



P.O BOX 429, NUKU'ALOFA, Tel: (676) 27-390 Fax: (676) 23-047 Email: jvanbrink@tongapower.to

10 December 2014

Lord Dalgety
Electricity Commission
Nuku'alofa

Dear Sir,

Proposed Non Fuel Tariff Reset, Regulatory Period Two.

Tonga Power Limited is pleased to submit its Proposal for the reset of the Non Fuel electricity tariff effective from 1 July 2015; in addition we suggest incremental changes to the Electricity Concession Contract for consideration and discussion. Our Proposal consists of the following components:

1. Main Body of the Proposal.
2. Referenced direct support files including budgets, as listed in Appendices 3, provided electronically on flash drive.
3. Marked up Electricity Concession Contract (printed copies provided, and additionally included with this reset application on flash drive).
4. A support Compendium (Compendium 1) consisting of external independent support documents provided on flash drive.
5. A support Compendium (Compendium 2) which answers additional EC requests. (One printed copy and additionally provided on flash drive).

We have provided a full set of documents to the Commission, for the additional copies we have provided several hard copies of the Proposal document, the remainder being provided electronically for convenience and cost efficiencies. As discussed we intend to provide a repository on the internet for ease of access to the documents.

We do ask that the budgetary information (contained in the Excel spread sheet files) be treated by the Commission and its advisors, as confidential. The information is deemed commercially sensitive to our operation and public disclosure at an early stage is likely to give rise to questions and statements in the public domain that could be incomplete or ill-informed. We understand that the Commission may wish to make information publicly available, we simply ask for the opportunity to discuss this with you.

We believe the company complies fully with schedules 10 and 11 of the Electricity Concession Contract. Both schedules are in support of clause 9 of the Concession Contract, *Review and Reset of Regulated Tariff, Efficiency Standards and Service Standards*. Our proposal contains relevant background information, specific detail as per the schedules and additional information as requested by the Commission.

In addition to proposing a 1 July 2015 opening tariff of **46.25** seniti we are recommending to:

- Shorten the Regulatory period to 5 years. This is a typical period used internationally and provides a more realistic regulatory window and reset period.
- Reducing the allowable Rate of Return (ROR) to 8.5% real post tax (reduced from 12.9%). Within five years this will equate to a 9-10% post tax return on accounting equity as reported under International Financial Reporting Standards and required by the shareholder.
- Modifying the Service Standards in Appendices 1 to include outage reporting as a best endeavours obligation, not attracting penalty.

All cost inputs are based materially on the June 2014 Board approved and shareholder reviewed ten year budgets and business plans. There are some exceptions, which are clearly detailed in the Proposal. As mentioned we have additionally included a draft marked up version of the Concession Contract for your review. This has not been subject to legal input and represents the company's interpretation of relevant elements of the Proposal and how they translate to the contract combined with a general tidy up of clauses.

Our Proposal is primarily driven by the requirements of the Concession Contract but we have included information that is broader in its context including observations in relation to remote grid management and distributed generation. However our primary focus has been to comply with the current contractual requirements and our sensitivity analyses has been focussed on the base inputs to the proposed start price of 46.25 seniti. We have not modelled renewable scenarios which in any event will impact primarily on the fuel component of the tariff. There is simply too much variability in these potential scenarios and we have been mindful of remaining focussed on the core purpose of the reset.

We would like to take this opportunity to discuss the option of setting a materiality threshold prior to our consultative review process. Our suggestion is that an individual or cumulative spend level of \$250,000 per individual category/item be used as a trigger. This has an approximate impact of .1 of 1 seniti/kWh impact on the final tariff. We consider this creates a reasonable, focussed cut off level for materiality. Additionally we note in the Commission's Statement of Regulatory Intent the Provisional Timetable and we are broadly in agreement. However we would like to work with the Commission to ensure that the public consultation process is managed in such a way as to ensure customers and other stakeholders understand the process being undertaken and the reasons for it.

Finally we look forward to discussing the Proposal and associated support documents with the Commission and its advisors in the New Year. Please do not hesitate to contact the Chief Executive should you have any initial queries on the Proposal.

Yours sincerely,



John van Brink
Chief Executive



Carl Sanft
Chairman