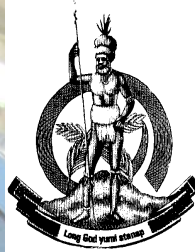


**Government of Vanuatu**



**Request for Qualification**

**Tender for the  
Luganville Electricity  
Concession**

**February 2010**



---

## List of Abbreviations

°	Degrees (latitude or longitude)
%	Per cent
€	Euros
ADB	Asian Development Bank
Advisors	The GoV's Transaction Advisors for this tender: IPA Energy+Water Economics, Gilbert+Tobin, Ridgway Blake
AUD	Australian dollars
c.i.f.	Cost, insurance, freight
CD ROM	Compact disc read only memory
Concession	The concession to provide electricity services to the town of Luganville on the island of Espiritu Santo
EU	European Union
f.o.b.	Free on board
GDP	Gross Domestic Product
GoV	Government of Vanuatu
GWh	Gigawatt Hours
km	Kilometres
km <sup>2</sup>	Square kilometres
kV	Kilovolt
kVa	Kilovolt amperes
kW	Kilowatt
m	millions
MB	Megabytes
MW	megawatts
MWh	Megawatt hours
NZD	New Zealand Dollars
PMB	Private Mail Bag
Q1	First quarter
RBV	Reserve Bank of Vanuatu
RFQ	Request for Qualification
Santo	The island of Espiritu Santo, on which Luganville is located
SSRF	Sarakata Special Reserve Fund
TVL	Telecom Vanuatu Ltd
UK	United Kingdom
UNELCO	The current Concessionaire
URA	Utilities Regulatory Authority
US	United States
USD	United States Dollars
VIPA	Vanuatu Investment Promotion Authority
VUV	Vatu, the currency of Vanuatu
WW2	World war two

---



---

## Table of Contents

<b>1.</b>	<b>Important Notice</b>	<b>1</b>
<b>2.</b>	<b>Tender for the Luganville Electricity Concession</b>	<b>2</b>
2.1	Introduction	2
2.2	Government Objectives for the Concession	2
2.3	Features of the Concession	3
<b>3.</b>	<b>Vanuatu</b>	<b>4</b>
<b>4.</b>	<b>Investing in Vanuatu</b>	<b>10</b>
4.1	Productive Workforce	10
4.2	Supportive Investment Environment	10
4.3	National Infrastructure	11
<b>5.</b>	<b>The Luganville Electricity Concession</b>	<b>13</b>
5.1	Background	13
5.2	Legal and Regulatory Framework	13
5.3	The Luganville Network	13
5.4	Commercial Operations	14
5.5	Organisation, Management and Staff	16
5.6	Recent Financial Performance	16
5.7	Tariffs	17
5.8	The Sarakata Special Reserve Fund	18
<b>6.</b>	<b>Structure of the new Concession</b>	<b>19</b>
<b>7.</b>	<b>Tender Process</b>	<b>20</b>
7.1	Process	20
7.2	Qualification for the Tender	20
7.3	Indicative Timetable	22

---



---

## 1. Important Notice

---

Whilst the Government of Vanuatu (**GoV**) and its advisors (**Advisors**), have made all reasonable efforts to ensure the accuracy of the contents of this document, no reliance whatsoever should be placed upon its content by any person (including third parties). In particular, it is not intended that this document should be used by prospective bidders for the Luganville Electricity Concession (**Concession**) for the purposes of making their investment decision. Neither the GoV nor the Advisors accept liability, including liability for negligence, for any damage suffered, or purported claim arising out of, any reliance placed on any part or parts of this document contrary to this disclaimer. Prospective investors should conduct their own due diligence and investigations in relation to the subject matter of this document prior to taking any action on the basis of any information contained herein.



## 2. Tender for the Luganville Electricity Concession

### 2.1 Introduction

Electricity supply, transmission and generation for the town of Luganville, on the island of



*Diesel generating unit, Luganville (Source: IPA)*

Espiritu Santo (Santo), is currently provided by UNELCO, a private company, under a 20 year concession contract. The current contract is due to expire on 31<sup>st</sup> December 2010. The Government of Vanuatu (GoV) wishes to appoint the next operator for the Concession by means of a transparent, competitive international tender process.

***It is therefore inviting interested parties to qualify for participation in the tender.***

There are currently around 2,200 customers for the Concession, of which around 1,400 are residential users. Of the total generation capacity of 3.5MW, 1.2MW is provided by the Sarakata Hydroelectricity Plant on the Sarakata River, the remainder by diesel units located within Luganville.

This Request for Qualification (RFQ) provides summary information on the Concession, describes the tender process and sets out the qualification requirements and process for bidders.

### 2.2 Government Objectives for the Concession

With only 27% of the population of Vanuatu having access to electricity the GoV is keen to extend the electricity network and promote rural electrification. It is also a priority to improve service for existing customers and to improve operating efficiency to keep costs and tariffs down. The GoV's objectives for the Concession, in order of priority, are therefore as follows:

1. Increase access to electricity within and outside the Concession area.
2. Improve operations through better technology, increased efficiency, lower costs and higher revenues.
3. Improve quality of service, improve customer service.
4. Promote localisation through employing and developing local staff and by using local businesses to provide services and equipment where they can meet the necessary quality standards.
5. Generate income for the GoV.



The network assets are owned by the GoV and the current Concessionaire is required to hand them over in good condition at the end of the Concession period. There is significant spare generation capacity following the construction of the hydro-electric plant on the Sarakata River in 1994, which was built using grant funds from the Japanese Government.

