



ST HELENA UTILITIES REGULATORY AUTHORITY

DIRECTION UNDER SECTION 5(1) (C) OF THE UTILITY SERVICES ORDINANCE 2013

17th March 2014

1.0 Membership and Independence of the Authority

The members of the Authority are the Chief Magistrate (as Chairman), Mr Paul Hickling and Mr Stedson Francis. The Authority, and any person acting under the Authority's authority, acts independently and is not subject to the direction or control of the Governor, the Executive Council, Legislative Council or any other person or authority¹.

2.0 Objectives of the Authority

2.1 The statutory objectives of the Authority are to regulate the development and provision of electricity, water and drainage public utility services in a manner which ensures stability and predictability in the public utilities industry in the medium and long term and supports a progressive reduction in level of subsidy from public funds.

2.2 So far as is consistent with such an objective, the Authority is, within the limits of its powers, to ensure that the prices charged for such services do not create unreasonable hardship for households or unreasonable hindrance to commercial and economic development in St Helena. The Authority is, again within the limits of its powers, to ensure that users of such services are protected from both unreasonable prices and unreasonably low levels of service. The Authority will further motivate Utilities Providers to improve the quality of the services they provide².

3.0 Powers of Authority

The Authority may issue Directives to a Utilities Provider in connection with the provision of any public utility service and, without prejudice to the 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 and (d) the terms and conditions on which public utility services are to be provided³.

4.0 Proposed Electricity and Water Tariffs commencing 1st April 2014

On 17th February 2014 the Authority received from Connect Saint Helena Ltd ("Connect") intimation of proposed electricity, water and drainage tariffs to commence on 1st April 2014. Such tariffs are as set out in Schedule 1. The Authority directed that Connect give notice of such proposals in both local newspapers requiring any public comments to be forwarded to the Authority by 7th March 2014. The Authority received comments from 1728 persons or bodies the content of which were considered by the Authority as undernoted. The Authority is particularly grateful to the public for such a significant response.

5.0 Utilities Provider Budget 2014/15

5.1 The Authority has scrutinised projected income and expenditure projections for Connect for the years 2013/14 and 2014/15. The Authority has extracted from these, the figures set out in Schedule 2.

5.2 For 2014/15 Connect project that they will be able to restrict expenditure (excluding fuel and depreciation) to £2,661,384. This compares favourably with similar expenditure for 2013/14 of £2,673,498. Such expenditure is principally known and likely costs and the Authority is satisfied that this reduction in expenditure for the year 2014/15 is a reasonable projection. While it is not the function of the Authority to micromanage Connect, the Authority has considered such expenditure and is satisfied that there are no immediate savings available such as to realistically have any significant impact on such expenditure. Connect further project that fuel cost will inflate, despite recent price reductions, from £1,896,466 to £2,135,471 namely an increase of £239,005. The Authority is satisfied that such is a reasonable projection on the basis that this is what has been forecast by the SHG economist. For the avoidance of doubt, this figure takes account of the £150,000 (referred to in the representations received from Legislative Council) in respect of savings from renewables, new generators and reduced transport costs as a result of the new Bulk Fuel Installation. The projected income and expenditure also takes account of the production of electricity from wind turbines. It is calculated that the operation of such wind turbines currently allows Connect to reduce tariffs by an average of £100 for each property. On the foregoing basis Connect will require an income for the year 2014/15 of £4,796,855 to break even.

5.3 Connect project, on the basis that the proposed tariffs from 1st April 2014 are permitted by the Authority, that they will receive an income of £3,948,680 in the year 2014/15. This is an increase of £458,060 from the year 2013/14. This increase in income is projected to arise from £158,000 in increased consumer consumption and £300,000 from the proposed tariff increases.

5.4 Accepting, the somewhat optimistic figures relative to increased consumption, such projected income would leave an operating loss of £848,175, excluding depreciation, and without SHG subsidy. The anticipated subsidy (as presently detailed in the draft budget of SHG) is stated to be £847,902. This is a reduction of £231,976 from the previous financial year. On the basis that this is the entire subsidy from SHG, then Connect would therefore have a projected loss of £273. Standing such a relatively small loss, Connect would effectively to break even, should the proposed tariffs be permitted by the Authority. In reality, applying standard accounting practices, and after providing for depreciation of assets of £900,066, the total loss of Connect is predicted to be £900,339, again, should the proposed tariffs be permitted by the Authority. Many contributors, without having the information which this directive provides, were clearly of the opinion that the proposed tariff increases were such as to increase profits for Connect. It will now be clear that this is not the case. Many contributors also queried as to why Connect “had been allowed to run up such a deficit”. For many years, prior to the creation of Connect, SHG have increasingly subsidised utility costs and charged tariffs well below the actual cost of such utility services. This position has now been inherited by Connect. Such was a proper exercise of political discretion which then then SHG chose to do at that time.

