

**SUBMISSION TO THE COMMERCE COMMISSION ON FEA FUEL
SURCHARGE
BY CONSUMER COUNCIL OF FIJI
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1.0 Introduction

- 1.1 The Consumer Council of Fiji welcomes the opportunity to make its submission to the Commerce Commission on FEA's fuel surcharge proposition but with certain reservations. FEA had made its application to the Commerce Commission in the month of July. However, the Commission placed an advertisement for public submission in the local newspapers on 6 October with the closing date for all submissions on 15 October. In allowing only four working days for interested members of the public and respective stakeholders to forward their submissions clearly shows that the Commission is not taking public opinions seriously. The Commission can be seen to be calling for public submissions for the sake of it.
- 1.2 Consumers have their right to be represented in such important matters that affect their interests and welfare. It is important that they understand the position of FEA and consider the impact on their family budgets thoroughly when making their submissions. For this to happen, the Commerce Commission needs to allocate sufficient time for public submissions.
- 1.3 The Council re-emphasizes its earlier recommendation to the Commerce Commission to take heed and advantage of public and respective stakeholder views to enable them to make a decision that is sound, transparent and in the best interest of consumers, traders and service providers alike.
- 1.4 The Council is aware that the fuel market is volatile, that Fiji is highly dependent on imported fuel and that the impact of an increase in fuel prices is affecting the finances of FEA. The Council has also observed FEA's attempts to reduce some of its administrative and operational costs. A notable and commendable example is FEA reverting to the use of black and white billing envelopes and statements from September 2007.
- 1.5 However, the following arguments provide reasons as to why the Council objects to any further increase in the fuel surcharge from the existing 1.88 cents per unit to the requested 5.22cents per unit.

2.0 Comments on Commerce Commission Review of FEA Application

2.1 Implication of the fuel surcharge on inflation rate

The economic implication of the additional fuel surcharge will cause the inflation rate to go up and affect the consumer spending affordability in the market. The social implications will therefore be far greater as many consumers may find it difficult to make ends meet and increasingly rely on government handouts.

The Reserve Bank of Fiji has been regularly publicizing the poor outlook of the economy. Although inflation rate has seen a slight drop to 4.1 percent in

September from the 5.1 percent in August, it is still considerably high. Investment projects and developments have taken a step backward and the low tourism figures speak volume of just how poorly the economy is performing.

Given the current economic environment many employers continue to lay off their workers, semi-employ or place them on reduced pay.

There is an increasingly great concern regarding the soaring prices of basic food items. Consumers are finding it difficult to make ends meet because they are already bearing the burden of the trickle down effect of the additional costs incurred by businesses, industries and service providers as a result of soaring fuel prices.

2.2 Transparency in the cost of industrial oil

There is no transparency in the amount and price FEA is buying industrial oil from its supplier. Industrial oil is **not a regulated** commodity by the Prices and Incomes Board.

There are three oil companies in Fiji who provide the necessary competition in the market. The Council understands that Mobile Oil Company is the supplier of industrial oil to FEA. For some unknown reason the landed cost of industrial oil into the country is kept a closely guarded secret. Taxpayer's money is being used to subsidize the cost of fuel used by FEA. The taxpayers therefore have a right to the above information and yet they are denied this information. The Council could not get this information to make an informed decision. The price of industrial oil is less as compared to refined petroleum products.

In addition, the Commerce Commission's public register did not contain the current price per tonne paid by FEA for fuel. The key information is not available to justify increase in fuel surcharge. The only reference data available is the \$1302 price per tonne FEA had paid in 2006. What price are they paying now? Updated and relevant information on the oil price is therefore absent from the public register to fully understand the real cost to FEA.

The Council poses the question to the Commerce Commission on whether it had sought information on per tonne price of industrial oil paid by FEA and if the information was cross checked with the oil supplier?

The consumers are paying FEA three times on fuel - by subsidizing the fuel cost through their taxes, paying fuel surcharge and paying VAT on the fuel surcharge. Why should they be asked to pay anymore?

2.3 Negligence of Monasavu Dam

The Commerce Commission review report highlights the \$2 million dollar loss as a result of 5MW generation deficit with the Monasavu hydro dam overflows. Who is responsible for the negligence on the maintenance of the dam – the consumers or FEA?

