



Office of the Sark Electricity Price Control Commissioner

Notice of a Final Variation

29th December 2020

Summary

1. The unprecedented and challenging circumstances this year led me to review the price of electricity in Sark. After a thorough review and analysis of Sark Electricity Limited's (SEL) data and relevant information from other sources, on 20th November 2020, I proposed setting a maximum price for sales of electricity in Sark for 2021 in the range of 48-55.5 p/kWh, together with a minimum monthly electricity usage charge in the range of £35 to £45 for the majority of customers. I received 25 responses from customers and interested parties, and one from Sark Electricity Limited (SEL). Having considered these representations, I will use the power granted to my Office under section 15 of the Control of Electricity Prices (Sark) Law, 2016 (The "**2016 Law**"), to vary the Price Control Order of December 2019 (The "**PCO**") (The "**Variation**"). The starting maximum unit price of electricity in Sark will be 50 p/kWh from 1st January 2021. The maximum unit price during 2021 may be adjusted by my Office, depending on the consumption of electricity in Sark, movements in diesel fuel prices and other factors.
2. The Variation will also establish a cap for the minimum monthly usage charge for residential and commercial properties, of £40. This will not apply to connections for water supplies, sewerage and non-commercial social enterprises, such as the Observatory for example. This Variation will extend to 19th December 2021, when the term of the December 2019 PCO expires. This Notice is intended to inform SEL and its customers that my Office will serve a Final Variation on SEL on 1st January 2021, since, under section 17(1)(b) of the 2016 Law, it has effect on the day it is served.
3. The maximum prices I have set should allow SEL to earn an appropriate profit and recover half of the shortfall, or "under-recovery", that occurred during 2020 on account of consumption of electricity being lower than anticipated.
4. My analysis of consumption figures during 2020 suggests that less wealthy residents, i.e. those supported by the "procureur rate", will not suffer an increase in annual electricity costs as a consequence of the introduction of this new tariff arrangement. I have reason to believe that this should be the case for most full-time residents.
5. I recognise that owners of properties that are infrequently occupied will incur higher electricity bills during the off-peak season. This, however, is likely to be partially mitigated by a reduction in bills during the summer, owing to the lower maximum unit price. The costs of electricity infrastructure are spread over the whole year and it is more cost-effective for charges to reflect this. I hope that SEL will engage with such customers to agree a way in which the payments for the "off-peak" months may be scheduled, should customers wish to do so.
6. I do not believe it is reasonable for SEL to require deposits from existing customers with a history of paying their bills on time. However, I will allow SEL to require deposits from customers who have not kept their accounts to SEL's 30 day terms over the previous twelve months. New



customers, who are unable to provide standing order or equivalent may be required to pay a deposit of five months' monthly usage charge. I recommend that the funds be kept in a client account and not used for operational or investment purposes.

Background

7. On finding that the 66 p/kWh price of electricity charged by SEL¹ was not fair and reasonable, my Office made a Price Control Order on 20th December 2019 (**PCO**) under section 15 of The Control of Electricity Prices (Sark) Law, 2016 (The "**2016 Law**"). In accordance with section 15(3)(a) of the 2016 Law, this specified a maximum per unit price of 54 p/kWh at which electricity could be sold in Sark until December 2021.
8. Following a review of the PCO in October 2020, my Office proposed that the maximum unit price for electricity in Sark should be reset to 58 p/kWh for 2021 on account of consumption being lower than forecast. In response, SEL proposed a new tariff arrangement whereby the maximum unit price would remain at 54 p/kWh but customers would pay a minimum monthly charge and lodge a deposit. After considering the new tariff arrangement proposed by SEL, my Office suggested in its proposed variation Notice dated 20th November 2020 ("**Proposed Variation**") that, if such an arrangement were to be adopted, a minimum monthly charge in the range £35-40 per month, coupled with a maximum unit charge between 48 and 55.5 p/kWh would be fair and reasonable. The calculation for this recommendation was based on only one month's disaggregated consumption data which, if extrapolated, suggested that SEL should be able to make a profit and recover the shortfall that has arisen as a consequence of the actual electricity consumption in 2020 being lower than the forecasted consumption, (i.e. 1,500,000 kWh) set out in the PCO. My Office expressed no view in the Proposed Variation as to what would be a reasonable amount for a deposit as I did not interpret the 2016 Law as empowering my Office in this regard.
9. My Office received 25 responses to the Proposed Variation, excluding that from SEL. These responses have been shared with SEL, in accordance with section 16(3) of the 2016 Law, and all, bar one, may be viewed on the Commissioner's web-site: www.epc.sark.gg. This Proposed Variation specifically asked for views on the matters listed below. I set out below a summary of the responses received:

Consumption in 2021 Five respondents commented on the proposed forecast range of 1,150,000 - 1,300,000 kWh. All five were in broad agreement. In connection with this, six respondents mentioned Sark's growing population and new businesses such as the abattoir and dairy, suggesting that consumption levels could rise. One resident thought consumption could be as high as 1,600,000 kWh.

