



UTILITIES REGULATORY AUTHORITY OF VANUATU

Annual Report 2008

UTILITIES REGULATORY AUTHORITY ANNUAL REPORT 2008



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Commissioners – Mr Paul Kaun, Mr Carmine Piantedosi

Senior Staff
Chief Executive Officer – Carmine Piantedosi

Letter to Minister

24 April 2009

The Hon Rialuth Serge Vohor
Minister for Infrastructure and Public Utilities
PMB 9057
Port Vila
Vanuatu

Dear Minister

UTILITIES REGULATORY AUTHORITY 2008 ANNUAL REPORT

The Utilities Regulatory Authority is pleased to present to you its 2008 Annual Report, prepared in accordance with Part 7 of the *Utilities Regulatory Authority Act No 11 of 2007*, and as required by section 33 of the Act. The 2008 Annual Report also satisfies the requirements of regulation 13 of the Financial Regulations of the Republic of Vanuatu in accordance with Part 6 of the Act.

The *Utilities Regulatory Authority Act No 11 of 2007* came into operation on 11 February 2008 after passage through the Parliament on 14 January 2008. The Act establishes the Authority as a body corporate with perpetual succession, acting independently of the Government but having regard to such policies as issued from time to time.

The purpose of the Act is to regulate certain utilities to ensure the provision of safe, reliable and affordable regulated services, in particular electricity and water; and maximize access to these services throughout Vanuatu.

Section 12 sets out the five main functions of the Authority:

- to exercise the functions and powers conferred by the Act or by any other Act in furtherance of the purposes of this Act;
- to provide advice, reports and recommendations to the Government relating to utilities;
- to inform the public of matters relating to utilities;
- to assist consumers to resolve grievances; and
- to investigate and act upon offences under this Act.

In May 2008, the Minister for Finance appointed the Evaluation Committee, in accordance with section 8 of the Act to assist with the nomination of URA Commissioners. The Evaluation committee consisted of individuals appointed by the Judicial Services Commission, Public Service Commission and the Governor of the Reserve Bank of Vanuatu.

Further, a URA Administrator was appointed to undertake the coordination role for the Evaluation Committee and administration function for the establishment of the Authority.

In August 2008, following an international recruitment and independent selection process, the Minister for finance, on the recommendation of the Evaluation Committee appointed three Commissioners, one of which is the Chief Executive Officer of the Authority.

On 1 October 2008 the Commissioners and Chairperson assumed their roles and responsibilities for the establishment and operation of the Utilities Regulatory Authority. This required the set up of the URA Office facilities including systems and processes and the development of policies and procedures.

On 12 November 2008, the first Commission meeting was held to review and approve a number of policies and procedures, the URA Work Program for 2009 and draft Charter of Consultation and Regulatory Practice.

During the period between October and December 2008, the Authority also conducted a number of consultations with various Government agencies and regulated industries in accordance with its draft Charter of Consultation and Regulatory Practice.

We would like to record our appreciation to the Authority's staff and other Government agencies for their dedication and contribution in improving the delivery of regulated services to the people of Vanuatu throughout 2008.

Yours sincerely

JOHNSON NAVITI
Matarulapa Marakipule
Chairperson

PAUL KAUN
Commissioner

CARMINE PIANTEDOSI
CEO/Commissioner

Highlights of 2008

Progressed the development and establishment of the Utilities Regulatory Authority and conducted extensive consultation with the regulated businesses to clarify the Authority's role and responsibilities

Identified and developed a methodology and approach for ways of improving stakeholder input and management

Developed and commenced implementation of the Authority's resource management plan

The Authority assumed responsibility for the ongoing monitoring and compliance of Electricity and Water Concession Agreements

Commenced a review of policies and procedures including safety and risk management standards to be developed and implemented within the Utilities Regulatory Authority

Undertook extensive consultation in preparation for the review of Vanuatu's electricity and water tariffs commencing in 2009

Released first version of the Authority's *Charter of Consultation and Regulatory Practice* and commenced development of Memoranda of Understanding with prescribed agencies.

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About the Utilities Regulatory Authority

The Utilities Regulatory Authority was established on 11 February 2008 under the *Utilities Regulatory Authority Act No 11 of 2007*.

The Act established the Authority as an economic regulator for pricing, access, standards and monitoring of concession agreements.

At 31 December 2008, the industries regulated by the Authority were electricity and water (refer to appendix B).

Why the Authority was established

The Authority was established to provide continued and expanded support to the Vanuatu Government's microeconomic reform program. This program was designed to improve the efficiency and competitiveness of Vanuatu's economy through the reform of the electricity, water and other current and former government business enterprises.

The Government perceived the establishment of an independent regulatory body as necessary to ensure that the benefits of the industry structuring and concession arrangements were passed on to household, commercial and industrial customers.

Objectives of the Authority

The primary objective of the Authority is *'to protect the long-term interests of Vanuatu's consumers with regard to the price, quality and reliability of regulated services.'*

This objective is central to the framework of economic regulation that facilitates efficiency and financial viability in regulated industries, prevents misuse of monopoly power and ensures that customers benefit from the gains from regulation and efficiency.

The facilitating objectives of the Authority, as expressed in the Act under which it is constituted are:

- to ensure the provision of safe, reliable and affordable regulated services; and
- maximize access to regulated services throughout Vanuatu.

