CONSUMER COUNCIL OF FIJI

SUBMISSION TO THE COMMERCE COMMISSION

On

Review of FEA Tariff Rates Phase II

September 2010

PART I

1.0 INTRODUCTION

The Consumer Council of Fiji (hereinafter referred to as 'the Council) welcomes the Commerce Commission's call for submission for its Review of FEA Tariff Rates Phase II. This phase of the review is timely, albeit ad hoc, considering the high number of consumer complaints registered by the Council and that raised in public forums such as the letters to editor columns, in radio talk shows, and other avenues. The Council's hopes that the Commission's Phase II review will be more comprehensive and thorough, to address issues from the tariff structure to initiatives taken by FEA to reduce Fiji's dependence on fossil fuels.

1.1 Electricity – Essential Service

Electricity is an essential energy source that plays a critical role in growth and development of Fiji. The Council wish to stress that for consumers in Fiji this essential utility service is ironically provided and regulated by a single commercial entity – the Fiji Electricity Authority. The FEA as a regulator, generator and distributor of electricity has the unfair advantage of dictating the environment in which it conducts its business. FEA is well protected by Electricity Act 1966. This legislative bias protects FEA's interests and not the consumers of electricity; thus exposes FEA to inefficiency, unaccountability and irresponsibility. However, by involving consumers to have a say in establishing fair tariff rates, general public has the opportunity to be consulted on a holistic level that would result in improvements in the FEA's services and a more efficient environment for electricity generation.

1.2 Government policy on Energy – Electricity

The government's goal for the energy sector in its Sustainable Economic and Empowerment Development Strategy (SEEDS) 2008-2010: A Better Fiji for All, is "to facilitate the development of a resource efficient, cost effective and environmentally energy sector" The government has noted that: *Availability, reliability and cost of appropriate forms of energy are necessary as a basis for viable production investments needed to attract private productive investments to create employment, alleviate poverty and increase exports. Energy directly supports growth of the economy and indirectly influences stability of the country as well*. The government also declared its intention to "*improve the efficiency and effectiveness of FEA's operations*". It was also "reviewing the regulatory role of FEA with the intention to removing this role from FEA and which will enable the company to concentrate on its core business." This is a move in the right direction. Furthermore the government has acknowledged that electricity production is being constrained by *current regulatory arrangements*. In other words a major impediment to the provision of efficient, cost-effective and affordable electricity is FEA's dual role of both regulator and provider of one product in one single market. The Council would like the Commerce Commission to bear in mind the government's policy objective on electricity generation which is "*the community has increased secure access to affordable and reliable energy supplies*". The Government made the decision to reform FEA by formation of an appropriate independent regulatory agency and review of the Electricity Act to encourage competition in the generation of energy.

1.3 Consumer Council's powers to represent consumer issues/interests

The Consumer Council of Fiji as a statutory body established under the *Consumer Council of Fiji of the Act 1976 (CCOF Act)* is mandated by the law to voice consumer or members' views concerns and issues through complaints received by the Council as well as part of its legal duty is to ensure that the most disadvantaged, poor and needy gets access to affordable and efficient delivery of the services currently offered by the FEA. Amongst other functions, the Council is empowered (under Section 6 of the Act) to: … ***"make representations to the Government or to any other person/organization on any issues affecting the interests of consumers."*** The Council mainly functions as an independent watchdog to create a fair and just delivery of goods and services in the marketplace. It does this by representing and protecting the rights and interests of consumers and in particular, the disadvantaged groups, rural poor and women by identifying and articulating the policy issues that are of importance to the consumers. The Council's insight into consumer needs and issues is a powerful tool for influencing decision-makers to bring about change.[1]

2.0 BACKGROUND ISSUES

Before providing comments on the six questions outlined in the Commission's notice for written public submissions (*Fiji Sun*, 07/08/10), the Council wishes to highlight some of the major concerns of consumers which became apparent after the new tariff of June 9, 2010 came into effect.

2.1 Lack of information for counter submission on Review of Tariff Rates

The Council appreciates Commerce Commission's initiative to consult the public on FEA tariff rates, however the Commission should not expect consumers/public to make a fair assessment and submission when they do not have access to full information. The ordinary consumer cannot respond effectively to the questions posed by the Commission. For example: *Has FEA done enough work to obtain oil product at a minimum price?* Furthermore, FEA annual reports do not disclose payout to Monasavu landowners, how fuel was purchased and from which company? What arrangement exists between FEA and ***Telesource Fiji Limited?*** If Telesource Fiji Limited is contracted to run diesel plants for FEA then for sure the unit cost of producing thermal power naturally increased from 34cents[2] to 42cents[3]. (See ***Appendix 1*** for historical tariff movement, 1998-2010). The increase can be attributed to inclusion of profits by the Telesource Fiji Limited.

