

The Office of Utility Regulation

Annual Report and Accounts

2008



Office of Utility Regulation

19 August 2009

Deputy Carla McNulty Bauer
Minister for Commerce and Employment
Raymond Falla House
Longue Rue
St Martins
Guernsey
GY4 6AF

Dear Deputy McNulty Bauer,

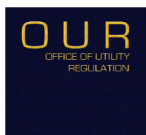
I am pleased to submit this report on the activities of the Office of Utility Regulation for the period 1st January 2008—31st December 2008.

In accordance with Section 8 of the Regulation of Utilities (Bailiwick of Guernsey) Law 2001, I would be grateful if you would present this report to the States of Guernsey.

Yours sincerely,



John Curran
Director General



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Director General's Report

I am pleased to submit the OUR's Annual Report for 2008.

There were a number of important developments in the regulatory regime in 2008. For the OUR, the key highlights were the launch of Guernsey's third mobile operator, Airtel-Vodafone, in March 2008 and the introduction of Mobile Number Portability (MNP) in December 2008.

The launch of MNP within a very tight deadline was a key development for the year. Not only was it a successful delivery of a critical enabler of competition in the mobile market on time but its success was based on two critical factors.

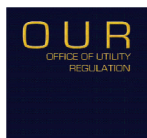
The first was a very clear and committed desire on the part of the three mobile operators – Airtel-Vodafone, Sure and Wave Telecom – to co-operate for the good of their customers. The second factor was the adoption of a common technical solution for both the Guernsey and Jersey markets. This helped reduce the cost of implementation with the result that consumers can now port their number free of charge to the operator of their choice.

This was achieved through a co-ordinated approach between the OUR and our regulatory colleagues in Jersey, the JCRA. Going forward, where the OUR believes the best interests of consumers in the Bailiwick can be achieved through further closer working with the JCRA we will look to exploit that opportunity. As a measure of the success of MNP, in the eight months since MNP was launched over 2,000 customers had taken advantage of the service to get a better deal.

The OUR continues to be involved in aspects of the Energy Policy. The States of Deliberation noted the Energy Policy developed by the Energy Policy Steering Group in June 2008 and a number of workstreams will require input from the OUR. This work will continue well into the future as the opportunities to exploit Guernsey's natural resources continues. The critical issue will be facilitating the development of this resource whilst ensuring that the cost of doing so does not impact on the overall competitiveness of Guernsey.

Our work in the postal market in 2008 concentrated mainly on preparing for a further review of postal prices which has now started. We continued to support the Commerce & Employment Department's efforts with regard to the operation of the Low Value Consignment Relief (LVCR), a mechanism which is hugely important to the bulk mail sector and as a consequence to Guernsey Post and the wider economy.

In addition to our core regulatory work we have also provided expert support to the Commerce & Employment Department in its assessment of the most suitable manner in which to implement competition law in Guernsey and undertaken a review of how air route licensing might be improved upon.



Director General's Report

Looking forward, our work in the utility sectors will continue to be varied, with further efforts to promote competition in the telecoms market needed, new price controls on Guernsey Post in 2009 and Guernsey Electricity in 2010 and we will be assessing what further measures are needed to promote greater competition in the telecoms market. We will continue to support the implementation of the Energy Policy and the Guernsey Renewable Energy Commission in particular.

The addition of air route licensing to the OUR's remit and the proposals for combining competition law with the OUR's regulatory functions will be major challenges going forward. In all cases our intention is to have an open, transparent, consultative approach to decision making that reflects regulatory best practice.

I wish to acknowledge the sterling work of our Audit, Risk and Remuneration Committee (ARRC) for its assistance and advice over 2008. In particular I wish to record my appreciation to Mr. Stephen Jones, former Chairman and Deputy Carla McNulty Bauer for their contribution to the ARRC and support to myself and the Office. Both members stood down from the committee during the year.

I would like to again take this opportunity to thank the staff at the OUR for their continued professionalism and support.

