Fiji Labour Party (FLP) rejects the changes as proposed by Energy Fiji Limited (EFL) to the current electricity tariff structure.

(I) INTRODUCTION

EFL is a state owned and monopoly enterprise that provides an essential service to the people of Fiji. Chugoku Electric (Japanese publicly listed power company) and JBIC (Japanese Government owned bank) own 44% of EFL, while account holders and the Fijian government own the remaining shares. The independent regulator for the electricity sector is the Fijian Competition and Consumer Commission (regulator) who is responsible to the Minister for Public Works, Transport and Meteorological Services - Hon. Ro Filipe Tuisawau (minister).

EFL is and has been a viable and profitable enterprise. The regulator and the minister, therefore, play a vital role to ensure that the interests and wellbeing of the people of Fiji are upheld, and in particular those of low income and of rural areas as per s6.(3)*(a)*(i), s6.(4) and s6.(5) of The Electricity Act 2017 (Act). The affordability of electricity to the consumer must not be compromised. This is also representative of EFL's mission statement: "*We aim to provide clean and affordable energy solutions for Fiji with at least 90% of the energy requirements through renewable sources by 2035"* (EFL 2023b). Fiji currently has a respectable renewable energy output *"… more than 50% of EFL's electricity sources already generated by renewables"* (EFL 2023a, p. 12).

Furthermore, the regulator and the minister must also ensure that corporate interests do not take preference over EFL's responsibility, as a state-owned monopoly provider of energy, to facilitate economic progress and align its strategies with the government's macroeconomic ideals of low inflation and high productivity.

(II) EFL'S PROPOSED TARIFF INCREASE OF AROUND 32% IS NOT JUSTIFIED

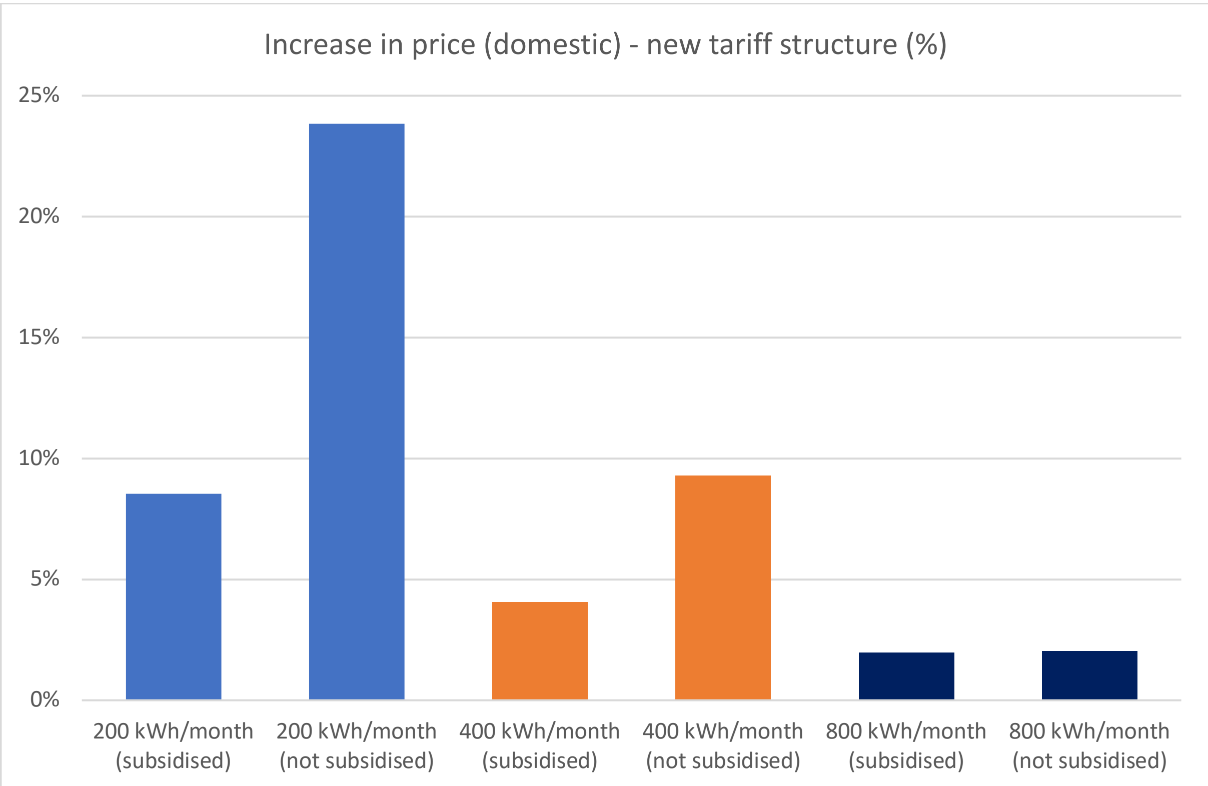
In reference to section five of EFL's submission, none of the justifications outlined can be accepted. The increase of 32% is excessive and the manner in which it has been proposed i.e., with the introduction of a fixed rate, is counterproductive and problematic.

