



## Office of the Sark Electricity Price Control Commissioner

# CONSULTATION ON SEL's ELECTRICITY TARIFFS

## SUMMARY

1. On the 26<sup>th</sup> and the 27<sup>th</sup> of August 2025, Sark Electricity Limited ("SEL") announced that it was increasing its tariffs, from the 1<sup>st</sup> of September 2025.
2. SEL had been subject to a price control order, for the maximum two-year period, from April 2023 until March 2025. At the time of these announcements, the total unit price in the SEL tariff was 49 p/unit and SEL was not subject to a price control order. The revised tariff increased this price by 132% to 113.6 p/unit.
3. My functions and powers are set out in The Control of Electricity Prices (Sark) Law, 2016 ("the Law"). Pursuant to the Law, and following an investigation, I have the power to determine if this new price is, or is not, fair and reasonable. If I determine that it is not fair and reasonable, I can then make a Price Control Order which would set a maximum price which SEL could charge.
4. Before I do this however, I must consult with SEL and with the Policy and Finance Committee of Chief Pleas. Given this requirement, it is likely to be October 2025 before I could introduce a new price control order. I have sent this consultation paper today to SEL and to the chairman of the Policy and Finance Committee. It will also be published on my website.
5. I also have the discretion to formally consult with consumers of electricity in Sark. On this occasion, I have decided not to do so. This is because this would delay the introduction of any new price control order, and I do not consider that, in the circumstances, this would be in the best interests of electricity consumers.
6. This paper begins by setting out my preliminary conclusions in regard to this price increase.

7. The paper then sets out my legal functions and powers, and also refers to published policy statements from my office in relation to the interpretation of some aspects of the Law.

8. The paper then goes on to set out my preliminary assessment about if SEL's new tariff is fair and reasonable. This begins with my assessment of the new "Legal Levy" and the new "2025 EPC Price Consultation Levy", which were introduced by SEL for the first time.
9. This assessment then continues with a comparison of the other elements in SEL's new tariff with the values set in the last price control order, with the price charged by SEL since that price control ended on the 31<sup>st</sup> of March 2025, and with the values derived from my model for 2025-26. Finally, the paper sets out the next steps in the process and suggestions for consumers in regard to their electricity bills for the month of September.

### **PRELIMINARY CONCLUSIONS**

10. My preliminary conclusions in regard to SEL's revised tariff from the 1<sup>st</sup> of September 2025 are as follows:
  - a. For the reasons that I have set out in this paper, the "2025 EPC Price Consultation Levy" of 20 p/unit is, very clearly, neither fair nor reasonable.
  - b. For the reasons that I have set in this paper, the "Legal Levy" introduced by SEL from the 1<sup>st</sup> of September 2025 of 40 p/unit is, very clearly, neither fair nor reasonable.
  - c. SEL's fuel price component of 18.3 p/unit is low compared to recent fuel prices of 21.3 p/unit. I note however that, in any price control, the maximum allowed unit price is adjusted monthly to reflect actual fuel prices.
  - d. SEL's fixed cost component of 35.3 p/unit is high compared to a value of 30.2 p/unit at the end of the last price control period, and a value of 32.1 p/unit presently derived from my model for 2025-26.
  - e. SEL's revised monthly metering charges of £3.43 and £4.65 are substantially less than the value of £10/month in the previous price control order. However, this reduction in "other revenues" would be taken into consideration when setting the allowed fixed cost component in any new price control.

- f. SEL has not changed the monthly standby charge for own-generators. I therefore do not need to consider this element any further.
- g. SEL has substantially reduced its offer price for buying surplus electricity from own-generators, from 20 p/unit to 9.9 p/unit. I do not have the legal power to set a minimum price that SEL must offer for buying this electricity. However, I factor in the estimated savings in fuel costs by SEL from this when setting the allowed fuel cost component in any new price control.
- h. Given the statutory process, I do not have the legal power to make a price control order for September 2025. I appreciate that a 114% increase to the tariff, with only five days' notice, is likely to cause severe financial hardship for many consumers in Sark. Customers should seek to discuss this matter with SEL. Consumers may also wish to seek robust assurance from SEL that any money collected by the levies in September will not be used to settle any outstanding debts which SEL may already have with Collis Crill.