5.5 Connect calculate that upon divestment savings of £400,000, from costs previously incurred when under the direct control of SHG, has been achieved. Connect has a relatively small number of administrative staff having streamlined the same on divestment. Connect indicate that, since 2006, £450,000 in savings on fuel have been made from that which would otherwise have been required to be expended by Connect.

5.6 Comment was made by one contributor that the previous Governor Mr Gurr had identified a Utilities Provider who could provide the then utility services at half the then price. Mr Gurr and the CEO of Connect, on being contacted, have no recollection or knowledge of this respectively. The Authority has presently been provided with no substantive documentation to support this.

5.7 Comment was made questioning whether the “old defunct diesel engines” were refurbished and sold for more than the new “engine” had cost SHG. The Authority understands that the previous generator infrastructure was removed and disposed of as part of the overall contract. It is improbable that a refurbished 30 year old engine would have been sold for more than the cost of the new engines. In any event it is for the Authority to give consideration to issues involving the present and future generation of electricity as opposed to what may have taken place previously.

5.8 Comment was made that as SHG import and pay for fuel, which is then distributed by Solomon & Co (St Helena) plc at a “30-33%” mark up, and then obtained by Connect, that the consumer was being “taxed over and over again”. The Authority can however advise that the SHG refund such duty to Connect (and previously to the Energy Division) and there is therefore no charge to the consumer in this respect. As Connect are supplied by pipeline they are not subject to a charge for transportation of fuel. This is consistent with the method previously employed prior to divestment.

5.9 Legislative Council queried as to whether any efficiency savings had been identified, with particular emphasis on “system losses”. Connect advise that in the electricity system losses of at or about 10% are governed by the laws of physics and unavoidable. As regards water losses, a new billing system and additional meters from that operating prior to divestment are being deployed to analyse and address water losses. Connect hope then to ascertain if improvements can be achieved in this respect after being able to identify areas of loss.

5.10 Legislative Council query as to whether any controls were in place at the time of divestment regarding costs The Authority has and will continue to analyse Connect accounts to endeavour to determine if costs are being reasonably incurred. In particular Legislative Council refers to an Administrator role being advertised at £15-£30,000. This role is in fact the Finance Manager position. Efficient financial management is essential in a multimillion pound business. Connect had difficulties in attracting an ACCA or CAT qualified accountant in this respect. It is, in the Authorities view, entirely appropriate to require such a qualified person to manage such matters in a company with such a significant turnover. The wide salary range was to ensure that the same would be attractive to either an ACCA or a CAT qualified accountant.

5.11 A CAT qualified accountant was employed at the lower end of such salary scale. Such a salary is entirely justified in the market place for such a qualified individual, as would a substantially greater salary be justified for an ACCA qualified accountant.

5.12 Comment was also received as to the perceived high cost of senior staff. Senior staff are paid from a ring-fenced DFID Technical Cooperation Officer grant. The salaries paid to senior staff are, in any event, in accordance with market rates for personnel with such expertise as approved and assessed by DFID.

5.13 Legislative Council query whether the current meter reading contract at £35,000 is justified on the basis that it was understood that previously meter readings were carried out by existing staff at an extra cost in overtime of £7,000. The meter reading contract was subject to a “Value For Money Audit” and the same was approved as such. The practice of using personnel to carry out overtime was such that the same was not, perhaps naturally, given sufficient priority. The efficient collection of meter readings is an essential business practice and a priority for Connect. Such is required for Connect to remain solvent and for the consumer to budget and remain advised of their utility costs timeously. One contributor believed that meter readings were input into a database by Connect staff. Meter readings are however received electronically from the contractor.

5.14 One contributor queried as to whether water and emergency call outs could be more cost effectively handled by existing employees being paid an allowance or overtime. Connect had considered such and are of the opinion that such contracting out provides for a better service and value for money. As part of an ongoing process Connect will continue to review the value for money of existing contracts and report to the Authority on this.

5.15 One contributor questioned the requirement for Connect to have so many vehicles. The same contributor questioned as to whether employees taking vehicles home were receiving a benefit in kind. Vehicles are taken home by personnel who may be on call. Such employees make payment to Connect for any costs attributable to their returning home. The Authority found no evidence to suggest that such vehicles were not required and being used inappropriately.

5.16 Connect inherited debtors in the amount of £275,000 on divestment. Debtors are presently £120,000. The recovery of such £155,000 has been achieved without any disconnections.

