

6 August 2018

The Channel Islands
Competition & Regulatory Authorities
Suite 4
1st Floor
Plaiderie Chambers
St Peter Port
Guernsey
GY1 1WG

Ref: IP/AC
Your Ref: Document No: 18/30

WITHOUT PREJUDICE

Dear Sirs

Response to Call for Information – Standby Charge for Embedded Electricity Generation - 4 July 2018

We welcome CICRA's public consultation and the opportunity to make representations. We agree with the stated objectives of achieving fairness and transparency.

GEL's standby charge is currently hindering the progress of energy liberalisation for customers in Guernsey as IEG is unable to effectively use the electricity licence it has been granted. As you have noted, we believe that this is a potential abuse of dominance and a breach of GEL's electricity licence as GEL is currently unable to demonstrate that the charge is cost reflective, and is being applied fairly and in a manner that does not distort the market.

We agree with CICRA's conclusion that the standby charge should be set at zero.

We have provided further detailed answers to the specific questions posed by CICRA.

CICRA Question 1.

Does the respondent agree with CICRA's proposed principles for reviewing the GEL Standby Charge? If the respondent has alternative views or relevant evidence, the respondent is asked to explain those and provide all of its analysis and assessment to relating to this matter to inform CICRA's consideration and next steps.

As the only licensee under the Electricity (Guernsey) Law, 2001 other than GEL, matters concerning markets for electricity in Guernsey are core to this aspect of our business. GEL's standby or insurance charge as discussed in your call for information to which this letter is a response, is effectively preventing IEG from implementing its business plans and from providing customers with a new choice of energy provider, utilising the licence granted by CICRA in August 2017. As you note IEG believes that the standby/insurance charge may be an abuse of dominance under competition legislation and a breach of GEL's electricity licence. Further detail which remains confidential is set out in our confidential annexe submitted with this representation and reference also to our prior private correspondence from IEG to CICRA.

We agree that by imposing the standby/insurance charge, GEL is making it imperative for CICRA to undertake a full regulatory cost analysis and the burden of proof must be on GEL if it is to justify any charge which should be suspended in the interim. Whilst we agree that any investigation must be cost proportionate, we believe that it will be important for CICRA to analyse the whole tariff structure at least to some degree to ensure that there is no cross-subsidisation by GEL.

CICRA Question 2.

Does the respondent agree with CICRA's proposal to set the standby charge applied at zero pending the review of this charge? If the respondent has alternative views or evidence, including suggestions on benchmarking, the respondent is asked to explain those and provide all its analysis and assessment relating to this matter to inform CICRA's consideration and next steps.

IEG strongly agrees with CICRA's proposal to set the standby charge at zero. This will enable competition in the electricity market place as IEG will be able to implement its business plan and finally make use of the licence it was granted a year ago for the benefit of Islanders. We believe that there will be little impact to GEL's overall business and income as our anticipated market penetration will be small in comparison with the overall market and will have no impact on its cost structure and will benefit islanders.

We would also ask that a grandfathering provision be included when setting the standby charge at zero such that any long term contracts entered into by IEG whilst the review is underway are not subjected to any retrospective adjustments. CICRA will appreciate that the nature of this business is that the contracts will be long term (up to 25 years) and IEG, or its island customers would not want to be in a position of potentially being forced to suffer a loss for twenty or more years if the standby charge was subsequently adjusted.

As regards benchmarking, we have noted the references to Jersey and it might be a useful benchmark as a geographically proximate island with a similar demographic, but agree that any benchmarking should be approached with a degree of caution - there may be specific factors for one or other jurisdiction, especially in light of Energy Policy drivers to reduce Carbon and other emissions in each island, such as promoting on-island renewables and low carbon electricity generation. Another potential benchmark might be Europe especially as GEL and Jersey Electricity (JE) currently sources the majority of its electricity from France and because Europe is promoting distributed generation schemes and driving Carbon emissions down for the benefit of all countries. As always, we would be delighted to provide further information if it would be of assistance to CICRA.

Yours faithfully



I PLENDERLEITH
Group Managing Director
International Energy Group

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