The fixed rate must be rejected for domestic customers.

Introducing a fixed rate while decreasing the variable rate to *"encourage all users to understand the value of electricity and promote efficient consumption"* (EFL 2023c, p. 1) does not hold true.

FLP rejects the introduction of a domestic fixed rate. Figure 1 shows that the proposed tariff with the fixed component will increase prices for all and disproportionately affect low users of electricity.

Figure 1



Low-income earners that have low usage will be unduly affected by the proposed tariff structure. Furthermore, having a fixed component to the tariff structure does not disincentivise against high usage as they are less affected by the proposed price hike. This is contradictory to what EFL has stated as their intent regards a fixed rate.

A fixed rate *"… to ensure those high-income users who can switch to renewables, such as solar, share the cost to reduce the burden on low-income earners"* (EFL 2023c, p. 1) and mitigate against *"…all these customers go on this model and put up their rooftop solar, then the EFL power system can become redundant one day"* (EFL 2023c, p. 4) cannot be justified.

This seems ludicrous and in order for this notion to be taken seriously, evidence must be provided by EFL as to the extent to which solar users, who also use the EFL grid intermittently, compromise EFL revenue against fixed and capital costs.

According to the 2022 EFL annual report, new installations and the customer base is increasing and EFL continues to be profitable. According to the EFL's Ten Year Power Development Plan (PDP), domestic, commercial and industrial demand will be rising for the next ten years. Therefore, despite the shift to household solar, there will be continuing and ongoing demand. Households switching to solar not only reduce the variable costs and reliance on imported fuel (imported fuel made up 45% of total EFL expenses in 2022) but also provide EFL with an alternate source of renewable energy by selling back to the EFL grid.

"…with higher volume of customer migrating to rooftop solar, and then they sell any surplus energy back to the EFL grid, this will require the power grid to be upgraded at a huge cost ..." (EFL 2023c, p. 5). This is a disturbing statement as EFL is showing a reluctance to adapt to a future hybrid electricity system which combines a national grid alongside Independent Power Producers (IPPs) and household generation of electricity. Such a system would be in the national interest and prudent in terms of economic strategy[1]. Introducing a fixed tariff

[1] Notwithstanding that the household solar sector must be stringently regulated in terms of such things as quality of product and installation and disposal of panels etc.

rate to mitigate against a perceived loss from households switching to solar is unreasonable and counterproductive[2].

EFL's logic for introducing a fixed rate is contradictory and confusing. While they *"encourage all users to understand the value of electricity and promote efficient consumption"* and *"encourage the development and uptake of diversified renewable energy technologies"* (EFL 2023c, p. 1), they are proposing a tariff structure where low domestic users are disproportionately affected while also disincentivising the uptake of an efficient renewable energy at the household level.

