



Office of the Sark Electricity Price Control Commissioner

PRICE CONTROL ORDER

FOR PRICES CHARGED BY SARK ELECTRICITY LIMITED ("SEL")

FOR THE PERIOD

01st OCTOBER 2025 – 30 SEPTEMBER 2027.

Shane Lynch

Sark Electricity Price Control Commissioner

30th of September 2025

INTRODUCTION

1. On the 26th of August 2025, Sark Electricity Limited ('SEL') announced that it was increasing its unit price by 91% from 49 p/kwh to 93.6 p/kwh. This increase included a 40 p/kwh "Legal Levy" to fund a legal challenge of Chief Pleas' decision to exercise its legal right to compulsory purchase SEL.
2. Later that same day, I announced that I was investigating this revised price to determine if it was, or was not, fair and reasonable, pursuant to sections 3(1) and 13 of The Control of Electricity Prices (Sark) Law, 2016 ("the Law").
3. On the 27th of August 2025, SEL announced a further increase to its unit price of 20 p/kwh. SEL referred to this further increase as a "2025 EPC Price Consultation Levy" to fund its costs in responding to consultations associated with my determination and any subsequent price control order.
4. Over this two-day period, SEL increased its unit price by 132% from 49 p/kwh to 113.6 p/kwh. This resulted in SEL having the highest electricity prices in the World.
5. On the 1st of September 2025, pursuant to section 14 of the Law, I issued a consultation paper to SEL setting out my preliminary conclusion that the revised price was neither fair nor reasonable. This consultation paper also set out my reasons for this preliminary conclusion.
6. SEL was given the opportunity to make both written and verbal representations on this consultation paper. SEL did not avail of either opportunity.
7. On the 16th of September 2025, pursuant to section 13 of the Law, I determined that SEL's revised unit price was neither fair nor reasonable, and I set out my reasons for this determination.
8. On the 19th of September 2025, pursuant to section 16 of the Law, I issued a consultation paper to SEL setting out a draft price control order.
9. This draft price control order specified a formula and value for a maximum unit price (p/kwh), maximum values for monthly metering charges, and a maximum monthly standby charge for own-generators. The consultation paper also set out in some detail how each of these values were determined. I also provided SEL with a financial model.
10. SEL was given the opportunity to make both written and verbal representations on this consultation paper. Once again, SEL did not avail of either opportunity.
11. Pursuant to section 15 of the Law, I am now making a price control order to take effect from midnight on the 30th of September 2025, and to last for a term of two years.
12. In the next sections of this paper I set out the maximum charges allowed under this price control order, and I explain how each of these maximum charges were determined. I also explain how the maximum unit price will be adjusted for

changes in fuel prices, changes in consumption, changes in other revenues, any capital expenditure on replacement assets, annual inflation and annual depreciation of existing assets.

THE MAXIMUM ALLOWED UNIT PRICE

13. When making a price control order, pursuant to section 16 (1) of the Law, I must take all material considerations into account including those referred to in section 13(2) of the Law.
14. In this price control order these considerations have been brought together into a formula to calculate a maximum allowed unit price (p/kwh).
15. This is determined by considering the revenues that an efficient operator would require and dividing this by forecast consumption. These “allowed revenues” must be capable of covering the fixed and variable costs of an efficient operator, including the cost of capital.
16. Consideration, however, must also be given to “other revenues” which SEL will receive outside of the unit charge. These include revenues from the metering charges, and the standby charge and profits from buying power from own-generators at a discount to its avoided fuel cost.
17. Actual fuel prices, consumption and other revenues in each month will be different from the values that were originally forecasted. Uncorrected, this would result in SEL either over or under-recovering its actual costs. To ensure that SEL is not faced with this risk, it is therefore necessary to introduce a monthly correction mechanism.
18. Given that this will be a 2-year price control, it is also necessary to ensure that fixed operating costs are adjusted annually to allow for inflation.
19. As will be explained further below, it is also necessary to adjust depreciation and return on capital charges on an annual basis, and to allow for the addition of any new capital expenditure to replace assets.
20. The formula for the monthly unit price cap (p/kwh) is as follows:

$$P_{\max} (p/kwh) = [AFCC - OR] / C + [VFCC] + K$$

Where:

AFCC = The allowed fixed cost component (p),

OR = Other revenues (p),

C = Consumption (kwhs),

VFCC = Fuel cost component (p/kwh), and

K = Correction factor (p/kwh)

21. I will now explain how each of the components in the above formula are determined. Some of the data used comes from a supporting financial model which has been shared with SEL.

