ST HELENA UTILITIES REGULATORY AUTHORITY

FEBRUARY 2020

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 Liz March. 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

The Authority received from Connect a request for permission to adjust the tariffs for water and electricity supplied from April 1st 2020. 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.69 of 1st October 2017.

1.9 WHY IS IT PROPOSED THAT PRICES INCREASE?

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 disproportionally high. When Connect 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 79% and for commercial customers it is 88%. **The increased cost per person per day will be 1.4p for households that use 15m3 per quarter and 1.7p 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 four years ago and water tariffs almost two years ago in July 2018. 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. Connect has therefore already provided mitigation for the consumer group known to be adversely affected by this proposal. Water tariffs were last increased on 1st July 2018 and electricity tariffs have remained the same for the last four years.

Tariff and subsidy go hand in hand so the proposed tariff was the basis for the subsidy agreement with Elected Members. Initially Connect had proposed a 20% increase in water tariffs since this would have provided less than inflationary consumer increase and reduced the subsidy from SHG to £606,000 however Elected Members decided a higher level of subsidy to limit the proposed increase to 10%. The (revised) funding model agreed four 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 sets the subsidy to £681,000, a reduction of £428,514 since divestment.

2.1 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: -

Reduction and elimination of untargeted subsidies

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

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 Proposed	£681,000

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 they have halved the operational subsidy.
For illustration purposes without the proposed subsidy a 15% increase across the board will be required to balance the books or a 120% increase on water and sewage charges.
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.

2.2 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 2021. 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	287,153	-	714,801	- 8,483,157
2021	799,765	1,078,012	-		278,247	- 8,204,910
Total	**12,290,423**	**7,693,004**	**2,466,498**	**-1,140,993**	**-8,204,910**	

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 2021 without upgrades an estimated £8.2 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 £2.466 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 real savings are seen from increased levels of renewable energy some of those savings can be directed towards the replacement of depreciated assets.

2.3. 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.

2.4. 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 26% 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. At the present time the tender process for the procurement of renewable energy through a power purchase agreement has identified a preferred bidder and contractual negotiations are underway but taking longer to conclude than originally envisaged. Once a Power Purchase Agreement (PPA) has been signed the island will see the expansion of wind and solar farms funded by a third party with Connect making monthly payments upon the receipt of electricity generated. The PPA price is below the cost of the diesel fuel that would be required to generate the electricity so there should be cost savings. These will be budgeted in the next financial year once there is a contractual programme agreed so that Connect can phase the budget accurately. The Authority is informed that parties are nearing the end of contractual negotiations.

2.5. Active Sewage Treatment

Work has commenced in improving the sewerage networks in Jamestown, Half Tree Hollow and Rupert's Valley. Full development permission has been obtained for the Rupert's sewage treatment plant but at the moment no funding is available to purchase and install it. Outline development permission was granted for a combined Jamestown and Half Tree Hollow combined system but Connect are in a similar situation with no funding available through the capital programme to fund working the outline development permission into the more detailed scheme required to apply for full development permission. While the cost of the planned sewage treatment plants will be funded by SHG's developmental capital funding programme, the costs of its running and maintenance will be borne by the company and management are not oblivious to the resultant cost pressures. This has to be provided for by being gradually built into the tariffs. The outline development permission application detailed three scenarios with budget tariff costs ranging from £34 per quarter to £100 per quarter with Connect proposing the lowest tariff cost option as their preferred option. Currently domestic customers pay £18.00 per quarter 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. The full effects of the new environmental legislation have still to be assessed as there is clearly the potential for further costs should excessively high discharge standards or planning conditions be required. Whichever option is chosen there will be cost increases and currently sewage runs at a deficit.

