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ORDER OF THE REGULATOR No. 2014/E23

Electric Power Corporation's Proposal for Tariff and Rate Structure Review.

Statutory Obligations

Section 19 (1)-(3) of the Electricity Act 2010 ("the Act") requires the Regulator to determine all tariffs charged by a licensee. The Electric Power Corporation ("EPC") filed an application with the Regulator on 19 September 2013 that requested a New Electricity Base Tariff Adjustment and Rate Structure. EPC requested a "10% increase in the base tariff" and a "modified tariff structure" that created a new debt service charge and significantly increased the fuel charge. They proposed 10% increase in base tariffs that is estimated would generate additional revenue equating to SAT$ 7.4 million. The "modified tariff' replaces the fuel surcharge with a new fuel charge; it also creates a new charge for debt recovery. Finally, it provides for a new domestic customer classifications based on three levels of kWh usage.

Consultations

The Regulator in reaching a decision reviewed the issues raised in the public stakeholder consultations and these included:

- validity of the costs underlying the revenue requirement,
- any catch-up in tariffs, system losses,
- impact of electricity costs on business finances,
- soundness of investment program,
- number of staff of EPC,
- renewable energy net metering,
- appropriate rate of return,
- awareness of energy efficiency, and
- impact of Cash Power.

The Regulator will consider the operational, administrative and overhead efficiencies to existing EPC expenditure as part of the Comprehensive Tariff Review during 2014 to apply to the Regulated Tariff from 2015. This Comprehensive Tariff Review will be based on current and future expenditure requirements to be recovered through tariff revenue and not on previous foregone revenue. Diesel fuel recovery based on allowance for reasonable system losses and fuel efficiencies will be permitted.

Future EPC cost structures will be benchmarked against other island utility companies to ensure that EPC is as efficient as possible and that the regulated tariff is as competitive as it can be with other island jurisdictions. The capital expenditure invested through the

Power Sector Expansion Project ("PSEP") was required to replace assets at the end of their economic life as well as invest in network upgrades to improve reliability and efficiencies. Hence, not all of the expenditure will result in lower costs but much is simply required to be able to continue to supply power to consumers. Obligations under PSEP were entered into prior to the existence of the Regulator. The Regulator is concerned about investments going forward.

The Regulator will only allow cost recovery of staff expenses that are considered reasonable for a business of its size. Staff numbers and costs will be benchmarked against other island networks to ensure business efficiency and EPC will be required to meet specified service standards for reliability of supply, quality and service availability as part of the Comprehensive Tariff Review.

The ultimate availability of smart meters and intelligent appliances will allow consideration of discounts for supply of electricity in non-peak demand periods.
The Regulator will undertake a study of distributed generation and the supply of surplus energy to EPC. The law does not currently permit the sale of generation to EPC, unless through a licensed Independent Power Producer (IPP) with an approvedPower Purchase Agreement (PPA).

The Government of Samoa requires its State Owned Enterprises (SOE's) to make a 7% percent return on equity. EPC does not currently make this return.
No impact study was undertaken for Cash Power, but the view is that Cash Power is providing consumers with a greater awareness of the cost and hence the ability to conserve electricity.

Findings

The Regulator is required by the Act to determine tariffs that are just and reasonable. This is the first Tariff Determination issued by the Regulator and it is recognized that this is the first step in regulatory oversight of the power sector. The findings are based on the evidence before the Regulator.

On examination of the evidence, an incomplete picture emerges. The Regulator recognizes the need to develop Rules of Procedure that will be specific about tariff filing requirements. In the instant case, in the absence of a full evidentiary filing, the decision must be based on what is just and reasonable for "ALL" stakeholders.

In this Determination, the Regulator makes findings for one year only. A Provisional Tariff set for one year will provide the Corporation, the Regulator, customers and stakeholders the opportunity to construct a more substantial framework for tariff determination in the future, beginning with 2015-2018.

The Regulator finds that the proposed increase by EPC for end-use customer tariff is too high, and that it will unfairly impact low use residential customers and commercial customers. New end-use customer tariffs were determined by the Regulator for a provisional tariff that provides the best balance between the customers and EPC for 2014-2015. These tariffs approve that there be no increase for low use domestic customers, 2% for moderate use domestic customers, 7% for high use domestic customers, and 7% for commercial customers. There will be in the provisional Tariff a new fuel charge of 55 sene kWh and a debt service charge of 17 sene/kWh. The fuel charge shall continue to vary monthly based on information provided by EPC. EPC shall include purchased power costs in the fuel charge filings. Based on the EPC filings, the Regulator shall adjust the fuel charge each month, using the following formula:

(total cost of fuel and lube oil to generate electricity) + (total invoice from IPP for feed in power)/total kWh electricity sold to consumers that month.

End use customer tariffs may vary each month, based on changes in the fuel charge.

The Regulator makes these additional findings:

1. EPC shall undertake further comprehensive study of efficiencies and operational costs of the Corporation and include their results in the next tariff filing.

2. EPC shall establish service standards and reporting protocols consisting of 10-15 service indicators and performance targets and include their recommendations in the next tariff filing.

