



FIJI COMMERCE COMMISSION

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Press Statement

Determination on FEA's General Extension Policy

The Commerce Commission Decree 2010 (Decree) obliges the Fiji Commerce Commission (Commission) to promote competition in Fiji. Where the Commission has reason to believe that the advancement of the objectives of the Decree are not adequately assured by prevailing market conditions, the Commission must:

- (a) identify and review relevant product and service markets for the relevant industry;
- (b) evaluate the level of existing or likely competition in such markets, including taking into account substitution effects of inter-modal competition; and
- (c) determine whether, and the extent to which, an insufficiency of existing or likely competition in such markets is likely to impede the advancement of the objectives of the Commerce Commission Decree 2010.

If the Commission determines that an insufficiency of existing or likely competition in a relevant market reviewed is reasonably likely to impede the advancement of the objectives of the Decree, the Commission must identify the impediments and take appropriate remedial actions to ensure that the objectives of the Decree are achieved.

Noting the above, the Commission in November last year received a complaint from a Resort on how FEA has been abusing its absolute market power in requiring them to pay for their Capital costs. There were several other complaints that the Commission received this year.

On 4th March, 2011 the Commission wrote to FEA seeking clarifications on the following issues:

- 3.4.1 Current Grid (Extension) Policy and if the Grid Policy has been changed in last five (5) years, then all such Grid Policies that were in existence in the last 5 years.
- 3.4.2 Detailed Breakdown of capital investments made in the last 5 years, including the contribution made by customers for each of the capital projects.
- 3.4.3 Justification in asking customers to pay their Capital Cost and at the same time requiring them to pay market tariff rates.
- 3.4.4 Justification for exercising ownership rights on an investment made by the consumers.
- 3.4.5 Justification to deny the customers a return on the portion of the capital that the consumers have funded.

The Commission received a written as well as oral submission from FEA to its letter dated 4 March, 2011 on 14 March. On 4 March, 2011, the Commission also issued a press statement on the issue and called for public submissions. The deadline for the public submission was set for 18 March, 2011. After the deadline for public submissions had elapsed, the Commission received 10 submissions from major stakeholders in Fiji. The Commission then undertook its own analysis.

Commissions Findings

1. As per the FEA policy and absolute power, customers have no choice but to pay the cost of extensions.
2. While the customers pay for the grid and capital costs, FEA has the full ownership right over the capital infrastructure and thus any future returns accrue to FEA only;
3. While customers pay for the capital costs, they are also required to pay the full tariff rate as stipulated for all customers;
4. While customers are required to pay for the full capital costs, any additional customer that joins the grid do not have to pay any costs towards the already incurred capital costs. Furthermore, FEA enjoys any additional income arising out of these additional customers;
5. In case of FEA paying for 25% capital costs, in its books, FEA treats this as a fully funded investment and enjoys depreciation benefits on 100% on the cost of extension.
6. Under Section 16 of the Electricity Act, FEA has power to borrow money by issue of debentures or debenture stock, but FEA instead relies forcing its policy on consumers to fund such extensions.
7. FEA in November, 2010 was given a major increase in its tariff rates. The increase in tariff rate was what FEA had asked for. FEA's argument was that the existing tariff rates were placing them in a loss situation and the tariff sought will not only allow them to make profit, but will also allow them to invest in capital projects as well as renewable energy projects. Based on this, FEA's request for tariff increase up to 12 % was granted. For FEA to, then, get customers to pay for capital costs, over and above the market based tariff rates, is unethical and against basic accounting principles.
8. The rate of return on capital for utilities around the globe is no more than 10%. With the new tariff rates, FEA's rate of return on Capital is significantly greater than this international benchmark.
9. FEA, has so far, developed and passed a Grid Extension Policy which has no economic basis. Given the FEA is a monopoly provider of electricity in Fiji, such policy should not only have an economic basis, must also undergo consultation with the general public, in particular the key stakeholders. However, FEA has been able to levy these charges unilaterally because it has absolute power. FEA has abused its power and the Board has allowed FEA to abuse this power

Commissions Determination

Based on the submissions received from various stakeholders and its independent analysis, the Commission makes its Determination effective from today as follows:-

1. For households no fee is to be charged.
2. For loads other than households having monthly loads up to 500 units, no fee is to be charged.
3. FEA may, seek refundable deposit for major capital costs which will have an impact on its cash flow.
 - a. For monthly loads between 501 units to 1000 units; 50% of the cost of extension may be charged as an interest free deposit which is to be fully refunded after 8 years of continuous usage.
 - b. For monthly loads above 1000 units, 100% of the cost of extension may be charged as an interest free deposit which is to be fully refunded after 8 years of continuous usage.
 - c. Should a customer close business and stop consuming electricity within the stipulated period above, then the refund will be made on a pro-rata basis.

4. No Capital costs to be levied on customers seeking extension of grid in an uneconomical geographical areas or rural areas.
 - a. However, FEA can borrow money under Section 16 of the Electricity Act; or,
 - b. Make a case to Government for support for capital infrastructure in the rural areas where such extension may provide low returns. This again is purely a transaction between Government and FEA and FEA must not involve the community/firm/households/consumers in any way.

5. FEA, when undertaking valuation of Capital costs for grid expansion which will require a refundable deposit, then its costing must be vetted by an independent valuer to be appointed by either the Fiji Commerce Commission or Department of Energy.



Dr Mahendra Reddy,
Chair, Fiji Commerce Commission.