2.6. Recurrent Expenditure Budget 2020-2021

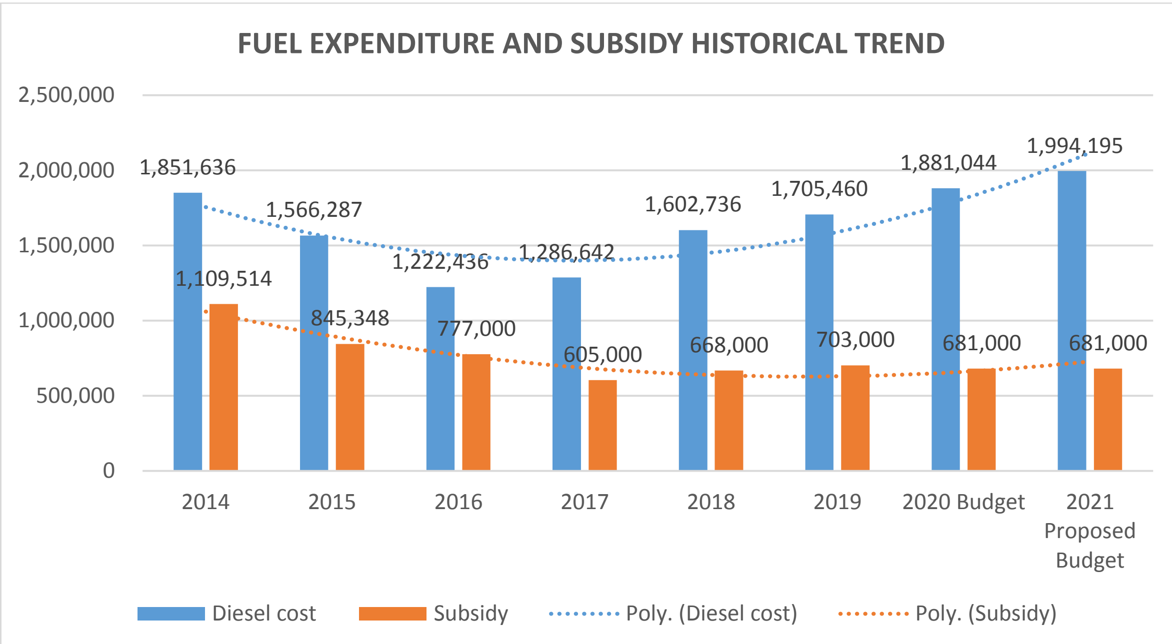
As the company is required to deliver a balanced budget an exercise was undertaken to evaluate in detail the budgetary requirements of each cost centre to come up with the draft 2020-2021 budget prepared with the following assumptions:

• 3% growth in electricity consumption
• 3% growth in water consumption
• 4% general inflation
• 5% fuel inflation
• Connect continue to share fuel price risk with SHG
• Replacement of capital assets funded from the revenue account through depreciation charges

2.7 Operating Expenditure Budget 2020/21

	Proposed Budget	FY 2019 Budget	FY 2019 Actual
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
Expenditure	**6,146,963**	**5,900,841**	**5,785,363**

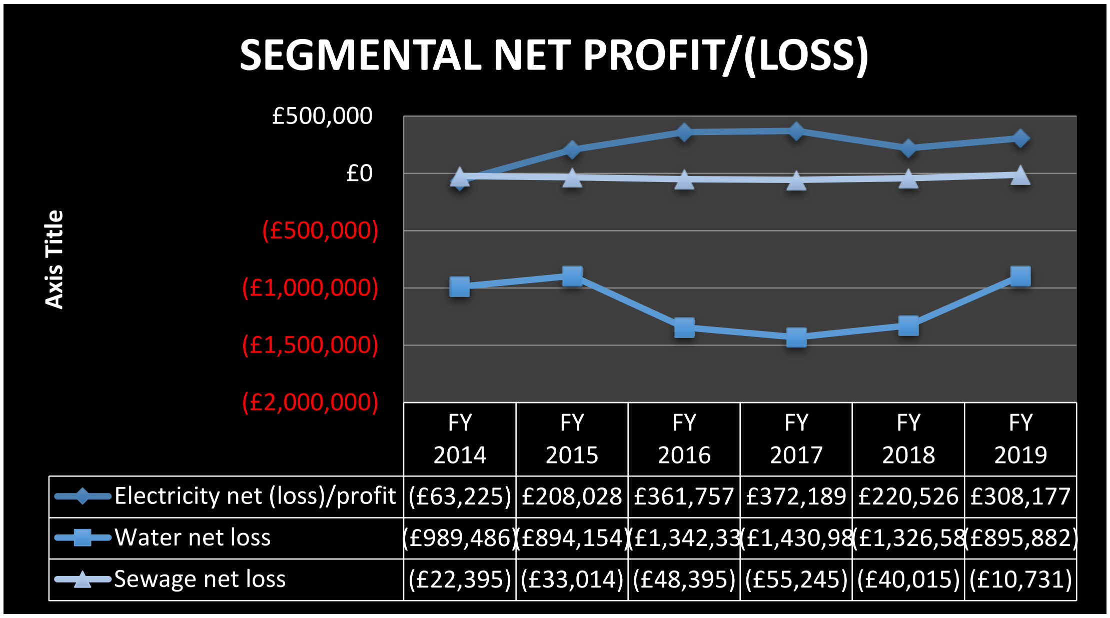
Diesel is a major cost to the business and a significant driver towards renewable energy. The following graph shows the progress Connect have made in keeping subsidy down despite the significant increase in fuel costs.



