



Office of Utility Regulation

**Designer Markets**

**Options for Guernsey's Retail and  
Generation Electricity Markets**

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**Consultation Document**

**Document No: OUR 02/24**

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## **Foreword**

The States of Guernsey has asked the Office of Utility Regulation to consider the question of whether or not competition should be introduced in the market for supplying electricity directly to end customers in Guernsey. Recommendations are to be made to the Board of Industry on the way forward for Guernsey's electricity market so that the Board may bring any relevant policy issues to the States for decision by February 2003.

Given the fundamental importance of electricity in every aspect of our lives, changes in the electricity market could affect all of us. Therefore I am calling for the views of everyone interested in and affected by this subject so as to ensure that our report to the Board of Industry considers all relevant issues and the final recommendations are the right ones for Guernsey.

Some of the issues raised in this consultation paper are of particular interest to customers, such as what things would make customers chose a different retail supplier of electricity? Is it savings on bills? Is it a desire to buy energy from renewable sources? Are there other reasons customers would choose a new electricity supplier?

Other questions are directed to possible market players – would they be likely to enter the market? What benefits do they consider they could deliver to customers? What are the market mechanisms that would need to be in place for them to consider competing?

There are also questions on the high level policies that should be met by any choice for change, and the criteria against which OUR proposes to evaluate the options for Guernsey. All parties, customers, suppliers and policy makers, are invited to comment on these.

The design of Guernsey's electricity sector should be sustainable and beneficial to Guernsey consumers and the Guernsey economy alike and we are seeking your input to help us to make the best choice for the future.

**Regina Finn**  
**Director General of Utility Regulation**

# 1. Executive Summary

This consultation paper is prepared to collect views and inputs from interested parties on the development of the Guernsey electricity market and in particular on the question of introducing competition in the market for supplying electricity directly to customers. The Director General of Utility Regulation (“the Director General”) wishes to consider all inputs before preparing a report and recommendations to the Board of Industry in response to States Directions issued in February 2002.

Under the new legislative regime introduced by the States of Guernsey in February 2002, new entrants can, in principle, come into the electricity generation market in Guernsey and there is a process for applying for licences published on the Office of Utility Regulation (“OUR”) website. The framework does not currently allow any competition in the supply of electricity directly to end customers and the States of Guernsey has requested the Director General to consider this issue and report back with recommendations before February 2003.

The Guernsey electricity market is a small one with certain unique characteristics, including the connection from Guernsey to France through Jersey and it has not proven possible to find any directly comparable jurisdictions where full competition has been introduced so as to verify the feasibility of such competition or accurately quantify the costs and benefits involved.

Therefore this paper looks at the characteristics of the Guernsey market in some detail and then identifies a small number of options that might be viable for the Guernsey electricity market, ranging from the existing monopoly structure with no competition, to the introduction of full competition for all customers in the market whereby anyone could chose different retail suppliers from whom to purchase their electricity. The implications of these various options are explored, including the possible benefits and costs of adopting the options, and respondents are asked to comment on them.

Respondents are also asked to comment on the likelihood of competition developing in the market in Guernsey given the characteristics of the market, as the Director General concludes that the costs of putting in place an appropriate legal, regulatory and market structure to facilitate competition should only be incurred if there is a reasonable chance that customers will receive sufficient benefits from competition to outweigh those costs.

Finally the report notes that certain key issues influence the decision on whether or not competition should be introduced and when, including the size of the market (the Island of Guernsey compared to the two Bailiwicks of Guernsey and Jersey), and the scope of the market (electricity alone or “energy” including electricity and gas).

Following receipt of comments, a report and recommendations to the Board of Industry will be prepared by the end of Quarter 3 in 2002.

## 2. Introduction

The Director General is tasked with reporting to the Board of Industry on the impact of the introduction of competition into the electricity supply market, and to provide a recommendation and advice to the Board of Industry on the introduction of such competition. Having considered the recommendations, the Board of Industry is then responsible for taking a policy letter to the States of Guernsey with any relevant policy decisions that it considers are appropriate to be made for the electricity sector in Guernsey.

In developing recommendations the Director General wishes to consult as widely as possible with those parties who may be interested in participating in the Guernsey electricity market as well as customers and users of electricity in Guernsey. This document sets out the background to the current Guernsey electricity market, describes the existing legislative and regulatory framework, outlines some of the options for introducing competition into the market and poses a number of questions that respondents are invited to comment on.

At the conclusion of this consultation process, the Director General will prepare a report and recommendations to the Board of Industry which will address the following issues (although the structure of the final report may not follow this format):

**1. Should competition be introduced into the Guernsey market for supply of electricity to end customers?**

This will involve a consideration of the potential for benefits to be achieved from the introduction of competition along with the costs of facilitating competition; the likelihood of such competition developing given the Guernsey market characteristics; and a view on whether the benefits are sufficiently clear and significant enough to outweigh the costs such that the States should be recommended to take the policy decision to introduce competition rather than continuing the existing monopoly arrangements in this market.

**2. If competition should be introduced, what form and degree of competition best meets Guernsey's needs and is most appropriate to the Guernsey market?**

This requires an examination of various ways in which the Guernsey market could be opened up to competition, including phased introduction as has happened elsewhere, and the steps needed to facilitate each option so as to understand the option that would deliver most benefits to Guernsey while minimising the costs and burdens associated with introducing competition. It will include a contemplation of the various forms of market entry that market players are most likely to adopt considering responses to this consultation and will lead to a recommendation as to what form and degree (if any) of competition should be introduced.

**3. If competition is to be introduced what are the legal, regulatory and market intervention steps necessary to facilitate the recommended form of competition?**

The legislative and regulatory changes that may be required to facilitate the recommended form of competition (if any) will be identified, along with the overall market effort required and an explanation of the measures that it will be necessary to put in place to achieve the overall framework. This will address issues in the electricity sector generally including the generation sector. It will also be necessary to consider the timescale for any changes that may be recommended.

**4. What other external factors and market conditions need to be in place to contribute to the success of any recommended approach?**

Although the Director General's review concentrates specifically on Guernsey, the electricity market in Guernsey is affected by many outside factors and it is necessary to consider how these and the external environment generally will impact on Guernsey. Given the interdependence of the Guernsey electricity market both economically and technically with the Jersey market, developments in Jersey will be of particular importance, as will the timing of developments in the wider EU energy market.

The rest of this paper raises a number of key issues on which the Director General is seeking input to assist in formulating the above report. The Director General wishes to thank those who participated in an industry workshop and public meeting in Guernsey on Wednesday 17<sup>th</sup> July 2002 for the views and input already provided which have helped shape this consultation paper.

