

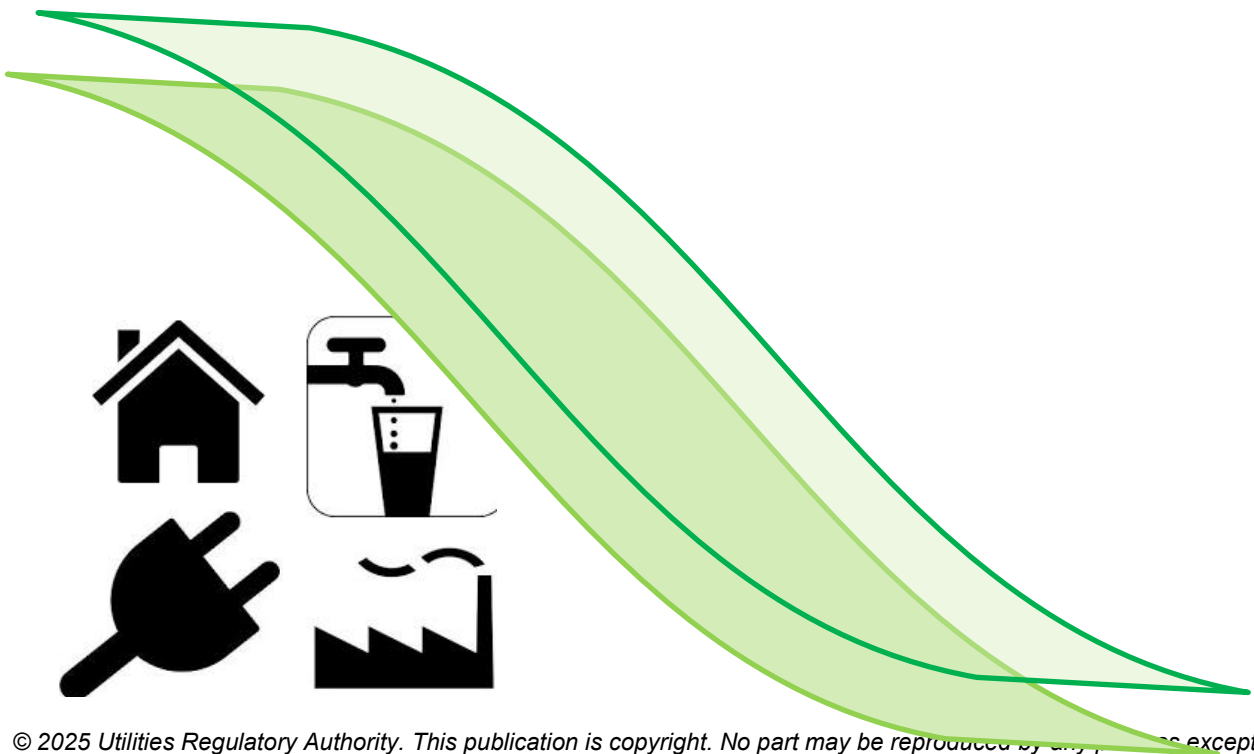


Authority's Commission Order

Case U-0012-25

In the Matter of Issuing the Authority's Electricity
Reliability Penalty Mechanism for Regulated Electricity
Utilities

July 2025



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1. Introduction

Table 1: Case Information

Case number	Case U-0012-25
Related Documents	Case S-0002-15: Electricity Reliability Standards, Case U-0003-522: Revised Electricity Regulatory Reporting Requirements
In the matter of	Issuing the Authority's Electricity Reliability Penalty Mechanism for Regulated Electricity Utilities
Date of Decision	July 2025

1.1 Purpose of this paper

This document outlines the Utilities Regulatory Authority's (the Authority) Electricity Reliability Penalty Mechanism to be applied to electricity Concessionaires except the UNELCO Port Vila electricity Concession. The application of the Electricity Reliability Penalty Mechanism is to ensure compliance with the Authority's Electricity Reliability Standards.

Electricity concessionaires are duly informed of the Authority's penalty framework, which is implemented transparently. The primary objective of this mechanism is to enhance the reliability of electricity services across Vanuatu.

1.2 Structure of this paper

This document is structured as follows:

Chapter 2 outlines the legal framework as catered for under the URA Act.

Chapter 3 highlights the relevant sections of the Electricity Reliability Standards

Chapter 4 discusses the Electricity Reliability Penalty Mechanism

Chapter 5 Discusses implementation of the Electricity Reliability Penalty Mechanism

2. The legal framework

This Section lists the relevant legal framework as the URA Act and the UNELCO Port Vila Electricity Concession contract.

