

ST HELENA UTILITIES REGULATORY AUTHORITY



DECEMBER 2023

REPORT ON THE MAXIMUM CHARGES OR FEES TO BE
LEVIED BY CONNECT SAINT HELENA LTD

UTILITY SERVICES ORDINANCE 2013

On 1st April 2013 the Utility Services Ordinance 2013 came into force. This Ordinance established the Utilities Regulatory Authority and created a legal framework to facilitate the private sector provision of licensed public utility services.

These services are —

- (a) The generation, distribution and supply of electricity;
- (b) The collection, storage, treatment and distribution of water; and
- (c) The disposal of waste water.

UTILITIES REGULATORY AUTHORITY

The members of the Authority are the Chief Magistrate (as Chair), Mr David deCasseres, Mr Paul Hickling and Mr Bill Scanes. The Judicial Services Manager is the Secretary to the Authority, to whom any communication should be made*. The Authority, and any person acting under its authority, act entirely independently and are not subject to the direction or control of the Governor, the Executive Council, Legislative Council or any other person or authority.

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OBJECTIVE OF AUTHORITY

The objective of the Authority is to regulate the development and provision of public utility services in a manner which—

- (a) Ensures that users of such services are protected from both unreasonable prices and unreasonably low levels of service;
- (b) Ensures (so far as is consistent with paragraphs (d) and (e)) that the prices charged for such services do not create unreasonable hardships for households or unreasonable hindrance to commercial and economic development in St Helena;
- (c) Motivates Utilities Providers to improve the quality of the services they provide;
- (d) Ensures stability and predictability in the public utilities industry in the medium and long terms;
- (e) Supports a progressive reduction in levels of subsidy from public funds; and
- (f) has regard to such other regulatory objectives (if any) as may be prescribed.

DUTIES OF AUTHORITY

It is the duty of the Authority, having regard to its objectives, to carry out its functions and to ensure that Utilities Providers comply with—

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- (a) Ordinances, regulations and directives issued thereunder, regulating public utility services; and
- (b) The conditions of their licence.

POWERS OF THE AUTHORITY

The Authority may, for the purpose of performing its duties, issue Directives to a Utilities Provider in connection with the provision of any public utility service; and, without prejudice to that generality, such Directives may impose requirements concerning;

- (a) The quality or standard of service which the Utilities Provider must deliver to its customers;
- (b) Payments of compensation (or abatement of charges) to compensate customers when the service provided does not meet the standards so set;
- (c) The maximum charges or fees to be levied by a Utilities Provider for providing the public utility service;
- (d) The terms and conditions on which public utility services are to be provided; and
- (e) Such other matters (if any) as may be prescribed.

PENALTIES BY THE AUTHORITY

If the Authority is satisfied that a Utilities Provider has failed to comply with a Directive, or with a condition of its licence, the Authority may order the Utilities Provider to pay a penalty not exceeding the sum of £100,000.

A licence may be revoked by the Governor in Council upon recommendation of the Authority, where the Utilities Provider is in substantial and continuing breach of—

- (a) Any of the provisions of the licence;
- (b) Any Directives issued by the Authority; or
- (c) Any other obligations under the Ordinance.

UTILITIES PROVIDER- CONNECT SAINT HELENA LTD

With effect from 1st April 2013 Connect Saint Helena Ltd (“Connect”) were licenced by the Governor in Council to provide all said public utility services in St Helena. Connect is a private limited company which is wholly owned by the St Helena Government (“SHG”). The Board of Directors consist of a non-executive Chair, further non-executive directors and executive directors.

PURPOSE OF REPORT

The Authority received from Connect a request for permission to adjust the tariffs for electricity, water supplied, drainage, connection and reconnection. The aim of this report is to explain the decision that the Authority has made and to ensure that consumers are informed as to the next steps for tariffs.

THE REPORT

On the 18th August 2023 Connect St Helena (CSH) submitted to the Utilities Regulatory Authority (URA) a tariff proposal. In essence this proposal for electricity involved the introduction of a standing charge of £45 a quarter for all domestic customers and £60 a quarter for commercial customers. Other than that the unit cost for electricity would not change from 30p a unit for domestic (first 1000 units) and 46p a unit for three phase, commercial, domestic over 1000 units and government.

For water, sewerage and other services there was proposed a 10% increase.

There was an alternative option available ('option 2') which involved the same increases for water, sewerage and other services but unit cost increases for electricity from 30p a unit to 35p for the first 1000 units for domestic consumers and an increase from 46p a unit to 53p for commercial users, three phase, over 1000 units domestic users and government

The URA consulted on these proposals and after receipt of feedback elected to reject them for the time being and seek further proposals from CSH. Feedback on the consultation was very helpful and many contributors were concerned at the disproportionate impact of a standing charge for electricity upon those who use smaller amounts and those who are of low income. A significant proportion of those who responded were realistic that price rises were inevitable but were concerned about the perceived inequity of what was suggested. The URA were likewise concerned and sought further proposals from CSH to try and mitigate the impact of a standing charge by, for example, bundling in a number of units into the standing charge.

The URA believes that a standing charge for electricity is something that should be pursued. It has been in place previously and is charged for water. There are a number of costs that go into the generation and distribution of electricity. Many of these costs are fixed and each consumer, whether they use a large amount of electricity or a small amount, benefit in the same way from the network. There is equity in everyone paying a similar amount for the fixed costs. There are also variable costs for the electricity generation much of which relates to fuel.

Before May 2022 the cost of fuel per unit of electricity was 17p, now it is 32p. The fixed costs however remain the same at 12p a unit. Administration and other overheads remain the same at 7p a unit.