## INTRODUCTION

11. On the 26<sup>th</sup> and the 27<sup>th</sup> of August 2025, Sark Electricity Limited ("SEL") announced that it was changing its tariffs, from the 1<sup>st</sup> of September 2025, as follows:

Component	Price
Flat Rate For Expenses	35.3 p/unit
Fuel Cost Component	18.3 p/unit
Legal Levy Until - Further Notice	40.0 p/unit
2025 EPC Price Consultation Levy	20.0 p/unit
Total Unit Price	113.6 p/unit
Monthly Single-Phase Meter Rental	£3.43
Monthly Three-Phase Meter Rental	£4.65
Monthly Standby Charges For Own Generators	£5.00
Buy-Back Rate For Own Generators	9.90/unit

12. The first announcement, on the 26<sup>th</sup> of August 2025, did not include the “2025 EPC Price Consultation Levy” component. This was introduced the next day, on the 27<sup>th</sup> August 2025, after I had announced that I would be investigating the first increase.
13. At the time of these announcements, the total unit price in the SEL tariff was 49 p/kwh and SEL was not subject to a price control order. The first announcement increased this rate to 93.6p/kwh, or by 91%. The second announcement increased this rate to 113.6 p/kwh, or by a further 41%.
14. I am now investigating this price increase to determine if it is, or is not, fair and reasonable. The purpose of this paper is to consult on this issue prior to making a final determination, and to set out my preliminary conclusions. Following this consultation, If I determine that prices are not fair and reasonable, I then have the power to make a price control order specifying the maximum price, or prices, that can be charged.
15. This paper begins by setting out my legal powers and functions, which allow me to investigate the prices charged for the supply of electricity and to make a price control order, if I determine that prices are not fair and reasonable. The paper also sets out policy statements which my office has published in relation to this matter.
16. The paper then goes on to set out my preliminary assessment about if SEL’s new tariff is fair and reasonable. This begins with my assessment of the new “Legal Levy” and the new “2025 EPC Price Consultation Levy”, which were introduced by SEL for the first time.
17. This assessment then continues with a comparison of the other elements in SEL’s new tariff with the values set in the last price control order, and with the price charged by SEL since that price control ended on the 31<sup>st</sup> of March 2025. My assessment also includes a comparison with my modelling results for the April 2025 to March 2026 period.
18. Finally, the paper sets out the next steps in the process and offers some advice for consumers for the month of September 2025.

## **MY LEGAL FUNCTIONS AND POWERS**

19. My functions and powers are set out in The Control of Electricity Prices (Sark) Law, 2016 (“the Law”).
20. Section 3 of the Law sets out my functions which include investigating the price which is charged by a regulated electricity supplier for the supply of electricity, and to determine whether the price which is charged is, or is not, fair and reasonable.
21. Before making a determination, Section 14 of the Law requires me to consult with the regulated electricity supplier and the Finance and Policy Committee of Chief Pleas (“the Committee”). I may also consult with anyone else as I think fit. I must give any person consulted a minimum of 14 days to respond. I must also give the regulated electricity supplier a minimum of a further 14 days to respond to responses received from the Committee or any other person.
22. Section 15 of the Law gives me the power to make a price control order, in the case where I have determined that the price which is charged by the regulated electricity supplier is not fair and reasonable. A price control order has a maximum term of two years. During this term the price control order can be varied. It can also be appealed by the regulated electricity supplier to the Court of the Seneschal.
23. Before making a price control order, I must also consult in similar terms to those set out in paragraph 21 above.
24. In determining whether a price is, or is not, fair and reasonable, Section 13 of the Law requires me to take all material considerations into account, including without limitation several specified matters.
25. These factors are:
  - a. The cost of generating and distributing the supply of electricity, including the cost of acquisition and maintenance of any plant and equipment, the cost of fuel and other consumables, and labour costs,
  - b. The replacement cost of any plant and equipment required to generate and distribute electricity,
  - c. The quality and reliability of the supply of electricity and the economy and efficiency with which the supply of electricity is generated and distributed,

