2020 STRATEGIC PLAN

Status:

1. Approved by Connect Board
2. Reviewed by Utilities Regulatory Authority, minor modifications
3. Issued to Elected Members, FS, CS & AG for stakeholder comment
4. Final Issue

Index

Strategic Profile

Connect Saint Helena Ltd is the sole utility provider on the island of St Helena. The business is licensed by the island's Governor in Council and is exclusive. The business has three functional areas supported by finance and administration teams and a projects office as follows: -

- Electricity
- Water
- Sewage
- Projects
- Finance
- Administration

The business was divested from St Helena Government (SHG) in April 2013 as part of their overall divestment program designed to reduce the significant dominance the government had over the business landscape. In doing so Connect received considerable quantities of fully depreciated assets and systems with unsatisfactory reliability. Over the last three years progress has been made in addressing these issues but because of the scale of the inherited issues it is anticipated that the replacement of these assets will continue beyond the life of this strategic plan.

As an organisation derived from a lifetime of government control Connect is transitioning through a cultural mind-set change. Focus has moved from procedure to one of service delivery, where no targets existed they now do and our services and pricing is scrutinised by the Utilities Regulatory Authority (URA). The URA publically reports on quality of service against agreed targets as well as considering and publically reporting on the rationale to support any tariff adjustments.

The URA operates independently from government and has considerable powers including price capping, rights of access to premises and records, the imposition of fines, ability to provide direction and if Connect are in breach of license conditions to request that the Governor in Council revokes the operating license.

2020 Vision

Connect's Vision is to 'Provide quality utility services safely and reliably, becoming financially self-sufficient by 2020'.

Our 2020 vision is a balance of providing acceptable levels of service at a cost the consumer can afford whilst ultimately achieving financial self-sufficiency. In doing so all actions must ensure the medium to long term stability and predictability of the industry. When utilities were divested a 10 year timeline agreed by SHG as a reasonable timescale to become financially independent.

However Connect recognises that subsidy provided to us reduces what is available in other priority areas such as health, safeguarding and education prompting the more rapid target. However we recognise consumers need to be able to afford charges.

Efficiencies made within the business are directed towards accelerating the many backlog issues inherited at the time of divestment but as these diminish efficiencies will be translated into cost reductions.

Strategic Intent for the Company

Whilst our 2020 vision states the overall goal of the business our strategy will articulate how we intend to achieve it.

In order to achieve the vision we have identified what we call 'Strategic Focus Areas'. These are relevant to our business and represent important aspects that we will focus on to deliver increased stakeholder value. Progress will be measured through monitoring against specific targets.

The following shows our strategic focus areas and the strategic intent for each.

STRATEGIC FOCUS AREA	STRATEGIC INTENT
Electricity	To have a safe and reliable electricity supply, generated at minimum cost.
Water	To have clean and clear water to satisfy the island's needs.
Sewage	To convey and dispose of waste water to an agreed environmentally acceptable standard.
Customers	To provide a stable, predictable service to regulated standards.
Finance	Operating in an ethical and professional manner with the aim of ultimately eliminating revenue subsidies from SHG by 2020.
Investment	To reverse the under investment in utilities infrastructure through asset replacement and expansion of the asset base to meet business objectives.

It is important to understand that all effort and resources that the company employs, all performance objectives and investment must support at least one of the strategic objectives.

The business has both development and operational plans. These documents are detailed and ultimately distil down to individual performance objectives and detailed targets for monitoring at a management level. Each plan is designed to support the strategic intent and through the implementation of these plans the aspirational targets will be achieved.