*This consultative document does not constitute legal, commercial or technical advice. The Director General is not bound by it. The consultation is without prejudice to the legal position of the Director General or her rights and duties to regulate the market generally.*

### **3. Consultation Procedure and Timetable**

The consultation period will run from Wednesday 31<sup>st</sup> July to Friday 30<sup>th</sup> August 2002. Written comments should be submitted before 5.00pm on Friday 30<sup>th</sup> August 2002 to:

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

Email: [info@regutil.gg](mailto:info@regutil.gg)

All comments should be clearly marked “**Comments on Designer Markets Options Paper**”.

All comments are welcome, but it would make the task of analysing responses easier if comments reference the relevant question numbers from this document. All of the questions raised in the Paper are collated within Section 11 in order assist in the preparation of a response to OUR. In line with the policy set out in Document OUR01/01 – “Regulation in Guernsey; the OUR Approach and Consultation Procedures”, the Director General intends to make responses to the consultation available for inspection. Any material that is confidential should be put in a separate Annex and clearly marked so that it can be kept confidential.

The Director General regrets that she is not in a position to respond individually to the responses to this consultation, but she proposes to issue a further report outlining proposals to the States by the end of Quarter 3, 2002.

## 4. Structure of the Consultation Paper

The rest of this paper is structured as follows:

- Section 5:** Sets out the legal and regulatory background to the electricity market in Guernsey as well as providing some high level information on the existing market and some benchmark markets.
- Section 6:** Describes the policy options for Guernsey with reference to the balance between competition and regulation and the linkage between the generation and supply markets.
- Section 7:** Discusses the scope for the introduction of competition into the Guernsey market given the characteristics of the market generally.
- Section 8:** Lists a proposed set of evaluation criteria and considers the various options of electricity market design against those criteria.
- Section 9:** Presents an initial assessment of the options that merit further consideration for Guernsey.
- Section 10:** Summarises various additional issues raised at the public meeting and industry workshop held by the Director General on 17<sup>th</sup> July 2002.
- Section 11:** Summarises the various questions posed in this consultation paper.

## 5. Background

This section describes the legislative and regulatory framework for the electricity market in Guernsey. It sets out for ease of understanding some of the terminology used throughout the document and then goes on to give some background information on the electricity industry in Guernsey. Greater detail on the Guernsey electricity market is available in document OUR02/19 “Electricity in Guernsey: Moving Forward – from policy to implementation” which is available from the OUR website at [www.regutil.gg](http://www.regutil.gg). Finally, this background section lists some comparable jurisdictions that the Director General has considered when looking at options for the Guernsey market.

### 5.1. Legal Background

The new legislation governing the Guernsey electricity market came into force in February 2002 at the same time that the former States Electricity Board was commercialized and transformed into Guernsey Electricity Ltd (“GE”), a wholly States-owned company.

The legislative framework for the new regulatory regime for the electricity sector is now governed by, *inter alia*:

- The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (the “Regulation Law”);
- The Electricity (Guernsey) Law, 2001 (the “Electricity Law”);
- The Electricity (Guernsey) Law 2001 (Commencement and Amendment) Ordinance 2001; and
- States Directions to the Director General adopted by the States of Guernsey<sup>1</sup>.

### The Regulation Law

The Regulation Law established the Office of Utility Regulation and sets out the overall functions and objectives of the Director General. Those objectives govern the activities of the Director General in all markets that are regulated by OUR including the electricity market. The Regulation Law states:

*“2. In exercising their respective functions and powers, the States and the Director General shall each have a duty to promote (and, where they conflict, to balance) the following objectives -*

*(a) to protect the interests of consumers and other users in the Bailiwick in respect of the prices charged for, and the quality, service levels, permanence and variety of, utility services;*

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<sup>1</sup> Billet d’Etat No. XVIII 2001, pages 1263 to 1264

- (b) *to secure, so far as practicable, the provision of utility services that satisfy all reasonable demands for such services within the Bailiwick, whether those services are supplied from, within or to the Bailiwick;*
- (c) *to ensure that utility activities are carried out in such a way as best to serve and contribute to the economic and social development and well-being of the Bailiwick;*
- (d) *to introduce, maintain and promote effective and sustainable competition in the provision of utility services in the Bailiwick, subject to any special or exclusive rights awarded to a licensee by the Director General pursuant to States' Directions;*
- (e) *to improve the quality and coverage of utility services and to facilitate the availability of new utility services within the Bailiwick; and*
- (f) *to lessen, where practicable, any adverse impact of utility activities on the environment;*

*and, in performing the duty imposed by this section, the States and the Director General shall have equal regard to the interests of the residents of all islands of the Bailiwick.”*

## **The Electricity Law**

The Electricity Law sets out in more detail the framework governing the electricity market in Guernsey and in particular it defines three activities;

- generation of electricity;
- conveyance of electricity across the electricity network; and
- supply of electricity directly to homes and businesses.

These terms as defined in the Electricity Law are consistent with a market that is developing from a monopoly status to a more competitive market and they govern the current licensing framework. However these terms are not consistent with a fully liberalized electricity market and therefore in considering the possibility of introducing competition into all parts of the market this paper introduces some additional terms which are explained in further detail in section 5.2 below.

## **Licensing Framework**

The States of Guernsey issued a number of States Directions to the Director General in relation to the licensing of electricity activities in Guernsey. In accordance with those policy Directions the Director General issued the first licences for electricity generation, conveyance and supply to GE on 1<sup>st</sup> February 2002. Each licence contains specific provisions in relation to the introduction of competition which are set out below:

- GE holds a conveyance licence on an exclusive basis for a period of ten years, i.e. no other operator may be granted a licence to build and operate a network to convey electricity in Guernsey for ten years from 1<sup>st</sup> February 2002;

- GE holds a supply licence on an exclusive basis for one year, i.e. no other operator may be granted a licence to build a supply network and supply electricity directly to homes and businesses for one year from 1<sup>st</sup> February 2002; and
- GE holds a generation licence with no exclusivity, i.e. any other interested party may apply for and may be granted a licence to generate electricity in Guernsey.

Therefore, the market for generating electricity is already open to competition in principal and interested parties may apply to OUR for licences to operate in this market.

However, under the current regime no other operator may build or operate a conveyance network, meaning that no company can lay electricity cables and anyone generating electricity must use the existing GE electricity network to convey that electricity from their generation plant to customers.

Finally, as there is no competition yet in the supply of electricity, any company generating electricity would have to sell that electricity to GE as GE has the exclusive right to sell electricity to customers.

## **States Direction on Competition**

The States of Guernsey's final Direction included a request to the Director General to review the impact of the introduction of competition into the supply market; to complete this review within twelve months from 1<sup>st</sup> February 2002; and to make recommendations on the introduction of competition in the supply market. The primary focus of this consultation is to assist the Director General in meeting this request.

