



**ASX RELEASE**  
**19 September 2012**  
**Vanuatu project update**

The purpose of this update is to advise shareholders of progress in Vanuatu.

The company had identified several matters, the resolution of which, would give it sufficient commercial comfort to commit funds for the commencement of exploration drilling at Takara. During July and August the company made a concerted effort to finalise these matters before 30 August, the last parliamentary sitting day before the October election. While not all these matters could be finalised before the 30 August deadline, the groundwork has been laid for progress when the next parliament sits.

The key areas of progress towards commencement of exploration drilling are as follows:

1. Formation of the Geothermal Task Force

The Minister for Lands and Energy officially appointed a Task Force to ensure the urgent development of the geothermal project by providing policy and strategic guidance and to coordinate full consultation with land owners, relevant Government Departments, including statutory bodies, and the general public. The Task Force comprises the Director Generals of the Ministries of Lands and Finance, Directors from the Departments of Energy and the Environment and senior representatives from the National Advisory Committee on Climate Change and the Mama Graon Land Project.

2. Changes to the Utilities Regulatory Act

The Task Force has been focused on clearing bottlenecks in the system that threatened to further delay the geothermal project. The Task Force managed to achieve alignment of interest from KUTh, UNELCO, the State Law Office and the Council of Ministers for changes to the Utilities Regulatory Act that were seen as necessary to progress the project. The proposed changes to the Act, which regulates the Utilities Regulatory Authority (URA), include formalising an existing authority recognised by the URA by which the Minister of Energy can approve a base geothermal tariff. A minimum geothermal tariff would give commercial certainty to KUTh and allow the project to get started. Future tariff setting would continue to be subject to regulation by the URA.

The Task Force also obtained agreement from UNELCO that a Power Purchase Agreement will be finalised with KUTh once the key Utilities Regulatory Act changes are passed by parliament.

Procedural matters prevented parliament from voting on the changes on the last sitting day prior to October's general election.

Commenting on the progress, managing director David McDonald said, *"We welcome the efforts of the newly appointed Geothermal Task Force during August with a refreshingly determined and focused approach to remove the roadblocks delaying the start of the geothermal project. We recognise that the URA administration is not happy that changes are being proposed to their Act but some action was required to stop the unnecessary delays to such a beneficial project. This project needs to have an agreed power off-take and an agreed tariff setting before any drilling will take place and that is clearly recognised by the Vanuatu government. As we were unable to progress these items with the URA in a reasonable time-frame, it is not surprising that the government would want to find mechanisms to allow the project to proceed more expeditiously. "*

The attached press release from Joe Ligo, Director General of the Ministry of Lands and Energy, and Chairman of the Geothermal Task Force summarises the issues.

The strong interest at government, consumer, and community level for the start of the project coupled with the recommendations from the World Bank report that stated *'The Takara geothermal power plant is the ... least-cost base load power supply addition for Efate ... compared to diesel, wind and solar photovoltaics. Development of the Takara geothermal resource should be prioritised above development of other generation technologies'* has created a ground swell of support for the project.

David McDonald summed up by saying, *"Yes, we are obviously disappointed that these changes didn't go through the final sitting of Parliament. On the positive side, we have seen considerably greater focus at the key government levels to address the regulatory issues and our resolve remains firm. Our team and the Geothermal Task Force remain motivated and keen to push this forward as soon as the elections are held in October. We know there is bi-partisan support for the geothermal project, so we are confident that the current momentum will drive the project forward when parliament sits again in November."*

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## PRESS STATEMENT

In response to URA Amendment Bill and BJ Skane Daily Post Front Page Article and Letter to the Editor.

The Office of the Director General, Joe Ligo, Ministry of Lands, Energy, Environment, Geology, Mines and Water Resources issues this Press Statement on behalf of the Government, in order to inform the Public of the Governments on-going efforts (implementation of Government's duty both policy, economic, social, and legal) under Vanuatu's Millennium Development Goals (MDG's) commitments, Priorities Action Agenda (PAA), and Planning Long Acting Short (PLAS) National Policy Statements, to make basic water and electricity services, accessible, reliable, affordable, and sustainable to its people, especially the low income earners or the grassroots.

The Government accepts that we, the public and the private sector need and must have an independent regulator to regulate companies like UNELCO, VUI in Santo and any other company that may be allowed in the future to sell Electricity (from any form of power source being oils or renewables) and Water to the Public to make sure of the standards, quality, access, safety, sustainability, and the prices we pay for such services are justified in the economic sense.