Users should be held accountable for the extent to which they consume electricity, however, they should not be charged for the general access to electricity. A daily fixed rate would create barriers to the access to energy for those on low incomes. This is unacceptable as energy is a vital resource and a basic human right. Given the increase in VAT, the rise in the cost of living and increasing poverty, anecdotal evidence suggests that increasing energy prices by adopting a fixed rate will make electricity unaffordable for many low-income earners.

Where a fixed rate exists for providers in advanced countries such as Australia, the distribution of electricity in such markets is highly competitive, and consumers have fixed and variable tariff structures to choose from. As EFL is a monopoly provider, it is important that the regulator, as choice is not available, ensures that consumer interests are upheld.

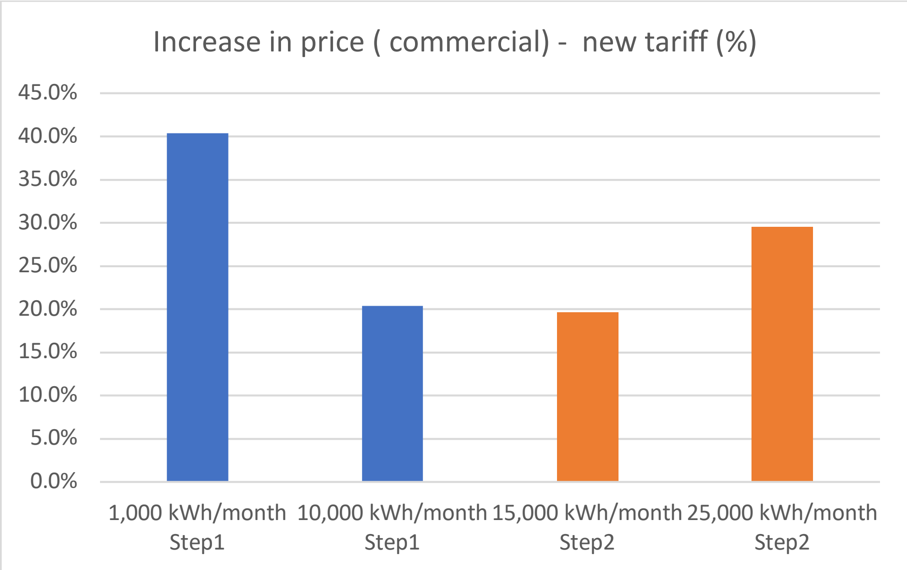
The fixed rate must be rejected for commercial customers.

Small businesses have seen their expenses rise recently as VAT, global inflation and corporate tax have all increased. A rise in energy costs for small businesses will be an extra unwarranted burden that will negatively affect the robustness of domestic trade and will

[2] Furthermore, FLP, would call on the minister to look to revise s6.(2)*(b)* of the Act which is anti-competitive and discriminates against the household solar sector.

impact economic growth. Figure 2 shows how the proposed tariff changes (with the addition of a fixed component) will discriminately increase energy costs for small businesses.

Figure 2



Small businesses with low level usage will be most affected, followed by those commercial customers with the highest usage.

As mentioned earlier, the objectives of EFL must align with the government's macroeconomic ideals of low inflation and high productivity. Increasing energy tariffs for businesses will increase their costs and cause them to raise prices. Raising prices will reduce their competitiveness in the global market in terms of exports and exacerbate inflation in the domestic market. Suppressed exports will negatively affect productivity while higher inflation will cause the cost of living to become even more excessive for a lot of Fijians.

In sum, a fixed tariff structure for domestic consumers must be rejected as it creates anomalies in the pricing structure that disincentivises against the switch to household solar, breaches s6.(3)*(a)*(i), 6.(4) and 6.(5) of the Act in disregarding the interests of low income earners, contravenes EFL's mission of providing 'affordable' electricity and is unjust and inequitable.