Functions of the Authority

The functions of the Authority, as expressed in the Act under which it is constituted, are:

- to exercise the functions and powers conferred by this Act or by any other Act in furtherance of the purpose of this Act
- to provide advice, reports and recommendations to the Government relating to utilities
- to inform the public of matters relating to utilities
- to assist consumers to resolve grievances
- to investigate and act upon offences under this Act
- when requested by the Minister to do so, to conduct an inquiry into any systemic reliability of supply issues related to a regulated industry or other regulated service specified by the Minister in the request
- to conduct public education programs for the purpose of promoting its objectives under the Act and the relevant legislation and in relation to significant changes in the regulation of a regulated industry

- to advise the Minister on any other matter referred to the Authority by the Minister
- to administer and monitor compliance of Concession Agreements under the Act

In addition to these objectives and functions, the Authority has objectives and functions conferred by industry-specific legislation and agreements such as the *Port Villa Electrical Supply [CAP. 17]*, *Electricity Cable (Restriction on Passage of Vessels Thereunder) [CAP. 27]*, *Electricity Supply [CAP. 65]*, Concession Agreements for the Port Villa, Luganville, Tanna Island and Malekula areas, *Water Supply (Amendment) Act No. 28 of 1993*, *Water Supply [CAP. 24] and Regulations*, Contract for Management and Operation of the Water Supply Service in Port Villa, and *Water Resources Management Act No. 9 of 2002*.

Performing the Authority's Functions

The Authority performs its functions via both formal and informal consultation processes and a formal decision making process. Formal processes are adopted for each major regulatory decision and are usually applied in the same way for each regulated industry.

The consultation processes can include Authority presentations and the opportunity for stakeholders to make submissions. The Authority will usually publish and circulate a draft decision. The responses to the draft decision are considered before a final decision is made.

The Authority adopts a formal decision-making process. Commissioners meet in a formal session, usually each quarter, to consider and direct its regulatory business. Commission decisions are informed by staff papers and formal oral briefings. When a Commission decision is made, a minute is created and approved. Where appropriate, the Commission decision is confirmed by an appropriately sealed document.

The URA's Organizational Structure

The URA is structured as a Commission comprising a Chairperson and two part-time Commissioners, supported by staff led by a Chief Executive Officer.

The Chairperson

Johnson Naviti *Matarulapa Marakipule*

Mr Johnson Naviti was appointed to the role of Chairperson and Part-time Non-Executive Commissioner 01 October, 2008. He joined the Commission from the Aid Coordination and Negotiation Unit (ACNU) of the Prime Minister's Office where he is presently the Head of that Unit.

Mr Naviti was the Program Implementation Officer for the Pacific Island Forum Secretariat based in Fiji from 2002 to 2008 and worked for the Vanuatu Government from 1996 to 2001 as Sector Analyst and then as Acting Director of the Department of Economic and Sector Development

He holds a Bachelor's Degree in Resource and Environmental Planning from Massey University in New Zealand.

Commissioners

The Minister for Finance may appoint persons as Commissioners, who are qualified for appointment on the basis of their knowledge of, or experience in, industry, commerce, economics, law and/or public administration.

Part - Time Commissioner

Paul Kaun

Mr Paul Kaun was appointed to the position of Part-time Executive Commissioner on 01 October, 2008. Currently, Paul is the Manager of the Domestic Financial Market Unit of the Reserve Bank of Vanuatu. He previously worked for the Vanuatu Government in the Department of Economic and Sector Planning (DESP) of the Ministry of Finance and Economic Management in the position of Principal Economist and Acting Director.

Paul has a Master of Philosophy in Monetary Economics and Finance from the Centre of Development Studies, University of Glasgow in Scotland. He is a member of several Committees in the Government and the Reserve Bank of Vanuatu.

Chief Executive Officer / Part-time Commissioner Carmine Piantedosi, BEng (Hons), LLB, RegPM

Mr Piantedosi was appointed Chief Executive Officer of the Utilities Regulatory Authority in 2008. His appointment followed 30 years with the Electricity Industry in Australia including holding senior management roles in power utilities and regulation. He was involved in the establishment and administration of the Victorian Renewable and Energy Efficiency Target Scheme, Lead Investigator Systems and Safety Accident Investigation Team in Queensland, Senior Project Manager Distribution and Transmission Networks, and Engineering & Construction in both Queensland and South Australia.

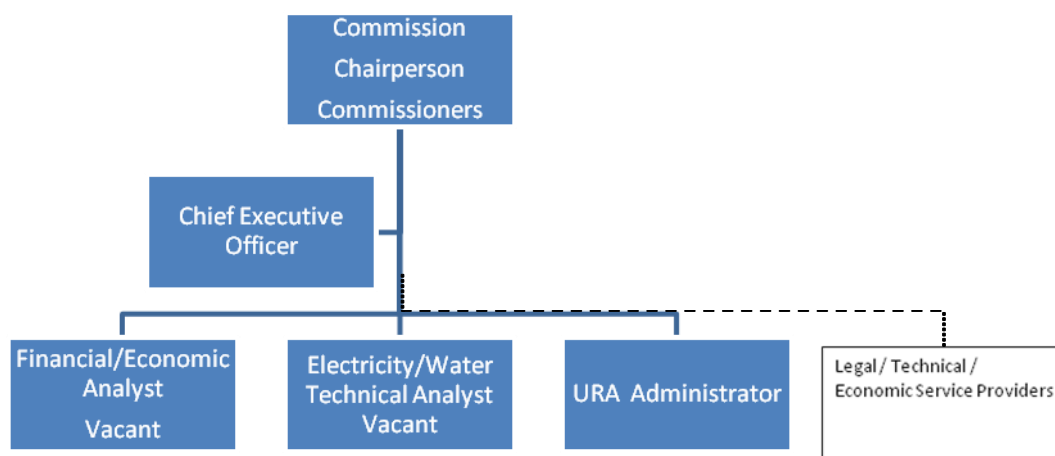
Carmine holds a Bachelor of Engineering - Electrical (Honours) from the University of South Australia, and Bachelor of Laws at the University of Adelaide. He completed the Graduate Diploma in Legal Practice at the Law Society of South Australia and was subsequently admitted in the Supreme Court of South Australia as a Barrister and Solicitor. He also gained admittance as a Solicitor in the Supreme Court of Queensland and completed short-term appointments as a lawyer in the Energy, Resources and Infrastructure Sector. He is also a member of the Australian Institute of Project Managers (AIPM) as a registered project manager (RegPM).