The international donor community, in particular AusAid, the World Bank and the Asian Development Bank (ADB), is strongly committed to supporting increased access to electricity in Vanuatu. The next Concessionaire will be encouraged to access these and other available funding for electricity development, and the GoV will support these efforts.

### 2.3 Features of the Concession

The Concession will have the following features:

- (a) The GoV is offering a 20 year Concession to provide electricity services (generation, transmission, distribution and supply) to the town of Luganville, the main urban centre on the island of Espiritu Santo (“Santo”) in Sanma Province;
- (b) The Concessionaire will have an exclusive right to supply electricity within the Concession Area, which extends 15km from the Luganville municipal boundary. The Concessionaire is also encouraged to supply electricity to customers outside the Concession Area;
- (c) The Concession includes the right to use the existing physical assets, including the diesel and hydroelectric generating plants, transmission and distribution networks. These are in good condition and there is significant spare generation capacity to cover potential network expansion;
- (d) There will be an annual Concession Fee payable to the GoV. This will be calculated as a percentage of revenue earned from operations within the Concession Area. Qualified Bidders will include their proposal for the level of this Concession Fee as part of their bids.

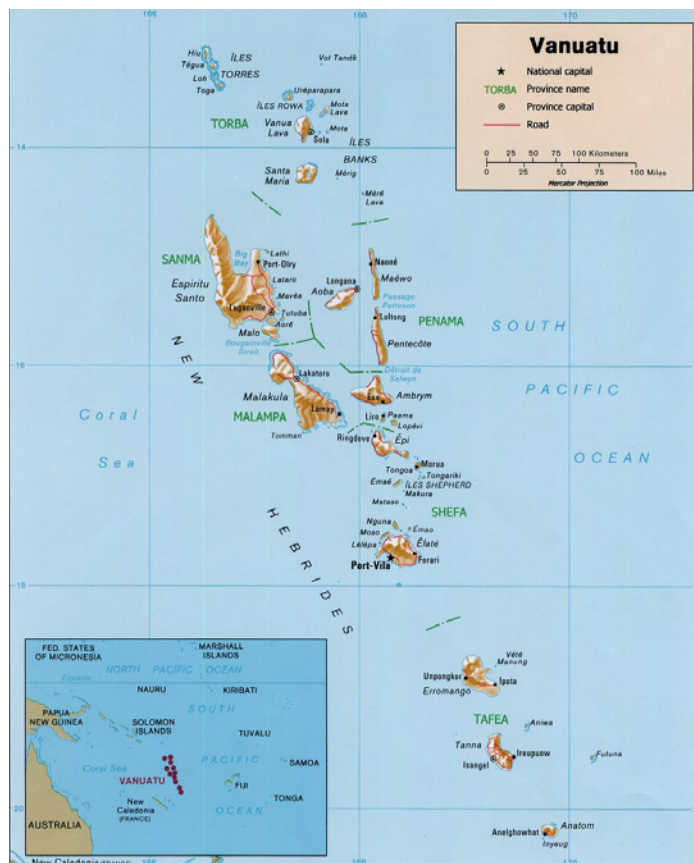


*Transformer, Luganville (Source: IPA)*



### 3. Vanuatu<sup>1</sup>

The Republic of Vanuatu has been a democratic republic since gaining independence from the United Kingdom and France in 1980, having previously been administered jointly by these two countries. The Head of State is the President (currently Iolu Abil), while the Government is led by the Prime Minister (Edward Natapei). Parliamentary elections are held every four years, the most recent taking place in September 2008. Vanuatu's capital is Port Vila on the island of Efate.



Sourced from the internet

Originally populated by Melanesians, Europeans began arriving in the 17<sup>th</sup> Century. The main languages spoken are English, French and Bislama (which evolved mainly from English). There are also more than 100 indigenous languages. Vanuatu has around 240,000 people and the population is growing at 2.9%. In addition to the indigenous ni-Vanuatu there are significant numbers of Australian, New Zealand French and Chinese nationals.

Vanuatu lies in the South Pacific Ocean, between 13° and 21° South Latitude and 166° and 171° East Longitude. The country comprises 82 volcanic islands, 65 of which are inhabited, and stretches about 1,300km North to South. It covers a total area of about 12,300km<sup>2</sup>, of which about 4,700km<sup>2</sup> is land, the rest ocean.

<sup>1</sup> Maps, economic and other data for this section were sourced from various organisations, including the Reserve Bank of Vanuatu, National Statistics Office, Asian Development Bank, UNELCO and various websites.



Santo is the largest island in the archipelago with an area of 3,955km<sup>2</sup> and is also home to the highest point in the country, Mount Tabwemasana (1,879 metres). It lies in the North of Vanuatu, about 300km from Efate, between 14° and 16° South Latitude and 166° and 168° East Longitude. Santo lies within Sanma province, which also includes the islands of Malo, Tutuba and Aore. Santo's population is 41,064 (2009 Census). Luganville, the main population centre and provincial capital, accounts for around 15,000 of them.



Sourced from the internet

Santo's main airport is located near Luganville. Air Vanuatu currently runs one direct international flight per week from Luganville to Brisbane. There are 14 direct Air Vanuatu flights a week between Port Vila and Luganville and a similar number of indirect flights, routed via other islands in Vanuatu.

There is a monthly direct shipping service to Australia, operated by Swire. Several inter-island shipping services link Santo to Efate and other parts of Vanuatu. These range in size from 10 to over 70 tonnes, with schedules ranging from weekly to "on demand".