The OUR is a small team which works extremely diligently to ensure that the regulatory regime for the three utility sectors delivers value for consumers.

The OUR will continue to work hard to ensure consumers receive the best in price, choice and quality for the services they receive from the companies regulated by this Office. Part of our role is to ensure that the investments made by the regulated companies are done so with the customers of these companies in mind and that only the cost of investment which is deemed appropriate is recovered from the tariffs consumers pay.

In the current economic climate ensuring such services are provided efficiently and with a regard for what consumers can pay will continue to be important. Ensuring that these services, which ultimately support a huge range of commercial activity, contribute to maintaining the Bailiwick's competitiveness will be important.



John Curran
Director General

2008 in Brief

January

Statutory Invitation to Comment issued following Guernsey Airtel's failure to meet the date for launching its mobile service;

Findings published into Investigation of Guernsey Electricity's Supply Connection charges;

Statutory Notification issued on Guernsey Airtel's failure to meet launch date;

Consultation on a proposal to grant Wave Telecom Code Powers under the Telecoms Law.

February

Final Decision on a Price Control for C&W Guernsey published;

Agreement reached on introducing Mobile Number Portability in Guernsey and Jersey by 1st December.

March

Airtel-Vodafone launches its new mobile service in Guernsey.

April

Review of how C&W Guernsey provides wholesale services to competing operators launched;

Deadline extended for consultation into C&WG's Wholesale Review.

June

Register of mobile phone operator mast sites in the Bailiwick published.

July

Results of latest audit of emissions from radio masts published;

OUR starts review of the mobile market;

Proposals for changes to C&W Guernsey's wholesale business published.

October

OUR concludes review of C&W Guernsey's wholesale business and C&WG agrees to implement changes;

OUR commences review of buy-back mechanism for micro-renewable generation.

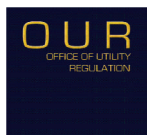
November

OUR sets out proposals for further development of the mobile market;

OUR commences a consultation on promoting competition in the telecoms market through fixed wireless access in Guernsey.

December

Mobile Number Portability launched in Guernsey.



The Guernsey Regulatory Environment

The States of Guernsey has set out the regulatory framework for telecommunications, post and electricity sectors in various Laws and Orders that were made in 2001 and 2002.

The States has also issued a number of Directions to the Director General of Utility Regulation that develop States policy in more detail. The OUR, which was established in 2001, is charged with implementing that policy and regulating in the best interests of the Bailiwick.

Legislation

The principal piece of regulatory legislation is the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (as amended), which establishes the OUR, sets out the governing principles of the Office and allows the States to assign further functions to the Office over time. Three other key laws are:

- The Telecommunications (Bailiwick of Guernsey) Law 2001;
- The Post Office (Bailiwick of Guernsey) Law 2001; and
- The Electricity (Guernsey) Law.

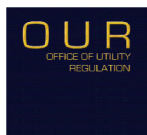
Where empowered to do so, the Director General has also introduced regulations and orders. Texts of all relevant legislation can be found on the OUR website at www.regutil.gg.

States Directions

The Regulation Law provides that the States of Guernsey may give States Directions to the Director General on certain specific issues in each of the sectors.

Directions issued to-date have addressed issues such as the identity of the first licensee in each sector to be granted a licence with a universal service obligation, the scope of a universal service or minimum level of service that all customers in the Bailiwick must receive and any special or exclusive rights that should be granted to any licensee in any of the sectors.

The States debated and agreed policy directions in relation to all three sectors in 2001. The full text of the directions that were in place in 2008 is included in Annex A to this report, in accordance with Section 8 of the Regulation Law.



The OUR Team

John Curran, Director General

John was first appointed by the States as Director General of Utility Regulation in February 2005 and was re-appointed as Director General in May 2006.

