



**SUBMISSION ON THE REVIEW OF
ELECTRICITY TARIFF RATES
TO
THE FIJIAN COMPETITION AND
CONSUMER COMMISSION
ON BEHALF OF FIJIAN CONSUMERS**

29 September 2023

The Voice of Fijian Consumers

1.0 INTRODUCTION

1.1 Purpose

As the principal agency advocating for consumer rights and interests in Fiji, the Consumer Council of Fiji represents the concerns and perspectives of Fijian consumers regarding the proposed increase in electricity tariffs by Energy Fiji Limited (EFL). This submission aligns with the Council's statutory obligation to address issues impacting consumer welfare and make representations to relevant stakeholders.

1.1 Importance of Affordable Electricity

Electricity is an essential utility in modern life, playing a crucial role in households, businesses, and various industries. Affordable and reliable electricity is fundamental to maintaining a decent standard of living for consumers and sustaining economic activities within Fiji.

1.2 Importance of Regulatory Oversight

Given the critical role of electricity in the daily lives of Fijian consumers, ensuring fair and reasonable pricing through regulatory oversight is essential. Regulatory bodies, like the Fijian Competition and Consumer Commission (FCCC), play a vital role in safeguarding consumer interests and promoting a balanced and sustainable energy sector.

2.0 OVERVIEW OF PROPOSED CHANGES BY ENERGY FIJI LIMITED (EFL)

In its submission to the Fijian Competition and Consumer Commission (FCCC), Energy Fiji Limited (EFL) outlined its proposed changes to the electricity tariff structure. These changes encompass a shift towards a two-component tariff structure involving fixed and variable charges to safeguard EFL from the impact of increasing rooftop solar installations and the supposedly infrastructure and capital developments.

2.1 Proposed Tariff Structure Changes

EFL proposes a tariff structure that integrates fixed and variable charges. The rationale behind this proposal is to distribute costs more equitably and ensure EFL's financial stability amid the increasing adoption of rooftop solar systems, which impact the traditional revenue model. In their submission, EFL proposed the introduction of a new tariff in the form of a 'fixed charge' which will amount to a flat rate of 65 cents per day for domestic customers, in addition to the billing for normal electricity usage. This means, that in a 30-day billing period, a domestic customer would have to pay an additional \$19.50 to their standard bill. This proposed additional fixed daily charge is \$3.00 for commercial customers and \$450.00 to \$4,500.00 for industrial customers (depending on tariff bands).

2.2 Proposed Increase in Electricity Tariff

EFL is seeking an increase in the electricity tariff of around 32% over the next four (4) years. In its submission, EFL claimed this is required to ensure it has the financial ability to implement its 10-year Power Development Plan, and that Fiji has an adequate power capability and a reliable and efficient power supply at a reasonable cost to support economic growth and transition to renewable energy projects.

2.3 Tariff for High-Income Earners Transitioning to Solar Energy

EFL has also ‘strongly proposed’ that a fixed and variable charge tariff be introduced to ensure those high-income users who can switch to renewables, such as solar, share the cost to reduce the burden on low-income earners.

3.0 IMPLICATIONS OF THE PROPOSED CHANGES

3.1 Impact on Consumers

3.1.1 Financial Burden on Domestic Customers

EFL's proposed tariff changes, particularly the introduction of fixed charges, may place a disproportionate financial burden on domestic consumers. Low-income households, who already struggle with electricity costs, will be significantly affected by these fixed charges. Furthermore, the proposed fixed charge is unfair to consumers as they will bear this charge regardless of whether they use electricity or not. *EFL is calling for an arbitrary charge on consumers which is unacceptable.*

