

22 August 2012

Lord Dalgety  
Electricity Commission  
Tu'atakilangi  
Nuku'alofa

Dear Lord Dalgety

### Compliance Reporting for the Month of August

In accordance with the reporting requirements of the Concession Contract and in response to your request for additional information as specified in the suggested MOU dated May 2012, TPL submits the following reports for the month of August-2012.

1. Yearly CAPEX & Regulated Asset Value (RAV) update for the July. 2011- Jun. 2012 period
2. Monthly Outage Report for July 2012
3. Monthly System Loss Report for July 2012

The above reports are described in detail below.

### Capex Update for the Period July.2011-Jun.2012

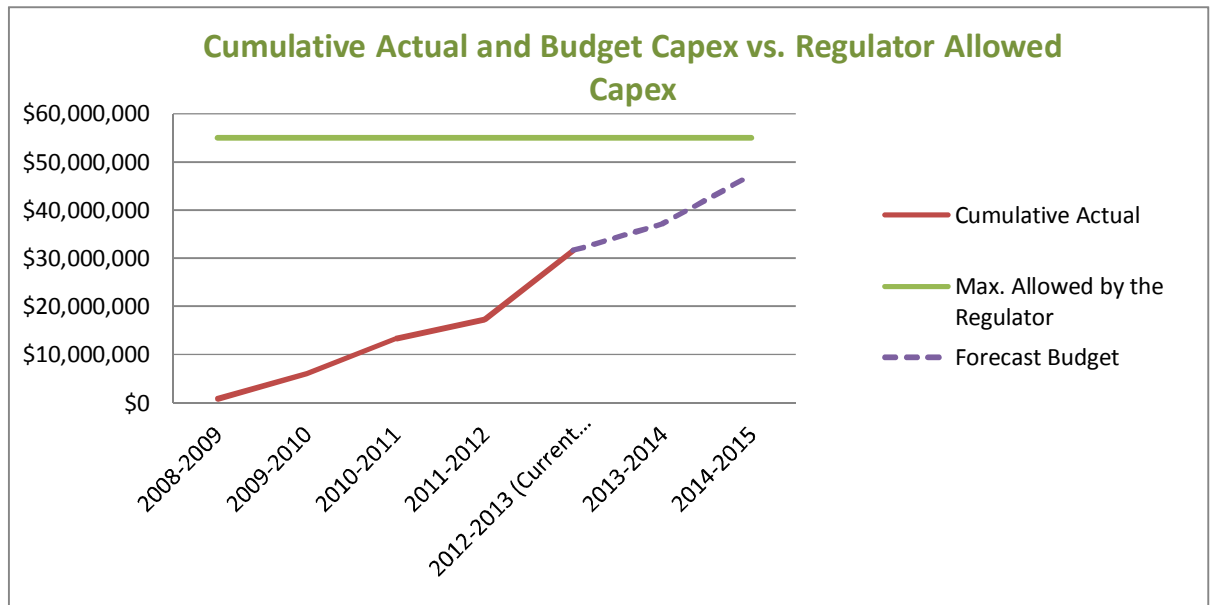
