



Regulatory Annual Report 2014/15

**In Compliance with the Reporting Requirements
of Schedule 13 of the Electricity Concession Contract (I)**

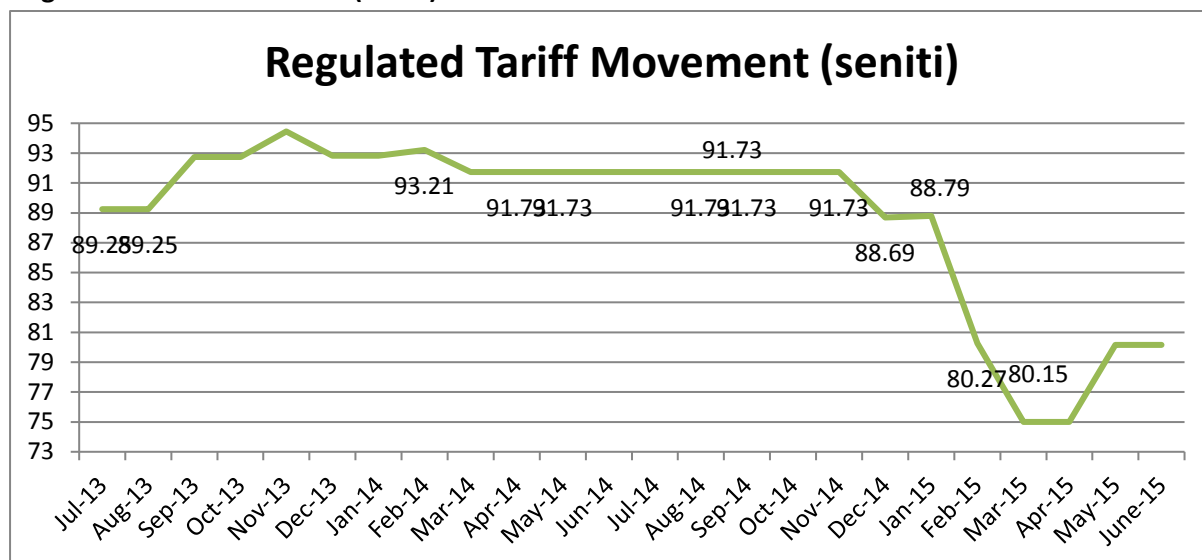
- December 2015 -

a. Regulated Tariff and Adjustments

Month	Fuel Component	Non Fuel Component	Total Tariff
Jul-13	46.08	43.17	89.25
Aug-13	46.08	43.17	89.25
Sep-13	49.57	43.17	92.74
Oct-13	49.57	43.17	92.74
Nov-13	51.28	43.17	94.45
Dec-13	49.66	43.17	92.83
Jan-14	49.66	43.17	92.83
Feb-14	50.04	43.17	93.21
Mar-14	48.56	43.17	91.73
Apr-14	48.56	43.17	91.73
May-14	48.56	43.17	91.73
Jun-14	48.56	43.17	91.73
Jul-14	48.56	43.17	91.73
Aug-14	48.56	43.17	91.73
Sep-14	48.56	43.17	91.73
Oct-14	48.56	43.17	91.73
Nov-14	48.56	43.17	91.73
Dec-14	45.52	43.17	88.69
Jan-15	45.02	43.77	88.79
Feb-15	36.50	43.77	80.27
Mar-15	31.23	43.77	75.00
Apr-15	31.23	43.77	75.00
May-15	36.38	43.77	80.15
June-15	36.38	43.77	80.15

TPL tariff (fuel & non-fuel) components are shown above for last two years. The Board have resolved to adjust the non-fuel tariff for inflation effective in January 2015 based on the CPI increase (1.4%) in the year 2014. The reduction in world diesel prices has resulted in an overall tariff reduction from December 2014 therefore contributing to lower power bills for our customers. It can be seen from the graph below that the tariff has decreased in the year 2014/15 compared to the year 2013/14.

Regulated Tariff Movement (seniti)



b. RAV Update as of June 2015

Description	Period One Nominal	2008-09	2009-10	2010-11	2011-12	2012-2013	2013-14	2014-15
Opening RAV Book Value		\$30,123,378	\$29,512,274	\$32,667,062	\$36,964,834	\$38,127,665	\$40,555,408	\$42,701,514
Generation Capital Expenditure		\$0	\$2,350,792	\$1,912,142	\$52,767	\$0	\$29,064	\$11,099,400
Distribution Capital Expenditure		\$385,605	\$1,952,145	\$3,638,383	\$3,483,179	\$2,858,761	\$4,759,439	\$2,419,565
Smart Grid		\$0	\$0	\$0	\$0	\$0	\$0	\$0
Office Computers & Equipment		\$33,279	\$87,064	\$463,620	\$106,854	\$146,031	\$47,914	\$106,553
Furniture & Fixtures		\$4,007	\$13,221	\$20,532	\$18,850	\$36,462	\$7,228	\$29,575
Tools & Equipment		\$55,206	\$114,239	\$133,812	\$61,455	\$116,883	\$96,109	\$136,488
Vehicles		\$213,121	\$638,415	\$503,709	\$159,492	\$730,624	\$639,112	\$143,585
Other Auxiliary Equipment		\$1,348	\$31,467	\$93,001	\$0	\$2,282	\$0	\$0
Land & Building		\$128,863	\$80,944	\$463,462	\$28,359	\$1,180,278	\$273,932	\$866,667
Renewables		\$0	\$0	\$0	\$0	\$399,437	\$0	\$1,250,989
Disposals and Retirements		\$0	-\$329,007	-\$614,553	-\$534	-\$84,765	-\$1,379,403	-\$55,852
Depreciation on Opening RAV		-\$1,369,244	-\$1,369,244	-\$1,369,244	-\$1,369,244	-\$1,369,244	-\$1,369,244	-\$1,369,244
Depreciation Period One Assets		-\$63,289	-\$415,248	-\$947,092	-\$1,378,347	-\$1,589,006	-\$958,045	-\$2,249,983
Closing Estimated RAV		\$29,512,274	\$32,667,062	\$36,964,834	\$38,127,665	\$40,555,408	\$42,701,514	\$55,079,257

The above table shows an addition of \$16.1 million new capital expenditure for the year 2014/15, as a result of the \$11.1 million increase in Generation CAPEX given the new MAK generator purchased. The regulator has allowed TPL an amount of \$55.0 million in capital expenditure for the Period-I Regulatory period however TPL have only expensed \$44.6 million (Pure CAPEX excluding depreciation and disposals). Refer Appendix 1 for the RAV letter from KPMG auditor.

