

**OFFICE OF THE BOARD CHAIRMAN****EXIT FROM PNG POWER**

NO: 01 | 2021

Thursday January 28, 2021

With no formal advice from the Minister for State Enterprises, Hon. William Duma or our shareholder representative, Kumul Consolidated Holdings, I have been made aware from other sources that last week, the National Executive Council revoked my appointment as Chairman of PNG Power and has appointed a new Board Chairman.

I have therefore, decided to stand down from my role as Chairman of PNG Power effective today to make way for the new Chairman to take office once gazettal is sorted.

PNG Power continues to suffer from a lack of capital investment to upgrade its aging infrastructure both in Transmission & Distribution and Power Generation. Expensive Independent Power Producers (IPPs) from imported expensive HFO's and Gas are a major cause for concern as they take up a major part of our operational costs. The ongoing lack of payment from our largest customer and shareholder, the National Government does not make day to day operations easier as this affects our cash flow significantly. The departure of Acting Managing Director, Carolyn Blacklock mid 2019 slowed much of the reform progress.

PNG Power has suffered from poor leadership and an unsustainable business model dependent on high cost, imported fuels and expensive IPPs resulting in a history of government bailouts, tariff increases and debt to prop the company up. Poor financial performance has been exacerbated with a workforce that has had no trust in leadership and thus turned to a militant Union.

Achievements

- The revitalised Board under my leadership and new Management of PNG Power embarked on a radical reform of the company focused on (i) fuel switch from imported, expensive to low cost, domestic sources; refurbishment of existing hydropower and new distributed hydropower (ii) cost management (iii) increased revenues from large industrial customers (iv) reliability improvements to 99% on the Ramu and Port Moresby Grids and (v) performance-based employment culture.
- In late 2018, PNG Power underwent a major restructure and the workforce is now aligned under three large operational businesses – Generation; Transmission & Distribution and Retail supported by three service units People & Transformation; Finance & Shared Services and Strategy & Innovation.
- After 8 months of respectful negotiation, PNG Power and the Energy Workers Association executed the Enterprise Agreement on the 4th of June 2019. The EA is historical as it is the first with only one Union representing workers and is performance based, meaning only those who perform will avail of the full benefits of the EA.

- In November 2018, the Government of Papua New Guinea joined with the Governments of Australia, Japan, New Zealand and the United States of America undertook to work together to connect 70% of households to electricity. PNG Power was nominated as the implementing agency of the PNG Electrification Partnership.
- In early 2019, PNG Power became aware that prior years accounting records were grossly inaccurate. A full rebuild of the core financial records of Profit & Loss, Balance Sheet and reconciliation of the tax position were undertaken and completed.
- In 2018, PNG Power paid out the Syndicated loan facility and while operating cash position continues to be weak due to the unsustainable business model, PNG Power is keeping its commitments and improving reliability.
- Initiated major impact projects.
- No Government bailout, tariff increase or bank loans the normal props to PNG Power were undertaken since 2018. PNG Power is living within its means.
- A prosperous Papua New Guinea is highly dependent on a reliable, safe, accessible and affordable PNG Power. The reform agenda is underway.
- The reform agenda is to change to the business model; restructuring to support the operations of a modern electricity utility; a crowding in of low cost and grant financing of international donors and new partnerships with the private sector will allow PNG Power to substantially lower cost of power supply; increase reliability and safety and improve access to 70% of our people.
- In 2020 – The recruitment of a very capable new Managing Director in Mr. Flagon Bekker who will drive the reform agenda.

Challenges

1. PNG Power requires a regulatory operating environment that supports an accelerated reform agenda that overshadows more than the current, singular focus of financial performance from KCHL.
2. While PNG Power expects a profit uplift over the next 30 months, it can only do so with a balanced approach to the reform agenda and strong political support.
3. Energy poverty for both our people and businesses can be eradicated in the next decade with proper planning driving investments that are included in the Least Cost Development Plan; Transmission Masterplan and 2020 to 2030 PNG Electrification Plan.
4. Political interference in transactions destabilizes PNG Power; distracts Board and Management slowing the reform agenda and generally results in poor value for money and has a high potential to erode efforts to reduce the national price of electricity.
5. Strong support for the PNG Power Reform Agenda and the PNG Electrification Partnership will result in multiplying effect of increased business investment in our country and a sense of optimism that one of the longest running, most difficult problems of turning around PNG Power is underway and should be given priority.
6. Challenges relating to landowner participation need to be managed carefully and in advance of decisions being made at NEC on power stations and alike to avoid disagreements between PNG Power, the landowners and the government.

7. The Domestic Market Obligation represents a significant opportunity for PNG Power to reduce costs of energy supply in the short to medium term, but energy supply must be matched carefully to demand as long-term Power Purchase Agreements (PPAs) even low cost, will bankrupt PNG Power.

