

ST HELENA UTILITIES REGULATORY AUTHORITY



APRIL 2024

CONSULTATION ON TARIFFS FROM 1ST JULY 2024

OVERVIEW

On the 11th December 2023 the Utilities Regulatory Authority ('the Regulator') set tariffs for the provision of electricity, water and sewerage for the period 1st January 2024 until 30th June 2024 by Connect St Helena ('Connect'). These were temporary tariffs to allow Connect to provide an updated tariff proposal. The Authority believed that there was more work to be done on tariffs to give consumers certainty as to how external forces will impact on costs and to ensure that Connect is financially secure. This will enable Connect to plan for the future in the knowledge that incomes will be at a certain level.

On the 2nd April 2024 Connect St Helena submitted to the Utilities Regulatory Authority a tariff proposal for electricity with two options. In summary the first option is for a standing charge of £45 for domestic users and £60 for commercial and government with per unit costs remaining the same and the second option is a simple increase in the unit costs of electricity.

There is also proposed a 10% increase in water and sewerage costs, along with 4% for other services.

The tariff proposal is annexed to this consultation.

The URA is concerned that the tariffs proposed provide no certainty of income to Connect which must be on a stable footing going forward and must operate in the knowledge that if external factors increase the cost of diesel, or the government reduces the subsidy, then the company will remain financially viable. Neither Connect nor the Authority have any control over fuel costs or the subsidy provision, however both are capable of ensuring that the fixed costs of production do not exceed that which are reasonable.

THE UTILITIES REGULATORY 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.

In considering its duty under (b) to ensure that the prices charged for services do not create unreasonable hardships for households or unreasonable hindrance to commercial and economic development in St Helena the Authority must make a decision on tariffs that is consistent with the obligation to ensure stability and predictability in the industry. It goes without saying that if Connect is unstable financially then the Authority has failed in its duty under (d).

THE TARIFF PROPOSALS

The tariff proposals by Connect for electricity do not, in the view of the Authority, provide Connect with protection from external influences beyond the control of Connect or the Authority.

Electricity

The cost of provision of electricity is made up of a number of elements, some are fixed costs and some are not. The cost to generate a unit of electricity at present is 57pence. This is made up as follows:

Fuel Costs	33p
Employee costs	5p
Maintenance costs	7p
Depreciation	5p
Administration costs	7p
Total	57p

By way of comparison in 2022 the diesel cost was 18 pence a unit and in 2021 it was 16 pence whereas fixed costs have remained relatively stable.

Of this 57 pence domestic customers pay 35 pence, the government subsidy accounts for 7 pence leaving a shortfall of 15 pence. Part of that shortfall is made up by the higher prices paid by business who at present pay 53 pence a unit. The average receipt by Connect for a unit of electricity is 43 pence when the higher tariffs paid by business and government are taken into account.

At an average of 43 pence a unit the above graph can be expanded as follows:

Average tariff	43p
Fuel Costs	33p
Employee costs	5p
Maintenance costs	7p
Depreciation	5p
Administration costs	7p
Total	57p
Subsidy contribution	7p
Shortfall	7p

The Authority is considering putting in place a tariff structure whereby it can influence the costs not associated with fuel prices through regulation and tariff setting. This would mean that the cost of a unit of electricity would be broken down into ‘fixed’ costs and ‘variable’ costs (fuel). The Authority would have to be approached to increase the fixed cost element of the unit price but the cost of the fuel element would vary according to market forces beyond the control of Connect. Further, time limiting tariffs for 1 year would allow the URA through regulation to put downward pressure on the fixed costs and reduce them where possible.

Customers’ bills would reflect the true cost of a unit of electricity but the amount paid would be reduced by the subsidy provided by Saint Helena Government (SHG). This would allow SHG, should it wish to do so, to target some or all of the subsidy at those on low incomes or to apply a general subsidy across the board as it currently does.

An essential part of such a system of tariff setting is for Connect to provide information on their bills as to the elements of the costs for generating their electricity. This opens Connect up to better public scrutiny as to how their customers’ money is being spent on fixed costs and creates downward pressure on such outgoings. It will also inform the customer of what the fuel cost element is, which will in turn put further pressure on Connect to seek alternative means of generation and to look for opportunities to hedge against rising fuel costs through insurance. It must be noted that although renewable energy may not be any cheaper it does come with the advantage of not being susceptible to variations in fuel prices.

In summary the Authority can put pressure on Connect to become more efficient and reduce fixed costs but it can have no impact on the price of the fuel that Connect are required to purchase. By the Authority setting maximum amounts that can be charged for non-fuel related costs then if the price of fuel reduces then customers’ bills would also reduce and vice versa.

The Authority also believes that there is a case for maintaining the difference between domestic users and commercial/government users in such a way that domestic users pay less but the tariffs charged for all consumers are calculated in similar ways.

Water

Water tariffs are significantly below cost. To bring these up to cost over the next 5 years would require an annual increase of 17.5%. The average cost of production of a unit of water is £7.56 which is high and St Helena suffers from a level of non-revenue water loss at levels that are unsustainable. Work is ongoing to improve this and progress is being made to reduce leakages. Connect propose an increase of 10% on tariffs.

An essential element of any increase in costs for water provision would be for the cost of production to be broken down on bills to enable customers to see for themselves where their money is being spent. In addition to this losses of water in the system for the island as a whole and in a bill payer's area (if available) would have to be contained in the bill. This again opens Connect up to further public scrutiny regarding water losses and costs, creating further pressure on Connect to rectify defects in the network.

The Authority is particularly concerned at increases of costs for the agricultural sector's use of untreated water.

Sewerage and other costs

Connect propose a 10% increase in the tariff for waste water and 4% for other services in line with inflation. Neither of these have been justified through provision of information as to the costs involved to provide these services. In the absence of further information the Authority cannot sanction these increases.

THE CONSULTATION

The consultation period runs from the 22nd of April 2024 until the 31st of May 2024.

Views are sought from any person who wishes to provide them on the proposals by Connect for tariffs and the matters raised by the Authority in this document. No decisions have been made but this document gives those responding an idea of the thinking of the Authority in relation to the tariff proposal.

This document, which includes Connect's tariff proposals, is available from Judicial Services or it can be provided by email from Pat Williams - patricia.williams@judicialservices.sh
Connect St Helena will also publish this document on their website.