Monthly charge Twenty-three of the 25 respondents commented on the proposed minimum monthly charge tariff. Of these, 15 were in favour, though two of these mentioned that seasonal businesses should not be penalised on account of the proposed tariff and another that they would have preferred a fixed charge per property to the current SEL proposal. Five respondents objected to the proposed tariff. Of these five, one objected because they believed residents should not

¹ See Determination 8th November 2019 at www.epc.sark.gg



be asked to 'pay for nothing', one because they deemed it unfair for non-residents to subsidise residents, one was concerned about the ability of less wealthy residents to pay, one suggested that the additional costs to their summer letting's business would not be recoverable from customers, given that the 2021 prices had already been set and another that they could not afford this charge given that they had multiple meters. Two respondents sought more clarification on the proposal and one suggested that seasonal businesses would benefit if consumption could be averaged throughout the year. Two respondents mentioned that their energy efficient appliances meant that their consumption might fall below the proposed minimum monthly charge.

- One or two years** Six of the 25 respondents commented on the timescale, three in favour of two years, two in favour of one year and one who had no preference.
- New Assets** Five of the 25 respondents commented on the proposed higher rate of return for new assets over existing assets. Four were in favour and one was against.
- Recovery of shortfall** Five of the 25 respondents expressed a view on the rate at which SEL should recover the "under-recovery" it experienced in 2020 on account of the lower consumption level. Three suggested that a two-year period might be preferable, one preferred to pay back SEL over one year and one that they would be content with either, as long as there was no increase in the current maximum unit price.
- Balance fund** Five of the 25 respondents commented on the proposal to delay an adjustment to the maximum unit price until the balance exceeded £10,000. All were content.
- Deposits** Nineteen of the 25 respondents commented on SEL's proposal to request deposits from its customers. 16 opposed this idea, nine of whom suggested that they would refuse to pay any such charge. One respondent stated that it would hit small businesses, many of which are marginal. Seven of the 19 expressed concern about SEL's financial health and seven mentioned that any deposits taken should be held in a 'client account' where the money could not be used by the company. Two respondents questioned my Office's suggestion that it is debatable whether the Commissioner has the power to regulate the taking of deposits. Two respondents believed deposits should only be requested by SEL when customers had defaulted on their payments. Two respondents suggested that the cost of the proposed minimum tariff and deposits combined would encourage them to explore self-generation.

Other matters

10. I invited respondents to raise any other matters of concern and they responded as follows:

- Own generation** Five respondents raised concerns over the increasing number of islanders choosing to generate their own electricity. One suggested that a minimum monthly charge might encourage others to follow suit. One criticised SEL's lack of progress over the



years on the introduction of cleaner energy and saw this as one reason, for those who could afford it, to generate their own power. One respondent stated that they were currently considering putting in their own system though they would prefer one island-wide system for electricity in Sark. A further respondent suggested that own generators could pay a charge to remain connected to SEL's network.

Energy Policy	One respondent lamented the lack of an overall energy policy for the island.
Northern Sark	Two respondents commented on the situation in the North of the island where 19 homes were being supplied by generators funded by Chief Pleas.
Lack of trust	This topic was raised largely through the question of deposits. 14 respondents suggested that they had little trust in SEL either from a financial point of view or from SEL's ability to supply electricity in the medium to long term. One respondent questioned whether SEL could have been charging for electricity which had not been consumed and another questioned whether SEL's consumption figures could be trusted.
Community	One respondent commented on Mr Jackson's claim that SEL is a community endeavour and requested evidence of this assertion.
Contracts	Three respondents commented on the lack of any contractual arrangement between SEL and its customers.

11. SEL responded to the Proposed Variation on 15th December 2020. Although this was after the deadline, I have been able to take into account the matters it raised, as described below. The Final Variation will be served on SEL on 1st January 2021 and this Notice is intended to provide SEL with sufficient time to make any necessary preparations in advance of the new pricing arrangement.

SEL's representation

12. SEL has raised five major issues in respect of the Proposed Variation of 20th November. These relate to the:
- accommodation of own generation and the basis for calculating electricity consumption in setting the maximum unit charge;
 - recovery of SEL's legal costs arising from the dispute concerning supplies to the La Tour tenement;
 - treatment of contingent liabilities that may arise owing to SEL having allowed wayleaves to lapse;
 - deposits; and
 - rate of return on assets SEL should enjoy.
13. SEL has also clarified one of the elements of the proposed minimum usage charge. It is SEL's intention:



“that the small number of customers that currently fall below the minimum charge would be credited with the difference, thus ensuring that these ‘miniscule’ customers be insulated from any price shocks.”

14. It is not clear whether this statement relates only to full time residents. It is for SEL to decide how it wishes to charge customers within the controls my Office is imposing. SEL has proposed that the monthly charge for supplies to water pumps and sewerage supplies and to other miscellaneous properties, such as non-commercial social facilities like the Observatory, will remain at £2.

