FIJI ELECTRICITY AUTHORITY (FEA) REGULATORY REVIEW -
Regulatory functions in Fiji’s electricity sector

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~ Participating Pacific Islands Countries ~
Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu
Regulatory Functions in Fiji’s Electricity Sector
By Gerhard Zieroth, Manager PIEPSAP

• The regulatory review is part of SOPAC’s assistance to the GoF in the area of energy policy development
• The exercise is strictly forward looking
The Process of the Review

- GoF/MPE requested SOPAC to perform a regulatory review of FEA following a Cabinet decision in November 2004
- ToR agreed with GoF and circulated amongst stakeholders
- Selection of consultant (competitive bidding)
- Stakeholder consultations and interviews – information gathering
- Inception report circulated for comment by stakeholders
- 1st workshop to discuss findings
- Draft Final Report circulated for comments
- Comments summarized and analyzed
- 2nd Wrap Up Workshop (today)
- Final Report and forward looking suggestions to GoF
Why Regulation?

- Investors need confidence, consumers need protection
- Regulation is a system that allows GoF to formalise and institutionalise its commitment to protect consumers and investors
- FEA does not operate in a competitive market that imposes cost discipline - regulation has to fulfill this role
- Reducing risk of market failure resulting in economic inefficiencies and higher than necessary tariffs
Stakeholders with regulatory functions

1. Minister of Works and Energy
2. DoE
3. Minister of Public Enterprise (Institutional Performance and Restructuring)
4. Minister of Commerce
5. Commerce Commission (Tariffs, IPP Access)
6. Department of Environment
7. Minister of Labor
8. FEA Regulatory Unit
9. FEA Management
10. FEA Board
Government’s Electricity Sector Goal
Strategic Development Plan

• Reform of the power sector “through internal restructuring of FEA and the encouragement of private sector participation through Independent Power Producers (IPP’s)”
IPP Development

• GoF wants the private sector to play a more significant role as investor (financing)
• Allocation of risk to qualified private investors
• In a single buyer model customers remain captive although IPP may be procured competitively
• IPP investors assess the financial strength of the off-taker
• IPP development must go hand in hand with strengthening of the utility’s position
Minister of Public Enterprise
Hon Irami Matairavula Nov 2004

• “…the concept of separating the authority’s regulatory functions is in line with the principle of good governance whereby a player in the market does not regulate”

• “…the need for the separation of the authority is to ensure that equal opportunity is provided to the private sector to participate in the production and supply of electricity…”
3 Major Issues in Regulation

Tariffs

Expansion Planning

Project Procurement
## 3 Major Issues in Regulation

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Key Issue Retail Tariffs

• Tariffs provide signals to consumers, but also to investors

• Tariffs must be sufficient to cover prudent expenses and investments of the utility and generate a return on investment
  – Passing through of non-controllable cost (can be done through an adjustment formula)
  – Scrutiny of controllable cost (more complex and requires technical expertise in the functions and business of the regulated enterprise)

• Tariff setting normally also consider social and equity issues
Relation Expansion Planning - Tariffs: Are we selecting the right projects?

Retail Tariffs

Expansion Planning

- Project in line with least cost principle?
- Discount rate appropriate?
- Financing optimized (Public, IPP, PPP)?
- Resource mix, diversification, risk?
- System reliability, LOLP?
- Environmental aspects considered?
Relation Project Procurement - Tariff: Are we procuring the projects at the best price?

Retail Tariffs

Regulatory Issues
• Procurement modality adequate?
• Financing optimized?
• EPC selection competitive?
• Negotiation format transparent?
• Financial model reviewed (IRR,dscr)?
Relation PPP/IPP - Tariff
Are we procuring the projects at the best price?

Retail Tariffs

Regulatory Issues
• Access unobstructed, level playing field?
• IPP modality adequate, risk allocation?
• Developer selection competitive?
• Negotiation format transparent, GoF included?
• Deviations to model project agreements?
• Financial model reviewed (tariff, IRR, dscr)?
Relation Government Policy - PPA Tariff

Is there a level playing field?

PPA Tariffs

Regulatory Issues
• Major player should not regulate
• Competitive procurement should be the norm
• Mandatory purchase obligation?
• What are FEA’s avoided cost?
• Can FEA develop new projects at the published avoided cost?

GoF Policy
Cost Benefit Considerations

- FEA is concerned that inadequate allocation and execution of regulatory functions will impose additional cost on the utility
- Cost/benefit analysis requires access to information (tariff study)
- Benefits even more difficult to measure with a forward looking perspective
- A more practical way to approach is to assess risks of regulatory failure
Some Questions

- Should the FEA Board have regulatory functions?
- Has GoF the information required?
- Are responsibilities clearly delineated?
- Do we have too many regulators?
- Is there regulatory backstopping?
- Is there a tendency to micromanage FEA?
More Questions…

• Can power sector regulation be completely de-politicized?
• Can regulatory functions be concentrated to allow capacity building and economies of scope and scale?
• What distortions, and in what magnitudes, are acceptable in a sector dominated by a monopoly supplier?
Other Regulatory Issues

• The different actors in restructuring, including legislators, staff, regulators, utility and the general public all have different agendas

• There is tension between those who are regulated and the regulator

• Regulation has multiple objectives that are often at odds with each other