### **5.2. Terminology**

In order to consider the impact of the potential introduction of competition in the supply market and thus the possibility of fully liberalizing the retail electricity market in Guernsey, this paper uses a number of terms that are not totally consistent with the GE's existing Generation, Conveyance and Supply Licences. The principal terms used in this paper are:

- **Retail** – this term describes the arrangements that govern the sale of energy to end customers – for example the arrangements whereby a customer buys electricity from GE (currently the only option in Guernsey) or from another retailer (as is the case in the UK where customers can choose who they purchase their electricity from). This term is slightly different from the definition of supply as currently contained in the legislation which includes parts of the low voltage network from the sub-station to customers' premises. Thus when the terms "retail" and "retailer" are used in the context of considering introducing competition, these refer to players who do not build, own or operate any network and thus the paper is not considering the build of competing networks in Guernsey.

- **Network** – this term is used to describe the electrical network operated by GE in Guernsey across which electricity is transported. In this paper and in the Guernsey context we use this term to describe all of the network (transmission and distribution) and consider this to be a monopoly activity that will remain so for the foreseeable future, i.e. if the retail market described above were to be opened up it would not include any of the network as all of the network is considered to be a monopoly activity. Thus, in any of the options considered in this paper there would be no competing operators building alternative electricity networks. Once again this is different from the definition of conveyance as currently contained in the legislation.
- **Imports** – this term describes importation of energy via interconnection with other jurisdictions i.e. buying power from the European grid via Jersey. This is a new term and is not defined in the existing legislation but given the pivotal importance of imports in the Guernsey context it is used extensively throughout this paper.
- **Generation market** – this term is used to describe trading arrangements between parties other than end customers. For example transactions for energy between a generator (a business which produces electricity) and a retailer (a business which sells electricity onto end customers) are transactions in the generation market.

These terms are used throughout the rest of this paper. If the final recommendation to the Board of Industry includes a recommendation that the retail market should be opened up to competition, the Director General will include a recommendation as to any necessary adjustments to the legislative and licensing framework to ensure that it is consistent with the terms described in this section.

### **5.3. *The Guernsey Electricity Market***

This section provides background information on the electricity industry in Guernsey, in order to give respondents a clear basis on which to evaluate the options presented at the end of the paper.

The geographic market that is being considered in this paper consists of the island of Guernsey only. Within that geographic market there are approximately 30,000 electricity customers. Guernsey is an economically developed jurisdiction and approximately half of the electricity consumed is used by domestic households and the other half by a small number of businesses and State activities. For those businesses, security of electricity supply is an important issue and historically this has led to a significant amount of on-island capability to generate electricity resulting in a large surplus capability to generate electricity.

Overall, islanders and island businesses consume a maximum of about 65 MW of electricity at peak demand – which is a relatively small market. One key characteristic of the market which is unique is that it is interconnected to mainland Europe via another small independent island market – Jersey. This is an important issue and is addressed further throughout this paper.

The island's electricity needs have been met by the former States Electricity Board for the past 100 years. The Board was commercialized in February 2002 and is now a wholly States owned company. Notwithstanding legislative changes, the new GE is the single monopoly operator in the Guernsey electricity market, with vertically integrated generation, network and retail businesses as well as a variety of non-core businesses such as the sale of white goods or "appliances".

There is further information on the Guernsey electricity market in Document OUR 02/19 available from the OUR website.

#### **5.4. Benchmark Jurisdictions**

In considering what market structure would be appropriate for Guernsey, the Director General has sought to identify other jurisdictions that are similar to the Guernsey market so as to investigate the market structures in those jurisdictions and assess what lessons could be learned and how other models could be applied to Guernsey. However, because of the specific characteristics of the Guernsey market described in section 5.3 above, it has proved difficult to find directly comparable markets. In particular there are no markets with identical interconnection arrangements that can be identified.

The first criteria in identifying benchmark jurisdictions was to identify only those that are islands and where the electricity market operates on an independent basis, i.e. is not part of a larger market, as these are two defining characteristics of the Guernsey market. This eliminated a number of islands within Europe, for example the Isle of Wight which is part of the England and Wales market, the Balearic Islands which operate as part of the Spanish arrangements, Sardinia which is part of the Italian arrangements and Corsica which falls within the French market.

Among the jurisdictions that were identified as sharing these first two characteristics were Jersey, Isle of Man, Malta, Gibraltar, Grenada, Cayman Islands and Bermuda. Some of these are significantly larger than Guernsey in terms of demand (e.g. Malta), and only two - Jersey and the Isle of Man - are interconnected

The Director General notes that none of these small island jurisdictions have introduced full competition in their retail market and thus notwithstanding any similarities with Guernsey, it is not possible to draw conclusions about the success of the introduction of competition from any of these jurisdictions. However, the Director General proposes to undertake some further investigation of the most comparable jurisdictions to identify the reasons for the lack of introduction of competition in each case and will take this into account in formulating her recommendations.

***Q5.1 The Director General would welcome comments on the benchmark jurisdictions or any other relevant experience for other comparable jurisdictions i.e. small, independent and interconnected.***

The Director General has also considered the arrangements which exist within the European Union (EU) as there are existing EU Directives that mandate retail competition for large customers and the EU expects all customers to be opened up to competition by 2005, although this date has yet to be agreed by the Member States. The majority of EU countries are much larger than Guernsey and are not island states, however, it is notable that Luxembourg, with a population of approximately 400,000 will face the introduction of full retail competition within the EU regime.

In addition two islands (Malta and Cyprus) are accession countries to the EU and will therefore come within the EU regime with regard to the introduction of competition. However, both islands are currently seeking and expect to receive derogations from the EU in respect of the introduction of full retail competition. Furthermore these two islands are much larger than Guernsey in terms of electricity demand – for example Cyprus has an annual demand around ten times larger than that in Guernsey – and neither of them are interconnected.

When considering the costs and benefits of the introduction of full competition into the Guernsey market (section 8) there is no quantitative data available from the benchmark jurisdictions listed as none of them have introduced full retail competition. Therefore the Director General has used UK data for illustration purposes. However, the Director General recognises that the UK market is not directly comparable to Guernsey.

## **6. Policy Considerations**

### **6.1. Objectives**

In economies that are less sophisticated than Guernsey and where there may be a shortfall of generation capacity available, policies are often driven by the need to encourage new investment in generation and network. However in more developed economies such as Guernsey the primary policy objectives for the electricity market are typically to:

1. Ensure that reasonable demands for electricity are met;
2. Provide efficient prices for electricity customers;
3. Facilitate the economic development of the jurisdiction; and
4. Meet environmental standards or policy objectives.

The Director General considers that these objectives are fully consistent with the objectives set out in the Regulation Law (see section 5.1), and believes these are appropriate overall objectives to take into account when considering the best market structure for Guernsey. Within the Industry Workshop and Public Meeting, there was no disagreement with these objectives.