The Consequences of SEL’s Treatment of Own Generation

15. SEL’s policy on own generation is described in its Policy no. 26 for “Alternative Supplies”. I have previously described this policy as unfair. Mr Moerman described his objection to this policy in his public statement of 6th October and Stocks Hotel described the policy as “ridiculous” in their representation of 15th October. It is not a surprise that those wishing to use “green power” are deciding to disconnect from the SEL network and more may follow, as reported by some respondents (see paragraph 10 above).
16. The consequences of SEL’s approach have been two-fold. In the first case, it has led to the Seigneurie and La Tour disconnecting from the network and Stocks Hotel will possibly follow. This could mean that, annually, around 150,000 kWh (just over 10% of island wide consumption) will no longer be supplied by SEL. Therefore, SEL’s unit costs will rise, simply because its fixed costs will be spread over fewer units. I have been consistent in my view that SEL should not be allowed to raise prices were this to occur. I do not believe it is fair to expect customers, particularly the less well-off, to compensate SEL for a misguided tariff policy that has caused it to lose market share. I am, accordingly, calculating the unit price from island-wide electricity consumption, as described in the PCO.
17. Mr Jackson would have been aware of my approach when he purchased SEL. However, SEL’s response to the Proposed Variation stated that:
- “Using the island-wide level of electricity consumption in the calculation of a reasonable maximum price is simply not an acceptable proposal. Any attempt in this regard will result in a legal challenge.”*
18. SEL provided no evidence or arguments to support this claim of unacceptability. I interpret the requirement of section 13(2) of the 2016 Law to assess allowances for SEL’s costs and profits based on those that a reasonably well managed company would require.
19. SEL has stated it is considering a feed-in tariff structure for properties with their own generation, but it is in the early stages of design. This is a topic I discussed with SEL over the course of March to May 2020 but there has been no further engagement on this from SEL until very recently. In a discussion with me on 20th December, Mr Jackson on behalf of SEL indicated that it was interested in developing a tariff which would involve own generators paying higher monthly connection charges and trading electricity with SEL at prices related to the diesel fuel costs. I await further details. If there were a number of customers who generated their own electricity and who sought



to re-establish connections to the SEL system, I would review the use of island-wide consumption in calculating the cap on, and the adjustments to, the unit price for electricity.

Recovery of legal costs

20. The owner of the La Tour tenement decided to install generation and batteries in view of the high prices charged by SEL and its use of fossil fuels. In Mr Moerman's public statement² he complained that *"SEL were totally intransigent and would not re-negotiate the "buy-back" arrangement"*. He asked to be disconnected from the SEL system, since he did not wish to be "exploited" by SEL. He wrote to SEL on 9th June, requiring SEL to remove equipment from the tenement, given that SEL did not have permission, in terms of a wayleave, for its equipment to be on the property. On 24th June, SEL telephoned my Office to appraise me of the situation. On 2nd July, SEL sent me a draft request for a Variation to the PCO, including *"legal fees required in order to address the anticipated legal challenge to the rights of SEL to maintain pre-existing transformers and associated plant on land owned by the Crown"*.
21. I informed SEL that I would only consider such a request if SEL had explored every avenue to reach an agreement. I also offered to coordinate a meeting for SEL with "own generators" to discuss alternative, mutually beneficial arrangements which would avoid the need for disconnection, given that four own generator customers had informed me that they would rather remain connected. SEL did not agree to the meeting. On 5th September, Mr Jackson on behalf of SEL wrote to my Office claiming that, following discussion with SEL's consulting engineer, SEL had been advised that the current system was *"at the limit of input from customers' own generation until such time as the new bi-directional transformers and battery buffers are in place."* This account was later found to be incorrect.
22. SEL first cited "Common Law"³ in a public meeting on 2nd July 2020 to support its right to maintain its property on La Tour. It also instructed advocates Carey Olsen to write to Chief Pleas on 3rd August, saying that SEL "cannot accede to this request". Following a Summons on 28th August, SEL instructed Carey Olsen to challenge the claims in the Summons. On 15th December, SEL informed me that it wishes to recover its legal expenditure in the sum of £45,000 by factoring this cost into the variation of the tariff.
23. I do not believe that a well-managed company would have incurred these costs. A well-managed company would not have let the pre-existing wayleave that covered La Tour to lapse, along with at least 37 others. My Office attempted to persuade SEL's previous owner to re-instate the wayleaves but SEL deliberately chose not to do so. I also expressed my concerns on wayleaves to Mr Jackson in May 2020 when I suggested that he should include their costs in his future budgets.
24. In the budget assessment of SEL that I used in the Proposed Variation, as well as the original 2019 PCO, I included an allowance for professional services that SEL might require. This budget included a specific amount in the sum of £15,000 for regulatory matters and a further £5,000 for

² 6th October 2020.

³ SEL at Island Hall Public meeting 2nd July 2020



legal costs that a company of SEL's size and character may require in its normal course of business. I believe that, from this budget, SEL could have first obtained legal advice on property Law specifically relating to Sark and responded immediately to Mr Moerman's letter of 9th June. In my opinion, had SEL engaged constructively with Mr Moerman from the outset, as I suggested at the time, these large costs could have been avoided. Given this background, I consider the additional legal costs that SEL has incurred dealing with Mr Moerman would be regarded as "disallowable" according to network regulation practice in the UK⁴.

25. SEL complains that my Office's approach in regard to legal costs implies that "*SEL cannot possibly be characterised as low risk*". In my opinion, the operation of a well-managed electricity supply company in Sark would be low risk.

Treatment of Contingent Liabilities

26. In its representation to my Office of 15th December 2020, SEL suggested that it has contingent liabilities on account of Mr Moerman successfully challenging SEL's right to leave equipment on his property. These were estimated by SEL⁵ to amount to £4m, although no support for this was provided by SEL. I regard the likelihood of SEL being asked to remove and replace the existing distribution system as very remote. I do not believe that it is reasonable for SEL to use the case of an individual asking for equipment to be moved on account of a decision to go "off-grid", safety concerns and removing a visual eyesore, to suggest that landowners will ask SEL to remove all of SEL's equipment on their properties. As I have discussed before with SEL's directors, the risk of others disconnecting is within the company's gift to manage. Moreover, SEL could re-establish the wayleaves that it has allowed to lapse. Therefore, the likelihood of the event occurring, were SEL managed in a reasonable manner, is small. I do not believe it is reasonable for SEL to provide for such a contingent liability, though its Directors may decide it is appropriate to add a note to its accounts.