5.17 One contributor suggested that as Connect was a divested company it therefore “should be expected to make its own way in the world”. Having expressed “dismay” at the proposed tariffs the contributor queried as to why SHG capital funds should be made available for infrastructure work. If however SHG do not subsidise such works then tariffs would require to increase dramatically to allow Connect to remain solvent.

6.0 Unreasonable hardship for households

6.1 Comment was made that the proposed tariffs would “hurt the most vulnerable and those on low wages”. Comment was further made that SHG, as the major employer on island had not increased wages for a number of years, causing financial strain on those in employment. Legislative Council

expressed concern that many people on relatively low incomes, but outwith the Minimum Income Standard would be adversely affected by the proposed tariff increases.

6.2 Comment was received that residents in St Helena were “collecting rainwater for drinking” such was the cost of the same. The Authority however notes that one litre of domestic water is provided by Connect at a cost of approximately 0.1p.

6.3 Comment was expressed to the Authority that “such a significant increase will inevitably generate a requirement for some cost recovery” by commercial entities “through sale of products and services, with the resulting additional impact on price increases in basic products for consumers”.

6.4 The Authority received specific comments expressing concern as to potential unblocking charges being made against individual consumers (with low incomes) where such were part of a sewer line shared between multiple consumers. Connect has indicated to the Authority that it will proceed on the basis that such communal sewer lines are included in the mains system. As such Connect will not charge for any unblocking of such a sewer line but will only make a charge for the unblocking of such part as is a private sewer line to that consumer alone (whether connected to a septic tank or connected to the public system).

6.5 Comment was made as to the meaning of unoccupied in the tariffs. Connect have advised the Authority that a property will be considered as unoccupied if not occupied for 60 days in a quarter, as defined in Electricity and Water Ordinances.

6.6 A study of the social impact of the proposed increases in tariffs indicates that a household using the entire Band 1 consumption at present would make payment of £7.37 per week for such utility charges. Under the proposed tariffs such a figure would increase to £8.00 per week namely an increase of £0.63 per week. The proposed tariffs have been designed to favour low end users with lower percentage rises in standing charges which can be a significant proportion of a consumer’s total bill. One contributor opined that a free allowance for water should be reintroduced. Such would however require an increase in the tariffs in respect of usage by others over such a rate. Any such a decision would, in the Authority’s view, be a matter for SHG. SHG chose to target those in need by the Minimum Income Standard, Basic Island Pension and Income Related Benefit. These include provision for payments which will require to be made for utility charges at the prevailing rate. Connect calculate that they provide a subsidised service to the extent of an average £300 per household.

6.7 Several contributors expressed concern after having calculated the effect of the proposed increase on quarterly utilities bills. It is clear that in many instances such have been miscalculated by for example mistaking quarterly figures for monthly figures. As a very broad calculation, tariffs would increase by 10% from the existing cost. Concerned consumers should accordingly recalculate the effect of such an increase on them to correct these misapprehensions. For average low users (many of whom are the most vulnerable in society) the proposed increase would cost an extra £0.50 per week being an increase of 8.5%. For low to medium users (the typical St Helena household) the proposed increase would cost an extra £0.92 per week being an increase of 9.0%.

6.8 Connect have undertaken to maintain a substantial “Social Fund” to assist those in need due to genuine financial distress. Connect have undertaken to liaise with Social Services and where appropriate “Making Ends Meet Ltd”, before disconnecting any consumer. This should ensure that any consumer, who is in the category of being unable to make payment, rather than refusing to do so, will be given support and assistance. Connect have further undertaken to make a contribution to the organisation “Making Ends Meet Ltd” to support their works in providing assistance to those in genuine financial need.

6.9 The Authority is advised that SHG have budgeted for an increase in payments to those in receipt of said benefits such as to match the proposed increase in tariffs. The Authority would urge that such an increase is implemented in early course to facilitate the payments to be demanded of such persons in respect of the use of utilities.

7.0 Unreasonable hindrance to commercial and economic development

7.1 Comment was expressed that increases in tariffs would put enterprises “out of business before the tourists arrive”. The Authority received comment advising that SHG had stated in consultation (dating from 2002) that subsidies would only be reduced on completion of the airport. This was on the basis that the airport would bring greater financial prosperity to the island. In essence contributors (including Legislative Council) were expressing the view that the reduction or elimination of untargeted subsidies should take place at a later time.

7.2 Contributors have questioned as to why higher users should require to make payment of a higher tariff, rather than a reduced tariff. The Authority recognises the impact of higher utility charges on commercial enterprises. However, any redistribution of the tariff structure such that higher users make payment of lower tariffs would have, in the Authority’s view, an unacceptable effect on the low users who tend to be the most financially vulnerable in society.

