



Tariff Review 2018 - Q & A Sheet

Connect Saint Helena Ltd (Connect) is proposing revised tariffs commencing 1st July 2018. Whilst there has been good progress in reducing operating costs we still require a sizeable subsidy from SHG to remain solvent putting pressure on Connect to increase charges to the consumer.

<u>Questions</u>	<u>Answers</u>
Why is water increasing in price whilst electricity is not?	The cost of electricity has progressively decreased mainly due to cost efficiencies. The overall cost to supply electricity broadly equates to the income from tariff so this year there is no need to increase electricity charges. Water however is massively subsidised, Connect on average lost £5.31 on every unit supplied last year.
Why is the loss so great?	Compared to other islands and to the UK water is very cheap. There were many years where the cost of water remained static despite the costs increasing every year. There is now a lot of catching up to do.
How will I be able to afford such a large increase on my utility bill?	For the vast majority of consumers the increase will be below inflation, this is because the cost of electricity remains the same. So most people will see an overall below inflationary increase on their utility charges, the same as if we applied a below inflationary increase to both water and electricity.
How much more will I pay?	The average consumer will pay about the same amount as if both electricity and water had been increased by 2%. As a result of this proposed tariff Connect is budgeting to collect 2% more tariff revenue.
I am a commercial grower and therefore use a lot of water is anything being done to help me?	Yes, we recognise that commercial growers will be adversely affected. When we negotiated our subsidy with SHG we established the financial impact on growers and took lower subsidy accordingly. SHG now has control of those funds and will pay subsidy directly rather than through the water tariff. This moves the subsidy away from an untargeted subsidy to a targeted subsidy which was an undertaking made by SHG as a pre-requisite to the signing of the airport contract.
We already pay a lot for water	Water is subsidised at present by on average £5.31 per unit so nobody



<p>why are the prices going up?</p>	<p>is paying the true cost.</p>
<p>What does this increase mean in £'s and pence?</p>	<p>As this is not a straight % rise each consumer will be affected differently. The modelling we carried out shows most consumers will see about 2% increase on their total utility bill. The first 15 cubic metres of water per quarter is deemed the minimum an average household will require with any consumption above that a lifestyle choice. This increase is 27p per week for water and zero for electricity.</p>
<p>What do we get for our money?</p>	<p>Water is collected, treated, stored and distributed to homes and businesses. But in addition to that we are recovering from significant under investment over several decades. All of this costs money and whilst we are able to receive government capital grants the tariff is very low which is unsustainable.</p>
<p>What has Connect done to improve things since divestment in 2013?</p>	<p>There have been many improvements since divestment. Connect is a more financially efficient organisation now taking £600k less subsidy than pre divestment. SHG is able to spend this money in other priority areas. Fuel efficiency is a major contributor which was achieved with increased levels of solar and wind energy. On the water side of the business after decades of decline due of lack of investment there are new reservoirs, the majority of the old reservoirs have been relined. All water treatment works have been upgraded, improved catchments have been constructed as well as drought mitigation measures. There is also a dedicated construction team who have the massive task of renewing and burying mains that were laid above ground. This just scratches the surface of the task ahead but Connect is a dedicated team who will succeed in improving the islands assets to an acceptable standard.</p>
<p>Does this mean that electricity tariffs will increase later in the year?</p>	<p>At the moment there is no need to increase electricity tariffs as the efficiency improvements since divestment now mean that consumers are covering the costs to provide the surface. If costs increase there may need to be an increase but at the present time there is nothing to suggest this will happen. The reason why the proposed increase is just on water is to more closely align the income streams to the costs.</p>
<p>Why is Connect increasing tariffs now rather than in April as normal?</p>	<p>It has taken a great deal of time and effort to gather the evidence base on which to understand precisely how this increase will affect individual consumers. With this evidence base we can see which consumer groups are adversely affected and have taken lower subsidy so that SHG can make arrangements directly with these consumers so that the subsidy is better targeted at those who need it most. This review is budgeted to come into effect on 1 July and next year we anticipate bringing the review date back to April 2019.</p>



<p>What evidence is there that tariffs need to increase?</p>	<p>Connect's Board of Directors have been concerned at the huge difference between the cost of providing water and the amount people are paying. At the same time they are happy that electricity costs and tariff are broadly similar. It would be unfair on electricity consumers for them to subsidise water consumers which is what would happen if an inflationary increase was applied across the board. This is why going forward and based on evidence we will endeavour to focus tariff increases to loss making services.</p>
<p>Will tariffs increase again next year?</p>	<p>Almost certainly water tariffs will until the subsidy is eliminated. Next financial year we should see some cost reductions as a result of the planned renewable energy which will also help to eliminate the subsidy.</p>
<p>Why such a big increase, couldn't it be just 10% this year and the same next year.</p>	<p>The increase is just on water so 10% on water would be just a 1% increase on utility cost. This is well below the rate of inflation which is where we normally target tariff increases.</p>