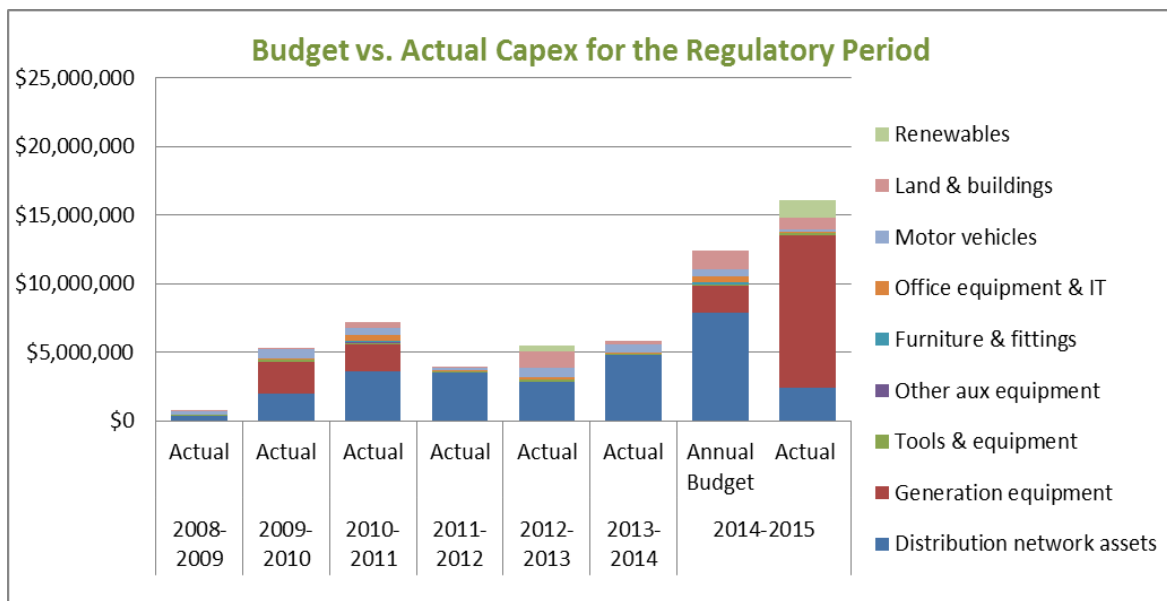
c. Capex Expenditure Undertaken

The table below shows the capex expenditure for the entire regulatory period.

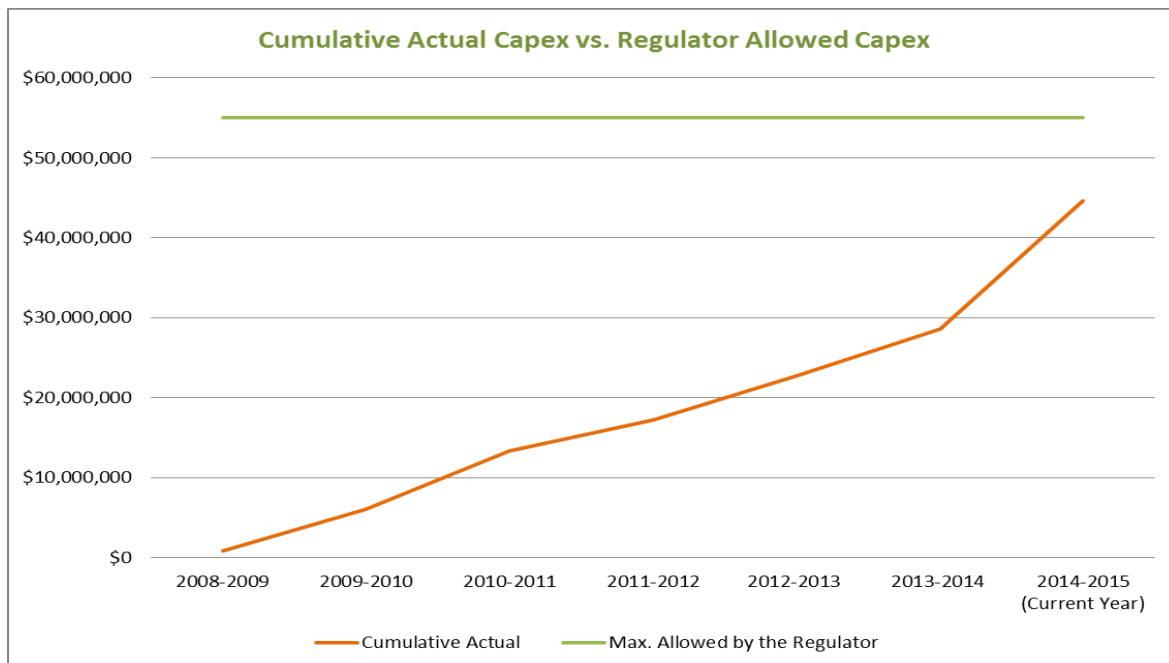
Description	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015		Regulatory Period
	Actual	Actual	Actual	Actual	Actual	Actual	Annual Budget	Actual	Grand Total
Distribution network assets	\$385,605	\$1,952,145	\$3,638,383	\$3,483,179	\$2,858,761	\$4,759,439	\$7,860,868	\$2,419,565	\$19,497,077
Generation equipment	\$0	\$2,350,792	\$1,912,142	\$52,767	\$0	\$29,064	\$2,000,000	\$11,099,400	\$15,444,165
Tools & equipment	\$55,206	\$114,239	\$133,812	\$61,455	\$116,883	\$96,109	\$75,250	\$136,488	\$714,192
Other aux equipment	\$1,348	\$31,467	\$93,001	\$0	\$2,282	\$0	\$0	\$0	\$128,098
Furniture & fittings	\$4,007	\$13,221	\$20,532	\$18,850	\$36,462	\$7,228	\$125,380	\$29,575	\$129,875
Office equipment & IT	\$33,279	\$87,064	\$463,620	\$106,854	\$146,032	\$47,914	\$501,914	\$106,553	\$991,316
Motor vehicles	\$213,121	\$638,415	\$503,709	\$159,492	\$730,624	\$639,112	\$505,000	\$143,585	\$3,028,058
Land & buildings	\$128,863	\$80,944	\$463,462	\$28,359	\$1,180,278	\$273,932	\$1,322,700	\$866,667	\$3,022,505
Smart Grid									\$0
Renewables					\$399,437	\$0	\$0	\$1,250,989	\$1,650,426
Total CAPEX	\$821,429	\$5,268,287	\$7,228,661	\$3,910,956	\$5,470,758	\$5,852,798	\$12,391,112	\$16,052,822	\$44,605,711

