



2022 Annual Report On Use of contractual fund

**“Investment Support Fund” as defined in Article 6 of the
Convention Relating to the Concession for the Generation and
Public Supply of Electric Power in Port-Vila**

December 2023

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1. Introduction

1.1 Purpose of this report

This report was prepared to detail the collections, and use of the “Investment Support Fund,” as defined and established under the “Article 6” of the convention relating to the concession for the generation and public supply of electric power in Port Vila between UNELCO and the Government of Vanuatu.

This is the Utilities Regulatory Authority’s (the ‘Authority’) eighth annual report, covering the period from January 1st to December 31st, 2022.

UNELCO continues to ensure that yearly contribution is paid into the Article 6 Fund for the purposes as stipulated in the Port Vila Electricity Concession Contract.

1.2 Legal overview

Subsection 34(3) of the Utilities Regulatory Authority Act (the 'Act') No. 11 of 2007 (as amended) requires the Authority to publish annual reports on the use of any fund defined in a contract for the provision of a regulated service in Vanuatu between the Vanuatu Government and a utility company.

In accordance with this mandate, the Authority on an annual basis conducts financial and technical auditing and reporting of the funds established under Concession Contracts to review its collections, usage and makes recommendations to the Government who is the owner of these funds.

1.3 Contractual basis of Article 6 funds

Article 6 of the convention relating to the concession for the generation and public supply of electric power in Port Vila (currently UNELCO) states:

An investment support fund is set up from the date of signature of the present Convention. For the duration of the Concession, the Concessionaire shall credit yearly this fund with the amount defined in subsection 28 here in below. This amount will be considered as an expense for the corresponding year.

This yearly expense shall be credited to an account known as “Investment Support Fund”.

The original amount allocated by the Concessionaire to such fund shall be VUV4, 000,000 based on the price “P” applicable at the date of signature of the present Convention and the related specifications, which is VUV 22.22¹. The amount of this allocation shall be indexed to the price “P” applicable on the 31 December of the year when such allocation shall be made.

It is expressly stipulated that the amount shown to the credit of the “Investment Support Fund” is at all times owned by the Grantor.

The Grantor, after consultation with the Concessionaire, and after being made aware of this investment programme, can, from time to time or yearly, approve any withdrawal from the investment support fund proposed

¹ UNELCO Port Vila Electricity Concession Agreement, Addendum of 23 January 1990

by the Concessionaire or order such withdrawal which would seem justified in developing the distribution of electricity or to decrease the rates within the concession area.

Notwithstanding the above, in cases provided for in section 9 herein below, the concessionaire shall inform the Grantor by registered letter of the amounts charged to the fund.

The withdrawals ordered or approved by the Grantor shall be debited to such fund.

The extension works financed by this fund shall not be subject to asset transfer depreciation. They shall be subject to replacement provision only insofar as they can be included in assets as defined in subsection 20, here in before.

At the end of the Concession, whether such Concession ends by purchase, expiry or for any other reason whatsoever, a sum equal to the net amount of the investment support fund will be paid to the Government of Vanuatu.

1.4 About the Utilities Regulatory Authority (the 'Authority')

The Authority is the economic regulator of electricity and water service providers throughout Vanuatu established under the URA Act No. 11 of 2007 (as amended). The URA Act provides that in regulating, the Authority is to:

- Ensure the provision of safe, reliable, and affordable electricity and water services; and
- Maximize access to regulated services throughout Vanuatu.

In doing so to promote the long-term interests of consumers by undertaking its Functions under the Act, the Authority is mandate:

- to issue and monitor safety and reliability standards and set maximum prices and assists in customer complaint resolution; and to provide advice to the Government relating to utilities and inform the public of matters relating to utilities.

2. Fund in 2022

2.1 Purpose of the Investment Support Fund (Article 6 fund)

The purpose of the fund is specifically to be used in developing the distribution of electricity within the UNELCO electricity concession area and/or to decrease the electricity rates within the concession area; whichever is deemed fit at the discretion of the Grantor (Government).

2.2 Fund Administration

The Article 6 fund is used by UNELCO (The current electricity supplier in Port Vila) at the request and approval from the Vanuatu Government through the Minister responsible for Climate change and Energy. Electrification projects are proposed by the Minister (on behalf of the Government) and UNELCO proceeds to study and make its assessment of the Government proposed electrification projects and provide a quotation to the Government, the Government then sends an approval letter to UNELCO, to which UNELCO is reimbursed by Article 6 funds for the actual cost value for all expenses incurred in undertaking the electrification project after its completion.