***Q6.1 The Director General invites respondents to comment on the appropriateness and completeness of this list of policy objectives for Guernsey. Respondents are invited to suggest additions or deletions and give reasons.***

***Q6.2 The Director General invites respondents to indicate the relative importance of these policy objectives, or indeed any others which the respondent has proposed.***

Later in this document (section 8), more detailed criteria are set out against which the Director General proposes to evaluate the various options for changing the electricity market in Guernsey by introducing retail competition. However, an overarching concern is that the final solution adopted is Guernsey specific so as to ensure that the primary policy objectives are realized within the Guernsey context. It is important to remember therefore that the Guernsey electricity market is a small one – electricity demand in Guernsey is approximately equal to that of a moderate sized town in the UK – and it may not be appropriate to adopt the type of complex arrangements that apply in larger markets.

### **6.2. Competition and Regulation**

In considering the best outcome for Guernsey, the choice between competition and regulation of aspects of the electricity sector is more complex than a strict “either / or” decision. Inevitably, the Director General in seeking to ensure the most efficient outcome for Guernsey and to deliver the best choice, price and quality needs to draw upon aspects of each approach. In summary, a balance needs to be struck between:

1. monopoly activities where the Director General would seek to drive efficiencies via regulation and ensure that the benefits of those efficiencies are passed on to customers; and
2. competitive activities where the Director General would seek to put in place central mechanisms that are funded by the market as a whole and that enable multiple players to operate in the market so that efficiencies and innovation are driven by competitive forces and those same forces ensure that the benefits are passed on to customers.

In essence the choice for Guernsey is “*what mix of competition and regulation delivers the most efficient outcome?*”. However, it should be noted that Guernsey’s regulatory regime (described in Section 5) is pre-disposed to competitive market outcomes wherever these are viable.

### **6.3. Market Linkage**

To arrive at recommendations on the introduction of competition in the retail market (the sale of electricity to end customers), the Director General has identified a need to consider competition in the generation market also.

For competition in retailing to bring benefits, there must be effective competition in generation because if multiple retailers all face the same costs of purchasing electricity from one generator, there is limited scope for competitive pressure on prices or differentiation between those retailers and there is a danger that there will simply be no or very few benefits to pass on to customers. For retail competition to work, retailers must be able to buy electricity from competing generators so that they can “shop around” for the lowest cost energy and pass the savings on to their customers. Thus a viable market requires multiple sellers of electricity (generators), multiple buyers of electricity (retailers) and regulated access to the core electricity network to move electricity from the generators to the customers.

The Director General believes that it is essential to consider the evolution of the generation market and the retail market in tandem and also that there should be consistency across both markets. This requires that;

- the legal frameworks for both markets are consistent;
- the potential for the development of multiple players in each market should be consistent, i.e. there should be the possibility and indeed the likelihood of more than one generator emerging for there to be more than one retailer and vice versa;
- market mechanisms must be in place to enable competition in the generation market as well as in the retail market. This requires that there be central mechanisms to ensure the balancing of supply (generation) and demand (sale of electricity by retailers to customers), i.e. there must be appropriate central mechanisms for payments, metering and settlement between buyers and sellers in the generation market, and also that there are appropriate metering and billing process and mechanisms in place to enable the retailers to sell and bill for electricity provided to customers.

The final point is of significance because, as addressed later in this paper, the costs of putting in place the market mechanisms must be balanced by benefits to consumers for there to be a justifiable reason for incurring those costs. An electricity sector where one market (retail or generation) is competitive and the other is not therefore has the potential to incur costs without realizing benefits.

The Director General therefore concludes that two broad approaches exist for Guernsey:

1. Maintain the existing arrangements with a single buyer of generation and a single seller of electricity to customers; or
2. Put in place mechanisms that allow for the development of both retail and generation competition in a manner that allows sufficient players into both markets to realize benefits for customers while ensuring regulated access to the core monopoly network.

During the discussions in both the Industry Workshop and the Public Meeting held by the Director General on 17<sup>th</sup> July, this linkage between retail and generation competition was recognized as important in the Guernsey context. The Director General believes this linkage is fundamental to ensuring that a final solution is tailored to Guernsey.

## **7. Scope for Competition in Guernsey**

This section provides a brief overview of the existing retail and generation markets in Guernsey so as to take account of the linkage described in section 6.3. The section also looks at the potential attractiveness of Guernsey's retail and generation markets for new entrants<sup>2</sup> and this forms a basis for further evaluation of the options for market structures.

### **7.1. Retail Market in Guernsey**

The retail market in Guernsey is similar to the UK in that a minority of commercial customers consume a significant volume of energy. Based on data provided by GE, the Director General estimates that around 80% of GE's customers are "domestic" and collectively account for approximately 45% of Guernsey's total energy demand. The remaining 20% of customers collectively consume the remaining 55% of total energy used on the Island.

Given this profile, the Director General believes that some groups of customers have sufficient energy consumption to make them potentially attractive for new entrant retailers to target in competition with GE. There is a lack of experience of full retail competition in other jurisdictions (i.e. all customers) to reliably indicate whether all customers would be considered worth competing for by a new entrant into this market.

Other groups of customers who might be attractive are those who wish to choose where they purchase electricity from for reasons other than price, e.g. those who wish to purchase electricity from renewable sources.

With regard to financial savings as an incentive to customers to switch, this requires retailers to be able to obtain an absolute cost advantage over GE so that they can offer savings to customers. Based on data provided by GE, the Director General estimates that, excluding non-core activities, around 75% of costs incurred by GE (in serving its existing customers) relate to Generation and Import activities. The remaining 25% of costs arise in the Network and Retail activities. Therefore any new entrant into the retail market would be considering setting up in competition with GE on the basis that it would seek to be more efficient in its retail activities, i.e. incur less costs than GE, so that it could undercut GE and sell electricity to customers at a lower rate.

There are two ways a new entrant could cut costs. The first is to purchase electricity from someone other than GE – i.e. an operator with lower cost energy to sell. Without this option or capability, then a new entrant would incur exactly the same cost of purchasing energy as GE and as noted above this constitutes 75% of the current GE customers' bills.

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<sup>2</sup> Some of this information has already been published (Document OUR02/19) and respondents are encouraged to refer to this document should they require further background information.

In this case the new entrant would have limited scope for making savings that could be passed on to customers and would typically seek to make such savings in its own internal processes. These could be achieved for example if the new entrant were an existing utility or billing organisation and could leverage its existing billing system, or by more efficient internal operations, e.g. low cost call centre operation, more efficient credit control etc.

Overall, in considering whether a competitor might enter the retail market in Guernsey there are a number of characteristics of the market that are relevant and these are summarized in Table 1 below:

**Table 1 – Retail Market Attractiveness**

Pros	Cons
<ul style="list-style-type: none"> <li>• Capital investment requirements are limited as there are few start up costs for pure retailers</li> <li>• There are potentially attractive market segments that could be served</li> <li>• The market is characterised by continuing steady demand growth and there is potential for block demand growth also</li> </ul>	<ul style="list-style-type: none"> <li>• Competitiveness - GE has a dominant position in the retail market due to its legacy position in the market</li> <li>• Supplier power - Lack of choice in purchasing electricity (from alternative generators) could make market entry unattractive</li> </ul>

In order to determine whether it would be appropriate to incur any costs associated with introducing retail competition into the market, the Director General is seeking to identify what the likelihood of competitive entry might be based on the current market characteristics.