The total capex expenditure for 2014/15 was at \$16.1 million which is \$3.7 million above budget. The variances were mainly in the Generation Division as a result of the capitalisation of the new Generator set (GEN 8) as well as the \$1.12 million increase in Renewables CAPEX reflecting TPL contribution to the Mata 'o e La'a and Maama Mai Solar facilities.

The graph below shows the Budgeted vs Actual CAPEX for the regulatory Period-I graphically.



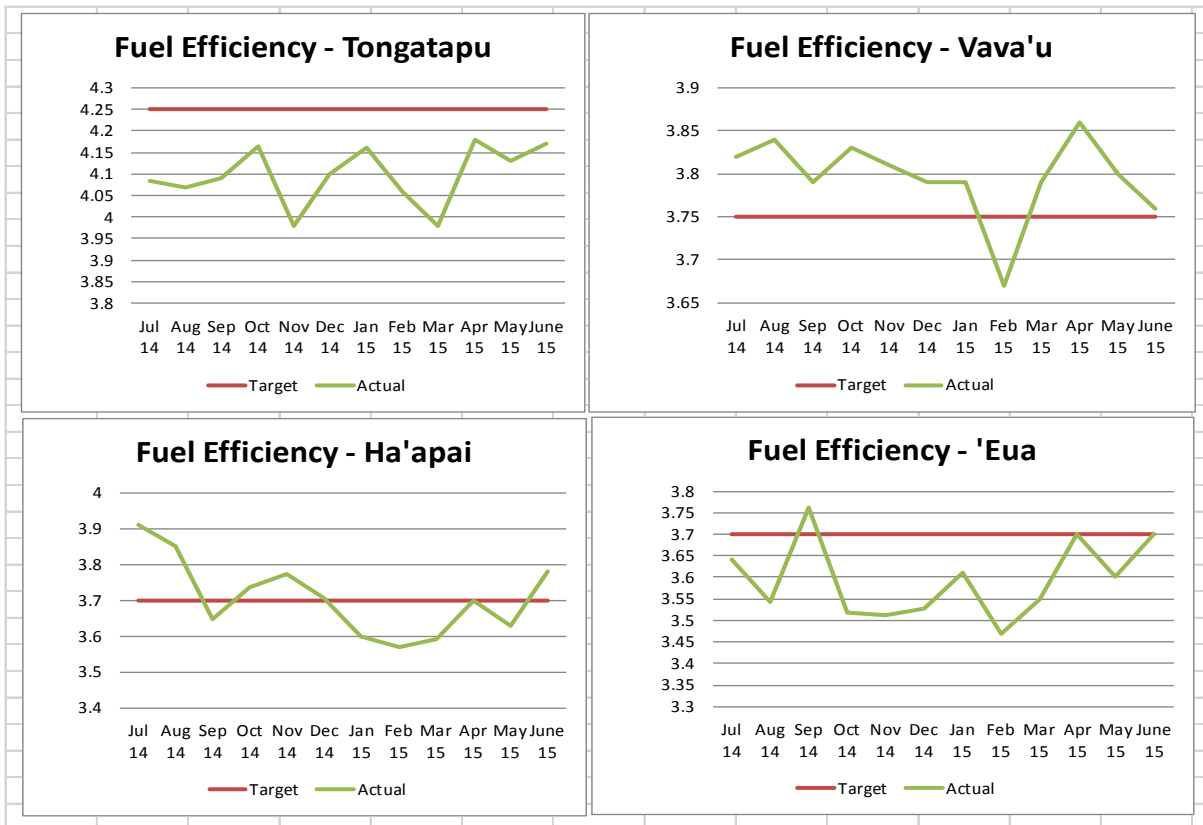
The graph below shows the maximum capex allowed by the regulator and how TPL have invested in capex thus far as at June 2015. The maximum capex allowed by the regulator is \$55 million by the end of the regulatory period 2014/15. However, TPL have only spent about \$44 million as at June 2015. As stated above, the major Budgeted for CAPEX for the end of the regulatory period was not fully utilised as some major CAPEX were postpone to the next regulatory period which includes the Smart Metering project amongst others.