Deposits

27. SEL reports that Guernsey Electricity proposed a deposit of £810 in respect of Mr Jackson's new house and that Alderney Electricity would have similarly required a £500 deposit. As such, Mr Jackson thought that SEL's proposal for a deposit in the sum of £250 was reasonable. SEL has stated that it would not seek deposits from customers who pay their accounts on time, i.e. within 30 days. This represents 69.2% of customers. Mr Jackson also explained that any deposits would be returned if customers moved or ceased supply. However, he did not think that the funds should be ring-fenced. Instead, he is proposing that, by using this cash, SEL would not require so much cash of its own, on which it would earn a return and be passed on to customers. It is a way, he argues, of keeping costs and prices down.
28. It is the view of my Office that, in line with the approach across the Bailiwick, deposits should not be required from existing customers with a good payment history. I am defining a good history as

⁴ See OFWAT PR 14 reconciliation rulebook, page 32. This was cited by the Competition & Market Authority's judgement on Bristol Water's challenge to OFWAT's Determination, October 2015.

⁵ Witney Price, Letter to Chief Pleas of 5th October 2020



payment within 30 days, over the previous year. Like Guernsey, however, I believe that it is fair to require new customers occupying rented properties to set up either a standing order, direct debit or, failing this, pay a deposit. Similarly, it is reasonable to require “new customers”, or those with a poor payment record, to provide a deposit. For current customers who have a poor payment history, SEL has already developed policies for pre-payment meters and repayment plans. My Office recommends that any deposit taken by SEL should be recorded and not be used for corporate funding. The funds are, after all, “client” money.

29. The 2016 Law does not cover the matter of deposits directly. However, section 15(5) provides:

“Whilst a price control order is in force, the regulated electricity supplier to whom it relates shall not, without the consent of the Commissioner, charge, raise or demand any other price, charge or fee for the supply of electricity or any related service.”

30. Since the December 2019 PCO is in force until 19th December 2021, I believe I have the authority to set a cap on deposits. Accordingly, I am setting the deposit at zero for existing customers with a good payment history and five months’ minimum charge (£200) for new occupiers of rented accommodation who are unable to set up a standing order or direct debit, and those with a poor payment history. My Office recommends that the deposit be returned after a year of a good payment record.

Rate of Return

31. In its response of 9th November to the October 15th Review, SEL proposed a rate of return of 3.7% on its assets. SEL’s new proposals of 15th December are shown below, together with my Office’s figures.

	Table 1		
	Target Returns		
	% pa nominal		
	SEL		EPC
	<u>9 Nov</u>	<u>15 Dec</u>	<u>20 Nov</u>
New assets	3.7%	7.5%	7.5%
Cash < £140k	3.7%	7.3%	
HV & LV equip	3.7%	4.2%	
Transformers			2 - 4.5%
& Generators	3.7%	3%	

32. SEL proposed that it is willing to accept a rate of return of 3.7% per annum for 2021, as it reflects SEL seeing itself as a community endeavour. SEL subsequently wrote to my Office on 20th December to retract this offer. There is no justification provided for SEL’s change in position from 9th November to 15th December. I explained in the Proposed Variation that I thought it reasonable, in line with practice in the UK, for the return to be related to the company’s performance. I



appreciate that, despite a period of “maintenance starvation⁶” and poor management IT systems, the electricity supplies have been reliable for almost all of the year. Nevertheless, I note that SEL has, amongst other things:

- Given notice to Chief Pleas it has halted all new investment into the company;
- Suggested it might move to 19/24 hour operations;
- failed to persuade own generators to remain connected to the unified system, even though that was a stated aim of SEL;
- been tardy in responding to consultations;
- not provided audited accounts since 2016;
- forced my Office, on account of SEL not responding to requests that it provide information, to use its powers under the 2016 Law;
- denied my Office access to minutes of a meeting on wayleaves with Chief Pleas.

33. In addition, SEL has been slow in proposing its new tariff arrangement, which delayed the publication of the Review of the PCO and Proposed Variation in October. For the above reasons, I believe that the company’s overall performance has been poor and this should affect the rate of return to which it is entitled, according to section 13(2)(f) of the 2016 Law.

Setting the Price Controls

34. The Proposed Variation of 20th November 2020 described my analysis of SEL’s proposals to introduce a minimum monthly usage charge. This could also be considered, as suggested by one of the respondents, as a fixed monthly charge, with the first 80 units consumed free of charge, at a price of 50 p/kWh. This document, as well as the earlier Review of the December 2019 PCO and Proposed Variation of 15th October 2020, explained how I arrived at my estimates of the reasonable costs that would be incurred by a reasonably efficient operator and how I estimated a reasonable level of profit such a company would expect to earn. I note that SEL’s estimates of its annual cash costs and return on assets were originally consistent with those of my Office. The returns now differ, as shown in Table 1. SEL now accepts my estimate of the depreciation allowance.