It is important to note that as per the Council of Minister's decision 128/2018, the Article 6 fund will be used and managed and used by the National Green Energy Fund (NGEF). This COM decision is still not effective yet, as there needs to be an amendment to the Port Vila Concession contract. The Vanuatu Government through the Ministry of Climate Change is working on the addendum and once the amendment is finalized and passed the Article 6 fund will be collected by UNELCO and transferred to NGEF on an annual basis. The COM decision also outlines how the fund will be used, and it is to help provide electricity to rural or remote areas in Vanuatu.

The Authority will still be issuing reports on the collection and usage of the fund once the amendment will become effective as per Subsection 34(3) of the Utilities Regulatory Authority Act (the 'Act') No. 11 of 2007 (as amended) explained in section 1.2.

2.3 Projects completed in 2022.

As per UNELCO's letter (ref: 393/23/UFP/AW), one (1) project was completed in 2022 and funds were reimbursed to UNELCO from Article 6. The ETAS electrification project was proposed in 2016 by the Government. The project was requested by the then Minister responsible, and the utility proceeded by providing a quotation in 2021 via letter (ref:647/21/U/MP/ar), to which the minister responsible approved via letter (ref: PV/MoCC/DoE/PROJ/NGEF:4. A.1). Table 2.3.1 below provides details of the electrification project.

2.3.1 2022 project list

Project Name	Request and Approval	Quotation	Approval date	Status	Actual cost	Variance (Actual Vs Quote)
Electrification of ETAS community Phase 1	Hon. Minister of Climate Change.	22,147,177	25/08/2021	Completed in 2022	23,855,056	+1,707,879

The above outlines variances from the projects actual cost and the quotation amounts. These variances are usually derived from the different quantity of materials used in implementing the project.

The ETAS extension has allowed for 14 new customers to be connected to UNELCO's grid in 2022. From the extension, a total of 10,656 kWh was sold, and revenue collected was 931,675 VT. The Authority has carried out a site inspection to check the extension and number of customers connected. The Authority's findings are outlined below in Section 2.6 of this report.

2.4 Record of Article 6

2.4.1 UNELCO's financial records for 2022

	Activity	Debit to Fund (Vatu)	Credit to Fund (Vatu)	Balance (Vatu)
Year 2022	Opening balance of the fund at the start of 2022 (2021 closing balance)			36,085,932
	Contributions in 2022 into the Fund		12,482,448	48,568,380
	Withdrawals in 2022 from the Fund	-23,855,056		24,713,324
	Closing balance of the fund at the end of 2022			24,713,324

2.4.2 Verifying UNELCO's Contribution 2022 to the Fund amount

Annual contribution into the fund is calculated as 4,000,000 multiplied by 3.12 (rounded-off), which is the ratio of electricity base price P on December 31st of 2022 at 69.34 Vatu/kWh and the original base price P at 22.22 Vatu/kWh. The contribution to the fund based on this calculation is Vatu 12,482,448 which reconciles with UNELCO's total contribution amount made into the fund in 2022.

2.5 In complete projects approved by Vanuatu Government

Project	UNELCO's estimated cost of project (Vatu)	Project status	Government approval date
EMELSA community extension project.	2,500,000	Yet to commence (on hold)	4/11/2021

2.5.1 EMELSA extension project

The EMELSA extension project is still on hold since 2021. On November 4, 2021, the Minister responsible approved for UNELCO to use the Article 6 funds to electrify the EMELSA community at Erakor half road. On March 2, 2022, UNELCO informed the Government that UNELCO's survey plan identifies that the land where the electrification project is to be carried out is not a registered land. Since then, there has been no progress on the status of the extension project.

2.6 Site inspection

The Authority used the documents submitted by UNELCO (attachments to letter (ref: 393/23/UFP/AW), to carry out a site inspection on July 14, 2023, on the ETAS electricity extension. The inspection was carried out following normal practise to confirm the funded extension, ensuring its existence and obtain additional information from customers and the Authority's findings are as follows.

