



The Office of the Electricity Price Control Commissioner

Consultation On Proposed Price Control Order

19th September 2025

INTRODUCTION

1. On the 16th of September 2025 my office formally determined that the unit price Sark Electricity Limited (“SEL”) then charged for electricity was neither fair nor reasonable. At that time SEL’s unit price was 113.6 p/kwh of electricity consumed.
2. Pursuant to section 15 of the Control of Electricity Prices (Sark) Law, 2016 (“the Law”), I now intend to make a price control order.
3. Before I can do this, however, pursuant to section 16 of the Law, I must consult with SEL, and I may consult more widely as I see fit. I have decided to only consult with SEL on this occasion.
4. SEL is invited to make any written representations on this consultation paper to commissioner@epc.sark.gg . These must be received by midnight on Sunday the 28th of September 2025. SEL will also be given the opportunity to make verbal representations.
5. The new price control will take effect from midnight on the 30th of September 2025 at the latest. The new price control will have a term of two years.

PRICE CONTROL CONSIDERATIONS AND DESIGN

6. 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.
7. In previous price controls, these considerations have been brought together in a financial model and, using the regulatory “building block” approach, a maximum

unit price has been determined. This approach is also used in utility regulation in the UK, and I intend to continue with it for this price control.

8. For this price control I am proposing to set a unit price cap (in p/kwh) for the units of electricity sold by SEL. This is essentially 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.
9. Consideration, however, must also be given to “other revenues” which SEL will receive outside of the unit charge. These include revenues from the connection charge, the standby charge and profits from buying power from own-generators at a discount to its avoided fuel cost.
10. 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.
11. 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.
12. 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.

THE UNIT PRICE CAP FORMULA

13. The formula for the monthly unit price cap (p/kwh) is as follows:

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

Where:

AFCC = The allowed fixed cost component (p),

OR = Other revenues (p),

C = Consumption (kwhs),

V FCC = Fuel cost component (p/kwh), and

K = Correction factor (p/kwh)

14. I will now, in turn, discuss each of the “building blocks” in the above formula.

15. The information I use below comes from my financial model (which has been shared with SEL), from SEL’s September tariff announcement, and from information recently requested from SEL.

VARIABLE FUEL COST COMPONENT (p/kwh)

16. 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.

17. In the previous price control order, my office used an overall conversion factor of 2.92 kwhs/litre. This is also the value which SEL continues to use for budgeting and tariff setting. I am proposing to use this value for the purposes of this price control.

18. In the previous price control order, my office used the actual costs incurred by SEL. SEL has a fuel supply agreement whereby fuel costs are linked to the Platts index and, in my view, are competitive, transparent and more representative of SEL’s actual costs. SEL shared these costs with my office on a monthly basis. I am proposing to continue to use these actual costs.

19. SEL also incurs an additional freight cost of 6.7 p/litre. I am proposing to continue to use this value.

20. The Variable Fuel Cost Component (p/kwh) is calculated as:

$$\text{VFCC (p/kwh)} = (\text{Diesel Cost} + \text{Freight Cost}) / 2.92$$

21. In its September tariff announcement, SEL stated that the VFCC was 18.3 p/kwh. This would equate to a diesel cost of 46.74 p/litre.

22. However, in a recent information request, SEL stated that the diesel cost at the time of the September tariff announcement was 50.47 p/litre. This would result in a VFCC of 19.58 p/kwh.

23. Furthermore, SEL reported its weighted-average diesel cost for July 2025 to be 55.36 p/litre. This resulted in a VFCC of 21.25 p/kwh.

24. For the purposes of this price control, I am proposing to set the opening October 2025 value for the forecast Variable Fuel Cost Component (VFCC) at 19.58 p/kwh. I do not need to be overly concerned if this is too low or too high because, as explained above, this will be subsequently adjusted by the monthly correction mechanism to reflect actual costs.

