

February 21, 2017

CLIMATE INVESTMENT FUNDS

**[APPROVAL BY MAIL]: VANUATU: RURAL ELECTRIFICATION PROJECT (SREP) (WORLD BANK)-
XSREVVU040A-
RESPONSES FROM THE WORLD BANK**

Q1: How are the retail prices determined?

A1: The vendors will set the retail prices for SHS and micro grids. The retail prices will be disclosed in a product catalogue published by the Department of Energy, the Implementing Agency and benchmarked against retail costs for similar products in Vanuatu, Australia and other countries – refer to the third question below. The products will also need to comply with minimum performance standards (international standards) and include an acceptable level of minimum warranty period. The retail tariffs in the concession areas (for grids and proposed mini grids) are determined by the Vanuatu Utilities Regulatory Authority in accordance with the principles of economic regulation for electricity services.

Q2: Is there a risk that vendors, knowing that a third of the retail price will be subsidised, hike up their prices?

A2: The type of products available and their prices will be published in a product catalogue distributed to project beneficiaries and will include the prices of products from other vendors. Project beneficiaries will be able to compare products and prices for each vendor and select the most suitable products for the price they can afford.

Q3: Other than competition, what mitigates against this happening?

A3: Each Vendor will submit to the Department of Energy (DoE) the products and the wholesale costs of the products they propose to be included in the product catalogue. The DoE will review the wholesale cost for each product and the proposed retail price. Some retail mark-up will be acceptable but any “abnormal” mark-up will be questioned before the products are approved for sale under the project. The Department of Energy will also review the product prices against other markets such as, Australia, New Zealand and other Pacific Islands. Suppliers of such products publish prices on their websites. This approach has been adopted for stage 1 of the rural electrification project.

Q4: Have the proposed prices of Solar Home Systems been tested with potential end users during the consultation process? If so what were the responses?

A4: The SHS and the micro grids component of the project has been designed using evidence (specifications and prices) from similar products in other Pacific Island countries and in Australia and lessons from stage 1 (plug and play systems) of the rural electrification project. The supply of the products will be demand-driven and will provide a range of products of different capability and prices to suit individual end users (i.e. be affordable). The level of subsidy has then been determined based on end-users’ incomes and willingness to pay from consumer surveys (as set out in the PAD). The approach and subsidy levels have been discussed and validated with the retailers who currently supply similar products in Vanuatu. Further consultations will be undertaken during the preparation of the product catalogue and as indicated in the PAD, micro-finance opportunities will be investigated during project implementation to bring higher capacity products within the reach of the end-users.

The Department of Energy will engage a technical consultant to develop technical standards, warranty requirements and the range of products for inclusion in the product catalogue for Vanuatu. The consultant will consult with the energy retailers and project beneficiaries to finalise product qualification requirements and product registration process and prepare an initial product catalogue.