Sark Electricity Ltd
The Power Station
Harbour Hill
Sark
Channel Islands
GY10 1SB

24th January 2023

Dear Customer

As a component of the October 2022 determination by Dr White, SEL was invited to "*reconsider its tariffs*". With the prices set through to December 2022 I elected to wait and see how the year completed so that I could look at a full year impact of the tariffs then in place by the company. As anticipated, SEL operating profit, once again, **did not** cover the net outflow of the business. A problematic scenario for investment planning.

There was the further consideration of our supplier fuel pricing review which was finalised on 11th January 2023 with an effective date of 1st January 2023. This having an impact on our principal underlying cost, being fuel.

SEL is at a cross roads. Chief Pleas has elected to move ahead with its plans to introduce a secondary grid to Sark, despite significant advice that it is not wise to do so from members of its own Energy Advisory Group. Advice, you will not be surprised to hear, that SEL agrees with. Monopoly or not, the concern of all stakeholders rightly centres around stability and reasonable pricing. In its 2022 determination Dr White asked SEL, amongst other things, to reconsider its Operational Expenditure (OPEX).

The OPC determined in 2019, effective for 2020, that OPEX costs for Sark Electricity **should, reasonably, be no more than £365,000** to produce a unit price of 54p. In his latest 2022 determination Dr White reduced this dramatically, despite significant inflation in the intervening period.

Customers will no doubt remember that the OPC numbers for 2020 resulted in a circa £75k *under recovery* (loss) which was recovered from our customers in 2021 and 2022 at a cost of 3p per unit per year. This approach is not a satisfactory one for SEL, and it places a negative perception on SEL prices by customers that are, in fact, due to the actions of the regulator.

As the owner of SEL I have to make a choice. Do I simply continue to fight to recover previous ever mounting losses which simply drive up this years price and make SEL less attractive as a local supplier, or do I write off significant sums and show what SEL can achieve when it simply operates without the baggage of previous losses and is allowed to deliver on its investment plans? Given Chief Pleas are moving ahead with their plans for a second grid there is little logic to this approach. However, that is exactly what I have elected to do. We have a new commissioner and we are in a new financial year and so I am resetting the financial clock and am trying again to simply deliver on our objectives.

OPEX
I have therefore made the following changes to our OPEX budget for the year 2023. This ignores the impact of RPI over this period.

	OPC OPEX Allowance 2020	SEL OPEX Budget 2023	% Change
Wages	£270,000	£237,230	-12.1%
Administration	£10,000	£12,470	24.7%
Services	£45,000	£51,816	15.1%
Operations	£40,000	£16,300	-59.2%
Total	**£365,000**	**£317,816**	**-12.9%**

Tel: 0044 1481 832053 Email: accounting@sarkelectricity.com
Guernsey Co. Registration No.57127

Fuel Cost Component
In addition to the OPEX changes for 2023, there is a significant downward effect due from our revised fuel terms from 2023 against 2022. This has had the following impact on the Fuel Cost Component (FCC).

- October 2022 FCC Per Unit - 0.3505p
- November 2022 FCC Per Unit - 0.3613p
- December 2022 FCC Per Unit – 0.3480p
- January 2023 FCC Per Unit – 0.2613

Price Breakdown Moving Forwards
Moving forwards the price will considered and reported in 2 elements.

- Fixed Charge to cover the fixed costs for 2023.
- FCC Charge for this month to cover the variable fuel price.

These numbers added together will result in the unit price for the period.

Discounts / Tiered Tariffs
Historically, The OPC and I have disagreed quite openly on the reasonableness of tiered tariffs and customer discounts, The OPC preferring a regulatory concept known as "*Cost Reflective Pricing*" also referred to by Chief Pleas but as "*Equal / Equitable*" pricing. This Equal / Equitable pricing is a principal component of Chief Pleas published energy policy. There is no doubt that giving any customer a discount increases the cost for another customer and for this reason, SEL will no longer offer tiered tariffs or discounts to any customer including charities. Discounts, unsurprisingly, are inherently unpopular with smaller consumers and The OPC received a number of complaints in this area. It is this guiding principal that has driven this latest tariff review. *This is not my preferred approach.*

Those of you who attended my last public meeting will be aware that I raised the potential for a radical departure from the current tariff model and the feedback I received from those initial conversations was interesting. I had intended to include this revised tariff model within this review. Regrettably this has not been possible.

As advised in my September 2022 announcement, I reached out to P&F / Future Energy on this aspect of pricing policy; "*Equal / Equitable*" pricing. I have yet to receive a response. I will however continue to seek feedback from the P&F and Future Energy Committees on this vital point.

In the meantime I will be undertaking a broader public consultation in respect of an alternative tariff structure that I believe reflects the drive of Chief Pleas to centralise energy consumption, reduce our reliance on fossil fuels and has the added benefit of radically driving down the unit price. This approach does somewhat fly in the face of the regulatory principal of "Cost Reflective Pricing" and "*Equal / Equitable*" but in a rather novel and counter intuitive manner.

In Sark the choice of tariff falls to the operator and not to the regulator and so there is a legitimate means to implement this change. However, it is radical and I genuinely want to receive feedback from major stakeholders before I do so. I cannot however, simply keep pushing this into the long grass.

I intend that this consultation will be launched in early February.

Connection Fee
It is now two years ago that I introduced the £40 minimum charge in an effort to better distribute the fixed costs of SEL among those residents who maintain empty properties. This has been a singularly unpopular move with a small number of residents and some have gone further and used their land ownership as leverage to simply not pay the minimum charges at all, leaving the remaining residents to pick up the difference on their behalf.

This is not a legal fight that I intend to pursue, and as such, I am removing the minimum charges and we are returning to the connection fees of old, although they are increasing from the historically low rate of £2 per meter. A figure which had not changed for a great many years. In line with the old methodology, there will be zero included units.

Buy Back Rate
The buy-back rate has historically been a fixed figure. This will now change to a variable figure at a 20% reduction, rounded down to the nearest penny, to the respective months FCC.

Standby Charge
There is universal agreement that a standby charge for those customers that use SEL as a back-up plan for their own off grid generation is a fair and equitable model. As previously disclosed this will form part of the new tariff structure. However, this will now be implemented with effect 1st March 2023.

Impact
These changes collectively have resulted in the following tariff with a unit cost of 53p which is backdated to take effect from 1st January 2023.

Sark Electricity Tariff January 2023

Monthly connection fee per meter		£10
Fixed Charge – Covering Fixed Costs for 2023	27p Per Unit – for 2023	.27p
FCC Charge – Covering variable Fuel Cost Component	26p Per Unit – Current Month	.26p
	Total Unit Cost	**.53p**
Buy back rate	All units	.20p
Own Generators at Standby Charge per kW of installed capacity per month.	Effective 1st March 2023	£5.00

Clearly fuel remains an expensive commodity at this point in time and we need to continue with our plans to deliver on our Sark Energy Transformation Plan. With Chief Pleas vote in October to remove the 18 month choke hold on my investment plans for the business, walking away from their attempts to seize the company by force if necessary, I am able to do exactly that.

CAPEX pans for 2023 / 2024 have been finalised and will be delivered to The OPC in the next few weeks. This should then feed into the Price Control order which is due for consultation shortly.

The January 2023 tariff can also be found online at www.sarkelectricity.com.

Regards

Alan