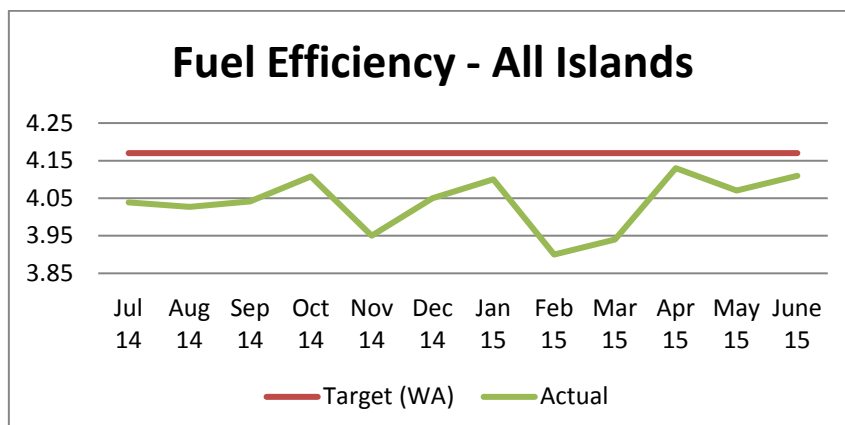
d. Performance Report (Efficiency, Service, Metering or other Standards)

a. Fuel Efficiency & System Loss Targets

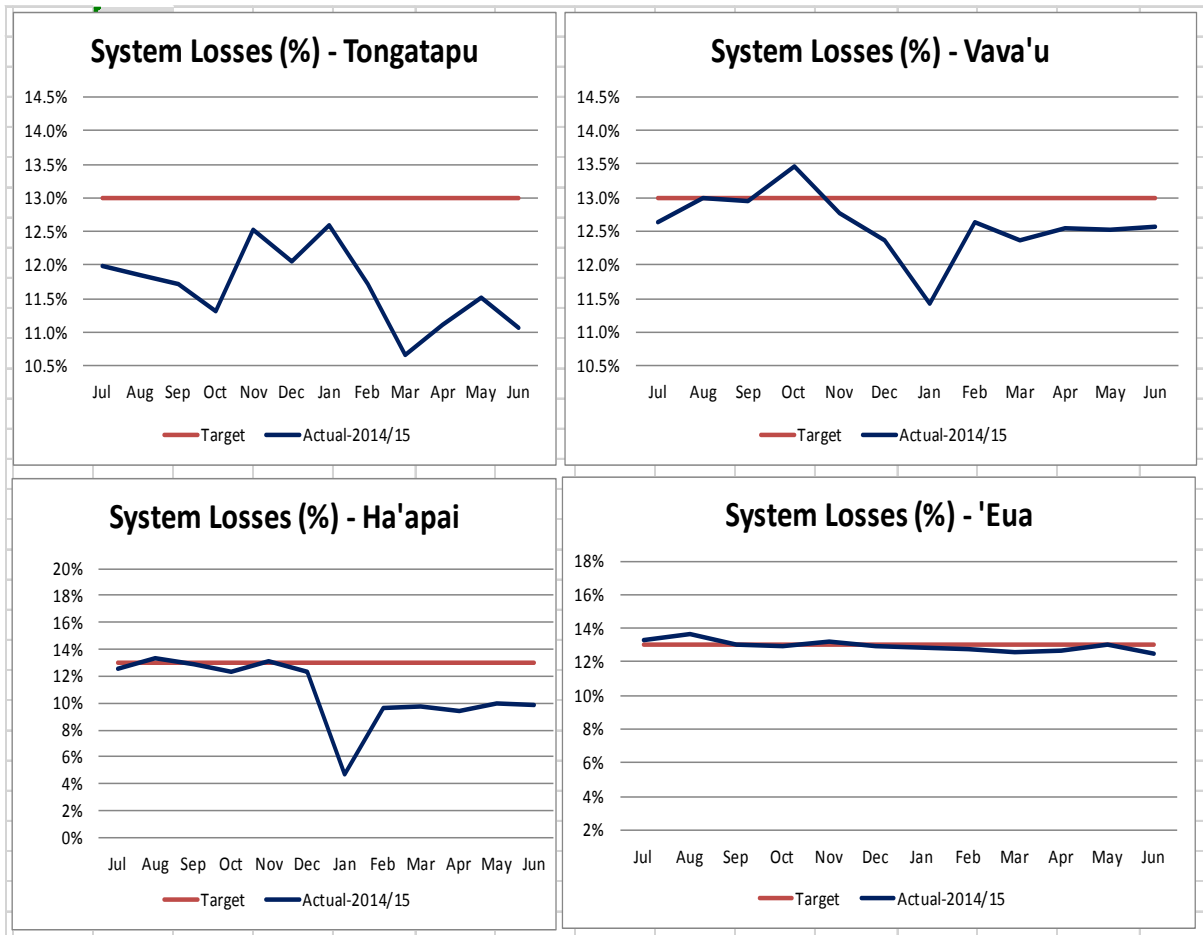
Fuel efficiency measures for Ha’apai have been erratic around the target values. This is mainly due to low load factors applied in the morning. Vava’u fuel efficiency has been over achieved except in February 2015 reflecting the two new 600KW generators commissioned in May, 2010 and the newly Solar generation facility. However, Tongatapu and ‘Eua fuel efficiency has been under achieved throughout the year reflecting the reduction in the diesel consumption from the Maama Mai and the Vaini Solar farms.