There are a number of very important issues that have required the URA's Consideration and Decision on which would importantly affect key stakeholders, such as the Ministry of Lands and Department of Energy, the URA CEO, UNELCO, Kuth Energy Company, the Public and the Private Sector.

These issues have taken an un-necessarily prolonged period of time, and have complicated and made it un-necessarily difficult and practically impossible for the Government to carry out its functions to provide Water and Electricity services to the grassroots.

With over two (2) years of the problem continuing, and the Ministry of Lands, Energy and Water analysing the complexity of the issues involved, and too many un-productive meetings, briefings with the Prime Minister, Minister of Finance, Minister for Energy, the CEO URA and with parties involved, their positions on the various issues involved against the on-going call from the low income earners in the slum area's around Port Vila, for access to water and electricity, the proposed amendments to the URA Act resulting in the Bill that went before Parliament recently was proposed to the Minister for Energy and the Government by a technical taskforce, led by the Lands DG Joe Ligo.

The Bill for the Utilities Regulatory Authority (Amendment) Act No. of 2012 is explained below. It contains largely procedural amendments to the URA Act No.11 of 2007. We list the proposed amendments in numerical order as they are listed the actual Bill itself.

1. After section 12 (1) insert: "The Authority must exercise its functions and powers conferred by this Act or by any other Act in a way that is not detrimental to the Utility business and interests of consumers"
2. End of section 12: "The Authority must perform its functions efficiently and without un-reasonable delay."
3. After subsection 13: "The Authority may require a utility to do those things expressly required by the terms of this Act"
4. Paragraph 13: "The Authority may require a utility to furnish the Authority with specified information or documents or information or documents of a specific kind in the possession or control of the utility relating to a regulated service or to corporate structure, accounts, or finances of the utility within a period specified in writing not less than 14 days".
5. At end of section 15: "A person acting in good faith in compliance to a safety order issued under this section is not liable to any action, claim or demand on account of any damages, loss or injury sustained as a result of that action".
6. At end of section 18: "The maximum price determined under subsection (1) in respect of the supply of electricity by a geothermal electricity producer to a utility must not be less than the geothermal base tariff"
7. At end of section 19: "The Authority may assist to resolve any dispute between two or more utilities, including a dispute between a utility and a geothermal electricity producer"
8. Section 22 Substitute: "It is a defence to an offence under paragraph 21(1)(a) that the contravention was due to an accident and that reasonable precautions were made and due diligence was exercised to prevent such an accident or response to an emergency".
9. Subsection 27 deals with notices of grievances and requires that they must be in writing, and must contain detailed description of any facts or matters supporting the grievance with copies of documents, errors of law or fact and sets out period of 30 days for a utility to serve the Authority.
10. Importantly Schedule 1 part A returns the responsibility to make decisions on use of the water fund for connections to low income earners back to the Government under the Ministry of Lands, with the Fund controlled and managed by the Ministry of Finance under the Public Finance and Economic Management Act.
11. Low income earners (grassroots) Project requests are submitted to the Department of Water and the Ministry of Lands and then submitted to the Ministry of Finance for consideration and funding if qualified under criteria.
12. Similarly, the responsibility in regard to Electricity meters and water meters are returned to the Government. This is an important issue as has raised concern in regard to the length of time taken by the URA (more than 2 years) to make a decision on UNELCO's request to invest in and implement prepaid meters.
13. At this point it is important to note that whatever type of meters are used for water or electricity anywhere in Vanuatu, the URA still regulates the issues of access, tariff, quality, safety and standards set and used by UNELCO or VUI Ltd in Santo or any other Utility within any given tariff period.

All in ALL, as technical and policy advisors to the Government, it is not our intention to advise Government to act or change law or policy in such a way that it interferes with the URA's Functions and Powers to independently regulate (tariffs, standards and safety, quality, access, sustainability) all Electricity and Water producers and suppliers in Vanuatu, whether it is UNELCO in Vila, or VUI Ltd in Santo, or in the future Kuth Energy at Takara.

In regard to issues experienced from the current and on-going lengthy and expensive Court Cases by the URA against UNELCO on provision of information, what the Government wanted to achieve from the proposed amendments, was to make sure that the URA and its Chief Executive Officer, exercised their Powers and Functions transparently, and within reasonable considerations in the circumstances, and not to the detriment or disadvantage of the utilities or consumers (the public and the private sector), especially the grassroots and also on the Government's national and international obligations (United Nations commitments on services to Women, children and those with disability).

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