The chart below indicates the cost of the production of a unit of electricity pre May 2022 and in April 2023

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	Pre-May 2022	April 2023
Variable Cost of Fuel	0.17	0.32
Variable Generation Costs	0.03	0.04
<i>Variable Costs of Generation and Distribution</i>	0.20	0.36
Fixed Generation Cost	0.08	0.08
Distribution Costs (All Fixed)	0.04	0.04
<i>Fixed Cost of Generation and Distribution</i>	0.12	0.12
Total Generation and Distribution Costs before Allocate Overheads	0.32	0.48
Administration and Other Overheads	0.07	0.07
Total Cost	0.39	0.55

Of importance, on review of the tariff proposals from 2022 the cost of the generation of a unit of electricity has been 55p since June 2022, i.e. for 18 months with no rise in tariffs. The issue now facing CSH is a significant funding gap. Those paying 30p a unit are getting a discount of 25p a unit and businesses are receiving a discount of 12p a unit. This money has to come from somewhere and at present it is coming from Government in the form of subsidy. Before May 2022 the electricity arm of the business more or less broke even or made a small profit, and it was primarily the water side that was subsidised. That position is now radically different and government cannot subsidise CSH to the extent that it is doing. One of the roles of the URA is to support a progressive reduction in the reliance on the subsidy. The subsidy for year end 2023 was £1,829,720. In total CSH received from subsidy, tariffs and other income £6,370,760 set against expenditure of £6,945,747. This provides a funding gap for year end 2023 of £574,987. By August 2023 the funding gap stood at £590,000.

By comparison the subsidy for year end 2022 was £447,000 and for 2021 it was £385,000. The deficit for water was £379,000 in 2022 and £344,000 in 2021. This gives an indication where the majority of the subsidy went, that position has now changed in that the subsidy is aimed primarily at electricity however the deficit for water still remains.

It is with this background of insufficient income set against increased costs that the URA has to consider the tariff proposals. At the request of the URA a second tariff paper was received from CSH which looked at a number of scenarios that involved the bundling of some units within the standing charge. None of these raised sufficient income to come close to closing the funding gap. It is clear that further work needs to be carried out to ensure an equitable solution to tariffs that include a standing charge that does not impact unfairly on those who consume fewer units or those on lower incomes. In the meantime the financial situation for CSH is not such that the URA can put off a decision any longer.

To this end an increase of 35p a unit for domestic users up to 1000 units and 53p a unit for commercial users, government, domestic above 1000 units and three phase goes some way to closing the funding gap and is the most equitable option available to the URA at present. The URA does not see this as a satisfactory formula for electricity going forward and wishes to have in place a mechanism for tariffs that reacts to the market forces in play for diesel costs and reflects as far as possible the fixed costs involved in generating electricity.

For water the cost of water to the consumer is 43% of the cost of collection, treating and distribution. The true cost is £7.78 a unit. There is in place a programme for reduction in water loss

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which can allow for some costs to be reduced, but that can never be to the levels that CSH is currently receiving in revenue for water. An increase of 10% is necessary in the circumstances, as is putting in place a tariff escalator over time which will bring water tariffs to a level that are reasonable in comparison to the cost of production. CSH have been asked to work on such a formula.

The increases the URA will authorise today have the impact of raising an additional £425,000 a year which is still some way short of the £590,000 needed. This means that there is more work to be done on tariffs to give consumers certainty as to how external forces will impact on costs and to ensure that CSH is on a stable financial footing so that it can plan for the future in the knowledge that incomes will be at a certain level. In the meantime, to reduce the funding gap in the least draconian and fairest way available to the URA at present, 'option 2' in the original tariff paper will be allowed for a period of 6 months only. That will allow for a discussion with CSH on tariffs and a consultation period to ensure that a fair formula is in place for all consumers and that the vulnerable members of society are protected.

THE DIRECTIVE

Pursuant to section 5(1)(c) of the Utility Services Ordinance, 2013 the Utilities Regulatory Authority hereby directs that the maximum charges or fees that may be levied by a Utilities Provider for providing public utility services for the period 1st January 2024 to 30th June 2024 are as set out in the table below

ELECTRICITY TARIFF CHARGE

<u>Usage Charges</u>	
Domestic Band 1 (first 1,000units)	£0.35
Domestic Band 2 (units over 1,000)	£0.53
Commercial and 3 Phase	£0.53

WATER TARIFF CHARGES

<u>Quarterly Standing Charges</u>	
Domestic	£13.75
Commercial	£40.05
Agricultural	£13.75
<u>Domestic Use</u>	
Treated Water first 15 cubic metres	£1.86
Treated Water 16 – 25 cubic metres	£2.44
Treated Water above 25 cubic meters	£4.81
Untreated	£1.22
<u>Other Use</u>	
Commercial	£4.81
Agricultural treated	£2.44
Agricultural untreated	£1.22

QUARTERLY DRAINAGE CHARGES

Domestic Standing	£23.96
Commercial Standing	£37.83

ELECTRICITY OTHER CHARGES PER VISIT

Disconnection	£44.75
Reconnection	£44.75

WATER OTHER CHARGES PER VISIT

Connection	£38.78
Disconnection	£38.78
Reconnection	£38.78

SEWERAGE OTHER CHARGES PER VISIT

Connection	£44.24
Disconnection	£44.24
Reconnection	£44.24
Emptying of septic tank-Domestic	£89.82
Emptying of septic tank-Commercial	£144.28
Unblocking private sewer line-Domestic	£89.82
Unblocking private sewer line-Commercial	£144.28

Duncan Cooke
Chairman, Utilities Regulatory Authority

11th December 2023