7.3 One contributor expressed concern that the proposed increase in tariffs had not been budgeted by them in fixing accommodation rates for the coming year. It is for a business to make enquiries as to such and plan accordingly. Tariff rates have risen by similar amounts in the past two years and the potential for such is a factor which businesses should be reasonably expected to consider in fixing any such rates.

7.4 For average high level users (businesses) the proposed increase would cost an extra £4.26 per week or 10.4%.

8.0 Unreasonable prices

8.1 Comment was received that the said tariff increases were unreasonable standing the reported inflation rate being 1.5%. Had it not been for the predicted reduction in SHG subsidy an increase in tariff of approximately 2% would be required to allow Connect to break even.

8.2 Comment was made that electricity rates on island are considered to be amongst the highest in the world. Connect accept that the cost of generating electricity on St Helena is more expensive than

the United Kingdom but they state that this is for good reason. Diesel generation is simpler and thus used in remote and developing areas. Such generation is inefficient compared with coal, nuclear or gas generators which are not practical due to the remoteness of St Helena.

8.3 Fuel transport cost is hugely expensive with 4 ships per annum at present. This cost should reduce significantly when the Bulk Fuel Installation becomes fully operational in time. Connect also does not have economies of scale as may be available in larger populations. The average UK household fuel bill stands at £25.29 per week or approximately 5% of an average salary. In St Helena under the proposed tariffs an average household using 500kWh of electricity per quarter would pay £11.08 per week or approximately 8% of an average salary. On 2014 prices costs per KWh for such an average consumer in Saint Helena are £0.29. Such costs for electricity production from diesel generators in Ascension Island are £0.44 and in Montserrat £0.32. Water on Ascension Island costs £23.70 per m³. The proposed charge in St Helena of £0.95 per m³ is 4% of the Ascension Island consumption charge.

8.4 Comment was received that the reconnection charges proposed were excessive at up to 1000%. It is projected that this proposal will raise approximately £800 from consumers voluntarily disconnecting e.g. contracting temporary supplies. Connect submit that the proposed tariff reasonably reflects the cost of such an operation. Such costs involve the use of one person for on average two hours, administration costs and the use of a landrover vehicle. Disconnection, reconnection, unblocking and emptying charges are said to reflect the true cost of providing such services.

8.5 Having carried out an analysis of the actual cost of such disconnections the Authority is of the opinion that a reasonable charge for such is the sum of £35.00 and £30.00 for electricity and water respectively as opposed to the proposed £55.00 and £50.00. Such a reduction of £20.00 is also for similar reasoning applicable to the associated disconnection charges other than the recurring charge for the period over 12 months. This is on the basis that such latter charge is an additional charge based on contributing to the maintenance of infrastructure costs and does not include the actual costs of disconnection. Such is charged for under the previous provisions.

8.6 Particular comment was received that the annual recurring charges due on reconnection were unreasonable where a new proprietor had purchased the property. Connect has indicated to the Authority that it will proceed on the basis that where a property is purchased at arm's length or transfers as part of the administration of a personal estate, then the same will be treated as a new connection. The Authority however considers that the basic principal that, on reconnection, a proprietor of property which remains vacant should contribute to past infrastructure costs during disconnection is unobjectionable. This is on the basis that such infrastructure improvements benefit that property when reconnection is made. The reconnection charges are calculated on the basis of the actual cost to a consumer had they remained connected and had the consumer paid the standing charges applicable and thus contributed to the maintenance of the mains infrastructure.

8.7 The Authority considers that the annual additional charge of £100.00 for lengthy disconnections should be reasonably restricted to a period of 5 years. This is on the basis that a consumer who

requests reconnection is unlikely to gain substantial benefit from ongoing infrastructure costs extending further back from that period.

8.8 Comment was received that a 10% “service levy” was introduced on insurance, telephone, internet services, water, electricity and sewerage by SHG. There is however no service levies payable to SHG in respect of water, electricity and sewerage.

8.9 Legislative Council query the fairness of a fixed charge for the emptying of a septic tank regardless of the distance required to travel. The Authority is of the view that to apply differing charges for different locations would (i) impact on those who are resident in the more distant parts of St Helena, (ii) would result in greater administrative cost (including in the issuing of bills and quotations) and (iii) leave uncertainty for the consumer as regards potential costs. The adoption of such standard charges is an efficient, reasonable and common business practice. Having carried out an analysis of the actual cost of emptying septic tanks and unblocking private sewer lines the Authority is of the opinion that for domestic consumers, where the task is on average less arduous, a reasonable charge is the sum of £60.00 as opposed to the proposed £100.00 for commercial customers which the Authority does not consider to be an unreasonable assessment of the true average cost of the same.

