

ST HELENA UTILITIES REGULATORY AUTHORITY



MARCH 2021

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

*(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.

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

1.8 PURPOSE OF REPORT

The Authority received from Connect a request for permission to adjust the tariffs for water supplied, drainage, connection and reconnection from April 1st 2021, there is no request for an increase in electricity tariffs save for connection and reconnection costs. The detailed proposals, and justification from Connect, are as outlined in the Annex. 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 February 2020

1.9 CONSULTATION

The URA invited members of the public to forward any representations they may have on the price increases through media advertisements with a deadline of 12th March 2021. Only one response was received from Mr Cyril George. The URA extends its thanks to Mr George for his response and will address the 4 issues he raised during the report.

(We did receive one further response late on the 16th March 2021 which was after the deadline for submissions and after the decision in this report was made. The submission made reference to the standard of service at Bottom Woods and linked that to the prices charged. The Authority is grateful for the response which will be considered when it comes to preparation of the annual report on the quality of service provided by Connect).

PART 2 – IMPACT OF INCREASES

2.1 ELECTRICITY PRICING

There is no request for an increase in the cost of supply of electricity, and there have not been for five years now. The impact of not increasing prices is a true cost reduction for the customer taking into account inflation.

There is one request for an increase in disconnection and reconnection charges from £42.18 to £43.03, this equates to 85p. This is a cost borne by few customers and should have little impact

2.2 WATER SUPPLY PRICING - DOMESTIC

Here Connect propose increases in tariffs at 10% for standing charges and use. The significant differential between those using less water and those using more is retained. This means that those using 15 cubic metres or less of water a month pay a very much reduced tariff than those using

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more. Whatever a customer's usage the amount paid per cubic metre is well below the true cost of production providing for the customer value for money.

The increase at 10% is part of the process of reducing reliance upon the public subsidy. The URA is charged with supporting a progressive reduction in reliance on the public subsidy while having regard to the need to avoid unreasonable hardship to households. At present the public subsidy relates to the provision of water as that is the only loss making part of the business. The public subsidy has been reducing as follows:

Financial Year	Total Subsidies
2013/14	£1,109,514
2014/15	£845,348
2015/16	£777,000
2016/17	£605,000
2017/18	£668,000
2018/19	£703,000
2019/20	£681,000
2020/21	£681,000
2021/22 Proposed	£353,000

Subsidies at divestment exceeded £1.1 million. In 19/20 and 20/21 the subsidy remained the same. For the upcoming year the subsidy will stand at £353,000. The URA finds that the current reduction in the subsidy represents a progressive reduction in the subsidy while not creating *unreasonable* hardships for customers. The URA recognises that price increases cause hardships however it must consider whether these hardships are *unreasonable*, i.e. beyond the limits of acceptability or fairness.

In coming to its decision on these matters the URA has in mind that the Elected Members set a subsidy level based upon the increase in tariffs proposed. Elected Members are well placed to judge what is reasonable and unreasonable for their constituents.

Mr George in his response to the consultation asked whether the low income earners on St Helena would receive any assistance with the increases. He also asked if all elected members had voted for the increase suggesting that money was being wasted by Connect and the public were having to fund this.

The URA took this view into account yet formed the opinion that, as indicated earlier, Elected Members were well placed to assess the impact of price rises upon their constituents. How various Elected Members voted is not a matter for the URA. Further, the URA does not find that Connect is wasteful in the way the company is run and financial probity is addressed in annual reports, see also 3.2 below.

The URA cannot find that an increase of 10%, which represents 1.5p a day for households that use 15 cubic metres a month or 1.9p a day for those using 20 cubic metres, would cause unreasonable hardship when the need to reduce the public subsidy is taken into account.

Further the increases in domestic standing charges are in line with the 10% increase and represent an increase of £1.14 a quarter to £12.50, which again the URA cannot say would cause unreasonable hardship for households when the need to reduce the public subsidy is taken into account.

2.3 WATER DRAINAGE PRICING – DOMESTIC

For those connected to the sewerage network the proposed tariffs represent a quarterly increase of £1.98. For the same reasons as above in 2.2 the URA cannot find this to cause unreasonable hardship for households having regard to the need to reduce the public subsidy.

2.4 WATER AND DRAINAGE OTHER CHARGES

There are across the board increases of 10% for connection, disconnection and reconnection for water supply and for connection, disconnection from the sewerage system as well as for emptying septic tanks and unblocking sewer lines. The URA finds that the proposed charges do not create unreasonable hardships for households having regard to the need to reduce the public subsidy

2.5 WATER SUPPLY PRICING – COMMERCIAL & AGRICULTURAL

Commercial customers tend to pay more than domestic customers and in assessing any request for a pricing increase the URA must assess whether, having regard to the need to reduce the public subsidy, the prices charged would cause an unreasonable hindrance to commercial and economic development in St Helena.

The URA were concerned about price increases upon sectors that use high volumes of water, particularly the agricultural sector. Here there is in addition to the general subsidy to Connect a specific Agricultural Water Subsidy Policy administered by ANRD. From July 2018 agricultural users received a subsidy per cubic metre of 28p for untreated water and 56p for treated water. A 10% increase means that agricultural users will pay £2.22 a cubic metre for treated and £1.11 a cubic metre for untreated water before receipt of the ANRD administered subsidy. The agricultural rate for untreated water is the same as that for domestic users, and the rate charged for treated water the same as the middle band for domestic users.

Before the ANRD subsidy is applied these rates are already significantly reduced from the true cost of the water supplied. Of the agricultural water supplied 15% was treated, the rest being charged at the untreated rate.

Mr George in his response to the consultation advised that many producers find the subsidy system to be cumbersome and time consuming leading to very few claims being made. The URA do not have

any specific examples of this and did not hear from producers directly making this assertion. The URA would be grateful to hear from any applicants for the subsidy who have encountered problems.

Other commercial users are primarily high users of electricity as opposed to water and they benefit by the static cost of electricity over the past 5 years. The URA has had no responses from individual businesses or concerned organisations (e.g. the Chamber of Commerce) to the consultation.

Applying the need to reduce the public subsidy having regard to whether the prices charged would cause an unreasonable hindrance to commercial and economic development in St Helena the URA cannot find that what is proposed would have the consequence which the URA is required to avoid.

2.6 DRAINAGE AND OTHER WATER SUPPLY CHARGES

The increases here represent 10% across the board. Most of these are one off charges for services some of which will rarely be required. For the reasons in 2.5 the URA cannot find the prices proposed would cause an unreasonable hindrance to commercial and economic development in St Helena

PART 3 – OTHER MATTERS

3.1 NON-REVENUE WATER

In the annual report the URA indicated that it expected that Connect would have in place a programme to combat the problem of non-revenue water and would expect this to form part of any assessment for tariff increases.