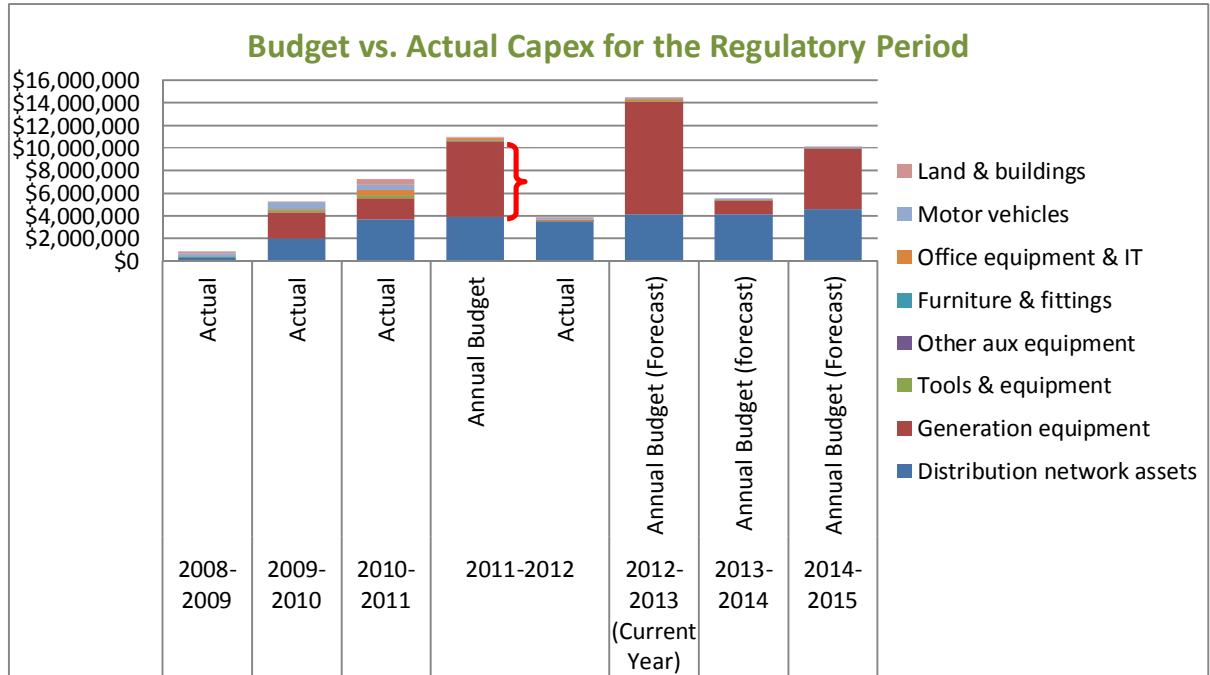
	Divisions	Annual Master Budget	Total Actual Costs	Variance
1	Distribution Network Assets	\$3,940,144	\$ 3,483,179	\$ 456,965
2	Generation Equipment	\$6,667,868	\$ 17,112	\$ 6,650,756
3	Tools & Equipment	\$2,000	\$ 58,660	\$ (56,660)
4	Other Aux Equipment	\$0	\$ 2,796	\$ (2,796)
5	Furniture & Fittings	\$2,810	\$ 18,850	\$ (16,040)
6	Office Equipment & Computers	\$253,714	\$ 106,854	\$ 146,860
7	Motor Vehicles	\$55,000	\$ 159,492	\$ (104,492)
8	Land & Buildings	\$16,500	\$ 64,014	\$ (47,514)
	<b>Total CAPEXs to June 2012</b>	<b>\$ 10,938,036</b>	<b>\$ 3,910,956</b>	<b>\$ 7,027,080</b>

