

**2019 Annual Report
On
Use of contractual fund**

**The “Water Development Fund” of
Addendum 6 to the Concession Contract for
the Management and Operation of the Water
Supply Services in Port Vila.**

December 2020

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1. Introduction

1.1 Legal Basis

The Utilities Regulatory Authority is mandated to publish annual reports on the use of any fund defined in a contract between the Vanuatu Government and utility company providing water or electricity services. This mandate is pursuant to section 34 (3) of the Utilities Regulatory Act (the 'Act') No. 11 of 2007 (as amended).

Furthermore, paragraph 12 (1) (b) of the Act states the Authority's functions, which includes providing advice, reports and recommendations to the Government relating to utilities in the country.

1.2 Purpose of this report

This report details the use of the Article 8 "Water Development Fund" under Addendum six (6) which came to effect on the 20th of July 2018. Article 8 "Water Development Fund" effectively replaces Article 29 "water special fund" that was established under schedule of conditions of 23 December 1993.

1.3 Contractual basis of the Fund

Article 8 Water Development Fund of the Contract for the Management and Operation of the Water Supply Service in Port-Vila (the Contract) replacing Article 29 Water Special Fund states¹:

(Replaces Article 29 of the Schedule of conditions of 23 December 1993 and Addendum dated 11 September 2013)

The concession shall include a <<Water Development Fund contribution>> on each water invoice issued to the consumers. The Water Development Fund Contribution is set at 5 Vatus per cubic meter sold by the concessionaire.

The Concessionaire shall remit, every calendar quarter, the amount of the <Water Development Fund Contribution> invoiced to customers during the previous quarter. The amount remitted during the second quarter of every calendar year shall be abated by the <Water Development Fund> portion of any customers debt that was uncollected and duly written off by the Concessionaire in the previous financial year.

For avoidance of any doubt, the Concessionaire's role shall be limited to remitting the Water Development Fund Contribution to the Government; the subsequent care, management and use of the Water Development Fund is the full responsibility of the Government and not governed by this Addendum.

The balance of the remaining funds, if any, from Article 29 of the schedule of conditions of 23 December 1993 which may have accrued prior to this Addendum, shall be remitted to the Government with the Water Development fund Contribution of 1 October 2018.

For the avoidance of doubt, this Article 8 takes effect from the date of signature.

¹ Addendum 6 of 20 July 2018

1.4 About the Authority

The Authority is the economic regulator for electricity and water services in Vanuatu. The Authority operates under the Act and has been in operation since 2008. The objectives of the Authority include;

- ensuring the provision of safe, reliable and affordable electricity and water services;
 - maximizing access to regulated services throughout Vanuatu; and
 - promoting the long term interests of consumers.
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- The Authority monitors safety and reliability standards, set maximum prices and also assists in complaint resolution.
 - The Authority is also mandated to provide advice to the Government and inform the public of matters relating to regulated utility services.

2. Fund in 2019

2.1 Purpose of the Water Development Fund

2.1.1 Article 8 “Water Development Fund”

Article 8 under Addendum 6 of 20th July 2018 replaced the Article 29 of 23 December 1993. Its purpose as detailed under Recital E of Addendum 6 states, “to finance the extension of the Port Vila Water Concession Contract”.

Addendum 6 came as a way forward to achieving Government’s ambitions to have the Port Vila concessionaire to further operate and manage numerous small water suppliers around the peri-urban areas of Port Vila. These small water suppliers as identified by Addendum 6 includes Boukura, Teoumaville, Mele Maat, Tuk Tuk, Bellevue, Beverly Hills, Narpow Point, Mele, Eratap and Etas.

The fund is contributed by Port Vila water customers into the Water Development Fund to financially assist the Government in acquiring those small water systems, before transferring it to the Port Vila water concessionaire for operation and management.

2.2 Fund Administration

2.2.1 Article 8 “Water Development Fund”

As stipulated in Addendum 6, the Concessionaire’s responsibility is limited to collection and remitting of collected funds to the Government on quarterly basis. Government will now take full responsibility of the administration responsibilities of the fund including usage of fund. As of August 2020, the Government and UNELCO confirmed via email that the Vanuatu Government have yet to create a bank account for the fund, and as such all the funds are currently still held with UNELCO.

Since the Government's confirmation in August, the Authority has attempted to set up a meeting or communicate via email with the department of lands for an update on the creation of the bank account without success. The Authority therefore assumes that, funds are still held by UNELCO temporarily as copies of letters were sent in by UNELCO outlining quarterly updates of the fund in 2019.

2.3 2019 Financial Report

2.3.1 UNELCO Financial Records: Article 8 Water Development Fund

Table 2: Article 8 Water Development Fund financials in 2019

	Activity	Outflows (Vatu)	Contributions (Vatu)	Balance (Vatu)
Year 2018	Opening balance of the Water Development Fund at the start of 2019			13,502,860
	2019 Contributions into the Water Development Fund for 1 st , 2 nd , 3 rd and 4 th quarter 2019 billings.		23,032,609	36,535,469
	Closing balance of the Water Development Fund at the end of 2019			36,535,469

The Article 8 Water Development Fund’s total closing balance as at the end of 2019 is VT 36,535,469. Total contribution into the water development fund in 2019 was VT 23,032,609 with details in table 2.

2.3.2 Verifying UNELCO's 2019 Contribution to the Fund

The Article 8 'Water development fund' applies a sum of 5 Vatu/ m³ of water sold during the year per Addendum No. 6 of the concession contract.