The URA is satisfied that Connect have taken this on board and now have a programme in place to tackle non-revenue water that can become reflected the Public Utilities Development Plan in due course. The results from the project at Levelwood are particularly encouraging and demonstrate a commitment to address the concerns the URA raised.

Mr George in his response to the consultation raised the issue of wasted water suggesting that urgent action was needed. The URA agrees with this and that is why in its last report in December 2020 it indicated that it required Connect to shortly have a programme in place. The URA are content at the progress so far.

3.2 OPERATING COSTS AND BUSINESS MANAGEMENT

The URA is satisfied, as indicated in the last annual report, that Connect is a well-run company on a sound financial footing with a level of overheads that are not excessive. Sharing the risk of fuel price hikes with SHG protects the customer and Connect from financial instability.

Connect recognise the requirement for investment in the water and sewerage systems and actively seek funding from SHG for these. As these areas of Connect's operation do not make a profit external funding is required. Connect like all organisations will need to make their case for funding and the URA is satisfied that it continues to do this appropriately

3.3 BENCHMARKING

Benchmarking can often be a helpful way of measuring the costs paid by St Helena with others elsewhere. Finding islands similar to St Helena is problematic. Previous benchmarking information has not included the relevant GDP of the islands referred to. Some islands have much higher levels of GDP and consequently a greater ability to invest in, or subsidise, water production. Some islands have much higher populations and consequently the cost of maintaining the network per customer is lower. GDP levels have now been obtained and included in the benchmarking figures.

While it may be true that some islands with similar GDP's have lower costs to the customer very few have such small populations. What can be taken from benchmarking is that the costs to Connect's customers are within the range charged on other small islands.

DIRECTIVE

It is therefore directed, in accordance with section 5(1)(c) of the Utilities Services Ordinance 2013, that the utility charges to be made by Connect St Helena Ltd from 1st April 2021 shall not exceed the maximums specified below:

ELECTRICITY TARIFF CHARGES

<u>Usage Charges</u>	
Domestic Band 1 (first 1,000units)	£0.30
Domestic Band 2 (units over 1,000)	£0.46
Commercial and 3 Phase	£0.46

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WATER TARIFF CHARGES

<u>Quarterly Standing Charges</u>	
Domestic	£12.50
Commercial	£36.41
Agricultural	£12.50
<u>Domestic Use</u>	
Treated Water first 15 cubic metres	£1.69
Treated Water 16 – 24 cubic metres	£2.22
Treated Water above 24 cubic meters	£4.37
Untreated	£1.11
<u>Other Use</u>	
Commercial	£4.37
Agricultural treated	£2.22
Agricultural untreated	£1.11

DRAINAGE TARIFF CHARGES

Domestic Standing	£21.78
Commercial Standing	£34.39

ELECTRICITY OTHER CHARGES

Disconnection	£43.03
Reconnection	£43.03

WATER OTHER CHARGES

Connection	£37.29
Disconnection	£37.29
Reconnection	£37.29

DRAINAGE OTHER CHARGES

Empty private septic tank (domestic)	£86.37
Empty private septic tank (commercial)	£138.73
Unblock private sewer line (domestic)	£86.37
Unblock private sewer line (commercial)	£138.73
Connection	£42.54
Disconnection	£42.54

Duncan Cooke
Chairman, Utilities Regulatory Authority

17th March 2021

ANNEX

Utilities Tariffs – April 2021 Tariff Revision Justification

Recommendation

Connect Saint Helena Ltd. wishes to adjust utility tariffs from 1st April 2021. The detailed proposals are outlined in the Appendix 1 and Connect recommends to the Utilities Regulatory Authority that these new prices are implemented from 1st April 2021 in order that the budgeted income can be collected within this financial year.

Summary position

Since divestment Connect have through cost savings reduced the level of subsidy from SHG and have now brought electricity tariff income broadly in line with costs. It is proposed water tariffs are targeted to increase revenue since it would be unfair for electricity consumers to apply a blanket percent increase in tariff charges since this would mean electricity consumers would be subsidising water consumers. In terms of income the average consumer pays significantly more in electricity consumption charges than for water which means that to generate a reasonable increase in total tariff income the actual percentage increase in water tariff appears disproportionately high. When we adopted the strategy to target tariff increases onto water and sewage approximately 90% of the average domestic consumer's bill was electricity with the remainder water. If the proposed increases are made the electricity proportion of the average domestic consumers bill will fall to 78% and for commercial customers it is 86%. **The increased cost per person per day will be 1.5p for households that use 15m³ per quarter and 1.9p per day for households that use 20m³ per day. For households that are connected to the public sewerage network the cost increase per person is less than 1p per day.**

Electricity tariffs were last increased five years ago and water tariffs last year. SHG now targets the agricultural proportion of the subsidy directly at that consumer group and has the ability to provide that with conditions which may for example require increased levels of water capture from farmers or the more efficient use of the water resource. This is SHG's decision and the principle of reducing the level of untargeted subsidy and targeting it aligns with the undertakings made by SHG in the airport Memorandum of Understanding. We have therefore already provided mitigation for the consumer group known to be adversely affected by this proposal. Electricity tariffs have remained the same for the last five years.

Tariff and subsidy go hand in hand so the proposed tariff was the basis for the subsidy agreement with Elected Members. We proposed a choice of either 10% or 20% increase in water tariffs since this would have provided less than inflationary consumer increase and reduced the subsidy from SHG. Elected Members decided the higher level of subsidy to limit the proposed increase to 10% and SHG elected to increase their exposure by reducing the fuel risk price threshold.

The (revised) funding model agreed five years ago continues with a depreciation surplus now budgeted (the original business plan assumed SHG would continue to fund asset replacement) this has placed the business on a more viable footing and ultimately will improve the level of service reliability & predictability. SHG will continue to fund infrastructure development. Further investment in capital assets will also bring cost pressures in the form of maintenance and provision for replacement.

The proposal places the subsidy at £353,000, a reduction of £756,514 since divestment.

Justification

The key justification for tariff increases is the fact that currently the tariffs are lower than the full costs of providing utility services resulting in a deficit that is partly funded by SHG in the form of subsidy. The following factors will continue to exert pressure on both tariffs and costs in the foreseeable future: -

1. Reduction and elimination of untargeted subsidies

Revenue subsidies to the company have been made annually as shown below:

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It is important to understand that had the revised funding model not been agreed Connect would now be operating without subsidy.

However taking the liability of asset replacement away from SHG puts the business on a far better footing to deliver services predictably and Connect are content to continue to work towards subsidy elimination with this increased scope in the original timeframe. Even with the increased scope we have already halved the operational subsidy.

For illustration purposes without the proposed subsidy a 12% increase across the board will be required to balance the books or a 60% increase on water and sewage charges.