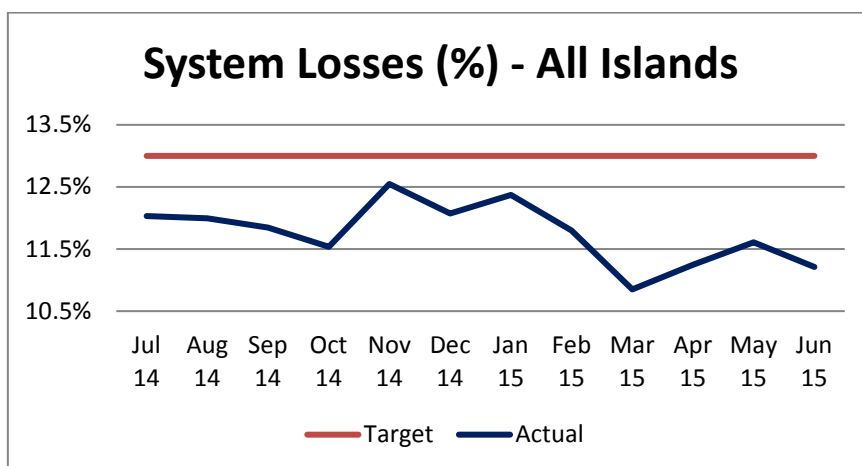
All island fuel efficiency ratios have been under the weighted average target of 4.17 kWh/L throughout the period July 2014 – June 2015 mainly due to the reduction in diesel consumption from the Maama Mai, Vava’u and Vaini Solar farms.



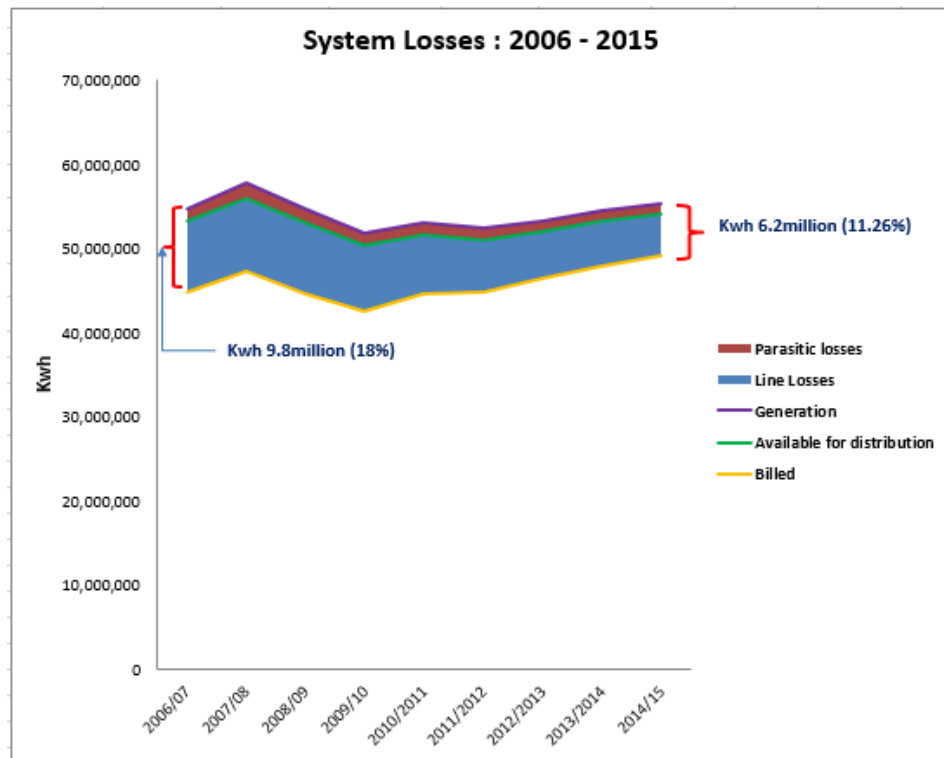
Tongatapu system losses continue to remain below the regulatory level of 13.0% mainly due to the Tonga Village network upgrade project. Vava'u losses also have decreased after November, 2014 due to improvements to the network. Ha'apai losses however, improved since Cyclone Ian but trending downwards now. 'Eua losses are also trending downwards and remain generally stable due to improvements to the distribution network.



All island system losses continue to remain generally below the regulatory limit of 13.0% as per the graphs shown below. These figures are largely driven by system loss reductions in Tongatapu, Vava'u and Ha'apai due to Tonga Village Network Upgrade Project and improvements to networks in outer islands.



Since 2006, the overall system losses for all four grid island system have decreased by about 36.8% which is a decline from about 18% in 2006 to around 11% in 2015. In dollar terms, this is about \$3.0 million saving achieved throughout the seven year period.



b. Service Standards Performance

A – Customer Specific Standards

TPL comply with all the fourteen (14) service standards except one (1) of the performance targets specified in the Schedule 2 of the Electricity Concession Contract which is the A4 (Testing of Voltage Stability) Standard. Voltage Stability requirement is partially complied with and is discussed in detail under “Breach of Service and Other Standards” section.

SERVICE & METERING STANDARDS (JAN, 2015 TO JUN, 2015)

