PACIFIC COMMUNITY

FOURTH PACIFIC REGIONAL ENERGY AND TRANSPORT MINISTERS’ MEETING
(Apia, Samoa, 18–20 September 2019)

AGENDA ITEM E2 – STRENGTHENING THE OFFICE OF THE PACIFIC ENERGY REGULATORY ALLIANCE (OPERA)
(Jointly Submitted by SPC and ADB)

Purpose

1. The purpose of this paper is to seek the Energy Ministers’ endorsement on a technical assistance (TA) grant from the Asian Development Bank (ADB) to establish the Office of the Pacific Energy Regulators Alliance (OPERA).

Background

2. There is great potential for investment in the Pacific to reduce the region’s reliance on fossil fuels for power generation, including through supply-side efficiency in existing plants, replacement of fossil-fuel generation with renewable sources, and through end-use efficiency improvements. A major constraint to mobilizing investment is the poor commercial performance of utilities in the region. Effective governance and sector regulation can strengthen the commercial performance of utilities and support new investment, allowing utilities to collect tariffs sufficient for cost recovery on prudent utility investments while enforcing service standards to ensure adequate customer supply.

3. For small PICs, a dedicated regulatory office with full autonomous capacity is likely to be unfeasible, due to lack of human and financial resources. Creating a centralized body is an efficient means of providing capacity-building and knowledge-sharing support to existing regulators, and providing guidance to governments where regulatory capacity is nascent or non-existent. This approach has been effective in 11 regional energy regulatory bodies in both the developed and developing world. OPERA will serve as the Pacific regional hub for energy sector regulators. It builds on the success of regulatory reforms in individual PICs, and will extend knowledge-sharing and training resources to new members. By supporting more effective sector regulation, OPERA will (i) help accelerate prudent sector investment; and (ii) help deliver effective price signals to consumers and producers, to encourage efficient investment, consumption decisions, and efficiency gains by utilities themselves.

4. During the 2nd Pacific Energy and Transport Ministers Meeting in 2014, the Pacific Energy Ministers endorsed continued collaboration between SPC and ADB to strengthen sector regulation. During 2015 and 2016, SPC helped formulate the OPERA concept, but for lack of resources, progress on OPERA’s development has stalled. The 3rd Pacific Energy and Transport Ministers Meeting in 2017 called on development partners to provide technical and financial support for OPERA, and in 2018, ADB indicated that it is considering providing funding on a grant basis to reinvigorate OPERA’s development.

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Current status

5. Currently, only seven of the PICs have designated regulatory offices; the scope of these offices’ authority and experience in performing regulatory functions varies widely among these offices. In 2016, several of the regulators formed an informal association to serve as a platform for knowledge-sharing. OPERA will formalize this association and become a regional centre of excellence—providing advisory services, capacity building, and country-specific support in energy policy and regulation, on a long-term basis.

6. ADB currently supports energy sector regulation in the region through the Pacific Renewable Energy Investment Facility. Among other activities, the facility is helping to (i) implement energy sector reform, including through sector planning (road maps and grid integration studies), power utility management reforms and capacity building, and tariff reform; and (ii) revise regulatory and policy frameworks. ADB’s proposed support for OPERA will help ensure close coordination between ongoing TA and OPERA activities in the future.

7. In November 2018, ADB organized a workshop with SPC and representatives from regulatory bodies in Cook Islands, Fiji, Palau, Samoa, the Solomon Islands, and Tonga, to discuss options for formalizing OPERA and ensuring its long-term sustainability. At the meeting, ADB proposed a TA grant to establish OPERA and finance its initial period of operation. The TA mobilize consultants with experience in developing similar professional associations of regulators to advise on institutional, governance, and sustainability issues for OPERA. The firm will also assist in the initial years of operation, including recruitment and training of permanent staff. However, the workshop noted that the OPERA members have agreed for SPC to host OPERA in its Suva office.

8. During its initial period of operation, OPERA will carry out capacity- and training-needs assessments for its members, and will deliver several focused training workshops to begin developing the capacity of its members’ staffs. ADB and SPC expect the number, frequency, scope, and depth of such capacity-building activities to grow over time as OPERA becomes more robust.

Issues

9. To be effective in its early stages of operation, OPERA needs to have a focused scope. It should focus on the electricity subsector of energy, while allowing for future expansion into other subsectors where regulatory bodies oversee different network utility services.

10. All parties to OPERA—member countries, SPC, and ADB—need to formally agree on where to host the office. The preferred option is within SPC’s Suva office, because it is a regional hub, which may facilitate cooperation with industry, academia, and other stakeholders in the future.

11. ADB’s support is intended to finance the establishment and initial operation of OPERA, but not its continued operation. ADB, SPC, and members of OPERA need to agree on an appropriate model to ensure financial sustainability and self-sufficiency over time. For instance, as OPERA matures and its value to its members becomes increasingly recognized, members might be expected to cover an increasing share of the participation costs for their representatives at OPERA events (training, workshops, etc.) and support OPERA’s operations through other material contributions (e.g. annual dues).

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2 The PICs with designated regulator offices are Cook Islands, Fiji, Palau, Papua New Guinea, Samoa, Tonga, and Vanuatu.

Recommendations

12. The meeting is invited to:

i. **Agree** to ADB’s proposed TA grant to provide initial funding to support the establishment and operation of OPERA;

ii. **Endorse** the decision of the OPERA member countries for SPC to host OPERA within its Suva Office;

iii. **Endorse** the decision of OPERA member countries to focus on the electricity subsector while allowing for future expansion in the energy sector, as appropriate; and

iv. **Agree** to call on other PICs to join OPERA.