- d. The margin of profit obtained by the regulated electricity supplier,  
The margin of profit obtained by such other electricity suppliers,  
generating and distributing a supply of electricity in similar circumstances  
in such other islands or territories, as I think fit,
- e. The entitlement of the regulated electricity supplier to receive a  
reasonable return, as I think fit, on the value of the assets (including plant  
and equipment and working capital) operated or used by the supplier for  
the purposes of generating and distributing the supply, and
- f. Any representations made in response to the consultation referred to in  
paragraph [.] above.

## **POLICY STATEMENTS**

- 26. In November 2018 my office published a policy statement regarding the exercise  
of some aspects of my powers pursuant to the Law.
- 27. In summary, in this policy my office stated that:
  - a. It will only make a price control order in cases where it is clear that the  
prices charged are not fair and reasonable, and it will not set a price below  
the price it determines represents the reasonable cost of supply,
  - b. It does not currently consider the hypothetical cost of alternative ways to  
generate and distribute electricity, or fuel poverty, to be material  
considerations, and
  - c. It does not currently consider fuel poverty to be a material consideration,
  - d. Nothing in the policy statement is intended to affect the obligation of the  
Commissioner to consider the economy and efficiency with which the  
supply of electricity is generated and distributed within the meaning of  
section 13(2)(c) of the 2016 Law, and
  - e. In assessing the economy and efficiency with which the regulated  
electricity provider generates and distributes their supply, the  
Commissioner acknowledges that the regulated electricity provider's  
reasonable costs of responding to an investigation pursuant to section

3(1 )(a) of the 2016 Law or any consultations under sections 14 and 16 of the 2016 Law, are costs which the regulated electricity provider will fairly and reasonably be able to recover through the electricity price.

28. In November 2019, following a consultation, my office published an update to this policy statement. This updated stated that:
- a. The avoidance of fuel poverty, as prompted by some customers generating their own supply of electricity, may become a material consideration, and
  - b. In assessing the economy and efficiency with which the regulated electricity provider generates and distributes their supply, the legal costs which may be incurred by a regulated supplier considering the sale of the company, or those that may be incurred attempting to obstruct the Commissioner, or his agents, from carrying out their duties, are not considered to be reasonably recoverable costs through the electricity price.

#### **PRELIMINARY ASSESSMENT IF SEL's PRICES ARE FAIR AND REASONABLE**

29. In determining if prices are, or are not, fair and reasonable, Section 13 of the Law requires me to take all material considerations into account, including without limitation the matters listed in Section 13(2) of the Law. These matters have been set out in paragraph 25 above.
30. I am also guided by the published policy statements as described in paragraph 27 and 28 above.
31. I begin my assessment by considering the new "2025 EPC Price Consultation Levy"

#### **2025 EPC PRICE CONSULTATION LEVY**

##### *SEL's Explanation:*

32. SEL stated in its public notice that this further levy was for the purposes of recovering legal costs from responding to my investigation and consultations,



which I had now commenced, in response to SEL's first tariff increase on the 26<sup>th</sup> of August 2025.

33. At this stage, SEL has not stated how long the levy is likely to last for, or how it arrived at the value of 20 p/kwh. SEL have also stated that the accumulated funds will be held by the legal firm, Collis Crill, and any funds not utilised will be returned to customers.
34. In this announcement SEL also referred to the first policy statement referred to above. SEL quoted the following paragraph from this policy statement:

*"In assessing the economy and efficiency with which the regulated electricity provider generates and distributes their supply, the Commissioner acknowledges that the regulated electricity provider's reasonable costs of responding to an investigation pursuant to section 3(1)(a) of the 2016 Law or any consultations under section 14 and 16 of the 2016 Law, are costs which the regulated electricity provider will fairly and reasonably be able to recover through the electricity price".*