A major factor this year is the effect Covid-19 is having on the reduced cost of diesel fuel so a major operational expense is budgeted to be lower allowing a drastic reduction in subsidy.

As envisaged in the company's business plan and in line with the Airport MOU revenue subsidies to the company are expected to reduce annually. This will continue to impact on the company's finances with pressure on both costs and tariffs.

2. Asset Management / Replacement

Currently most of the water infrastructure except the water treatment plants is worn out with disproportionate levels of break down repair resulting in unnecessary water being lost through bursts and leaks. Based on economic lives and depreciation the following table summarises the amounts that may be required to replace fully depreciated assets up to 2022. It should be noted that £4.9 Million of assets that Connect do not plan to replace have already been removed from the figures.

YEAR	TOTAL ESTIMATED CURRENT COST	DEPRECIATION FUND (Net movement)	SPEND TO DATE	Adjustment for Losses & Amortised Grants	ANNUAL SHORTFALL	RUNNING TOTAL
	£	£	£	£	£	£
2015	9,967,123	1,437,588	175,875		(8,705,410)	(8,705,410)
2016	970,916	885,681	316,317		(401,552)	(9,106,962)
2017	-	979,762	703,669	(463,611)	(187,518)	(9,294,480)
2018	410,755	1,100,594	555,123	(520,205)	(385,489)	(9,679,969)
2019	33,815	1,101,364	428,361	(157,177)	482,011	(9,197,958)
2020	108,049	1,110,003	451,481	(522,119)	28,354	(9,169,604)

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2021	799,765	1,078,012	234,359		43,888	(9,125,716)
2022	648,125	1,052,087	0		403,962	(8,721,754)
Total	12,938,549	8,745,092	2,865,185	(1,663,112)	(8,721,754)	

In line with the funding strategy agreed by ExCo, capital asset replacement is funded via the revenue account by ring-fencing the annual depreciation charges into a cumulative fund, infrastructural developmental investment will only be affordable with external funding. The above table shows that if all fully depreciated assets were to be replaced like for like by 2022 without upgrades an estimated £8.7 Million would be required from external sources such as SHG. This will be in addition to the cash that the company has to generate through annual depreciation charges funded through tariffs with spend to date being £2.865 Million.

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

The reason no real progress is being made to reduce the shortfall despite significant investment is that the depreciation revenues being generated now are being used to replace the fully depreciated assets transferred from SHG's books. Clearly this situation is unsustainable but when we see real savings from increased levels of renewable energy some of those savings can be directed towards the replacement of depreciated assets.

3. Infrastructure Development

Electricity, sewage and water infrastructure projects currently planned to be funded through the SHG Capital Programme (EDIP) will still be required. There should be no further requirement for funding from the SHG Capital Programme for the purpose of asset replacement once the individual assets are life expired since they will be replaced by the depreciation fund previously described.

4. Investment in Renewable Energy

With all the above bearing pressure on the company's finances the only way significant cost efficiencies can be realised is through continual investment in renewable energy. The wind turbines and solar farm together contribute a budgeted 25% of the total power generated. Dependency on diesel generation and the international oil prices variability continue to weigh heavily on the cost, and predictability of the cost of electricity production. To realise tangible cost reduction further investment in renewable energy and power storage assets continue to be needed. The Power Purchase Agreement (PPA) was signed on 29th May 2020 and conditions precedents are close to being satisfied. These will be budgeted in the next financial year once there is a contractual programme agreed so we can phase the budget accurately. We are nearing the end of contractual negotiations.

5. Active Sewage Treatment

The cost of providing the sewage disposal service breaks even. Any more sophisticated system needs to be considered very carefully since with a small customer base any tariff increase to attempt to continue to break even could have a significant impact on our customers and Connect strongly believes that the lowest operating cost option that satisfies the environmental standards is the right solution for the island since other options will be unaffordable. We find ourselves in conflict with SHG who has taken advice from an infrastructure consultant and proposes an option that transfers responsibility for storm water (in Jamestown & HTH) to Connect and is more complicated than the combined deep outfall solution. We are concerned that both of these elements will escalate costs to such an extent that the customer will not be able to afford to pay or SHG would need to increase their level of subsidy. Both of these options are not currently supported by Connect. We are seeking a meeting with the ENRC to make our case as we are making no progress with the SHG administration.

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6. Recurrent Expenditure Budget 2021-2022

As the company is required to deliver a balanced budget an exercise was undertaken to evaluate in detail the budgetary requirements of each cost centre to come up with the draft 2020-2021 budget prepared with the following assumptions:

- No growth in electricity consumption
- No growth in water consumption
- 2.6% general inflation
- We continue to share fuel price risk with SHG
- Replacement of capital assets funded from the revenue account through depreciation charges

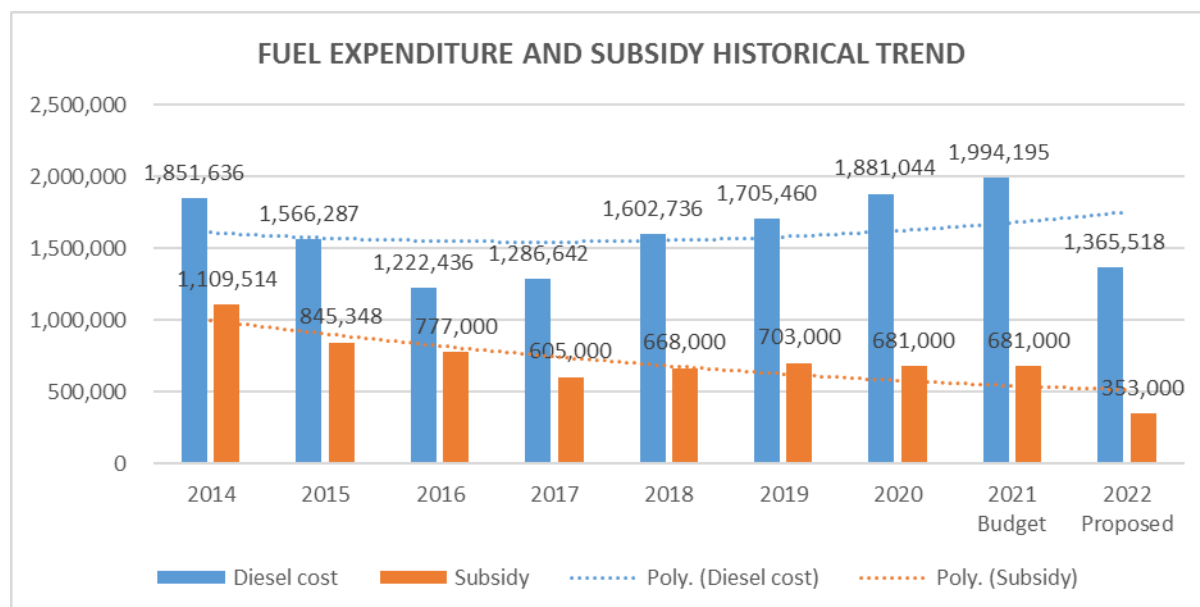
Operating Expenditure Budget 2021-22

	Proposed Budget	2020-21 Budget	FY 2019-20 Actual
Administrative costs	381,460	413,737	336,487
Employee costs	1,238,285	1,212,184	1,270,603
Premises costs	210,408	235,142	458,215
Fuel	1,365,518	1,994,195	1,839,397
Maintenance/Running Costs	1,005,395	912,620	1,034,446
Depreciation	1,106,889	1,263,680	1,094,291
Contracts	121,212	115,405	111,173
Expenditure	5,429,166	6,146,963	6,144,612

