

## **Building Island Communities Through Strong Utilities**

### **The Honourable Tom Roper**

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Minister the Honourable. Ratu Savenaca Draunidalu, Chairman, Abe Malae, Tony Neil and PPA staff, Ms. Johane Meagher, Managing Director of the E7 Network and her fellow delegates, Board Members, CEO's Engineers, Allied Members and Distinguished Guests it is both a privilege and a pleasure to address you this morning. With each passing year your Association, the PPA, is making an ever greater contribution to the development of the Pacific Nations and Territories.

This Conference and Trade Exhibition is made even more valuable by holding concurrently the Second Engineers Conference. Combined they provide an opportunity for the discussion of keys issues affecting small utilities serving the largest region in the world – the Pacific.

The Minister stressed the importance of poverty alleviation, the expansion of access, alternative and more environmentally friendly sources of generation and a regional approach. He correctly described the PPA as a 'shining example' of regional cooperation addressing energy as one of the region's key issues. Too often regional cooperation is more talked about than real, to the cost of every Pacific Islander.

#### **Energy and Development**

Secure supplies of affordable and reliable energy are an essential element of economic and social development. Electricity is vital to the delivery of social services such as health, education, water and sanitation. It enables job creation and frees time for productive pursuits.

Sitting in our offices we often forget the time involved in collecting traditional fuels and that the cost of wood, kerosene, candles and batteries can be more than electricity bills would be. More than 1.6 billion people don't have access to electricity and this number includes 70% of Pacific Island residents. Most of your fellow citizens can't turn on the light.

In addition energy linked emissions pollute and degrade the environment at the local, regional, national and global levels. Even though the Pacific nations are tiny contributors

of CO<sub>2</sub>, a major cause of global warming, they are particularly vulnerable to higher temperatures, sea level rise and an increase in the number of extreme weather events. In this address I will emphasize the importance of making sure our development is sustainable for future generations.

In most cases governments, people and businesses are not concerned with energy itself but with the service that energy can provide. You have the direct interest in the provision of energy.

My message to you as Board Members, utility managers, engineers, and suppliers is that you have a major role in your countries' future and successful development.

### The Role of Utilities

Utilities are major players in Island economies enabling industry development, improved lifestyles and a higher standard of living. Greater efficiency, reducing costs and replacing expensive diesel imports with renewable energy are significant contributions to national prosperity.

A badly run utility damages the economy, destroys opportunities, reduces access and penalizes the less well off. It can significantly affect the community's health and safety.

Utilities must be a key element in the National Development Plan and contribute to its development and implementation. They can also play a key role in ensuring that national development is also sustainable and doesn't harm the future environment.

You and your colleagues can make a real difference.

An international example of this planning is the World Bank Energy Project for Mozambique. The multi million dollar, 10 year programme will:

1. By 2015 increase access to modern energy services from 6 to 20%;
2. Ensure that services such as health and education are accessible;
3. Reduce the adverse environmental, livelihood and health impacts of traditional bio-fuels; by
  - Taking measures to improve power sector performance
  - Increasing local capacity and technical skills
  - Financing investments and actions to restructure delivery
  - Involving the commercially oriented private sector
  - Removing barriers to renewable energy sources, and
  - Encouraging the successful operation of solar PV dealers.

Have you and your Government an agreed and publicly supported National Energy Plan?

## Issues of Governance

My slide identifies at least five governance matters. I'm sure you could add more.

The first is the vexed issue of whether utilities should be publicly or privately owned. The debate is often driven by International Agencies and Western Governments. A World Bank Report suggested that “most government-owned utilities in developing countries perform poorly when judged as providers of electricity.....and that privatization is probably the most effective way of changing the relationship between politicians and electricity utilities”.

Extremely well paid western consultants have roamed the Pacific and elsewhere advocating privatization and the end of monopolies. It should be pointed out that developed country experiences are far from universally successful.