*My Response:*

35. The issue of the recovery of legal costs has already been covered in previous consultations by my office.
36. Legal costs are not listed in Section 13(2)(a) of the Law as a specific cost which I must take into consideration. However, this list is not exhaustive, and I must take all material considerations into account when determining whether the price charged for the supply of electricity is fair and reasonable.
37. It is also worth considering what my office stated in its published policy statement in November 2018, as referred to by SEL.
38. This statement begins by referring to an assessment of the economy and efficiency with which the regulated electricity provider generates and distributes electricity. This is a reference to section 13(2)(c) of The Law.
39. I interpret this to mean that I must consider how economically and efficiently SEL is generating and distributing electricity. This test would relate to both the fixed and variable costs which SEL incurs in generating and distributing electricity. I

do not interpret this to mean however that it would be fair and reasonable for me to allow for the recovery of all actual costs incurred by SEL.

40. The policy statement continues that, in making this assessment, I acknowledge that all reasonable costs of responding to investigations or consultations under the Law, pursuant to Sections 13(1)(a), 14 and 16 are costs which the regulated electricity supplier will fairly and reasonable be able to recover through the electricity price.
41. Section 3 (1)(a) refers to my function to investigate the price which is charged by a regulated electricity supplier. Section 14 refers to a consultation process before I can determine if prices are, or are not, fair and reasonable. Section 16 refers to a consultation process before I can make or vary a price control order.
42. I therefore interpret the above paragraph from the policy statement to mean that a regulated electricity provider's efficient and economic costs, associated with responding to investigations and consultations by my office, are recoverable in the electricity price.
43. It is noteworthy that there is no reference to legal and other costs associated with appealing a price control to the Court of the Seneschal pursuant to Section 20(1) of the law. If this had been intended, it could easily have been included in the policy statement along with the reference to Sections 3(1)(a), 14 and 16.
44. The costs associated with an appeal have not been included in any price control order since (or before) the November 2018 policy statement and these price control orders have been accepted by SEL.
45. Furthermore, SEL has recently confirmed that it agrees that the cost of appeals should not be recoverable in a price control order:

*"To be absolutely clear I have not sought, at this point, to recover any costs of appeal to the Price Control Order. Any such determination in respect of recoverable costs will be made by the Court they are not an automatic right; we agree entirely on this point. This was the points that the agreement covered".*

46. It is also accepted practice in utility regulation in the UK, and elsewhere, that both parties fund their own costs of an appeal in the first instance. The judge then

decides on the allocation of costs in the appeal decision, or the parties may agree this between themselves in any out of court settlement. This has also been the case in Sark to date.

47. In all price control orders (and variations) to date, SEL has been given an ex-ante allowance for fixed operating costs, instead of allowing SEL to recover its actual incurred costs on an ex-post basis. The rationale for this approach is to encourage efficiency, as required by section 13 (2)(c) of the Law.
48. This approach is also widely regarded as good regulatory practice and it is the approach used for utility regulation in the UK and elsewhere.
49. In all price control orders and variations since (and before) the November 2018 policy statement, the allowance for fixed operating costs has included an allowance for legal and other costs incurred from responding to investigations and consultations by my office.
50. SEL accepted the 2019 price control order and its subsequent variation. SEL also accepted the April 2023 price control order.
51. In its variation request in the summer of 2024, to the then price control order, SEL's advisors requested that the "*fixed cost portion*" of the price control order be amended to take account of the reasonable legal costs of addressing the legalities of the current situation. This was a reference to Chief Pleas decision to construct an alternative electricity system.
52. Therefore, in this request, SEL was still accepting that legal costs should be recovered on an ex-ante basis via the "*fixed cost portion*" in the price control order.
53. In the consultation that followed this variation request however, the owner of SEL also requested that "*an agreed percentage figure*" of £315,156 of historic legal costs are also recovered in electricity prices. This request is inconsistent with the ex-ante allowance approach and amounts to seeking to recover claimed actual costs on an ex-post basis.
54. For this latest tariff increase, SEL explains that the receipts from its 20 p/unit levy will be held by its legal advisors, Collis Crill. This legal firm will draw from this fund on a FIFO basis, and any surplus will be returned to customers. I estimate

that a levy of 20 p/unit would result in payments of, on average, £23,000 per month, or £280,000 per year.