The Table below provides a summary of the key economic indicators for Vanuatu. Overall, despite the recent global recession the country has continued to experience strong economic growth. A recent Asian Development Bank (ADB) report<sup>2</sup> attributed this to:

- Political stability;
- Sound macroeconomic management;
- Improved fiscal accounts, with budget surpluses in some years, and a falling debt to GDP ratio;
- Policies toward the private sector, including introduction of competition in air travel and telecommunications, strengthened regulation, with the establishment of the

<sup>2</sup> Sustaining Growth: a Private Sector Assessment for Vanuatu, ADB 2009.



Utilities Regulatory Authority with responsibility for electricity and water, and extensive legal reforms.

<b>Basic Economic Indicators for Vanuatu<sup>3</sup></b>				
Population (2009 census preliminary figures)	243,304	(2.9% growth <sup>4</sup> )		
GDP (2007, current prices, VUV billion)	52.0			
GDP Growth Rate (2009 estimate)	3.8%	(6.6% 2008)		
GDP per capita (2007, current prices, VUV)	227,204			
Financial Year	January - December			
Inflation Rate (2009, CPI)	4.5%	(4.8% 2008)		
Electricity Consumption (2008, GWh)	55.1	(6.5 Luganville)		
Exchange Rates (31 December 2009)	VUV/AUD	87.58		
	VUV/NZD	70.70		
	VUV/USD	97.93		
	VUV/€	140.39		
Interest Rates (% , 31 December 2009)	Commercial loans	9.5 – 23.0		
	Long term deposits	2.25 – 9.00		
	RBV discount rate	6.00		
Imports (c.i.f., million Vatu, 2009)	31,086		(-2% growth)	
Exports (f.o.b., million Vatu/% of total, 2009)	6,150		(7.5% growth)	
	Copra	(14%)		
	Coconut oil	(7%)		
	Kava	(15%)		
	Beef	(10%)		
	Cocoa	(8%)		
	Timber	(1%)		
Main Trading Partners (% , 2009)	<b>Imports</b>		<b>Exports</b>	
	Australia	29%	EU	20%
	New Zealand	14%	New Caledonia	12%
	Singapore	10%	Japan	8%
	Fiji	9%	Australia	8%
	Japan	6%	New Zealand	8%
Visitor Arrivals (2009)				
By air	120,357	(33% growth)		
Cruise ship	124,818	(18% growth)		

<sup>3</sup> Sources: Reserve Bank of Vanuatu, Central Statistics Office, Asian Development Bank

<sup>4</sup> Annual average 2006-2009.



Services account for the main part of Vanuatu's economy, generating 74% of (real) GDP in 2007. Tourism is a key driver – hotels/restaurants and transport made up nearly 18% of GDP, more than agriculture (16%) and manufacturing (10%), and this understates the full contribution of tourism which spills over into retail, other services such as diving and tours, etc. Vanuatu has a number of attractions: its tropical climate, beaches, reefs, dramatic scenery including a number of active volcanoes, and strong local traditions and culture. In 2006 a survey by the New Economics Foundation ranked Vanuatu as the “happiest place on earth”. Tourism benefits from the country's proximity to Australia, only 3½ hours away by air, and the country has also become an increasingly popular stop for cruise ships.



**Lonnoc beach, Santo** (Source: Vanuatu Tourism Office)

Tourism has grown strongly despite the recession, with visitor arrivals up 33% over 2008 and cruise ship visitors up 18%. 77% of these visitors are from Australia and New Zealand. Vanuatu has benefited from their economic resilience and relatively fast recovery from the global

recession. In addition, recent political turmoil in Fiji has diverted tourists to other destinations in the region.

Construction and real estate have also been buoyant, driven by aid-funded road building projects and inward migration. Together these sectors contributed to a strong growth performance in 2009, estimated at 3.8%, despite the global recession. Migrants come from Australia, New Zealand and France, attracted by the climate and by the tax regime. There is also a well-established Chinese community, which has invested in trade and retail in particular. The aforementioned ADB report notes that: “*Vanuatu has been better placed than other Pacific countries...because it has a well developed network of estate agents, property developers and mortgage financing...and...thanks to improved air connections.*” Migration has created a significant core of relatively wealthy and sophisticated expatriate customers, many of whom are also investors. This helps to increase demand for goods and services, including electricity, above what would be expected based on per capita GDP.

Vanuatu's physical exports are dominated by agricultural products, particularly copra and coconut oil mainly to the EU, kava (used to make a traditional beverage) and high quality beef exports to Japan. Sales are driven by agricultural commodity prices; earnings and



volumes can therefore be volatile. Vanuatu imports most of its manufactured and consumer goods, generally running a trade deficit that is counterbalanced by tourism earnings and remittances from ni-Vanuatu working overseas. In 2008 a trade deficit of VUV 20.4 billion was reduced to a current account deficit of VUV 3.7 billion once these were taken into account. This gap was more than covered by net inward capital investments of VUV 2.1 billion and net inward financial investments of VUV 2.3 billion.

Inflation is largely driven by import prices and exchange rates. It has fallen to an estimated 4.5% in 2009, down from 4.8% in 2008. The small size of Vanuatu relative to its trading partners means that exchange rates are largely determined by the economic health of the partner country; hence during 2009 the USD and € have been falling against the VUV due to the economic woes of the USA and EU. Conversely the AUD and NZD have appreciated against the VUV, largely as a result of strong commodity prices driving up their export earnings, as well as their early recovery from recession.