To make matters worse consumers did not have access to FEA's original submission to the Commission requesting for an increase in tariff rates. The Council's experience in accessing FEA submission from the Commerce Commission was futile because this could not be provided based on the reason of non-disclosure of confidential information. Even a copy of non-confidential information from the submission was not given to the public on request for analysis. The Council fails to understand why FEA-related information should be treated confidential when it is a government-owned company run on tariffs paid by its citizens.

Secondly, being a monopoly there is no danger of losing business secrets to another company because there is **no other** company competing with FEA. For transparency and fairness to all stakeholders FEA's submission for tariff increase should have been made public. Without

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[1] More information on the Council is available on its website: www.consumersfiji.org
[2] figure provided by FEA when fuel surcharge was introduced in 2006
[3] Press statement by Commerce Commission on 1 June 2010 titled " Determination of FEA Tariff Rates

providing such full disclosure to consumers, the public suspicion on FEA operation as noticed through 'letters-to-editor' columns and other forums will persist.
The Council with regret has to state that consumers have not been provided fair opportunity to counter FEA's arguments for tariff increases.

2.2 Consumer Complaints Against FEA

With new tariff determination implemented from 1st June, 2010, the most critical area of consumer concerns and complaints was the redrawing of the Domestic Life-Line and Domestic Other Tariffs. There was a downward readjustment of the KWh cap between these two tariff lines from ≤250KWh to ≤130KWh, which meant that consumers were asked to consume less electricity than before to qualify under the lower Domestic Life-Line tariff. In other words consumers were being asked to pay much more than before as there was a 120KWh (48%) drop in the consumption cap between the two domestic tariff lines. The Council noted that this would be an issue when the new tariffs were announced; however, its real effect could only be documented once the June-July bills were received by consumers. And it was no surprise that the Council was inundated with phone calls, emails and face-to-face complaints from consumers who experienced a 50% increase in their bills for using same amount of electricity. Household monthly consumption generally remains the same and consumers have a fair idea of how much they are paying per billing month. A spike in the monthly bill is thus easily noticeable and consumers do raise questions when the bill goes up by such huge percentage.

2.2.1 Nature of Complaints

The Council received a total of 120 registered complaints against FEA. Disgruntled consumers expressed their anger at the exorbitant increases in their bills, including FEA's demands for increases in the security deposit. (See ***Appendix 2*** for details of the complaints). More complaints are still flowing in by the day. This figure excludes the number of consumers who have called or emailed the Council to register their concerns over the new tariffs which have been deemed higher. The Council has also noticed the high number of consumers registering their complaints through public forums, especially in the open columns of the daily newspapers (See ***Appendix 3***) for a sample of letters from consumers).

The Council is aware that the Commerce Commission itself has officially registered complaints from FEA customers. Amongst the 120 grievances officially registered by the Council, the two most recurring complaints were on: *high increase in bills; and application of the higher tariff line although the consumption showed less than 130KWh used.* There were also complaints about FEA demanding additional security deposits through new tariff introduced in June. The Council also found many consumers complaining that the practice of 'Estimated Reading' used by the FEA was not fair and gave them incorrect bills. FEA's persistent and unreasonable excuse has been that meters were inaccessible to their meter readers hence the use of estimation. In a complaint lodged earlier in the year, Council officers were able to establish the fact that the complainant's meter was accessible in a public place of worship, which FEA claimed as non-accessible and therefore warranted estimated reading. Furthermore, consumer confusion has arisen over FEA's calculation of bills. An area of interest which the Commerce Commission should investigate is the calculation of the 'daily average' consumer. Customer bills show errors. See ***Appendix 4*** for billing complaints on daily average calculation. (Copies of the bills are with the Council and can be provided for further clarification)

2.2.2 Tariff Lines and Methods Used by FEA

The new tariffs that came into force on 9th June 2010 and its after-effects on consumers bill was actually a blessing in disguise. It opened up a can of worms in regards to FEA's billing system, in particular how billing information is presented in customer statements. There is a lot of ambiguity in regards to how FEA calculates bills. Consumers were being informed that the tariff lines were determined according to their **consumption per billing days.** However after new tariff increase, the consumers including Consumer Council learnt from FEA that it uses **daily average** to calculate monthly bill**.** This information came as a surprise because the Council had several meetings with FEA on billing system to jointly produce a brochure to help consumers understand how their bill is calculated. The brochure *Know Your Electricity Bill* published in 2009 does not show how the **daily average** is used to calculate or determined a customer's tariff line, although the brochure has produced with FEA's input and assistance.