***Q7.1 The Director General welcomes views on whether the retail market in Guernsey would be attractive to new entrants and if so, what type of market entry is most likely.***

***Q7.2 Respondents are invited to identify any of the above characteristics that would particularly encourage or discourage entry, explain why and suggest any changes that might encourage entry.***

***Q7.3 Do respondents consider that there is scope for cutting costs such that savings comparable to those realised for example in the UK market could be achieved (see section 8.2.1 for further detail on the levels of customer savings in the UK)?***

## **7.2. Generation Market in Guernsey**

The existing licensing regime contains a number of provisions, which in combination deliver the basis for the development of competition in the generation sector. The combined effect of these provisions is that new entrants can be licensed and should be treated in a non-discriminatory manner by GE’s conveyance business. As a result power would be centrally dispatched on a price basis in direct competition with the prices offered by GE’s generation business.

To consider how the practicalities of market entry into the generation market might work and thus the likelihood of competition in generation developing, it is necessary to understand the current typical mix of production sources that are used to meet demand for electricity on Guernsey because a new entrant will be competing against these sources of production.

The following observations can be made about the generation sector in Guernsey, and its potential to accommodate new entry:

- There exists slow speed generation totalling 65.3 MW (37.5% of total capacity).
- Peaking Gas Turbine generation is available totalling 49.0 MW (28.1% of total capacity).
- The interconnection to France has a capacity of 60 MW (34.4% of total capacity) but availability is significantly less during winter months in particular. At all times of the year the firm capacity is 16MW.
- Total production capability is 174.3 MW.
- At the present time, Guernsey has sufficient on-island generation to meet its existing peak demand of approximately 65 MW<sup>3</sup>
- Assuming all plant is available, there is the capability to generate sufficient electricity to meet the peak demand plus a further 75% of that amount (excluding the link).
- There are no new build plans expected to be on line before 2014 except for the possibility of a 4 MW Energy-from-Waste plant.
- Any significant blocks of demand growth would reduce the plant margin and bring forward the date at which the new capacity would be required.

The potential requirements for generation capacity in Guernsey under different demand scenarios are discussed in detail in Document OUR02/19 and respondents are advised to refer this document if they require additional information on the island's generation sector.

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<sup>3</sup> System peak during 2000/2001 was 59.6 MW. The maximum system demand recorded is just below 65 MW.

Table 2 outlines the dominant factors determining the level of market attractiveness to a potential new entrant in generation.

**Table 2 - Generation Market Attractiveness**

Pros	Cons
<ul style="list-style-type: none"> <li>• Potential for cost advantage over GE</li> <li>• Potential to target attractive market segments (e.g. retailers/consumers with a demand for renewable energy)</li> <li>• Block demand growth may occur</li> <li>• Possibility of producing electricity as a process that is complementary to existing businesses (e.g. CHP / Energy-from-Waste)</li> </ul>	<ul style="list-style-type: none"> <li>• Plant margin is high (capacity – demand gap)</li> <li>• GE has a position of dominance due to historical position</li> <li>• Access to green field sites for construction of power stations could be difficult</li> <li>• Economies of scale might be difficult to achieve</li> <li>• Access over the existing link could be difficult to obtain.</li> </ul>

The Director General is interested in respondents’ views on the attractiveness of the Guernsey generation market to new entrants as she considers that competition in retail is intimately linked with effective choice in generation.

***Q7.4 The Director General welcomes views on whether the generation market in Guernsey would be attractive to new entrants and if so, what type of market entry is most likely.***

***Q7.5 Respondents are invited to identify any of the above characteristics that would particularly encourage or discourage entry, explain why and suggest any changes that might encourage entry.***

## 8. Evaluation

This section evaluates a small number of options for introducing competition into the Guernsey market against a set of evaluation criteria that are devised specifically for Guernsey. It is noted that the size of the market in Guernsey (less than 30,000 customers), and the lack of existing competitors to GE, clearly make devising a competitive framework difficult. However it is not an automatic conclusion that market size is an automatic barrier to the development of a competitive market. Nonetheless, the Director General does note that the market size and structure may mean that competition in Guernsey is unlikely to develop quickly, i.e. in the next few years. Therefore the evaluation of options in this section should be read in the context of the possibility of a phased introduction or a delayed introduction whereby new competitive arrangements are not introduced for some time and the existing arrangements are continued in the short to medium term.

### 8.1. Evaluation Criteria

In assessing what would be the most appropriate future arrangements for Guernsey, the Director General believes that the following evaluation criteria are appropriate. These criteria are suggested to provide a framework for assessment.

General criteria:

- Is there a demonstrable cost benefit justification for the option chosen?
- Would the option introduce sustainable competition?

In addition, for any retail options:

- Would customers see the benefit of any efficiency savings in the form of lower bills?
- Would the costs of generation be reduced?
- Would customers benefit from improved quality of service?
- Would customer demand for choice be satisfied (e.g. choice of sources of energy)

Whilst for any generation options:

- Would the market structure and associated arrangements undermine any existing benefits based on commercial arrangements?
- Do the arrangements support retail competition?

It is recognised that not all these criteria will be given equal weighting by different respondents and it is also possible that respondents may suggest other evaluation criteria. All comments are welcome.

***Q8.1 The Director General invites respondents to comment on the appropriateness or otherwise of these evaluation criteria for assessing the market structure options. If not what other objectives would be more appropriate, and why?***

***Q8.2 The Director General invites respondents to indicate the relative importance of the evaluation criteria.***

## 8.2. Retail Competition

This section provides an overview of the possible costs and benefits of retail competition. The Director General has not at this stage undertaken a quantification of these costs and benefits for each option as it is considered that the cost of such a quantification should only be incurred if it is evident from the consultation that there is the potential for sustainable competition to develop.

### 8.2.1 Possible benefits of retail competition

Potential customer benefits fall into four areas, the materiality of which would vary, but would most likely be in the following order (highest to lowest materiality); It is worth noting that some of these benefits would only be realised if there were effective retail competition and effective generation competition.

1. **Customer bill savings** – customers should be able to shop around and source electricity from the most efficient retailer.
2. **Wholesale price reductions** – as a result of competition one would expect to see wholesale prices fall overall as all retailers, as profit maximisers, seek to reduce energy purchase costs.
3. **Increased customer choice** – as retailers compete for customers one would expect to see them innovate in terms of the type and prices of services offered. This could also mean that customers who wish to purchase a different type of product gain that choice even where they are making a selection on criteria other than price e.g. renewable energy sources. This form of choice was suggested as being a significant factor by participants at both the Industry Workshop and the Public Meeting on 17<sup>th</sup> July.
4. **Reduced infrastructure build** – efficient price signals to customers (such as peak pricing signals) could result in more efficient consumption of energy by customers thus avoiding or deferring unnecessary new investment in generation, interconnection or transmission/distribution.

