



E1453G

Cost Pass-through for Guernsey Electricity Limited 2019
(Guernsey)

Statutory Notice of Proposed Decision

Document No: CICRA 19 / 19

29 April 2019

Guernsey Competition and Regulatory Authority
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1. EXECUTIVE SUMMARY

The Guernsey Competition and Regulatory Authority (**GCRA**) issued a non-statutory final decision CICRA 19/18 (the **Final Decision**) regarding a proposed unit tariff increase of 6.8% for Guernsey Electricity Limited (**GEL**) on 26 April 2019. The Final Decision is available at www.cicra.gg. It contains an assessment of responses received to CICRA 19 /10 (also available at www.cicra.gg).

This document constitutes the statutory notice of a proposed decision of the GCRA with regard to this matter.

GCRA intends to allow GEL a 6.8% unit tariff increase, to be in place for 3 years from 1 July 2019. This tariff rise is to allow GEL to recover historic uncontrollable costs of £9.8m related to importation and generation of electricity, which are primarily related to the price of oil and exchange rate movements. The period to which the costs to be recovered relate is April 2017 to March 2019.

2. STRUCTURE OF THIS DOCUMENT

This document constitutes statutory notice of a Proposed Decision. The document sets out the intentions of the GCRA to change the unit tariffs which GEL may charge. The document contains a statement of what the GCRA proposes to allow GEL with respect to recovery of uncontrollable costs and the consequent unit tariff increase.

The document is structured as follows:

Section 3	Outlines the legal framework
Section 4	Sets out the Statutory Notice of a Proposed Decision
Section 5	Sets out the process being followed and the timetable for issuance of statutory notice of a final decision

Subsequent to closure of the consultation period detailed below, and having considered any responses received, the GCRA expects to issue a Statutory Notice of a Final Decision which will either confirm the Proposed Decision contained in this document or detail any amendment.

Respondents are requested to comment on the Proposed Decision. All comments should be submitted before 9.00am on 13 May 2019 to:

Guernsey Competition and Regulatory Authority
Suite 4, 1st Floor, La Plaiderie Chambers
La Plaiderie
St Peter Port
Guernsey, GY1 1WG
Email: info@cicra.gg

All comments should be clearly marked 'Comments on E1392G Proposed Decision – Cost Pass-through for Uncontrollable Costs of Guernsey Electricity Limited 2019'.

In line with CICRA's consultation policy, CICRA intends to make responses to the Proposed Decision available on the CICRA website, the combined website of the GCRA and JCRA. Any material that is confidential should be put in a separate annex and clearly marked as such so that it may be kept confidential. CICRA regrets that it is not in a position to respond individually to the responses to this consultation.

3. LEGISLATIVE BACKGROUND

Current Licensing Regime

The States of Guernsey has issued a number of States Directions in relation to the licensing of electricity activities in Guernsey. In accordance with those Directions the GCRA (formerly the Director General) issued the first licences for electricity generation, conveyance and supply to the incumbent electricity company – GEL - on 1st February 2002.

Legal Background

Under the Regulation of Utilities (Bailiwick of Guernsey) Law 2001 (the **Utilities Law**), the objectives that the GCRA has a duty to promote (and, where they conflict, to balance) must be achieved in a way that gives equal regard to the interests of the residents of all islands of the Bailiwick. They include protecting the interests of consumers and other users in Guernsey in respect of the prices charged for, and the quality, service levels, permanence and variety of, utility services. In order to ensure the permanence of electricity supplies, the GCRA must have regard to allowing GEL to raise revenues to cover the efficient cost for generation, conveyance and supply of electricity.

Detailed provision for the regulation of electricity in Guernsey is contained in The Electricity (Guernsey) Law 2001 (the **Electricity Law**). Section 5 provides that the GCRA may include in licences such conditions as appear to the GCRA to be appropriate having regard to the nature of the application for the licence, the objectives set out in the Utilities Law, and the enforcement of the Utilities Law and the Electricity Law.

The Electricity Law specifically provides that such conditions can include (but are not limited to):

- Conditions regulating the prices, premiums and discounts that may be charged or (as the case may be) allowed by a licensee which has a dominant position in a relevant market.

These provisions allow the Authority to regulate unit tariffs.

Regulatory Framework

In a recent GCRA document (CICRA 19 / 16), the GCRA found that GEL is dominant in generation, conveyance and supply of electricity.