A fixed tariff structure for commercial use as proposed must also be rejected as it unduly discriminates against small business owners and increases the energy costs for businesses which will have negative flow on effects such as greater inflation. It is important to note that the transmission, distribution and retail cost (‘fixed costs’) to EFL of providing electricity is less than half of the variable costs (EFL 2023c) and therefore does not substantively require, in terms of cost accounting and risk management, a fixed revenue tariff structure.

Tariffs do not primarily fund capital expenditures

“The initial capital cost for Hydro Power Projects is expensive which results in increase in electricity tariff to fund which is painful, however, in the long term these projects are expected to bring the cost of operations of EFL down.” (EFL 2023c, p. 6)

This statement is grossly misleading and iniquitous.

Firstly, the responsibility to pay for important energy infrastructure and the burden of risk must not be shifted from the government to the private sector through privatisation only to be shifted by the private sector to the public by means of increased tariffs in this non-competitive environment where price cannot be determined by the market. The regulator must, as per the Act, stop such a blatant transfer of responsibility and risk by EFL to the public in terms of broad increases in tariffs.

Secondly, funding for capital expenditures (capex) is primarily through debt. The gearing ratio as outlined in EFL’s annual report is at a ten-year low and is well below the international benchmark for power utilities. EFL has the capacity to borrow up to the industry recommended limit of 45% gearing. Around $600m can be borrowed in the next five years according to figures provided in EFL’s annual report 2022 without jeopardising debt obligations. This borrowing can be sought from extensions to the commercial bank facilities, concessional loans through multilateral institutions and JBIC and climate finance. EFL should also seek alternate debt avenues such as ‘impact’ investing.

There is also the role of government that cannot be ruled out. EFL has the dual role of state-owned enterprise that is accountable to the interests of the people and a private entity which is accountable to the interests of the shareholders. Therefore, there is the responsibility of the government to aid EFL in terms of EFL's obligation to assist the macroeconomic needs of the nation against exploitation of the marketplace. For example, EFL has an obligation as a state-owned enterprise to encourage responsible consumption, which is contrary to profit seeking, adopt renewable energy which is capital intensive, and provide services to low and rural users which is both capital intensive and low revenue generating.

The government continues to subsidise electricity for low-income earners and continues to provide grants for grid extensions to rural areas. The partial privatisation of EFL complicates the government's role as private interests stand to unjustly benefit from the government's involvement and the use of taxpayers' funds. However, in lieu of EFL's privatisation and with the view to increase competition in the energy sector, new infrastructure, including new capital projects as presented by the PDP, can be financed through government investment through joint ventures and taken off EFL's books. In this way, the government can be more proactive with respect to the environmental sustainability of the energy sector and reduce the barriers to entry for future prospective energy investment. The return on investment in terms of revenue derived from the upgrade of the transmission and distribution system is difficult to determine using accounting metrics. However, if EFL were to lease infrastructure, tariff structures could better reflect operating costs rather than return on capital investment. Such innovative measures need to be considered to address the non-competitive nature of and the mismatch between private interests and public needs that exists in Fiji's energy sector.

In sum, there are methods of financing capex that do not require broad increases in the tariff. The accountability and risk for capex should lie with EFL and not the consumer[3]. Therefore, it is unacceptable for EFL to suggest that "*the electricity tariff will have to be*

[3] FLP wishes to call on the minister to look to revise s4(c) of the Act to allow for caveats to the funding of capital costs by tariffs.

increased to fund these renewable energy projects…in the long term these projects are expected to bring the cost of operations of EFL down" (EFL 2023c, p. 6) as this suggests that the onus of risk is being shifted to the consumer. It appears that EFL is blatantly and corruptly taking advantage of its monopoly status. In a competitive market, firms would usually invest within the constraints of debt and equity, and price would primarily be determined by the market.

Furthermore, while the PDP is a commendable document, a tariff restructuring should not focus on the ten-year objectives of the PDP as it is a living document that is assessed every two years. It is important to have long term plans, however, it is difficult to forecast in terms of such things as global and climate events, accessibility to and cost of raw materials, foreign currency fluctuations, land rights negotiations, IPP investment and changes in technology and consumer behaviour.