Table 1 below shows the change in the tariff lines announced by the Commerce Commission on 1st June 2010.

Table 1: Change in Daily Average Cap

Previous Rate (Cents)		**Daily Average Cap**	**% Increase**	
≤250KWh per month	20.59	8.21KWh		
>250KWh per month	26.02	493.06KWh		
New Rate (Cents				
≤130KWh per month	17.20	4.27KWh	3.95KWH	48.05
>130KWh per month	34.84	493.06KWh	Nil	Nil

Tariff lines are being determined by the **daily average consumed per the billing cycle**. The rate charged is thus not based on the KWh per month. FEA's definition of a month is **30.4 days**. Consumers however view their bill as a monthly bill, and do not perceive their consumption on daily average FEA has the obligation to explain that a billing cycle consists of **number of days** and not 'month'. In the Commerce Commission's determination in June, the cap for the tariff line was dropped from 250 to 130KWh. The daily average cap dropped significantly by 48.05% from 8.21KWh to 4.27KWh. Essentially this meant that consumers were to pay 48.05% more on their bills. In the Commission's determination, it was claimed that "*Households consuming 130kWh will now pay 16.4% less"*.[4] In actual fact households consuming 130kWh would have to keep their daily average below 4.27KWh. This actually means that they have to drop electricity consumption to this level or below to qualify under the **Domestic Life Line Tariff.** In the previous tariff, these customers only had to keep their consumption below the higher cap of 8.21KWh per day.

2.2.3 FEA's Billing Cycle

As discussed by FEA in their presentation to the Council on 21/07/10, the billing cycle for each customer is linked to their meter reading period. Billing cycles are generally between 26 – 33 days and customers do not get a consistent cycle because meter reading may be affected by several issues for example, reading day falling on a Public Holiday, customer's gates closed, etc.

[4] Press statement by Commerce Commission on 1 June 2010 - Determination of FEA Tariff Rates

The inconsistent billing cycles means consumers cannot make proper forecasting or budgeting for their electricity bills. FEA should be made to abolish Estimated Reading. In cases where FEA meter readers cannot make their readings, the individual customers concerned should be alerted immediately. Alternatively, FEA should establish a proper scheduled meter reading period per residential or commercial area. Just like rubbish collection, consumers are aware of the days for meter reading in their street, or district.

In PART II

Under Part II, the Council will provide response to the questions posed by the Commerce Commission in its call for public submissions for Phase 2 of the Review of FEA Tariff Rates. (*Fiji Sun*, 07/0810). While answering these questions, the Council will make reference to the *Table 2* below where appropriate.

Table 2: Generation mix, rainfall, tariff rates, demand, FEA operation costs 2006-2010

	2006	**2007**	**2008**	**2009**	**2010**
Average Generation mix in % h- hydro ors-other renewable source d-diesel hfo-heavy fuel oil	h- 45 ors- 4 d- 51	h- 64.8 ors- 2.7 d- 32.5	h- 62.1 ors- 4.1 d- 21.2 hfo- 12.6	h- 58 ors- 3 d- 25 hfo- 14	
Total rainfall (mm)	4787	5289	5320	5328	
Thermal fuel used (tonnes)	81753	53671	59208	66409	
Cost of thermal fuel ($m)	98.6	60	**89.2**	77.3	
Tariff rate do-other domestic dl-domestic lifeline	do-21.95 >250KWh/mon dl- 20.59 <250KWh/mon	do-21.95 >250KWh/mon dl- 20.59 <250KWh/mon	do-22.63 > 250KWh/mon dl- 20.59 <250KWh/mon	do-26.02 > 250KWh/mon dl- 20.59 <250KWh/mon	Do-17.70 > 130KWh/mon dl- 34.84 <130KWh/mon
Fuel Surcharge cents/unit	6.54c Oct 4.97c nov-dec	2.68c jan 2.16c-Feb 1.88c march-oct 3.23c nov 2.83 dec	2.83c jan-oct 5.53c nov-dec	1.82c jan-feb fuel surcharge scrapped in march	
Change in Customer demand (%)	6.3	2	1.7	-0.45	
Total operation costs ($m)	178.2	146.4	178	166	
Profit after tax ($m)	-12.4	10.6	2.5	2.4	
FEA's Total Assets			$737.7m	$880.3m	
Source: FEA Annual Reports & New Tariff Determination					

PART II: QUESTIONS and ANSWERS

(a) Is FEA's current tariff structure appropriate taking into account it's operating costs, efficiency and best practices? If changes are required, outline the changes.

