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RECEIVED
-4 FEB 2019

31 January 2019
Our Ref: JCPT/12538/tjp

Dear Sirs

Guernsey Electricity - Comments on the Draft Decision - Standby Charge for Embedded Electricity Generation (Guernsey)

We refer to the above Draft Decision (Document No: CICRA 18/54). The document's overall context is the application of the standby charge by Guernsey Electricity Limited ("GEL"), and this letter follows our response to the Call for Information dated 14 August 2018.

The Draft Decision can be summarised as follows. Whilst CICRA accepts the underlying rationale for having a standby charge is reasonable, it regards GEL's rate as high. Having considered the responses received from consultees and the available evidence, it also believes there is a credible risk that if the issue is not resolved in the short term, a potential investor in the embedded generation market (IEG) will exit the market leading to diminished alternatives for customers. In the absence of a commercial agreement on the matter between GEL and IEG, GCRA's Draft Decision is to set GEL's standby charges to a level of £3.07/kW/month, which is the same level proposed for Jersey by NERA Economic Consulting ("NERA"), net of GST as part of a review commissioned by the States of Jersey. This is an interim measure to remain in place until a full review of the charge has been undertaken, following which any monetary difference would be payable to or repayable by GEL.

In response, GEL would like to make the following more salient comments on the Draft Decision, which it would ask are considered prior to GCRA making its Final Decision as part of the pre-statutory process.

Applicability to all generation not just those over 25 kW

The Draft Decision states that the rate for embedded generation is £3.07 /kW/month indicating that it is universal with no threshold levels. Given the proposal of Jersey Electricity ("JEC") was to extend the standby charge to all PV embedded generation of up to 50kW peak of installed capacity, GEL's position is that it would be fair to assume that GEL should apply the prescribed rate to all generators, not just those more than 25 kW (as per current policy). The application of the charge above 50kW is unknown, however GEL assume that this may be covered by commercial agreements. The approach up to 50 kW must be a reasonable assumption given the NERA Economic Consulting report is promulgated on this key assumption, otherwise report conclusions are being re-produced without the proper context.

The Draft Decision also raises concern over the application of the charge in terms of customers who reduce consumption by converting and replacing electricity heating with gas or oil. This would also apply to customers who reduce consumption by becoming more energy efficient. GEL is of the view that in these cases, the customers by reducing demand on a more permanent basis, do not rely on the network for insurance in terms of the ability to use the capacity to supply units now not used by electric heating or inefficient appliances. This is completely different to embedded generation which will continue to rely on network capacity when the generating unit is not available.

Differential rates for CHP v PV

The rate of £3.07/kW/month as calculated for Jersey by NERA applies only to PV and therefore would not be applicable to CHP installations where the cost dynamics are completely different. A CHP installation based on the same approach taken by NERA would necessarily require a higher level of infrastructure on the part of GEL. Clearly, it is not correct to apply a PV rate to all embedded generation and as such GEL believe that there should be separate rates to reflect the technology in use.

The need for a different rate to that proposed by NERA applies not only to different generation technologies. There will also be other factors which will create different rates. Obvious examples between the two islands are scale economies and there being different security standards for GEL and JEC (greater than 100% maximum demand (N-2) v 75%, respectively). This necessarily means that on a like for like basis, GEL will have a substantially higher fixed cost to allocate than JEC. GEL remains of the view that by having a single rate at far below the cost recovery rate for GEL, this would send out the wrong economic signals to potential (and current investors) and would mean investment in assets whose business case will likely be broken when a final price is adopted.

The need for a difference in rate for different generating technology is supported by adopting the methodology of the NERA report, whereby it is possible to calculate that for GEL a CHP standby charge should be in the range of £20-32/kW/month. Assuming industry averages of a 60% load factor and a 50/50 self-consumption ratio would produce a £20/ kW charge which would increase to £32/kW if we assumed a more likely and industry accepted self-consumption rate of 80%.

In this regard, the Draft Decision suggests that the GCRA, as the economic regulator, would consider a wider set of factors than those considered by NERA when assessing whether a standby charge is "fair and reasonable". These wider factors may result in a figure that is likely to be different to the figure noted in the NERA report. However, based on the above calculation method, even if the GCRA were to discount by a significant assessment factor, the level of charge for a CHP is still likely to be higher than that charged by GEL today.

Prematurely reviewing standby charges rather than waiting for the re-balance of the overall tariff review

GEL has indicated in its August correspondence that it committed to delivering a consulted upon set of tariff re-balancing proposals in the Spring of 2019. A key recommendation of NERA report in terms of the issue of fixed cost recovery was the need to carry out a wholesale review of all tariffs. By cherry picking one part of the overall tariff model in advance of the published GEL proposals there is a risk of the wrong economic signals being sent and inefficient investment by over-encouraging CHP development, as well as potentially disrupting the wider review.

We continue to contend that a full review should take place once the wider tariff re-balancing results are known and shared with GCRA. This will ensure that the standby charge can be reviewed in the proper context of overall tariff provision and the impact upon competition thereon. To look at the standby charges ex ante of this would be premature and likely confuse the wider tariff outcome.

No historic justification for a standby charge, it is rare, and it is high compared to elsewhere

GEL has had a standby charge in place for over 20 years, it is not a 'new' charge and is applied to the existing CHP units that operate on the island. We would also contend that the standby charge is not rare and can be found in various forms across the sector, particularly where PV is mature. The comments expressed may be from respondents and therefore not representative of the 'on the ground conditions' in the industry. As contended earlier we believe that using the NERA formula that our standby charge may actually be a lot lower than it should be for CHP.

The Draft Decision raises that GEL has not published any information justifying the level of charges, however it has carried out this justification based on the current allocation and recovery of costs. As stated in the previous response our costs are being examined to restructure tariffs to ensure fixed and variable charges are reflected and recovered fairly to allow greater transparency in the future.

Impasse on commercial discussions between GEL and IEG

The report refers in several places to the apparent inability of IEG to advance commercial discussions with GEL (for example p17). GEL was ready, willing and able to conduct commercial discussions with IEG but despite the offer of engagement, IEG frustratingly did not show any appetite to develop further.

In our letter of 14 August 2018, GEL made very detailed representations on the matter of changes to the standby charge. GCRA has not addressed all those representations, and we maintain the views we previously expressed in relation to which all our rights are reserved. GEL remains of the opinion that to adjust the standby charge in isolation can be both inconsistent from a cost recovery perspective and potentially send incorrect and misleading signals to potential investors in embedded generation technology.

GEL believes that the GCRA should give due consideration again to completing a full review of tariffs and their structure such that cost recovery is fair and reasonable to all. To assist this approach and facilitate a full review and protect potential embedded generation investors, GEL proposes an alternative approach. In this approach the standby charge remains at today's level, and GEL would subscribe to the intention captured in section 7 of the Draft Decision, whereby parties would still agree to reimburse the other should a subsequent final regulatory decision (or comparable legal standing) set a different rate. This approach could be applied to both small scale and larger scale installations, the latter potentially being covered under a commercial agreement. By adopting this alternative, the review and rebalance of tariffs could be considered prior to the consideration of the standby charge and provide a means of reimbursing under or over recovery of fixed costs.

We await hearing from you.

Yours faithfully

Julian Turner
Chief Financial Officer & Deputy CEO