Administrative costs	413,737	417,737	370,775
Employee costs	1,212,184	1,182,037	1,221,629
Premises costs	235,142	229,078	189,958
Fuel	1,994,195	1,881,044	1,705,460
Maintenance/Running Costs	912,620	892,864	1,071,901
Depreciation	1,263,680	1,202,075	1,101,364
Contracts	115,405	96,005	124,277

Diesel is a major cost to the business and a significant driver towards renewable energy. The following graph shows the progress we have made in keeping subsidy down despite the significant increase in fuel costs.

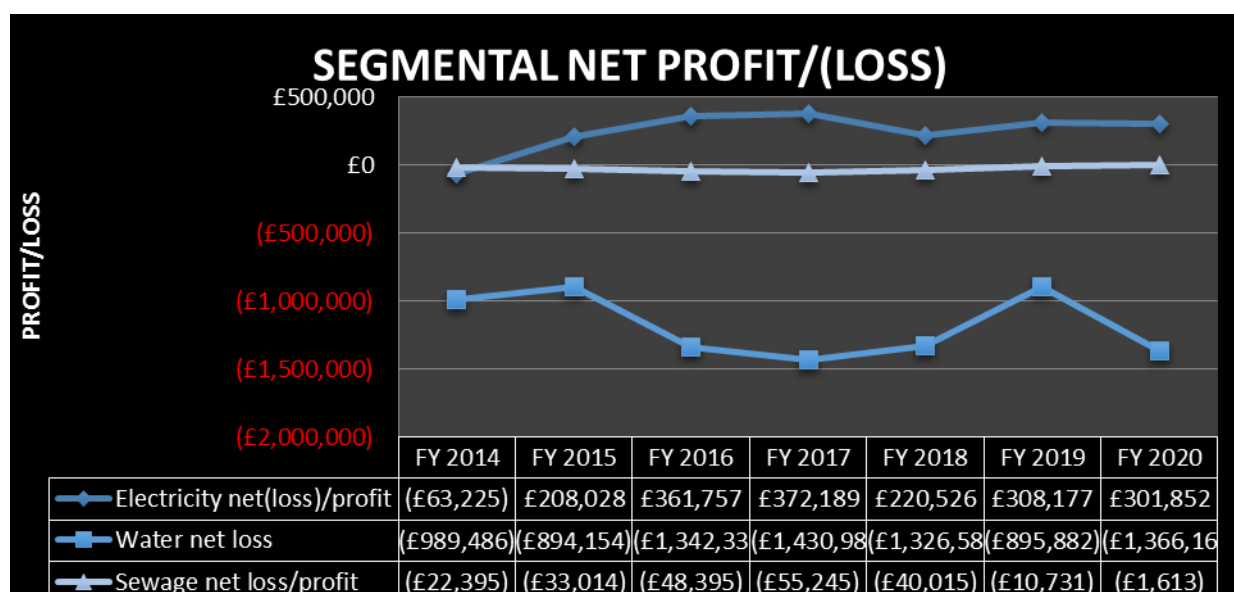
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To break even the company needs income equal to the £5,429,000 expenditure budget summarised in the previous table. At current tariffs the company's tariff and service income for the year 2021-22 is estimated at £5,011,000 resulting in a shortfall or deficit of £418,000 that will have to be partly funded by tariff increase, reserves and subsidy.

Segmental cost recovery

Whilst we have managed to fully recover total costs in electricity by having the higher end users effectively subsidising lower end users so that total costs are recovered plus a small margin, we are very far away from achieving that in water. There has been a noticeable growth in private PV systems that threatens more fixed costs being passed onto all consumers. The following graph shows the net profit or loss trend for water, sewage and electricity since the company started operating. You will note that electricity profitability peaked during the financial years 2016 and 2017 during which international oil prices and therefore diesel were at the lowest and is slowing down in 2018 as fuel prices increase.



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Water is still a long way from full cost recovery and calls for bold decisions on tariffs review. With a cubic metre of water costing over circa £7.42 the £2.99 average tariff per cubic metre is only recovering 40% of the cost.

Sewage service is breaking even, a situation that will deteriorate when the planned sewage facilities are constructed and their depreciation, operational and maintenance charges added onto the cost base.

The above recurrent budget and the deficit together with the aforementioned factors are the compelling forces considered by management in developing proposals for the next tariff review. While the draft budget for the next financial year has been compiled with guarded austerity to ensure cost effective service delivery, we however could not escape from turning to tariff review as failure to increase the tariffs will have devastating impact on service delivery and threaten the efficiency gains attained since divestment from SHG.

Tariff Proposal

While the majority of tariff income comes from electricity, electricity tariffs now broadly align to costs and for that reason no electricity tariff increase is being proposed. Sewerage revenue accounts for 3% of tariff income and water 15% while their respective costs account for 2% and 21% of the company's total operating expenditure. The intention is to create an increase on the consumer's overall utility bill with the increase being on water and sewage.

In order to relate increases to what is often referred to as 'the man on the street' we have divided increases on individual meters (also referred to as customers or consumers) by the average household size of 2.5 people. So where we refer to the increases per 'individual' we are expressing what that person has to find extra per day to pay their increased bill.