Commissioners Paul Kuan, Johnson Naviti (Chairperson), and Carmine Piantedosi (CEO)

Senior Administrative Structure

The Authority's organizational structure and senior management team are set out below.



The selection and recruitment of analytical staff will commence in 2009. The Authority's regulatory and analytical staff will be qualified in economics, accounting, engineering, law and other analytical disciplines. In addition to its staff, specialist contractors and consultants experienced in providing analysis and advice on technical, economic and legal regulatory matters will also support the Authority on an as-needs basis.

Annual Report of the Utilities Regulatory Authority

The Utilities Regulatory Authority is required to provide an annual report of its operations under Part 7 of the *Utilities Regulatory Authority Act No 11 of 2007*, and as required by section 33 of the Act. The 2008 Annual Report also satisfies the requirements of regulation 13 of the Financial Regulations of the Republic of Vanuatu in accordance with Part 6 of the Act.

The year in review - Chairperson



I am pleased to report on the Utilities Regulatory Authority's activities in 2008, in fulfilling its role as the economic regulator of utility services in Vanuatu.

The Authority's work will impact on the livelihoods of all Vanuatu people, through its regulation of the electricity and water services.

Our primary objective remains to protect the long-term interests of Vanuatu consumers with regard to the price, quality and reliability of utility services and to maximise access to regulated services throughout Vanuatu.

In establishing the regulatory framework in 2008, the Authority was mindful of its responsibility to consult widely with a range of stakeholders in government, industry and consumer sectors. Interaction with, and input from, government agencies and indeed many other arms of government form an important plank of our consultation platform.

During 2008, the Authority progressed the development and establishment of the Utilities Regulatory Authority and conducted extensive consultation with the regulated businesses to clarify Authority's role and responsibilities. It assumed responsibility for the ongoing monitoring and compliance of Electricity and Water Concession Agreements and released its first version of the Authority's *Charter of Consultation and Regulatory Practice*.

The Authority also developed its Work Plan for 2009 outlining the key activities that the URA will be embarking on in the coming year. Some of the likely challenges and key areas of activity include reviewing tariffs in energy and water, energy access maximisation strategy and safety and reliability standards for the regulated industries.

I wish to thank my fellow commissioners, Paul Kaun and Carmine Piantedosi.

Finally, I thank the staff of the Authority for their continued high-quality work. Their diligence, dedication and intellectual rigour has underpinned the reputation of the Utilities Regulatory Authority within Vanuatu and beyond.

JOHNSON NAVITI *Matarulapa Marakipule*
Chairperson

Review of organisation and operations - CEO



In 2008, the Government of Vanuatu enacted legislation which established the Utilities Regulatory Authority. This marked an important step in the establishment of an independent regulatory agency which aims to encourage efficient, low cost, reliable service provision while ensuring financial viability and new investment throughout Vanuatu.

Within the Authority's legal and regulatory framework, it has taken on the Government's role in monitoring and compliance of existing concession contracts for water and electricity with UNELCO, and all other water and electricity services provided in Vanuatu.

By performing this role the Authority will help strengthen the regulation of electricity and water in Vanuatu to the benefit of consumers, the Vanuatu Government, and the utilities. It aims to improve the enforcement of regulatory rules, provide greater clarity and transparency on regulatory processes and consumer rights, and act as the key source of information and advice for wider sector development.

In its first year of operation the Utilities Regulatory Authority has undertaken a wide-ranging operational and regulatory program review, including the development of policies, procedures and guidelines.

In preparation for the forthcoming tariff review of electricity and water in Vanuatu, the Authority commenced initial consultation with the regulated businesses in accordance with its draft Charter of Consultation and Regulatory Practice.

A strong emphasis on resource planning and meeting outputs underpinned our approach to regulation. Total expenditure of VUV 15.9M absorbed the appropriated and supplementary funding provided by the Vanuatu Government and donor agencies through the World Bank and the target for economic regulatory service outputs were also achieved for the year.

The Authority remains highly committed to its relationships with external stakeholders. Our consultation principles were affirmed through numerous discussions with stakeholders. In late 2008, it issued the first version of its Charter of Consultation and Regulatory Practice after a period of consultation. The draft Charter outlines the Authority's processes in consulting the public on price reviews and other regulatory activity. Major stakeholders were also invited to comment on the Authority's draft Work Program 2009, distributed in December 2008.

Throughout 2008, the Authority developed several internal business procedures resulting from a review of the Act, including Charter of Consultation Policy, Utilities Regulatory Authority Work Program 2009, Confidential Business Information Policy, Risk Management Policy, Operational Delegation Policy, Conflict of Interest Financial Conflict Policy, Submissions Policy, Common Seal Policy and the Authority's Commission Meeting Policy.