3.1.2 Potential Shift to Solar Energy

The proposed tariff changes might disincentivize consumers from adopting solar energy due to the increased fixed charges. This conflicts with sustainability goals and discourages environmentally friendly energy choices. In its submissions, EFL also claims that the rise of rooftop solar may render their power system redundant, potentially transferring maintenance costs to low-income earners, since high-income earners are able to afford these renewable energy sources. However, the Consumer Council questions the evidential basis of these claims. The counter-intuitive nature of EFL's arguments raises important questions: *What criteria does EFL employ to classify high- and low-income earners? How does rooftop solar impact EFL's grid, and how many Fijian households primarily rely on such systems for their energy supply? What data is EFL using to claim that a large number of people are migrating to solar power?*

Further, it is completely unfounded for EFL to suggest that consumers will be negatively impacted as a result of more households switching to rooftop solar. The transition to renewable energy aligns with the Sustainable Development Goals, a cornerstone of Fiji's national development agenda. The Council encourages communities to embrace renewable energy for both economic and environmental benefits.

3.2 Potential Economic and Social Implications

3.2.1 Direct Cost Increase for Businesses:

The introduction of a fixed daily charge, along with the proposed increase in electricity tariffs, directly raises operational expenses for businesses. The fixed charge of \$3.00 per day for commercial customers adds a recurring cost element to their operational budgets, irrespective of their electricity usage patterns.

3.2.2 Impact on Production and Operations:

For industries and businesses heavily reliant on electricity for production and operations, an increase in electricity tariffs translates to higher input costs. This can decrease profit margins

and potentially force businesses to make tough decisions such as reducing production, cutting staff, or postponing expansion plans.

3.2.3 Supply Chain Implications:

Increased electricity costs can ripple through the supply chain. Suppliers and manufacturers experiencing higher electricity expenses are likely to pass these costs onto the businesses they serve. As a result, the cost of raw materials and components may increase, impacting the overall cost of production for businesses.

3.2.4 Consumer Price Increases:

To maintain profitability amidst higher operational costs, businesses are likely to pass on these increased expenses to consumers in the form of higher prices for goods and services. This can affect a wide range of consumer products, from groceries to manufactured goods, ultimately impacting the cost of living for individuals and households.

3.2.5 Competitive Disadvantage:

Businesses operating in highly competitive markets may find it challenging to absorb the increased electricity costs without raising prices. If some competitors opt to pass on the cost increase to consumers, those that do not may face a competitive disadvantage, potentially affecting their market share and sustainability.

3.2.6 Impact on Small Businesses:

Small and medium-sized enterprises (SMEs), with typically tighter budgets and lower profit margins, may struggle to absorb the increased electricity costs. Passing these costs onto consumers becomes almost inevitable for their financial survival, which can impact the purchasing power and overall financial health of consumers.

4.0 RESPONSE TO EFL'S CLAIM RELATING TO MAINTENANCE OF THEIR POWER GRID

In its submission, EFL stated “If all the high-income users migrate and install their solar rooftop, the burden of who pays for the huge maintenance cost required to maintain the power grid could potentially fall to low-income earners. With a reduced customer base and the remaining users expected to be low-income earners, then any tariff increase to cover the cost of maintenance will see these low-income earners receiving a high tariff increase since the high-income earners have reverted to installing their standalone rooftop solar system”.

4.1 The Council's Stance

EFL's rationale for this tariff hike includes assertions about the growing adoption of rooftop solar systems and their reliance on EFL's grid as a backup. It must be noted that every grid-connected customer is obligated to pay a monthly fee, regardless of their actual electricity consumption. This fee is recognized as the 'minimum domestic charge' (\$7.60 for residential customers) and the 'minimum commercial charge' (\$17.20 for commercial customers).

Importantly, these charges apply regardless of whether a household depends on EFL's grid or relies on their self-generated renewable energy sources to power their homes. Hence, it appears contradictory for EFL to advocate for tariff increases on the premise that customers utilize their grid as a backup. In essence, consumers are already contributing financially by maintaining their grid connection, rendering such an appeal for higher tariffs unwarranted.