Sewage

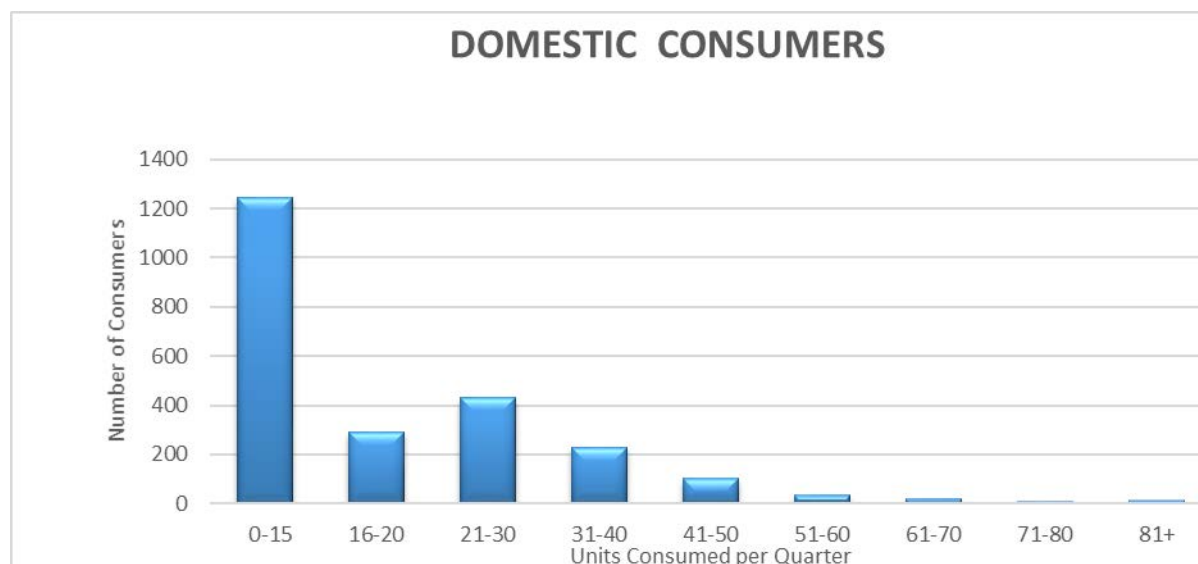
The proposal is to increase standing charges by 10%. For domestic customers this equates to an increase of 15p per week or for an individual 0.9p per day.

Whilst we attempt to schedule septic tank emptying during the working week there are occasions where it is necessary for staff to come in during the weekend at short notice. It should be possible to arrange the emptying of a septic tank during normal working hours and it is proposed that to incentivise people to do this we charge a 15% weekend surcharge with the intention that our customers will organise things better rather than pay the premium.

Water

The proposal is to increase charges by 10%. This will bring the water tariff to cost ratio to 47% up from the current 40%. For the 15 cubic meter household each individual will experience a 1.5p per day increase and for a higher consumer household this increase per person will be 1.9p per day.

15 cubic metres per quarter is recognised by the World Health Organisation (WHO) as the quantity of water required for basic needs for an average household. At this rate of consumption the weekly increase will be 18p for usage and 9p for the standing charge. Included within the 15 cubic meters WHO basic needs is an amount for growing food for own use. The following graph shows the usage distribution for domestic consumers.



Electricity

The proposal is to maintain the current tariffs as they are now fully covering the operating costs. Future annual reviews will be subject to costs variability and with further investment in renewable energy future tariff reductions might be possible. In the situation where the cost of diesel increases and electricity moves back into loss making Connect will apply to the URA for tariff adjustment to prevent the loss.

Other services

It is proposed that all the other optional services like new connections and septic tank emptying be increased by 2%.

This proposal is budgeted to raise an additional £64K in tariff revenue.

Socio-Economic Impact

An across the board percentage increase is quite simple to assess changes to individual customer's bills. Since this proposal targets the water tariffs Connect felt it important to model the effects on individual consumers. Initial collation of consumption data when we first adopted the freezing of electricity tariffs proved very time consuming and since there has been no material change the same consumption data was used for this analysis. The model demonstrates that there are winners and losers, winners being high electricity consumers and losers being agricultural customers.

If the proposed increases are made the electricity proportion of the average domestic consumer's bill will fall to 78% and for commercial customers to 86%. **The increased cost per person per day will be 1.5p for households that use 15 cubic meters per quarter and 1.9p per day for households that use 20 cubic meters per quarter. For households that are connected to the public sewerage network the cost increase per person is 0.9p per day.**

The average commercial consumer's bill has just 14% water charges so a simple calculation of applying a 10% rise to this gives the average commercial consumer a 1.4% increase in their overall utility bill.

Benchmarking

It is worth looking at other islands to establish how St Helena compares in terms of cost. Electricity prices in St Helena are often said to be very high but in reality they are favourable compared to other islands which share similar constraints. Clearly island costs will exceed places where fossil fuel generation efficiency is better but of course nuclear or combined cycle gas turbines are not viable for remote locations. Water is also favourably priced. Aruba benefits from high levels of renewable energy. Ascension Island water is desalinated and

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demonstrates why the technology is inappropriate for St Helena due to the excessive costs. The independent review of Connect considered other islands as reasonable benchmarks reporting the following and previously the Authority asked for additional benchmark islands. The best data we can obtain is shown in the following tables.

Electricity

The Independent review benchmarked electricity tariffs as follows: -

	Population	Unit	Standing	500kWh Bill	Comparison to St Helena	
St Helena	4,000	£0.30	£0.00	£150.00		
Montserrat	5,000	£0.32	£0.00	£160.00	£10.00	More
Ascension Island	900	£0.47	£0.00	£236.05	£86.05	More
Alderney Island	1,903	£0.38	£9.45	£198.60	£48.60	More
Sark Island	500	£0.66	£0.00	£330.00	£180.00	More
Aruba	105,000	£0.14	£4.94	£74.94	£-75.06	Less

There has been no change in the electricity tariff for five years and there has been no further benchmarking since the Independent Review. However as we look to the future where we have significant renewable generation capacity we can expect electricity tariffs to reduce. The review recommended that a standing charge be re-introduced to cover the fixed costs of the service provision. It is anticipated that during the next year there will be a proposed restructuring of electricity tariffs to take into account the predicted reduction in production costs which will include an element of benchmarking. With water making a significant loss we anticipate recommending some of the electricity savings being partially offset by increases in the water tariffs as well as subsidy reduction.

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Water

The following table compares St Helena against islands identified as suitable benchmarks by both the URA and Independent Review. Some figures are less easy to obtain than others which is the reason why some cells are unpopulated.