The building and strengthening of the resource base within the Authority has been a deliberate strategy to develop the skills and knowledge base to provide a continuity of experience and skills for major regulatory projects, such as price reviews. In addition, staff training and development of regulatory skills remain a high priority.

I thank all members of the Utilities Regulatory Authority for their contribution and dedication in our first year of operation and acknowledge their overriding commitment to protect the long-term interests of Vanuatu consumers of utility services.

CARMINE PIANTEDOSI
Chief Executive Officer

Authority's outcomes 2008

During 2008 the Authority developed its energy and water work program consistent with its overall objectives under the *Utilities Regulatory Authority Act No 11 of 2007*.

The Authority commenced extensive consultation with the regulated businesses in accordance with its draft Charter of Consultation and Regulatory Practice and completed a range of initiatives consistent with its overall objective of good corporate governance.

During 2008, the Authority commenced consultation with staff of the Energy Unit within the Ministry of Lands, Geology and Mines to clarify roles and responsibilities. Key strategies for market development of energy products and services in Vanuatu and renewable energy initiatives will be considered further in 2009.

In December 2008, the Authority issued a Request for Expression of Interest for Economic Consultancy Services concerning Concession Arrangements and Electricity Tariffs in Vanuatu. The consultant(s) will provide economic and regulatory services to assist the Utilities Regulatory Authority in the review and resetting of tariffs including the methodology and approach to be used for the setting of tariffs for all Concession areas in Vanuatu.

Proposed schedule for this work is set out below:¹

EOI Proposed Schedule	
Activity	Date
Request for EOI issued	5 th December 2008
Question and clarification period	15 th December 2008
Closing Time	31 December 2008
Evaluation of EOI's	15 th January 2009
Intended formal notification of successful Candidate(s)	22 January 2009
Intended execution of Proposed Contract	February 2009
Intended commencement date	March 2009

¹ The schedule is indicative only and may be changed by the Utilities Regulatory Authority.

Major Projects Completed and Benefits Generated in 2008

Policy		
Project	Output/Result	Benefits/Impact
Establishment of Utilities Regulatory Authority of Vanuatu	Utilities Regulatory Authority Act No 11 of 2007	To establish the Utilities Regulatory Authority and for related purposes.
		To ensure the provision of safe, reliable and affordable regulated services throughout Vanuatu.
		To maximize access to regulated services throughout Vanuatu.
General		
Project	Output/Result	Benefits/Impact
Charter of Consultation and Regulatory Practice	Charter of Consultation	To provide guidance relating to the Authority's processes for making determinations and conducting inquiries
Utilities Regulatory Authority Submission Policy	Submissions Policy	To set out the Authority's requirements for all submissions received from interested persons including information the Authority may or may not publish on its website in relation to a submission.
Common Seal of Utilities Regulatory Authority	Common Seal Policy	To set out the policy relating to the use of the Utilities Regulatory Authority's common seal.
Utilities Regulatory Authority Commission Meeting Policy and Procedure	Commission Meeting Policy	To provide guidance on the policy and procedure by which the Utilities Regulatory Authority will hold a Commission meeting to make regulatory and other decisions either as part of a scheduled or out of session meeting.
Utilities Regulatory Authority Work Program	Utilities Regulatory Authority Work Program 2009	To identify the Utilities Regulatory Authority's key projects and ongoing activities for the year
Charter of Consultation Policy	Consultation Policy	To promote the establishment of a Customer Consultative Committee.

Corporate Services

Economic Regulatory Services

Key Government Outcomes

To act as the economic regulator of regulated services, in particular energy and water, to prevent misuse of market power, monitor and compliance of concession agreements, facilitate provision of safe, reliable and affordable services, facilitate access to regulated services and ensure that users and consumers benefit from regulation and efficiency.

Output Performance 2008

The Authority's budget for 2008 was prepared on an output budgeting basis in accordance with Vanuatu Government standards and World Bank requirements. The following is a brief report on output targets set for 2008:

Workforce Data

Total Employment as at 31 December 2008 (By Division):

Executive	1
Energy	0
Water	0
Organization and Operations*	1
Total	2

* Excluding the Commissioners, outsourced services and contractors

Merit and Equity

The Utilities Regulatory Authority is an equal opportunity employer and is committed to ensuring merit and equity principles are applied to all human resources policies and work practices.

Occupational Health and Safety

The Authority has continued to promote occupational health and safety through a range of measures.

The Authority has a health and safety representative.

Private Interest Declarations

Declarations of private interests were completed by all relevant officers.

Medical/Leave

<u>Medical / Leave statistics</u>	<u>2008</u>
Claims during the year	0

Employee Relations

No employee time was lost in 2008 due to industrial disputes.

Corporate Governance

The Utilities Regulatory Authority is committed to high standards of corporate governance in its decision-making and corporate activities.

Commissioners also comprise a Chairperson, who is responsible for the oversight of the organisation supporting the Authority through participation in strategic planning, management of resources, monitoring of project activity and overseeing compliance with corporate governance. The Commissioners meet quarterly, and met for the first time in November 2008.

The Authority operates under its own Corporate Governance Statement, which will be posted on the Authority's external website.² This statement also outlines the role of the Chairperson and Commissioners, which comprises the two-part-time Commissioners (Mr Paul Kaun and Mr Carmine Piantedosi) and Chairperson (Mr Johnson Naviti).