VARIABLE FUEL COST COMPONENT (p/kwh)

22. Variable fuel costs incurred by SEL, and expressed in p/kwh, are the product of the delivered diesel price (p/litre) to Sark and the assumed overall conversion factor (kwhs/litre) for converting this fuel into electricity delivered.

23. In this price control order, I will continue to use an overall conversion factor of 2.92 kwhs/litre, the actual weighted average diesel cost incurred by SEL, and a freight cost of 6.7 p/litre.

24. SEL informed me that its diesel cost in September was 50.47 p/litre. I intend to use this value to calculate the opening variable fuel cost component.

25. The opening Variable Fuel Cost Component (p/kwh) for October 2025 is calculated as:

$$VFCC \text{ (p/kwh)} = (50.47 + 6.7) / 2.92 = 19.58 \text{ p/kwh}$$

ALLOWED FIXED COST COMPONENT (AFCC)

26. The allowed fixed cost component includes allowances for fixed operating costs, depreciation and return on investment. In the following sections, I set out how I determined each of these values.

Fixed Operating Costs:

27. Fixed operating costs are the costs associated with running the business on a daily business. They consist of staff costs, operational costs, service and administration costs.
28. Operational costs consist mainly of maintenance and consumables. Service costs consist mainly of insurance, rent, rates, accountancy fees, bank charges, and other professional services. Administration costs consist mainly of IT, telephone, postage and cleaning costs.
29. Other professional services are any costs that SEL may incur to help with its consultation responses to proposed determinations or price control orders.
30. The allowances for these fixed operating costs in this price control order are shown in Table One below, together with the fixed operating costs projected by SEL in its recent tariff announcement.

Table One: Fixed Operating Costs

Cost Category	PCO Allowance For 2025-26	SEL Projection For 2025-26
Managing Director Remuneration	58,671	96,022
Other Director Remuneration	0	14,440
Other Staff Remuneration	205,349	174,909
Operational Costs	39,114	43,273
Services	44,003	40,523
Administration	9,779	14,860
Provision for Dilapidations	5,828	3,983
Total Fixed Operating Costs	362,744	388,010

31. The allowance for fixed operating costs above was determined by applying Guernsey RPIX inflation of 3.8% for 2024-25 to the allowance in the 2024-25 price control order.
32. It should be noted that a price control order does not set individual allowances for each cost category in the table above. Rather, an overall allowance is set for fixed operating costs. SEL is then free to manage its business as it sees fit and has an incentive to out-perform this allowance.

33. Services includes an allowance of c£20,000 per year for other professional support in responding to consultations by my office. This allowance is based on an assumption that SEL may have to respond to three consultations over a 2-year period and incur professional fees of c£13,000 per consultation.
34. However, SEL did not make any representations to either of the two consultations leading up to this price control order.
35. I also note that during the month of September 2025, SEL charged consumers 20 p/kwh as a Consultation Levy. I estimate that, if all consumers were to pay this, in October 2025, this would raise c£23,000 for SEL. Given that SEL did not actually incur any costs responding to consultations, it may wish to reconsider if its inclusion in consumers bills for September 2025 is justified.
36. Given that SEL did not incur any costs responding to the last two consultations, I also considered reducing the £20,000 per year allowance for other professional services. However, the compulsory purchase of SEL is likely to occur during the term of this price control, and the valuation process could result in some additional costs for SEL. I have therefore decided to leave this allowance unchanged.
37. As I have already explained in my earlier determination however, I do not consider it to be fair and reasonable to include an additional allowance to fund a legal challenge by SEL of its compulsory purchase.
38. SEL's projected costs are some 7% higher than the proposed allowance. I note however, that SEL demonstrated in its recent tariff announcement that it outperformed its fixed operating cost allowance in 2024-25, notwithstanding its claim in regard to legal costs.
39. I see no justification for the introduction of another part-time Director in a business the size of SEL. I note that, if this cost was removed, and if overall remuneration was in line with the allowance, SEL's projected fixed operating costs would only be 1% higher than the overall allowance.

Depreciation and Return On Investment Costs:

40. In a regulated infrastructure business, investments in plant and equipment tend to be "lumpy". Rather than consumers paying for these investments immediately, they typically pay for them in equal annual installments over the expected life of the assets. These payments are known as depreciation payments.