Within the UK, the introduction of full retail competition allows customers to exercise choice and many customers have switched<sup>4</sup> to a different retailer. Table 3 shows the typical savings that customers can realise by changing retailer today, three years after the introduction of full retail competition.

**Table 3 – UK Price Comparisons**

UK Place	Local Retailer	Cheapest Retailer
Torquay	£261 SWEB	£224 Basic Power
Stratford upon Avon	£236 Npower	£203 Basic Power
Durham	£251 Northern Electric & Gas	£197 Basic Power

*Note: Data for June 2002. Based on a Medium User (6,600 kWh p.a.) paying by direct debit. Figures include VAT @5%. Source [www.energywatch.org.uk](http://www.energywatch.org.uk).*

<sup>4</sup> As of 28 February 2002, 9.7 million customers had switched away from the local supplier, equivalent to 34.0% of the Great Britain total. [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

Market research in the UK has been carried out on the factors which influence customers to switch retailers. While there may be reasons associated with factors other than financial factors (e.g. customers who wish to use renewable energy may switch even if the energy is more expensive, or for other reasons related to quality of service), the primary reason that has been researched is financial savings.

There is varying evidence as to the level of price saving which retailers need to offer to induce a customer to switch. A MORI study conducted for Ofgem in November 2001<sup>5</sup> concluded that a mean saving of £78 was the incentive that the surveyed customers (those who have not already changed retailer) required as an incentive to switch. However a National Audit Office Report in January 2001<sup>6</sup> demonstrates that in the 18 months since the market in the UK was opened up, 65 million customers have switched for an average saving of £45 per customer per annum which represents approximately 15% of the average bills.

Commercial customers, with higher bills, may require lower percentage savings, but higher levels of cost reduction in absolute terms. In addition there needs to be some spur to encourage customers to switch – hence the pro-active “you will save” message from competitive retailers.

***Q8.3 The Director General welcomes views on the factors which would encourage customers to switch retailers, if competition was introduced.***

***Q8.4 The Director General welcomes views on whether customers (be they domestic or commercial) have financial aspirations similar to those for UK electricity customers.***

## **8.2.2 Possible costs of retail deregulation**

Whilst the introduction of retail competition has some potential benefits which could be realised, the development and operation of any such arrangements would lead to costs being incurred. The level of cost would be dependent upon:

- The extent of market opening (all customers or a sub set of customers); and
- The technical solution adopted (either metered or data estimation).

The incremental cost of retail deregulation would also depend upon the level of sophistication of the market and particularly the core network prior to deregulation. For example, if sophisticated metering capability were already built into the network, this would reduce the further incremental cost of retail deregulation.

In general, costs could be expected to fall into three main categories as set out in Table 4:

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<sup>5</sup> “Experience in the competitive domestic electricity and gas markets” conducted by MORI for Ofgem, November 2001

<sup>6</sup> Office of Gas and Electricity Markets; Giving Domestic Customers a Choice of Electricity Supplier, 5 January 2001

**Table 4 – Retail Competition Costs**

<b>Costs</b>	<b>Description</b>
1. Metering costs (for some or all customers)	<ul style="list-style-type: none"> <li>• Capital cost of meter; and</li> <li>• One off cost of installation of meter; and</li> <li>• Meter reading costs (per annum)</li> </ul>
2. IT system and other network business costs (assuming GE is to perform these functions)	<ul style="list-style-type: none"> <li>• Metering or Data Estimation – the costs of data storage and data processing for the metering information on customer consumption if this solution is adopted, or the costs of estimating consumption using demand profiles as an alternative</li> <li>• Settlement – the process of allocating customers consumption to retailers, and retailers’ consumption to generation.</li> <li>• New processes – such as ring fencing of customer data, the provision of historic customer demand data to new entrants, dispute procedures; and</li> <li>• Switching systems (including customer registration)</li> </ul>
3. Implementation project	<ul style="list-style-type: none"> <li>• Implementation management – costs of developing the market framework and the project to deliver it.</li> </ul>

In addition, all retailers wishing to compete would need the necessary systems and processes required to interface with both customers and any central systems and would also include the costs associated with acquiring customers. It is assumed that these would be commercially based costs – assessed by and incurred by any retailer wishing to enter the market.

***Q8.5 The Director General welcomes responses which can quantitatively assess the potential costs (and benefits) of alternative approaches to retail competition.***

### **8.2.3 Cost allocation**

The costs of introducing retail competition can be allocated in a number of different ways, which in turn can influence the incentives on customers to switch retailer and thus can influence whether or not competition is successful in the market. The options for covering the costs described in Table 4 above are broadly:

#### **OPTION 1 – Costs borne by the shareholder of current incumbent**

This would mean that the steps needed to facilitate competitive entry would be funded by GE and the company would not be permitted to recover these costs directly from electricity customers. Thus the shareholder (the States of Guernsey) would effectively meet these costs. Individual customers who chose to switch retailer would not therefore face the individual costs associated with their action as the costs will have been met centrally. This is likely to make it easier for a retailer to persuade customers to switch.

### **OPTION 2: Costs borne by individual customers that switch retailer**

This would mean that customers who took the opportunity to switch electricity retailers (or those retailers to whom customers switch) would fund the direct and indirect costs of switching themselves. In this case individual customers would evaluate the costs and benefits to themselves and would make an individual decision to bear all the costs of switching if they believed the benefits were sufficient. This requires a more pro-active involvement by the customer and is likely to reduce the number of customers willing to switch as only those with a big enough savings or other individual incentives to switch will make the effort to carry out the relevant evaluation.

### **OPTION 3: All customers within a competitive market segment pay for the costs of competition**

Under this arrangement all customers who were eligible to change retailers (say if competition was opened up to customers above a threshold size) would pay a contribution to the central costs regardless of whether they switched, and they would also pay the direct costs of switching if they changed retailer. This model was adopted in the UK in 1994 when the 100 kW market was opened. The underpinning regulatory rationale for this methodology in the UK at the time was that all customers benefited from being in a competitive market segment, regardless of whether they actually switched or not and therefore all such customers should bear central costs. Thus an individual considering switching would still face the choice of evaluating the individual costs associated with switching against the benefits, but the central costs would have been spread over a larger number of customers, thus reducing the element of central costs that the individual switching customer would bear. If this reduced the overall quantifiable cost of switching, a customer might be more willing to switch than under option 2 above.