To break even the company needs income equal to the £6,147,000 expenditure budget summarised in the above table. At current tariffs the company's tariff and service income for the year 2020-21 is estimated at £5,466,000 resulting in a shortfall or deficit of £681,000 that will have to be partly funded by tariff increase and subsidy.

2.8 Segmental cost recovery

Whilst Connect 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, Connect are very far away from achieving that in water. 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.



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 £7.55 the £2.38 average tariff per cubic metre is only recovering 32% of the cost.

Sewage service is also not yet fully recovering costs a situation that will be more pronounced when the planned sewage facilities are constructed and their depreciation and maintenance charges added onto the cost base.

The Authority are informed the 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 Connect report the draft budget for the next financial year has been compiled with guarded austerity to ensure cost effective service delivery, they 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.

3.1 Tariff Proposal

While the majority of tariff income comes from electricity, electricity tariffs now align to costs and for that reason no electricity tariff increase is being proposed. Sewerage revenue accounts for 2% of tariff income and water 12% while their respective costs account for 1% and 23% 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' Connect have divided increases on individual meters (also referred to as customers or consumers) by the average household size of 2.5 people. So where they refer to the increases per 'individual' they are expressing what that person has to find extra per day to pay their increased bill.

3.2 Sewage

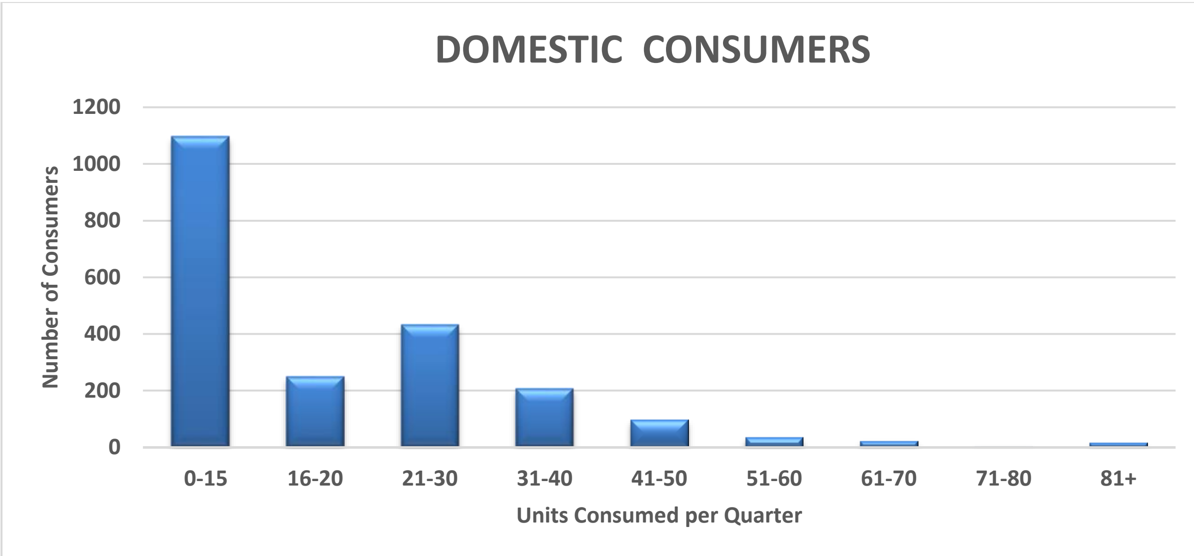
The proposal is to increase standing charges by 10%. For domestic customers this equates to an increase of 14p per week or for an individual 0.8p per day

3.3 Water

The proposal is to increase charges by 10%. This will bring the water tariff to cost ratio to 35% up from the current 32%. For the 15 cubic meter household each individual will experience a 1.4p per day increase and for a higher consumer household this increase per person will be 1.7p per day.

15 cubic metres per quarter is recognised by the WHO as the quantity of water required for basic needs for an average household. At this rate of consumption the weekly increase will be 16p for usage and 8p for the standing charge. Included within the 15 cubic meters WHO basic needs is an amount for growing food for own use.