EFL's submission states that *"EFL has allocated around $1billion in capex as part of its next 5-year business plan"* (EFL 2023c, p. 3). In EFL's annual report, the figure required for the capex for the next five years is given at $851m (EFL 2023a, p. 24). In the PDP, the figure is over $1.2b (EFL 2022, p. 66). A more comprehensive and robust five-year outlook must be presented that provides more consistent figures alongside a number of scenarios of timelines and options for capital investment. The large capex requirement for transmission costs in Viti Levu in 2024 and 2026, that amount to close to $600m (EFL 2022, p. 66), needs to be more transparently outlined. EFL's annual report states that the ADB is currently carrying out a feasibility study on a second transmission network for Viti Levu. Has this study been released, and will it impact the costing as outlined in the PDP? Given the economic precarity that Fiji finds itself in, a more thorough account of capex requirements, options and priorities need to be pursued.

(III) THE PROPOSED TARIFF STRUCTURE *DOES NOT* MEET KEY OBJECTIVES OF THE FIJIAN COMPETITION AND CONSUMER COMMISSION TARIFF METHODOLOGY 2019

The proposed tariff structure does not meet key objectives of the Fijian Competition and Consumer Commission Tariff Methodology 2019 (Methodology). EFL is a profitable and stable business with strong financials and prudent risk management. The chairman's report in EFL's annual report states: *"The Balance Sheet of EFL as at end of December 2022 is in a very strong position and is attributed to the solid profits recorded by EFL in 2022, strong retained earnings carried forward from prior years, as well as prudent debt management ensuring debt servicing is carried out in a timely manner without any default"* (EFL 2023a, p. 13). Therefore, the ongoing supply of electricity as outlined in s3(a) of the Methodology is not reliant on a tariff increase.

Furthermore, the increase in tariff as proposed does not necessarily enhance the efficiency of providing electricity as outlined in s3(b) of the Methodology that is above and beyond what can be achieved through an alternate tariff structure. EFL's argument: *"The reason for the low percentage of increase in employee count as compared to the asset base is mainly to do with the lower tariff increase approved in the past"* (EFL 2023c, p. 12) cannot be justified as EFL has made substantial profits in recent years that could easily have absorbed increases in personnel costs.

The proposed tariff structure does not satisfy s3(c) of the Methodology as it does not promote efficient consumption. With the proposed tariff structure, high-level users are less affected by the increase in prices and therefore are not incentivised to control their usage.

The proposed tariff structure does not satisfy s3(d) of the Methodology as it discriminates against low-income households and jeopardises their access to electricity.

Lastly, while the PDP proposes investment into renewable energy, the proposed tariff structure discriminates against household solar users – who consume and contribute electricity to the grid. For this reason, the proposed tariff structure also compromises the environmental sustainability of the energy sector as outlined in s3(e) of the Methodology. It also disregards the national agenda of a move towards renewable energy. It must be noted that the current tariff structure has not hindered the entering into the market of IPPs who produced 6.59% of total energy production in 2022 (EFL 2023a).

(IV) THE 'ALLOWED REVENUE' FORMULA HAS LIMITATIONS

The formula used for the allowed revenue proposed by the regulator must be used only as a guide. Such accounting metrics used in the formula have limitations, are simplistic and generally used to evaluate investment in a competitive environment where prices are determined by the market. This is not the case for EFL. The regulator must acknowledge, especially with respect to domestic consumption, how increased tariffs affect consumers' discretionary income. In the absence of a competitive marketplace that can determine price, the regulator must make special efforts to determine a price that is fair and equitable to the consumer instead of using accounting metrics to justify a pricing structure that delivers a rate of return that has been predetermined by private shareholders. This is particularly important given the increasing poverty and economic precarity that Fiji finds itself in.

