Utilities Tariff Review Paper

YEAR 2022/23

1. Executive Summary

This paper sets out Connect Saint Helena Ltd.'s proposal and justification for reviewing tariffs effective 1 October 2022. A 10% increase in water and wastewater was last effected in April 2021 whilst electricity tariffs were last revised in April 2016, more than 6 years ago.

There is no increase in tariffs proposed for water and wastewater services. However, the company proposes to change the electricity tariff structure and replace it with a single unit cost-reflective electricity tariff based on the pre-May cost of electricity of 39p/kWh.

The single cost reflective tariff for electricity:

- is more transparent
- is aligned to the company objective of reducing government subsidies
- removes an untargeted subsidy which will be replaced by a targeted subsidy through SHG's Electricity Credit Scheme. This enables funding support to be targeted to those that need it most.
- is more equitable and eliminates cross-subsidisation
- provides wider economic benefits

The recent increases in fuel prices and changing consumption patterns have also necessitated the need to move to a cost-reflective electricity tariff structure.

The resultant impact on domestic consumers is analysed with consumption between 1-1,000kWh realising a 30% (9p) increase for each kWh consumed, whilst consumption above 1,000kWh will reduce by 7p per kWh for domestic consumers. Commercial and government consumers will realise a 7p saving on each unit consumed.

Under the proposed tariff restructure, all consumers will pay at the actual cost of generating and distributing a unit of electricity. Consumers that currently pay above the actual cost per unit of electricity (i.e. large domestic consumers who consume in excess of 1000 kWh per quarter, commercial consumers, and SHG) will be the biggest beneficiaries of the electricity tariff reform and it is expected that the savings made can be invested elsewhere which will have a multiplier effect on the economy.

Whilst domestic consumers who use less than 1000 kWh per quarter will see increased costs, low-income households will not be disadvantaged through the introduction of an Electricity Credit Scheme that will target support to where it is needed, rather than continue with the current untargeted subsidy through the existing tariff structure.

Connect recommends to the Utility Regulatory Authority that the electricity tariff is re-structured as proposed within this paper and Appendix 1.

2. Introduction

Connect Saint Helena Ltd. (Connect) wishes to adjust electricity tariffs from 1st October 2022. No amendments are proposed to water or wastewater tariffs at this time.

The detailed proposal for revising electricity tariffs is contained within this paper. Connect recommends to the Utilities Regulatory Authority (URA) that the revised tariff structure for electricity is implemented from 1st October 2022 in order to introduce a simpler, fairer and more transparent tariff that will support Connect's efforts to cushion against global inflation and fuel price increases.

3. Background

3.1 Context

This paper is being written at a point where the world has witnessed significant inflationary pressures, key amongst which have been rapidly rising fuel prices following the war in Ukraine. Issues such as longer procurement times and the availability of materials following the COVID-19 pandemic are also contributing to inflationary pressures.

3.2 Impact of the Fuel Price Increases: Electricity

St Helena witnessed an increase of 50.7p/litre in May and a further 27p/litre increase in June: this represents a cumulative 94% increase in the cost of fuel.

As a result, the cost to generate a unit of electricity has increased from 39p/kWh to 55p/kWh. Based on forecast demand, the resulting additional cost of electricity generation (i.e. the increased cost of the fuel required for electricity generation) is £1.31m. Agreement has been reached that this will be funded through the Fuel Risk Sharing Agreement with SHG.

There will also be an impact on the costs of electricity distribution, particularly in relation to transport costs for ongoing maintenance and fault rectification programmes. The additional cost to electricity distribution has not been factored into either the Fuel Risk Sharing Agreement or cost recovery from consumers through a proposed tariff increase. Instead, Connect will manage as far as possible the increased costs of electricity distribution through internal efficiency savings.

As a result, the immediate impacts of the fuel price increases in May and June 2022 have been mitigated and are not factored into the proposed tariff revision. It should be noted, however, that should there be subsequent significant fuel price increases, this will necessitate a further review of electricity tariffs.

4. Impact of the Fuel Price Increases: Water and Wastewater

Whilst the most significant impact of the fuel price increases in May and June 2022 has been on the cost of fuel for electricity generation, there have been impacts on water and wastewater services. These include:

- Increased costs of pumping water. This has been mitigated to some extent by recent rainfall which has reduced requirements to pump water to districts in water deficit but nevertheless, day-to-day pumping requirements are ongoing.
- Increased transport costs to support maintenance and fault rectification programmes.