During the year 2011-2012, as shown in the above table, TPL budgeted approximately \$11million Capex but only about \$4million actually spent leaving a variance of about \$7million. This is mainly because TPL did not go ahead with the \$6million worth MAK generator purchase due to deferring the project pending further options and demand analysis. The need for the new generator was predicated by demand growth; however the reduction in consumption has relieved the immediate pressure. The balance of the variance (\$1m) was retained by TPL to create a buffer for self-insurance, resourcing constraints and some project reprioritisations.

The detailed Actual CAPEX spent summary (attached with this report) is a full and complete extract which differs somewhat from the format suggested in the suggested MOU but is intended to provide an opportunity for discussion to refine the proposed format.

The Commission also asked that TPL provide “a copy of all documentation necessary to vouch the entries”<sup>1</sup>. With the scale of activity and the number of labour, materials and transport transactions<sup>2</sup> supporting the schedules, we consider it more appropriate to discuss a targeted approach should the Commission wish to view selected transactions.

For your information, we have provided you a Total Capex Budgets and Actuals Report for the entire regulatory period 2008-2015 (attached with this report) and summarised it in the graph below.



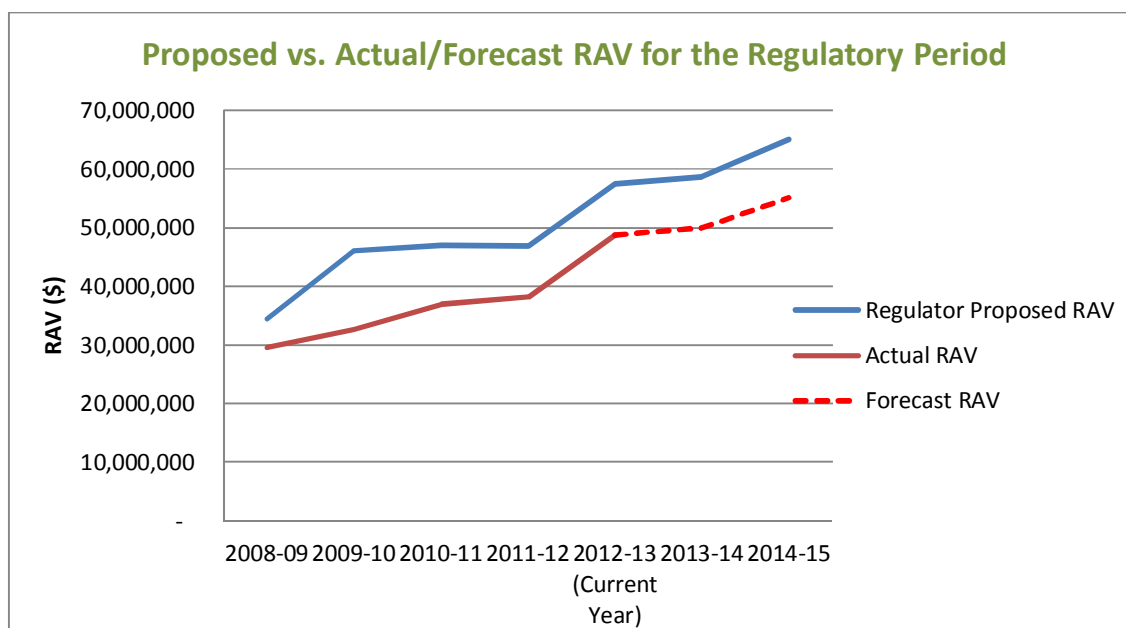
<sup>1</sup> Suggested MOU Point Five (a)

<sup>2</sup> Numbering in the thousands.

## RAV Update for the Period July.2011-Jun.2012

Actual Results		2008-09	2009-10	2010-11	2011-12
Opening Net Book Value		30,123,378	29,512,275	32,667,062	36,964,833
Generation Capital Expenditure		-	2,350,792	1,912,142	17,112
Distribution Capital Expenditure		385,605	1,952,145	3,638,383	3,483,179
Office Computers & Equipment		33,279	87,064	463,620	106,854
Furniture & Fixtures		4,007	13,221	20,532	18,850
Tools & Equipment		55,206	114,239	133,812	58,660
Vehicles		213,121	638,415	503,709	159,492
Other Auxiliary Equipment		1,348	31,467	93,001	-
Building		128,863	80,944	463,462	64,014
Disposals and Retirements		-	(329,007)	(614,553)	-
Depreciation on Opening RAV		(1,369,244)	(1,369,244)	(1,369,244)	(1,369,244)
Depreciation New Assets		(63,289)	(415,248)	(947,092)	(1,302,638)
Closing Estimated RAV		29,512,275	32,667,062	36,964,833	38,201,111

Regulatory Asset Value update (attached with this report) is shown in the above table until the 2011-2012 periods. The graph below summarises the actual RAV until 2012 and the forecast RAV from 2013-2015 against the regulator proposed RAVs.



TPL will endeavour to report Capex and RAV updates as above on a quarterly basis for the 2013 financial year with the first quarterly review for the September period to be provided in October, again as per your requested reporting schedule outlined in the Suggested MOU. This reporting will match actual expenditure against master annual budget expenditure and include an explanation of any material variances. We are at this stage not sure of the value of quarterly RAV updates, as balanced against the cost of compliance and would like the opportunity to review this with the Commission at a future stage.