2.6.1 Findings

ETAS Phase 1 Electrification extension:

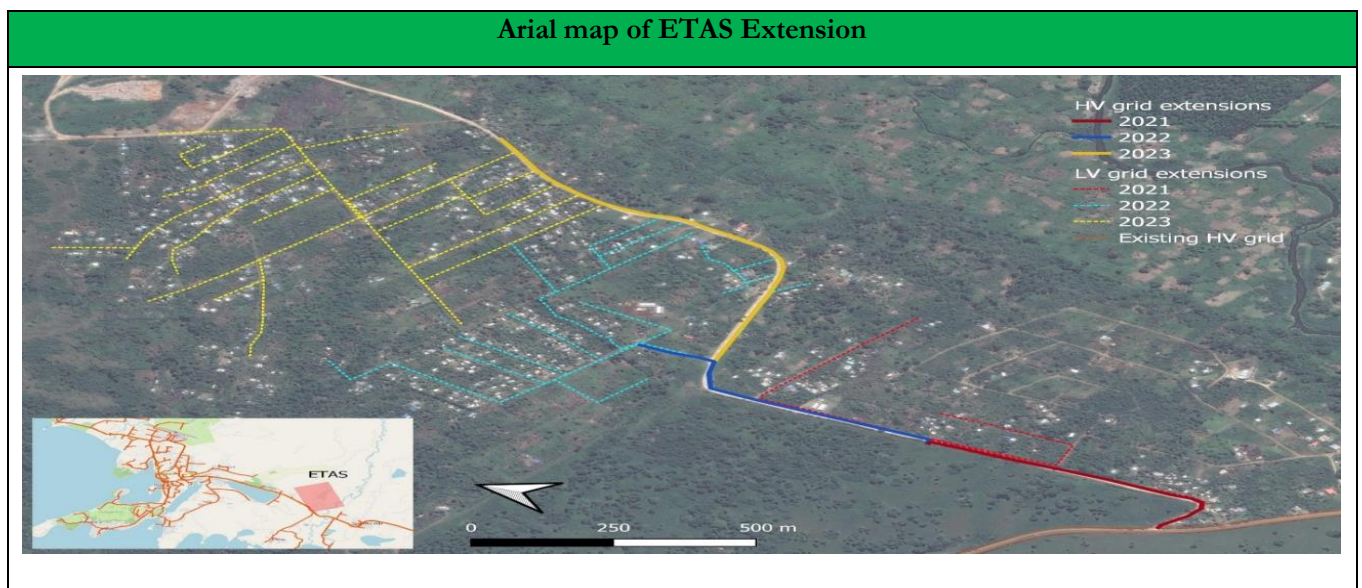
The extension of electricity supply was completed in 2022 as confirmed by residents during inspection. UNELCO recorded a total of only fourteen (14) meter connections installed after completion of the project. During the site inspection, around twenty (20) meters were visible and are connected to the network starting from post 495/115 to 495/100.

The consultation team discovered that, the low voltage extensions starting from post no. 495/209 to 495/221 follows a gravel road from the main ETAS road to the Digicel tower, and only residents on the left side of the road where the extensions are, have electricity. Households on the right side of the road are not connected.

The LV network extension line from post 495/107 to 495/126 is along a subdivision road that only has five (5) houses alongside the road and none of the houses are connected to the grid during the time of the inspection.

For clarity, the LV extensions described above are the extensions shown as dotted lines in **red** shown in the image below.

UNELCO's Director Commercial had confirmed that, unconnected houses along the extensions of post no. 495/209 to 495/221 are 30 meters away from the extension and as per the UNELCO concession contract agreement, supplying electricity to these houses will be considered as another extension. As for extension starting from 495/107 to 495/126, several households that are located alongside the extended network are not connected as customer connections are entirely dependent on the resident's willingness to be connected.



Source: UNELCO

3. Recommendations

The Authority is putting forward the following recommendations to the Government for consideration:

1. The Authority to undertake an inspection or a feasibility study of a planned extensions that the Minister intends for the Article 6 funds to finance.

From the Authority's network inspection as outlined in 2.6.1, it is the Authority's findings show that the extension works carried out from post 495/209 to 495/221 could have been better implemented with increase access provided to the grid through a feasibility study. The extension or area for which extension was made, if inspected and quoted properly, could have supplied electricity to at least six (6) more households that are on the street the extension is currently on.

The Authority is therefore recommending to the Vanuatu Government and the Minister responsible to allow the Authority to do an inspection or feasibility study on future network extension proposals that will be funded by Article 6 before the Government grants UNELCO approval for UNELCO to commence the works.

2. Further extension works to be done along the recently completed extension (post no. 495/209 to 495/221)

The Authority is recommending to the Minister responsible to allow UNELCO (by following the normal procedure) to do another electricity extension to connect the 6 or more household along the recently completed extension area. From the Authority's site inspection, the unconnected neighbouring households are using electricity from the grid through the practice of meter by-pass for which they are accessing electricity from a connected customer's meter. This is a concern as it poses safety issues for the residents. Extending the network to these households will help address and resolve the matter of meter by-pass as identified.