



Commissioner's response to SEL's note to Mr John Guille of 7th June 2022

Dear Alan,

I have had sight of SEL's 7 June letter to Mr Guille which was posted on SEL's Facebook page. Whilst I am unable to comment on SEL's relationship with Chief Pleas, I believe that your remarks on the energypeople report cannot go unchallenged. As well as making a number of unsubstantiated allegations against my Office, SEL has chosen this public forum to provide its first detailed observations on the recent energypeople report, rather than send them to my Office as I had requested last month when I sent a copy of the report to SEL.

SEL claims not to understand my reason for inviting energypeople to undertake this report and incorrectly asserts that it is "the latest step in P & F's efforts to devalue the company". You were made aware that the report was commissioned by my Office owing to the lack of any details from SEL of its expenditure plans for the next few years. In such a vacuum, it was necessary for my Office to determine what would guide a well functioning management team going forward, given the circumstances in which SEL finds itself.

BACKGROUND

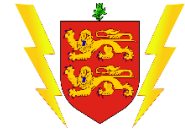
On receipt of the report, SEL requested a copy of the associated financial model, which was provided, and a copy of the report in its draft format. Both energypeople and my Office believe this latter request to be unreasonable and contrary to standard practice. SEL has maintained until now that it is unable to provide comments on the report until it has seen this draft document. My Office was disappointed that SEL chose not to provide any comments other than making broad remarks such as it contains "unanswered questions" and "significant errors".

I believe that my Office had valid reason when it did not support SEL's later request that it use the same consultants to carry out a comparative costing. It is not normally considered good governance for the same advisor to work for a regulator and the associated regulated company on the same topic. There is an obvious potential conflict of interest. In addition, I explained to SEL that it would be inappropriate whilst my Office's complaints against SEL's behaviour with regard to the provision of information, are being investigated by the relevant authorities. My Office offered to suggest alternative consultants SEL could use, but this was not taken up.

In response to the "significant errors" SEL claims to have discovered in the energypeople report, I have the following observations:

COST ESTIMATES

SEL complains that my Office refused to provide it with the information energypeople used to prepare their cost estimates. The cost estimates were itemised in the report, section 13.3, pages 44-46. While anyone has the right to challenge them (and they could be tested by competitive tender before any expenditure is incurred), they were included in the report to a sufficient level of detail to work out their basis.



FACTS ON THE GROUND

SEL claims that energypeople would have benefitted from “actual facts on the ground”. This is exactly what the energypeople engineers were able to assess during their visit to Sark. Other electrical projects have been constructed recently in Sark and the engineers were able to talk to some of the installers. SEL has no recent experience of commissioning new electrical generation equipment. My Office informed you of the dates the engineers would be visiting Sark but you were not in Sark at the time. However, in your absence, energypeople reported that the power station staff were extremely helpful.

COST OF UNDERGROUND CABLES

I believe you have made a fundamental mistake in not appreciating the different presentational approaches in the WSP and energypeople reports. The WSP figures you quote are for the costs of replacement cables including their installation. The energypeople report itemises the installation costs separately. In other words, you are not comparing apples with apples, which is why you are a factor of four out in your calculations.

CUSTOMER FEEDS

SEL complains that customer feeds, normally known within the industry as “service connections” have not been taken into account. This is incorrect. The cable costs may be found on page 44, service terminations and earth leakage circuit breakers on page 45.

CIVIL WORKS

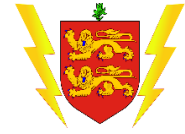
It should be clear to you that the civils costs have been estimated appropriately and it is your misunderstanding of the treatment of the cost of cables that is causing you difficulties. In fact, the estimates by energypeople for the distribution network were consistent with those of the WSP report, as may be seen at www.epc.sark.gg

SAFETY

I am at a loss to understand why properties that will be considered not to meet the regulations on a new network are considered safe on the present network - safe is safe and any utility network should be so. Energypeople expressed doubts on current safety and so included earth leakage trips as protection on ALL properties, along with new service cables (page 45). It is usual practice when a utility makes network changes that require changes to customers’ installations that the costs are covered by the utility, and the report makes this assumption.