Total m³ sold in 2019 was 4,515,047 as depicted in table 3. The actual 2019 'Water development Fund' collected during all four (4) quarters is 23,032,609 VT which is 457,374 VT (91,475 m³) in excess of the Authority's calculation of the fund's collection in 2019 of 22,575,235 VT (4,515,047 m³ x 5VT). Therefore there is an over collection of 457,374 VT which is equivalent to 91,475 m³ of water sold unaccounted for in the 'Port Vila water supply annual report of 2019'.

Table 3: Water Volume sold 2012-2019

Year	Water sales, m ³
2012	3,585,439
2013	3,744,114
2014	3,783,963
2015	4,138,676
2016	4,264,937
2017	4,573,116
2018	4,529,895
2019	4,515,047

Graph 1: Water Volume sold 2012-2019

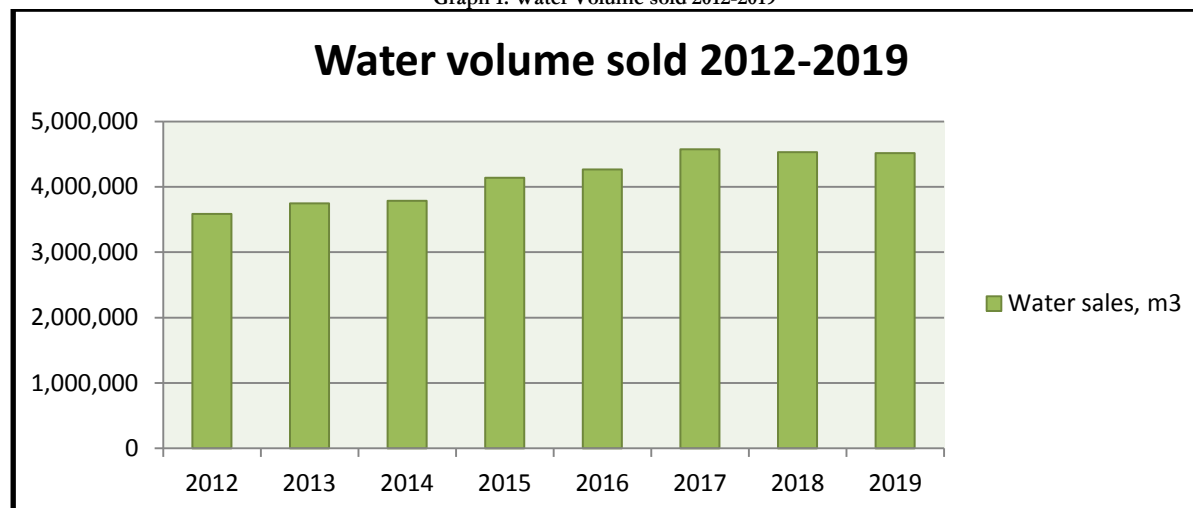


Table 3 and graph 1 shows the trend in total volume of water sold by UNELCO from 2012 to 2019.

3. Projects in 2019

3.1 2019 Completed projects Lists.

Since the inception of the fund in 2018, the fund has not been used to acquire any small water networks around Port Vila. UNELCO however confirmed via email (dated 10th August 2020) that the Vanuatu Government acquired a small water network at Teoumaville without using the Water development fund.

3.1.1 2019 Work in Progress Projects

Table 5: Work in Progress Projects

Year	Network	Acquired/extension	Quoted value of work	Project status
2019	Erakor	Extension of water supply connections	2,200,000 VT	Not completed
2019	Teoumaville	Extensions (upgrade facilities)	23,530,675 VT	Not completed

The projects of extension of water supply and upgrade of systems listed in Table 5 above were all initiated by the Vanuatu Government through the minister responsible for Lands. UNELCO confirmed via email dated 10th August 2020 that both projects are still underway and the water development fund will be deducted once the projects are completed. The Teoumaville project is an upgrade of the current water system that was acquired by the Vanuatu Government.

There will be a site inspection done by the Authority once these networks extensions and upgrades are completed.

4. Recommendations

The Authority wishes to put forward the following recommendations to the Government of Vanuatu for consideration and action in order to improve the usage of the Article 8 water development fund.

1. *Use of Water Development Fund.*

The Authority would like to reiterate last year's recommendation to the Vanuatu Government regarding the option of using the Water Development fund/ Article 8 fund for the extension of water network. This approach should not be considered as the only option of water extension as in the calculation of the current tariff by way of Addendum 6 of the Port Vila Water Contract, the concessionaire is currently being rewarded based on the RAB (Regulated Asset Base). Hence the more funds the utility put into building up the RAB, the more they are assured of a reasonable return. The Government is encouraged to allow the concessionaire to fund new extensions by preparing and submitting annual plans that should be agreed by the Government and checked / approved by the Authority. The Water Development Fund should only be used for urgent needs like the acquisition of the small water utilities in the current concession boundaries.

2. *Inclusion of the Authority in stakeholder communications and acquisition of small water systems under Article 8 water development fund.*

The Government is recommended to include the Authority on all formal correspondences between UNELCO and itself (Government) in relation to the quarterly transfers and use of Article 29 Water Development Fund. It is also recommended for the Government to include the Authority in all communications with small water suppliers during negotiation and acquisition phase. This will enable the Authority to be up to date with the current affairs of the 'Water development fund'.

3. *Update Authority on Government's process in acquiring small water suppliers including the transitioning phase to transfer operations and management to UNELCO*

It is recommended that the Government under relevant ministry and department should provide updates to the Authority in relation to Government's obligations to be undertaken when acquiring small water networks identified in the Addendum 6 and during transfer of such networks to UNELCO. The list of fixed assets purchased and acquired from Article 29 water development funds should be provided to the Authority for its information which will support and assist in forthcoming regulatory responsibilities.