Responses to the consultation are to be delivered to Judicial Services or submitted by email to Yvonne Williams - yvonne.williams@judicialservices.sh

Annex – Connect St Helena Tariff Paper Year 2024/25.

ANNEX

1. Introduction

This paper sets out Connect Saint Helena Ltd's (Connect's) proposal to adjust utility tariffs. This is critical to the ongoing operation of the Company as the cost of service provision has been increasing whilst the customer base and level of subsidy available are decreasing.

This paper proposes amending tariffs with effect from 1 July 2024 to close the gap between the costs of service provision and the available subsidy. The paper has been drafted for consultation purposes ahead of the finalisation of Connect's 2024/25 budget. Note that the tariff structures proposed in this paper remain intact but the proposed unit rates are subject to change.

2. Background and Context

2.1 The Current Position

In December 2023, the Utilities Regulatory Authority (URA) gave approval for a 15% increase in electricity tariffs and a 10% increase in water and wastewater tariffs. This increase is in effect for the period 1 January 2024 – 30 June 2024.

This was the first increase in electricity tariffs since 2016 and in water and wastewater tariffs since 2021. It is based on the Tariff Proposal dated August 2023 but as we will show below circumstances had already overtaken these levels.

2.2 Key Cost Drivers

Fuel Prices

Fuel is the single largest component of Connect's budget, comprising over 61% of the Electricity Section's budget and over 40% of the overall budget in 2024/25.

In May 2022 petrol and diesel prices on the Island increased by 50% and 49% respectively in line with global trends. This has impacted the price of fuel-reliant services. In November 2023 fuel prices increased from £1.15 to £1.52 per litre of diesel but the price is now £1.36 per litre.

The impact of increasing global fuel prices is shown in the following table:

Electricity Cost per unit for financial years ending 2018-2023							
	2018	2019	2020	2021	2022	2023	Average
Fuel	£ 0.16	£ 0.16	£ 0.18	£ 0.16	£ 0.18	£ 0.33	£ 0.20
Total Fuel Cost per Unit	£ 0.16	£ 0.16	£ 0.18	£ 0.16	£ 0.18	£ 0.33	£ 0.20
Depreciation	£ 0.05	£ 0.05	£ 0.05	£ 0.05	£ 0.06	£ 0.06	£ 0.05
Maintenance	£ 0.05	£ 0.05	£ 0.05	£ 0.05	£ 0.07	£ 0.06	£ 0.06
Employee Costs	£ 0.04	£ 0.04	£ 0.04	£ 0.04	£ 0.06	£ 0.05	£ 0.05
Allocated Overheads	£ 0.07	£ 0.07	£ 0.06	£ 0.07	£ 0.08	£ 0.08	£ 0.07
Other Cost excluding Fuel Component	£ 0.21	£ 0.21	£ 0.20	£ 0.21	£ 0.27	£ 0.25	£ 0.23
Total Cost of Electricity	£ 0.37	£ 0.37	£ 0.38	£ 0.37	£ 0.45	£ 0.58	£ 0.43
Litres per kWh of diesel generated	0.23	0.23	0.22	0.23	0.24	0.24	0.23

The cost of electricity was between 37p and 38p from 2018-2021 which was covered by the average tariff of 39p allowing the company to make a small profit. During the same period fuel which is the major cost was between 16p and 18p. In 2022 as the global fuel crisis began, the cost of fuel for electricity generation increased by 83% from 18p to 33p. However, the increases were covered by the fuel risk-sharing mechanism. Without the risk-sharing arrangement for the financial year 2024/25, it will be necessary to adjust the electricity tariff to match global fuel prices. Based on the table it can be seen that recent increases in subsidy and electricity tariffs have been to cover the cost of fuel used in electricity generation. Therefore, any movement in fuel prices will require an adjustment in electricity tariffs.

Internationally, fuel prices are forecast to decline in 2024/25, however, the position is by no means stable as demonstrated by the fuel price hike in November 2023 following the Israel/Palestine conflict. St Helena's isolation and the lag between ordering fuel shipments and delivery as well as limited storage capacity on-island are also contributing factors.

The Company's Strategy is to increase renewable yields to 80% but currently, most of the electricity is generated from diesel. Therefore, any increase in global fuel prices will increase the cost of electricity generation. Although previous price increases have been covered by the fuel risk-sharing mechanism, this may not be the case in the financial year 2024/25.

Inflationary Pressures

According to the latest data from the Statistics Office, inflation for the third quarter of 2023 is at 2.7% and is forecasted to be 3% in 2024 and 2025 (source: SHG budget assumptions).

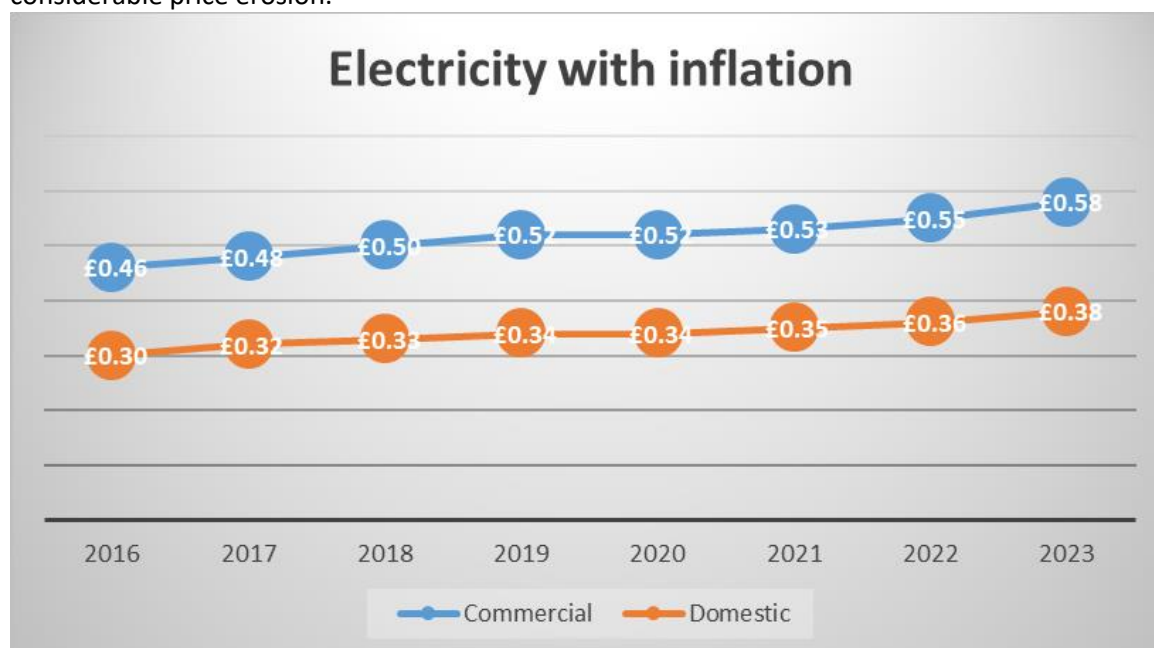
Globally, the World Economic Outlook (IMF Global January 2024) projects global growth to be 3.1% in 2024 and 3.2% in 2025 which remains well below the historical (2000-19) annual average of 3.8%. Global inflation is expected to fall to 5.8% in 2024 and 4.4% in 2025.