The GoV has had a strong fiscal record despite the global recession. The fiscal position had recorded a series of six successive quarterly surpluses up to the third quarter of 2009. The third quarter of 2009 ended with a budget deficit of around VUV8.3 million. This was primarily due to an increase in expenditure, since revenues have remained strong. Recent increases in excise duties should further strengthen the GoV's budget performance in 2010.

### **Santo**

Santo's economy is based on its natural resources – agriculture and tourism. Its main cash crops are copra/coconut oil, beef (which is of high quality and exported to Japan) and timber. The island has considerable tourism potential. The shipwreck of the President Coolidge which hit a loose mine during WW2 is a popular scuba diving site. Other attractions include Million Dollar Point, where the US military dumped its heavy equipment at the end of the war, and Champagne Beach, which is a popular stop for cruise ships. Santo had 2,851 visitors (not including cruise ships) in 2009, up 18% on 2008.

Santo's exports make an important contribution to Vanuatu's economy, accounting for 31% of the total in 2009.

Santo's export earnings are sensitive to commodity prices, falling from VUV3,166



*Divining the President Coolidge, Santo (Source: Vanuatu Tourism Office)*



---

million in 2008 (when they made up 55% of total exports) to VUV1,935 million in 2009. Santo's imports also fell in 2009, by 33% to VUV3,641 million.

The GoV's 2006 Household Survey estimated that there were 8,270 households in Sanma province, including 2,360 in Luganville. With population growing at around 3% a year this suggests that there is significant potential demand for new electricity connections, both within and outside Luganville. Average household incomes in Luganville in 2006 were VUV64,200, 6% above the national average of VUV60,700. Rural incomes in the rest of Sanma province, at VUV53,100, are below the national average, but close to the rural average income of VUV53,500.



---

## 4. Investing in Vanuatu

---

The GoV is keen to encourage private investment and has established an attractive incentive regime. Foreign investment is particularly welcome and there is a track record of successful projects. Tourism is a major foreign investment target attracting global brands such as Le Meridien, and smaller investors. Similarly, on the retail side there are branches of European supermarket chains Au Bon Marché and Spar alongside smaller local and Chinese-owned outlets. Agriculture and forestry have also attracted foreign investment. On Santo this includes Nichiku, which exports high quality beef to Japan, and the Melcoffee sawmill. Total foreign direct investment in Vanuatu during 2007 was USD34m, up from USD13m in 2005<sup>5</sup>.

The GoV has established the Vanuatu Investment Promotion Authority (VIPA) to promote and support foreign investment in Vanuatu. Its website (<http://www.investinvanuatu.com/>) provides more information on the investment climate and the application requirements.

### 4.1 Productive Workforce

Vanuatu has a population of over 230,000. Primary school education is provided free of charge leading to high rates of primary school enrolment (86.9%, 2007) and a literacy rate of 89%<sup>6</sup>. This is a particularly positive achievement given that the population is dispersed across 65 islands.

The workforce is well motivated, educated, adaptable and easily trained. As a legacy of the past joint administration by the UK and France both English and French are widely spoken.

There is a comprehensive framework of employment legislation, including the Employment Act (as amended 2008, 2009) and Health and Safety At Work Act (1986).

### 4.2 Supportive Investment Environment

Vanuatu has a business-friendly fiscal and financial environment. In particular, there is:

- ✓ No personal or corporate income tax;
- ✓ No withholding tax;
- ✓ No capital gains tax;
- ✓ No foreign exchange controls or restrictions on international transfers;
- ✓ Import duty exemptions available for qualifying investments;
- ✓ Protections against expropriation by the State;

---

<sup>5</sup> Source: World Bank.

<sup>6</sup> Females aged 15-24, 2004 figure, source: World Bank.



- 
- ✓ Efficient processing and approval of residency and work permits for qualifying individuals.

Vanuatu has a modern, full service banking infrastructure that facilitates transfers and conversions into foreign currencies. There are branches of several international banks: ANZ and Westpac from Australia and BRED/Banque Populaire from France, as well as the State-owned National Bank of Vanuatu. Vanuatu has a well-established offshore financial centre which has fostered the development of international standard support services, particularly in accounting (with branches of KPMG and PKF), legal and IT.

Vanuatu company law is based on the UK Companies Act 1948 as altered and extended by the UK Companies Act 1967.

### 4.3 National Infrastructure

#### (a) *Transportation*

There is an extensive road system in Vanuatu. On Efate and Santo this was recently upgraded with financial support from the Millennium Challenge Foundation, which is helping to open up the local economies of both islands.

There are direct flights between Efate and Australia (Sydney (2,469km), Brisbane (1,904km), Melbourne (3,183km)), New Zealand (Auckland (2,218km)), France (New Caledonia (539km)), Fiji (Suva (1,071km)) and the Solomon Islands (Honiara (1,289km)), as well as a direct flight from Brisbane to Luganville. These routes are served by Qantas, Pacific Blue, Air New Zealand, Air Calin and Air Pacific, as well as the national carrier Air Vanuatu. Within Vanuatu, inter-island passenger travel is served by Air Vanuatu.

For shipping Vanuatu is served by major regional lines, including Swire and PiL. There are direct international services from the major regional ports: Auckland, Brisbane/Sydney/Melbourne, Singapore, Suva and Noumea. Inter-island freight (and some passengers) is carried on various private inter-island shipping services.