Aspirational Corporate Targets

Strategic Focus Area, Indicator and Metric	2012/13 Base	2016/17 Target	2017/18 Target	2018/19 Target	2019/20 Target
ELECTRICITY					
Renewable energy (%)	9.13%	28.5%	28%	40%	80%
Renewable Energy (MWh)	882	3,200	3,200	5,000	10,500
Fuel efficiency (l/kWh)	0.240	0.173	0.175	0.150	0.050
Interruptions to consumer supplies (No.)	146	105	100	95	90
WATER					
Reservoir storage capacity (000 cubic metres)					
- Redhill	68.8	80.8	98	98	98
- Hutts Gate	39.4	52.9	52.9	68	68
- Levelwood	3.6	23.6	23.6	28	28
Clarity (Monthly Average NTU***)					
- Redhill	4 - 5*	2.5	2	1.5	1
- Hutts Gate	4 - 5*	2.5	2	1.5	1
- Levelwood	4 - 5*	2.5	2	1.5	1
- Jamestown	4 - 5*	2.5	2	1.5	1
Microbiology (counts)					
- Redhill	91%	95.5%	95.5%	95.5%	95.5%
- Hutts Gate	91%	95.5%	95.5%	95.5%	95.5%
- Levelwood	91%	95.5%	95.5%	95.5%	95.5%
- Jamestown	91%	95.5%	95.5%	95.5%	95.5%
Water network failures (No.)	1,582	850	800	750	700
SEWAGE					
Sewage treatment installed HTH	None	None	Yes	Yes	Yes
Sewage treatment installed Jamestown	None	None	Yes	Yes	Yes
Sewage treatment installed Ruperts	None	Yes	Yes	Yes	Yes
Sewage treatment installed Bottomwoods	Ponds	Ponds	Ponds	Yes	Yes
CUSTOMER SERVICE					
Time taken to perform connection Electricity	50 days	18	17	16	15
Time taken to perform connection Water	90 days	15	12	10	8
Response to complaints (Compliance to URA)	88%	100%	100%	100%	100%
FINANCE					
Revenue subsidy	£1.1M	£0.6M	£0.55M	£0.4M	£0
Consumer debt (£000)	£275	£180	£170	£160	£150
Consumer debt (£000) > £100 for 90 days	£160**	£65	£60	£55	£50
Debtors >100 for 90 days	194**	90	88	86	84

* Estimated **April 2014 benchmark ***NTU is an internationally recognised measure of clarity.

Finance Roadmap

The approval of the divestment of utilities by Executive Council stated a ten year timescale for the elimination of the utilities subsidy. In Connect's original business plan more aggressive targets were set. However when Connect advertised their first tariff review proposal there was widespread opposition to it. The outcome was that SHG provided increased subsidy to that proposed in the tariff proposal.

Subsequent discussions with SHG about tariffs have given the 'direction' that they are willing to provide more subsidy than was envisaged in the original Business Plan. This will maintain tariff increases of a more inflationary level which slows the rate of subsidy reduction envisaged when divestment was approved.

There has already been a significant reduction in revenue subsidy and with the replacement of depreciated assets now included within the subsidy (rather than through capital bids as set out in the original business plan).

Financial Year	Total Subsidies
2013/2014	£1,109,514
2014/2015	£ 845,348
2015/2016	£ 777,000
2016/2017	£605,000

It is important to note that the annual depreciation now roughly equates to the revenue subsidy and therefore had the business model remained unchanged we would now be free of the revenue subsidy after just three years.

At the point of divestment Connect received £15.5 Million fully depreciated assets. In simple terms these are assets that are worn out and beyond their useful life. Some of these assets Connect have no plans to replace (either because they are still actually serviceable or now not needed) so this figure drops to £10.6 Million. Attempting to operate a business with the worn out infrastructure is a struggle but it is something that was known at the time divestment was agreed with divestment being the preferred vehicle to rectify this situation. The projected shortfall is expected to progressively decrease to £6.8 Million by 2020.

Without further capital injection or until the business can make a profit Connect will be burdened with the unreliability of inherited fully depreciated assets although as the figures show we envisage replacing £3.8 Million of these assets before 2020.

With failing assets and a backlog of work it is important that efficiencies that are generated in the business are directed towards accelerating progress in these priority areas. Therefore operating costs are not expected to reduce (with the exception of fuel), savings will be directed to a combination of dealing with the asset replacement backlog and subsidy reduction.

However, as agreed with SHG during the tariff / subsidy discussions in 2015 the Connect business needs to be self-sustaining and therefore removing the need for SHG to perpetually fund depreciated asset replacement was a key step in moving towards this goal.

The small customer base is unlikely to support financing of asset development without unreasonable tariff increases, Connect will therefore still need to receive capital funds for the creation of new assets. Climate change mitigation appears to be an area where funding opportunities exist; both renewable energy and water resources development are aligned to this funding that can be potentially channelled to Connect via SHG with the approval of Elected Members.

Grant funding while available clearly gives the fastest return. St Helena is fortunate to be eligible to receive this type of funding which is more attractive than private investment where interest and profit erodes the benefits which would ultimately slow the rate of subsidy reduction.

Section 2.9(b) of our operating license requires Connect to ensure that "its business is conducted on a normal commercial basis". The strategy as we move forward therefore requires us to align charges to costs (to avoid cross subsidisation) and to move towards the situation where any targeted subsidies are made by SHG to the customers directly rather than relying on the untargeted subsidy we currently receive.