35. I also explained how SEL’s proposed minimum monthly usage charge would enhance SEL’s revenues and profits, based on May 2020 data. I have since been provided with partially disaggregated consumption figures for February, August, September and October. These indicate that, had SEL introduced this proposed “minimum monthly usage charge” in 2020, it would have received some additional £32,000 over those five months, or an average of just over £6,000 per

⁶ SEL’s Report to the Board & Response to the Office of the Price Commissioner’s Proposed Change to Electricity Prices in Sark; 8th November 2020



month. This would have been recovered, predominantly, from vacant properties and second homes, as shown in Table 2.

Table 2
Additional Income (£) arising from SEL's Proposed Minimum Monthly Charge
Based on February, May, August, September & October 2020¹

	Min charge	No Customers	Feb	May	August	September	October	Total
2nd Home	40	55	1,491	1,695	1,203	1,162	1,207	6,757
B&B/Residential	40	9	-	-	-	-	-	-
Business/Residential	40	11	9	39	37	37	37	158
Commercial	46	49	1,065	1,037	915	871	868	4,755
Commercial Med	150	5	186	157	29	97	148	617
Commercial Lge	250	7	524	404	298	343	396	1,966
Commercial X Lge	500	1	-	-	-	-	-	-
Other	0	40	-	40	-	8	-	48
Residential	40	225	663	682	673	789	1,064	3,871
Self catering / B&B	40	20	420	390	254	277	295	1,635
Vacant Commercial	40	18	582	581	509	520	540	2,733
Vacant Residential	40	60	1,957	2,059	1,828	1,868	1,867	9,579
			6,896	7,083	5,745	5,972	6,423	32,119

¹ The contribution to "Other" arises because SEL made repayments to some customers

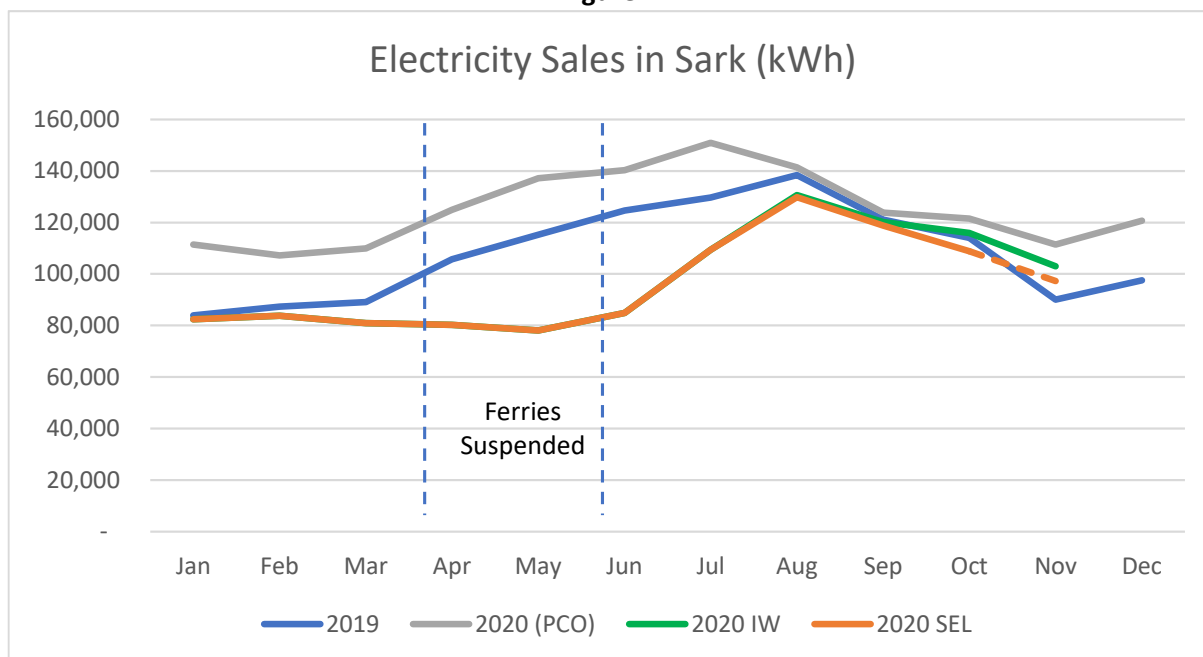
36. In order to consider the effect of the introduction of the new arrangement in 2021, I have made an estimate of the likely level of electricity consumption in Sark. Figure 1 overleaf, shows the monthly consumption for the whole of 2019 together with the 1,500,000 kWh annual forecast adopted for the PCO but seasonally adjusted (2020 PCO). It also shows the monthly consumption in 2020 up to November for the whole of Sark (2020 IW). SEL's system has delivered less electricity (2020 SEL), owing to the own generators and Chief Pleas' supplies to 19 premises on the La Tour tenement. The November figure for SEL's system is 97,227 kWh, compared to 103,025 kWh for the island of Sark.

37. The chart indicates that the drop in Sark's electricity consumption, that occurred when the ferries were cancelled, had ended by August. Moreover, with the arrival of new full-time residents in the Autumn, electricity consumption appears to have recovered and is approaching, if not recently exceeding, the levels of 2019. In that year, annual consumption was 1,297,236 kWh. I am therefore basing the setting of the maximum unit charge on a forecast of annual island-wide consumption⁷ of 1,350,000 kWh for 2021.

⁷ One justification for using island-wide consumption is the avoidance of the risk of fuel poverty. This is described in paragraphs 42-45 of the Determination of 8th November 2019. The anticipated use of island-wide consumption, rather than just SEL's sales, was set out in paragraph 14 of the Draft 2019 PCO of 14th November, and page 8 of the PCO of 20th December 2019.