55. Under this approach, SEL would recover whatever legal costs it incurred, pre-funded by Sark customers. Such an approach is completely inconsistent with the efficiency requirements of section 13 (2)(c) of the Law, the ex-ante allowance approach used in price control orders to date and accepted by SEL, best regulatory practice and the approach used in for utility regulation in the UK and elsewhere.
56. The fixed price component of price control orders should include an allowance for reasonably incurred costs of responding to an investigation pursuant to section 3(1)(a) of the 2016 Law or any consultations pursuant to section 14 and 16 of the 2016 Law. This has been the approach to date and the approach as set out in both the November 2018 policy statement and its update in November 2019.
57. The issue then becomes determining what might be a reasonable value for this allowance. In any 2-year price control cycle, at most, SEL may have to respond to one investigation and consultation on a determination, one consultation on a price control order, and perhaps one consultation on a variation to that order. This amounts to three responses over two years.
58. Price controls for SEL are relatively straight forward compared to other regions, and the owner of SEL now has five years of experience of this exercise. I accept entirely that some external support may still be required for this exercise, but I note that, for responding to the consultation on the April 2023 price control order, SEL did not require any external support.
59. After allowing for inflation, in my financial model, the current allowance for this exercise would increase in 2025-26 to c£20,000 per year. If we assume three responses over two years, this amounts to an allowance of c£13,000 per response.
60. An annual allowance of £20,000 equates to c1.4 p/unit on the tariff. In past price control orders, this has been built into the overall allowance for fixed operating costs and reflected in the maximum unit price allowed, along with other the other costs for the supply of electricity. It has not been regulated as a separate charge.

61. Even if I were to increase this allowance to, say, £30,000 per year, the additional price impact would be c0.7 p/unit. This is a fraction of the 20 p/unit now charged by SEL.
62. For the reasons that I have set out above, my preliminary view, therefore, is that an “EPC price Control Levy” of 20 p/unit is, very clearly, neither fair nor reasonable.
63. I will now assess the new “Legal Levy” charged by SEL from the 1<sup>st</sup> of September 2025.

## **LEGAL LEVY**

### *SEL’s Explanation:*

64. On the 26<sup>th</sup> of August 2025, SEL publically announced that it was introducing a “Legal Levy” of 40 p/unit from the 1<sup>st</sup> of September until further notice. In its notice, SEL stated:

*“The Company has done everything that it could to avoid increasing the cost of electricity at this time. However, it must fund its defense against Chief Pleas move to seize its assets against its will. Seizing the company’s assets will reduce its value significantly and the Company has a right to defend itself against this assault and it will do so. As customers will appreciate, Company revenue comes from the unit price and therefore a legal levy will be applied while this matter progresses through Court to cover this exceptional expense. Given that the costs involved will be significant, we will be managing this process via a third party to ensure complete transparency. The legal levy will be applied to customers’ bills and this component of the unit price will be paid away directly to Collas Crill to be held on a client monies account. As legal expenses are incurred, they will be deducted from this fund. The Company will not hold these funds. A full reconciliation of levies paid, and deductions made will be provided to the EPC on a rolling basis. Once the legal matter has been concluded, if there are any funds remaining these will be returned to customers on a FIFO basis. This will ensure that the legal levy is not conflated with day-to-day Company funds. For absolute clarity, given these monies are significant they will not be held by the Company”.*
65. SEL later stated that this money would be to fund a judicial review. I have asked SEL what decision it intends to judicially review, and I hope to receive an answer to this question shortly.