3. EPC shall plan for decreasing losses and increasing efficiencies by EPC starting 2015.

4. In their next tariff filing EPC shall report their progress in reducing losses and demonstrate their ability to reduce losses further during the next tariff period. EPC should apply for a new three year tariff structure that reflects improved loss reductions for 2015-2018.

The Regulator finds that the requested increase is not supported by the evidence. The Regulator determines a lesser tariff increase that equates to SAT$ 3.815million increase in revenues. This Determination would result in the following tariffs:

Customer Class	Usage	Usage Charge	Debt Charge	Fuel Charge	Total
Domestic	1-50	0.20	0.17	0.55	0.92
	51-100	0.34	0.17	0.55	1.06

	101 and above	0.39	0.17	0.55	1.11
Non-Domestic	All	0.39	0.17	0.55	1.11
Cash Power Customers					
Domestic	1-50	0.19	0.17	0.55	0.91
	51-100	0.33	0.17	0.55	1.05
	101 and above	0.38	0.17	0.55	1.10
Non-Domestic	All	0.38	0.17	0.55	1.10
All charges are expressed in SAT$/kWh					

Based on the findings and determination the Regulator makes the following Orders:

Order 1: Tariffs

The Regulator orders that:

1. For Domestic Consumers

   The Electric Power Corporation is permitted to charge the following tariffs:

   1. **Usage Charge:**
      - i. **For 1 – 50 units** — **20 sene per unit**
      - ii. **For 51 – 100 units** — **34 sene per unit**
      - iii. **For 101 units and above** — **39 sene per unit**
   2. **PSEP Debt Charge** — **17 sene per unit**
   3. **Fuel Charge** — **55 sene per unit**

2. For Non-Domestic Consumers

   The Electric Power Corporation is permitted to charge the following tariffs:

   1. **Usage Charge**
      - i. **For 1 unit and above** — **39 sene per unit**
   2. **PSEP Debt Charge** — **17 sene per unit**
   3. **Fuel Charge** — **55 sene per unit**

3. For Cash Power Consumers

All Cash Power Consumers shall receive a 2% discount on the "usage charge" specified above. Accordingly, the Electric Power Corporation is permitted to charge the following tariffs:

For domestic cash power consumers:

1. Usage charge	
i. For 1 - 50 units	**19 sene per unit**
ii. For 51 - 100 units	**33 sene per unit**
iii. For 101 units and above	**38 sene per unit**
2. PSEP Debt Charge	**17 sene per unit**
3. Fuel Charge	**55 sene per unit**

For non-domestic cash power consumers:

1. Usage charge	
i. For 1 unit and above	**38 sene per unit**
2. PSEP Debt Charge	**17 sene per unit**
3. Fuel Charge	**55 sene per unit**

Order 2: Service Standards

The Regulator orders that EPC shall:

1. Within three weeks, propose to the Regulator not more than 15 service standards. At a minimum, service standards shall include internationally recognized measures of service reliability (such as SAIDI (the system average interruption duration index) and SAIFI (the system average interruption frequency index)), plus measures to show financial performance. EPC should also offer customer service standards such as customer response time for servicing faults, billing and frequency of meter testing. The service standards reported in the 2011 Pacific Benchmarking Study shall serve as the baseline set of indicators. The Company shall propose to the Regulator a monitoring and compliance system for the proposed service standards.
2. Report and file monthly with the Regulator results on the key performance indicators.
3. Report to the Regulator performance on the proposed standards.

Order 3: Multi-year tariff filing for 2015-2018

The Regulator orders that EPC shall:

1. Undertake a comprehensive review of expenditures to determine what a reasonably efficient utility should be able to recover through a regulated tariff, with a multi-year tariff filing for 2015-2018.

2. Indicate how feed-in-tariffs from licensed Independent Power Producers (IPPs) are included in the financial modeling for their cost of service.

3. Explain reasonable expenses and propose an appropriate inflation factor for recovery of non-fuel operational expenses

4. Propose an appropriate capital provision to be included in the tariff.

5. Identify the relevant debt-servicing obligations to be recovered by the tariff.

6. Include time of use rates for commercial customers.

7. Address all relevant issues related to the implementation of net metering.

Order 4: Power System Expansion Plan

The Regulator orders that EPC shall:

1. File with their 2015 tariff case a capital expansion plan that incorporates all new renewable energy and any new generation added through the PSEP.

2. EPC shall file a system expansion plan for the Regulator's approval prior to submitting any Power Purchase Agreements for the approval of the Regulator.

Duration of the Order

This Order shall expire on the earlier of:

a) The Regulator revoking this Order; or

b) The making of a new Order by the Regulator in relation to the matters addressed herein.

Effective date of this Order:

In accordance with section 20(5) of the Act, the Electric Power Corporation shall not charge the above mentioned rates until such time when the Electric Power Corporation has notified consumers of the new tariffs

The Regulator will allow the Electric Power Corporation **thirty (30) days** to notify the public of the change

This order is effective from the 23rd of April 2014

Date of the Order: Monday 24th March 2014

Donnie De Freitas
REGULATOR.