WACC is a simplistic metric used by investors to determine whether the revenue of a firm is representative of its share price in a competitive environment where price cannot be manipulated. This is not the case for EFL. Similarly, the measurement of return of equity using the CAPM model does not represent the monopoly environment of the Fijian energy sector. Furthermore, as EFL is majority owned by the government, it is deeply flawed to quantify the desired return on equity using CAPM. In other words, WACC and CAPM assume that the only goal for the shareholder is to maximise shareholder wealth. This is false and misleading in the case of EFL as it is a state-owned enterprise providing an essential service. The regulator must seek to use more holistic and tailored methods in determining tariff structures.

It is wholly unsatisfactory that the RAB (Regulatory Asset Base) is used to determine the revenue return required on capital investment (which is used to determine the tariff rate) as EFL has not paid for capital expenditures that they are claiming a rate of return on. It does not take into consideration grants and subsidies delivered to EFL which involve taxpayer funds and Aid.

"… to ensure that the shareholders' interest is protected then they need to be fairly compensated based on the returns similar size entities are getting as compared to Energy Fiji Limited. An average return of around 7% is considered on the lower side for energy companies which are limited by shares." (EFL 2023c, p. 10)

This statement is unjustified. Who are the *"similar size entities"*? Do they operate in a non-competitive market like EFL? Are they based in a country like Fiji with an alarming poverty rate? EFL is an established monopoly and state-owned enterprise that carries low risk. In terms of risk, shareholders have been receiving adequate and appropriate returns on investment in recent years.

(V) CONCLUSION

EFL has a monopoly on the energy sector in Fiji. It has an extensive and increasing consumer base, is well managed in terms of operations and risk and is leveraged at safe levels. It is also a state-owned enterprise providing an essential service and basic human right to the Fijian population.

EFL's submission is focussed on increasing tariffs to fund capex, yet EFL's debt position is favourable and there is room to borrow. Furthermore, there has not been a holistic look at other ways to structure operations and finance to allow EFL to achieve its objectives. For example, through privatisation it was promised that EFL would access operational expertise and technology from Chugoku Electric and finance opportunities through JBIC. However, EFL's submission has not reflected how operational costs may be reduced through increased operational efficiency nor how debt costs could be lessened through finance alternative.

EFL is proposing an adjustment to the tariff structure that will cause prices to go up unreasonably, especially for low-income earners, low level users and small businesses. The proposed structure will be inflationary, disincentivise consumers from controlling excessive use, deter the adopting, at the household level, of renewable energy, negatively affect exports and the robustness of domestic trade. It is important to remember that EFL continues to be highly profitable and in a competitive market there would be no pressure to increase prices despite increases in CPI. EFL’s healthy profits and the substantial dividends that shareholders receive in and of itself would negate the need to increase tariff prices.

The regulator’s role is to be vigilant about non-competitive behaviour by EFL and should reject their proposed tariff restructure. In its proposal, EFL is attempting to manipulate the price of energy to guarantee a high return for shareholders and transfer the risk of their capital investments to the consumer in an environment of non-competition. This is unacceptable and it is the role of the regulator and ultimately the minister to ensure that EFL does not exploit its privileged status as monopoly provider of an essential service and basic human right.

FLP does not rule out a tariff restructure as and when debt obligations increase. For the moment this is not the case. Moreover, EFL’s proposed tariff restructure does not align with prudent economic strategies of disincentivising against overuse of electricity, facilitating greater use of renewable energy (for the grid and at the household level), avoiding undue inflation, providing affordable energy for low-income earners and boosting the economy by facilitating productivity in the business sector. FLP urges the regulator to reject EFL’s submission.

REFERENCES

EFL 2022, 'Ten Year Power Development Plan (Period 2022 - 2031)'.

EFL 2023a, '2022 Annual Report'.

EFL 2023b, 'Mission Statement', *EFL Website* *https://efl.com.fj/about-us/company-information/our-vision-mission-values/*.

EFL 2023c, 'Non Confidential Electricity Tariff Submission'.