25. However, I am concerned about the variability of the values provided by SEL. I intend to discuss this further with SEL and I will shortly be requiring SEL, pursuant to section 5 of the Law, to provide me with a copy of its Fuel Supply Agreement.

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 my proposals for the next price control. SEL has been provided a more detailed financial model of these allowances.

Fixed Operating Costs:

27. Fixed operating costs are the costs associated with running the business on a daily business. Table One below compares actual costs for 2024-25, reported by SEL in its September tariff announcement, with those allowed in the last price control order.

Table One:

Cost Category	Allowance in 2024-25 Price Control Order	Actual 2024-25 SEL Costs
Managing Director Remuneration	56,523	87,027
Other Staff Remuneration	197,832	152,122
Operational Costs	37,682	42,258
Services	42,392	39,573
Administration	9,421	14,512
Provision for Dilapidations	5,615	3,890
Total Fixed Operating Costs	349,465	339,382

Actual SEL costs are not based on audited accounts.

28. Operational costs mainly consist of maintenance costs and consumables.

29. Administration costs consist mainly of IT, telephone, postage and cleaning costs.

30. Services consist mainly of insurance, rent, rates, accountancy fees, bank charges, and legal costs.
31. It should be noted that a price control order does not set individual allowances for each cost category. Rather, an overall allowance is set for fixed operating costs and this is included in the calculation of the maximum unit price.
32. SEL stated in its September tariff announcement that the Services cost in the table above did not include £161,111 of legal costs associated with regulation. The allowance for Services in the 2024-25 price control included an allowance for responding to investigations and consultations by my office of c£19,000.
33. SEL is free to manage its business as it sees fit and has an incentive to out-perform the allowance in the price control. Indeed, SEL out-performed the 2024-25 allowance by some 3%, notwithstanding its claim in regard to legal costs.
34. In announcing its September tariff, SEL set out its projected fixed operating costs for 2025-26. These are shown in Table Two below together with my proposed allowance for the next price control.

Table Two:

Cost Category	Proposed Allowance in 2025-26 Price Control Order	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	387,970

35. The allowance for fixed operating costs in Table Two above was determined by applying Guernsey RPIX inflation of 3.8% for 2024-25 to the 2024-25 cost allowance in Table One above.

36. SEL's projected costs are some 7% higher than the proposed allowance. I note however, that SEL was able to outperform the allowance in 2024-25, notwithstanding its claim in regard to legal costs.

37. 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, SEL's projected costs would be 3% higher than the proposed allowance.

DEPRECIATION AND RETURN ON INVESTMENT COSTS:

38. 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.

39. 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.

40. 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.

41. For this price control, I am proposing to continue to use a RAV for the plant and equipment derived from the acquisition price of SEL in 2020, and the cost of the replacement generator during the last price control period. The average RAV during 2025-26 for the acquisition assets and replacement assets is £362,545 and £19,830 respectively.

42. 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 written evidence in regard to the 2020 acquisition and this remains outstanding. SEL is once again invited to meet with this legal requirement and provide this documentation.

43. For this price control I am also proposing to continue to use a 6-year accelerated depreciation period for the acquisition assets and a 3-year accelerated depreciation schedule for the replacement asset. This means that the acquisition

assets would be fully paid for by October 2030, and the replacement asset would be fully paid for by October 2027.

44. In regard to return on investment, for this price control I am proposing to continue with a nominal allowed rate of return on 8.23% applied to the average RAV values during 2025-26.

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

46. In its September tariff announcement, SEL included its 2025-26 projected depreciation charge. SEL stated that this charge was based on UK GAAP rules. This is irrelevant however for the purpose of setting a price control, because the concept of a regulatory depreciation charge, derived from a RAB, is very different to accounting depreciation.

47. In its September tariff announcement, SEL also included a projected financing charge for 2025-26 of £46,687. I do not know, at this stage, how SEL arrived at this value.

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

OTHER REVENUES (OR)

49. 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.

Metering Charges:

50. 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.