8.10 It may also assist to note that the actual increase in electricity tariffs will be; Band 1 (first 400 units) from 21.2 pence per unit to 23 pence per unit an increase of 1.8 pence per unit; Band 2 (units 401 -1000) from 36.3 pence per unit to 40 pence per unit an increase of 3.7 pence per unit; Band 3 (units in excess of 1000) increased from 39.6 pence per unit to 44 pence per unit an increase of 4.4 pence per unit.

8.11 The Authority is assured by Connect that the Authority’s proposed maximum charges for the reconnection, domestic septic tank and domestic unblocking charges would result in a loss of projected revenue to Connect, in such a relatively small amount, such that this direction will not have the effect that Connect will be unable to meet their financial liabilities.

9.0 Unreasonably low levels of service

9.1 Legislative Council question as to whether on the divestment of utilities any provision was made for quality of service. The Governor in Council granted a licence to Connect to provide public utility services in St Helena upon specific terms and conditions from the 1st April 2013⁴. The Authority was consulted in connection with the terms of such licence (see also paragraph 9.8).

9.2 One contributor complained about the poor quality of water in many areas and suggests that untreated water should be available to “locals” and tourists “warned” that they should use bottled water as happens in many parts of the world. Household water treatment and safe storage interventions can lead to dramatic improvements in drinking water quality and reductions in disease according to the World Health Organisation. The Authority is of the view that Connect should continue to strive towards providing treated water of the highest possible quality.

9.3 The same contributor suggested that rebates should be given to customers if there are lengthy or frequent electricity outages. Such penalties may be considered by the Authority should Connect

become a profit making entity and thus incentivise the provision of a better service, if possible. The imposition of such a scheme at present would require such penalties to be collected from increased tariffs in a subsidised company such as Connect and is thus counterproductive. The same contributor did however express on behalf of farmers that untreated water should be available for irrigation. Connect has engaged with The Farmers Association to understand the agricultural needs for the future. In conjunction with ANRD, the Farmers Association have agreed to distil out from the National Agricultural Plan their future agricultural water requirements.

9.4 Funding sources for such works are limited to coming from the consumer or through the Infrastructure Program. Any funding through the Infrastructure Program will require a business case to be prepared which will then be subject to prioritisation with the final decision to support (or otherwise) coming from SHG.

9.5 The same contributor expressed concern that calls to the Connect emergency number were not being timeously answered. This issue will be monitored by the Authority and any consumers should make the Authority aware of any such instances that may occur.

9.6 The same contributor on behalf of numerous community entities expressed concern at the poor quality of water, “unabated” power outages and the perceived “dismal” service quality. Other contributors expressed concern as to the quality of water being provided and the frequency of power outages. The Authority however has to realistically recognise that continued improvements to the utilities infrastructure will require significant funding. Such significant funding is an ongoing process including the DFID Infrastructure Programme. Any further investment would require to come from SHG subsidies or further increased tariffs. The former is a matter for SHG with the conflicting demands on the limited funds available. Increasing the proposed tariffs further is unlikely to find any favour with the vast majority of consumers.

9.7 One contributor questioned as to why there is no political representation on the Board of Connect. The composition of the Board is governed by Connect’s Articles of Incorporation and not the Authority.

9.8 Connect acknowledge that, whilst there has been a vastly improved infrastructure, such as the power station, renewable energy and in the electricity distribution network, there is still a considerable amount of work to be done. This particularly relates to asset replacement, sewerage treatment, water distribution and water resources which will require considerable capital funds in future years. Connect are committed to reducing power outages and improving the quality of water. The Authority will endeavour to motivate Connect to improve the quality of the services they provide. Feedback from consumers, to assist in identifying issues in this respect, would be welcomed by the Authority at any time.

9.9 Connect have been set various targets covering, for instance, the reliability of the electricity and water network, quality of water and customer service in a Public Utilities Development Plan. These are to be achieved by a proactive maintenance programme, initially monitored by management and Connect’s Board and then assessed by the Authority. The Authority has also agreed Codes of Practice with Connect relating to, for example, (i) access to consumer’s premises, (ii) payment of bills, (iii) dealing with consumer’s in default, (iv) connections and disconnections, (v) dealing with the special

needs of the disabled, chronically sick or persons of pensionable age, (vi) complaint handling, (vii) meter reading and (viii) providing information to consumers as to the efficient use of the utilities. Compliance with such Codes will be monitored by the Authority and the results of the same will be reported publically in due course.