Obligation	Verifier	Obligation description	Level of compliance
A1 Service standards - Connections	Seti Chen	Connection to supply for connection points within 30 meters of the road frontage (when no network extension or the installation/upgrade of a transformer is required). If the Commission must approve a connection under any applicable regulation, the Performance Measure applies after it is approved. i) Maximum time to connect a customer after the customer's payment has been received - when electricity supply and meter are already installed. 4 working days	Complies
A1 Service standards - Connections	Seti Chen	Connection to supply for connection points within 30 meters of the road frontage (when no network extension or the installation/upgrade of a transformer is required). If the Commission must approve a connection under any applicable regulation, the Performance Measure applies after it is approved. ii) Maximum time to connect a customer after the customer's payment has been received - when service drop and meter need to be installed 10 working days	Complies
A1 Service standards - Connections	Seti Chen	Connection to supply for connection points between 30 and 250 meters (when no network extension or the installation/upgrade of a transformer is required). If the Commission must approve a connection, the Performance Measure applies after it is approved. i) Maximum time to provide works estimate 10 working days	Complies
A1 Service standards - Connections	Seti Chen	Connection to supply for connection points between 30 and 250 meters (when no network extension or the installation/upgrade of a transformer is required). If the Commission must approve a connection, the Performance Measure applies after it is approved. ii) Maximum time to complete construction - after customer acceptance of estimate and payment 20 working days	Complies
A1 Service standards - Connections	Steven 'Esau	Disconnection of supply due to overdue payments Minimum notification given prior to disconnection. Notification includes a widespread reminder in the media, so long as notice of the disconnection period is given on the previous bill. 5 working days	Complies
A1 Service standards - Connections	Steven 'Esau	Reconnection after payment of overdue amounts and reconnection fee (note that reconnection fee must be received before 2pm or time begins from 2pm the following working day). If a connection permit is required from the Commission under any applicable regulation then time begins once the permit is approved. Maximum time to restore supply after payment is made: i) Urban areas 1 working day	Complies
A1 Service standards - Connections	Steven 'Esau	Reconnection after payment of overdue amounts and reconnection fee (note that reconnection fee must be received before 2pm or time begins from 2pm the following working day). If a connection permit is required from the Commission under any applicable regulation then time begins once the permit is approved. Maximum time to restore supply after payment is made: ii) Rural areas 2 working days	Complies
A2 Service standards - Customer Service and Billings	Steven 'Esau	Billing punctuality Maximum time for first bill to be delivered after service connection 50 calendar days	Complies
A2 Service standards - Customer Service and Billings	Steven 'Esau	Billing period Maximum time between bills 45 Calendar days	Complies
A2 Service standards - Customer Service and Billings	Steven 'Esau	Response to customers' queries Maximum time to respond to a customer's query 5 working days	Complies
A3 Service standards - Continuity of Supply	Seti Chen	Temporary disconnection of supply for maintenance or other works Minimum notification prior to disconnection. Notification must include a minimum of four advertisements in widespread media, including one advert in the day prior to the shutdown. 4 notices Number of Notices = 4, First Notice at least 5 working days prior, at least 1 notice the day before	Complies
A3 Service standards - Continuity of Supply	Seti Chen	Response to emergency and service calls (single events affecting the distribution system), other than where more than 5 Customers are affected Maximum time to restore supply to all affected customers 2 working days	Complies
A4 Service standards – Testing of voltage stability	Seti Chen	Responding to a request by Customer under clause 5.10 relating to voltage fluctuations Maximum period to complete a spot check of the Customer's voltage after a Customer request 5 working days	Complies
A4 Service standards – Testing of voltage stability	Seti Chen	Responding to a request by Customer under clause 5.10 relating to voltage fluctuations. Following a Customer request, maximum time to complete voltage sampling for at least 24 hours 10 Working days	Complies
A4. Service standards - Testing of voltage stability	Finau Katoanga	Customer-specific Voltage stability (tested in response to request by a Customer under clause 5.10) Voltage to be measured at the demarcation point. In respect of each sample, fluctuations in long duration voltage (greater than 60 seconds) outside of a nominal voltage, in urban areas only. The voltage standard relates to the demarcation point between network and the customer installation which is at the point of entry to the customer's building unless otherwise agreed. Single phase: +/- 10%; Three phase +/-5%	Partially Complies
C. Metering reporting standards	Seti Chen	Frequency of meter testing Report on the percentage of Customers' meters that are tested for accuracy or replaced annually. Report required	Complies

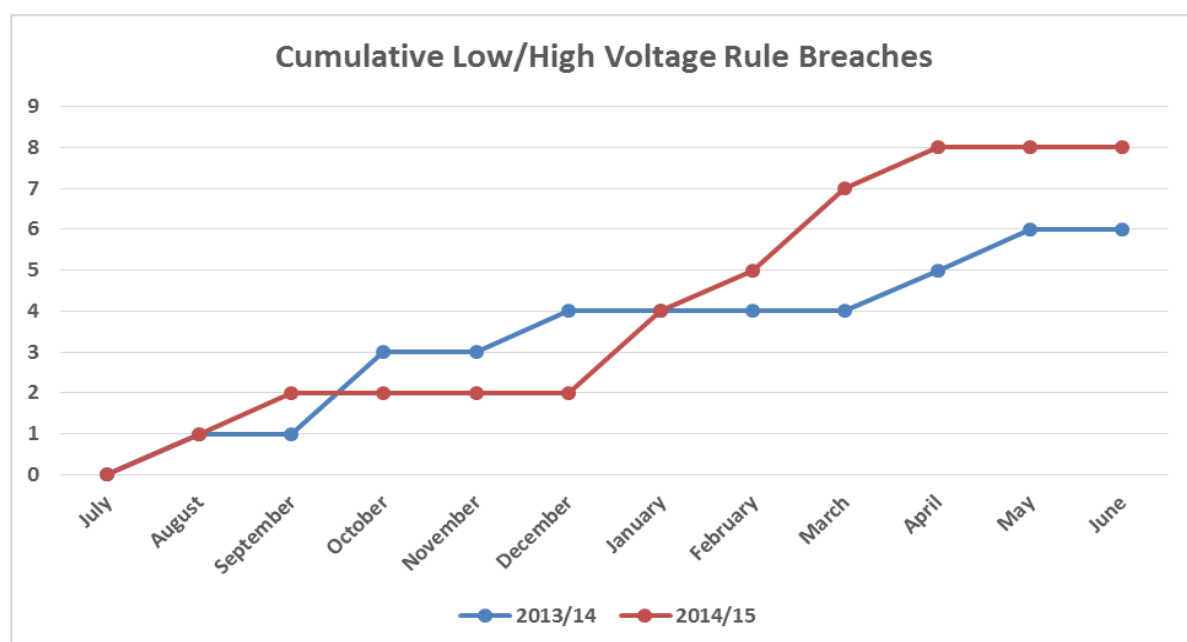
B - Metering Reporting Standards

TPL has complied with these standards fully throughout 2014/15. A summary report of the number of meters tested and faulty meters replaced is shown in the following table.