Figure 1



38. There is, obviously, some uncertainty in this figure. One respondent suggested the figure could be as high as of 1,600,000 kWh and a range of 1,100,000 to 1,300,000 was presented in the Proposed Variation. SEL has suggested 1,150,000 kWh for both 2020 and 2021. This is low in view of the actual cumulative consumption to November of 1,070,000 kWh, including the own generation and the supplies to customers in the North of the island, or 1,055,000 over SEL's system alone. Some respondents to the Proposed Variation also commented on the influx of new residents which should have an impact on future electricity sales. In addition, December electricity consumption is usually higher than November in Sark. However, the maximum unit charge will be adjusted automatically on a monthly basis, should the actual consumption vary considerably from the monthly forecast. This mechanism is described in the Appendix. As a consequence, the precise annual figure adopted for 2021 at the outset will not have a material impact on SEL's eventual profitability for the year.

The Under-recovery of 2020

39. The 2019 PCO set a maximum price of 54 p/kWh on the assumption that electricity consumption during 2020 would be 1,500,000 kWh. Actual consumption in 2020 has been considerably lower, as stated in the Proposed Variation and has been 1,161,758 kWh for 1st December 2019 to 30th November 2020 for the SEL system, and 1,177,125 kWh for the whole island. According to the formula in paragraphs 26-28 of the December 2019 PCO, the under-recovery amounts to £75,390. SEL has proposed that this is recovered over two years, given the impact of COVID on customers' finances. This is consistent with three of the five respondents who commented on this matter and I am in agreement with this approach. Therefore, £37,695 will be recovered during 2021.



Minimum Monthly Usage Charges

40. Most respondents to the Proposed Variation were content with SEL's proposal to require a monthly minimum usage charge. However, some did not believe that it was "fair" to customers who do not consume electricity during, for example, the winter. It was described as asking customers "to pay for nothing" and, to make the case, offered the example of only paying for fuel oil when delivered. I believe that this misses the point. It is not the responsibility of my Office to "sell" SEL's proposal. My role is to judge whether the prices it charges are fair and reasonable but I note that the provision of an electricity supply requires the installation of equipment, some of which is only used by a particular customer. Furthermore, it cannot, unlike a tractor delivering oil, be used to serve others. Customers during those winter months are not "paying for nothing" but for the ability to use the service. I believe that the concept of a minimum monthly usage charge is reasonable, if modified as described below. Only a very few full-time occupied properties will be caught by SEL's minimum monthly usage charge.
41. I understand that many properties contain multiple meters. Some of these were installed for water and sewerage services, others to allow owners to keep track of consumption on properties they own but are occupied by others. For the former, classified by SEL as "other", I will set a maximum monthly charge at the current standing charge level of £2, to cover the costs of metering and billing. Supplies to "social" enterprises, such as the Observatory will be subject to the same cap.
42. Supplies to properties used to provide accommodation will be subject to a standard cap of £40 per month. The electricity provider has installed sufficient network capacity all year round to these properties. However, in some cases, where there are multiple meters for one property, SEL will consider the property to have one "primary meter" and charge £2 for the others.
43. I recognise that the owners of buildings providing holiday accommodation may be subject to a cash-flow imbalance since, for five months of the year, they may not receive any income. Customers who may be in difficulty on account of this, may wish to discuss a rescheduling of winter payments with SEL.
44. In my view, it is not relevant to distinguish between occupied and unoccupied premises or commercial and residential. The classification does not influence the cost of supply. There is a case to vary the charge according to the size of supply, but my Office does not have sufficient information to make such a distinction, nor has SEL proposed one. However, this could, potentially, be the basis for a more robust pricing arrangement in the future. I will set a single cap of £40 on the minimum monthly usage charge for all residential and commercial properties.
45. Supplies to occasionally occupied sheds and workshops, as at the harbour, involve cabling and metering. As such, they impose costs on SEL which is only fair for SEL to recover. SEL informs me, however, that some 40 of these do not consume any electricity. SEL's hope is that these will be disconnected and the meters removed. In the meantime, my understanding is that SEL intends to charge the monthly usage charge.



Level of Minimum Monthly Usage Charge

46. The recent increase in electricity consumption suggests that the additional revenues to be raised from a minimum monthly usage charge will be lower than they would have been had the mechanism been operational in 2020. It is difficult to predict electricity consumption levels and patterns in Sark for 2021 with the information at my disposal. However, I will assume that 40 supplies will be disconnected and that the additional income raised by the monthly minimum usage charge will be around £5,000 per month. On this basis, with:

- island-wide annual consumption of 1,350,000 kWh;
- unit price of 50 p/kWh;
- minimum monthly usage charge for residential and commercial customers of £40:

SEL would make a return of 8.8 % on RAB and recover half the shortfall for 2020 (see paragraph 39), were it to sell all the electricity in Sark.

47. This return of 8.8% would be, in my mind, generous to SEL. However, the forecast is based on island-wide consumption. In my view, own generation could account for around 150,000 kWh in 2021 leading to a forecast consumption for SEL's system of 1,200,000 kWh. I calculate that SEL would earn a return of 3.8%. This is within the range suggested by OFGEM⁸, in the UK, for a network company and in line with SEL's original 3.7% target. On SEL's forecast of 1,150,000 kWh, the return would be 2.2%, towards the lower end of the range OFGEM proposed for poorly operating companies. I judge this to be appropriate for SEL.