2.1 The URA Act

Section 2 of the Utilities Regulatory Authority Act No. 11 of 2007 (as amended) (the Act) outlines the purpose of the Authority which is to ensure the provision of safe, reliable and affordable regulated services.

Section 12 of the Act provides for the functions of the Authority whereby subsection 12(1)(a) allows the Authority to exercise the functions and powers conferred by this Act or by any other Act in furtherance of the purposes of the URA Act.

Section 17 of the Act provides for issuance of reliability standards for a regulated services in Vanuatu. Furthermore, it states that the Authority in issuing reliability standards must consider the cost and convenience of compliance and the nature and importance of the reliability issue that is addressed.

Section 21 of the Act provides for offences with subsection 21(1)(b) relating to contravention of reliability standards. Offences committed under this section are liable on conviction to a fine not exceeding VT50,000,000 for a corporate body.

Section 25 of the Act provides for the issuance of an infringement notice that, among other requirements, must specify a penalty amount not to exceed the maximum penalty imposed under the URA Act.

Section 26 of the Act provides for all penalties recovered to be paid into the public fund¹.

Section 29B (5) of the Act ensures that penalties incurred by utilities under Section 25 must not be included in the utility's cost when determining the maximum price.

2.2 UNELCO Port Vila Electricity Concession

Section 18 of the UNELCO Specifications Relating to the Concession for the Generation and Public Supply of Electric Power in Port Vila outlines the Penalties for unjustified service interruption under part a) as follows:

- Throughout the network: a fine equal to 500P per hour of interruption,
- At one transformer: a fine equal to 50P per transformer per hour of interruption

Given the above provision in the UNELCO Port Vila Electricity Concession contract allowing for a penalty to be applied for unjustifiable interruption in electricity service, the electricity reliability penalty mechanism outlined in this document is to exclude UNELCO until such time the provision in the UNELCO contract has been amended or expired at the end of the concession period.

¹ This does not apply to penalties paid in respect of an offence under section 29C relating to payment of URA assessed fees on utilities, or any costs recovered.

3. Electricity Reliability Standards

The Electricity Reliability Standards Final Decision and Commission Order (Case S-0002-15) was issued by the Authority in August 2018 and amended in 2019. The Electricity Reliability Standards (the Standards) had the following objectives:

1. Highlight the electric utility's performance requirements by setting norms to ensure cost effective availability and quality of supply;
2. Promote the availability and quality of electricity supply to customers, while balancing costs versus benefits of expecting reliability; and
3. Apply measurable rules to ensure fairness, and consistency when addressing complaints regarding service reliability.

Rule 5.1.1 of the Standards classifies the electricity interruptions into Planned, Unplanned, Emergency, and Major interruptions.

Rule 5.2.1 provides the justification for electricity interruptions and part (c)(2) of this Rule provides for an unplanned interruption that is regarded as unjustified. These are listed below:

- i. The interruption occurred as a result of a fault(s) on the network or at the power station;
- ii. The interruption occurred as a result of utility related accident on the network;
- iii. The interruption occurred as a result of damage caused during works undertaken on the network or power station by the utility or person acting on behalf of the utility, including utility employees, agents, representatives and/or contractors;
- iv. The interruption occurred as a result of damage to the network caused by obstacle or building located within the safe distances as specified in the Electricity Safety Standards and Guidelines (Case S-0001-14) implemented in Vanuatu; or
- v. The utility could not determine the cause of the outage.

Unplanned electricity interruptions that are unjustified as categorized from i-v above are considered an offence under Section 21 of the Act and are therefore subject to a penalty not exceeding VT50,000,000 for a body corporate.

4. Electricity Reliability Penalty Mechanism

This Section discusses the underlying principles considered in developing the Authority's Electricity Reliability Penalty Mechanism (ERPM), the approach taken by the Authority in finalizing the ERPM, and the ERPM to be applied to electricity concessionaires.

4.1 ERPM Principles

This subsection discusses the underlying principles utilized in determining the ERPM.

1. Transparency and Traceability

The principal of transparency requires that parameters identified in the ERPM be easily identifiable and computed to arrive at the penalty prescribed. Furthermore, that the computation is simple and can be easily applied by either the Authority for penalty purposes or the utility to forecast financial implications of unjustified electricity reliability issues.

The principle of traceability ensures that the Authority can trace and verify information provided by the electric utility for penalty computations. And any technical audit conducted by the Authority will yield concise and similar results as provided by the utility.