10.0 Stability and predictability in the public utilities industry in the medium and long term

10.1 It is a basic duty of company directors that they must trade solvently, ensuring that they are able to meet the financial liabilities of the business. Any significant reduction in the proposed consumption tariffs would result in Connect being unable to meet such financial liabilities and would therefore be unlawful.

10.2 Separately, but for similar reasoning any reduction in the proposed tariffs would irreparably harm the stability and predictability in the public utilities industry in the medium and long term. Should Connect in time make profits or identify savings in the ongoing analysis of costs then it is at this time that the Authority may lawfully give directions to achieve the objectives in the previous paragraphs. The Authority cannot order a company to trade insolvently regardless of the social or economic impact of the same.

10.3 Subsidies to mitigate any adverse social or economic impact, in respect of tariffs, projected to allow the utilities provider to break even, are a matter for SHG and not the Authority (see Paragraph 11.0). Some contributors suggested that any tariff increase should be delayed until it is ascertained if there is to be further subsidy or savings identified or for further assessments. To do so would again be for the Authority to place Connect in a position whereby they would not be able to meet the financial liabilities of the business, on the basis of the presently projected income and expenditure of Connect. That would, again, be unlawful. Should any savings or further subsidy be identified hereafter then tariff rates may be reduced by the Authority or in the case of an increased SHG subsidy by conditions attached to such further subsidy (See Paragraph 11.0). It should be noted in this respect that the statutory duty of the Authority is to direct Connect as to the maximum tariff which may be charged and not as to the actual tariff which is to be charged.

11.0 Progressive reduction in level of subsidy from public funds

11.1 The Financial Secretary may pay to a Utilities Provider, out of sums duly appropriated or deemed to have been appropriated from the Consolidated Fund, such sums as may from time to time be authorised by the Governor in Council by way of grant to support either capital or recurrent costs of the Utilities Provider. Such grants made may be made unconditionally or subject to such conditions as the Governor in Council considers necessary or desirable to ensure that the sums so paid are applied only for the purposes intended in the making of the grant. Without prejudice to this generality, conditions may concern (a) circumstances in which the Utilities Provider shall charge, for the services it provides to its customers, fees or charges less than the maximum fees or charges permitted by a direction of the Authority, (b) actions which the Utilities Provider must take (or refrain from taking) in relation to the maintenance, development or expansion of the infrastructure used by the Utilities Provider to supply public utility service and (c) the keeping of accounts and other records concerning the use of the grant, and the production of those accounts and records to the Financial Secretary for inspection⁵.

11.2 The Development Aid Planning Mission (DAPM) Aide Memoire for 2014/15 states “SHG envisage a decreasing subsidy to the new utilities entity Connect St Helena over the next five years”.

11.3 The anticipated SHG subsidy for the year 2014/15 will reduce from that made in 2013/14 by £231,976. This reduction in subsidy by approximately one fifth is consistent with the stated DAPM Aide Memoire approved by SHG.

11.4 Legislative Council state that there “appears to be no political oversight of Connect. This is not correct for so long as Connect is in receipt of SHG subsidies (see paragraph 11.1 with note). The proposed tariff increases are in accordance with Connect’s business plan which had received extensive scrutiny from the previous Legislative Council and is consistent with the Airport Memorandum of Understanding commitment to eliminate untargeted subsidies. Equally for as long as the majority of the Connect shareholding is SHG owned, ultimate control of Connect remains vested in SHG.

11.5 As stated any reduction in the proposed tariffs by the Authority would be such as to direct Connect to trade insolvently and would thus be unlawful. It is correct to state that Legislative Council does not need to approve the proposed tariffs.

11.6 However, the amount of any subsidy to Connect is a political decision for SHG balancing the competing needs of, for example, health and education etc. from its limited budget. It is likewise for SHG to direct as to any conditions attaching to such subsidy, for example to make it a condition of any further subsidy that the same is provided on the basis that the Utilities Provider should charge less for the services it provides to its customers than the maximum fees or charges permitted by this direction of the Authority. Should the SHG require further social impact assessments before making any such decisions then that is a matter for them.

11.7 The foregoing public consultation will no doubt be fully considered by SHG in any future decision it should make in this respect. Should the projected subsidy from SHG be increased at any time then the Authority would be in a position to give consideration to further directions on the proposed general consumption tariffs.