Inflationary pressure will continue to push the cost of providing utilities in general. This has been evident in the sharp increase in global fuel prices, recent increases in shipping costs, and rising general price increases. Like the rest of the world, Connect continues to experience significant increases in the cost of materials and equipment. This has affected both operating and capital expenditures resulting in a significant decline in cashflows.

In addition to cost pressures, it is notable that tariffs have not kept pace with inflation. Although tariffs were adjusted in January 2024, the tariffs are still lagging if inflation is factored in.

To illustrate this, let's compare electricity tariffs. Before the recent increase, electricity tariffs were previously adjusted in April 2016 where the cost per unit of domestic consumption up to 1000 units was set at 30p and the cost per unit of commercial consumption at 46p. Following the increase in January 2024, the current tariff stands at 35p per unit for the lower band and 53p per unit for commercial consumption.

The chart below shows April 2016 electricity prices adjusted for inflation, demonstrating considerable price erosion.



Asset Replacement and Sustainability

It is acknowledged that upon inception Connect inherited infrastructure that had exceeded its useful life. The Company needs to invest in assets for use now and in the future, as most of the infrastructure has exceeded its useful life. This has increased operating costs of existing infrastructure through maintenance requirements. Whilst the Company continues to invest in asset replacement, the pace of the replacement requirements exceeds the resources available.

The key area of concern relates to water infrastructure where a significant proportion is worn out with high levels of breakdown repair resulting in water unnecessarily being lost through bursts and leaks. The company has invested a total of £4.3 M since divestment in internally generated funds towards asset replacement in this sector. Connect's capital asset replacement is funded via the revenue account by ring-fencing the annual depreciation charges into a cumulative fund. Currently, the fund has been used to fund operational gaps as the company has been failing to break even. If all assets are to be replaced on a like for like basis the company will need £10.4 M

For the utilities infrastructure to remain effective now and in the future, replacement of worn-out parts of the networks needs to be guaranteed and that is only possible when the Company's operating budget is balanced out to at least break even each year. Therefore, to

ensure the sustainability of the asset replacement fund there is a need to charge commercially viable tariffs.

Declining Demand

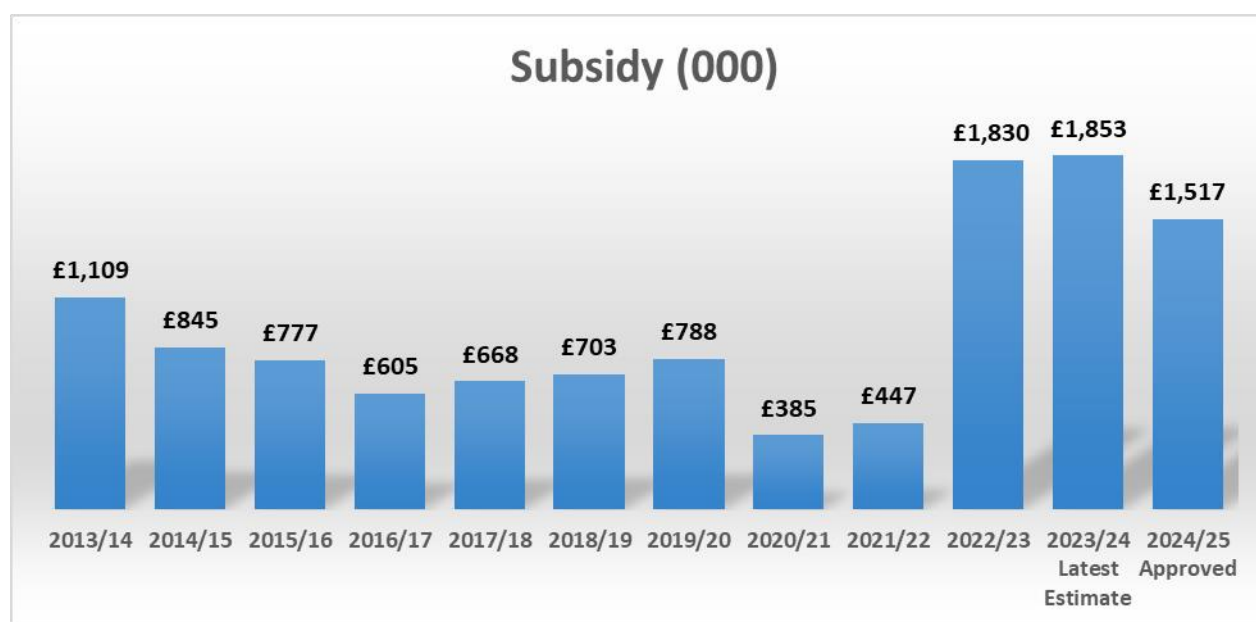
The declining Island resident population is affecting the demand for utilities. The effect of this is that fixed overheads are now distributed between fewer units consumed. This results in a higher per unit charge.

In the case of electricity, this is further compounded by consumers installing private PV panels, thereby reducing their take from the grid. If this continues, it may result in further increase in tariffs to maintain the grid.