2. Non-discriminatory

The ERPM must be applied uniformly across all electricity concessionaires to uphold the established electricity reliability standards. Accordingly, the mechanism should be designed to enable all concessionaires to submit the necessary data for penalty computation in a consistent and equitable manner.

At present, only the UNELCO electricity concessionaire is subject to penalties under the existing electricity concession contract². However, upon the expiration of this contract in 2031, any new concession agreement for Port Vila will be required to incorporate the ERPM in compliance with the Authority's Electricity Reliability Standards.

3. Consistency

The principle of consistency mandates that the Authority apply the ERPM uniformly across all electricity concessionaires over a sustained period. This approach is essential to fostering long-term improvements in electricity service reliability and ensuring fair and predictable enforcement of standards.

4.2 ERPM Approach

The Authority in developing the ERPM has considered the following steps:

1. Stakeholder Consultations: The Authority has consulted with electric concessionaires that will be immediately impacted by the ERPM which includes Vanuatu National Power and Water Authority (VANPAWA) and Vanuatu Utilities and Infrastructure Ltd (VUI). The consultations have been

² The Specifications Relating to the Concession for the Generation and Public Supply of Electric Power in Port Vila, Section 18 – Penalties.

carried out in the month of July 2025 and all feedback received had contributed to the finalized ERPM.

2. Regional approaches to implementing similar mechanisms: the Authority has considered similar mechanisms utilized to incentivise electric utilities to improve reliability of their services according to standards set by either the Government or Regulator. However, implementation of similar approaches is limited due to the availability of data and suitability for the Vanuatu context. Therefore, only key designs of the mechanism have been adopted whereby the penalty computed must factor in severity of reliability issues on electricity customers by considering:
 - a. Number of customers: the number of customers affected by an unjustified outage.
 - b. Length of time: the duration of an unjustified outage. The duration of an unjustified outage shall have a multiplier effect on the penalty computation demonstrating the severity of prolonged outages on electricity consumers.
3. Availability of relevant regulatory data: the Authority Commission in July of 2023 had endorsed the Revised Electricity Regulatory Reporting Requirements (Case U-0003-22) stipulating the reporting to be provided by electric concessionaires for regulatory purposes. The reporting is complied with by electric utilities on an annual basis beginning 2024. Therefore, to avoid further burdening the utility with new regulatory reporting requirements, the Authority will utilize the data readily available and provided by the utility in the Electricity Regulatory Reporting Requirement templates.

4.3 ERPM Formula

The Electricity Reliability Penalty Mechanism is prescribed by the formula below:

$$Penalty = P \times C_n \times Hr$$

Whereby:

- | | |
|----------------|---|
| P | is the Base price in effect during the unjustified power outage. |
| C _n | is the Customer numbers affected by the unjustified power outage. |
| Hr | is the Hours with unjustified power outage. |

It is important to note that the formula does not differentiate between partial power outages and complete outages (i.e., 'blackouts'). However, the penalty associated with a complete outage is significantly higher, reflecting the severity of the disruption and its broader impact on electricity consumers.

5. ERPM Implementation

This Section considers the ERPM implementation aspects which include its application to eligible electricity concessions, effective date, and revisions to the ERPM.

5.1 Electric Concessionaire Eligibility

Excluding UNELCO, other electricity concessionaires currently operating include VANPAWA and VUI who will be eligible for the ERPM and future electricity concessionaires.

5.2 Effective Date and Application

The ERPM is effective upon gazettal of this document by the Vanuatu State Law Office. Once effective, the Authority will determine the applicable penalty based on the year's Electricity Regulatory Reporting Requirements.

The ERPM would be applied on an annual basis to the relevant electric utilities. The application would be within the month after the first quarter of each year when the electricity Regulatory Reporting Requirements have been made available to the Authority.

5.3 Penalties Collected

The penalties resulting from the application of the ERPM will be deposited into a public fund established by the Vanuatu Department of Finance.

5.4 Utility ERPM Cost

The costs incurred by the electric utility under the ERPM are not recoverable through the electricity tariff. For clarity, the Authority will exclude any penalty-related expenses, whether arising from the ERPM or due to late payment of associated fees when determining the tariff for the applicable period.

5.5 ERPM Revisions

The ERPM may be revised by the Authority due to the following legal and regulatory framework changes:

- Revisions to the Authority's Electricity Reliability Standards;
- Revisions to the Authority's Electricity Regulatory Reporting Requirements;
- Amendments to the URA Act; or
- Changes to Government policies and legislation.

Upon revising the ERPM, the Authority may:

- Consult the relevant electricity concessionaires; and or
- Consult with relevant Government institutions.

Utilities Regulatory Authority

Vanuatu