1.0 Consumer affordability not given consideration

The Council believes that the current tariff increase is having adverse effects on low income earners and on the economy as a whole. Any increase in costs of electricity will trickle down to the consumers who are forced to bear the full brunt of soaring electricity including increase in prices of goods and services passed on by the businesses. How can consumers and pensioners with fixed income find extra cash to meet the increase in electricity in their monthly budget? The trickle effect can be seen for example in the increased price of food in restaurants, and even Village Six Cinemas which provides an avenue for family relaxation have increased the price of movie tickets.

The Fiji Employers Federation (FEF) is seeking the deferment to the implementation of minimum wages to workers because its members are having difficulty to be economically viable in light of increase in electricity[5]. It is estimated that 43 percent of the total population of Fiji lives in poverty of varying degree. The situation for poor families has become even more desperate since the global financial crisis in 2007, which pushed the global fuel and food price to high levels, thus affecting the poor and disadvantages the most. Job growth in Fiji has also been slow and unemployment rose to 8.5 percent in 2008.[6] The current tariff rate has increased the financial burden on consumers.

2.0 Tariff rates and FEA's profits

Commerce Commission's *Determination on FEA's tariff rates* on June 1, 2010 stated that FEA's request for tariff increase was based on the flowing:

- The low levels of water at FEA's largest dam, Monosavu Dam thus implying low quantity of electricity from the hydro power plant);
- The rising level of fuel prices (thus implying higher cost of electricity produced via the diesel generators);
- Due to financial loss (F$3.8m for the first four months of 2010) as a result of (a) and (b) above; and
- The impact of Devaluation of the Fiji dollar since 15th April 2009.

The Commission noted that FEA could become insolvent if prices (tariff rates) are not above the unit cost of generating electricity. The Council requests the Commission to take note of past submissions made by FEA for tariff increase. In each case the issue raised by FEA is low water levels at the Monasavu Dam. If one looks at ***Table 2,*** the average total rainfall for the past three years has been consistent but FEA created the hype that Monasavu is in critical state.

In 2009, FEA made a profit of $2.4 million after tax despite foreign exchange loss of $5.3 million arising from the devaluation of the Fiji dollar in April 2009 and despite two unforeseen events (Cyclone Mick and floods) that impacted its financial performance in that year.

[5] Fiji TV news 2nd September 2010: Statement made by the CEO –Fiji Employers Federation
[6] IMF Statement on Fiji Economy November 2009. Source: http://www.imf.org/external/np/sec/pr/2009/pr09427.htm

The FEA Annual Reports for the last three years boasts of a strong financial position. It's gearing ratio, as measured by Debt to Debt plus Capital and Reserves excluding cash-in hand, was 39.76% as at 31st December 2009, well within the international benchmark for power utilities of about 45%. FEA's total assets were worth $880.3 million, a substantial increase from $737.7 million in 2008. This shows that FEA has added significant shareholder value over the years.

FEA's Annual reports show that it has been making profit each year and giving a reasonable rate of return to its shareholders i.e. the Government. However, despite this, every year FEA calls for increases in either fuel surcharge or tariff rate claiming it is making losses because "Monasavu Dam water levels is low." ***Is this claim really genuine and sincere or is just a "gimmick" used to get more money from poor consumers and increase FEA's profit rates?***

FEA's financial position should be thoroughly studied before granting tariff rates.

3.0 New tariff changes suggested by the Council

The Council recommends a tariff structure that is more realistic for current affordability levels. It also addresses the fact that many electronic appliances are now essential household items.

Table 3: Consumer Council Recommended Tariff Structure

User Group	*Recommended change in tariff structure*
Domestic Life-line Tariff (≤ 180 kWh per month) c/kWh	**18.20**
Domestic Other Tariff (> 180 kWh per month) c/kWh	**30.84**

The Council recommends that the Domestic Life-line Tariff should be increased from the current ≤ 130kWh per month c/kWh to ≤ 180 kWh per month c/kWh. This will give consumers a daily average of ≤ 5.92 where they will be able to use some essential electrical appliance such as washing machine, rice cooker etc because more women are also in the workforce and they need appliances to assist them in their household chores and use the time to get their children's homework done.

(b) What has FEA done in the past and what different strategies should it adopt to encourage energy conservation without affecting national output?

FEA's energy efficiency programs so far had minimum impact. FEA introduced a campaign to save electricity by allowing a 10% discount on customer's electricity bills on a rolling 3 months basis. Energy saving tips using media advertising, new website was launched in 2007 offering on-line services such as energy saving tips and calculator, brochures etc. Currently FEA's annual reports proudly highlight how much energy it sold and what revenue it generated from selling that energy. However FEA needs to highlight clearly in its Annual Reports on how much energy did it managed to save through its energy efficiency programs by reducing energy demand. Efficiency standards on appliance should be made mandatory. Inefficient appliances should have its duty increased whereas energy efficient appliances should have its duty reduced.