Connect intend introducing a third charging band at 25 cubic meters. The purpose of the new band is to discourage excessive usage. During the recent water shortage Connect have been engaging with high volume consumers to encourage them to reduce consumption. What is apparent is that a small number of domestic consumers use a considerable quantity of water. There is also a billing anomaly where businesses are run from residences. By introducing a third band being charged at the same level as the commercial rate we anticipate some domestic consumers will take measures to reduce consumption to prevent paying the increased charges. Some consumers don't care what they pay but want to use water so they should pay a higher rate to recover more of the cost since it is their choice. Any people running businesses from their homes will still enjoy the two lower bands which are adequate for normal domestic consumption but if their businesses use water they will pay the same rate as business premises which is a much fairer position. The graph below shows the spread of usage for domestic consumers. 25 units were selected for the band threshold because it has sufficient headroom above both the WHO minimum and St Helena average consumption that will allow consumers to realistically stay below the band. With careful usage the consumers currently in the band can be encouraged to move below the threshold or those that chose not to will help reduce the gap between the revenue and cost of providing the service.



3.4 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.

3.5 Other services

It is proposed that all the other optional services like connections and septic tank emptying be increased by 4%.

This proposal is budgeted to raise an additional £75K in tariff revenue.

3.6 Socio-Economic Impact

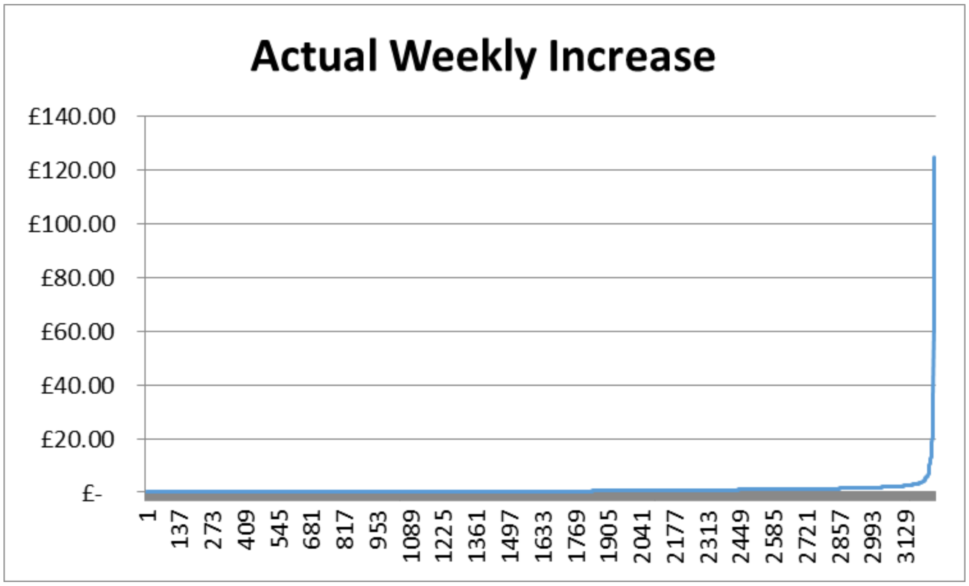
An across the board percentage increase is quite simple to assess changes to individual customer's bills. Since this proposal targets the water tariffs Connect felt it important to model the effects on individual consumers. Initial collation of consumption data when we first adopted the freezing of electricity 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 79% and for commercial customers to 88%. **The increased cost per person per day will be 1.4p for households that use 15 cubic meters per quarter and 1.7p 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 0.8p per day.