The licence of GEL includes conditions in respect of Price Regulated Services (licence condition 20). Condition 20.2 of the Licence provides that:

“The Director General [now the GCRA] may determine the maximum level of charges the Licensee may apply within a relevant market in which the Licensee has been found to be dominant. A determination may;

(a) provide for the overall limit to apply to such charges;

(b) restrict increases in any such charges or to require reductions in them whether by reference to any formula or otherwise; or

(c) provide for different limits to apply in relation to different periods of time falling within the periods to which any determination applies.”

This condition allows the GCRA to regulate the prices that GEL charges for electricity it supplies in a way and for a time that it deems appropriate, provided GEL has a dominant position in the relevant market.

As set out in CICRA 19/16, Guernsey's retail electricity market possesses a monopolist/dominant operator that also has a dominant position through the electricity supply chain. This position of economic strength is unlikely to change in the near to medium future.

4. COST PASS-THROUGH AMOUNT

The GCRA issued a non-statutory final decision CICRA 19/18 (the **Final Decision**) regarding a proposed unit tariff increase of 6.8% for Guernsey Electricity Limited (**GEL**) on 26 April 2019. The Final Decision is available at www.cicra.gg. It contains an assessment of responses to CICRA 19/10 (also available at www.cicra.gg). The reasons for the GCRA's Proposed Decision are set out in the above documents.

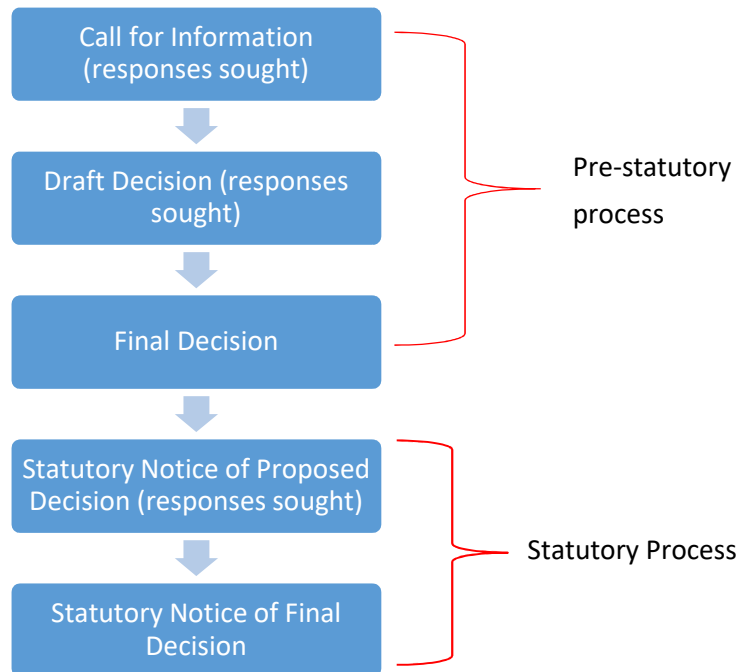
5. PROPOSED DECISION

The GCRA intends to allow the maximum unit tariffs charged by GEL to be increased by 6.8%, the increase to remain in effect for 3 years from 1 July 2019. This is in order to allow GEL to recover uncontrollable cost increases of £9.8m related to electricity generation and importation during its financial years 2017/18 and 2018/19. For the avoidance of doubt, this applies to tariffs charged by GEL and not any tariffs paid by GEL to other parties.

The GCRA now invites comments on its Proposed Decision.

6. NEXT STEPS

CICRA has recently introduced a revised process for consultations. The Information Notice, CICRA 18/29 “Regulatory Consultation Process” published in July 2018, outlines the new process to be undertaken before carrying out certain regulatory functions in accordance with the relevant statutory process. This process is set out below in diagrammatical form:



Under the new process there is a pre-statutory process. The pre-statutory process consists of a Call for Information, a Draft Decision and a Final Decision. This process has been completed.

In order to change the maximum unit tariffs which GEL may charge, the appropriate pre-statutory process was followed,¹ and subsequently a decision to change the maximum unit tariffs requires the statutory process to be followed.²

This is the Statutory Notice of Proposed Decision of the GCRA. If representations from interested parties are received before 5:00am on 13 May 2019 regarding the Proposed Decision, the GCRA will consider them and subsequently make a further determination. If no responses are received, the Proposed Decision will take effect as a Statutory Final Decision on 14 May 2019. At such time as any statutory final decision takes effect it becomes binding on all parties.

¹ See Information Notice CICRA 18/29 “Regulatory Consultation Process”, July 2018

² Sections 5(4) and 5(5) of The Electricity (Guernsey) Law 2001