Major Projects

POM Grid

1. NiuPower Gas-Fired Power (57.8MW) IPP (KPHL 50%, OSL 50%). Fully Commissioned.
2. Dirio Gas-Fired Power (30MW plus up to 45MW on demand) IPP (MRDC & Landowners). Construction completed, Commissioning in progress.
3. Edevu Hydropower (50MW) IPP (PNG Hydropower consortium). Under construction, first power late early 2022.
4. Rouna 2 and TOD Upgrade in progress. PNG Power owned. Lowest cost power.
5. Naoro Brown PPP (includes 10% local landowner; 20% local superannuation and balance developer/investor). World Bank transaction advice and financing
6. Dedicated Transmission Line between PapaLeaLea and Casio Circle. Construction completed and line currently in use to evacuate power from Niu Power.
7. New KilaKila substation and upgrade to distribution network (ADB funded) completed in 2020
8. POM Grid study and upgrade project – ADB funded – In progress.
9. Kanudi and Moitaka HFO and Diesel power stations decommissioned by December 2019.
10. All of POM power will be gas or hydropower after Dirio is commissioned.

Ramu Grid

1. Refurbishment of Ramu 1, YTOD and Paunda Hydropower (PNG Power owned). Lowest cost but has been rundown over the last decade as PPL turned to high cost IPPs and leased gensets. YTOD (18MW) to be completed by mid-2021. (ADB Funded)
2. Hela Gas Fired Power - Proposal being considered. First power Early 2023.
3. New Transmission line from Hides to Wabia Substation, Tari at a cost of US\$20m inclusive of LV connections to surrounding communities. No funding.
4. New 132kV transmission line and four substations from Keltiga to Wabia funded by China EXIM Bank (State debt) at a cost of US\$180m. To be completed by end of 1st Quarter of 2021.
5. New 132kV transmission line and five substations from Mt Hagen to Yonki funded by China EXIM Bank (State debt) at a cost of US\$260m. Financing to be completed end of 1st Qtr21.
6. PNG Biomass and Solar (41MW) Morobe owned by OSL and Markham Valley Landowners. Subject to finance. First power late 2022.
7. Baime Hydropower (12MW) IPP (100% PNG Forest Products). First power 2022.

8. Munum HFO (32MW) IPP (Posco Daewoo). Negotiated to convert to gas to lower costs of supply.
9. New Substation at Usino and interconnection to RamuNiCo mine (12MW) – no funding
10. New Substation at Malahang and upgrade to Lae network to improve reliability. No funding.
11. Transmission Grid Line Clearing Master contracting arrangement to engage local landowners, CSI and communities to reduce vegetation driven interruptions to electricity supply
12. New protection engineering and capacitor banks in Mt Hagen to improve upper Highlands quality of supply.
13. Tsak Valley/Enga Electrification (NZ\$25m) 5000 new household connections in Tsak Valley and Enga to be completed by late 2021.
14. Various Electrification projects funded by KPHL (PGK55m) but need to restructure to include household connections.
15. Various electrification projects funded by PEP and PNG Power via RE program.

Isolated Grids

1. IFC led initiative to convert all outer islands and isolated grids to hybridised (solar, gas, diesel, other) solutions in time for Papua LNG project DMO (to include much needed trucking terminal to allow transport of Isotainers) or FSRU.
2. Major investment in Gazelle system (US\$100m) over next four years by ADB
3. WNB Provincial Electrification to convert province to green power and 70% electrification by 2025.
4. Various PEP funded projects across all Provinces
5. Warogoi Hydro upgrade (ADB Funded), to be completed by end of 1st Qtr 21
6. New Devuni Hydro Station (ADB Funded)– Completed 2020

Way Forward

1. The Government must make a strong commitment in support of the Reform of PNG Power including the implementation of the Least Cost Development Plan, Transmission Masterplan and PNG Electrification Plan as the drivers to new investments, financing and projects.
2. PNG Power and other SOE's must be allowed to operate independently with minimal political interference.
3. Ensure successful completion of all key projects currently in progress. They will add value to the PNG Power.
4. Consider reconfiguration of KCH Act (2015); newly passed Energy Authority Bill; Infrastructure Protection Act and Electricity Act to strengthen electricity sector framework and governance of PNG Power in support of reform agenda.

I have enjoyed my 34 months as chairman of PNG Power despite the many challenges. Had the pleasure to interact with and work with great people and will be forever grateful for the opportunity to be Chairman of PNG Power. We have proven that when good people put their heads together, treat each other with care and respect and work hard, anything is possible. Progressive change requires strong leadership from the Board and Management but it also requires collaboration and

genuine intent from all employees, our customers, development partners, financiers and suppliers. I am grateful we have established that over the past three years.

Managing Director Flagon Bekker and his Executive Leadership Team will navigate our path forward and ensure the reforms we initiated are realised. I have every confidence in the team to continue to work through these challenges and hope for a better PNG power into the future.

I wish to take this opportunity to thank my fellow Directors, all employees, customers, development partners, contractors, financiers, suppliers and other stakeholders. Thank you for your support and commitment in keeping PNG power afloat over the past three years.

Continue to protect the best interest of PNG Power and be good to each other.

I wish the new Chairman and his Board well.

With greater hopes for the future of PNG Power and our country, I say farewell.

May God bless you all.



Peter Nupiri
Outgoing Chairman
PNG Power