

MALTA RESOURCES AUTHORITY

Decision on Proposed Electricity Tariffs March 2014

Summary of Review Process and Conclusions



INTRODUCTION

The Malta Resources Authority ('MRA' or the 'Authority') was requested to approve the proposed electricity tariffs ('the proposed tariffs') put forward by the Enemalta Corporation ('Corporation') on the 28th February 2014.

The proposed tariffs have been put forward by the Corporation in the light of new foreign investments.

REVIEW AND APPROVAL PROCESS

As part of its Review and Approval Process, the Malta Resources Authority commissioned consultants (as per attached report) who reviewed and tested the information, assumptions and data used as a basis for the submission by Enemalta Corporation. In this respect, neither the Authority nor its consultants performed an audit of the information provided to them by third parties.

FUNDAMENTAL PRINCIPLES AND OBJECTIVES

The Fundamental Principles and Objectives used as a basis of the current tariff revision may be summarised as follows:

Legality

The processes and methodologies adopted must conform to applicable legislation, regulations and directives, including the Enemalta Act and the Malta Resources Authority Act.

Sustainability and Profitability

The proposed tariffs should enable Enemalta Corporation to achieve an acceptable rate of return on both its current and future capital employed, which would enable it to service its existing debt obligations and sustain an acceptable fixed asset replacement and upgrade policy.

Non-discrimination

The proposed tariffs must not unjustifiably discriminate between comparable groups of consumers and avoid potential cross-subsidization within the different user groups.

Transparency

The entire tariff revision process should be transparent with consumers being provided with sufficient information to enable them to secure an acceptable understanding of how:

- i.) The proposed tariffs were computed by Enemalta Corporation; and
- ii.) The Malta Resources Authority's review and approval process.



FULL COST RECOVERY METHOD

The Methodology

Consistent with the previous tariff revision, the proposed tariff revision has been computed by Enemalta Corporation on the basis of a 'Full Cost Recovery' method for electricity over a period of six years ending 31st December 2019 on the basis of national interest.

The 'Full Cost Recovery' method assumes that the proposed tariffs will enable the Corporation to recover all its acceptable costs and earn a reasonable rate of return on its capital employed necessary to enable it to meet its current and future debt servicing obligations as and when they fall due. The 'Full Cost Recovery' method assumes that total variable retail tariffs should be equal to the sum of:

Energy Costs
Wages
Overheads
Return on Capital Employed ('ROCE')

After making the appropriate deductions and / or add backs in respect of:

Government subventions
Fixed Income Charges
Other Services Revenue

The Review Process


The Authority review process commenced after the submission of the Enemalta Corporation report.

The attached electricity tariff review

- Confirms that the cost model aims to recover the full cost of operations less government subvention over a period of six years ending 31st December 2019.
- Target revenue covers the costs of electricity.

CONCLUSION

On the basis of its review process, the Authority approves the proposed tariffs with effect from 31st March 2014 as put forward by the Enemalta Corporation.


Mr James Camenzuli
Chairman
Malta Resources Authority

24th March 2014