It is not proposed at this time to recover these additional costs through either the Fuel Risk Sharing Agreement or cost recovery from consumers through a proposed tariff increase. Instead, Connect will manage as far as possible the increased costs through internal efficiency savings.

However, should there be further fuel price increases this may necessitate an accelerated review of water and wastewater tariffs.

5. Water and Wastewater Tariff Reviews

The Water Section currently operates at a significant loss, funded through the subsidy received via SHG (£688k in 2022/23). Historically, the Wastewater Section has made a small profit (just above the breakeven point) but going forward maintaining this position is becoming increasingly difficult due to the increased need for investment to upgrade ageing infrastructure.

As part of its financial planning, Connect had planned to propose a 10% increase in water and wastewater tariffs during 2022/23. However, given the substantial impact of the recent fuel price increases, in order to reduce the burden on consumers, there is no tariff adjustment proposed for water tariffs and standing charges or wastewater charges during the current financial year. Instead, the Company is making every effort to identify efficiency savings to reduce the impact of global inflation on water and wastewater services. As noted above, this may change if there are further significant fuel price increases in the current financial year.

A comprehensive review of water and wastewater tariffs is underway and submission is planned to the URA for revised tariffs to take effect on 1 April 2023.

6. Electricity Tariff Review

6.1 The Current Cost of Electricity Generation and Distribution

Table 1 below shows the current cost of electricity generation.

The table shows that fuel is the major cost of electricity generation. The sharp increase in global fuel prices has resulted in a 41% increase in the cost of electricity from the pre-May cost (from 39p/kWh to 55p/kWh).

It remains the Company's objective to reduce reliance on diesel generation through the integration of additional renewables. This will reduce operating costs and ultimately reduce the cost of electricity tariffs for the customer. Work is underway on an Energy Delivery Plan.

As the fuel price increases in May and June 2022 have been buffered through the Fuel Risk Sharing Agreement with SHG, reference should be made to the pre-May 2022 price (the yellow shaded column) to reflect the cost that needs to be recovered from the consumer through the electricity tariff. Currently, the actual cost is **39p/kWh.**

Table 1: Cost of Electricity (2022 prices)

	Pre-May	**May**	**June**
Variable Cost of Fuel	0.17	0.27	0.33
Variable Generation Costs	0.03	0.03	0.03
Variable Costs of Generation and Distribution	**0.20**	**0.30**	**0.36**
Fixed Generation Cost	0.08	0.08	0.08
Distribution Costs (All Fixed)	0.04	0.04	0.04
Fixed Cost of Generation and Distribution	**0.12**	**0.12**	**0.12**
Total Generation and Distribution Costs before Allocate Overheads	**0.32**	**0.42**	**0.48**
Administration and Other Overheads	0.07	0.07	0.07
Total Cost	**0.39**	**0.49**	**0.55**

7. The Current Electricity Tariff

Electricity tariffs were last revised on 1 April 2016, over six years ago. The current charges are shown in Table 2 below.

The current tariff structure has evolved over time from a three-banded structure for domestic consumption introduced in the late 1990s to a two-banded structure (a lower band for domestic users consuming less than 1000 units per quarter and an upper band for all other consumers.) Whereas the three-banded structure had the lowest band pegged to estimates of energy usage required for subsistence (then based at 400 kWh per quarter) this has become eroded over time so that the upper limit of the lower band is set at 1000kWh per quarter.

Table 2: Tariff structure per kWh

Consumer Group	Tariff (pence/kWh)	No. Consumers
Domestic 1-1,000kWh	30p	2500
Domestic above 1,000kWh	46p	107
Commercial	46p	285
Government	46p	121

8. Key Findings from the Electricity Tariff Review

The key findings from the Tariff Review are as follows:

- The tariff structure is overly complex.
  It is not transparent from the current banded tariff structure how the rate charged is derived from the actual cost per unit, or how the rate charged should be adjusted over time as the cost per unit changes.

- The tariff structure incorporates cross-subsidisation
  Currently, those users that consume less than 1000 kWh per quarter are charged at the subsidised rate of 30p/kWh. The remaining users (domestic consumers consuming in excess of 1000kWh per quarter, commercial consumers, and government consumers) are charged at a higher rate.

  In practice, 17% of users are charged at a higher rate to cross-subsidise 83% of consumers who receive a subsidised rate. This is shown in the table below.