	Population '000	GDP/Capita '000	Year GDP/Capita	Average Domestic Water Tariff for 15m ³ /month consumption				
				2016	2017	2018	2019	2020
Alderney	2	£ -		£ 4.00	£ 4.20	£ 4.47	£ 4.68	£ 4.93
America Samoa	55	£ 9	2018	£ 1.33	£ 1.52	£ 1.53	£ 1.53	£ 1.54
Anguilla	15	£ 14	2019	£ -	£ -	£ 3.40	£ -	£ 4.06
Antiga & Barbuda	98	£ 13	2019	£ 1.82	£ -	£ -	£ -	£ 4.20
Aruba	107	£ 22	2017	£ 2.61	£ -	£ -	£ -	£ 2.78
Ascension Island	0.8	£ -		£ -	£ -	£ 23.34	£ -	£ -
Bermuda	62	£ 65	2013	£ 5.23	£ 5.90	£ 5.75	£ 5.84	£ 5.87
British Virgin Islands	30	£ 24	2019	£ 2.79	£ -	£ -	£ -	£ 3.81
Cape Verde	556	£ 3	2019	£ 2.40	£ 2.87	£ 3.09	£ 2.97	£ -
Cayman Islands	66	£ 65	2018	£ -	£ -	£ 4.58	£ 4.66	£ -
Dominica	72	£ 6	2019	£ 0.90	£ -	£ -	£ -	£ 1.77
Falkland Island	3.5	£ 71	2017	£ -	£ -	£ -	£ -	£ 19.88
Guam	169	£ 27	2018	£ 1.61	£ 1.85	£ -	£ -	£ 1.84
Gurnsey	67	£ 53	2018	£ 2.99	£ 2.78	£ 2.69	£ 1.92	£ 1.93
Isle of Man	85	£ 61	2018	£ 1.35	£ 1.39	£ 1.48	£ 1.48	£ 1.50
Jamaica	2,961	£ 4	2018	£ 1.21	£ 1.35	£ 1.47	£ 1.47	£ 1.51
Jersey	98	£ 44	2018	£ 2.84	£ 2.80	£ 3.11	£ 2.94	£ 3.14
Montserrat	5	£ 9	2019	£ 1.35	£ 2.03	£ -	£ -	£ -
Nauru	11	£ 7	2019	£ -	£ 5.06	£ -	£ -	£ -
Netherlands Antilles	228	£ -		£ 3.86	£ 4.35	£ 4.11	£ 4.09	£ 4.32
St Helena	4.5	£ 8	2018	£ 1.45	£ 1.73	£ 2.08	£ 2.08	£ 2.29
US Virgin Islands	104	£ 27	2017	£ 5.10	£ 5.68	£ -	£ -	£ 4.09
Wallis & Fortuna	11	£ 9		£ -	£ 0.84	£ -	£ -	£ -
Falklands £298.28 / dwelling								

Water tariffs are low within the benchmark range and once electricity tariffs reduce there should be scope to increase water tariffs further without creating hardship for consumers. We would endeavour to recover losses in water from the reduction in electricity charges whilst agreeing with SHG the rate of subsidy reduction.

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Non-Revenue water

We have increased focus on the important matter of Non-Revenue Water (NRW). We have strengthened our NRW team by creating a dedicated post of NRW Coordinator to deal with this important aspect of the business. It is a complex area and not solely concerned with leaks and bursts. Loss control is an iterative process. The critical first step of the iterative process is the **water audit**. A **water audit** identifies and quantifies the water uses and losses from a water system. The **intervention** process addresses the findings of the **water audit** through implementation of controls to reduce or eliminate water losses. The **evaluation** step uses performance indicators to determine the success of the chosen intervention actions. This process can vary from as little as two weeks to more than 2 years. Levelwood has taken over 4 years to get us to where we are now.

COMPONENT & KPI	UNIT	ST HELENA	AMERICAN SAMOA	FIJI	MARSHALL ISLANDS	PALAU	KIRIBATI	SAMOA	TONGA	VANUATU
Population	000	5	56	919	53	22	120	199	110	288
Service Coverage	%	100%	96%	97%	100%	100%	67%	76%	95%	69%
Dom. Cons.	lpd	100	183	163	n.a.	344	2	153	80	n.a.
Staff Ratio/1000 con.	nos.	11 (2)	1.0	1.11	1.02	6.4	0.7	0.9	1.68	0.28
NRW	%	53%	62%	48%	n.a.	59%	89%	54%	61%	24%
Av. Rev. per m3 (1)	£/m3	1.97	1.38	0.24	1.46	1.47	15.7	0.52	1.42	0.76
Av. Op. Cost per m3 (1)	£/m3	5.01	1.81	0.31	4.64	1.22	14.1	0.54	1.13	1.05
Op. Cost Coverage	ratio	39%	76%	80%	31%	120%	110%	96%	125%	72%
Collection Ratio	%	85%	98%	100%	100%	72%	70%	95%	63%	97%

Notes: (1) IB-NET values converted at following exchange rate: 2017 US\$ 1 = £0.783; and (2) For O&M employees only the ratio is 7 per 1,000 connections.

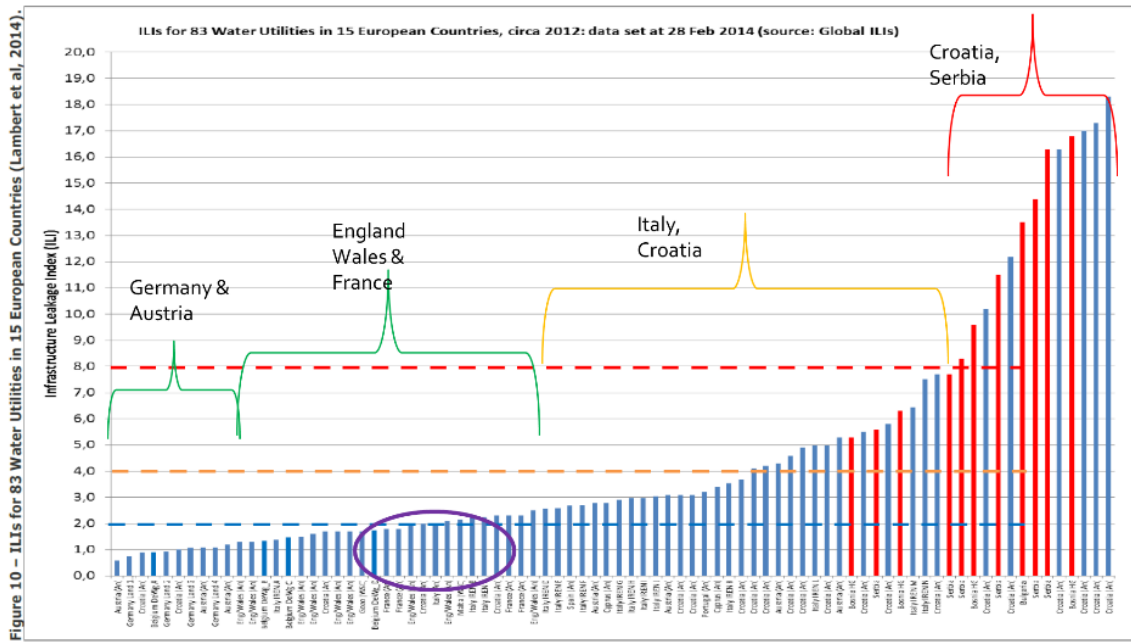
Sources: (i) International Benchmarking Network (IB-NET), World Bank; and (ii) Exchange rate 2017 - www.xe.com

Extract from the BDO report

On the assessment carried out by BDO, St Helena at 53% was ranked third best. The benchmarked figures whilst being favourable within the table we do agree that we need to improve on this. The following demonstrates the significant progress made and if we move away from the basic comparison of water billed divided by water supplied to a robust Infrastructure Leakage Index (ILI) which compares losses to what is technically the best possible then we are comparable in area's we have been tackling with many UK water Companies. NRW is a financial performance indicator that does not provide for the actual physical condition of the water network. However, Infrastructure Leakage Index (ILI) has proved to be an effective technical real loss performance indicator for well-planned and maintained water utilities in developed countries.