Monthly Meter Replacement Report													
Description	2014						2015						TOTAL
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
New Connections Installed	35	24	34	47	30	73	17	39	25	36	41	71	472
Meters removed	14	8	4	14	7	1	14	2	6	41	80	86	277
Long disconnections reconnected	40	23	30	22	24	37	24	28	17	21	28	32	326
Meters transferred to other premises	2	2	2	2	4	3	3	0	2	4	1	3	28
Meter Assessment completed	8	0	3	3	5	5	0	1	2	0	0	0	27
Meter Bypass (tampering) found	2	0	1	10	0	2	0	1	0	0	0	0	16
Replace Faulty Meter Single Phase	19	3	17	15	18	14	23	34	24	28	7	42	244
Replace Faulty Meter Three Phase	0	0	0	0	2	0	1	0	3	2	0	0	8
Replace Faulty Meter CT Type	1	0	0	1	0	0	0	0	1	2	0	0	5
Test Meter for Customer on Site	4	5	3	2	4	2	5	5	2	0	0	2	34
change meter 3phase to single phase for transfer					1	0				0	0	0	1
upgrade single phase to three phase				2	1	0				0	0	0	3
meter reconnection						1			1	1	0	0	3

c. Details of Breaches in Service Standards

As described in section d)b(A) above, TPL were partially compliant with the A4 (voltage stability) standards six times throughout the 2014/15 period, compared to eight in the previous year (refer the graph below).



The details of the breaches are shown in the table below. Further information on these incidents is attached (Appendix 2).

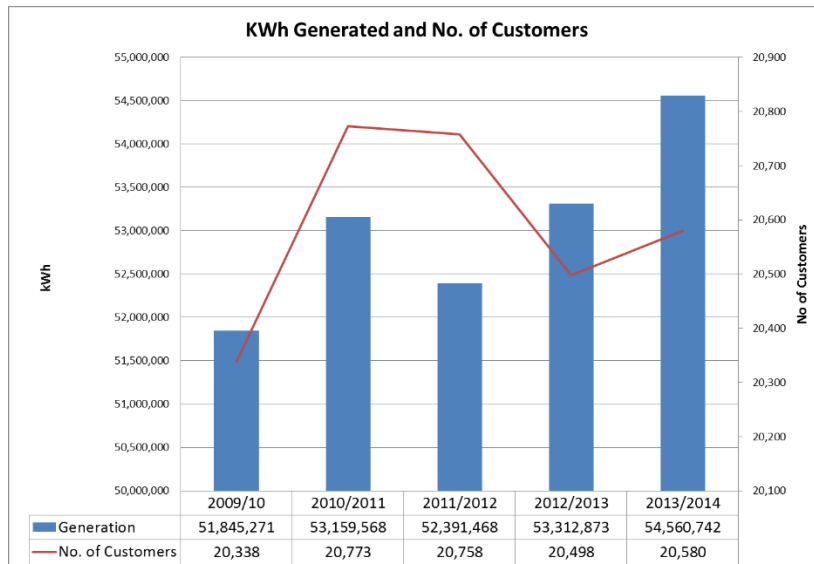
Rule Breaches Under The Concession Contract					
Month	Description	Voltage (Measured Prior to Remedial Action)	Customers Affected	Remedial Action	Breach of ECC Limits: Upper: 253V Lower: 207V
Aug-14	GPS Tokomololo is located at the end of the single phase line. School and three teachers' residents' appliances stopped working due to low voltage supply. No damages to appliances.	201V Single Phase	5	Planning upgrade the line to 3 phase.	Yes
Sep-14	Floating neutral at a transformer again caused customers' appliances to burn out due to voltages surge at Pelehake. Some customers experienced low voltage and other experienced high voltage.	196V to 269V Single Phase	3	Replaced old lugs with new ones and reconnected the neutral lines	Yes
Jan-15	Floating neutral at low voltage line causing customer's appliances to burn due to voltage surge at Popua	152.90 V to 232.1V, single phase	1	Upgraded the low voltage line	Yes
	A short circuit where phase and neutral was shorted at the low voltage line causes appliances to burnt at Hofoa	400 V single phase	5	Upgraded the low voltage line	Yes
Feb-15	Customer at Nukunuku claimed that power surge causes one of their appliances to burnt	480 V per phase(three phase), calimed to be seen by the contractor but wasn't reported to fault department (TPL)	1	Connected a poly-logger to check over voltage claimed by the customer. This was not reported to fault at the time of incident but the contractor report it on the following week	Yes
Mar-15	A broken neutral wire at the transformer causing appliances to burnt due to the fluctuations in voltage	196 V to 269 V single phase	1	Upgraded the low voltage line	Yes