  Table 3: Impact of Cross-Subsidisation

Consumer Group	Tariff (pence/kWh)	Actual Cost/kWh	Impact	No. Consumers	% Total Consumers	
Domestic 1-1,000kWh	30p	39p	-9p/kWh	2500	83%	
Domestic above 1,000kWh	46p	39p	+7p/kWh	107	4%	17%
Commercial	46p	39p	+7p/kWh	285	9%	
Government	46p	39p	+7p/kWh	121	4%	

- The tariff structure incorporates an untargeted subsidy
  The original premise underpinning the banded tariff structure was that the lowest band reflected a basic level of electricity use required for subsistence. This was then linked to support for low-income households. There appears to be a misconception that low electricity usage represents low income. This does not take into account:

- Empty properties
  There are a number of properties that are not fully occupied throughout the year. As the tariff structure does not incorporate a standing charge, there is no incentive to disconnect from the electricity grid when there are no occupants at the property and then reconnect when the property is occupied. This means that a number of properties connected to the grid will have low consumption of electricity but this is not an indicator of concerns around household income or the ability to pay.

- Investment in Energy Saving Goods
  More affluent households are more likely to invest in energy-saving goods (e.g. more energy-efficient white goods, private photovoltaic [PV] systems, etc). Thus the low levels of electricity consumption are not an indicator of concerns around household income or the ability to pay.

- The Challenge of Targeting Support to Low-Income Households
  Whilst Connect acknowledges the need to support low-income households, it is not the role of the Utilities Provider to define a low-income household. It is likely that support is not being targeted where it is required. Consider, for example:

  - Determining the band that low-income households might sit in has been almost arbitrary. Over time, the band has expanded from 400 kWh/quarter to 1000 kWh/quarter. It is acknowledged that the original 400kWh/quarter was based on an international statistic and that countries will have differing demands for electricity depending on energy access as well as climate (e.g. for heating or air conditioning purposes). In St Helena at the current time, the average domestic use is 480kWh/quarter. As this reflects consumption at a subsidised rate, this may be overstated. Connect would posit that 400kWh/quarter is indicative of basic requirements and that a band based on 1000kWh/quarter is overstated.

  - Electricity demand will vary depending on the requirements of each household. It is more likely that low-income households who do not have the ability to invest in energy-saving goods will have higher rates of electricity consumption. Those that cross the threshold into the upper tariff band (i.e. if their electricity consumption exceeds 1000kWh/quarter) will not benefit from a subsidised rate.

  - In 2021, 215 families were in receipt of Income Related Benefits[1]. In 2020/21, 175 employees (NB: individuals but used in this case as a proxy for families/households) were employed at a rate above the minimum

[1] Source: St Helena in Figures, May 2022, Statistics Office of the St Helena Government

wage but below the income tax threshold[2]. In comparison, 2500 households consume less than 1000 kWh/quarter and are therefore in receipt of the subsidised rate.

Connect therefore posits that the subsidy applied to electricity consumers in the lowest band (less than 1000 kWh/quarter) potentially does not reach all low-income households and certainly reaches households that are not classified as low-income. As a form of untargeted subsidy, the current banding arrangement is a very blunt tool.

9. Proposed Electricity Tariff

To ensure cost recovery, Connect proposes to introduce a single unit cost-reflective electricity tariff based on the pre-May cost of electricity of 39p/kWh. The proposal will result in a 30% (9p) increase for each kWh consumed between 1-1,000kWh, however, consumption above 1,000kWh will reduce by 7p per kWh.

The revised tariff is pegged to the actual cost of generating and distributing a unit of electricity. It excludes the increased fuel cost following the May and June 2022 fuel price increases as these have been met under the Fuel Risk Sharing Agreement. The proposed tariff is shown in the table below.

Table 4: Proposed Tariff per kWh

	Current	Proposed	Change per kWh
Domestic 1-1,000kWh	30p	39p	9p Increase
Domestic above 1,000kWh	46p	39p	7p Decrease
Commercial	46p	39p	7p Decrease
Government	46p	39p	7p Decrease

10. Justification for Electricity Tariff Reform

The proposal being put forward is to introduce a single unit cost reflective tariff for all electricity consumers effective 1 October 2022. The reasons for the proposal are:

- **This is a more transparent method:** each consumer pays for the actual cost of electricity provision. By adopting a more transparent approach to electricity tariffs linked to the actual cost per unit, future proposed tariff adjustments can be easily linked to cost drivers. Unlike the current tariff structure, the single unit tariff makes it evident how tariffs are adjusted if there is a sustained change in the cost per unit. For example, a sustained increase in cost would warrant an increase in tariff but equally a sustained decrease in the

[2] Source: SHG Statistical Bulletin No. 2, 2022 (Published March 2022)

actual cost per unit would warrant a decrease in tariffs. This contributes to the URA's objective of ensuring sustainability and predictability in the public utilities industry in the medium and long-term (Section 4(1) (d) of the Utility Services Ordinance).