48. To show the sensitivity, if the price were set at 46 p/kWh, SEL's return would be 4.1% on the basis of the island - wide consumption of 1,350,000 kWh but SEL would make a small loss if the own generators produced 150,000 kWh. I recognise that customers may complain that they are, at 50 p/kWh, paying for the consequences of SEL's illogical position on "buy-back" tariffs. However, I do not believe that it would be in the island's long-term interest for my Office to set a lower price and cause SEL to be unviable.

49. I am therefore setting a cap on the monthly minimum usage charge of £40 and the unit price at 50 p/kWh. Differences between the monthly consumption targets, based on the 1,350,000 kWh annual forecast, and actual consumption will be reviewed on a monthly basis and, if necessary, the cap on the unit charge will be adjusted for the following month, as described in the Appendix.

FCC+ Tariff

50. SEL is proposing to offer a new tariff to customers who are introducing new demand to the grid. It is an incentive-based approach that would be targeted, such as on high consumption items like ovens in a bakery, or shorter term to promote a particular business through the start-up phase. This price would be directly related to the fuel costs. SEL has suggested that this tariff will be calculated as the fuel cost component (FCC) plus 100%. SEL advises that FCC will be calculated as

⁸ EPC, 15th October 2020, Review & Proposed Variation, paragraph 43



the fuel cost, currently ~12 p/kWh, plus a margin of 10%, i.e. 13.2 p/kWh. On this basis, the FCC +100% tariff would be around 26 p/kWh and would change monthly. This is a substantial reduction to the basic tariff and would represent a discount for these customers. Unless these customers consume a large amount of power, it is unlikely that their “contribution”, i.e. the difference between the electricity price and the fuel cost, will amount to a fair proportion of SEL’s overheads. In other words, it would imply that other customers would be subsidising those on the FCC+100% tariff. SEL is not yet in a position to produce a sales forecast for this tariff.

51. The 2016 Law does not give me the power to set a “minimum” unit price. However, I believe that it is only fair that other customers do not suffer on account of some customers being supplied at this tariff. As a consequence, any additional margin SEL may earn from sales priced at this tariff will be added to the balance that records the over or under-recovery of SEL.

Adjustments

52. I explained in paragraphs 49 and 51 that it may be necessary to adjust the cap on the unit electricity price. The reasons are:
- a. The quantity of electricity sold under the standard tariffs being different from forecast;
 - b. Changes in diesel fuel prices;
 - c. Sales of electricity at SEL’s FCC+ 100%; and
 - d. Variations in the additional revenue generated by the operation of the “minimum monthly usage charge”.
53. The unit price has been set to allow SEL to earn a reasonable return if consumption and fuel prices are as forecast. The experience of 2020 has demonstrated quite clearly that forecasts and outturn may differ. Any one of the four above factors could have a significant impact on SEL’s profitability, yet I do not wish to institute a process of regular reviews. This would be time consuming and expensive. Instead, I will monitor the effect of each of the above factors during each month and calculate the amount by which SEL has “over-recovered” or “under-recovered”. Each month these amounts contribute to a balance fund. If this balance exceeds £5,000, I will adjust the maximum unit price for the following month. At current levels of monthly consumption, this would amount to a change of +/- 5 p/kWh for a particular month. The balance fund would then be reset and the unit charge return to 50 p/kWh. Further details of the process are set out in the Appendix. My Office will not require any information from SEL that it does not already collect, so the additional administrative burden on SEL will not be significant.

Concluding Remarks

54. SEL will introduce a new charging system on 1st January 2021. This paper has described the controls I am introducing from 1st January 2021 to ensure that the prices charged are fair and reasonable to both electricity customers and SEL alike. I remain concerned that, by choosing to recover most of its revenues through a single unit charge, SEL’s business remains exposed to the risk of



customers installing their own generation equipment. Should this occur, I do not believe that customers should necessarily pay higher prices.

55. However, I am encouraged to learn that SEL is devising a feed-in tariff for own generators. I hope this will encourage own generators to remain connected to the island's electricity distribution network.

Anthony White
Commissioner
29th December 2020

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Appendix

Calculation of Balance Fund and Adjustments to Maximum Unit Price

1. By the 15th of each month, I will require from SEL the following data for the previous month:
 - i. The quantity of electricity sold to customers on all standard tariffs, i.e. excluding the sales under the FCC+100% tariff (Q).
 - ii. The quantity of electricity sold under the FCC+ 100% tariff (F).
 - iii. The amount of “additional” money collected from customers whose bill would not have exceeded the minimum usage charge.
2. I will also ask Island of Sark Shipping to provide me with the monthly average price of diesel (D) at which it has purchased diesel fuel oil over the previous month, as well as the volumes of fuel delivered to SEL over the same period.
3. I will calculate the under or over-recovery, caused by the volume of electricity sold under the standard tariffs differing from the figures set out in the table below, based on SEL’s seasonal adjustments and the 1,350,000 kWh forecast for the year. This will be calculated as:

$$\text{Correction}^Q(\pounds) = (m/100) * (\text{Monthly target} - Q)$$

where the Monthly target is set out in the Table below and the m is the difference between the maximum unit price and the fuel cost

Table
Target Consumption for 2021
(kWh)

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
100,305	96,525	98,955	112,455	123,390	126,225	135,810	127,170	111,375	109,350	100,305	108,675

