

ST HELENA UTILITIES REGULATORY AUTHORITY



2015/16

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

PART 1 – OVERVIEW

1.1 UTILITY SERVICES ORDINANCE 2013

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

These services are —

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

1.2 UTILITIES REGULATORY AUTHORITY

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

*(yvonne.williams@sainthelena.gov.sh)

1.3 OBJECTIVE OF AUTHORITY

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

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

1.4 DUTIES OF AUTHORITY

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

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

1.5 POWERS OF THE AUTHORITY

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

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

1.6 PENALTIES BY THE AUTHORITY

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

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

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

1.7 UTILITIES PROVIDER- CONNECT SAINT HELENA LTD

With effect from 1st April 2013 Connect Saint Helena Ltd (“Connect”) were licenced by the Governor in Council to provide all said public utility services in St Helena. The Authority was instrumental in the drafting of such a licence.

Connect is a private limited company which is wholly owned by the St Helena Government (“SHG”). The Board of Directors consist of a non-executive Chair, two further non-executive directors and two executive directors. The executive directors are the CEO and Operations Director of Connect.

1.8 PURPOSE OF REPORT

Connect request permission to adjust the tariffs for water and electricity supplied from April 1st 2015 to 30th March 2016. The detailed proposals are as outlined in the Appendix. In order for such to be permitted, the Authority would require to issue a direction to supersede its Direction for Maximum Electricity and Water Tariffs issued in Gazette Notice No. 21 of 26 March 2014.

PART 2 – MAXIMUM CHARGES AND FEES

2.1 INCREASES

The proposed tariff increases are broadly between a 2.5% and 4.6% increase. Other tariffs such as disconnection, reconnection, drain blockage clearance and septic tank emptying are to remain unchanged as current rates generally equate to the cost of providing such services. The off-island standing charges are an administrative burden which it is thought costs more than the increased level of revenue collected. It is therefore proposed that the same are therefore reduced to make them consistent with the lower on-island charges. The proposed tariff increases will increase revenue by £96,668 for the financial year 2015-16.

2.2 FUNDING MODEL

SHG still provide a substantial subsidy to Connect to mitigate against the need for increased tariffs to meet recurring and development costs. Executive Council had therefore been consulted and they received further input from their Legislative Council colleagues. The Authority is advised that such are generally content with the proposed tariffs and the subsidy that SHG will as a consequence require to provide.

The present funding model provides for depreciation, as opposed to the original Connect Business Plan which proceeded on the assumption that SHG would continue to fund asset replacement. SHG will however continue to fund infrastructure development.

2.3 CONNECT BUDGET 2015/16

INCOME BUDGET	
TARIFFS	3,969,074
SERVICES	69,450
GENERAL	20,000
SUBSIDY	777,435
TOTAL INCOME	<u>4,835,959</u>
EXPENDITURE BUDGET	
ADMINISTRATION	330,850
EMPLOYEES	1,022,876
PROPERTY	179,329
FUEL	1,522,632
MAINTENANCE	874,911
DEPRECIATION	767,061
CONTRACTS	138,300
TOTAL EXPENDITURE	<u>4,835,959</u>

As shown in the above summary budget, Connect requires income amounting to £4,835,959 to break even with budgeted expenditure.

2.4 SHG SUBSIDY

The SHG budgeted subsidy will be reduced by £53,815 from £831,250 (the combination of direct operating subsidy and TC costs) to £777,435. This continuing subsidy allows the proposed tariffs to remain considerably lower than would be required to meet the actual costs of producing both electricity and water services. As provided for in said Utilities Services Ordinance, Connect’s Business Plan and the Airport MOU, the SHG subsidy is required to reduce annually.

2.5 SOCIO-ECONOMIC IMPACT

It is recognised that any price rises will have adverse socio-economic impacts on the islands population. However, the rises proposed are in the most part approximately half of the immediately preceding year and a quarter of that in previous years. These are broadly in line with the islands inflation rate.

For low users using 300 units per quarter the proposed tariff rises will result in an increase of £12.00 per annum. For medium users using 600 units per quarter (this is the typical Saint household) the proposed tariff rises will result in an increase of £24.00 per annum. For high level users using 2000 units per quarter (generally businesses) the proposed tariff rises will result in an increase of £80.00 per annum.

The Q3 rate of inflation is 2.4% and it is understood from the Government Economist that a Q4 figure of 3.3% is about to be published. He also advises that currently the forecast rate for the next financial year is 3.9%.

The increases in standing charges are relatively small amounts, with a domestic meter costing an extra £1.16 per year. The reduction in standing charges for unoccupied residential properties will provide a saving of £88.84 a year to those unoccupied households whose proprietors are off-island.

Water increases are proportionately of a broadly similar level to electricity. At a quarterly usage level of 20m³, a household will be paying an extra £2.40 per year. The percentage increase will be between 2.5% and 3.3% and is less than the said forecasted inflation.