2.3 Balancing the Budget

Subsidy

As a fully State Owned Entity, Connect has received a subsidy from SHG since its inception in April 2013. It is a Company objective to reduce and ultimately eliminate the requirement for subsidy and significant strides have been made in this area up to 2022/23. This is shown in the figure below:



In comparison to the 2013/14 subsidy position, up until 2022/23 Connect had managed to reduce the annual subsidy requirement through a combination of efficiencies and sub-inflationary tariff reviews. Recently, fuel prices have become volatile following the global fuel crisis which have resulted in an increased subsidy. The company remains committed to the reduction of subsidy which can only be achieved through efficiencies and the adjustment of tariffs. If electricity tariffs are adjusted to match increases in fuel prices this will eliminate or reduce the current untargeted subsidy for electricity.

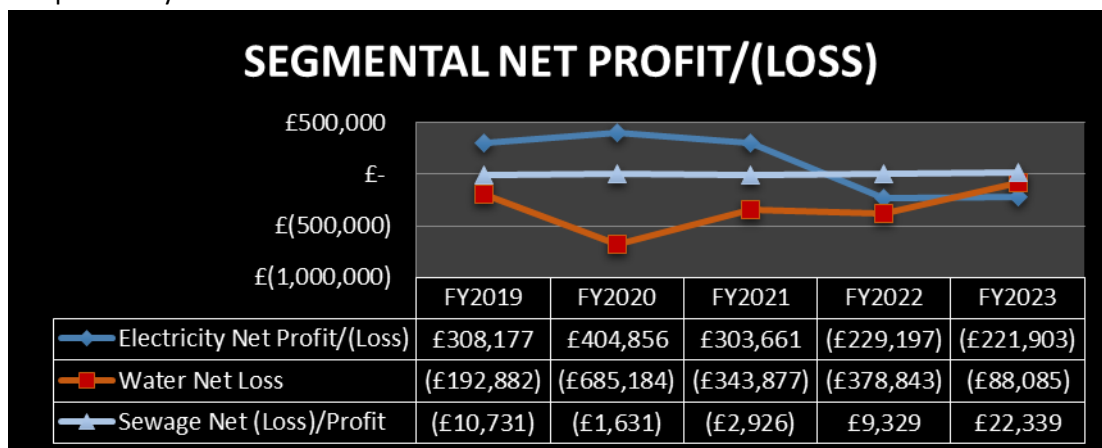
Segmental Cost Recovery

Previously, based on the current tariff structure, the Company had been fully recovering total costs in electricity by having the higher users effectively subsidising lower users so that total

costs are recovered plus a small margin. However, this has changed due to declining consumption and high fuel costs.

The picture in the water sector is quite different: we are very far away from fully recovering costs in this sector.

The following graph shows the net profit or loss trend for water, sewage, and electricity for the past five years:



Water is still a long way from full cost recovery and calls for bold decisions on tariff review. With a cubic metre of water costing £7.25, the £3.25 average tariff per cubic metre is only recovering 45% of the cost.

Electricity had previously been making a profit but the increase in global fuel prices and declining consumption has seen the segment making losses. The current average cost of generating and distributing electricity is £0.55 against an average tariff of £0.39.

Although the current fuel price increase is covered by the Fuel Risk Sharing Arrangement there is uncertainty about whether this will continue in the next financial year. Therefore, there is a need to review electricity tariffs to ensure that these can cover costs and at least break even.

The sewage service is now able to make a small profit but the situation will be more pronounced when Rupert’s Sewage Treatment becomes operational and maintenance charges are added to the costs.

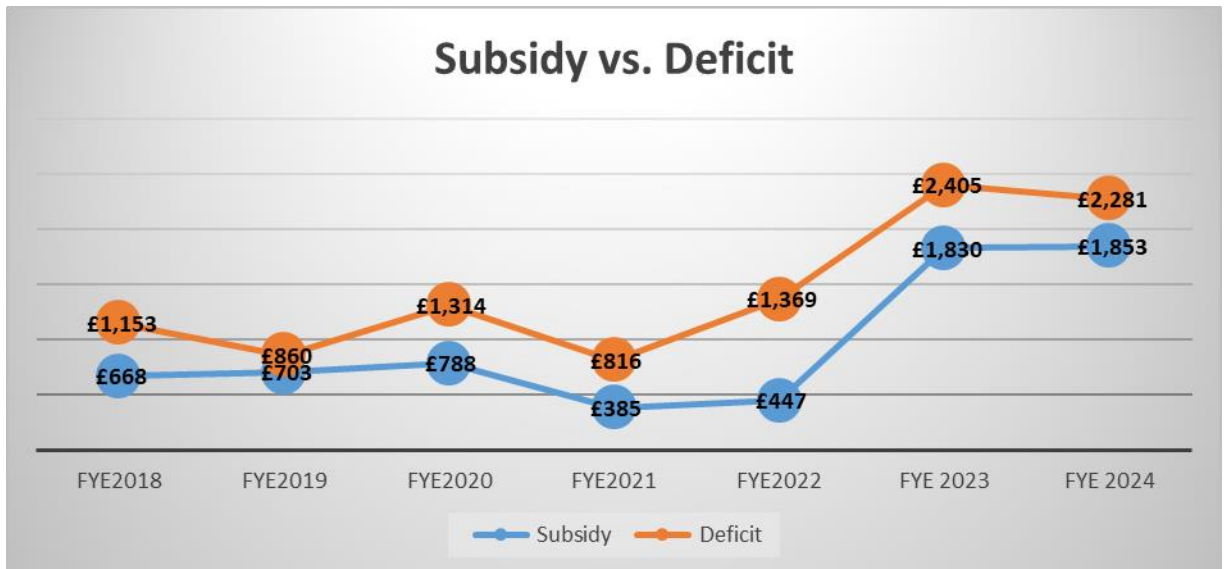
The above recurrent budget and the deficit together with the aforementioned factors are the compelling forces considered by management in proposing a review of tariffs for the coming financial year.

The budget for the next financial year has factored in efficiencies needed to ensure cost-effective service delivery we, however, could not escape from turning to tariff review as failure to increase the tariffs will have a lasting impact on service delivery and threaten the efficiency gains attained since divestment.

More on the Deficit

The funding gap between Connect’s revenue and expenditure is met in the first instance through SHG Subsidy. In 2024/25, for the first time, SHG has advised Connect of the available allocation prior to any application being made, removing negotiation on this matter.

For a number of years, the subsidy received has not closed the funding gap. This means that Connect has had to access the annual depreciation charges to bridge this gap. This is shown in the chart below. This position is not sustainable.