#### (b) *Telecommunications*

The GoV is reforming and opening up the telecommunications sector. Telecom Vanuatu Ltd (TVL) operates the fixed line telecommunications service. Services are reliable and are provided at reasonable costs. There are two mobile operators: TVL and Digicel. The competition between them has led to falling prices and an improved range and quality of service.

Following passage of the Telecommunications and Radiocommunications Regulation Act of 2009, an Interim Telecommunications Regulator has been set up to supervise the operation of the sector (see [www.telecomregulator.gov.vu](http://www.telecomregulator.gov.vu)).



---

(c) ***Water and Sanitation***

Water and sanitation services for Luganville are provided by the GoV's Public Works Department. Informal conversations with Santo-based entrepreneurs indicate that they are satisfied with the price and quality of service. The Utilities Regulatory Authority (URA) is responsible for regulating water as well as electricity.



---

## 5. The Luganville Electricity Concession<sup>7</sup>

---

### 5.1 Background

Vanuatu has a long history of private sector provision of electricity services, dating from before WW2. There are currently four separate electricity Concessions. These all have a 20 year term and govern the provision of services to the towns of Port Vila and Luganville and their surrounding areas, and to the islands of Tanna and Malakula. These Concessions were let by direct negotiation, the Concessionaire in each case being UNELCO, a subsidiary of GDF Suez.

As at 2008 there were 12,149 electricity customers across the whole of Vanuatu of which Luganville accounted for 2,163. Total electricity sold amounted to 55,130MWh, 6,482 in Luganville. Total generation capacity in Vanuatu is 27.7MW (4.1MW in Luganville).

### 5.2 Legal and Regulatory Framework

The Ministry of Lands, Energy, Geology and Mines is responsible for the electricity sector. Vanuatu has operated a model of “regulation by contract” with the main regulatory provisions set out in the Concession Agreements. This arrangement is formalised through the Electricity Supply Act and its amendments. However, the GoV is moving to a model of independent regulation. The Utilities Regulatory Authority Act of 2007 therefore established the URA to oversee the electricity and water sectors. The URA formally came into existence in October 2008 with the appointment of the Chief Executive and the other two Commissioners. Since then it has been developing and adopting operating standards and procedures which are designed to be in line with international best practices.

Under the URA Act, the URA was assigned the Government’s rights under the Concession contracts as well as being given specific powers to set maximum prices, to regulate safety and reliability standards and to resolve consumer complaints. The URA has a commitment to transparency and has established a website ([www.ura.gov.vu](http://www.ura.gov.vu)) which includes information on its responsibilities, activities and work programme.

### 5.3 The Luganville Network

The power system consists of a diesel-engined power station located near the centre of Luganville and a run-of-river hydro-electric power station on the Sarakata River approximately 14km from the town. The Sarakata hydro-electric station is connected to the Luganville diesel station by a single-circuit 20kV overhead transmission line which steps down to 5.5kV at a transformer substation just outside the town. The distribution system is supplied at 5.5kV high voltage, stepping down to low voltage for supply to

---

<sup>7</sup> Source: UNELCO Technical Report 2009, other data provided by UNELCO.



consumers. Some distribution is tapped from the main 20kV transmission line to supply customers outside of Luganville town.

The five diesel generators are manufactured by SDMO of France, based on Cummins high speed automotive type diesel engines. There are two 800kW units, one at 600kW, one at 400kW and one at 250kW, a total of 2.85MW. These were commissioned at various times from 1999, with the most recent being the 250kW unit in 2006.



*Sarakata Hydro Plant, Santo (source: IPA)*

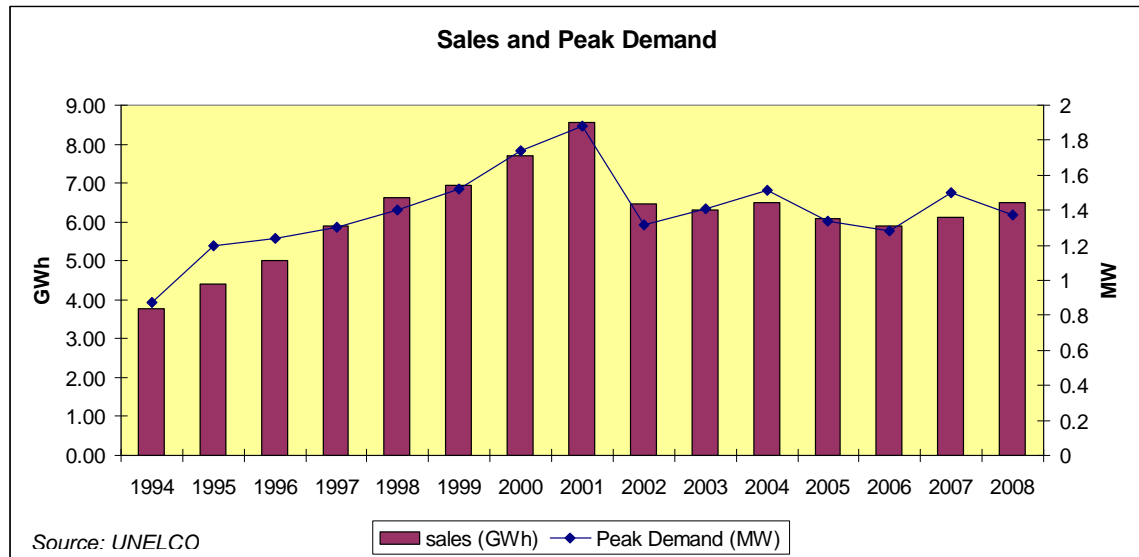
The Sarakata Hydro Power Station is a run-of-river scheme which was built in 1994/95 using Japanese grant funds. There are two horizontal axis Francis turbine-generators each rated at 300kW. The scheme was extended in 2008/09 by adding an additional Francis turbine-generator rated at 600kW, bringing capacity up to 1.2MW.