This method is simple and transparent. This is consistent with the requirement in Connect's Licence to prepare transparent, non-discriminatory and cost-justified tariffs.

Increasing transparency in utility pricing increases opportunities for the Utilities Provider to be held accountable and to generate efficiency savings wherever possible. One of the stated objectives of the URA is to motivate Utility Providers to improve the quality of services they provide (Section 4(1) (c) of the Utility Services Ordinance). The simpler and more transparent tariff contributes towards this.

- **This is more equitable as all units will be billed at the actual cost of production. The cross-subsidisation between the different categories of consumers will be eliminated:** this will benefit those users who currently pay at an increased rate over and above the actual cost per unit of electricity (currently 17% of users cross-subsidise the remaining 83%). This contributes to the stated objective of the URA to ensure users are protected from unreasonable prices (Section 4(1) (a) of the Utility Services Ordinance).

  For those users that are currently paying at the increased rate, the revised tariff structure will enhance the competitiveness of Connect's services. This is relevant for consumers considering alternative approaches, e.g. off-grid systems or investing in private PV systems connected to the grid. This now becomes a market-based decision based on actual costs rather than increased costs to large domestic consumers, commercial consumers and SHG. In a small isolated community with few options for expansion, such decisions have an impact on the sustainability of the Company. As per Connect's Licence, the Company is required to operate on a commercial basis and thus a tariff structure that is more equitable and reflects actual costs is an advantage.

- **This is in line with the Company's goal of reducing government subsidies and with the wider goal of reducing untargeted subsidy:** currently, 83% of users are billed at a subsidised rate (i.e. there is a 7p subsidy (23% of the actual cost) on each unit charged to domestic users who consume less than 1000 units per quarter. This subsidy is funded through cross-subsidisation (see above) but also increasingly from SHG subsidy.

  By introducing the revised tariff structure, all users will pay the same cost-reflective unit rate. This enables Connect to operate on a commercial basis.

  This does not negate the need to support low-income households. However, as discussed above, the current approach is too blunt a tool that does not necessarily reach all low-income households but certainly reaches households that are not classed as low-income.

  In order to introduce a targeted subsidy that can be directed to where it is needed, the

subsidy contribution currently made to the electricity tariff will be withdrawn and the funding redirected to a SHG-led Utility Credit Scheme. Under this Scheme, from 1 October 2022, eligible families with incomes below the minimum wage and who have less than £4,000 in savings may apply to receive a quarterly utilities credit of up to £33.

- **There are wider economic benefits from the move to a single cost reflective tariff:** for example, the implementation of a single cost-reflective will:
    - result in a 15% savings for all commercial and government consumers. Since electricity represents a huge cost driver for most goods and services, the reduction in unit tariffs will result in savings that can in turn, at the discretion of the business/government entity, be applied to reduce the cost of goods/services to the customer or be invested elsewhere. Either has a multiplier effect within the economy.
    - result in all consumers paying the actual cost per unit of electricity. Currently, 83% of users are charged at a subsidised rate. This in turn suppresses the true cost of electricity. This then has a bearing on the calculation of the basket of goods, IRB, minimum wage, etc.
    - benefit smaller and start-up businesses. In feedback received, the impression has been that the commercial sector can afford to pay a higher rate. This may not be true for smaller and start-up businesses where the higher unit tariff may be a constraint on entering the market.

11. Impact on Domestic Consumers

A detailed analysis of the impact of a single cost reflective tariff on domestic consumers was carried out and the results are shown in Table 5:

A detailed analysis of all consumers showed that domestic consumers' bills will increase by between 1p to 9p per kWh depending on usage. A total of 2,465 low users with consumption between 1-1,000 kWh will get an average of 9p increase per kWh whilst 140 users between 1,001-2,400 kWh will get an average increase between 1p-8p on their electricity bills. However, 4 consumers with bills starting from 2,400kWh and above will realise savings of between 1p and 2p. Due to the impact of the proposed tariff on 95% of the domestic consumers, the Company supports the SHG initiative to introduce the electricity credit support scheme. The scheme will remove the current subsidy targeted toward fuel and redirect this to low-income households.