3. The 2024/25 Budget

3.1 **Planned Expenditure**

The proposed operating expenditure in 2024/25 is shown below. See the separate Budget Paper 2024/25 for full details.

Operating Expenditure	2022/23 Actual	2023/24 Budget	2023/24 Latest Estimate	2024/25 Proposed Budget
Administrative costs	519	329	337	357
Employee costs	1,255	1,209	1,222	1,402
Premises costs	195	212	196	266
Fuel	2,890	1,927	3,074	3,162
Maintenance	926	826	880	1,267
Depreciation	1,118	1,135	1,135	1,139
Contracts	115	108	118	149
Expenditure	7,018	5,746	6,962	7,742

To break even the Company needs income equal to the £7,742k expenditure budget summarised in the above table. At current tariffs, the company's tariff and service income for the year 2024/25 is estimated at £5,778k resulting in a shortfall or deficit of £1,964k. The expected subsidy from SHG, pending final confirmation following SHG's budget round, is £1,517k. This leaves a shortfall of £446k that will have to be funded through a tariff increase.

3.2 **Options for Closing the Deficit**

As stated above the deficit has to be funded through a combination of both the tariff increase and subsidy. A simulation of the budget indicates that an 80% tariff increase across the board

will be required to eliminate the deficit and the subsidy. To eliminate subsidy for the electricity segment there is a need for a 60% increase in tariff to cover costs. This increase will be directed toward fuel costs which have been high since May 2022.

To achieve breakeven within the water segment water tariffs, need to be raised by 180% and that will bring them to full cost recovery and eliminate the subsidy.

While as mentioned above cost recovering water tariffs is the direction that needs to be taken we remain cognisant that reliable and affordable utilities are part of the key ingredients for economic growth and as such would propose informed gradual and steep water tariff adjustment over the next few years. We therefore would want to urge the government to continue to be flexible with the rate of subsidy reduction. Tariff review options are stated below: -

1. If we do not increase tariffs the operational budget deficit will be £2,369k
2. To breakeven and eliminate the operational subsidy will require an across the board 80% tariff
3. The proposed tariff review will increase revenue by £396k and thus reduce the annual deficit to £1,975k **to be funded by a subsidy of £1,517k.**

4. Tariff Proposals

4.1 Electricity

The electricity segment has been making losses mainly due to high fuel prices. The high prices of fuel have made it necessary to review the tariff to ensure cost recovery. The following table shows the tariff income and the cost per budgeted billed unit of electricity:

Average Tariff before increase	£0.43
Cost of Electricity	
Fuel Cost for Diesel Generation	£0.33
Employee costs	£0.05
Maintenance Costs	£0.07
Depreciation	£0.05
Allocation of Administration Costs	£0.07
Total Cost	£0.57
Deficit	£0.14
Deficit Covered By:	
Subsidy Contribution	£0.07
To be raised from tariffs	£0.07

Using the average tariff before any tariff increase of 43p with a total budgeted cost of 57p there is a deficit of 14p per each billed unit. If the agreed subsidy contribution per unit of 7p is factored that will result in a further 7p per unit to be raised from tariff increase.

Option 1: Maintain the Current Electricity Tariff and Introduce a Standing Charge

The introduction of a standing charge has previously proven contentious. Connect would advocate a standing charge as it:

- would enable revenue to be recovered from empty properties who currently benefit from Connect's services but contribute very little to running costs.
- would enable Connect to separate out the fuel cost, the main cost driver in the electricity sector. Under Section 2.2 above, it was demonstrated that little has changed in terms of the remaining costs in the electricity sector but that the fuel price and thus contribution to cost of electricity has varied significantly. This approach would allow more rapid adjustments to be made to electricity tariffs as the fuel price changes. Ideally, the Company would like to get to a position where the tariff calculation is automatically adjusted in light of fuel price increases.

The URA has suggested a banded standing charge approach (i.e. the standing charge is different depending on the level of usage). Having given this consideration, the main rationale would be to support lower income households. However, this again assumes that low usage indicates low income which is not the case. It is therefore not a preferred method in designing a tariff system and alternatives are considered under Section 7 below.

As a result, the actual proposed charges are shown below:

Customer Category	Current Tariff	Proposed Tariff	Proposed Quarterly Standing Charge
Domestic 1-1,000kWh	35p	35p	£45
Domestic above 1,000kWh	53p	53p	£45
Commercial	53p	53p	£60
Government	53p	53p	£60

The table below provides an analysis of the impact on domestic consumers from the introduction of the standing charge.

Analysis of Impact on Domestic Consumers

Quarterly Consumption in Bands (kWh)	Max. Consumption per Qtr (kWh)	Number of Consumers	Average Impact per kWh	Impact per Qtr	Impact per Month	Impact per Week
1-200	200	559	£0.23	£45.00	£15.00	£3.75
201-400	400	545	£0.11	£45.00	£15.00	£3.75
401-600	600	477	£0.08	£45.00	£15.00	£3.75
601-800	800	318	£0.06	£45.00	£15.00	£3.75
801-1000	1000	182	£0.05	£45.00	£15.00	£3.75
1001-1200	1200	83	£0.04	£45.00	£15.00	£3.75
1201-1400	1400	44	£0.03	£45.00	£15.00	£3.75
1401-1600	1600	32	£0.03	£45.00	£15.00	£3.75
1601-1800	1800	15	£0.03	£45.00	£15.00	£3.75
1801-2000	2000	4	£0.02	£45.00	£15.00	£3.75
2001-2200	2200	3	£0.02	£45.00	£15.00	£3.75

Quarterly Consumption in Bands (kWh)	Max. Consumption per Qtr (kWh)	Number of Consumers	Average Impact per kWh	Impact per Qtr	Impact per Month	Impact per Week
2201-2400	2400	0	£0.02	£45.00	£15.00	£3.75
2401-2600	2600	1	£0.02	£45.00	£15.00	£3.75
2601-2800	2800	0	£0.02	£45.00	£15.00	£3.75
2801-3000	3000	2	£0.02	£45.00	£15.00	£3.75

The introduction of the electricity standing charge will result in a quarterly increase of £45 for all domestic consumers' electricity bills. This will equate to a £15 increase per month on each domestic consumer's bill and equates to a daily increase of 54p.