The role of the Commissioners is to assist the Authority in fulfilling its responsibilities in relation to the identification of areas of significant business risks and the monitoring of:

- Effective management of financial and other business risks
- Reliable management reporting
- Compliance with laws and regulations in respect of financial activity and reporting, and
- External and internal audits.

The Commissioners review and provide recommendations to the Authority on the adequacy of the processes for identifying and managing significant risks. They also provides a direct link between the Authority and the internal and external auditors, and enables any concerns of the auditors to be conveyed to the Authority independently of management.

Memoranda of Understanding

The *Utilities Regulatory Authority Act No 11 of 2007* requires the Authority to enter into Memoranda of Understanding with a range of Government agencies. In addition, the Authority will be required to enter into Memoranda of Understanding with agencies with which it shares important working relationships.

The objective of a memorandum is to improve communications, encourage input into regulatory processes and avoid overlap with the other agencies.

In 2008, no new Memorandums of Understanding were signed with the Utilities Regulatory Authority.

The Authority seeks to review and develop memorandums with relevant agencies in Quarter 2 of 2009, with a view to signing new memoranda in 2009.

² The website of the Utilities Regulatory Authority is currently being developed and is scheduled to go-live in Q1 of 2009.

Information Technology

Information technology facilitates the delivery of the Authority's services to its stakeholders and the wider community. During the year a number of key projects enhanced capability to communicate with stakeholders efficiently and effectively. The projects included commencement of the design, build and implementation of the Authority's external website with email-alerts functionality and a new platform for staff to access internal applications remotely.

Charter of Consultation and Regulatory Practice

The *Utilities Regulatory Authority Act No 11 of 2007* requires the Authority to develop and publish a Charter of Consultation and Regulatory Practice. In 2008 the first version of the Charter was produced.

The purpose of the Charter is to provide guidance on the Authority's processes for making determinations and conducting inquiries. It outlines the Authority's principles of consultation and outlines how external audiences are notified of inquiries, decisions and determinations.

Staff of the Authority refer to the Charter when planning price and regulatory reviews and other activities, and are guided by it in conducting public consultation and seeking comment from stakeholders. The Charter is intended for review in 2010, although the Authority is committed to continually reviewing and updating its consultation processes to ensure they remain relevant.

Consultation processes

The Authority encourages stakeholder participation in its regulatory activities.

Numbers of submissions to major pricing and other regulatory reviews and activities received during the year were: Nil

The Authority's consultation processes included:

- consultation with prescribed agencies;
- stakeholder input and comment on the draft version of the Authority's Work Program 2009 and Charter of Consultation and Regulatory Practice

Input to the Authority's work from external consultation is highly valued. Participation by stakeholders in the Authority's processes enhances the relevance and effectiveness of the Authority's decisions.

Communications and Publications

The Authority is committed to communicating effectively with stakeholders and the general community.

Numerous publications on various matters pertaining to the regulated industries are proposed to be published and made available publicly in both hard copies and via the Authority's website.

Media liaison will also continue to assist in the communication of Authority information to the general community. The Authority's proposed review of energy and water tariffs in 2009

was released throughout Vanuatu via media releases.

The Authority's website, following its implementation in 2009 will be an effective means of providing information to the community. The website address is <http://www.ura.gov.vu> . Each year a communications strategy will be developed to ensure the Authority is aligned with its work program and provides effective communication with stakeholders and the community.

Shares

No shares are held by any officer as nominee or held beneficially in a statutory authority or subsidiary.

Research and Development

No major research and development activities were undertaken by the Authority in 2008.

Building Works

The Authority does not have any buildings under its direct control and did not enter into works.

Comparative Financial Data

Excluding DoF overhead	2008
	VUV (M)
Operating Budget	23.0
Actual Operating Expenditure	15.9

Fees

No fees were issued by the Authority in 2008.

Appendix A

Financial Statements for year ending 31 December 2008

Office of the Utilities Regulatory Authority

FINANCIAL STATEMENTS

PMB 9093
Port Vila

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Office of the Utilities Regulatory Authority

Audited Statement of Operation
For the year ended 31 December 2008

(Expressed in Vatu)

	note	2008
Revenues		
Grants from Vanuatu Government	2	14 768 069
Grants from World Bank	2	8 567 417
		<hr/>
		23 335 486
Expenses	3	12 076 482
		<hr/>
Excess of Revenues over Expenses	4	<hr/> 11 259 004 <hr/>

The Statement of Operation is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 26 to 29.

Office of the Utilities Regulatory Authority

Audited Financial Statements for the year ended 31 December 2008

Office of the Utilities Regulatory Authority

**Audited Statement of Changes in Net Assets
For the year ended 31 December 2008**

(Expressed in Vatu)

	note	2008
Balance at the beginning of the year		-
Excess of Revenues over expenses	4	11 259 004
		<hr/>
Balance at the end of the year		<u>11 259 004</u>

The Statement of Changes in Net Assets is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 26 to 29.

Office of the Utilities Regulatory Authority

Audited Financial Statements for the year ended 31 December 2008

Office of the Utilities Regulatory Authority

Audited Statement of Financial Position

As at 31 December 2008

(Expressed in Vatu)

	note	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalent	5	4 750 000
		<hr/>
		4 750 000
NON CURRENT ASSETS		
Fixed Assets	6	6 809 004
		<hr/>
Total Assets		<hr/> 11 559 004 <hr/>
LIABILITIES		
Payable & Provisions	7	<hr/> 300 000 <hr/>
		<hr/>
Total Liabilities		<hr/> 300 000 <hr/>
		<hr/>
Net Assets		<hr/> 11 259 004 <hr/>
NET ASSETS		
Excess of Revenues	4	<hr/> 11 259 004 <hr/>

Carmine Piantedosi, CEO

Port Vila, April 24, 2008

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 26 to 29.