The airport Memorandum of Understanding (MOU) required the elimination of <u>untargeted</u> subsidies. Connect therefore proposes above inflationary increases particularly in the massively subsidised water tariff which will release <u>untargeted</u> subsidy. SHG will be in the position where they can then <u>target</u> the subsidy if they so desire.

The key factor in making the business profitable is the significant reduction of the largest cost, diesel fuel. Significant progress has already been made with 600,000 litres of diesel being saved last year. Over the years various studies have been undertaken to establish the most viable renewable offering. In 2014 Connect and SHG jointly commissioned a specialist consultancy to establish how St Helena could enjoy electricity generation purely from renewable sources. There were no surprises in the report since it concurred with previous reports (that were not made available to these consultants) with the recommendation being to focus on solar generation with storage in order to match available supply to demand.

The aspirational targets require a further two phases of renewable investment. The first of which is to fully populate the rifle range site to increase the current 0.5MWp solar farm to 2MWp. This figure is what Connect envisage the site can accommodate and already has outline development permission to install. Incorporated in this phase is the introduction of storage with batteries being one possibility. A site local to the Power Station needs to be identified and acquired to locate the storage medium on; the preferred site is where the current Upper BFI is at the former gaol. Storage technologies are developing fast and costs decreasing which is why this phase is spread across two years with the first year developing the Ladder Hill site and finalising specification and procurement of the storage plant with purchase and installation following in the second year. Upon completion 5GWh per annum of electricity will come from renewable sources.

The key to achieving high renewable energy penetration on St Helena is in providing appropriate storage. In the period leading up to 2020 the specification for and procurement of the final phase of renewable generation will be completed taking into account the advances that are expected to take place in both renewable generation and storage. With an annual total of 10.5GWh of renewable contribution generation costs will dramatically reduce to the point where the business is viable and no further subsidy is required from SHG. Since this level of renewable energy will provide a surplus of income over expenditure funds will be available to partially invest in this phase of renewable energy, which was one of the ultimate goals for divestment. At this point the transition will be made to a profitable business with no further requirement for annual revenue subsidy and any future savings being passed back to the consumer in the form of reduced electricity tariff.

Given the need to focus resource at the legacy infrastructure issues further subsidy reduction and eventual elimination is envisaged as savings from each of the two phases of renewable investment are realised. The revenue subsidy will ultimately be eliminated once the second phase of the proposed renewable investment is complete.

Connect commenced trading in April 2013 with a 10 year mandate to eliminate the untargeted subsidy. Having taken the additional responsibility for the replacement of a significant quantity of fully depreciated assets we still expect to eliminate the subsidy 3 years in advance of what was agreed at the outset.

The structure of the electricity tariff has historically made pre-payment difficult. From April 2016 the tariff structure was simplified with a single band for commercial customers and a dual band for domestic consumers. For customers in default they will be progressively transferred to a pre-payment meter. It is anticipated that the principle of any debt recovery through a pre-payment system would be agreed with the URA in advance of implementation.

The higher band electricity charges broadly cover the cost so major adjustments are not envisaged to this band. The lower band does not cover the cost and hence it is this band that Connect will seek to progressively increase. Historically high users have been targeted for cost increases, however we cannot allow significant cross subsidising within our business which is why in the future the lower users are likely to receive larger increases.

Commercial customers will have their tariffs adjusted to at least cover the cost of providing each of the services. Currently the electricity tariffs broadly equate to the cost so further significant increases are unlikely, water tariffs will however need to increase. In order to target any subsidy more cleverly SHG are encouraged to pay the subsidy directly to the businesses they wish to financially support. Connect wish to make this adjustment at the 2017/18 tariff review if supporting work from SHG's socio-economist supports the rate of change, if not then the adjustment will be phased over a number of reviews.

The cost of providing water is so significantly greater than the tariff income received. Water is an undervalued resource and because it is inexpensive consumers have little incentive to use wisely, capture rain water or recycle. Overall only 10% of tariff income is derived from water despite the majority of the subsidy being used to underpin the low tariffs. Since water is a small proportion of the total utility bill for most consumers significant % increases are planned until such time as costs are recovered.

Work is underway by SHG's socio-economist to support the next tariff review based on these principles. The work will propose a solution which increases water charges significantly but is countered by lower increases in electricity charges and probably zero increase in the top band. The work will also underpin a solution where the increase in household expenditure is reasonable (inflation + %). SHG are encouraged to make direct (targeted) subsidy payments to those less well off in society and to enterprises they wish to provide targeted support to.