41. The outstanding amount owed by customers is accounted for in what is known as the Regulatory Asset Base ("RAB"). Over time, the outstanding Regulatory Asset Value ("RAV") will decrease due to depreciation payments and increase when plant and equipment needs to be replaced.
42. Section 13(2) of the Law requires me to take account of both the acquisition cost of plant and equipment and any replacement costs of plant and equipment.
43. In this price control, I have used a RAB for the plant and equipment acquired by the new owner in March 2020. The RAV as at the 1st of October 2025 is £362,545. This value was determined by taking the acquisition price in March 2020 and subtracting depreciation payments since then.
44. Details of the 2020 acquisition price have already been provided to me by SEL in verbal representations and subsequent e-mails. Pursuant to section 5 of the Law, I have recently required SEL to provide me with further documentary evidence of this. This has still not been provided.
45. In this price control, I have continued to use a 6-year accelerated depreciation schedule
46. for the acquisition assets. This means that the acquisition assets will be fully paid for by consumers by October 2030.
47. In this price control, I have also used a separate RAB for the generator that was replaced during the last price control period. The RAV as at the 1st of October 2025 is £25,909. This value was determined by taking the replacement cost and subtracting depreciation payments since that time.
48. In this price control, I have continued to use a 3-year accelerated depreciation schedule for replacement assets. This means that the replacement generators will be fully paid for by consumers by October 2027.
49. In regard to return on investment, for this price control I have continued to use a nominal allowed rate of return on 8.23% applied to the average RAV values during the year.

50. A financing cost of 8.23% is also allowed on an assumed working capital value of £80,000.

51. I have provided SEL with a financial model which sets out the details of the calculations for allowed depreciation and return on investment charges.

OTHER REVENUES (OR)

52. During the price control period, SEL will receive other revenues from a metering charge, the standby charge and profit from buying power from self-generators at a discount to its avoided fuel cost. These are considered in turn below.

Metering Charges:

53. SEL announced a new metering charge from September 2025 of £3.43 per month for a single-phase meter, and £4.65 per month for a three-phase meter. This is a significant decrease compared to the existing charge of £10/month for all meters.

54. For this price control, I have assumed 512 single-phase meters and 5 three-phase meters. This results in £21,353 of forecast revenues from metering charges for a 12-month period.

55. This will however be adjusted monthly by the correction mechanism to reflect actual metering revenues.

Standby Charges For Own-Generators:

56. Following SEL's September tariff review, this charge remained unchanged at £5/kw per month.

57. For this price control, I have assumed £11,280 of forecast annual revenues from standby charges.

58. This too will be adjusted on a monthly basis by the correction mechanism to reflect actual standby charges.

Fuel Savings From Buying Back Electricity:

59. In its September tariff review SEL reduced its buy-back tariff to 9.9 p/kwh for own-generators. This provided a saving for SEL because it avoids a fuel cost of £19.58 p/kwh.

60. For this price control, I am proposing to assume a saving of $(0.1958 - 0.099) \times 17,181 = £1,663$.

61. This too will be adjusted on a monthly basis by the correction mechanism to reflect actual fuel savings.

Therefore, the total forecast other revenues for the period October 25 – September 26 is: $(21,353 + 11,280 + 1,663) = £34,296$.

FORECAST CONSUMPTION

62. In response to a recent information request, SEL confirmed that it assumed annual forecast demand as 1,385,000 kwhs in its September tariff announcement.

63. This compares to actual demand of 1,381,733 kwhs for the period August 24 – July 2025.

64. For the purposes of this price control, I am proposing to assume annual forecast demand as 1,400,000 kwhs. This assumes modest annual demand growth rate of 1.3%

65. This too will be adjusted on a monthly basis by the correction mechanism to reflect actual consumption.

ADJUSTMENTS (K)

66. The maximum allowed unit price is based on forecasts for delivered fuel price, consumption and other revenues. The actual monthly values for these will be different from these forecasts. For this price control, I will continue to use the same monthly correction mechanism that was used in previous price controls. Details of this are set out in the Appendix to this price control order.

67. There will also be a need to review the allowance for fixed operating costs from April 2026 to take account of inflation, and to adjust the RABs to account for depreciation.

68. Throughout the period of the price control, the RAB will also need to be adjusted to take account of any additional asset replacements. This in turn will result in an increase in depreciation and return on investment costs.

