santo Fund be kept as defined in the Final Order of case U-0001-14.

2.9 Revenue requirement

The following table provides summary of cost breakdown and total revenue required to meet these expenses.

Table 3: Total revenue requirement, in VT

	2015e
Fuel and lubricant	40,043,708
Labour	116,000,000
Management fee	57,000,000
Repair & renewal provisions	16,782,971
Depreciation	2,155,964
New installations	25,000,000
Provision for bad debts	500,000
Street lighting repair and renewal	2,680,353
Insurance	18,000,000
Goods and other costs	45,190,637
Total operating cost	323,353,633

2.10 Final Base rate

The table below shows calculation of the new base tariff.

Table 4: Final base rate

	2015
Total Operating Cost	323,353,633
Revenue from Connection and Other regulated services, VT	(18,748,316)
Revenue from third parties and donors contribution, VT	(12,329,210)
Revenue required from sales of electricity, VT	292,276,107
Forecasted sales of energy, kWh	7,789,220
Required revenue per kWh sold, VT/kWh	37.52
Contribution to Santo fund for energy development, VT/kWh	1.00
Governmental asset contribution fee, VT/kWh	2.00
Final base rate, VT/kWh	40.52
December 2014 base rate, VT/kWh	47.07
Base rate reduction, VT/kWh	6.55
Base rate reduction	14 %

The Commission adopts VUI's base rate at VT 40.52/kWh, which includes the Santo fund of VT 1.00/kWh billed and the Governmental asset contribution fee of VT 2.00/kWh billed. This new tariff represents a reduction of 14% from the base rate of VT 47.07/kWh determined in the Final Order of March 2014. This new tariff shall be applied to derive each block of the tariff structure so as to recover average base rate.

2.11 Final Customer tariff structure

The Commission adopts the following final customer tariff structure:

Table 5: Customer charges, in VT

Customer category	Charge	Tariff of Dec-2014	New Tariff	Change
Low Voltage (including small domestic, business license holders, and other low voltage customers)	Unit charge per kWh			
	Up to 60 kWh	17.88 VT per kWh	16.61 VT per kWh	-7.10%
	61-120 kWh	45.65 VT per kWh	38.90 VT per kWh	-14.79%
	Over 120 kWh ³	56.86 VT per kWh	57.13 VT per kWh	0.47%
	Monthly fixed charge	None	None	None
	Security deposit for new connections	3,294 VT for connections up to 2.2kVA 7,059 VT per subscribed kVA for connections over 2.2 kVA	2,836 VT for connections up to 2.2kVA 6,078 VT per subscribed kVA for connections over 2.2 kVA	-13.90%
Sports Fields	Unit charge per kWh	47.07 VT per kWh	40.52 VT per kWh	-13.90%
	Monthly fixed charge	None	None	None
	Security deposit for new connections	None	None	None
High Voltage	Unit charge	32.94 VT per kWh	31.20 VT per kWh	-5.28%
	Monthly fixed charge	1,177 VT per subscribed kVA	1,013 VT per subscribed kVA	-13.90%
	Security deposit for new connections	7,059 VT per subscribed kVA	6,078 VT per subscribed kVA	-13.90%

³ The new tariff structure has been designed to propose a better suited progressive tariff for high end users. As a result, former 120-180kWh tranche that was billed at a higher rate per kWh has been merged with next tranche into a single tranche from 120kWh and above. Despite showing no variation in price in this new tariff tranche, savings will materialise for consumers as they will no longer face higher rates for their use in the 120 to 180kWh usage.

3. Commission Order

The Commission therefore orders that:

1. Base price for VUI is set at VT 40.52/ kWh, a reduction of 14% from the December 2014 price of VT 47.07/kWh;
2. VUI shall adopt the new tariff structure and prices set in table 5 of this Order;
3. Payment for “government asset contribution” shall be implemented as described in this order;
4. The total funds collected by the end of the year, shall be paid to the Government within the first quarter of the following year;
5. New tariff is to be applied to customers as of the next billing cycle after the issue of this Order.

4. Notice of Grievance

If the utility is aggrieved by this Order, it may request the Commission to reconsider the decision on issues aggrieved upon. A Notice of Grievance must be submitted within 30 days of the Order. The Notice should contain:

- The issue or issues being contested
- A detailed description of any facts or matters supporting the grievance
- Copies of any documents supporting the grievance
- A detailed description of any alleged error of law or fact
- A detailed description of any relevant change in facts or circumstances since this Order

A Notice of Grievance can be received until 24th July 2015 and addressed to

Hasso Bhatia, PhD
Chief Executive Officer
Utilities Regulatory Authority

The Notice may be:

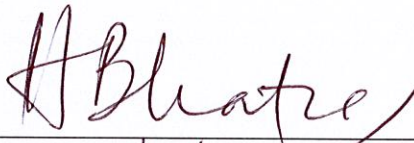
- Delivered in person at:
Office of the Utilities Regulatory Authority
VNPF Compound
Corner Pierre Lamy & Andre Ballande Street
Port Vila, Vanuatu
- mailed to:
Case U-0001-15
Utilities Regulatory Authority
P.M.B 9093
Port Vila
Vanuatu
- emailed to:
breuben@ura.gov.vu

If the Commission receives a timely Notice of Grievance, it will conduct a review in accordance with Section 27 of the URA Act. If upon review the Commission determines that the grievance is justified, then it shall revoke, amend or vary the decision on the matter complained of.

5. Execution Page


CEO and Commissioner

Hasso C. Bhatia, PhD


Date 18/6/15

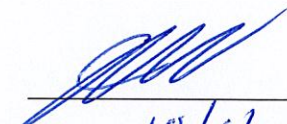
Chairman

Johnson Naviti Matarulapa Marakipule


Date 18/06/15

Executive Commissioner

John Obed Alilee


Date 18/6/15

Seal of the Utilities Regulatory Authority



Utilities Regulatory Authority

Vanuatu

You can access the case U-0001-15 Final Decision June 2015 on our website www.ura.gov.vu, or by contacting us by telephone (+678) 23335, email: breuben@ura.gov.vu or regular mail at Case U-0001-15, Utilities Regulatory Authority, PMB 9093, Port Vila, Vanuatu.