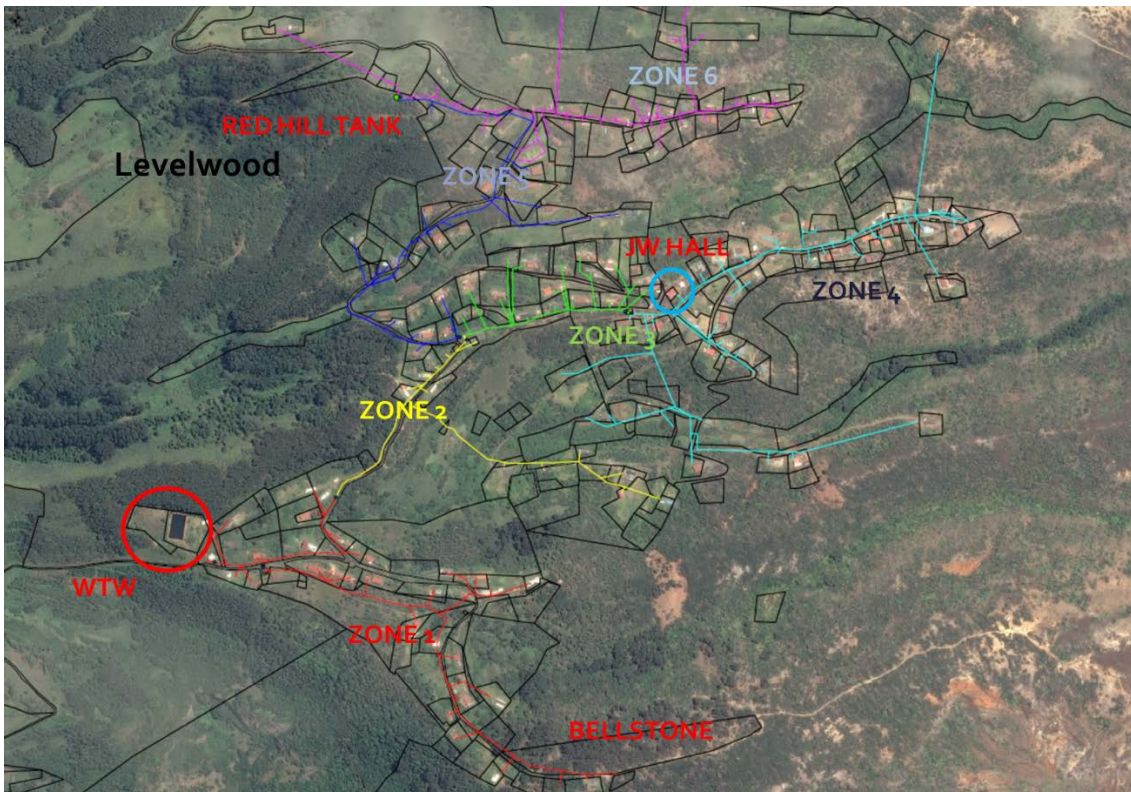
The following graph shows the comparison of Levelwood results (indicated by the purple circle) using ILI to the Water Utilities in 15 European countries. The Levelwood area is comparable to England, Wales and France.

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Working in Levelwood

A water audit based on the data in our systems directed us to focus our efforts in Levelwood. We divided the area into 6 zones as shown on the map on below.



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Levelwood Results

Area	Zone	Dates	NRW %	ILI*
Levelwood	ALL	Mar-June 19	44.99%	2.22
		Jun-Sep 19	50.90%	2.74
		Dec 19-Mar 20	57.40%	3.14
		Mar-June 20	42.88%	1.71
		June-Sep 20	39.60%	1.59
		Sep-Dec 20	33.33%	1.10
	1	Jun-Sep 19	71.00%	3.40
		14-26/11/2020	52.95%	0.46
		01/12-15/12/20	27.71%	0.36
		Sep-Dec 20	32.16%	0.81
		15-05/01/21	16.58%	0.36
	2	13-27/08/2020	67.37%	3.93
		27-10/09/2020	60.66%	3.41
		June-Sep 20	75.76%	5.70
		14-26/11/2020	15.24%	0.30
26/11-10/12/2020		10.63%	0.20	
		07-21/01/2021	1.41%	0.02
*Infrastructure Leakage Index = CARL/UARL				

Area	Zone	Dates	NRW %	ILI*	
Levelwood	3	13-27/08/2020	28.57%	2.28	
		June-Sep 20	30.39%	2.44	
		10-24/09/2020	4.26%	0.19	
		24-08/10/2020	6.00%	0.29	
		Sep-Dec 20	28.14%	2.19	
	4	21/11/2019	5.19%	0.23	
		Mar-June 20	6.87%	0.33	
		June-Sep 20	0.91%	0.04	
		Sep-Dec 20	9.31%	0.43	
	5	June-Sep 20	40.88%	2.21	
		18/09-02/10/20	20.59%	1.11	
		02/10/2020-16/10/20	27.78%	1.27	
			Sep-Dec 20	35.20%	1.74
	6	June-Sep 20	7.81%	0.35	
		Sep-Dec 20	29.79%	1.53	
*Infrastructure Leakage Index = CARL/UARL					

The tables show results for Levelwood spanning March 2019 until now.

From the onset of identifying Levelwood as the target area, there has been a reduction from 78% to 45% and now to 33.33% for the whole of Levelwood area.

Other areas being looked at the same time as Levelwood include Burnt Rock, Barren Ground (2 Zones). Same as Levelwood, meter errors were the major contributor to the water loss figures reported. The work completed to date of replacing these meters and optimising size and location has yielded a reduction in water loss.

Although the figures in Levelwood show a tremendous improvement the losses identified are largely apparent losses rather than physical losses and hence no real water has been saved, water is simply better accounted for.

The four key factors which influence real water losses in distribution systems are: the speed and quality of repairs; pipeline and asset management (renewal of the water network), active leakage control; and pressure management. On the work we have been doing our operations teams and out of hours contractor has been attending to leaks as quickly as they can. Ladder Hill (HTH phase 1) has been ongoing on removing the old asserts replacing them with new below ground pipeline yielding a reduction in the need for attends to these areas. Part of the improvements on the new installation is the detailed hydraulic analysis making sure that the pressure is managed.

Our NRW Coordinator has unfortunately decided to move away from St Helena but we have been successful in having continuity with his replacement already on island. NRW has a dedicated budget line and we have made capital provision to deal with physical losses when the audits identify them.