For the hardest hit members of society there are two sources of support. Connect itself has a social fund that can be used to provide services for those in the most dire need. This would be of particular use to those needing emergency works done such as unblocking a sewer line or emptying a septic tank. Secondly the Minimum Income Standard provided by SHG includes energy and water as part of the base calculation, thereby protecting the most vulnerable in society.

2.6 PUBLIC OBJECTIONS TO TARIFF INCREASES

The publication of the proposed tariffs elicited one objection from a member of the public. This compares with 1728 objections to the proposed tariffs for 2014/15. This sole objection was on the basis that firstly, the standing charges for water and electricity should not be increased; they should remain static and secondly the proposed water increase is too high and that it should be in parallel with the proposed electricity tariff. The Authority however notes that any reduction in the proposed tariffs would result in Connect being expected to trade at a budgeted deficit. The Authority cannot order Connect to trade insolvently. In any event the Authority considers that the said increases, with the said protections in place for vulnerable members of society, are reasonable, do not create unreasonable hardships for households or unreasonable hindrance to commercial and economic development and serve to ensure stability and predictability in the public utilities industry in the medium and long terms; while supporting a progressive reduction in levels of subsidy from public funds.

2.7 CONCLUSION

Utility tariff increases are naturally unpopular, although it is noted that the presently proposed increases have elicited but one public objection. Historically tariffs were unaltered for many years which have created an additional burden in filling the gap created between the costs of providing utilities services, including upgrading and maintaining infrastructure, and the tariff charges collected to meet such costs. The tariffs remain subsidised by a substantial SHG subsidy. The level of tariff increase is considerably lower than that which was originally envisaged in the Connect Business Plan and is lower than previous tariff increases. In view of the limited proposed increases, the only tariffs which require a marginal increase in the Authority cap, are for commercial water standing charges and domestic and commercial drainage standing charges. The remaining charges require a reduction or maintaining of the Authority Cap, issued by said direction (Gazette Notice 21/2014).

2.7 DIRECTIVE

It is therefore directed that in terms of Section 5(1)(c) of the Utilities Services Ordinance 2013, the utility charges to be made by Connect St Helena Ltd shall not exceed the maximums specified in the following Schedule.

9th March 2015

John A MacRitchie

LLB DIPLP NP SSC JP ADVOCATE (STH & ABDN)

Chair, Utilities Regulatory Authority

The Castle,

Jamestown

SCHEDULE

MAXIMUM ELECTRICITY AND WATER TARIFFS COMMENCING 1st APRIL 2015

	2014/2015	£	%*
ELECTRICITY TARIFF CHARGES (*% change from existing tariffs)			
Quarterly Standing Charges			
Single phase meter	11.50	11.79	2.5
Single phase meter (unoccupied residential)	24.00	11.79	-50.8
Three phase meter	34.50	35.36	2.5
Usage Charges			
Band 1 (first 400units)	0.22	0.23	4.6
Band 2 (units 401-1000)	0.38	0.39	2.6
Band 3 (units over 1000)	0.42	0.43	2.4
WATER TARIFF CHARGES			
Quarterly Standing Charges			
Domestic	7.00	7.18	2.6
Unoccupied residential	21.00	7.18	-65.8
Commercial	21.00	21.53	2.5
Agricultural	7.00	7.18	2.6
Domestic Use			
Treated Water first 15 m ³	0.90	0.93	3.3
Treated Water over 15 m ³	1.20	1.23	2.5
Untreated	0.60	0.62	3.3
Other Use			
Commercial	2.35	2.41	2.5
Agricultural treated	1.20	1.23	2.5
Agricultural untreated	0.60	0.62	3.5
DRAINAGE TARIFF CHARGES			
Domestic Standing	11.50	11.79	2.5
Commercial Standing	18.15	18.61	2.5
ELECTRICITY OTHER CHARGES			
Disconnection	35.00	35.00	0
Reconnection (1 month)	35.00	35.00	0
Reconnection (1 – 6 months)	80.00	80.00	0
Reconnection (6 – 12 months)	130.00	130.00	0
Reconnection (annual pro-rata £500 cap)	100.00	100.00	0
WATER OTHER CHARGES			
Connection	30.00	30.00	0
Disconnection	30.00	30.00	0
Reconnection (1 month)	30.00	30.00	0
Reconnection (1 – 6 months)	72.00	72.00	0
Reconnection (6 – 12 months)	114.00	114.00	0
Reconnection (annual, pro-rata, £420 cap)	84.00	84.00	0
DRAINAGE OTHER CHARGES			
Empty private septic tank (domestic)	60.00	60.00	0
Empty private septic tank (commercial)	100.00	100.00	0
Unblock private sewer line (domestic)	60.00	60.00	0
Unblock private sewer line (commercial)	100.00	100.00	0