12.0 Summary

- After the proposed tariff increases Connect is projected to have an operating loss of £848,175, excluding depreciation, and without SHG subsidy.
- The subsidy to Connect (as presently anticipated will be budgeted by SHG) will be reduced by £231,976 to £847,902 for 2014/15. This will result in an operating loss of £273 before depreciation, effectively allowing Connect to break even.
- The Authority has no power to direct SHG in this respect of such subsidy. Such is a political decision for SHG in terms of Section 11 of the Utilities Ordinance 2013. In broad terms for every £30,000 by which the said subsidy is reduced from the present amount, a 1% increase in said consumption tariffs will be required for Connect to break even before depreciation.
- On the basis of the presently anticipated reduction in subsidy in the SGH budget, any significant reduction in the proposed consumption tariffs by the Authority would result in Connect being unable to meet their present financial liabilities and would therefore be

unlawful. The Authority cannot order a company to trade insolvently regardless of the social or economic impact of the same.

- There appears to be some misapprehension as to the respective powers of the Authority and SHG. Any decision to reduce such a subsidy in the SHG budget, as is presently anticipated, with the effect this will have on required increases in consumption tariffs will be a decision for SHG, not the Authority. It is a matter for SHG to balance the competing demands for funds from health and education etc. with the need for any such utilities subsidy, in whatever amount, from their limited budget.
- The Authority directs that the proposed reconnection, domestic septic tank and domestic unblocking charges be limited from that proposed by Connect on the basis that these are unreasonable. This is on the basis that the same would result in a loss of projected revenue to Connect, in such a relatively small amount, such that this direction will not have the effect of Connect being unable to meet their financial liabilities.

13.0 Direction

For the foregoing reasons the Authority therefore directs that the utility charges to be made by Connect shall not exceed the maximums specified in Schedule 3.

John A MacRitchie
LLB DipLP NP SSC Advocate (Abdn & St H) JP
Chairman
St Helena Utilities Regulatory Authority

Notes:

1. Section 3;Utility Services Ordinance 2013
2. Section 4;Utility Services Ordinance 2013
3. Section 5;Utility Services Ordinance 2013
4. Section 6;Utility Services Ordinance 2013
5. Section 11;Utility Services Ordinance 2013

Schedule 1

PROPOSED ELECTRICITY AND WATER TARIFFS COMMENCING 1st APRIL 2014

(% change in tariff from existing)

ELECTRICITY

Rates for consumption (per quarter):

Band 1 (first 400 units) (KwH)	£0.23 (08.49%)
Band 2 (units 401 – 1000) (kWh)	£0.40 (10.19%)
Band 3 (units in excess of 1000) (kWh)	£0.44 (11.11%)

Standing charges (rate per quarter):

Single phase meter	£12.00 (09.09%)
Single phase meter (unoccupied residential premises)	£24.00 (09.09%)
Three phase meter	£37.00 (12.12%)

Charges for disconnection/ reconnection:

Disconnection charge	£55.00 (new)
Reconnection and maintenance charge:-	
After being disconnected for a period of up to one month	£55.00 (1000%)
After being disconnected for a period of over 1 month up to 6 months	£100.00 (900%)
After being disconnected for a period of over 6 months up to 12 months	£150.00 (50%)
After being disconnected for a period of over 12 months an additional	£100.00* (0%)

*(Note: £100 for every year or part of a year that the electricity supply has been disconnected, provided that the amount for any part of a year shall be calculated on a pro rata basis).

WATER

Rates for consumption (per quarter):

For domestic purposes:

Treated water

First 15m³ per quarter £0.95 per m³ (10.47%)

Additional m³ £1.26 per m³ (10.53%)

Untreated water

£0.63 per m³ (10.53%)

For commercial purposes

£2.47 per m³ (10.27%)

For agricultural purposes:

Treated water £1.25 per m³ (9.65%)

Untreated water £0.63 per m³ (10.53%)

Standing charges (rate per quarter):

Domestic purposes	£7.25 (9.85%)
Unoccupied residential premises	£21.00 (9.09%)
Commercial purposes	£21.50 (8.59%)
Agricultural purposes	£7.30 (10.61%)

Charges for disconnection/reconnection:

Disconnection charge	£50.00 (279%)
Connection charge	£50.00 (468%)
Reconnection and maintenance charge:-	
After being disconnected for a period of up to 1 month	£50.00 (468%)
After being disconnected for a period of more than 1 month up to 6 months	£92.00 (60.5%)
After being disconnected for a period of more than 6 months up to 12 months	£134.00 (121%)
After being disconnected for a period of over 12 months an additional	£84.00* (38.8%)

*(Note: £84 for every year that the water supply has been disconnected, provided that the amount for any part of a year shall be calculated on a pro rata basis).