*My Response:*

66. This levy adds 40 p/unit to consumer bills from the 1<sup>st</sup> of September 2025. This represents an increase of 82% and would, no doubt, put a very heavy burden on most consumers of electricity in Sark. I estimate that it would also amount to receipts of c£47,000 per month for SEL.
67. On the 16<sup>th</sup> of February 2022, The Compulsory Purchase (Electricity) (Sark) Law, 2021 was enacted. Section 10 of this law states:
- “This law shall come into effect on the day appointed by regulations made by the Committee, and different dates may be appointed for different provisions and for different purposes”:*
68. On the 25<sup>th</sup> of June 2025, The Policy and Finance Committee of Chief Pleas made the regulations being the Law into effect on the 26<sup>th</sup> of June 2025.
69. I am assuming, for now, that SEL will seek leave to appeal either the legislation and/or the making of the regulations to bring it into effect.
70. Pursuant to Section 13 (2) of the Law, I must consider if it would be fair and reasonable to allow reasonable legal costs arising from such a judicial review to be included in electricity prices, and in the manner described by SEL.
71. The issue about the recovery of costs associated with the sale of SEL has arisen before. Indeed, the updated policy statement in November 2019 makes specific reference to this:

*“In assessing the economy and efficiency with which the regulated electricity provider generates and distributes their supply, the Commissioner acknowledges that the regulated electricity provider's reasonable costs of responding to an investigation pursuant to section 3(1)(a) of the 2016 Law or any consultations under sections 14 and 16 of the 2016 Law, are costs which the regulated electricity provider will fairly and reasonably be able to recover through the electricity price. **For the avoidance of doubt, this does not include legal costs which may be incurred by a regulated supplier considering the sale of the company nor those that may reasonably be considered as incurred attempting to obstruct the Commissioner, or his agents, from carrying out their duties**”. (my emphasis)*

72. I note that the policy very clearly, and explicitly, rules out legal costs associated with the sale of the company. This is because it is not a cost required to be incurred to generate and distribute electricity.
73. In the last section of this paper, I also explained that legal costs associated with appeals of price control orders to the Court are not recoverable, on an ex-ante basis, in a maximum unit price set in a price control order. Such costs are borne by the individual parties in the first instance. The subsequent burden of these costs is then decided by the judge, or between the parties in any out of court settlement.
74. SEL has already accepted this, as I have set out earlier in this paper. If the legal costs of an appeal against a price control order are not recoverable in electricity prices, it is difficult to see how the legal costs associated with a judicial review against a third party would be either.
75. It is also the case that price control orders in UK utility regulation do not include allowances for the regulated company to judicially review government decisions enacted in legislation.
76. The mechanism for recovery set out by SEL is the same as that for the recovery of 2025 EPC Price Consultation Levy. As I have already explained, under this approach, SEL would recover whatever legal costs it incurred, pre-funded by Sark customers. Such an approach is however completely inconsistent with the efficiency requirements of section 13 (2)(c) of the Law, the ex-ante allowance approach used in price control orders to date and accepted by SEL, best regulatory practice, and the approach used in the UK and elsewhere.
77. For the reasons that I have set out above, my preliminary view, therefore, is that the “Legal Levy” introduced by SEL from the 1<sup>st</sup> of September 2025 of 40 p/unit is, very clearly, neither fair nor reasonable.
78. I will next assess the other elements in the revised SEL tariff. I will do this by comparing them to the values in the last price control order which ended on the 31<sup>st</sup> of March 2025, to prices charged by SEL since then until the 31<sup>st</sup> of August 2025, and by the values predicted by my model for the period April 2025 until March 2026.

## COMPARSION WITH PRICES IN THE PREVIOUS PRICE CONTROL ORDER

79. The table below shows the maximum allowed rates in the last price control order, for the period April 2024 – March 2025. This price control order and the variation (from the 1<sup>st</sup> of November 2024) ended on the 31<sup>st</sup> March 2025.