Table 5: Analysis of Impact on domestic consumers

Quarterly Consumption Bands in kWh	Max. Consumption Per Quarter in kWh	Number of Consumers	Average Impact per kWh	Impact Per Quarter	Impact Per Month	Impact Per Week
1-200	200	601	+£0.09	£18.00	£6.00	£1.50
201-400	400	689	+£0.09	£36.00	£12.00	£3.00
401-600	600	580	+£0.09	£54.00	£18.00	£4.50
601-800	800	379	+£0.09	£72.00	£24.00	£6.00
801-1000	1000	216	+£0.09	£90.00	£30.00	£7.50
1001-1200	1200	73	+£0.08	£76.00	£25.33	£6.33
1201-1400	1400	31	+£0.06	£62.00	£20.67	£5.17
1401-1600	1600	20	+£0.04	£48.00	£16.00	£4.00
1601-1800	1800	7	+£0.02	£34.00	£11.33	£2.83
1801-2000	2000	5	+£0.02	£20.00	£6.67	£1.67
2001-2200	2200	2	+£0.01	£6.00	£2.00	£0.50
2201-2400	2400	2	-£0.01	-£8.00	-£2.67	-£0.67
2401-2600	2600	1	-£0.01	-£22.00	-£7.33	-£1.83
2601-2800	2800	0	-£0.02	-£36.00	-£12.00	-£3.00
2801-3000	3000	1	-£0.02	-£50.00	-£16.67	-£4.17

12. Impact on Commercial Consumers

A detailed analysis of the impact of a single cost reflective tariff on commercial consumers was carried out and the results are shown in Table 6:

Table 6: Analysis of Impact on Commercial Consumers

Quarterly Consumption Bands in kWh	Max. Consumption Per Quarter in kWh	Number of Consumers	Impact per kWh	Impact on Quarterly Bill (£)	Impact on Monthly Bill (£)	Impact on Weekly Bill (£)
1-200	200	93	-£0.07	-£14.00	-£4.67	-£1.17
201-400	400	49	-£0.07	-£28.00	-£9.33	-£2.33
401-600	600	45	-£0.07	-£42.00	-£14.00	-£3.50
601-800	800	8	-£0.07	-£56.00	-£18.67	-£4.67
801-1000	1000	14	-£0.07	-£70.00	-£23.33	-£5.83
1001-1200	1200	3	-£0.07	-£84.00	-£28.00	-£7.00
1201-1400	1400	4	-£0.07	-£98.00	-£32.67	-£8.17
1401-1600	1600	3	-£0.07	-£112.00	-£37.33	-£9.33
1601-1800	1800	6	-£0.07	-£126.00	-£42.00	-£10.50
1801-2000	2000	1	-£0.07	-£140.00	-£46.67	-£11.67
2001-2200	2200	8	-£0.07	-£154.00	-£51.33	-£12.83
2201-2400	2400	4	-£0.07	-£168.00	-£56.00	-£14.00
2401-2600	2600	1	-£0.07	-£182.00	-£60.67	-£15.17
2601-2800	2800	4	-£0.07	-£196.00	-£65.33	-£16.33
2801 and above	20000	42	-£0.07	-£1,400.00	-£466.67	-£116.67

Commercial consumers will realise savings of 7p per kWh consumed. As an example, a commercial consumer with 50,000kWh consumption will realise savings of £3,500 per quarter. Electricity being one of the major costs for most commercial consumers the reduction in tariff from 46p to 39p is likely going to have a positive effect on the economy in general.