The transmission network consists of 68km of high voltage cable, of which 52km is on poles, the remainder underground. The distribution network consists of 60km of low voltage cable; 51km is overhead, the rest underground. There are 49 transformer stations of which 9 are owned by commercial customers. Total power capacity of the non-private transformers is 3,430KVa. The network also includes 181 street lights.

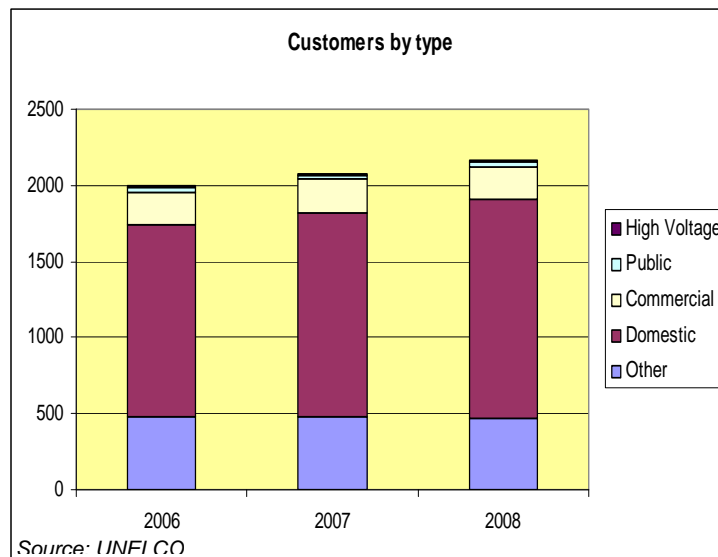
#### **5.4 Commercial Operations**

Electricity sales grew steadily during the 1990s, at rates averaging over 12% a year. Demand dropped sharply in 2002 as two large customers, a sawmill and a copra producer, opted to generate their own power. The ongoing tariff review (see Chapter 5.7 below) provides an opportunity for the next concessionaire to develop different tariff structures and to revisit larger customers.

Sales have largely held steady since 2002. Similarly, peak demand has remained between 1.3 and 1.6MW since 2001 after peaking at 1.9MW in that year. As a result of this decline and the addition of the Sarakata Hydro plant, there is now considerable headroom in generation capacity to cover growth in demand from existing and new customers over the medium to long term.



Technical losses (energy distributed from the generators/energy supplied to customers and metered) are relatively low, at 3.6% in 2008. Commercial losses (energy sold/energy distributed) are also low, at 1.5% in the same year. UNELCO operates a firm disconnection policy which is well understood within the customer base.



Total customers grew by an average 4.1% a year between 2006 and 2008. This was primarily driven by domestic customers, which increased from 1,266 to 1,432, and commercial customers, which increased from 214 to 222. Public and other customers both fell slightly while those connected at the high voltage level remained unchanged at 14.

Overall there is significant potential to connect additional customers, both within and outside the Concession area. The 2006 Household Survey data identified 2,300 households in Luganville town; this would suggest that there are at least 928 unconnected households in the town. This indicates a potential for a 65% increase in domestic customers even before taking into account the population growth since 2006 and the fact that the Concession area is larger than the town alone. The Survey also suggests that there are more than 7,000 unconnected households outside Luganville, a significant opportunity even before taking into account potential commercial customers.



---

At the same time there are no other suppliers on Santo other than a small aid-funded biodiesel plant at Port Olry on the North East coast, which has around 200 customers. The Concessionaire would therefore have a very strong market position even outside the Concession area, as well as a solid asset base to build on.

### **5.5 Organisation, Management and Staff**

UNELCO currently runs the concession on Santo with 31 staff employed on the island, made up as follows:

- Head of operations
- 7 maintenance staff for the distribution system
- 2 mechanics for the diesel power station
- 6 shift operators for the diesel power station
- 10 shift operators for the hydro power station
- 5 customer service staff

In addition to general management, administration and ad hoc inputs, UNELCO also supports day to day operations at Luganville from its Port Vila headquarters, including:

- Technical advice and support
- Billing, including printing bills
- Finance and salaries
- Control, automation and metering and electrical testing
- Procurement of spare parts
- Human resources, including staff training and development

### **5.6 Recent Financial Performance**

The financial performance of the Luganville Concession between 2006 and 2008 is summarised in the following table.

Although the number of customers increased, revenue has been volatile. This is due to the influence of the oil price on the final tariff (see Chapter 5.7 below); the world oil price hit a peak in 2008 and has fallen significantly since then.