4.2 Funding EFL's Development Plans

EFL's claim that this tariff increase is essential for implementing their 10-year Power Development Plan is met with skepticism by the Council. CCoF firmly believes that EFL should explore alternative funding sources, such as loans or government equity capital injection, to fund its infrastructure projects. Consumers should not bear the full brunt of EFL's capital expenditure projects. If EFL requires additional infrastructure investment, it can explore development loans, similar to other businesses. Government support through equity capital injection, funded by recently increased VAT intended for infrastructure development, is also an option. We have also noted that EFL declared a profit after tax of \$58.11M in 2022.

5.0 FUEL COST

In its submission, EFL has also stated “Prices of Industrial Diesel Oil (IDO) and Heavy Fuel Oil (HFO), which are extremely volatile and are very hard to forecast, due to their dependence on many external influences such as global politics, global economics, and natural disasters”. This is another basis for their submission to increase the electricity tariff.

However, in its 2022 annual, EFL disclosed that in order to counter this issue, they have formed a Hedging Team. It states “EFL's Foreign Exchange & Brent Oil Hedging Team, together with professional hedging consultants from New Zealand lead by the Special Advisor to the EFL Board and the Head of the FX & Oil Hedging Programme, Mr. Prasann Patel. The Hedging Team carefully monitors oil prices, and foreign exchange rates on a 24-hour/daily basis, and takes appropriate action under the guidance of the RMC. As fuel is consistently our largest cost, volatility in the oil and foreign exchange markets can have serious consequences, and EFL's highly proactive approach marks an important step in reducing that risk to our business and introducing a new level of cash flow stability and certainty”. Hence, the Council encourages EFL to continue with this “highly proactive approach” to ensure cash flow stability and certainty.

6.0 RECOMMENDATIONS

On behalf of all Fijian consumers, the Consumer Council of Fiji recommends the following:

6.1 Fair and Transparent Tariff Adjustments

We advocate for a comprehensive analysis of EFL's financials to ascertain the need for tariff adjustments. Any proposed changes should be fair, transparent, and thoroughly evaluated to ensure they do not unduly burden consumers. However, with the information available publicly, the Council's stance is that any increment in tariffs at this stage is unwarranted.

6.2 Incentivize Renewable Energy Adoption

Encourage EFL to incentivize and promote the adoption of renewable energy sources, such as solar power, instead of imposing disincentives. Supporting sustainable energy alternatives is essential for a cleaner environment and a better future.

6.3 Protect Low-Income Consumers

Ensure that any tariff adjustments consider the affordability and welfare of low-income consumers. Implement measures to shield them from undue financial hardship resulting from tariff hikes.

6.4 Prioritize Sustainable Development Goals

EFL should align its tariff structure with the UN Sustainable Development Goals, particularly those related to affordable and clean energy. Supporting sustainable energy solutions is pivotal to the long-term well-being of Fijian consumers and the environment.

6.5 Income-Linked Tariff Discounts

The Council recommends implementing an income-linked tariff discount system, providing reduced tariffs to low-income consumers. This targeted approach ensures that those with limited financial means have access to affordable electricity.

6.6 Lifeline Tariffs for Essential Usage

A lifeline tariff for a basic level of electricity consumption essential for daily living is also proposed. Consumers using up to this defined essential level would pay a significantly reduced rate to safeguard their basic needs.

6.7 Usage-based Tariff Bands

A usage-based tariff structure with incremental pricing tiers should also be considered. Consumers using lower amounts of electricity would pay lower rates, promoting energy conservation and ensuring lower bills for households and small businesses.

7.0 CONCLUSION

The Consumer Council of Fiji reiterates its commitment to safeguarding consumer interests and urges the Fijian Competition and Consumer Commission (FCCC) to thoroughly assess the proposed electricity tariff changes by Energy Fiji Limited. We believe in a balanced approach that ensures both the financial viability of EFL and the affordability of electricity for all Fijian consumers.