FEA has attributed the high diesel usage to the low rainfall figure between the months of June to October. However, in the months before June when Monasavu

received exceptional amount of rainfall, it resulted in the overflow of the dam because maintenance work was not undertaken to ensure the containment of the water.

Years of negligence in the maintenance and upkeep of the Dam is taking a toll on the finances of FEA. The company is finding it very easy to pass the cost of their negligence to the consumers. It is grossly unfair of FEA to ask consumers to bear the cost by seeking increase in tariff and fuel surcharge.

2.4 Delay in renewable energy projects

One major reason FEA had sought an increase in tariff rate in 2005 was to invest into local renewable energy sources in order to reduce growing dependency on increasingly high cost of diesel generation and reduce foreign exchange loss by reducing the use of diesel generation source which is replaced by renewable resources. Tariff rate was approved and implemented over three years. FEA is aware that they cannot ask for tariff rise so fuel surcharge has become a way to achieve the increase in finances. With the current request for an increase by 5.22 cents mean a residential customer will pay 27.85 cents per unit (VEP). A commercial customer will pay close to 30 cents per unit.

In its 2005 Annual report, FEA highlighted that the following renewable energy projects were expected to be completed and commissioned by 2007:

- 2.8 MW Nagado hydro power station was completed and commissioning expected in 2006
- 10MW Butoni wind farm project was expected to be commissioned by early 2007
- A new biomass power station of up to 5MW was to be built in Deuba with the fuel (wood chips) supplied by Fiji Hardwood Corporation and other saw mills in the area. The project was expected to be commissioned in 2007.

If these projects, as promised by FEA, have been completed and are up and running, it means that energy generated by diesel should have reduced and there would be no need for a fuel surcharge. However, if these projects have not been completed or are delayed, the question to ask FEA then is: Why? Who should be held responsible for the delays – consumers or FEA?

The Commerce Commission review report has disappointingly noted delays in the start or completion of some renewable energy projects. 50 percent of the renewable energy projects that were expected to have started have not yet done so.

Apparently, delay in having the renewable energy projects started is costing FEA, the nation and the consumers a lot of money. This is the unfortunate end result of relying entirely on FEA to regulate, generate, distribute and retail energy in the country. The monopoly clearly has to be removed if the energy sector is to be efficient and financially viable.

Why isn't FEA showing the urgency to fast track its renewable energy projects despite having the full understanding of the continuing rise in the global oil price?

Who is monitoring the projects to ensure they are undertaken at the given timeframe?

2.5 Independent Power Producers

FEA is also holding back from allowing more IPPs to enter the electricity generation sector despite a great number of genuine participants showing interest. There are currently only three IPPs, viz Fiji Sugar Corporation, Tropik Woods and Sustainable Energy Limited.

To minimize the country's dependence on imported fuel the government needs to speed up projects on alternative fuels. It needs to give greater attention to providing incentives to individuals and companies intending to conduct research and development of alternative fuels in the country. Delaying renewable energy researches and development projects will prove costly to Fiji and its consumers. The government therefore needs to get serious about renewable energy production. Vanuatu has already set the example by using coconut oil for its biofuel.

2.6 No energy security plan for the country

FEA is struggling to its knees and yet there is no energy security plan in place by the Government. How many more times will the consumers have to come to the rescue of FEA? It is time now that the government should give priority to the development of an energy security plan whereby the consumers are not penalized for the lack of foresight by FEA management.

3.0 Recommendation on fuel surcharge

- 3.1** Consumers are paying more than they can afford to. They are paying for subsidy of fuel to FEA through their taxes, VAT on the fuel surcharge, payment of fuel surcharge itself, tariff rate and VAT on the tariff.
- 3.2** Residential customers are also paying twice the amount on fuel surcharge due to the trickle down effect factor from the industries, businesses and service providers.
- 3.3** The fuel surcharge, if approved, should only apply to the Industrial and Commercial customers. FEA has a total of 13,797 commercial customers and 1,380 industrial customers. The commercial and industrial customers consume the bulk of the electricity driving the demand for energy upwards and consequent in FEA relying heavily on diesel generated energy. The residential customers may be more in number but their demand for energy is no match to that of commercial and industrial customers combined. The residential customers therefore should be exempted from the proposed fuel surcharge.
- 3.4** Instead of asking consumers to pay the requested 5.22 cents/unit to accommodate the increased expenses of energy generated through greater diesel use, the Commerce Commission should encourage FEA to speed up its renewable energy projects.