Incentives given to individuals and companies who intend to put up solar panels for self consumption and to sell surplus to FEA. However, cost benefit analysis must be undertaken. FEA must re-strategise to introduce programs purely from saving in dollar term to change consumer's attitude. Short information such as: *"Do you know if you switch off your* *microwave, you will save X dollars in a month and X dollars in a year."* FEA should consider intense marketing strategy used by companies to sell their products as seen on TV and in other media.

(c) What should FEA's role be in demand side management?

1.0 FEA should take lead role in DSM

The FEA as electricity regulator and monopoly provider of electricity must take the lead role in demand side management (DSM). At the moment this burden is being shared with the Department of Energy. The Department of Energy (DOE) is a full government department tasked primarily with establishing policies and development plans for Fiji's energy needs. The burden of responsibility over DSM should lie more with FEA as it is a commercial entity whose viability at this point in time is being challenged by increased electricity consumption versus decreased capacity.

2.0 Give prominence to DSM Division

Is DSM division well equipped with capable staff with right skills to lead DSM initiatives to change consumer behaviour? We all want to understand the value placed by FEA in its Energy Production Division and Energy Efficient Division (DSM). The Annual reports barely have few paragraphs to highlight DSM activities. It was only from 2007 that FEA started reporting on DSM but not as it does for energy production. The Council would like to see FEA make comparison to show how much fossil fuel and foreign exchange was saved through energy efficiency as it does for renewable energy project.

3.0 More work needed on Commercial Customers

There is no evidence to suggest that FEA is making any effort in addressing the consumption habits of the big commercial users. So far FEA has been assisting two big corporations on how to reduce its energy consumption. Energy audits with recommendation on investments to improve energy efficiency are what FEA does every year for 2 companies. The question is why FEA is assisting two commercial companies per year with energy audits? FEA should realise that by assisting large users to become energy efficient will benefit FEA. How? By reducing energy demand simply through efficiency will be much cheaper for FEA as compared to investing in expensive energy generation projects.

FEA should consider charging big corporations fees for the service provided by the DSM division. Gradually this division should become a subsidiary company of FEA specifically dealing with DSM. FEA should also focus on residential consumers as well so that consumers can achieve same results by using less energy. Just like large corporations need help so does residential consumers. Commerce Commission should realise that continuous increase in tariff rate is an extremely ineffective mechanism for facilitating efficiency, for a monopoly service provider. There is no incentive for FEA to operate efficiently and reduce costs when FEA can simply pass cost increases on to consumers. Commerce Commission should ensure FEA is committed to demand side management and demonstrate savings arising from DSM.

Furthermore, FEA should serious look into power losses incurred as a result of *phantom loads*, electricity used when appliances are off or in stand-by mode. This can be addressed by setting standards on electrical appliances to minimise *phantom loads*.

(d) What should FEA do to encourage more Independent Power Producers (IPPs) to provide renewable energy to FEA's grid?

FEA in the past received so many warnings on the hydro dam capacity, rise in fuel cost and increase in demand and yet FEA did not show any urgency to encourage IPPs to enter into energy supply chain. On one hand FEA is saying that it produces electricity at a loss but not willing to sell at a price that will reduce FEA's cost of generation. The Commerce Commission must be commended for increasing tariffs from 14.2 to 23 cents per kW per hour.[7] This rate was deemed to be more attractive for the IPPs.

The Council believes that IPPs can be further encouraged by a conducive environment facilitated by both FEA and the Department of Energy of other relevant government agencies such as Ministry of Public Enterprise. A policy on IPP's should be drawn to attract IPP's into Fiji and FEA should not be the agency to approve or disapprove IPP's interested in the energy sector. Government involvement is extremely crucial to attract IPP's.

(e) What internal restructuring should FEA undertake to demonstrate it is addressing some of the issues that you have raised?[8]

1.0 Implement Reforms in Human Resource Management

1.1 Reduce unit cost through personal cost

Following reform and restructuring in 2002, FEA's personnel cost was reduced from F$21.9m to F$14.2m in 2003. In 2009, FEA spent $17.9 on its personnel. FEA needs to control this if the primary objective of the reform in 2002 is to be realized over the longer term. Such increase suggests that the 2002 reform has been a futile exercise. While FEA asserts that in 2009 it reviewed its organization structure and the staff numbers in May and again in October 2009, followed by a Board approval for a new organization structure with an appropriate increase in the overall staff numbers, perhaps, another independent assessment and reform into FEA's operational costs relating to human resource management including assessing the size and actual need is warranted.