### **OPTION 4: All electricity customers bear the costs of introducing competition**

This option assumes that all customers are potentially attractive to new entrants to target and should have the capability to switch easily. Therefore the adopted solution is designed to remove all switching costs to individual customers at the time of switching. All customers would be charged a proportion of the costs of market development, introduction and operation over time. Again, the assumption that all customers would benefit from the ability to exercise choice of retailer, whether they execute that choice or not, would underpin the cost apportionment. The lack of visible cost to switching should make it more likely that more customers would make the choice to change their retailer.

## **Q8.6 The Director General welcomes views on the most appropriate cost allocation methodology for Guernsey.**

### **8.3. Generation Competition**

At present GE has an effective (though not a legal) monopoly across the generation sector and the Director General believes that there is a limited number of theoretical options for increasing the number of key players in generation market. These are set out below. It should be noted that the inclusion of these theoretical options does not indicate that the Director General is advocating any of the more interventionist approaches.

### **8.3.1 Development of new generating plant**

This is an organic route to competition. New entrants can currently be licensed and an entrant can enter the market if it perceives that it fulfils any or all of the criteria below:

- (a) it is the lowest cost producer and thus has an absolute cost advantage over import costs and / or the on-island generation portfolio of GE; or
- (b) it is producing electricity as part of its existing overall process (e.g. Energy-from-Waste or CHP) and this improves the economics of any scheme with respect to the electricity production costs; or
- (c) it is a niche provider – potentially a renewable generation source.

Developing new power projects may, however, be problematic. At the present time there is, in the view of GE, no new generation required until 2014 under present demand growth scenarios (see Document OUR02/19 for further detail). This arises because there is already sufficient plant margin for system planning purposes in Guernsey and the Energy-from-Waste plant will increase the plant margin further once it comes on line (estimated in 2005). Furthermore the planning laws within the Bailiwick such that the identification of and planning approval for new sites could be difficult to secure.

However it is also possible that there may be demand increases (e.g. large blocks of demand growth on the island as discussed in Document OUR02/19) and new generation would then be needed.

### **8.3.2 Break up of GE**

One way of introducing competition within the Guernsey's electricity generation market would be through the physical separation of various parts of GE's business. At one level, this could involve the separation within GE of the on-island generation and imported energy components of the business, creating two businesses.

Another option would be to separate out elements of the GE generation portfolio within the business, creating a number of separate businesses that would compete against each other. This was the approach adopted in England and Wales as a means of introducing competition in the generation market.

However taking into account the size of GE's generation business, it is not clear what demonstrable benefits would be achieved for consumers through pursuing this option, particularly if all the individual businesses remained in common ownership.

### **8.3.3 Lease of existing generation assets by GE**

A further option that was raised as the Industry Workshop on 17<sup>th</sup> July is in effect a variation on the option above, where new entrants would be entitled to lease and operate some of the GE assets. This would create a more complex value chain whereby GE was involved in the business of leasing generation assets, as well as the generation business itself and it is unclear that this option would bring benefits.

### **8.3.4 Access to link**

One obvious source of competition to GE, and the one consistently raised in the Industry Workshop and Public Meeting conducted by the Director General, would be to provide for open access across the existing interconnection to France via Jersey. The Director General is conscious that there are many nested commercial and technical issues associated with this proposal.

First, the arrangements associated with the interconnection are not solely within the remit of bodies within Guernsey as they are inter-jurisdictional. Thus, it is not possible for the Director General or the States to unilaterally make changes to these arrangements. Any changes would have to be the result of a re-negotiation with other contractual parties. At the same time it would be imperative to ensure that any existing benefits accruing to the Island of Guernsey were not reduced or undermined in such a process.

A further option is that a new link may be developed at some future date. The regulatory approach to access for any future link would need to be carefully considered by OUR and/or the States in line with the existing regulatory regime and it is more likely that an alternative access regime could be developed for a new link than the existing link.

***Q8.7 Respondents are invited to comment on the likelihood of a generation market developing that would support retail competition in Guernsey and the timing of any such developments?***

## 9. Initial Assessment of Options

In determining an efficient market model for Guernsey the Director General has arrived at a number of initial conclusions. These are set out below for comment. However, as mentioned earlier, the timing of the introduction of any of the options may be somewhat longer than the short to medium term, given the characteristics of the current market structure. Respondents are asked to consider this when they are providing comments.

The Director General is of the view that:

- Viable retail competition is dependent on generation competition developing;
- Generation competition is likely to be limited within the medium term;
- The level of customer savings required to encourage switching would require any new retailer to:
  - Buy cheaper energy than competitors; and
  - Operate low cost systems and processes;
- Clear evidence of benefits is needed before implementation costs should be imposed across all customers; and
- Market size and scope<sup>7</sup> could be key determinants of whether any benefits could be realized now or in the future.

In light of these assumptions the Director General presents a number of options for consideration.

### 9.1. Retail options

Based on the initial evaluation presented in this paper, the Director General has identified three options that merit further consideration:

**RETAIL OPTION 1** - Existing Structure (single seller / single buyer);

**RETAIL OPTION 2** - Retail competition for a limited number of customers;  
and

**RETAIL OPTION 3** - Full retail competition for all customers.

*Q9.1 The Director General welcomes views on the relative merits of the three retail options, based on expected costs and realisable benefits to customers in Guernsey.*

*Q9.2 The Director General welcomes views on any timing issues associated with the introduction of retail competition in Guernsey.*

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<sup>7</sup> In terms of defining the market by product (i.e. electricity or energy) and geography (Guernsey or Channel Islands).

## **9.2. Generation options**

Both retail option 2 and retail option 3 above would require that competing retailers could access electricity from more than one source. As discussed in Section 8.3 there are several potential ways in which this could happen. Regardless of whether the physical generation is on Guernsey or imported via the link, there would need to be some form of market to establish a price for the electricity produced in the generation market. Section 8.3 briefly outlined a number of potential models for Guernsey's generation market and asked respondents to comment on the likelihood of any of these developing in Guernsey.

Having regard to the responses to these earlier questions, the Director General considers that if there are to be diverse generation sources available by means of one or more of the options described in section 8.3, a simple "contract" market to manage these diverse sources would be appropriate. Under such a model generators and retailers would enter into contractual arrangements of their choosing for the sale and purchases of electricity. They would also need to manage the risks associated with divergences from prices and volumes that are bought and sold.

Regardless of the commercial arrangements there would need to be a central role for the network operator – GE. This is essential because the volume of electricity generated and the volume used across the system need to be balanced in real time and generation dispatch needs to be co-ordinated to ensure this

Under contract based trading arrangements it will not always be the case that a retailer is able to exactly balance its purchases from a generator with the demand taken by its customers. For example, whilst a retailer may generally be able to buy 10MWh of generation and sell the same volume to a customer, it is entirely feasible that either (a) the generator will not produce the volume due to technical failure, or (b) that the customer will take more demand. In such circumstances there is an "imbalance" between the retailers' purchases and sales. So, assuming that the customer takes 11MWh, instead of the 10MWh which the retailer anticipated, then this additional MWh needs to be both physically produced (to keep the system physically in balance) and priced. Therefore there must be some allocation of imbalance costs (the cost of making good a generation shortfall or purchasing demand above a contracted level).