Component	April 202 – October 2024	November 2024- March 2025
Allowed Fixed Cost Component	29.05 p/unit	31.05 p/unit
Allowed Fuel Cost Component	24.95 p/unit	24.95 p/unit
<b>Total Unit Price Allowed<sup>1</sup></b>	<b>54.00 p/unit</b>	<b>56.00 p/unit</b>
Allowed Monthly Metering	£10	£10
Monthly Standby Charges For Own Generators	£5.00	£5.00
Buy-Back Rate For Own Generators <sup>2</sup>	20.00 p/unit	20.00 p/unit

80. I will begin my considering SEL's revised monthly metering charges of £3.43 and £4.65. These are substantially less than the value of £10/month in the previous price control order. As I will explain later, this reduction in "other revenues" would be taken into consideration when setting the allowed fixed cost component in any new price control.
81. Next, SEL has not changed the monthly standby charge for own-generators. I therefore do not need to consider this element any further.
82. I do not have the power to set a minimum price for buying back power from own-generators 20 p/unit represents the tariff offered by SEL. I do, however, include the estimated savings to fuel costs by SEL from this when setting the allowed fuel cost component in any new price control.
83. My main focus in this section is on remaining two elements in the table above; the fixed cost component and the fuel cost component.
84. This price control order (and its variation) also included a monthly correction mechanism. This was to allow for the fact that actual fuel prices and actual demand would be different from the values forecast in the price control, and that this was a risk that SEL should not be exposed to.



85. Over the second year of the last price control, the average fuel price was 21.81 p/kwh, compared to an assumption of 24.95 p/kwh in the price control. Over the second year of the last price control, the average demand was 1,403 MWhs compared to 1,320 in the price control.
86. Therefore, because of fuel prices being lower than forecast, and demand being higher than forecast, the maximum allowed unit price was 50.7 p/unit for the period April 2024-October 2024. This was composed of a fixed rate component of 28.58 p/unit and a fuel rate component of 22.12 p/kwh.
87. For the period November 2024-March 2025, the maximum allowed unit price was 51.60 p/unit, composed of a fixed rate of 30.22 p/unit and a fuel rate of 21.38 p/unit.
88. This compares with a fixed rate of 35.3 p/unit and a fuel rate of 18.3 p/unit charged by SEL from the 1<sup>st</sup> of September 2025.
89. Fuel prices have continued to remain lower and were 21.25 p/kwh for the month of July 2025. However, based only on the above comparison, SEL's fuel rate charge of 18.3 p/kwh is lower than recent fuel prices, notwithstanding that in any new price control, customers would end up paying the actual fuel price due to the monthly correction mechanism.
90. However, based only on the above comparison, SEL charge of 35.3 p/kwh for fixed costs is high compared to the allowances in the last price control order and its variation.

### **COMPARSION WITH PRICES SINCE THE LAST PRICE CONTROL ORDER**

91. Since the last price control order (and its variation) ended on the 31<sup>st</sup> March 2025, I have been carrying out a low-key investigation into the price charged by SEL, up until the 31<sup>st</sup> of August 2025.
92. This involved SEL providing me with monthly information, which mainly related to fuel prices and demand. I have also asked SEL to provide me with the details of any capital expenditure it incurred. I have used this information in a financial model which calculates a maximum monthly unit price.

- 93. From April to August 2025, SEL has kept its unit price at 49 p/kwh, which was the value in the price control for March 2025. SEL did not incur any capital expenditure during this period to replace assets.
- 94. Based on this information provided by SEL and my modelling analysis, I remained content that the price charged by SEL was fair and reasonable during this period.
- 95. However, from the 1<sup>st</sup> of September 2025, SEL has increased this price to 53.6 p/kwh, equating to a 9.4% increase. This is a substantial increase compared to the unit price charged by SEL between April 2025 and August 20.