Office of the Utilities Regulatory Authority

Audited Financial Statements for the year ended 31 December 2008

Office of the Utilities Regulatory Authority**Audited Statement of Cash Flows
For the year ended 31 December 2008**

(Expressed in Vatu)

	note	2008
Operating Activities		
Excess of Revenues over expenses	4	11 259 004
Non Cash items:		
Increase in Accounts Payable		300 000
Depreciation of Fixed Assets		<u>706 317</u>
Net cash provided in operating activities		12 265 321
Investing Activities		
Fixed Assets	6	<u>(7 515 321)</u>
Net Cash used in investing activities		<u>(7 515 321)</u>
Net increase in cash and cash equivalent		4 750 000
Cash and cash equivalent at the beginning of year		-
Cash and cash equivalent at the end of year	5	<u>4 750 000</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 26 to 29.

Office of the Utilities Regulatory Authority**Audited Financial Statements for the year ended 31 December 2008**

Office of the Utilities Regulatory Authority

Notes to and forming part of the financial statements
For the year ended 31 December 2008

(Expressed in Vatu)

1 STATEMENT OF ACCOUNTING POLICIES

Nature of the Authority and Principal Activity

The Utilities Regulatory Authority was established on 11 February 2008 under the *Utilities Regulatory Authority Act No 11 of 2007*.

The Act established the Authority as an economic regulator for pricing, access, standards and monitoring of concession agreements.

The Utilities Regulatory Authority is a non-profit organization. The primary objective of the Authority is *'to protect the long-term interests of Vanuatu's consumers with regard to the price, quality and reliability of regulated services.'*

As at 31 December 2008, the industries regulated by the Authority were electricity and water.

Basis of Accounting

The accounts have been prepared under the historical cost convention and therefore do not take into account changing money values, or, except where indicated, the current value of non-monetary assets.

Revenues Recognition

Grants revenues are recognised in the year which they are received.

Fixed Assets

Depreciation is calculated on a straight line basis so as to write off the cost of the assets over their expected useful lives.

The major classes of assets are being depreciated over the following periods:

	Years	Rate %
Motor Vehicle	5	20
Office equipment	5	20
Furniture	10	10

Foreign Currency

Foreign currency transactions, which include payments to overseas suppliers and consultant and Grant received from donors, are converted to Vatu either at the rate ruling on the date of payment or based upon a standard conversion rate ruling on the date of payment. Foreign currency monetary assets and liabilities at balance date are converted at the rate ruling at that date.

Office of the Utilities Regulatory Authority

Audited Financial Statements for the year ended 31 December 2008

Office of the Utilities Regulatory Authority

Notes to and forming part of the financial statements
For the year ended 31 December 2008

(expressed in Vatu)

2 GRANTS REVENUE**Vanuatu Government**

The Authority received an approved annual budget of 23MVt from Vanuatu Government. The Authority accounts and budget granted by the Vanuatu Government is managed and controlled by the Department of Finance within the Ministry of Finance and Economic Management. This budget is used for local operating expenses only. Any unspent portion of the allocated budget is returned to the Vanuatu Government. For year ending 31 December 2008, 14 768 069Vt was used from the Vanuatu Government grant.

Australian Government

The Authority received a grant promise of USD 965 000 over the next two years from the Australian Government (AUSAID). The grant will be disbursed through the World Bank for approved and specific studies and projects. During 2008, USD 77 022.49 has been disbursed by the World Bank and received from Vanuatu Government. This grant has to be used for Consultant Services, Training, Media and Workshop activities.

Office of the Utilities Regulatory Authority

Notes to and forming part of the financial statements
For the year ended 31 December 2008

(Expressed in Vatu)

3 OPERATING EXPENSES

	2008
Local (paid from Vanuatu Gvt Grant)	
Maintenance Contract	2 200 000
Wages	1 041 320
Incidentals	828 019
Travels International	712 769
Depreciation of Fixed Assets	706 317
Materials	662 228
Stationary	489 632
Travel Local	342 855
Financial Audit	300 000
Telephone/fax	247 531
Premises, Repair & Maintenance	154 106
Car Rental	136 000
Sitting Allowances	112 000
Fuel	97 778
Cleaning	57 729
Subsistence Allowance	40 000
VNPF	37 925
Official Entertainment	25 866
Printing	24 445
Medical	20 975
Postage	10 370
Other Allowance	10 200
Bank Charge	1 000
	<hr/>
	8 259 065
International (paid from World Bank Gvt Grant)	
Consultancies	
Wages	3 817 417
	<hr/>
	3 817 417
Total Expenses	12 076 482

Office of the Utilities Regulatory Authority

Audited Financial Statements for the year ended 31 December 2008

Office of the Utilities Regulatory Authority

Notes to and forming part of the financial statements
For the year ended 31 December 2008

(Expressed in Vatu)

4 EXCESS OF REVENUES OVER EXPENSES

Excess of Revenues over expenses of the year
are explained as at 31 December 2008 by:

	2008
Fixed Assets	6 809 004
Cash at Bank (Reserve Bank of Vanuatu)	4 750 000
Payable & Provisions	(300 000)
	<hr/> 11 259 004

5 CASH AND CASH EQUIVALENT

	2008
Cash at Reserve bank of Vanuatu	4 750 000

This bank account bears no interest.