DISRUPTION

Obviously, laying out a new distribution system will be disruptive. However, this is an issue that has arisen as a consequence of the poor husbandry exhibited by SEL over the past decade and more. Retaining anything that exists at present may well be technically sub optimal. Energypeople firmly believe that this work is achievable within twelve months with the right project manager and a good



team in place. The "disruption" is estimated to last 3-6 months and disruptions to supply would be minor and of short duration as explained on page 30 of the report.

ELEMENT OF UNCERTAINTY

Again, there is bound to be some uncertainty surrounding figures in a report such as this, as acknowledged on pages 25/26 of the report:

“All costs are based on the information we are able to gather from reliable industry sources but they could vary considerably when a tender is released to develop the network. Suppliers are reluctant to put a lot of time into competitive quotes until a project is certain to go ahead so we expect that our prices could be improved upon. The prices bid when the work is offered will also depend upon suppliers’ and contractors’ appetite for the work at the time”.

GENERAL

SEL states my Office is “utterly irresponsible” in setting tariffs based on the whole island’s electricity consumption. You were aware of this arrangement when you acquired the company in 2020 and this should have been highlighted during your due diligence process. It is a consequence of my belief that less wealthy residents should not suffer higher power prices because wealthier ones decided to generate their own power on account of SEL’s unfair tariffs. In January 2021, when this policy was continued, SEL repeatedly threatened to appeal, but did not do so. I have undertaken to revisit this decision in any future Determination I might make, when I have had sight of and evaluated SEL’s new detailed “buyback” proposals which my Office has been requesting for over a year.

You are well aware that my 1.5 GWh forecast for 2020 was based on incorrect information provided to my Office by your predecessor at SEL and you have acknowledged this fact. Incidentally, the consumption figures you quote for 2020 are lower than the figures previously provided to my Office by SEL. I cannot make a similar assessment for 2021 since SEL continues to withhold the December 2021 consumption figure.

In my view, the possibility of SEL being purchased is not a valid reason for SEL to withhold investment to replace ageing equipment, such as the generators, whose breakdown would threaten supplies of water and power in Sark. Similarly, SEL’s inability to secure wayleaves should not be a limiting factor when considering urgently needed replacement of generators.

At no time has my Office set a tariff that would force SEL to operate at a loss. You will remember that you declared that you were “proud” of SEL being profitable in 2020 and the under-recovery mechanism allowed SEL to carry over £75,000 of missed revenues, half of which was recovered in 2021. I am surprised that you have mentioned and attached a copy of your 18 November 2021 letter which was posted on the SEL Facebook site last year and contained a number of inaccurate claims and errors which I commented on and corrected in a letter dated 24 November 2021. In that letter I demonstrated why claims that SEL was losing money and that revenues did not cover the operating costs of the business were not justified.

You assert that my Office failed to include the capital cost for the original installation costs within the existing SEL balance sheet. This is simply incorrect. As you know, when varying the 2019 PCO, I took into account the Regulated Asset Value calculated by WSP and adjusted by my Office to allow



for inflation, further depreciation, working capital and smaller items such as mobile plant. I remind you that the most recent audited balance sheet I have seen for SEL is for 2016. I believe this situation to be unacceptable for any reasonably sized commercial company, let alone a regulated utility.

CONCLUSION

This is not the first time that simple errors have led SEL to draw incorrect conclusions. Had SEL engaged with my Office, it could have avoided making statements that were factually incorrect. Consequently, I am placing this email on my Office's website so that Sark's electricity consumers - who had access to your letter of June 7 - will be able to assess for themselves the veracity of the present situation.

Yours sincerely,

Anthony White
Commissioner

14th June 2022