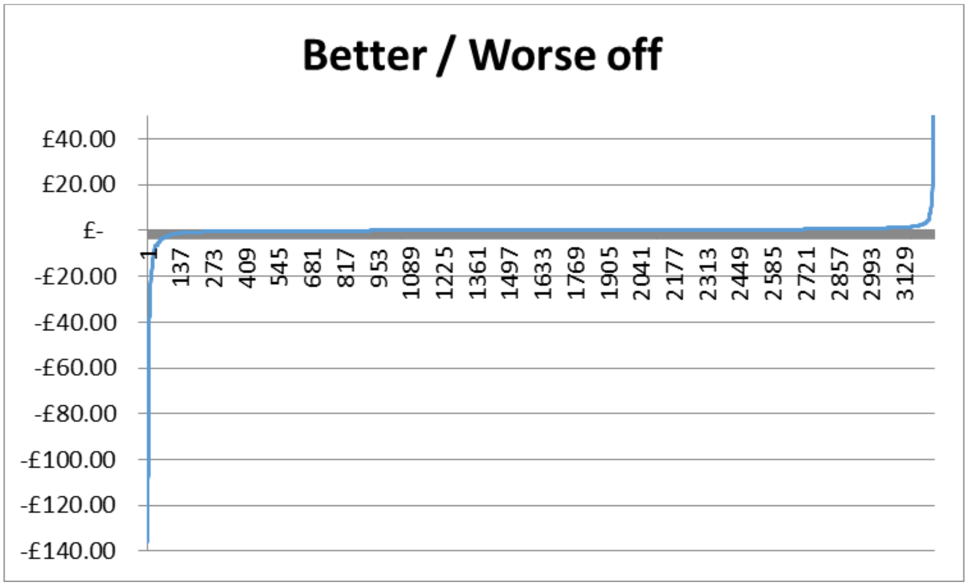
The average commercial consumer's bill has just 12% water charges so a simple calculation of applying a 10% rise to this gives the average commercial consumer a 1.2% increase in their overall utility bill.

The graphs below shows our customers sorted in order of the size of their increase, to the left of the graph these consumers receive the lowest increases and to the right the greatest increases.



The graph shows that the larger consumption increases are concentrated on a few consumers with the majority of consumers not adversely affected by the restructured tariff.

Whilst the analysis so far has looked at the absolute effect on consumers it has not considered who benefits from the revised tariff structure and who are made worse off compared to a 2% across the board increase. The graph below shows that for the vast majority of customers there is no significant effect either positive or negative when comparing the proposed new tariff compared to what they would have paid if a straight 2% increase had been applied.



Those receiving income related benefits have protection through the Minimum Income Standard that is adjusted to take into account increases in utility bills.

Connect is content that they have undertaken sufficient analysis of the impacts at an individual consumer level and that suitable mitigation measures are in place to deal with the most vulnerable in society and agricultural customers who would have been disproportionately affected by the proposed tariff increase.

4.1 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 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.

Electricity

	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

Electricity charges whilst frozen for the last four years are still at the top of the benchmarked range but with the introduction of more renewable energy Connect will see a dramatic reduction in diesel fuel consumption that will mean they will reduce electricity tariffs in order not to cross subsidise or make excessive profit from this sector.

Water

In terms of water supply costs per cubic meter the following charges apply for a domestic consumer using 22 cubic meters per quarter: -

	Population	Unit	Standing	20 Cubic Meter Bill	Comparison to St Helena	
St Helena	4,000	£1.39	£10.33	£38.13		
Montserrat	5,000	£5.69	£0.00	£113.80	£75.67	More
Ascension Island	900	£23.50	£0.00	£470.00	£431.87	More
Alderney Island	1,903	£0.43	£0.00	£67.00	£28.87	More
Sark Island	500	N/A	N/A	N/A	N/A	N/A
Aruba	105,000	£3.13	£0.00	£62.60	£24.27	More

Alderney has the minimum charge of £67 applied

Island	Population	2017 Tariff (£/m3)
Bermuda	61,000	£5.90
US Virgin Islands	32,000	£5.68
Nauru	11,000	£5.06
Cayman Islands	63,000	£4.58 (2018)
Netherlands Antilles	26,000	£4.35
Anguilla	15,000	£3.40 (2018)
Jersey	100,000	£2.80
Cape Verde	560,000	£2.87
Guernsey	63,000	£2.78
British Virgin Islands	32,000	£2.79 (2016)
Aruba	106,000	£2.61 (2016)
Antigua & Barbuda	104,000	£1.82
Isle of Man	85,000	£2.08
Montserrat	5,000	£2.03

St Helena	5,000	£1.68
Guam	163,000	£1.85
American Samoa	56,000	£1.52
Jamaica	2,906,000	£1.47 (2018)
Dominica	75,000	£0.90 (2016)
Wallis & Fortuna	12,000	£0.84

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. Connect would endeavour to recover losses in water from the reduction in electricity charges whilst agreeing with SHG the rate of subsidy reduction.

4.2 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 they state they are 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. Connect continue to receive unqualified annual audits of their 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.

Connect request to the Utility Regulatory Authority that charges are adjusted as proposed.

4.3 PUBLIC OBJECTIONS TO TARIFF INCREASE

The Authority has not received direct complaints from the public by way of response to consultation in relation to the current proposed tariff changes.