Indeed the United Nations Environment Programme (UNEP) sponsored Energy Access Theme case studies have concluded that service expansion had shown a marked decline, prices have risen and that often the effects have been detrimental to the poor.

More recently privatization has ceased to be the World Bank cure-all: “For small markets, with little or no opportunity for cross-border trading, regulation of a vertically integrated monopoly may be the most effective choice...” This certainly is the situation in the Pacific and for most small island developing states.

The UNEP Global Network on Energy for Sustainable Development has helpfully identified four elements if access to electricity services by the poor is to be improved:

- A political commitment to improve access by poor households;
- Ring-fencing of finances for the electrification of poor and remote areas;
- An explicit focus on poor households; and
- Consultations with poor households on the electrification process.

As part of a comprehensive reform strategy, the institutional strengthening of companies left in the public sector will often be required to improve management and corporate governance. Indeed the transfer of operations to the private sector may lose the Government essential skills and experience – there are often not many managerial or technical skills to share around.

Public ownership, however, shouldn't mean the end of the 'reform agenda' to increase access, proper pricing, greater efficiency, adequate service levels, alternative fuels and decreased costs. There shouldn't be a trade off between the utility's public service mission and operational efficiency. For instance I'm sure you are seeking improvements in labour productivity, defining an effective maintenance schedule and preventing breakdowns.

If the utility remains in public hands there is a need for a clear and clean relationship with the Government. Organizations such as the World Bank have been able to point to instances of detrimental government interference including pricing decisions that prevent prices covering costs, subsidies to the greedy not the needy and what can almost be called political bribery. Recent studies suggest that most subsidies go to middle class, non poor clients.

The Government, as the owner on behalf of the people, must set strategic goals, appoint and hold accountable competent boards, monitor the utility's performance effectively and regularly review the regulatory framework. It must be clear on what basis politicians and officials can or cannot direct or influence the utility – for example the procedures for negotiating contracts or business plans.

It is reasonable to expect that a part of any agreement will require the benchmarking of costs and service standards so that performance can be measured and reported. I'm aware from my own recent experience as a board member of Australian Hearing Services that some managers find benchmarking and performance indicators a threat.

The other side of the coin is to not randomly interfere in day to day or longer term management, keep prices below costs, avoid paying for the forced carrying out of non commercial goals and getting discounts at other users' expense or not paying at all. The utility must be able to make a 'profit' to continue necessary investment programmes. It must have a relationship that properly funds expansion of service and also allows the questioning of well intentioned donor schemes that could leave a long term cost.

The role of pricing is crucial both for equity and access. If subsidies exist are they driven by access or consumption? Do they go to those already connected or to enable less well off or outer island residents to get access for the first time?

A final governance issue is the role of, and approach to the consumer. Consumers are driven by price, reliability and access. Does your utility monitor public perceptions and have you designed a strategy to not only to react but to involve interested citizens. A sensible, pro-active government will certainly monitor this aspect of your performance.

### The Issue of Small

The 25 PPA members serving a large part of the Globe have a maximum demand of 905.6 MW. Last week I was standing at a window in the UN Building in New York and explained to a doubting European expert that in our immediate view, just across the East River, was more generating capacity than in the whole of the Pacific. (see attached table). Your utilities are crucial to your countries future but they are small and present special challenges. The international agencies have little if any understanding of the situations you face – you are below their horizon.

Pacific Island Nations are the most isolated and currently use few local generation sources – sun, wind, coconuts etc. are still to come. They experience very high energy

costs – multiples of North America and Europe – which make business investment and home-owner use extremely expensive.

In addition to the enormous costs of diesel must be added the cost of imported equipment, spares and external expertise. The impact on the balance of trade can mean that half of all national export revenue is committed to petroleum purchases. To quote the former Chairman of the Alliance of Small Island States, the Hon. Neroni Slade, “when the tanker comes in the foreign reserves go out”.