Once the operating subsidy has been eliminated Connect aims to have tariff and costs more closely aligned, this will make pricing more transparent and as the level of renewable energy increases savings in electricity tariff can be passed on to consumers.

Corporate Social Responsibility

We are committed to running our business in a responsible manner. We seek to protect and enhance the environment and provide great customer service. We will keep working in the years to come to play a bigger part in the community and to contribute to the economic success of St Helena.

Customers – Aiming to provide great service to our customers.

- We are becoming more accessible.
- We value customer feedback.
- We aim to support customers facing difficulties in paying their bills.

Employees – Happy, healthy and here!

- We want our colleagues to enjoy coming to work by feeling valued and supported.
- We believe no job is so important that it is worth getting hurt for and colleagues need to return home safely at the end of each working day.
- We seek to actively introduce young people to the working environment.

Community – Supporting the community.

- We make small donations to local charitable events.
- We are happy to accommodate colleagues undertaking charitable work.

Environment – Aiming to be clean and green.

- We will maximise renewable energy generation to the financial optimum.
- We are committed to reducing our carbon footprint by designing out waste from our processes.
- We will improve the current sewage disposal processes and reduce sewer flooding incidents.
- We will actively recycle.

Stakeholders – Trading in an ethical fashion.

- We rely on suppliers and contractors and commit to trade with them in an ethical fashion, but we expect to be treated the same in return.
- We recognise that we impact significantly on stakeholders and seek to understand their needs and factor those into our business planning.

Risk Management

The company manages corporate risks by reviewing the risk register on a quarterly basis. After mitigation the current risk profile is as shown below.

Likelihood / Probability						
5						
4						
3			Fuel Price			
2		Unwanted External interference	Weather Staff Retention Capital Program	IT Hardware Legislation	Environmental Mgt. Land Mgt. Pollution	
1		IT S/W	Financial Statements Procurement	Money Laundering	Regulator Insurance CSH Facilities	
	1	2	3	4	5	Impact / Severity

Risk rating	Risk level	Action required
1 to 5	LOW RISK	Monitor and control
6 to 15	MEDIUM RISK	Respond and Mitigate
16 to 25	HIGH RISK	Further mitigate and reassess

Connect now has a system of internal audit. Provision of on island support had proven unsuccessful and Connect has drawn on a well-qualified overseas auditor. The first audit is complete and a contract has been awarded for the 2017 audit.

In terms of an external audit a back to back audit of the first two years trading is complete. There was a single qualification relating to the value of stock transferred due to lack of evidence rather than any wrong doing. The contract negotiated with Moore Stevens (who are a global accountancy and advisory network) has provision for a third year of external audit service and preparation for this audit is underway. Having built up a working relationship with this firm of auditors where there is understanding of the requirements from each, Connect expect to contract in a similar manner for subsequent years.

SWOT Analysis

SWOT analysis is a diagnostic tool for strategic planning which involves the identification and evaluation of Strengths, Weaknesses, Opportunities and Threats. This framework facilitates the assessment of internal capabilities and resources which are under the control of the organisation and of external factors which are not under organisational control. SWOT analysis involves the collection of information, rather than the framing of recommendations, which can only be considered once the facts have been confirmed.

In considering **strengths** we ask ourselves what are our strong points, what do we do better than others, what advantages or unique resources do we have?

INTERNAL STRENGTHS	EXTERNAL STRENGTHS
Structure of accounting system	Informed Regulator
Qualifications of senior team	
Skills of technical team	

In considering **weaknesses** we ask ourselves where the weak links are, what is hindering progress, where are the complaints coming from?

INTERNAL WEAKNESSES	EXTERNAL WEAKNESSES
Limited on island resources	Limited on island legal support
Low unemployment	Complicated supply logistics
Significant depreciated assets	Project implementation challenges

In considering **opportunities** we identify circumstances in which Connect can exploit socio-economic, political and demographic situations.

INTERNAL OPPORTUNITIES	EXTERNAL OPPORTUNITIES
Staff reward / retention / benefits	External funding opportunities
Direct access to market place	Air access
Excellent public relations	
Smart meter reading, prepayment	
Elimination of operating subsidy	

Threats are the opposite of opportunities; things considered are competition, the economy, resource problems, legislation and the overall market place.

INTERNAL THREATS	EXTERNAL THREATS
Loss of key staff	Environmental legislation
Upward pressure on salary costs	Fuel price fluctuation
	Capacity of private sector to deliver as required
	Unwanted third party intervention