1.2 Personal Cost per MWh

In 2002, personnel cost required to generate a MWh of power were $36.32. As a result of internal reforms this was reduced to $20.25 per MWh. However, it began to gradually rise again in 2008 and it is not clear what the position is for 2009 and 2010. Needless to say, with the introduction of new technologies, there may not be much case for any significant increases in unit costs as seen in 2009. It also appears that in FEA's submission for tariff increase submitted on 29th July 2009 to Commerce Commission, there was a further analysis revealing that non-fuel operating costs had also substantially increased over the last decade thus contributing to the overall increase in unit cost of power generation[1].

[7] Commerce Commission Determination of FEA Tariff Rates, Tariff Alignment Phase 1, 1st June, 2010, p.

[8] The information here is derived from FEA's Annual Reports (source website: www. fea.com.fj).

1.3 Human Resource – Cost-cutting Measures

All businesses have their fair share of difficulties and FEA is no different or unique with economic challenges. The after-effects of devaluation, rising cost of fuel prices, loan repayments and political crisis are some factors that all commercial and business entities are currently facing in Fiji. FEA is in a better position than most because of its monopoly control over an essential utility product. The Council has not seen any pragmatic measures put in place to cut human resource costs, particularly in areas like meter. With advancing technology FEA can reduce the number of personnel sent out of station for meter reading. This will cut down fuel costs and remove unnecessary people on payroll. After all there are cases of 'false' meter recording by such personnel who are susceptible to abuse if unmonitored. FEA must look for ways to modernize its system for meter reading/recording such as introducing a toll-free number for consumers to have easy and cheap access and invoking their responsibility to provide information on monthly basis. Where information is not provided, FEA can fill in the gaps and send out personnel for physical meter reading, but only in cases where there is a need. This way consumers will be forced to become proactive in their electricity and bill management. In turn FEA will reduce its personnel cost and use its consumers to give them information. FEA can devise a system to verify the same on quarterly basis. Another solution would be for FEA to outsource meter reading and other services. Contractors will ensure that they work within the arrangement or requirement in adherence to the standard set out by FEA. In this way the contractors will be liable if they fail to properly carry out their job.

2.0 Management of Fuel Cost

In 2008, FEA spent F$89.2m and in 2009, F$77.2m on fuel costs respectively. Undoubtedly, the fuel costs make up for a good portion of FEA's total costs. The analysis indicates that the ratio has decreased by 6% when compared to 2008 indicating that the company is in a better position to meet its fuel costs obligations in the current times from the total revenue earned when compared to 2008. It is not clear how fuel has been purchased (whether fuel hedging is in place) and what portion (or percentage) of fuel cost is accorded towards diesel generation of electricity/power and what portion is used for meeting operational costs such as running vehicles for meter readers, disconnection and other functions on day to day basis. One thing that is regularly observed is that FEA allows it personnel frivolous use of company vehicles afterhours which indicates resource abuse without any tight control in place to minimize wastage.

3.0 Non-fuel operating costs

In 2003 (after 2002 reforms were implemented) through continued internal reforms by the, then Management saw a further reduction of controllable costs to a staggering $30m, which was down by 10% from 2002 and substantially less than the $46m in 2000. So the question is, what steps has FEA taken to do this in the recent years? There is no clear indication of this. It is not known what measures FEA has taken to reduce or control its overheads knowing that the cost of fuel is uncontrollable. Since the Council does not have any information on this, it can assume that the prudent thing to do is cut down on colourful stationary, vehicle usage during and after hours, combining trips for multiple tasks, reducing outsourcing of expertise such as legal advice when in-house legal professional is available, etc.

Lean and mean type of structure is desirable especially for personnel from departments, executives to Board members. For example, if workforce was reduced from high 1050 in 2001 to 740 in 2002 to 640 in 2003, and yet FEA still made net profit before tax of F$2.6m in

2003 ($3.8m in 2002) following the reform implemented in 2002, there is no reason why FEA cannot do this again, in the present times.

(f) Given that FEA purchases substantial volume of oil to power its diesel generators, has it done enough work to obtain the oil product at a minimum price? What can be done to take advantage of FEA's scale of operations?

1.0 No Transparency on Fuel Information

This question is not only technical in nature but unfair to ordinary public to answer who neither has full information how FEA secures its fuel from suppliers, at what price and in what volume as there is no information available to the public whether fuel hedging is part and parcel of the deal. In the absence of FEA's information, the Commerce Commission should have at least stated the fuel procured in quantity, price, etc and then seek consumer or public view if this was a fair and sustainable business transaction. Also no one really knows the full extent of "FEA's scale of operations" – ordinary consumers know that FEA is the only supplier, distributor and regulator of electricity in Fiji – that's all. The intricate details as to its day to day business operations and decision-making are not available to consumers/public to make a fair assessment except for selected information provided in the Annual Reports. This issue would have been better addressed if the *scale of operation* in the current times was available by FEA to justify seeking an increase in the tariff.