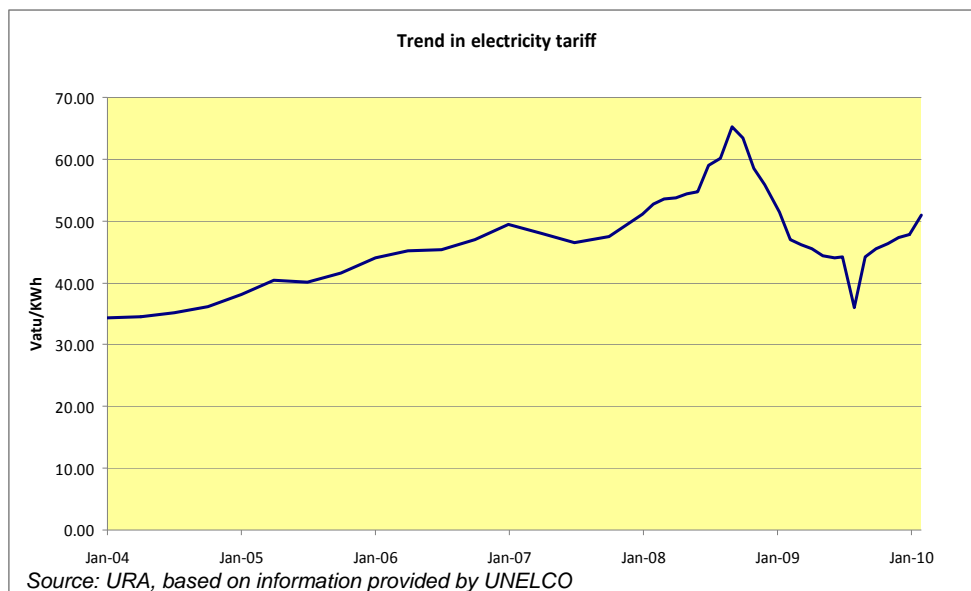
### Summary Income Statement

VUV (Millions)	2006	2007	2008
Income	325.2	313.6	404.6
Materials	193.0	153.4	280.3
Staff costs	65.6	65.7	73.1
Other operating costs	93.1	105.4	71.1
Gross margin	-26.5	-11.0	-19.9
<b>Net income</b>	<b>-29.8</b>	<b>-10.0</b>	<b>-19.8</b>

Source: UNELCO (unaudited)

## 5.7 Tariffs

Electricity tariffs for Vanuatu are determined by a formula that is set out in the Concession Agreements for Port Vila, Luganville, Tanna and Malakula. The same tariff applies to all four Concessions. The formula allows for tariffs to be adjusted on a monthly basis to reflect changes in the price of fuel oil paid by the Concessionaire, as well as for changes in labour and materials costs. The oil price has the largest weight and its volatility in recent years has been reflected in tariff changes (see figure below).



Electricity tariffs in Vanuatu are among the highest in the South Pacific region. The URA is in the process of reviewing the tariff regime based on an analysis of UNELCO's cost of service, with the aim of reflecting the current cost structure more accurately. There is also a desire to encourage renewable generation sources in order to reduce the country's dependence on imported oil. Hydro, wind and biofuels are already well established. As



---

part of the review, therefore, the URA is considering the introduction of feed in tariffs for renewable generators.

### **5.8 The Sarakata Special Reserve Fund**

One of the conditions for the Japanese grant that financed the construction of the Sarakata Hydro Plant was that it should benefit the energy sector across Vanuatu, not just in Santo. In order to achieve this the Sarakata Special Reserve Fund (SSRF) was established. The tariff formula was not changed when the hydro plant started operating. The difference in revenue between the cost of generating electricity using the hydro plant and what it would have cost if the diesel plant had been used is paid into the SSRF. The SSRF can be used for electricity projects throughout Vanuatu, including rural electrification and network extension, as well as to finance repairs and equipment for the Sarakata Hydro plant. Projects are selected by the GoV but can be proposed by the Concessionaire. As at the start of 2010 the SSRF had a positive balance of over VUV100m.

The URA is currently reviewing the performance and structure of the SSRF and is expected to recommend ways of improving its efficiency and effectiveness and to take into account the prospect of another operator taking over the Luganville Concession following completion of the tender process



---

## 6. Structure of the new Concession

---

Some of the key features of the new Concession will be as follows:

- **Exclusivity:** the Concession grants the exclusive right to supply electricity within the Concession Area;
- **Concession Area:** 15km from the Municipal boundary of Luganville. The Concessionaire is encouraged to extend services beyond the Concession Area, providing that this does not impact on services within the Area;
- **Assets:** the Concession also grants exclusive use of the existing assets of the electricity operation which are owned by the GoV. Assets purchased by the Concessionaire may be purchased by the GoV at the end of the Concession, so the operator would not be left with stranded assets. Provision will be made to set aside funds for maintenance and replacement of assets as may be necessary during the Concession period;
- **Term:** the Concession will extend for 20 years, from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2031;
- **Concession Fee:** an annual Concession Fee will be payable by the Concessionaire to the GoV, calculated as a percentage of the gross revenue arising from the generation, transmission, distribution and supply of electricity within the Concession Area;
- **Tariffs:** tariffs will be regulated by the URA in a fair and transparent manner and according to economic principles. The tariff regulation will be available to Bidders in advance of the final date for Bid submission and incorporated in the Concession Agreement;
- **Safety, Quality of Service:** safety and quality of service will be regulated by the URA in a fair and transparent manner in line with international best practices and taking into account the specific conditions in Vanuatu. The regulation, including measures and targets, will be available to Bidders in advance of the final date for Bid submission and incorporated in the Concession Agreement;
- **Staff:** the staff currently working on the Concession are employed by UNELCO. Those staff that are permanently based on Santo will be released from their contracts at the end of the current Concession period and will be available to the new Concessionaire to employ at their discretion. The use of expatriate staff by the Concessionaire will not be limited, within the general requirements of Vanuatu law. However, the GoV wishes to promote localisation and encourages the Concessionaire to employ and train ni-Vanuatu staff at all levels of the operation.