In equating this to per unit usage, a detailed analysis of all consumers showed that domestic consumers' bills will increase by between 2p to 23p per kWh depending on usage. A total of 2,081 low users with consumption between 1-1,000 kWh will get an average increase of between 5p-23p per kWh. Users on the analysis with the usage of 200 kWh will get an increase of 23p per kWh.

Option 2: Percentage Increase

It is against this background a 15% increase in electricity tariffs is proposed to close this gap. However, it is key to mention that the increase is solely influenced by the current high fuel prices as shown before other costs have been fairly within manageable range.

The increase per kWh is shown in the table below:

INCREASE IN TARIFF PER UNIT			
Consumer Type	Current Tariff	Proposed Tariff	Increase
Domestic Single Phase First 1,000kWh	35p	40p	5p
Domestic Single Phase Above 1,000kWh	53p	61p	8p
Domestic Three Phase	53p	61p	8p
Commercial	53p	61p	8p
Government	53p	61p	8p

The impact of the 15% increase on domestic consumers is an additional 5p per kWh for domestic consumers with consumption below 1,000kWh and 8p for domestic consumption above 1,000kWh. A domestic consumer with a quarterly electricity bill of 500kWh will pay an extra £25 per quarter which equates to £2.08 per week and 30p per day.

The impact for commercial consumers is an 8p increase per kWh which will result in a commercial consumer consuming 1,000kWh per quarter having a £80 increase in their bills per quarter. This equates to an increase of £6.67 per week or 95p per day.

Based on the above, in general, if the 15% increase is implemented there will be a 15% increase in overall electricity bills for all consumers.

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	559	5p increase	£10.00	£3.33	£0.83
201-400	400	545	5p increase	£20.00	£6.67	£1.66
401-600	600	477	5p increase	£30.00	£10.00	£2.50
601-800	800	318	5p increase	£40.00	£13.33	£3.33
801-1000	1000	182	5p increase	£50.00	£16.67	£4.17
1001-1200	1200	83	6p increase	£66.00	£22.00	£5.50
1201-1400	1400	44	6p increase	£82.00	£27.33	£6.83
1401-1600	1600	32	6p increase	£98.00	£32.67	£8.17
1601-1800	1800	15	6p increase	£114.00	£38.00	£9.50
1801-2000	2000	4	7p Increase	£130.00	£43.33	£10.83
2001-2200	2200	3	7p Increase	£146.00	£48.67	£12.17
2201-2400	2400	0	7p Increase	£162.00	£54.00	£13.50
2401-2600	2600	1	7p Increase	£178.00	£59.33	£14.83
2601-2800	2800	0	7p Increase	£194.00	£64.67	£16.17
2801-3000	3000	2	7p Increase	£210.00	£70.00	£17.50

A detailed analysis of all consumers showed that domestic consumers' bills will increase by 5p and 7p per kWh depending on usage. A total of 2,081 low users with consumption between 1-1,000 kWh will get an average increase of 5p per kWh. A user on the analysis with the usage of 200 kWh will get an increase of 5p per kWh.

A 15% increase in electricity tariff will result in a quarterly increase of £10 for a consumer with a consumption of 200kWh. This will equate to a £3.33 increase per month on each domestic consumer's bill and equates to a daily increase of 12p.

The impact for commercial consumers is an 8p increase per kWh which will result in a commercial consumer consuming 1,000kWh per quarter having a £80 increase in their bills per quarter. This equates to an increase of £6.67 per week or 95p per day.

4.2 Water

The water tariff was reviewed in January 2024, however, the gap between the cost of collecting, treating, and distributing water remains high when compared to the average tariff. There is a need to increase tariffs by 160% to break even.

While cost recovering water tariffs is the direction that needs to be taken we remain cognisant that reliable and affordable utilities are part of the key ingredients for economic growth and a 10% increase in water tariffs and standing charges is being proposed starting 1 July 2024. This gradual adjustment of the water tariff will need to be applied consistently until a cost recovery tariff is achieved.

An overall 10% increase in water tariff and quarterly standing charges effective 1 July 2024 will result in actual increases per cubic meter shown in the table below:

Actual water increase in pence per cubic meter (1000 Litres)

Consumer Type	Current Tariff Per unit	Proposed Increase in Cost Per Unit		
		Per Quarter	Per Month	Per Week
Domestic First 15m ³	£1.86	19p	6p	1.6p
Domestic above 16-25m ³	£2.44	24p	8p	2p
Domestic above 25m ³	£4.81	48p	16p	4p
Domestic Untreated	£1.22	12p	4p	1p
Commercial	£4.81	48p	16p	4p
Agricultural (treated)	£2.44	24p	8p	2p
Agricultural (untreated)	£1.22	12p	4p	1p

The impact on water standing charges arising from a proposed 10% increase is as follows:

Consumer Type	Current Standing Charge	Proposed Increase in Standing Charge		
		Per Quarter	Per Month	Per Week
Domestic	£13.75	£1.38	£0.46	£0.12
Agricultural	£13.75	£1.38	£0.46	£0.12
Commercial	£40.05	£4.01	£1.34	£0.34

As a result, the tariff increase per cubic meter based on 10% will be between 1p and 4p per week for all domestic and agricultural consumers and 4p for commercial consumers. The third band for domestic consumers will be maintained to help discourage the unsustainable use of water.

Based on usage of 15 cubic meters per quarter which is the quantity of water required for basic needs for an average family, the proposal will result in an increase of £4.23 per quarter which equates to 5p per day on domestic consumers' overall bills including the water standing charges.

Based on the current average tariff of £3.43 and average cost of £7.56 and assuming cost and consumption remain constant, the table below shows the increases needed for the next five years to eliminate subsidy and ensure tariffs match costs. Using a straight line method, this results in an annual increase of 17.5%.

	FYE2026	FYE2027	FYE2028	FYE2029	FYE2030
Average tariffs	£4.03	£4.74	£5.57	£6.54	£7.68

4.3 Wastewater

It is recommended that a 10% increase in sewerage quarterly standing charges is implemented from 1 July 2024.

The tariff increase will result in an extra £2.40 cost per quarter, equating to 2p per day for domestic customers. The increase for commercial customers will be £3.78 per quarter, equating to 2p per day.