2.0 Disclose Fuel Bill Information

The Council struggled in the past to get information on fuel pricing from FEA or oil companies because they treat this information confidential. FEA has not demonstrated in the Annual Reports the formula used to negotiate best fuel prices. At least public is aware of Air Pacific blunder in fuel hedging but no one knows what's happening behind the scene between FEA and oil companies. Can FEA inform public the deal struck by FEA with oil companies? The public have a right to the empirical data on FEA's fuel purchases and consumptions. It must be noted that the FEA's main argument for an increase in tariffs and fuel surcharge (first imposed in 2006) was its increasing fuel bill. However, from the past Annual Reports it can be gauged that FEA paid more in 2008 ($89.2m) to secure fuel for its generators as compared to 2009 where thermal fuel used was 7,201 tonne more than 2008 and yet FEA paid less ($77.3m) to purchase fuel despite devaluation of Fiji dollar. See *Table 4* below.

Table 4: Thermal costs and usage

	2006	**2007**	**2008**	**2009**
Thermal fuel used (tonnes)	81753	53671	59208	66409
Cost of thermal fuel ($m)	98.6	60	**89.2**	77.3

3.0 Proportion of Diesel Generation has stabilised.

As discussed earlier FEA's principal argument for the imposition of fuel surcharges or upward revision of tariffs has been based on fuel price. The table below shows the proportion of diesel generation that the FEA reported for years 2005-2009. The FEA over the past two years has persistently argued that the downward trend in rainfall at Monasavu has resulted in lower water levels, thus forcing the authority to rely on diesel generation. But as its own statistics show, diesel generation has actually fallen. The lowest recorded amount was in 2007 at 32.5%. These figures show that the worst case scenario often taunted by the FEA has been elusive. The worst year was in 2006 when the FEA had to put up with 51% diesel generation. This was also the year in which it imposed the fuel surcharge on its customers.

Table 5: Proportion of Diesel Generation

Year	Proportion of actual diesel generation[9]
2005	47.%
2006	51%
2007	32.5%
2008	34%
2009	39%

(g) Are there any institutional arrangements that need to be established to foster energy efficiency in Fiji?

1.0 Review of Electricity Act to create appropriate institutions

To foster energy efficiency, a holistic review of all existing institutional arrangements must be taken immediately. It should start with a review and reform of the policy and legal framework pertaining to FEA's powers and functions. The law in all aspects is favourable towards FEA with unchecked powers to do anything or everything in its own interest in contrast to being fair and equitable to all parties, including consumers. For example, the law protects FEA's monopolistic position in energy distribution at its preferred or desired price (current electricity pricing can hardly be considered "reasonable" given that consumers' income has remained static over the years and FEA is benchmarking with regional and international countries where the demographics and dynamics of production cost, population size, inflation rate, cost of living, fuel price, competitive pricing through IPPs, etc, is completely different).

FEA is also punishing its customers for increase in their electricity bills pushed up naturally through an increase in tariff rates. The recent increase in security bonds for both private and commercial users is a good indication of how FEA exerts its monopoly powers. And the law being on its side does not help to seek fair justification from a corporate body that is so innately powerful.

FEA also has regulatory powers to issue licences to electrical companies for (legal) electrification works throughout Fiji but it exonerates itself from any wrongdoing if the electrical company defaults or provides defective service where consumers loses property and/or valuables – in most cases this has not been compensated by either the electrical company or FEA.

FEA also creates consumer complaints and then tries to handle it by hiding behind its seemingly unfair legislation. For example, when there were various unannounced power surge or blackout in 2009, may consumers lost their electrical appliances and FEA completely denied any responsibility. In that respect a sector-specific Ombudsman style regulator should be set up to just look into FEA related issues and consumer complaints in an independent manner.

[9] Proportion of diesel generation as reported in FEA Annual Reports 2005-10.

2.0 Other Institutional Changes Required

2.1 Make FEA transparent and accountable through good corporate governance practices.

There is no competition in the market which places additional onus on FEA to be transparent on matters relating to actual production costs and costs incurred in maintaining “corporate lifestyle”. Consumers are often victims of increase in costs of managing and administrating corporate affairs. Bad decision-making is also a factor where consumers have to come in to plug the loss. For example, over-expenditure during the construction of FEA Headquarters, payout made to landowners due to FEA not being considerate initially to consider landowners grievances to name a few.

