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PRESS STATEMENT

DETERMINATION OF FIJI ELECTRICITY AUTHORITY TARIFF RATES

Tariff Alignment Phase 1

By

Commerce Commission

1st June, 2010

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1.0 Introduction

- ⇒ On 24th of May, 2010, the Commission formally received an FEA to implement an average 8.82 cents per unit tariff increase for electricity use.
- ⇒ FEA notes in their submission that the request for tariff increase by them has been triggered by a number of factors - mainly;
 - a) the low levels of water at FEA's largest dam, Monasavu Dam (thus implying low quantity of electricity from the low cost hydro power plant);
 - b) the rising level of fuel prices (thus implying higher cost of electricity produced via the diesel generators);
 - c) due to financial loss (F\$3.8m for the first four months of 2010) as a result of (a) and (b) above;
 - d) the impact of Devaluation of the Fiji dollar since 15th April 2009; and,

This is quite a worrying factual reality. The implications from this scenario on Fiji at the micro and macro level are numerous. These include:

- a) That FEA could become insolvent if prices (tariff rates) are not above the unit cost of generating electricity. The consequence of such scenario will be disastrous;
- b) Rising fuel costs and increasing use of diesel generators to produce electricity will severely impact Fiji's foreign reserve position; and,
- c) Power shutdowns and rationing will affect the commercial and industrial sector and thus economic growth of Fiji.

The Commission proceeded to examine the submission on its own merit.

2.0 The Commission Notes

2.1 That the current tariff rates does not reflect the scarcity of the single most important input, water, that is utilised in electricity production.

2.2 That FEA's efforts to encourage conservation of electricity by users have not yielded significant gains on electricity savings;

- 2.3 That FEA's and Government efforts to encourage Independent Power Producers (IPP's) to produce and sell renewable energy to FEA grid has not been successful;
- 2.4 That unproductive and luxury usage of electricity continues to take place in the Domestic, Commercial, Institutions and Church group and the Street light user group;
- 2.5 That FEA has borrowed heavily to build a new hydro dam and power plant at Nadarivatu in the interior of Viti levu;

3.0 Analysis

Based on the Commission's analysis, the following key issues are evident:

- 3.1 In our analysis, we found that Fiji's electricity tariff rates are much lower than comparator economies;

Table 1: Electricity Tariff Rates in Comparator Economies, April, 2010.

Electricity Tariff Rates In Pacific Region	Fiji Cents per kWh
American Samoa	67.23
Cook Islands	93.56
Kiribati	61.81
New Caledonia	60.71
Niue	83.79
Palau	43.09
PNG	60.12
Solomon Islands	147.83
Samoa	58.75
Tuvalu	69.08
Tonga	89.38
New Zealand	47.48
Australia	42.36
Fiji	25.50

- 3.2 Cost Modelling: The unit cost of producing thermal power currently stands at 42 cents of which 32 cents is the unit cost of electricity generation while 10 cents is the overhead costs. However, the weighted

average tariff rate for Fiji is 25.5 cents thus indicating a loss of 16.5 cents for every unit of electricity sold that is generated from thermal power.

3.3 Fuel Price Tariff Adjustment: Based on current Fuel price (Industrial Diesel Oil (IDO) and Heavy Fuel Oil (HFO)) and a rate of F\$756 per tonne, a rate pegged to initial tariff rate and using April, 2010's volume of electricity sold, we note that a Tariff adjustment by 8.82 cents is necessary.

3.5 The Commission notes that it cannot approve a rate which is higher than a competitive market rate as it would affect businesses by raising its unit cost.

3.6 That current price of 14.2 cents offered to IPP's fall far short of providing a strong incentive to attract IPP's to sell electricity generated from renewable energy to FEA grid;

4.0 Determination

In making this determination, the Commission carefully considered:

- a) The impact it will have on the lower income households;
- b) The impact it will have on the business sector of Fiji and its competitive edge in the product market;
- c) FEA and Fiji's quest to produce and supply most of its electricity requirement from renewable energy source;
- d) The impact subsidies have on resource consumption via sub-optimal resource pricing; and,
- e) FEA's financial viability and its existing covenants.

