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PMG/AC

09 January 2009

Office of Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

Dear Sirs

Re: OUR document 08/17, Buy-back rate review October 2008 – Guernsey Gas initial response

As stated this is our initial, holistic, response to the consultation document. We reserve the right to submit a more detailed response depending on how OUR reply to this communication.

OUR will no doubt have seen the well publicised and extensive arguments put forward by Guernsey Gas and it's consultants, at the time of the Energy Policy debate, relating to the fundamental points about the assumptions made about the carbon intensity of electricity imported to Guernsey. We are therefore very disappointed that these alternative views have not been put forward as part of the consultation process. Without this matter being resolved it is difficult to see how appropriate decisions can be reached on any aspect of the Energy Policy for Guernsey.

Further we are disappointed that OUR has not chosen to speak to us directly when preparing this consultation document as you have with GEL on these matters of particular interests to us that we have raised many times in the past.

Turning to the detail of the consultation document we have the following questions and observation:

If the statement in section 7 is correct "*approximately 92% of the electricity imported through the submarine cable link is carbon free*" then can OUR declare what the carbon intensity of the imported electricity is in terms of kg of CO₂/kWh or kg of carbon/kW. Then please detail how this calculation has been made and the assumptions used. Discuss how the calculation method and assumptions used to determine the carbon intensity figure compare to those employed in other jurisdictions. Then comment upon how suitable the declared method of calculating the carbon intensity is in achieving the policy aims. We understand that the States of Guernsey is attempting to address climate change and therefore has a goal of reducing global carbon dioxide emissions, or are we wrong? We explain why this is the first important and necessary step if you wish to seriously review the benefits of providing incentives to promote micro generation from renewable sources in Guernsey.

If indeed imported electricity is 92% carbon free one could assume that the carbon intensity of imported electricity is circa 0.048kg of CO₂/kWh or less (the calculation basis we have employed here is 0.6kg of CO₂/kWh a typical / high end of fossil fuel generated electricity

multiplied by 0.08). We should emphasise that we do not agree with this figure, we have developed it merely for illustrative purposes. If this is the sort of level of carbon intensity that OUR and the Guernsey Energy Policy Group believe is correct then we think that your consultation document should declare it. If this carbon intensity figure is correct and robust then we would suggest that your consultation document should focus upon telling the States of Guernsey and the public that Guernsey has solved the global problems of carbon emissions without imposing any additional costs upon itself.

If this carbon intensity figure that we have developed is about right then surely OUR is obliged to declare that the work streams it has been asked to work on have been put in the wrong order. Surely, Guernsey needs to decide on its policy towards importation of electricity. The work on the buy-back rate review is pointless until this decision has been made. If the States of Guernsey decide to maximise imports from Europe, and they believe the carbon intensity of imported electricity is of the order of magnitude suggested then why would anybody wish to provide an incentive to promote the use of domestic systems that generate renewable electricity. There would only be a very marginal or no environmental benefit in carbon terms. In which case surely Guernsey industry and public should be told there is no need to save electricity and no need to look towards heat pumps, solar panels, wind generation on carbon reduction grounds. You would be able to declare that they should merely consider such technologies on an economic basis. As such why would anybody, the States of Guernsey (effectively the tax payer) subsidise somebody to install such technology. If you still do not understand why the order in which these interrelated work streams need to be addressed is wrong please call me and I will explain further.

Other comments based upon our quick review, as we expect further dialogue when you have responded to the above.

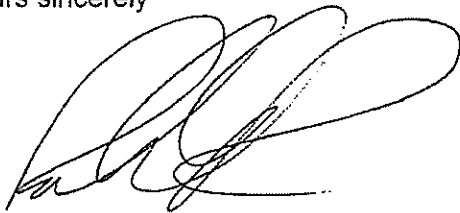
- We cannot understand why the OUR 08/17 document devotes 3 pages to ground source heat pumps and air source heat pumps. To our knowledge and as per your descriptions neither technology is related to the subject matter of the document, as neither generate electricity to sell back to the grid.
- We are surprised at some of the data included in the report. We recognise that OUR declare that the data came from GEL but we assume that OUR do take some responsibility for publishing it. One issue is surrounding the declared power capacity requirements for air source and ground source heat pumps. The report suggests that an air source heat pump system of 8kW is suitable for a well-insulated detached property. One could assume from the description that this would provide all of the heating requirements for such a property. Is this so? Is there no need for a top up system? Are there any working examples? Perhaps the term "*well insulated*" is the key, it is after all, to people who are familiar with home energy systems completely vague. With regard to the cost of installing ground and air source heat pumps, again we are not sure that the document is very helpful. If those costs reflect the full installation costs of the space heating and water systems (associated delivery and storage systems) they look very competitive. We think, if you wish to include this sort of data, for clarity you should detail exactly what parts of the heating system one can expect installed for the sums of money declared. Do not forget OUR's duty to protect the customer, we feel that if you don't add this level of detail you may well be misleading customers.
- Whilst appearing to be a comprehensive report at 56 pages we cannot find sufficient data to appraise any of the technologies discussed. Explicitly, using data from the report, we cannot make even a rough full lifecycle economic and or carbon

abatement appraisal. In order to generate meaningful consultation we feel that such information is essential. Do OUR think this is necessary? If not, why not?

- We are very surprised and disappointed in view of the times we have raised the matter with you that OUR do not feel it is appropriate to set out in this consultation document the way in which GEL treat commercial scale CHP customers on the island. As we have informed OUR in the past such customers are unfairly penalised by GEL using the installed capacity charge. GEL have successfully used this mechanism to put barriers in place to prevent Guernsey customers from generating electricity for many years. As we have told you this is, in our opinion, a violation of EU competition law. If the subject of CHP commercial terms is a considered and deliberate omission perhaps you can explain why. When we raised this very issue with the States at the time of the Energy Policy debate we were told the fact that the Energy Policy papers did not specifically mention CHP should not concern us as it was clearly within the scope of the buy back tariff work stream, our fears at that time now seem to be wholly justified.

If you could respond to these comments it will enable us to then make a more targeted and considered response. In order to do this quickly we would suggest a meeting is appropriate.

Yours sincerely



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