2.2 Pricing Model or methodology for billing

Since the new tariff came into effect in June, consumers are struggling to understand how FEA determines the tariff lines. Since the determination by Commerce Commission was not clear on these matters, obviously FEA has taken up the opportunity to cash in through its own interpretation of the determination, which may not necessarily be erroneous, only unknown to consumers. Therefore, it is important to standardize a billing system with simple calculation for consumer understanding. Public should be made aware of the pricing model or template that transparently determines a fair price for electricity that will allow FEA to recover its costs. The formula or the methodology should be made public.

2.3 Improve customer care

FEA thoroughly needs to re-look at its customer care service. For example, FEA customer care call-centre makes a customer wait for more than 5 minutes – this is a very frustrating experiencing. Not only their waiting period on phone is long but their customer care staff is very rude as reported to the Consumer Council by consumers. Of course, the Annual Reports of FEA since 2003 is singing praises of improvement and consumer satisfaction in this area, but consumer complaints to the Council are testimony that it is not the case.

2.4 Improve FEA internal system – reconnection/disconnection

FEA needs to implement and monitor a system where there is no unfair disconnection or delay in reconnection of power supply. FEA should make arrangement with their bill care agency (such as MH) in such a way that FEA is immediately (electronically) updated on bill payments. Their internal update system will eliminate unfair disconnection of power supply and reconnection fees charged to customers.

2.5 Independent Review on the Effectiveness of FEA in Rural Electrification

There is a need to undertake independent review on the effectiveness of FEA in delivering government’s social obligation under rural electrification program and quantifying social obligation costs stated by FEA.

2.6 Right to Information law

The Government should put in place “Right to Information” law so that consumers could access information freely in order to hold FEA accountable and to be able to demand information on public companies such as FEA.

2.7 Introduce Electricity Ombudsman

An Electricity Ombudsman will be an independent body or person to hear cases or complaints made against FEA. The main purpose of the ombudsman is to receive and handle unresolved billing complaints made to FEA by domestic users, to resolve, settle and/or withdraw such disputes, and to provide remedies and redress in respect of matters that formed the core of the dispute.

PART III CONCLUSION and RECOMMEDNATIONS

The Council believes that through such submissions, as late as it may have come, consumer views are at least articulated and incorporated as part of the decision-making process that was initially missing. When monopolies such as FEA push up the price of their service, it is the consumers who are at the receiving end; when FEA makes a bad decision and has to payout a hefty sum through a failed litigation as seen in the Monasavu case, consumers again end up paying in the long run. So, consumer input and views are crucial for fair decision-making. To deny them access to FEA's submission, for whatever reasons, defies the logic of having a transparent process to seek consumer views and in this case, right to information of the consumers and the general public is greatly deprived.

The Council thus recommends that:

- Submissions from the corporate monopolies such as FEA must be made accessible to consumers;

- In future determination, the Commerce Commission should scrutinize FEA's billing system in totality. This should include a thorough evaluation of how the daily average consumption per billing cycle is used to determine a customer's tariff line.

- The tariff structure proposed by the Council should be considered to alleviate consumer frustration in the present times. Commerce Commission should review the **Domestic Life Tariff** by increasing the current consumption cap from **≤130KWh to ≤180KWh per month**. This would consequently decrease the **average daily** cap for the Domestic Life Tariff from 8.21KWh per day to 5.92KWh, allowing relief for domestic consumers. and simultaneously a proper analysis or study of household electrical needs and actual consumption should be done with the idea to educating consumers to reduce consumption as well as allowing consumers to better digest any future increases – if consumers are aware of how they are using the electricity, then only they will appreciate any adverse repercussions, particularly when their bills show a remarked increase;

- The Commerce Commission should require the FEA to produce a Demand Side Management (DSM) plan that is holistic and inclusive of all customer bases irrespective of size or stature. The DSM plan should also include energy-saving schemes for all commercial users and a nationwide awareness campaign on household electrical appliances for domestic customers. This initiative should include the establishment of standards for electrical appliances such as standards for *phantom loads* – electricity lost or used when appliances are off on stand-by. There should be a limit on the maximum allowable *phantom loads* on appliances. The cost of education must be borne by FEA as part of its corporate social responsibility; only then demand side management will be achieved.

- Regulatory reforms must be undertaken as soon as possible to avoid consumers being penalised for FEA's inability to keep its house in order and manage what it is designed to do – produce and supply electricity.

- FEA should establish targets for Independent Power Producers (IPPs) and that this be pegged to its key performance indicators. The Council recommends that FEA takes the lead role in encouraging and fostering IPPs and undertakes the responsibility to create the facilitating environment for entry and investment in this sector.