6 FIXED ASSETS

	Cost	Accumulated amortization	2008 Net value
Motor Vehicle	3 757 322	375 732	3 381 590
Office equipment	2 853 690	285 370	2 568 320
Furniture	904 309	45 215	859 094
	<hr/> 7 515 321	706 317	6 809 004

Additions for the year Vt7 515 321and disposals for the year Vt Nil

7 PAYABLE AND PROVISIONS

	2008
Annual Audit fee and accruals	<hr/> 300 000

Office of the Utilities Regulatory Authority

Audited Financial Statements for the year ended 31 December 2008



Independent Auditors' Report

To the Commission of the Office of the Utilities Regulatory Authority

We have audited the statement of financial position of the Office of the Utilities Regulatory Authority as at December 31, 2008, and the statements of Operations, changes in Net Assets, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standard on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at 31 December, 2008 and the results of its operations and its cash flows for the year then ended in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board and in accordance with the Provision of the Utilities Regulatory Authority Act No.11 of 2007 of the Republic of Vanuatu.

Port Vila
24 April 2009

SAINT HILAIRE & ASSOCIATES
AJC
Chartered Accountants

(Qualified auditors under Section
166(1) of the Companies Act [CAP
191] of the Republic of Vanuatu)

An independent correspondent member of DFK International



Appendix B

Regulatory Framework

Regulated Industries and Relevant Legislation

At 31 December 2008, the following industries were regulated industries within the ambit of the Authority by virtue of the relevant legislation specified below:

- the electricity industry – generation, transmission distribution and retailing, under the *Utilities Regulatory Authority Act No 11 of 2007*
- the water industry – prices, service standards and conditions of service for the Vanuatu water supply and sanitation industry under the *Utilities Regulatory Authority Act No 11 of 2007*

Appendix C

Utilities Regulatory Authority Publications 2008

The majority of the Authority's publications can be obtained from the Office of the Utilities regulatory Authority in hard copy. Publications will also be made available on the Authority's website in 2009:

- Work Program 2009 (December 2008)
- Annual Report 2008 (March 2009)
- Charter of Consultation and Regulatory Practice (December 2008)

Appendix D

Legislation and Agreements

The following is a list of legislation, regulations, concession agreements and policies applying to the Authority's responsibilities in relation to regulated industries as at 31 December 2008.

Concession Contracts and Specifications

1. Convention relating to the Concession for the Generation and Public Supply of Electric Power in Port Vila.
2. Amendment No.1 to the Convention dated 15th August 1986 relating to the Concession for the generation and Public Supply of Electric Power in Port Vila.
3. Amendment No.2 to the Convention dated 15th August 1986 relating to the Concession for the generation and Public Supply of Electric Power in Port Vila.
4. Agreement varying Concession between the Government of the Republic of Vanuatu and the Honourable Minister of Lands, Geology, Mines, Energy and Rural Water Supply and Union Electrique du Vanuatu Limited.
5. Specifications relating to the Concession for the Generation and Public Supply of Electric Power in Port Vila.
6. Convention relating to the Concession for the Generation and Public Supply of Electric Power in Luganville.
7. Specifications relating to the Concession for the Generation and Public Supply of Electrics Power in Luganville.
8. Addendum to the Contract of Concession for the Generation and Public Supply of Electric Power in Luganville between the Government of Vanuatu and Union Electrique du Vanuatu Limited.
9. Further Addendum to the Contract of Concession for the Generation and Public Supply of Electric Power in Luganville between the Government of Vanuatu and Union Electrique du Vanuatu Limited relating to the Sarakata Hydroelectric Power Station – Release of Funds from Sarakata Renewal Fund for Land Lease Acquisition Purposes.
10. Addendum to the Contract of Concession for the Generation and Public Supply of Electric Power in Luganville between the Government of Vanuatu and UNELCO Vanuatu Limited Relating to the Handing over of the Sarakata Hydroelectric Power Station.

Relevant Acts, Regulations and Orders

11. Utilities Regulatory Authority Act No. 11 of 2007.
12. Government Contracts and Tenders Act No. 10 of 1998 Act and supporting Regulations – Tender Regulations Order No. 40 of 1999.
13. Public Finance and Economic Management Act No. 6 of 1998.

Utilities Regulatory Authority Policies and Procedures

14. Utilities Regulatory Authority Manual of Processes and Development.
15. Utilities Regulatory Authority Charter of Consultation and Regulatory Practice.
16. Utilities Regulatory Authority Policies and Procedures.

Appendix E

Division 2 Safety standards, order, inspection and reliability standards Report

Safety standards (section 14) issued in relation to safety of regulated service in 2008 – Nil

Safety orders (section 15) issued directing any person to do or refrain from doing anything in relation to the safety of a regulated service in 2008 – Nil

Safety inspection (section 16) of premises, plant, equipment or vehicle connected with a regulated service conducted in 2008 – Nil

Reliability standards (section 17) issued in relation to the reliability of a regulated service in 2008 – Nil

Appendix F

Division 3 – Price, complaint resolution and contract administration Report

Section 18 of the *Utilities Regulatory Authority Act No 11 of 2007* empowers the Authority to determine the maximum price which may be charged in relation to any aspect of a regulated service.

Notices issued under section 18 during 2008 - Nil.

Section 19 of the *Utilities Regulatory Authority Act No 11 of 2007* empowers the Authority to assist a person to resolve any dispute with a utility in respect to a regulated service.