DRAINAGE

Standing charge:

Domestic purposes	£11.50 per quarter (10.05%)
Commercial purposes	£18.15 per quarter (10.00%)
Emptying of septic tank	£100.00 per visit (87.44%)
Unblocking private sewer line (whether connected to a septic tank or connected to public system)	£100.00 per visit (200.57%)

Schedule 2
PROJECTED INCOME AND EXPENDITURE 2014 & 2015

<u>Income</u>		<u>2014(£)</u>		<u>2015(£)</u>
Electricity	3,054,670			3,464,380
Water	384,250			426,400
Waste	46,700			52,750
Irrigation	<u>5,000</u>			<u>5,150</u>
Total Income		3,490,620		3,948,680
<u>Expenditure</u>				
Fuel		1,896,466		2,135,471
Corporate	193,800		193,800	
Administration	76,220		76,220	
Personnel	960,205		956,091	
Property	181,890		181,890	
Maintenance	1,147,602		1,139,602	
Contracts	<u>113,781</u>		<u>113,781</u>	
Non-Fuel Subtotal		<u>2,673,498</u>		<u>2,661,384</u>
Total Expenditure		<u>(4,569,964)</u>		<u>(4,796,855)</u>
(Loss)		<u>(1,079,344)</u>		<u>(848,175)</u>
(Excluding Depreciation & Subsidy)				
SHG Budgeted Subsidy		<u>1,079,878</u>		<u>847,902</u>
Profit/(Loss)		534		<u>(273)</u>
(Excluding Depreciation)				
Depreciation		<u>849,966</u>		<u>900,066</u>
(Total Loss)		<u>(849,432)</u>		<u>(900,339)</u>

Schedule 3

MAXIMUM ELECTRICITY AND WATER TARIFFS COMMENCING 1st APRIL 2014

(% change in tariff from existing)

ELECTRICITY

Rates for consumption (per quarter):

Band 1 (first 400 units) (KwH)	£0.23 (08.49%)
Band 2 (units 401 – 1000) (kWh)	£0.40 (10.19%)
Band 3 (units in excess of 1000) (kWh)	£0.44 (11.11%)

Standing charges (rate per quarter):

Single phase meter	£12.00 (09.09%)
Single phase meter (unoccupied residential premises)	£24.00 (09.09%)
Three phase meter	£37.00 (12.12%)

Charges for disconnection/ reconnection:

Disconnection charge	£35.00 (new)
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Reconnection and maintenance charge:-

After being disconnected for a period of up to one month	£35.00 (700%)
After being disconnected for a period of over 1 month up to 6 months	£80.00 (700%)
After being disconnected for a period of over 6 months up to 12 months	£130.00 (30%)
After being disconnected for a period of over 12 months an additional	£100.00* (0%)

*(Note: £100 for every year or part of a year, up to a maximum of five years, that the electricity supply has been disconnected, provided that the amount for any part of a year shall be calculated on a pro rata basis).

WATER

Rates for consumption (per quarter):

For domestic purposes:

Treated water

First 15m ³ per quarter	£0.95 per m ³ (10.47%)
Additional m ³	£1.26 per m ³ (10.53%)

Untreated water £0.63 per m³ (10.53%)

For commercial purposes £2.47 per m³ (10.27%)

For agricultural purposes:

Treated water £1.25 per m³ (9.65%)

Untreated water £0.63 per m³ (10.53%)

Standing charges (rate per quarter):

Domestic purposes	£7.25 (9.85%)
Unoccupied residential premises	£21.00 (9.09%)
Commercial purposes	£21.50 (8.59%)
Agricultural purposes	£7.30 (10.61%)

Charges for disconnection/reconnection:

Disconnection charge	£30.00 (127%)
Connection charge	£30.00 (240%)
Reconnection and maintenance charge:-	
After being disconnected for a period of up to 1 month	£30.00 (240%)
After being disconnected for a period of more than 1 month up to 6 months	£72.00 (25.0%)
After being disconnected for a period of more than 6 months up to 12 months	£114.00 (88%)
After being disconnected for a period of over 12 months an additional	£84.00* (38.8%)

*(Note: £84 for every year or part of a year, up to a maximum of five years, that the water supply has been disconnected, provided that the amount for any part of a year shall be calculated on a pro rata basis).

DRAINAGE

Standing charge:

Domestic purposes	£11.50 per quarter (10.05%)
Commercial purposes	£18.15 per quarter (10.00%)
Domestic Emptying of septic tank	£60.00 per visit (12.00%)
Commercial Emptying of septic tank	£100.00 per visit (87.44%)
Unblocking private sewer line (whether connected to a septic tank or connected to public system)	£60.00 per visit (80%)
Commercial Unblocking private sewer line (whether connected to a septic tank or connected to public system)	£100.00 per visit (200.57%)