51. In response to an information request, SEL stated that there are 506 single-phase meters and 5 three-phase meters. SEL calculated annual revenues from metering charges as £22,332. I calculated the value to be £21,106, based on this number of meters.

52. However, for the period August 24-July 25, the metering charge was £10 and SEL collected £62,030. This would imply that there was, on average, 517 meters during this period.

53. Therefore, for this price control, I am proposing to assume 512 single-phase meters and 5 three-phase meters. This would result in £21,353 of forecast revenues from metering charges for a 12-month period.

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

Standby Charges for Own-Generators:

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

56. In response to a recent information request, SEL forecast annual revenues from this charge to be £11,280. This is consistent with receipts of £11,280 from August 24 – July 25. Therefore, for this price control, I am proposing to assume £11,280 of forecast annual revenues from standby charges.

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

Fuel saving buying back electricity from own-generators:

58. In its September tariff review SEL reduced its buy-back tariff to 9.9 p/kwh for own-generators.

59. In response to a recent information request, SEL forecast that it would buy-back 15,272 kwhs of electricity over a 12-month period.

60. SEL calculated the resulting fuel saving as £127. This appears to be a calculation error, because the resulting fuel saving should be (based on SEL's numbers) $(0.183 - 0.099) \times 15,272 = £1,283$.

61. For the period August 24 – July 25, SEL bought-back 17,181 kwhs. Although the tariff has reduced, all else being equal, I would not expect the volume of buy-back

to reduce. Therefore, for this price control, I am proposing to assume $(0.1958 - 0.099) \times 17,181 = \text{£}1,663$.

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

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

FORECAST CONSUMPTION

64. 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.

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

66. 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%

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

SUMMARY COMPARSION

68. In Table 3 below, I have compared the values proposed in this price control with SEL's projection for 2025-26.

Table 3:

Price Component	Proposed Price Control Order for 2025-26	SEL's Projection for 2025-26 (corrected)
Fixed Operating Costs	362,744	387,970
Depreciation Cost	83,477	57,379
Financial Cost	38,053	46,687
TOTAL FIXED COSTS	484,275	492,036
Other Revenues	34,296	32,100
Forecast Consumption	1,400,000	1,385,000
Fixed Cost Component (p/kwh)	32.14	33.21
Fuel Cost Component (p/kwh)	19.58	19.58
Total Unit Price (p/kwh)	51.72	52.79

SEL's projection has been adjusted to correct for some errors in its spreadsheet.

69. The total unit price above has been calculated using the “building block” formula set out earlier in this paper.

PROPOSED PRICE CAPS

70. For this price control, I am proposing to set the following price caps:

- A maximum unit price of 52 p/kwh.
- Maximum metering charges of £3.43 for a single-phase meter and £4.65 for a three-phase meter.
- A maximum standby charge for own-generator of £5/kw per month.

ADJUSTMENT MECHANISMS

71. The unit price caps proposed above are 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 am proposing to continue to use the same monthly correction mechanism that was used in previous price controls.

72. 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 RAB to account for depreciation.

73. Throughout the period of the price control, the RAB will also need to be adjusted to take account of any additional asset replacements.

74. Chief Pleas have already decided to exercise its legislative option to compulsory purchase SEL. This could result in some additional costs for SEL, for example, in assisting with the valuation of its assets. There may well be a case for varying the price control at some stage such that SEL can recover any reasonably incurred additional costs in this exercise.

CONSULTATION QUESTIONS FOR SEL

75. Whilst I do not wish to in any way restrict SEL's response to this consultation paper, I would welcome responses to the following specific questions:

- In arriving at this proposed price control, are there any material considerations which I have failed to take into account?
- Is there anything in the analysis set out in this paper, or in the accompanying financial model, where you would welcome further explanation?
- Are there any errors in my analysis, or in the accompanying financial model, that you wish to bring to my attention?

Shane Lynch

Electricity Price Control Commissioner

19th of September 2025