



## FIJI COMMERCE COMMISSION

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## Final Authorisation

## Independent Power Producing Rates ("IPP")

### "Second Phase: Full IPP Rates"

Date Issue: 26 May 2014

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*"To Promote Competition in the Fijian Markets"*

## 1.0 Introduction

- 1.1** Energy is the vital basis of the development of human society, which is associated with several aspects of the social production and daily life. It is the basic building block of economic development. With increasing world population and the rising living standards, the demand for energy in the world is steadily increasing.
- 1.2** As energy is the important resource and motive power, its cheap and stable supply is the safeguard of the economy and social development. Developing countries are facing the double pressures of economic growth and environmental protection as they have entered the 21<sup>st</sup> century.
- 1.3** Among energy products, electricity is the high-quality secondary energy and the important material base of industrial production and people's life. Electricity is the most flexible form of energy that constitutes one of the vital infra-structural inputs in socio-economic development. Electricity is demanded for household, education, entertainment and commercial and industrial activity.
- 1.4** Given the rise in fuel costs over the last two decades, policy makers in Fiji has been pondering on how to promote more renewable energy source to reduce the dependency on imported fuel products.
- 1.5** Recently, the Commission undertook an extensive study to examine what should be the tariff rate that could be given to IPP's in Fiji.
- 1.6** We note from the detailed computations undertaken by the Commission as provided in the Commission information paper dated 16<sup>th</sup> May, 2014, the IPP rate should be 33.08 cents to 34.56 cents per unit.
- 1.7** The following table from the Commission's detailed information paper is reproduced.

**Table 1<sup>1</sup>: Thermal Cost Method Analysis**

Years	2008	2009	2010	2011	2012	2013
Net Fuel & Oil						
Electricity Generation	89,250,323	77,269,321	126,755,792	137,881,202	105,135,787	122,605,762
Fuel & Oil Motor Vehicle	1,677,419	1,841,780	1,485,140	1,410,481	1,487,351	1,541,038
Total Generated Thermal Kwh	269,745,000	309,924,000	415,129,540	339,760,000	271,283,000	324,754,843
Average Fuel Cost per Unit - Thermal	0.33	0.25	0.31	0.41	0.39	0.38
Average Diesel Price	1.99	1.57	1.84	2.22	2.26	2.3
Total No. of litres used	44,849,409	49,216,128	68,889,017	62,108,649	46,520,260	53,306,853

<sup>1</sup> Table 18 from the Commission Information Paper

**Table 1: Thermal Cost Method Analysis (Cont---)**

Units Generated- Thermal						
<b>Option 1 (as per FEA submission)</b>						
Unit Cost of Generation - Thermal	0.40	0.31	0.36	0.50	0.45	0.46
Estimated TDR (as per FEA submission)						0.1267
IPP rate						0.3308
<b>Option 2 (Using Factor determined by the Commission)</b>						
Unit Cost of Generation - Thermal	0.40	0.31	0.36	0.50	0.45	0.46
Estimated TDR Factor						24.46%
IPP rate						0.3456

Source: Commerce Commission IPP rate information paper dated 16<sup>th</sup> May, 2014.

- 1.8 The Commission in its 20<sup>th</sup> May, 2014 Determination decided to adopt a rate of 33.08 cents to be awarded in two phases. In the first phase, an award of 30cents was made while the remaining 3.08 cents was to be given 6 months later.
- 1.9 However, recent discussion with the stakeholders including the Ministry of Transport suggests that given the state of play with regard to Fiji's electricity sector, it may be prudent to award the full amount now to attract major renewable energy investments.
- 1.10 In this regard, the Commission now approves an IPP tariff rate of **33.08 cents VEP per unit**.

## 2.0 Commission's Authorisation

- 2.1 Pursuant to Section 4 and 41 of CCD2010 and the *Commerce (Control of Prices for Supply of Electricity and Ancillary Services) Order 2012*, the Commission makes the following authorization on the IPP rate to be paid by FEA.
- 2.2 For the purpose of this authorization, IPP is defined as:

*"IPP means any individual, private or public enterprise that generates or produces electricity and sells the electricity to the national grid or directly to consumers at an agreed, determined or negotiated fee. The agreed, determined or negotiated rates may be cost driven and as per the authorisation by the Commission"*

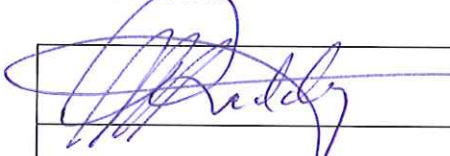
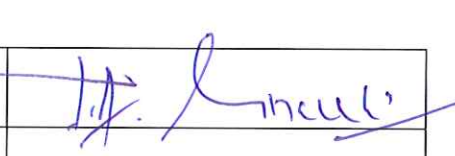
- 2.3 The IPP rate authorized by the Commission is a minimum **FJD0.3308 VEP per Unit**.

- 2.3.1** FEA and potential IPP's are required to register all Expression of Interest with the Commission for the provision of providing IPP services in Fiji. This must be done within 7 days of the receipt of such application by FEA;
- 2.3.2** Any dispute arising on the IPP rate, IPP definition and the terms and conditions in relation to the clarification of IPP's (either as fully fledged or non-fully fledged) must be referred to the Commission for arbitration.
- 2.3.3** FEA may consider offering higher IPP tariff rate based on the cost structure and geographical location of such IPP's generation plant.
- 2.3.4** The Commission reserves the right to review the IPP rates on a need basis.
- 2.3.5** The above authorization will come into effect from 27<sup>th</sup> May, 2014 and will remain in force unless earlier revoked or varied by the Commission.

### 3.0 Future

- 3.1** The Commission looks forward to Fiji generating and supplying most of its electricity requirements from renewable energy sources in the near future.
- 3.2** In such a scenario, the owners of the capital will benefit via higher returns, the country will benefit by making saving on its import expenditure, local economy will benefit by increased economic activity via IPP's, the environment will benefit via less pollution and the end users will also benefit by having significantly lower tariff rates.
- 3.3** This authorization's expectation is nothing less. The Commission will continuously monitor FEA's progress towards this vision.

#### Commissioners:

	
<b>Dr. Mahendra Reddy</b>	<b>Mr. Firoz Ghazali</b>
<b>Chairman</b>	<b>Commissioner</b>
<b>26 May 2014</b>	<b>26 May 2014</b>

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