---

## 7. Tender Process

---

### 7.1 Process

A standard two stage competitive tender process will be used.

At the first stage, interested bidders must make a submission addressing each of the qualification criteria (set out in Chapter 7.2 below). Those parties who qualify must sign a Confidentiality Agreement and agree to abide by the Tender Rules. They will then be invited to carry out due diligence. This will include access to detailed information through an Information Memorandum, a virtual Data Room provided on CD ROM, site visits, as well as one or more Bidder Conferences that will include presentations from the GoV and the URA. The GoV recognises that the costs of participating in the Tender are likely to be significant for some Bidders and the process has been structured to address this where possible. In particular, if warranted by demand Bidder Conferences may be held in other locations (likely to be in Australia and/or New Zealand) as well as in Vanuatu.

The draft Concession Agreement will be provided to qualified bidders for comment. Such comments may, at the GoV's discretion, be incorporated in subsequent drafts and further rounds of comments may be invited. Bids will be made on the basis of a final Concession Agreement that will be circulated to qualified Bidders in advance of the bid submission date.

Bid submissions will include:

1. The Financial Proposal, where the Bidder sets out their proposed Concession Fee;
2. A Business Plan. This will include targets proposed by the Bidder for new connections within and outside the Concession Area, and a description of the strategies and projects that will be implemented to achieve them and to improve operations and services in general.

Bid evaluation will be against criteria that will be provided to qualified Bidders. The Bidder that scores highest will be invited to sign the final Concession Agreement.

### 7.2 Qualification for the Tender

The shortlist of bidders will be selected through an evaluation of submissions made by interested firms. Qualification submissions must include the following information, on which the evaluation will be based:

- **Technical Experience:**
  - Experience of operating, maintaining and developing at least 2 integrated electricity systems (generation, transmission, distribution and supply) with at least 2,500 customers each;



- 
- Experience of maintaining and operating at least 2 run of river hydroelectricity power stations with a capacity of at least 1MW each;
  - Experience of maintaining and operating at least 2 oil fired electricity power stations with a capacity of at least 3MW each and which incorporate multiple generation units;
  - **Regional Experience:** Experience in the Pacific region and/or other small island experience would be an advantage;
  - **Financial Strength:** Demonstrate that the company expressing interest (including all members, if it is a consortium) is financially solvent and capable of financing the services envisioned in this tender. Provide copies of audited accounts for the last three consecutive years (management accounts for the most recent year are acceptable if audited accounts are not yet available).

Consortia may participate in the tender, providing that together the Consortium members meet the above qualification requirements. In the case of a Consortium, the qualification submission must provide details of all the members and indicate which is the lead member for the purposes of this tender.

Qualification submissions must include full contact details of the company or consortium's project manager, as well as a statement that the company or consortium (including individual consortium members) do not have any conflict of interest as regards their participation in the tender. Submissions must be in English. Supporting information (such as brochures) may be in other languages providing that an English translation is provided.

The deadline for submissions is 12:00 hours (Vanuatu time) on Monday 12<sup>th</sup> April 2010. They should be received by the MoL and the Transaction Advisor at the following addresses:

**Original:**

Energy Unit  
Ministry of Lands, Energy, Geology and Mines  
PMB 9067  
Rue Winston Churchill  
Port Vila  
Vanuatu  
e-mail: [lmoli@vanuatu.gov.vu](mailto:lmoli@vanuatu.gov.vu)

Attn: Mr. Leo Moli, Principal Energy Officer

**Copy:**

Transaction Advisor  
PMB 9093  
Ground Floor  
VNPF Building  
Port Vila  
Vanuatu

e-mail: [luganville@ipaeconomics.com](mailto:luganville@ipaeconomics.com)

Attn: Mr Richard Kupisz, Lead Advisor



Submissions may be made electronically or as hard copies:

- **If electronically:** one copy (marked “original”) to the Ministry, one copy (marked “copy”) to the Transaction Advisor. Submissions may be made by email or on CD ROM or memory stick. Submissions must be marked: **“Tender for Luganville Electricity Concession – Qualification Submission”** and should include the identity and address of the organisation making the submission.
- **If in hard copy:** one original (marked “original”) and two copies (marked “copy”) to the Ministry, one electronic copy (marked “copy”) by email or on CD ROM or memory stick, to the Transaction Advisor. Hard copy submissions must be in a sealed envelope or box marked: **“Tender for Luganville Electricity Concession – Qualification Submission”**. The outside of the envelope or box should include the identity and address of the organisation making the submission.

The GoV reserves the right to reject submissions that are received later than the above deadline, in which case the rejected submissions will be returned unopened. For the purpose of determining the time of receipt, delivery of the original will be used.

The GoV also reserves the right to carry out due diligence on any company or consortium member making a submission, and to reject any submission without providing an explanation.

### 7.3 Indicative Timetable

An indicative timetable for the key milestones for the Tender is set out below:

Milestone	Date
Submission of Expressions of Interest	12 April 2010
Qualified Bidders notified	End-April 2010
Tender documents issued to Qualified Bidders	May 2010
Bid preparation and due diligence	May-August 2010
Bidder Conference(s) and site visits	May-June 2010
Submission of bids	August 2010
Winning Bidder notified	September 2010
Closing	October 2010
Transition	October-December 2010
New Concession starts	1 January 2011