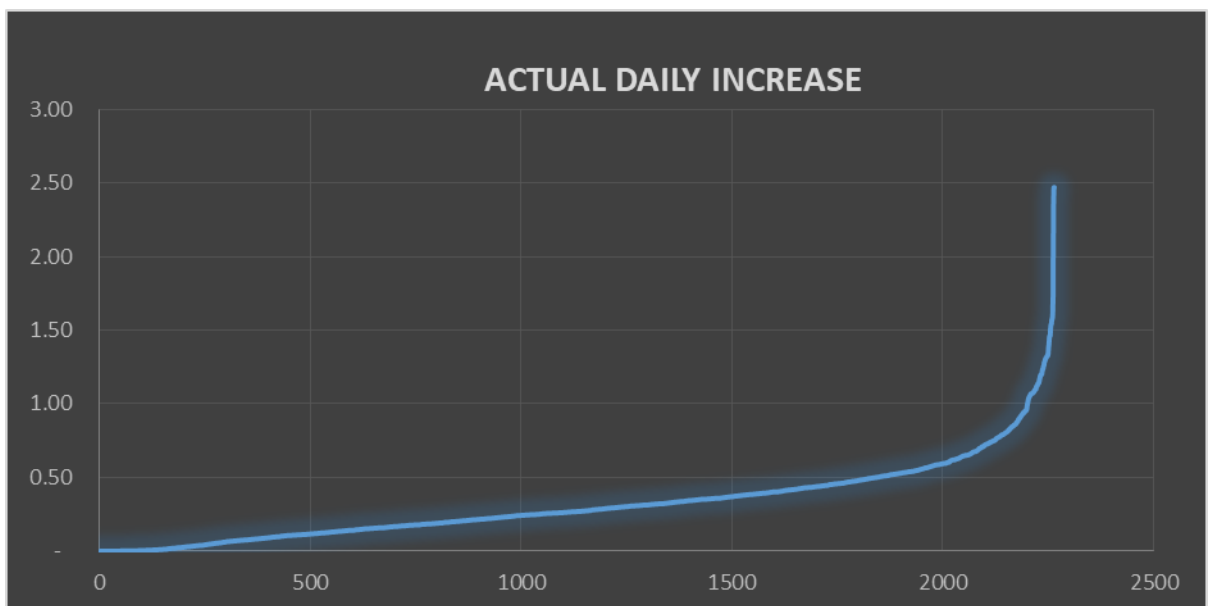
4.4 Other Services

It is proposed that all the other optional services (e.g. new connection fees, septic tank emptying fees, etc) be increased by 4% which is in line with the inflation rate.

5. Socio-Economic Impacts

It is noted that any proposed increase follows just 6 months after the previous increase was implemented. Whilst the proposed tariff increase is necessary and this paper demonstrates that the rates agreed previously have not kept pace with the changes at the end of 2023/24, it is acknowledged that St Helena does not have a culture of ready changes to utility pricing (the prior electricity increase being in 2016 and the prior water/wastewater increase being in 2021). The most recent increase has not had time to bed in nor has Connect had opportunity to assess customer reaction. Anecdotally, there appears to be an increased risk of delay on payment.

Any tariff review will have an impact on the overall consumer bills. The impact of the proposed tariffs has been assessed on 2,265 domestic consumers with 437 (19%) of the consumers getting increases between 1p-10p per day. The results below are the results from 2,265 domestic consumers sorted in order of their increase, to the left graph consumers receive the lowest increase of almost 0p per day, and to the right the greatest increase.



Summary Results

Band (£)	0.00-0.50	0.51-1.00	1.01-1.50	1.51-2.00	2.01-2.50
Consumers	1,850	351	54	7	3

A consumer with a consumption of 200kWh electricity and 15 cubic meters of water without a sewerage service will have a quarterly increase of £14.28 which equates to a monthly increase of £ 4.74 and a daily increase of 16p. If the consumer is connected for sewerage this will result in an extra £23.96 charge on the consumer bill.

In order to assess the impact on low income households, a comparison is made against IRB and minimum wage rates based on assumed rates in 2024. This is shown below.

These calculations are cause for concern. Based on previous work by the Social Policy Planner, a rule of thumb has been applied that utility costs should not exceed 10% of household income. This is exceeded in a number of scenarios giving rise to concerns around affordability.

In light of this, the intention is not to adjust tariffs to support low income households as under the current and proposed tariff structure, this exacerbates the untargeted subsidy. It would be preferable to directly target subsidy to low income households.

It would be complex for Connect to do this as Customers would need to demonstrate each quarter that they qualify for benefits or are on minimum wage: this in effect replicates the SHG benefits system resulting in overall increased costs.

It is therefore recommended that consideration is given to establishing a Utility Credit Scheme in partnership with SHG or a contribution to Making Ends Meet, both of which have means testing approaches in place to establish who might qualify for assistance. It is noted that SHG in particular continues to operate on an annual budget (a rollover budget in 2024/25) so commitment to such a scheme in the medium term would be in principle.