### Monthly Outage Report

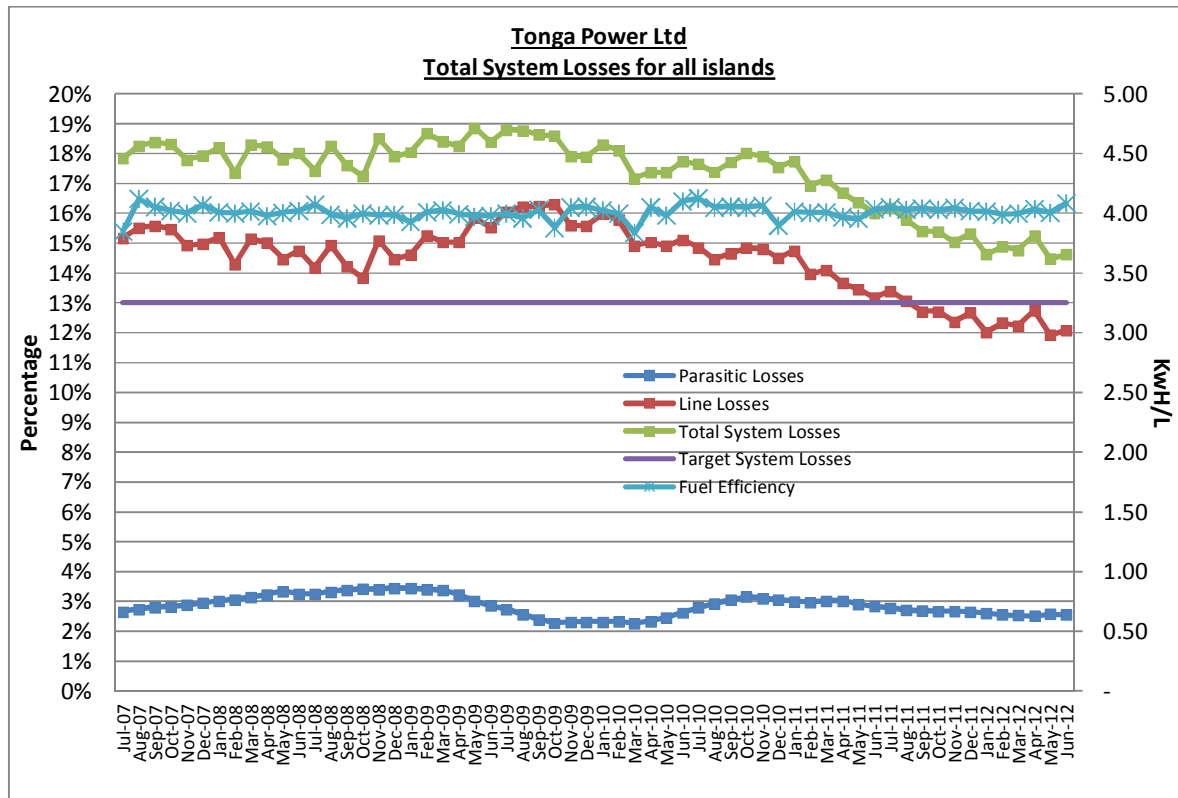
The monthly outage and incident reports are appended for your information. You will note an increase in SAIDI and the number of outages for the month. This is primarily a result of equipment failures (insulators, connections).

### Monthly System Loss Report

System losses continue to trend downwards, albeit slowly. The graph appended provides the twelve month rolling average trend. Reductions over the year are largely a result of improved billing and metering as a result of last year's meter replacement programme. This programme is almost complete; meters are currently being installed in Vava'u. Other gains have come from better credit management, such as audit of zero reading premises, which has had a significant impact in 'Eua.

It is our hope to reduce total unaccounted for energy well below the 13% threshold.

Power station parasitic losses are constant, further gains are unlikely until the new MAK generator and associated seawater cooling are in place, once a decision is made to purchase the generator.



### **Additional Reporting Items**

In accordance with the Electricity Concession Contract, section 2.2(b), TPL have finalised the Customer Services Agreement (CSA) to be implemented effective from 01-Sep-2012. Highlights of the CSA are summarised into Frequently Asked Questions Booklet (attached with this report) for wider customer distribution.

We want to thank the Commission for their input into the CSA, suggestions have been taken into consideration. One key suggestion, to have existing customer sign up to the CSA has not been taken up. This is because of the way we have had to implement the CSA, being a replacement for the older Tonga Power Board based terms and conditions of supply still in use. The CSA will be signed up by new customers, as part of the new connection process.

Should you have any queries with the information provided, please do not hesitate to contact me.

Yours Faithfully,  
Ajith Fernando  
Risk & Compliance Manager  
Tonga Power Limited

Attached documents:

- Capex update for the regulatory period (2008-2015)
- Capex reconciliation summary for 2011-2012 period
- RAV Update for 2011-2012 period
- Monthly outage reports (SAIDI report and events log) July 2012
- Monthly system loss report (July 2012)