### **COMPARSION WITH MY MODELLING RESULTS FOR 2025-26**

- 96. The matters set out in section 13(2) of the Law, and any other material considerations can be reflected in a mathematical formula, to determine a maximum unit price which is fair and reasonable.
- 97. This is often referred to as the building block approach for incentive regulation. This approach is widely accepted as good regulatory practice and it is the approach which has been used in all price controls for SEL to date.
- 98. A key characteristic of this approach is that, for fixed operating costs, SEL is given an ex-ante allowance, built into the price control, instead of allowing SEL to recover its actual costs on an ex-post basis. The rationale for this approach is to encourage efficiency, as required by section 13 (2)(c) of the Law.
- 99. The allowance for fixed operating costs is typically determined by benchmarking with other similar systems and consideration of historic performance. Consideration is also given to inflation.
- 100. The maximum unit price also includes a depreciation charge for SEL's acquisition and replaced assets, and a reasonable rate of return on the investment in these assets.
- 101. Fuel prices are largely outside of the control of SEL. The risk of variations in fuel prices (and in consumer demand) are therefore not borne by SEL and are taken account of in a monthly correction mechanism.

102. The maximum unit price also takes account of other revenues which SEL earns from metering charges, standby charges from own-generators, and profits from buying surplus electricity from own-generators.

103. The formulas for the maximum unit price is as follows:

$$P_{cap} \text{ (p/kwh)} = [AFCC - OR]/D + [VFCC] + K$$

Where:

AFCC = The Allowed Fixed Cost Component (p),

OR. = Other Revenues (p),

D = SEL Demand (kwhs),

VFCC = Variable Fuel Cost Component (p/kwh), and

K = Correction Factor (p/kwh)

The allowed fixed cost component includes fixed operating costs, depreciation and return on investment.

## **MODELLING RESULTS**

104. I have updated my financial model to take account of the information provided by SEL in its recent tariff announcement. I am sharing this model with SEL as part of this consultation.

105. I have also requested particular data from SEL that I would have expected it to use to determine its revised tariffs. This included its assumptions on demand, fuel cost, fixed operating costs, depreciation charge, and rate of return. I hope to receive this information shortly.

106. My modelling results currently suggest a maximum fixed cost component of 32.10 p/unit. If we assume the July 2025 fuel price of 21.25 p/kwh, this would result in a maximum unit price of 53.35 p/kwh.

107. These modelling results suggest that the SEL's fuel price component of 18.3 p/kwh is low compared to recent fuel prices, and that its fixed cost component of 35.3 p/kwh is high compared to the results of my model.

## NEXT STEPS

108. Pursuant to Section 14(1)(b) of the Law, I have today formally sent this consultation paper to SEL and to the Policy and Finance Committee of Chief Pleas. I have also provided SEL with the financial model referred to in this paper.
109. Pursuant to Section 14(3) of the Law, I have also requested that SEL and the Policy and Finance Committee make any representations to me by the 15<sup>th</sup> of September 2025.
110. Pursuant to Section 14(1)(a) of the Law, I have the discretion to formally consult with electricity consumers in Sark. I have decided not to do so on this occasion, because this would add at least 14 days to the statutory process before I could make a determination. On balance and in the circumstances, I do not consider this to be in the best interests of these electricity consumers. I have however placed a copy of this consultation paper on my website.
111. If I determine that the current prices charged by SEL are not fair and reasonable, pursuant to Section 15(1) of the Law, I may make a price control order. Such a price control order can set the maximum price which SEL could charge for the supply of electricity. If I determine that prices are not fair and reasonable, and I make a price control order, I would hope to do so by the beginning of October 2025.
112. Given the statutory process, I do not have the legal power to make a price control order for September 2025. I appreciate that a 114% increase to the tariff, with only five days' notice, is likely to cause financial hardship for many consumers in Sark. Such treatment of consumers would typically be prohibited by license conditions in the UK and other jurisdictions. However, there is no licensing regime in Sark, and I am unaware if the terms of the supply contract with SEL permit increases of this magnitude and in this timescale. I would encourage customers, who are likely to experience financial hardship, to discuss this matter with SEL.
113. It is also not clear to me if the First In First Out ("FIFO") approach that SEL is proposing to establish with Collis Crill would be used, in the first instance, to settle any outstanding debts which SEL may have. This is an issue that consumers may also wish to seek robust assurances on with SEL.