Requests made to the Authority for assistance in dispute resolution in 2008 – Nil

Section 20 of the *Utilities Regulatory Authority Act No 11 of 2007* assigns the Authority the rights exercisable by the Government in the contracts prescribed in Schedule 1 Part A, B and C, subject to subsection 20(2), (3) and (5).

Section	Description	Clause	Issued
(a) Concession Agreement - Luganville			
5	Replacement of fixed assets – approval of rates	20	Nil
6	Investment support for extension work – Approvals and Orders	26-31	Nil
8	Fixed assets and depreciation – Agreement sought	38	Nil
12	Notice of forfeiture	55	Nil
13	Miscellaneous Expenses – request revision of prices	62	Nil
(b) Specification			
3	Concession fixed assets – Designs, upgrades and Modifications	7, 9	1
4	General conditions of service – review and monitor	12	7
5	Rates calculations – Revision of base price and adjustment formula	24, 27	Nil
7	Obligation to supply – Determinations by URA	31	Nil
8	Extension of network – Determinations by URA	35	Nil
11	Common provisions for extension works or service loops – Determinations and Agreements	57, 58	Nil
12, 13	Metering – Approvals, Inspections and Determinations	59, 66	Nil
14	Customer's Agreement – Agreement on subscription form in conformity with model	67	Nil
15	Control of inner installations – Determinations	73	Nil
17	Registered office costs – Request for information	75	Nil
18	Accounts and Statistical statements – Provision of information for Review	76, 77, 78	12
19	Penalties	79	Nil
21	Customer disputes – Resolution	81	Nil

Section	Description	Clause	Issued
(a) Concession Agreement - Port Vila			
5	Replacement of fixed assets – approval of rates	20	Nil
6	Investment support for extension work – Approvals and Orders	26-31	1
8	Fixed assets and depreciation – Agreement sought	38	Nil
12	Notice of forfeiture	55	Nil
13	Miscellaneous Expenses – request revision of prices	62	?
(b) Specification			
3	Concession fixed assets – Designs, upgrades and Modifications	7, 9	1
4	General conditions of service – review and monitor (Public Notice: 29, Grantor: 2)	12	31
5	Rates calculations – Revision of base price and adjustment formula	23, 26	Nil
6	Obligation to supply – Determinations by URA	29	Nil
7	Extension of network – Determinations by URA	33	Nil
10	Common provisions for extension works or service loops – Determinations and Agreements	55, 56	Nil
11, 12	Metering – Approvals, Inspections and Determinations	57, 64	Nil
13	Customer's Agreement – Agreement on subscription form in conformity with model	65	Nil
14	Control of inner installations – Determinations	71	Nil
16	Registered office costs – Request for information	73	Nil
17	Accounts and Statistical statements – Provision of information for Review	74, 75, 76	12
19	Penalties	77	Nil
20	Customer disputes – Resolution	79	Nil

Article	Description	Clause	Issued
(a) Concession Agreement - Malekula Island			
2	Concession equipment – provision of Information	12, 14	Nil
6	Concession fixed assets and depreciation – Agreement sought	23	Nil
7	Major maintenance and repairs – Special agreements sought	26	Nil
9	Notice of forfeiture	30	Nil
(b) Specification			
18	General conditions of service – review and monitor	70	1
23	Common provisions for extension works or service loops – Determinations and Agreements	104	Nil
24	Metering – Approvals, Inspections and Determinations	107, 119	Nil
26	Customer's Agreement – Agreement on subscription form in conformity with model	120	Nil
27	Control of inner installations – Determinations	128	Nil
28	Customer disputes – Resolution	129	Nil
29	Penalties	130	Nil
31	Tariffs - Calculation of customer's recommended power rating – agreement	154	Nil
31	Tariffs – Revision of base price and adjustment formula	157	Nil
32	Accounts and Statistical statements – Provision of information for Review	160	Nil
34	Additional provisions – Inspection and audit of inventory of concession assets	165, 166	1

Article	Description	Clause	Issued
(a) Concession Agreement - Tanna Island			
2	Concession equipment – provision of Information	12, 14	Nil
6	Concession fixed assets and depreciation – Agreement sought	23	Nil
7	Major maintenance and repairs – Special agreements sought	26	Nil
9	Notice of forfeiture	30	Nil
(b) Specification			
18	General conditions of service – review and monitor	70	1
23	Common provisions for extension works or service loops – Determinations and Agreements	104	Nil
24	Metering – Approvals, Inspections and Determinations	107, 119	Nil
26	Customer's Agreement – Agreement on subscription form in conformity with model	120	Nil
27	Control of inner installations – Determinations	128	Nil
28	Customer disputes – Resolution	129	Nil
29	Penalties	130	Nil
31	Tariffs - Calculation of customer's recommended power rating – agreement	154	Nil
31	Tariffs – Revision of base price and adjustment formula	157	Nil
32	Accounts and Statistical statements – Provision of information for Review	160	Nil
34	Additional provisions – Inspection and audit of inventory of concession assets	165, 166	1

Appendix G

Part 5 Review of certain actions Report

Section 27 of the *Utilities Regulatory Authority Act No 11 of 2007* allows utilities aggrieved by any action taken pursuant to Part 3 or section 37, may within 30 days; give a notice of grievance to the Authority.

Notices received for requests for internal review in 2008 – Nil.

Section 28 of the *Utilities Regulatory Authority Act No 11 of 2007* allows utilities aggrieved by any action taken pursuant to Part 3 or section 37, may in addition to any other rights apply to the Supreme Court for judicial review upon certain predetermined grounds.

Applications made to the Supreme Court for judicial review in 2008 – Nil.