4. The correction caused by changes in diesel fuel prices will be calculated as:

$$\text{Correction}^D(\pounds) = (\text{Actual average delivered fuel price} - 35) / (100 * 2.92^9) * Q$$

where fuel price is in p/litre at Sark

5. If SEL sells electricity at the FCC + 100% tariff, the contribution to the gross margin will be half the tariff, in other words the FCC price itself. This will be treated as an over-recovery. Therefore, for

⁹ The 100*2.92 factor converts prices from p/litre into £ per kWh delivered, taking into account the 235g/kWh generation efficiency less 10%, with auxiliary and line losses of 5% and 7% respectively.



each month, SEL will receive additional contributions to overheads on top of those recovered from customers on the basic tariff. The total additional amount in the month will be:

$$\text{Correction}^{\text{FCC}}(\text{£}) = F * \text{FCC}/100$$

where F is the quantity of electricity sold at the tariff of FCC+100%

6. If a customer's electricity consumption was only, say 20 kWh in a month, SEL will charge £40, even though the "cost" of the electricity would have been £10. Therefore, SEL will receive an additional £30 contribution to its profit, or "Additional Money". I will add all these contributions to arrive at an amount M for the month. The maximum unit charge was set on the basis that the average monthly contribution from this "additional money", will be £5,000. Therefore, the correction will be:

$$\text{Correction}^{\text{M}} = \text{£5,000} - M$$

Balance Fund

7. The Balance fund will start at zero on 1st January 2021 and will be adjusted each month as:

$$\text{Balance Fund}^{\text{new}} = \text{Balance Fund}^{\text{previous}}$$

$$+/- \text{Correction}^{\text{Q}} \text{ (Consumption variation)}$$

$$+/- \text{Correction}^{\text{D}} \text{ (Diesel fuel price change)}$$

$$- \text{Correction}^{\text{FCC}} \text{ (FCC+100\% tariff)}$$

$$+/- \text{Correction}^{\text{M}} \text{ (minimum usage charge)}$$

8. If the Balance Fund^{new} exceeds £5,000 in any month, in either direction, the maximum unit price, C p/kWh, for the following month will be adjusted as:

$$C^{\text{new}} = C^{\text{previous}} + (\text{Balance Fund}^{\text{new}}) * 100/Q$$

where Q is the following month's target consumption, as set out in the Table. The price will be adjusted to the nearest one pence and the remainder kept in the Balance Fund.

9. As an example of the operation of the adjustment to the maximum unit charge, consider the case where, in January, electricity consumption is just 100,000 kWh at the 50 p/kWh tariff, the diesel price remains at 35 p/l, there are no sales under the FCC+100% tariff and there are 130 properties whose consumption is only 10 units each. Under these circumstances, having received this information by 15th February, my Office would calculate:

$$\text{Correction}^{\text{Q}} = (100,305 - 100,000) * (50 - 12) \text{p} / 100 = \text{£116}$$



$$\text{Correction}^D = 0$$

$$\text{Correction}^{\text{FCC}} = 0$$

$$\text{Correction}^M = £5,000 - 130 * (£40 - £10) = £1,100$$

10. The Balance Fund would be £1,216 at the end of February and the unit price for March would not change. If my Office were informed by 15th March, that consumption in February had risen to 110,000 units, the minimum charge payments amounted to £3,000 and SEL had sold 4,000 units under the FCC + 100% tariff, the balance fund at the end of March would be:

$$\begin{aligned} \text{Balance Fund} &= £1,216 \text{ (carried forward)} \\ &+ (96,525 - 110,000) * (50 - 12) \text{p} / 100 \text{ (Consumption variation)} = -£5,120 \\ &- £4,000 * 12 * 1.1 / 100 \text{ (FCC+100\% sales)} = -£528 \\ &+ £5,000 - £3,000 \text{ (Minimum charge)} = £2,000 \\ &= -£2,432 \text{ (Balance Fund at end of March)} \end{aligned}$$

11. Again, there would be no change to the unit price. If during April, my Office were informed that consumption in March had fallen to 95,000 kWh, diesel fuel prices had risen to 45 p/litre, with similar FCC sales, and the minimum payment charges fell to £1,000, the balance Fund at the end of April would be:

$$\begin{aligned} 12. \text{Balance Fund} &= -£2,432 \\ &+ (98,955 - 95,000) * (50 - 15.5) \text{p} / 100 \text{ (Consumption variation)} = £1,364 \\ &+ £(45 - 35) * 95,000 / (100 * 2.92) \text{ (Fuel Price Change)} = £3,253 \\ &- £4,000 * 15.5 * 1.1 / 100 \text{ (FCC+100\% sales)} = -£692 \\ &+ £5,000 - £1,000 \text{ (minimum charge)} = £4,000 \\ &= +£5,493 \\ &\text{(Balance Fund at end of April)} \end{aligned}$$

13. Under these circumstances, the unit charge for May could be increased by 4.452 p/kWh (£5,493/May Target consumption of 123,390 units). However, for ease of billing, I would set the maximum price at 54 p/kWh and leave £557.40 (0.452 p * 123,390) in the Balance Fund. The price for June would then be reset to 50 p/kWh +/- any contribution that may be triggered by the April results. In effect, the figures for one month may have an impact on the price of electricity two months later. Should SEL introduce a feed-in-tariff, I will incorporate suitable adjustments to ensure the prices are fair and reasonable.