With these figures, the Authority cannot conclude that the tariff increase is likely to cause hardship by an increase in costs to the consumer.

5.1 CONCLUSION

Utility tariff increases are naturally unpopular. 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 Authority note a tariff increase was introduced in July 2018. The Authority concludes that this increase in tariff is necessary. The Authority cannot expect Connect to trade as a business insolvently. It is imperative that the services provided by Connect continue to improve. The Authority is satisfied from the information received and upon consideration of the submissions and responses that their proposed budget is realistic. The Authority consider that the overall level of increase in a quarterly bill to the average consumer is low. The Authority considers that the increases, with the protections in place for vulnerable members of society and targeted subsidy for agricultural users, 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.

The Authority, turns to objective (e). The concern of the Authority is that a principle of the divestment project was to enable Connect to become an enterprise that could 'stand-alone' in its fiscal management. Not to be reliant on general subsidy to operate and to ensure its stability and predictability whilst maintaining its levels of service. The Authority accepts the principle that, ultimately, the true costs of water must be targeted without recourse to being 'propped-up' by income from electricity and general subsidies. The Authority accept the principle that, eventually, costs charged for services must reflect the costs incurred to the provider and that general subsidy must be reduced whilst making considered use of targeted subsidies for sections of the population who are most effected.

The Authority repeat their expectation that Connect will continue to reflect upon its own operations and the increases in costs. The Authority poses the question to Connect as to whether it can more closely scrutinise the costs of the delivery of a quality service to the consumers of St Helena. Can costs be reduced in any way? Can efficiency be improved? The Authority is satisfied to accept the proposed tariff changes. However, the Authority will expect vigilance to be demonstrated by Connect to justify increases in their own running costs.

The Authority welcomed the Independent Review that was conducted last year. The Authority was satisfied with the conclusions drawn by the report. The level of cost increase is lower than what was originally envisaged in the Business Plan and will provide Connect with about £75k increase in their tariff revenue.

5.2 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.

24th February 2020

Nicholas Aldridge

Chair, Utilities Regulatory Authority

The Castle,

Jamestown

Appendix 1 - ELECTRICITY AND WATER TARIFFS COMMENCING 1ST APRIL 2020

Connect Saint Helena is proposing revised tariffs commencing 1st April 2020. 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 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. A high user tariff is proposed for units in excess of 25, this is to discourage excessive usage and is set 5 units above average domestic consumption. 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. Water charges have not increased since July 2018 & electricity charges have remained static for the last 4 years with the last increase in April 2016.

	CURRENT TARIFF	PROPOSED TARIFF	Increase
ELECTRICITY TARIFF CHARGES			
Usage Charges			
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			
Quarterly Standing Charges			
Domestic	£10.33	£11.36	£1.03
Commercial	£31.00	£33.10	£3.10
Agricultural	£10.33	£11.36	£1.03
Domestic Use			
Treated Water first 15 cubic metres	£1.39	£1.53	£0.14
Treated Water 15 – 25 cubic metres	£1.84	£2.02	£0.18
Treated Water over 25 cubic meters	£1.84	£3.97	£2.13
Untreated	£0.92	£1.01	£0.09
Other Use			
Commercial	£3.61	£3.97	£0.36
Agricultural treated	£1.84	£2.02	£0.18
Agricultural untreated	£0.92	£1.01	£0.09
DRAINAGE TARIFF CHARGES			
Domestic Standing	£18.00	£19.80	£1.80
Commercial Standing	£28.42	£31.26	£2.84

	CURRENT TARIFF	PROPOSED TARIFF	Increase
ELECTRICITY OTHER CHARGES			
Disconnection	£40.56	£42.18	£1.62
Reconnection	£40.56	£42.18	£1.62
WATER OTHER CHARGES			
Connection	£35.15	£36.56	£1.41
Disconnection	£35.15	£36.56	£1.41
Reconnection	£35.15	£36.56	£1.41
DRAINAGE OTHER CHARGES			
Empty private septic tank (domestic)	£71.38	£78.52	£7.14
Empty private septic tank (commercial)	£114.65	£126.12	£11.47
Unblock private sewer line (domestic)	£71.38	£78.52	£7.14
Unblock private sewer line (commercial)	£114.65	£126.12	£11.47
Connection	£35.15	£38.67	£3.52
Disconnection	£35.15	£38.67	£3.52

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