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Energy Reform in Papua New Guinea – reflection on standard practices and way forward

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Why SOEs are Involved in Development Projects

- Early stages of a country's development
 - Private enterprises are not likely to be profitable
 - Unless they operate as monopolies; or
 - Are subsidized by the state
- Where large investments need to be made
 - Investments associated with sunk costs
 - Costs that cannot be diverted to other purposes
- Services to be provided are essential for business and consumers
 - External benefits do not accrue to investor
 - Rational for establishing state enterprises (SOEs)
- As the economy expands, the SOEs get overwhelmed
 - Circumstances invite private investment
 - But policy and regulatory rigidities stand on the way

Success Criteria for SOEs

- Criteria developed by OECD (2015) based on experiences in different countries
 - Singapore, Brazil, India, China, South Africa and the ASEAN countries
- Criteria are
 - State should be backed by competent bureaucracy
 - Bureaucracy empowered to exercise function effectively, reward success, and punish failure
 - Areas where SOEs operate should be free of concentration of commercial, financial and market power
 - There should be some extent of relative equality
 - Development objectives need to be clearly spelt out.
 - Must not be interspersed with social policy objectives unrelated to their stated goals
 - SOEs obliged to contribute to social policy rarely succeed or collapse
 - Usefulness of SOEs changes, and usually diminish, as a country become highly developed
 - SOEs become less efficient than comparable private companies
- Inefficient SOEs with market power breed discontent and clamour for reforms
 - Privatisation, deregulation, liberalization and restructuring become common terminologies

Standard reform paradigms

-key elements



- Separation of commercial, regulatory and policy functions
- Unbundling commercial functions
 - Separate production, distribution and retailing
- Independent and sufficiently resourced regulator
- Independent system operator(s)
- Competitive wholesale spot and contract markets

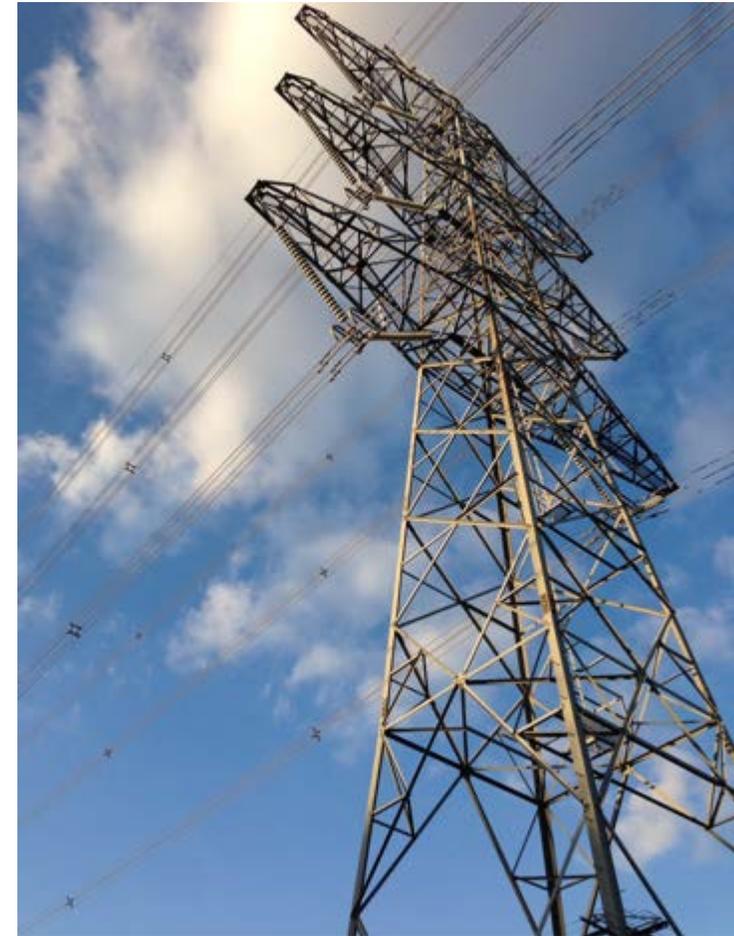
Standard reform paradigms -lessons learned

- No 'cookbook' solutions – starting conditions important
- Case for unbundling is very limited in small markets (economies of scale and coordination and institutional capacity constraints)
- But need to achieve commercial performance standards
- Credible regulation is critical
- Public investment likely to remain prominent
- Clarity of commercial and development objectives/roles



Power reforms & starting conditions

- Reforms related to country income levels and power system size – thresholds 1000 MW and low income cut off
 - Country income (e.g., GDP, GNP, or in per capita terms) level has influence on roles of private and public sector
- Power system size influences market structure
 - Low power system size and separate grids mean limited competition
- Low capacity to pay, weak investment climate
 - Limited institutional capacity mean prominent public role



PNG polices & reform

- Rural electrification and renewables
 - Electrification Partnership signed in Nov 2018 (APEC PNG)
 - New National Energy Policy with greater focus on renewables
 - Solar, hydro, wind
- Institutional reform
 - National Energy Authority
 - restructure within PNG Power Ltd
- Promotion of competition
 - Independent power producers
 - Competition? Not quite. Some IPPs sell to PPL's grid
 - Hence, some IPPs are suppliers, others produce for own use.



PNG Issues



- Overlap in roles and responsibilities with respect to policy and planning
 - Departments vs. SOEs
- Limited accountability mechanisms
- Limited funding and institutional capacity
- Differing positions on the scope for unbundling and competition

Way forward

These came from stakeholder consultations in 2019

- PPL to have overriding development objective, vertically integrated structure and responsibility for coordination of investment in relation to the grids. Improve governance mechanisms to ensure effective performance.
- Pursue the options for competition as set out in the 2011 Electricity Industry Policy – with emphasis on ‘competition for the market’ outside PPL’s exclusive areas.
- The rural electrification objectives will not be met without adequate CSO funding. It is not credible to expect this funding to be sourced from the PNG budget given the high economic cost of raising revenue and diverting expenditure.
- PPPs will also not be taken up by investors concerned about realising a reasonable return without credible payment guarantees. Risk and contract enforcement are major problems.