	Current Bill															Option 1 - Electricity Standing Charge & 10% Water and Wastewater Increase			Option 2 - 15% increase in electricity charges and 10% increase in water and wastewater charges				
	Qtr Income	MIS Electricity Units		High Use Electricity Units		Water Units		Drainage	Electricity £	Water £	Drainage £	Total £	% of Income %	Electricity £	Water £	Drainage £	Total £	% of Income %	Electricity £	Water £	Drainage £	Total £	% of Income %
		200	560	500	1000	7	22																
IRB x 2 Adults, 2 Children	£2,730.00		x				x	x	£196.00	£58.73	£23.96	£278.69	10%	£241.00	£64.64	£26.36	£332.00	12%	£224.00	£64.64	£26.36	£315.00	12%
	£2,730.00				x		x	x	£350.00	£58.73	£23.96	£432.69	16%	£395.00	£64.64	£26.36	£486.00	18%	£400.00	£64.64	£26.36	£491.00	18%
IRB x 1	£975.00	x				x		x	£70.00	£26.77	£23.96	£120.73	12%	£115.00	£29.48	£26.36	£170.84	18%	£80.00	£29.48	£26.36	£135.84	14%
	£975.00			x			x	x	£175.00	£26.77	£23.96	£225.73	23%	£220.00	£29.48	£26.36	£275.84	28%	£200.00	£29.48	£26.36	£255.84	26%
IRB x 1 +2 children	£1,755.00		x				x	x	£196.00	£58.73	£23.96	£278.69	16%	£241.00	£64.64	£26.36	£332.00	19%	£224.00	£64.64	£26.36	£315.00	18%
	£1,755.00				x		x	x	£350.00	£58.73	£23.96	£432.69	25%	£395.00	£64.64	£26.36	£486.00	28%	£400.00	£64.64	£26.36	£491.00	28%
IRB x 2	£1,950.00		x				x	x	£196.00	£58.73	£23.96	£278.69	14%	£241.00	£64.64	£26.36	£332.00	17%	£224.00	£64.64	£26.36	£315.00	16%
	£1,950.00				x		x	x	£350.00	£58.73	£23.96	£432.69	22%	£395.00	£64.64	£26.36	£486.00	25%	£400.00	£64.64	£26.36	£491.00	25%
Min Wage x 2	£3,543.48		x				x	x	£196.00	£58.73	£23.96	£278.69	8%	£241.00	£64.64	£26.36	£332.00	9%	£224.00	£64.64	£26.36	£315.00	9%
	£3,543.48				x		x	x	£350.00	£58.73	£23.96	£432.69	12%	£395.00	£64.64	£26.36	£486.00	14%	£400.00	£64.64	£26.36	£491.00	14%
Min Wage x 1	£1,771.74	x				x		x	£70.00	£26.77	£23.96	£120.73	7%	£115.00	£29.48	£26.36	£170.84	10%	£80.00	£29.48	£26.36	£135.84	8%
	£1,771.74			x		x		x	£175.00	£26.77	£23.96	£225.73	13%	£220.00	£29.48	£26.36	£275.84	16%	£200.00	£29.48	£26.36	£255.84	14%
Median x 2	£4,410.20		x				x	x	£196.00	£58.73	£23.96	£278.69	6%	£241.00	£64.64	£26.36	£332.00	8%	£200.00	£64.64	£26.36	£291.00	7%
	£4,410.20				x		x	x	£350.00	£58.73	£23.96	£432.69	10%	£395.00	£64.64	£26.36	£486.00	11%	£400.00	£64.64	£26.36	£491.00	11%
Median x 1	£2,205.10	x				x		x	£70.00	£26.77	£23.96	£120.73	5%	£115.00	£29.48	£26.36	£170.84	8%	£80.00	£29.48	£26.36	£135.84	6%
	£2,205.10			x		x		x	£175.00	£26.77	£23.96	£225.73	10%	£220.00	£29.48	£26.36	£275.84	13%	£200.00	£29.48	£26.36	£255.84	12%

6. **Benchmarking**

It is worth looking at other islands to establish how St Helena compares in terms of cost. Despite the differences in socio-economic conditions, benchmarking provides an opportunity to learn from utility companies that have similar challenges in terms of cost efficiencies to achieve favourable prices. Due to the recent energy crisis, most utility companies reviewed their electricity tariffs to match the rising fuel costs. In comparison electricity tariffs have not been reviewed in St Helena to match prevailing fuel prices as these were covered through increased subsidy using the fuel risk-sharing mechanism. Despite the recent increase in tariffs on St Helena remains more favourable when compared to other islands that share similar constraints.

6.1 **Electricity**

The table below shows a comparison of electricity prices on St. Helena to other Islands with similar constraints:

	Population	Unit	Standing	500kWh Bill	Fuel Surcharge	Comparison to St Helena	
St Helena	4,000	£0.35	£0.00	£175.00	£0.00		
Montserrat	4,391	£0.99	£0.00	£496.82	£0.57	£321.82	More
Ascension Island	900	£0.47	£0.00	£236.05	£0.00	£61.05	More
Alderney Island	2,141	£0.50	£0.00	£284.55	£0.22	£109.55	More
Sark Island	500	£0.56	£0.00	£280.00	£0.00	£105.00	More
Aruba	105,000	£0.16	£5.50	£84.26	£0.00	-£90.74	Less

The current high fuel prices which have typically been covered by increased subsidy on St. Helena have been covered by fuel surcharges and tariff adjustments in other Islands. Despite the electricity tariffs being favourable when compared to most Islands selected for benchmarking the company recognises the role of affordable and reliable electricity in economic growth. Because of this, the Company has developed the Energy Delivery Plan which aims to transform the electricity sector in St Helena. Whilst the drive for increased use of renewable energy sources has increased following recent fuel price increases, it is recognised that a staged approach will be required over the short-medium term.

6.2 **Water**

Water tariffs are still favourably within the benchmark range and the company remains committed to the reduction of unaccounted for water. The reduction of unaccounted for water and recent network upgrades will ultimately help reduce the cost of providing water resulting in stable water tariffs.

The following table compares St Helena against islands which have been identified as suitable benchmarks:

Average Domestic Water Tariff for 15m³ Consumption

Territory	Population 000	Average Tariff per Unit
St Helena	4	£ 2.78
Alderney	2	£ 6.82
America Samoa	46	£ 3.02
Anguilla	15	£ 5.61
Antiga & Barbuda	98	£ 2.06
Aruba	107	£ 4.46
Bermuda	62	£ 6.13
British Virgin Island	30	£ 3.98
Cape Verde	483	£ 3.12
Cayman Island	66.5	£ 4.78
Guernsey	64	£ 1.48
Isle of Man	85	£ 1.82
Jamaica	2,961	£ 1.97
Jersey	98	£ 3.54
Montserrat	5	£ 2.01
Netherlands Antilles	228	£ 5.14
US Virgin Island	106	£ 6.04

Source: International Benchmarking Network

7. Summary and Recommendation

In order to take forward the 2024/25 budget, a further tariff increase is required. The current level of subsidy has reduced whilst costs have increased and this is needed to reduce the funding gap.

Any tariff proposal will not be well received and in this particular case, following just six months after the most recent increase, any proposal at this time is likely to be even more contentious than usual.

However, on the basis of the above analysis and benchmarking, the proposed increase is consistent with previous proposals and with industry pricing. The introduction of a standing charge is proposed as the preferred option.

There is, however, concern that under some scenarios this will create hardship for low income households. Altering the tariff design could inadvertently exacerbate the current untargeted subsidy so further discussion is needed on how to target subsidy to those that will need it the most. A Utility Credit Scheme implemented alongside the current benefits system in SHG that already targets low income households is recommended.