4.1 That FEA's request for increase in tariff be approved as per Schedule 1 below:

Schedule 1: Existing and Approved Electricity Tariff Rates.

User Group	<i>Approved Tariff Rates 1st Effective September 09</i>	Approved Tariff Rates Effective 1st June, 2010	Change
Domestic Life-Line Tariff (≤ 250 kWh per month)c/kWh	20.59	--	
Domestic Other Tariff (>250 kWh per month)c/kWh	26.02	--	
Domestic Life-Line Tariff (≤ 130 kWh per month) c/kWh		17.20	
Domestic Other Tariff (>130 kWh per month)c/kWh		34.84	
Commercial & Industrial Tariff –up to 14,999 kWh per month, c/kWh	28.65	37.47	8.82
Commercial & industrial Tariff – in excess of 14,999 kWh per month, c/kWh	27.67	39.47	11.80
Maximum Demand Tariff (1)Demand>1000kW Demand Charge \$ per KW per month Energy Charge c/kWh	25.39 16.61	27.59 18.81	2.20 2.20
(2) Demand 500-1000kW Demand Charge \$ per kW per month Energy Charge c/kWh	25.39 18.68	27.59 20.88	2.20 2.20
(3) Demand 75-500 kW Demand Charge \$ per kW per month Energy Charge c/kWh Excess Reactive Energy penalty fee c/kWh	25.39 19.38 19.64	27.59 21.58 19.64	2.20 2.20 0.00
Institution Tariff c/kWh	20.59	20.59	0.00
Street Light Tariff c/kWh	17.98	34.84	16.86

4.2 That the new tariff rates be effective from 1st June, 2010.

4.3 In this new schedule, you will note that:

4.3.1 Households consuming 130 kWh will now pay 16.4% less. For example, an household paying \$30 in the past will now pay \$25.08. We have 17343 households who will get a relief with reduction in their bill by 16.46%;

4.3.2 The high end domestic users will now have to pay 8.82 cents more;

- 4.3.3 The Commercial sector will pay 2.2 cents to 11.8 cents more depending on how much they use;
- 4.3.4 The Municipal Councils will now have to show greater responsibility as they will have to pay the same tariff as the high end domestic sector.
- 4.3.5 The tariff for institutions remains unchanged.

4.4 That FEA, in its quest to increase renewable energy generation in Fiji, offer attractive tariff rates to IPP's. Noting that the revised weighted average tariff rate following the proposed tariff alignment as per schedule one is 33 cents, the Commission, while allowing for 10 cents for distribution costs, overheads and a small but significant margin, sets the IPP tariff at 23 cents per kw per hour. The Commission also request FEA and IPP's to:

- 4.4.1 For FEA to submit to the Commission a clear and less bureaucratic process to deal with IPP applications;
- 4.4.2 For IPP's to register with the Commission a copy of their application so that Commission will ensure that FEA deals with their application swiftly.
- 4.4.3 That FEA put on hold any plans to provide across the board wages and salary increases.
- 4.4.4 That FEA undertake a review of its tariff structure and submit to the Commission:
 - 4.4.4.1 A report of the review with all primary and secondary data used in the review;
 - 4.4.4.2 A detailed proposal on its plans to increase renewable energy production in Fiji.

The report must be submitted to the Commission no later than 31st August, 2010.

4.5 That this tariff alignment is phase 1 of the Commission's attempt to undertake a thorough review and alignment of tariff in Fiji.

5.0 Future

The Commission looks forward to Fiji generating and supplying most of its electricity requirements from renewable energy in the very near future. In

such a scenario, electricity tariff rates will fall significantly and thus households and the business sector will greatly benefit. The household sector can utilise savings from electricity bills on more productivity enhancing activities while the business sector can reduce their unit production costs and thus improve their competitive edge in the product market.

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