d. Penalties Paid to Customer/EC

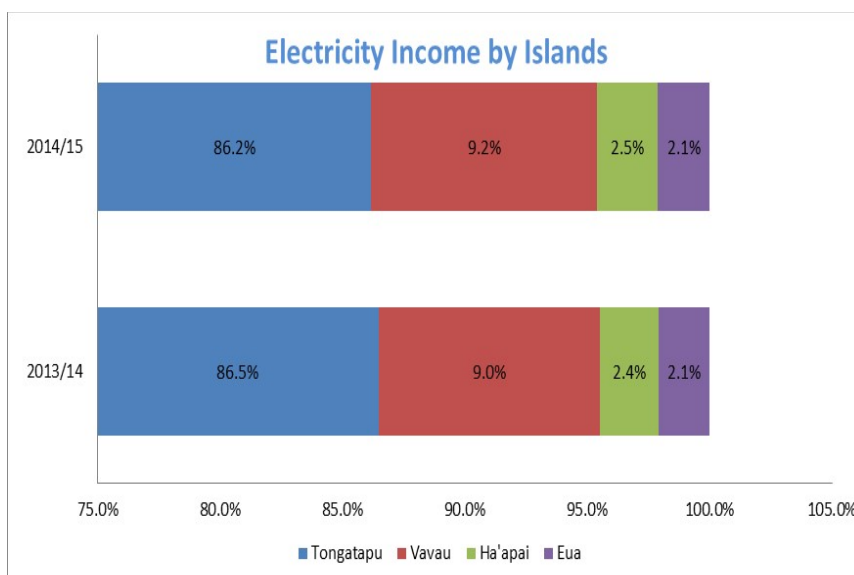
The penalties paid to the customers for the breach of the above voltage stability standards is about \$60K. No penalties were paid to Electricity Commission during the 2014/15 period.

e. KWh Invoiced and Regulated Revenue

The breakdown of electricity revenue by island shows a continuing trend, with growth in Tongatapu and a flat economy in the three outer islands. The graph below shows that an increase of generation kWh in the last two years and as a result the revenue also increased.



The graph below shows the breakdown of revenue compared to last year. About 86% of the revenue was earned in Tongatapu and 9% earned in Vava'u, with 3% and 2% earned in Ha'apai and 'Eua respectively which is generally in line with the income level in the last financial year.



The following table's show kWh invoiced and regulated revenue earned for each island on a monthly basis.

Month	Tongatapu		Vava'u		Ha'apai		Eua	
	kWh Invoiced	Revenue	kWh Invoiced	Revenue	kWh Invoiced	Revenue	kWh Invoiced	Revenue
Jul-13	3,213,056	2,947,336.27	407,996	374,254.73	97,051	89,024.88	83,620	76,704.63
Aug-13	3,126,938	2,868,340.23	354,145	324,857.21	84,852	77,834.74	81,189	74,474.67
Sep-13	3,309,970	3,036,235.48	368,666	338,177.32	94,158	86,371.13	82,720	75,879.06
Oct-13	3,716,246	3,408,912.46	363,533	333,468.82	111,089	101,901.94	85,896	78,792.40
Nov-13	3,143,214	2,883,270.20	390,661	358,353.34	90,739	83,234.88	81,780	75,016.79
Dec-13	3,977,177	3,527,358.28	401,444	356,040.68	107,273	95,140.42	92,396	81,946.01
Jan-14	3,597,774	3,194,463.53	389,468	345,808.64	107,574	95,514.95	87,954	78,094.36
Feb-14	3,855,359	3,094,696.67	353,003	283,355.51	101,879	81,778.27	86,453	69,395.82
Mar-14	4,072,042	3,054,031.50	382,833	287,124.75	107,045	80,283.75	88,299	66,224.25
Apr-14	3,370,285	2,527,713.75	358,536	268,902.00	109,770	82,327.50	85,388	64,041.00
May-14	3,428,865	2,748,235.30	423,730	339,619.60	105,989	84,950.18	91,633	73,443.85
Jun-14	3,562,331	2,855,208.30	345,373	276,816.46	99,205	79,512.81	88,597	71,010.50
Total	42,373,257	36,145,801.96	4,539,388	3,886,779.05	1,216,624	1,037,875.47	1,035,925	885,023.33

ALL FOUR ISLANDS		
Month	kWh Invoiced	Revenue
Jul-13	3,801,723	3,487,320.51
Aug-13	3,647,124	3,345,506.85
Sep-13	3,855,514	3,536,662.99
Oct-13	4,276,764	3,923,075.62
Nov-13	3,706,394	3,399,875.22
Dec-13	4,578,290	4,060,485.40
Jan-14	4,182,770	3,713,881.48
Feb-14	4,396,694	3,529,226.27
Mar-14	4,650,219	3,487,664.25
Apr-14	3,923,979	2,942,984.25
May-14	4,050,217	3,246,248.93
Jun-14	4,095,506	3,282,548.06
Total	49,165,194	41,955,479.82

f. Insurance Update

A high level summary of the TPL's insurance policy information is shown in the table below. Appendix 3 also provides further information on TPL compliance with Clause 9.1 of the Regulatory Addendum. Reference can also be made to TPL Insurance Policy Update 2014/15 for further breakdowns and details.

Insurance Policy	Insured Amount
Material Damage/Business Interruption	\$74,316,760
General Liability	\$3,142,000
Commercial Motor Vehicles	\$500,000
Business Interruption Costs	\$13,270,000
Fidelity Guarantee	\$100,000
Personal Accident	\$1,006,000

g. Auditor's Confirmation on RAV Calculation

KPMG auditor's letter confirming Regulated Asset Value (RAV) is attached. Refer Appendix 1.

h. Details of Regulatory Levies

The details of the regulatory levies paid (inclusive of CT) by TPL for the financial year 2013/14 are shown in the following table.

Date Paid	Month	Amount Paid (CT Inclusive)
1.07.2014	Jul-14	\$ 49,942.20
01.08.2014	Aug-14	\$ 49,942.20
01.09.2014	Sep-14	\$ 49,942.20
01.10.2014	Oct-14	\$ 49,942.20
04.11.2014	Nov-14	\$ 49,942.20
01.12.2014	Dec-14	\$ 49,942.20
15.01.2015	Jan-15	\$ 50,641.40
02.02.2015	Feb-15	\$ 50,641.40
27.02.2015	Mar-15	\$ 50,641.40
01.04.2015	Apr-15	\$ 50,641.40
01.05.2015	May-15	\$ 50,641.40
02.06.2015	Jun-15	\$ 50,641.40
TOTAL Amount		\$ 603,501.60

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