13. Benchmarking

It is worth looking at other islands to establish how St Helena compares in terms of cost. Electricity prices in St Helena are often said to be very high but in reality, they are favourable compared to other islands which share similar constraints. Island costs will exceed places where fossil fuel generation efficiency is better but of course, nuclear or combined cycle gas

turbines are not viable for remote locations. Aruba benefits from high levels of renewable energy, whilst the cost in the Falkland Islands is subsidised. Table 7 benchmarks the proposed 39p against other Islands:

Table 7: Electricity Tariff Benchmark

	Population	Unit	Standing	500kWh Bill	Comparison to St Helena	
St Helena	4,000	£0.39	£0.00	£195.00		
Montserrat	5,000	£0.44	£0.00	£220.00	£25.00	More
Ascension Island	900	£0.47	£0.00	£236.05	£41.05	More
Alderney Island	1,903	£0.385	£7.25	£199.75	£4.75	More
Sark Island	500	£0.74	£0.00	£370.00	£175.00	More
Falkland Islands	3,000	£0.29	£0.00	£145.00	-£50.00	Less
Aruba	105,000	£0.18	£5.73	£95.73	-£99.27	Less

The Company will continue to seek ways of increasing renewable generation capacity which will further reduce the cost of electricity generation and ultimately reduce electricity tariffs. The Company is therefore giving priority to the development of an Energy Delivery Plan which will map out the next steps in the move towards significantly increasing renewable energy generation on St Helena.

14. The Concept of Fuel Poverty

Within the UK there is a concept of fuel poverty. This is the idea that people spend too much of their income on energy requirements. The approach models the fact that households should not spend more than 10% of their income on energy. The UK threshold is used for an indication in the absence of a local figure.

There are complexities to applying this approach as electricity is only one form of energy use. However, in St Helena 99.9% of households use electricity for lighting, 73.2% of households use electricity as the primary energy source for cooking, and 14.5% of households use electricity as the secondary energy source for cooking (source: 2021 Census, SHG Statistics Office). Based on this, it is not unreasonable to use electricity as a proxy when applying the fuel poverty concept.

This concept will apply to some people in St Helena, in that they will spend more than 10% of their income on energy. However, currently, the average household, with two incomes and using a mid-range of energy would not fall into this category.

The table below shows scenarios based on median income data published by SHG (Source: St

Helena in Figures, May 2022, SHG Statistics Office) and on the tax threshold.

Table 8: Fuel Poverty Scenarios

Scenario 1a: 2 income household @ median income		Scenario 2a: 2 income household @ tax threshold	
Median Income (2020/21 prices)	£8,880	Tax threshold	£7,000
Median income (2022/23 prices)	£8,175	2 income household	£14,000
2 income household	£16,350		
Annual cost if consuming 500 units/quarter	£780	Annual cost if consuming 500 units/quarter	£780
% of household income	5%	% of household income	6%
Scenario 1b: 1 income household @ median income		Scenario 2b: 1 income household @ tax threshold	
Median Income (2020/21 prices)	£8,880	Tax threshold	£7,000
Median income (2022/23 prices)	£8,175		
Annual cost if consuming 500 units/quarter	£780	Annual cost if consuming 500 units/quarter	£780
% of household income	10%	% of household income	11%

This would suggest that the majority of people would not be suffering from fuel poverty on the island.

15. Business Performance

The Connect Board of Directors is concerned about the declining revenues, especially for electricity. The decline in electricity revenue has been mainly due to low economic activity, declining Island population and the uptake of private PV solar systems. As a result for the year ended 31 March 2022, billed electricity units at 8,888,000 kWh were the lowest since divestment in 2013.

Diesel generation continued to be the major source of electricity generation, contributing an average of 80% during the year with the balance coming from renewable sources (wind and solar). Generation from renewables is being affected mainly by ageing wind turbines and supply chain challenges, leading to increased downtimes for wind turbines. The plan to increase renewables suffered a setback as the Power Purchase Agreement signed on 29 May 2020 between Connect Saint Helena Limited and Sustainable Energy 1 Limited, a subsidiary of PASH, was terminated on 15 November 2022.

The Company recognises that the integration of additional renewable energy will: support the Company's environmental objectives, reduce operating costs; allow for a reduced subsidy; present a possibility to plough savings back into the business to address the many legacy issues that exist and, ultimately, reduce the cost of electricity tariff for the customer. The Company, therefore, remains committed to delivering the priorities of the Island's Energy

Strategy but recognises that the market has changed considerably since the initiation of the earlier Renewable Energy Project in 2017. Whilst there are constraints such as longer lead-in times for procurement and inflationary pressures, there are also opportunities such as technological advances. The Company is therefore giving priority to the development of an Energy Delivery Plan which will map out the next steps in the move towards significantly increasing renewable energy generation on St Helena.

Despite the challenges, the majority of the Public Utilities Development Plan targets were met at the time of the last review and year to date we are performing well against tighter targets.