The pricing of such imbalances would be critical. It could either reflect the real time value of producing the incremental MWh of demand (priced in a spot market), or be based upon a regulated top up tariff to reflect the cost of expected provision. There would be considerable difficulties in the spot market route, including the existing lack of competition in generation, the likely volatility of the pricing outcomes and participants limited options to manage such financial exposures, and the costs of imposing such a potentially complex and costly solution on a market the size of Guernsey. A stand-by tariff for imbalance charges would be intuitively simpler but would require careful consideration by the Director General to ensure that the interests of customers, new entrants and GE (if it was to be a provider of last resort) were balanced.

In addition, the Director General considers that the costs of on-island system security would need to be allocated within the wholesale market framework. Document OUR02/19 provides more detail on system security costs. These costs could be either allocated as an explicit system security charge on all players in the generation market or included as part of the imbalance charge for energy, but in any event the Director General considers that they are appropriate to be recovered. The options for a competitive generation market are therefore:

**GENERATION OPTION 1**

**Option 1(a)** - Contract market for generation with some form of simple administered price for imbalances – system security costs included as part of the imbalance price.

**Option 1(b)** - Contract market for generation with some form of simple administered price for imbalances – system security costs levied as a separate charge.

**GENERATION OPTION 2**

**Option 2(a)** – Contract market for generation with some form of spot market for imbalances. - system security costs included as part of the imbalance price.

**Option 2(b)** – Contract market for generation with some form of spot market for imbalances – system security costs levied by a separate charge.

*Q9.3 The Director General welcomes views on the relative merits of each approach to introduction of competition to the generation market, based on expected costs and realisable benefits to customers in Guernsey.*

*Q9.4 The Director General welcomes views on any timing issues associated with the introduction of generation competition in Guernsey.*

## **10. Other Considerations**

In this section the Director General sets out some of the points raised by industry participants, and members of the wider public during the Industry Workshop and Public Meeting, both held on Wednesday 17<sup>th</sup> July 2002. The Director General thanks the participants for their input and considers that these points are valid for consideration by respondents to this paper and she will also take them into account in formulating her recommendations.

### **10.1. Scope of Market**

The assessment of options for retail and generation competition within this paper explicitly assumes that the only jurisdiction considered to form the geographic scope of the market is Guernsey and the product market is restricted solely to electricity.

Whilst any consideration of Guernsey as part of a larger market is clearly outside the scope of this consultant the Director General believes that if Guernsey was part of a larger market (with common trading rules) it would be more likely that the scope for market based solutions on both the retail and generation markets would be increased. The market could be increased by including all electricity customers in the Channel Islands, thus increasing the total annual demand in the market to three times Guernsey's current demand. Another alternative is that the market could be increased by encompassing gas as well as electricity – creating an “energy” market, as is common in other jurisdictions.

*Q10.1 The Director General welcomes views on widening the scope of the energy market to encompass both gas and electricity.*

*Q10.2 The Director General welcomes views on widening the scope of the energy market to encompass consistent energy competition across the Bailiwicks of Guernsey and Jersey.*

### **10.2. Environmental Considerations**

A significant topic of discussion at both the Industry Workshop and Public Meeting was renewable energy production within and outside Guernsey. The Director General understands that these issues are considered extremely important by some stakeholders.

In the first instance, any of the market structures described in this paper will not penalize energy from renewable sources, and market entry by generators producing renewable energy can take place now on the same basis as market entry by any other party.

However the Director General believes that any positive support or subsidisation of energy from any specific source must be considered by the States of Guernsey as part of wider energy policy and she would be pleased to work within the guidance of any explicit States policy on this matter.

## **11. Summary of Specific Questions**

The Director General is seeking views on the matters set out in this document as specified in Section 3. However in particular, the Director General is seeking comments on the specific questions set out within the body of the document. These are collated for convenience below:

*Q5.1 The Director General would welcome any relevant experience for other comparable jurisdictions i.e. small, independent and interconnected.*

*Q6.1 The Director General invites respondents to comment on the appropriateness and completeness of this list of policy objectives for Guernsey. Respondents are invited to suggest additions or deletions and give reasons.*

*Q6.2 The Director General invites respondents to indicate the relative importance of these policy objectives, or indeed any others which the respondent has proposed.*

*Q7.1 The Director General welcomes views on whether the retail market in Guernsey would be attractive to new entrants and if yes, what type of market entry is most likely.*

*Q7.2 Respondents are invited to identify any of the above characteristics that would particularly encourage or discourage entry, explain why and suggest any changes that might encourage entry.*

*Q7.3 Do respondents consider that there is scope for cutting costs such that savings comparable to those realised for example in the UK market could be achieved (see section 8.2.1 for further detail on the levels of customer savings in the UK)?*

*Q7.4 The Director General welcomes views on whether the generation market in Guernsey would be attractive to new entrants and if so, what type of market entry is most likely.*

*Q7.5 Respondents are invited to identify any of the above characteristics that would particularly encourage or discourage entry, explain why and suggest any changes that might encourage entry.*

*Q8.1 The Director General invites respondents to comment on the appropriateness or otherwise of these evaluation criteria for assessing the market structure options. If not what other objectives would be more appropriate, and why?*

*Q8.2 The Director General invites respondents to indicate the relative importance of the evaluation criteria.*

*Q8.3 The Director General welcomes views on the factors which would encourage customers to switch retailers, if competition was introduced.*

*Q8.4 The Director General welcomes views on the whether customers (be they domestic or commercial) have financial aspirations similar to those for UK electricity customers.*

*Q8.5 The Director General welcomes responses which can quantitatively assess the potential costs (and benefits) of alternative approaches to retail competition.*

*Q8.6 The Director General welcomes views on the most appropriate cost allocation methodology for Guernsey.*

*Q8.7 Respondents are invited to comment on the likelihood of a generation market*

*developing that would support retail competition in Guernsey and the timing of any such developments?*

*Q9.1 The Director General welcomes views on the relative merits of the three retail options, based on expected costs and realisable benefits to customers in Guernsey.*

*Q9.2 The Director General welcomes views on any timing issues associated with the introduction of retail competition in Guernsey.*

*Q9.3 The Director General welcomes views on the relative merits of each approach to introduction of competition to the generation market, based on expected costs and realisable benefits to customers in Guernsey.*

*Q9.4 The Director General welcomes views on any timing issues associated with the introduction of generation competition in Guernsey.*

*Q10.1 The Director General welcomes views on widening the scope of the energy market to encompass both gas and electricity.*

*Q10.2 The Director General welcomes views on widening the scope of the energy market to encompass consistent energy competition across the Bailiwicks of Guernsey and Jersey.*