Business Performance

The Connect Board of Directors is content with the company's overall performance to date. The majority of the Public Utilities Development Plan targets were met at the time of the last review and year to date we are performing well against tighter targets.

The original Business Plan approved by ExCo was on the basis of considerably greater levels of tariff increase than those implemented last year and currently being proposed. Against this backdrop Connect is honouring their commitment to reduce the subsidy whilst improving service standards. Had additional liability in regard to the replacement of depreciated assets not been transferred then Connect would be operating without subsidy well in advance of the agreed timeframe.

Connect appointed an internal auditor who is working to provide assurance to the Board in a number of priority areas with two audits now complete without any significant issues being identified. This work from 1st February 2020 has been contracted to SHG Internal Audit Services. We continue to receive unqualified annual audits of our Financial Statements.

The original business plan had a high reliance on SHG to fund asset replacement which is contrary to the requirements of a viable business. In December 2014 Connect presented a tariff / subsidy proposal to Executive Council which enables reserves to be built to fund asset replacement. This revised strategy progressively moves Connect away from the annual capital prioritisation process where there is no guarantee of securing funds. The budgeted depreciation roughly equates to the subsidy so had the asset replacement strategy not been altered Connect would be operating without subsidy. This funding arrangement has continued and is reflected in Connects 2020 Business Plan.

Connect is now in a far better position to provide predictability and reliability in service provision than what was originally envisaged in the initial business plan.

To date there was a business plan produced pre-divestment and a second plan from 2016. The company is currently preparing our third business plan and has recently engaged with stakeholders to obtain their input as part of the process. The new business plan is expected to be completed within the next few months.

Conclusion

Utility price rises on St Helena are always unpopular with the public. Historically charges were unaltered for many years which now creates additional burden in filling the gap created between the ever increasing costs and tariff charges. With the great progress in reducing costs associated with generating electricity our focus is drawn to the significant financial loss that water makes and the injustice in electricity consumers subsidising water customers if a traditional inflationary increase was applied.

There is significant need to increase revenue for Connect, this will both help reduce the subsidy from SHG and allow for greater levels of investment, which in the long term will help efficiencies and a better level of service provision as proposed in the Utility Services Development Plan. Without increasing water tariffs to close the gap towards full cost recovery it will be difficult to demonstrate to the UK Government that we are serious about our obligation to eliminate this untargeted subsidy. The level of cost increase is lower than what was originally envisaged in the Business Plan and will provide Connect with about £64k increase on our tariff revenue.

Connect therefore recommends to the Utility Regulatory Authority that charges are adjusted as proposed in this paper.

PROPOSED ELECTRICITY AND WATER TARIFFS COMMENCING 1ST APRIL 2021

Connect Saint Helena is proposing revised tariffs commencing 1st April 2021. 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. We are proposing to keep electricity usage tariffs at their current level and to focus increase on water and sewage charges. The combined effect for most people will be less than inflationary increase on their Connect bill. The Minimum Income Standard will be adjusted to take into account this increase and qualifying agricultural customers will receive payments directly from Saint Helena Government to offset this increase. Electricity charges have remained static for the last 5 years with the last increase in April 2016.

	CURRENT TARIFF	PROPOSED TARIFF	Increase
ELECTRICITY TARIFF CHARGES			
<u>Usage Charges</u>			
Domestic Band 1 (first 1,000units)	£0.30	£0.30	Nil
Domestic Band 2 (units over 1,000)	£0.46	£0.46	Nil
Commercial and 3 Phase	£0.46	£0.46	Nil
WATER TARIFF CHARGES			
<u>Quarterly Standing Charges</u>			
Domestic	£11.36	£12.50	£1.14
Commercial	£33.10	£36.41	£3.31
Agricultural	£11.36	£12.50	£1.14
<u>Domestic Use</u>			
Treated Water first 15 cubic metres	£1.53	£1.69	£0.16
Treated Water 16 – 24 cubic metres	£2.02	£2.22	£0.20
Treated Water above 24 cubic meters	£3.97	£4.37	£0.40
Untreated	£1.01	£1.11	£0.10
<u>Other Use</u>			
Commercial	£3.97	£4.37	£0.40
Agricultural treated	£2.02	£2.22	£0.20
Agricultural untreated	£1.01	£1.11	£0.10
DRAINAGE TARIFF CHARGES			
Domestic Standing	£19.80	£21.78	£1.98
Commercial Standing	£31.26	£34.39	£3.13

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	CURRENT TARIFF	PROPOSED TARIFF	Increase
ELECTRICITY OTHER CHARGES			
Disconnection	£42.18	£43.03	£0.85
Reconnection	£42.18	£43.03	£0.85
WATER OTHER CHARGES			
Connection	£36.56	£37.29	£0.73
Disconnection	£36.56	£37.29	£0.73
Reconnection	£36.56	£37.29	£0.73
DRAINAGE OTHER CHARGES			
Empty private septic tank (domestic)	£78.52	£86.37	£7.85
Empty private septic tank (commercial)	£126.12	£138.73	£12.61
Unblock private sewer line (domestic)	£78.52	£86.37	£7.85
Unblock private sewer line (commercial)	£126.12	£138.73	£12.61
Connection	£38.67	£42.54	£3.87
Disconnection	£38.67	£42.54	£3.87

Anyone wanting to understand more how the tariff changes will affect them are welcome to call Connect on 22255 or email enquiries@connect.co.sh

Any comments you might have regarding the proposed tariffs can be forwarded to:

The Utilities Regulatory Authority, The Castle, Jamestown marked for the attention of Yvonne Williams or by email to: yvonne.williams@sainthelena.gov.sh

All comments must be received by 12:00 noon on Friday 12th March 2021.

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Appendix 2 – Income Statement

	FY 2022 Budget	FY 2021 Budget	FY 2020 Actual
Subsidy	353,000	681,000	788,034
Drought grant			
Tariff income	4,853,917	5,305,064	4,676,527
General income	28,594	31,719	36,464
Service income	128,719	129,223	115,246
Total Income	5,364,229	6,147,006	5,616,270
Administrative costs	381,460	413,737	336,487
Employee costs	1,238,285	1,212,184	1,270,603
Premises costs	210,408	235,142	458,215
Fuel	1,365,518	1,994,195	1,839,397
Maintenance/Running Costs	1,005,395	912,620	1,034,446
Depreciation	1,106,889	1,263,680	1,094,291
Contracts	121,212	115,405	111,173
Revaluation loss	-	-	-
Drought mitigation costs	-	-	-
Total Expenditure	5,429,166	6,146,963	6,144,612
Profit/(loss) before amortizations	(64,937)	43	(528,342)
Amortization of capital grants	345,547	351,048	311,052
Net Profit/(loss) before tax	280,609	351,091	(217,290)