16. Conclusion

Changes in utility pricing on St Helena are always unpopular with the public. However, the recent increases in fuel prices and changing consumption patterns have necessitated the need to move to a cost-reflective electricity tariff structure. Those consumers that currently pay above the actual cost per unit of electricity (i.e. large domestic consumers who consume in excess of 1000 kWh per quarter, commercial consumers, and SHG will be the biggest beneficiaries of the electricity tariff reform and it is expected that the savings made can be invested elsewhere which will have a multiplier effect on the economy.

Whilst domestic consumers who use less than 1000 kWh per quarter will see increased costs, low-income households will not be disadvantaged through the introduction of an Electricity Credit Scheme that will target support to where it is needed, rather than continue with the current untargeted subsidy through the existing tariff structure.

There is also a significant need to increase revenue for Connect, this will both help reduce the subsidy from SHG and allow for greater levels of investment, which in the long term will help efficiencies and a better level of service provision as proposed in the Utility Services Development Plan.

Connect therefore recommends to the Utility Regulatory Authority that the electricity tariff is re-structured as proposed within this paper.

APPENDIX 1: PROPOSED ELECTRICITY AND WATER TARIFFS COMMENCING 1ST October 2022

Connect Saint Helena Ltd is proposing revised tariffs commencing 1st October 2022. Whilst there has been good progress in reducing operating costs we still require a sizeable subsidy from SHG to remain solvent, putting pressure on Connect to revise charges to the consumer. We are proposing to change the current electricity tariff structure to a single cost reflective tariff and maintain water and sewerage charges at current levels. Low-income households who will be negatively impacted by the revised electricity tariff will receive support from SHG through the Electricity Credit Scheme. Electricity charges have remained static for over 6 years, with the last increase in April 2016.

	CURRENT TARIFF	PROPOSED TARIFF	Change
ELECTRICITY TARIFF CHARGES			
Usage Charges			
Domestic Band 1 (first 1,000 units)	£0.30	£0.39	£0.09
Domestic Band 2 (units over 1,000)	£0.46	£0.39	-£0.07
Commercial and 3 Phase	£0.46	£0.39	-£0.07
WATER TARIFF CHARGES			
Quarterly Standing Charges			
Domestic	£12.50	£12.50	Nil
Commercial	£36.41	£36.41	Nil
Agricultural	£12.50	£12.50	Nil
Domestic Use			
Treated Water first 15 cubic metres	£1.69	£1.69	Nil
Treated Water 16 – 24 cubic metres	£2.22	£2.22	Nil
Treated Water above 24 cubic meters	£4.37	£4.37	Nil
Untreated	£1.11	£1.11	Nil
Other Use			
Commercial	£4.37	£4.37	Nil

	CURRENT TARIFF	PROPOSED TARIFF	Change
Agricultural treated	£2.22	£2.22	Nil
Agricultural untreated	£1.11	£1.11	Nil

DRAINAGE TARIFF CHARGES

Domestic Standing	£21.78	£21.78	Nil
Commercial Standing	£34.39	£34.39	Nil

APPENDIX 2: INCOME STATEMENT

	FY 2022-23 Revised Budget	FY 2022-23 Approved Budget	FY 2021-22 Budget	FY 2021-22 Actual
Subsidy	688,000	688,000	353,000	446,510
Fuel Risk Share Estimate	1,350,000	-	-	-
Tariff income	4,599,103	4,623,148	4,853,800	4,308,847
General income	21,060	21,060	28,594	25,501
Service income	129,516	129,516	128,719	228,901
Gain on Disposal	-	-	-	2,500
Total Income	**6,787,679**	**5,461,724**	**5,364,113**	**5,012,259**
Administrative costs	401,028	401,028	381,462	388,292
Employee costs	1,214,637	1,214,637	1,238,284	1,349,700
Premises costs	216,265	216,265	210,409	213,625
Fuel	3,013,386	1,694,981	1,365,518	1,605,079
Maintenance/Running Costs	898,472	898,472	1,005,395	1,174,456
Depreciation	1,124,232	1,124,232	1,106,888	1,099,238
Contracts	112,956	112,956	121,212	105,185
Total Expenditure	**6,980,976**	**5,662,571**	**5,429,168**	**5,935,575**
Loss before amortizations	**(193,297)**	**(200,847)**	**(65,055)**	**(923,316)**
Amortization of capital grants	**348,000**	**348,000**	**345,547**	**348,005**
Net Profit/(loss) before tax	**154,703**	**147,153**	**280,492**	**(575,311)**