



## **PRESS RELEASE**

### **“NEW YEARS GIFT FOR PNG POWER CUSTOMERS”**

For the first time in the history of PNG Power Ltd, the company wishes to announce a reduction in its tariffs by 2.7% beginning 1<sup>st</sup> of January 2010. The reduction is an additional give away on top of the customers being issued rebates beginning December 2008 for low quality of electricity services provided in respect of each service area. These are the undertakings by PNG Power under the watchful eyes of the Independent Consumer & Competition Commission (ICCC) in ensuring that the services provided and tariffs set are in line with the regulatory requirements.

The reduction of 2.7% was determined by the Independent Consumer & Competition Commission (ICCC) based on PNG Power’s 2010 Tariff submission to ICCC in November 2009. For the benefit of PNG Power customers, I’ll clarify the background and methodology for the setting of its electricity tariffs as was applied for the recent tariff increases over the years.

### **Electricity Regulatory Contract**

PPL has a regulatory contract with the ICCC that binds both parties to the ICCC Act and the Electricity Industry Act. This contract establishes the mechanism by which PPL applies to the ICCC for the various tariffs associated with the supply and sale of electricity. In accordance with the Electricity Regulatory Contract, PPL makes submissions to the Regulator (ICCC) to adjust tariffs according to a price path determined according to changes in CPI, exchange rates and fuel cost.

### **Annual Tariff Determination**

The Electricity Regulatory Contract entitles PPL to apply to the ICCC in November each year to set the tariff considered applicable from January the following year. Apart from

ensuring that PPL has sufficient operational funds, the objective is to provide PPL with sufficient internal funds to implement maintenance and infrastructure enhancement projects identified as essential to meet the reliability standards set out in the contract. Failure by PPL to meet those standards results in a rebate to customers such as was recently applied.

The variables used in the formula that determine the tariff are as follows, with each having a partial weight in the determination.

***Changes in Fuel Price*** – PPL remains heavily dependent on fuel oil to maintain supply around the country especially in the smaller isolated centers. This is the major operational cost for the company with variations in price having a major effect on PPL's ability to invest in the necessary infrastructure to improve the reliability of its networks.

***PNG CPI*** – PPL has a significant budget for goods and services sourced in-country from other businesses and these businesses pass on CPI costs. Managing price increases are done through PPL's operational budget but ultimately this affect PPL's ability to invest in power supply infrastructure

***Australian CPI & Exchange Rate*** – PPL imports most of its new equipment, spare parts and specialist assistance from Australia so these variables are also contributory factors to PPL's investment strategy.

***US CPI & Exchange Rate*** – The Kanudi Powerstation supplying base power to Port Moresby is a significant operational cost with the supply contract established in US\$

## **The 2010 Tariff Determination**

The January 1<sup>st</sup> 2010 Tariff decrease of 2.7% approved by the ICCC used the changes in these variables in a formula given in the Electricity Regulatory Contract that determines the Price path. The decrease is mainly attributed to the drop in the fuel prices over the twelve month period ending 30<sup>th</sup> September 2009. During the first three quarters of 2009, PPL had been relieved by the decrease in the fuel prices which is a cost savings for PNG Power and that savings has to be shared with the customers in the form of a reduction in tariffs. As the Regulatory Contract considers changes in these economic and financial parameters after the

event it does not allow for the benefits of reduced tariffs to be backdated but applied in the coming years' tariffs.

The current level of fuel prices will help PPL achieve its capital works objectives in 2010 and we hope this is maintained throughout the year. If this happens we may expect a very modest, if any, tariff increases for 2011, assuming the other factors do not move as much.

On behalf of the Board, Management and staff of PNG Power, I wish our valued customers **"A VERRY MERRY CHRISTMAS AND PHOSPEROUS HAPPY NEW YEAR 2010"** and look forward to doing business with you either as our customer or your customer in the coming new year.

Authorized By;

**Lawrence M Solomon OL**

A/Chief Executive Officer