69. SEL will be required to provide basic information about any asset replacements prior to approval for inclusion in the RAB. This information will be the reason for the proposed replacement, a cost quotation, and an indicative schedule for the replacement.

CALCULATION OF THE MAXIMUM UNIT PRICE (p/kwh)

70. Table Two below sets out the calculation of the maximum unit price based on the formula in paragraph 20 above.

Table Two: Calculation of the Maximum Unit Price (p/kwh)

Price Component	Value
Fixed Operating Costs (£)	362,744
Depreciation Cost (£)	83,477
Financial Cost (£)	38,053
TOTAL FIXED COSTS (£)	484,275
Other Revenues (£)	34,296
Forecast Consumption (kwhs)	1,400,000
Fixed Cost Component (p/kwh)	32.14
Fuel Cost Component (p/kwh)	19.58
Total Unit Price (p/kwh)	51.72

71. For this price control, the maximum unit price will be set at an opening value of 52 p/kwh. This value will be subsequently adjusted as described above.

OTHER PRICE CAPS

72. In this price control order, I have also set maximum prices for the monthly metering charges and for the monthly standby charge for own-generators. I have set these at the values in SEL's recent tariff announcement.

73. The maximum allowed prices are as follows:

- a. Maximum standby charge for own-generators = £5/kw per month.
- b. Maximum single-phase metering charge = £3.43 per month.
- c. Maximum three-phase metering charge = £4.65 per month.

APPENDIX: MONTHLY CORRECTION MECHANISM

Monthly Data Requirements from SEL:

By the 15th of each month (m), the following data for the previous month (m-1) is required from SEL:

- The total quantity of electricity sold to customers in kwhs (QS)
- The total quantity of electricity purchased from own-generators in kwhs (QP)
- The quantity and delivered price of each fuel delivery
- The total invoiced for connection fees (£), and
- The total invoiced for standby charges (£).

Monthly Forecasts

The maximum unit price has been calculated using the following assumptions:

The forecast quantity (QF) of electricity sold each month by SEL is:

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
116,573	127,909	130,848	140,784	131,827	115,453	113,354	103,978	112,655	103,979	100,060	102,579

The annual forecast sales are 1,400,000 Kwhs.

The forecast margin from buying back electricity from own-generators is forecast at £138/month.

The weighted average delivered fuel price is forecast at 57.17p/litre. Using an overall conversion factor of 2.92, this results in a variable fuel cost component (VFCC) of 19.58p/kwh.

The total forecast for connection fees is £1,779/month.

The total invoiced for standby charges is £940/month.

Correction Mechanism:

After the data is received from SEL by 15th of each month (m), for the previous month (m-1), the total amount of under or over-recovery will be calculated for that previous month (m-1), as follows:

The under or over-recovery caused by the volumes of electricity sold (QS) by SEL differing from the figures in the table above (QF) will be calculated as:

Correction(Q) (£) = (D/100) x (QF – QS), where

D is the difference between maximum unit price (P) and the variable fuel cost component (VFCC).

The under or over-recovery caused by changes in fuel prices will be calculated as:

Correction (FP) (£) = QS x (AFP – 57.17) / (2.92 x100)

Where AFP is the weighted average delivered fuel price (p/litre).

The under or over-recovery caused by the actual invoices for connection fees and standby charges will be calculated as:

Correction (other revenues) (£) = $[32,633 / 12] - (\text{total invoiced for connection fees} + \text{standby charges})$

The under and over recovery for buy-back margin (BM) will be calculated as:

Correction (buy-back margin) (£) = $(1,663/12) - (QP \times 0.099)$

Balancing Fund:

On 01st October 2025, a Balancing Fund will be commenced with an opening value of zero. This Balancing Fund will then be adjusted each month as:

Balancing Fund (m+1) = Balancing Fund (m)

+/- Correction Q (consumption)

+/- Correction FP (fuel price)

+/- Correction OR (connection fees and standby charges)

+/- Correction BM (buyback margin)

If the Balancing Fund exceeds £5,000 in any month, in either direction, the maximum unit price, P (p/kwh), for the following month (m+1) will be adjusted as:

$P(m+1) = P(m) + (\text{Balancing Fund } m+1) * (100/QF)$, where QF is the forecast quantity of electricity sold by SEL in month (m+1), as set out in the table above. The price will be adjusted to the nearest one pence and the remainder kept in the Balancing Fund.

If this amount is less than £5,000 (in either direction), the amount will be added to the Balancing Fund.