There is often a lack of skilled staff, who can be poached away by the developed countries, and insufficient current and adequate training. Often donors and others offer graduate type opportunities when the major challenge is at the technician or lesser level.

An unfortunate example is in the field of renewable energy where very few island engineering staff have either professional or practical experience. Because diesel technology is well understood few opportunities are taken up for the use of renewables. Foreign projects mostly fail because there is little local back-up – the nearest technician might be in Sydney or Paris. Little attention is paid to energy efficiency and demand side management opportunities which could avoid the need for additional capacity or the retirement of old and more expensive, polluting plant. The PPA is developing engineers’ skills in both renewables and efficiency.

Unfortunately many governments and their utilities lack long term plans resulting in ‘short-termism’ – pricing, productivity and maintenance, and disruptions. This also effects, as do pricing policies, the availability of capital and preventative maintenance.

Here I would like to emphasize the role of international bodies such as the PPA. I’ve seen, during the last five conferences, the importance of the introduction of new ideas and the swapping of experiences. The Trade Exhibition allows remote utilities access to new and better equipment and expert advice. I’m very disappointed that major renewable industry firms such as BP and Shell have not taken up this opportunity to interact with potential purchasers.

The PPA’s role is very important. It is constantly prospecting for better and best practice, good and relevant technologies, and quality standards appropriate for small isolated utilities. In Washington or Paris it is easy to forget the difference between a 50 or even 5 MW utility and one with a generating capacity of 50,000MW plus.

It also provides the only opportunity for international benchmarking of performance to enable comparison and improvement. Who is doing best and worst and can those behind be helped to catch up? Accompanying this is the training role so far assisted by France and the US Department of Interior and shortly by the European Union and the E7. Without the PPA regional improvements would be less likely. Without being too critical most other regional bodies concentrate on studies and reports not on concrete measures for improvement and change.

A future role for the PPA will be to act as a link with international public and private investors, and financing mechanisms such as carbon trading, which have to date ignored the Pacific. Macquarie Bank's decision to become an allied member is a good start.

### The Sustainability Model.

The Pacific nations are the Earth's most environmentally vulnerable. Governments and utilities have an obligation to make conditions better not worse.

The sustainability model comprising economic, social and environment pillars is based on good governance. Unless there is effective and far sighted management the whole structure collapses.

Despite the happy thoughts of some greens the model won't work unless the economy does. At the macro level security of supply, availability of capital for investment and the balance of payments are key issues – why pay huge foreign exchange sums for diesel when local sun, wind and biomass are available?

Policy must be aimed at increasing access to electricity to support an improved standard of living and real access to health and education services. A couple of years ago the US initiative for a G8 meeting was for the world to be 'connected' to the internet. The British pointed out that you needed an electric plug. The provision of energy to rural areas or outer islands at levels to improve the productivity of rural people can also be an alternative to migration to already stressed capitals. Kiribati is an example where short term costs, helped by the EU, will produce long term gains.

Thirdly we cannot continue to abuse the environment either at a global level with greenhouse gases or locally with waste and pollution. An atoll can lose its vital water supply with a rise in sea level reducing the lenses or the water becoming undrinkable. Fishing on which so many islanders depend can be effected by pollution, the destruction of corals and mangroves or commercial over fishing.

My second slide emphasizes economic prosperity, ecological balance and social progress as our aims. You as utility managers have a key role in eco efficiency – reducing waste and cost – by being responsible and innovative. Have you examined each of your practices to obtain improvements? Have you looked at your whole business to identify where innovation will be most productive? Can a solar /wind hybrid allow you to avoid the enormous cost of transporting diesel to an outer island and removing the constant risk of an oil spill?

At the beginning I emphasized the role of the Pacific utilities in the future economic and social development of your countries and territories. I will conclude by adding an equally crucial responsibility – passing your islands to your children and grandchildren in better environmental shape than you found them.

Best wishes for the success of the Conference and Trade Exhibition.