He previously worked with the OUR when the office was first established in 2001. After a period as a regulatory advisor with the Australian telecoms incumbent Telstra John returned to the OUR in April 2003 as Director of Regulation. John has a strong background in regulation. Before joining the OUR he worked for six years in communications regulation in Ireland. He began his career in the Irish Civil Service upon graduating from the Galway Institute of Technology.



Michael Byrne, Director of Regulation

Michael joined the OUR in June 2005 as Director of Regulation. Michael has led work across a variety of projects in all three sectors, in particular in the energy and telecoms sectors.

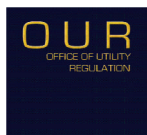
Prior to joining the OUR, Michael was head of Retail Competition at Ofgem in the UK. He led case investigations across various aspects of the UK energy sectors. He has worked in commercial television regulation and as a consultant, specialising in the dairy manufacturing industry. He has a BSc Honours degree in Mathematics, Statistics and Economics from the University of Natal. He also has a post-graduate diploma in Competition Policy and an MBA from the University of Warwick.



Nienke Hendriks, Director of Policy

Nienke joined the OUR in July 2008 having previously worked as head of Gas Transmission at Ofgem in the UK where she led work across a variety of projects including regulatory incentive design and financial policy. Prior to Ofgem Nienke worked with the Civil Aviation Authority.

Nienke was also a leading member of the Joint Regulators Price Control Group and of the Eurocontrol Performance review group. Before joining the CAA Nienke worked in consultancy on projects in the telecommunications, manufacturing and pharmaceuticals sectors. She has a BSc Honours degree in Economics and Philosophy from City University (London) and a Masters degree in Economics and Finance from Warwick Business School.



The OUR Team

Cesar Coelho, Business Analyst

Before joining the OUR in April 2008, Cesar worked as an analyst at ANACOM, the Portuguese Telecoms and Post regulator where he worked primarily on projects in the mobile sector.

Prior to joining ANACOM he worked as for an economic consultancy firm. During his Master degree program he was an assistant at two different universities in Portugal. Cesar holds a BSc Honours degree and a MA degree in Economics, both from the University of Minho, Portugal.



Rosie Allsopp, Office Manager/Case Officer

Rosie joined the OUR team in January 2007. She manages the office and provides administrative support across all projects. In addition to this, she is a case officer for dispute resolution.

Rosie was educated locally at the Grammar School and was formerly a journalist with the Guernsey Press for more than seven years where she was deputy news editor and business editor and developed a strong interest in local politics and business. Rosie studied for a post-graduate diploma in journalism at the Press Association-affiliated Editorial Centre.



Pui Jee Lai

Pui Jee joined the OUR at the end of June 2007. Pui Jee was awarded the OUR's first student bursary. As part of the bursary Pui Jee has worked with the OUR during her summer holidays for the past number of years and has now joined the OUR on a full-time basis. Pui Jee assists the whole team at the OUR across a range of projects. Pui Jee was born in Guernsey and educated at The Ladies College and has recently graduated from the University of Nottingham in 2008 where she studied Management with Chinese Studies.



Hannah Williams

Hannah joined the OUR in August 2008 and works as a case officer for a variety of projects. Hannah was educated locally at the Guernsey Grammar School and graduated from the University of Sussex in June 2008 with a BA Honours Degree in Geography and Development Studies.



Communication and Expert Support

It is OUR policy to operate with a small core team of professional staff and utilise expert consultants as needed on specific projects. This ensures that the Office works efficiently and effectively and keeps its skills and expertise up to date with knowledge transfer from experts in their fields.

The OUR operates in an open and transparent way, and seeks to consult with as wide a range of stakeholders as possible on all key decisions.

The OUR website (www.regutil.gg) is used as a means of communicating with operators within the regulated industries and with the public.

All consultation documents are published on the site as well as being made available in hard copy on request and responses, where not confidential, are also made available. The OUR publishes all decisions with reasons and a commentary on the views received.

During 2008, the following consultants and external specialists worked with the OUR on a range of specific projects, as well as providing general support for the OUR work programme:

- Frontier Economics provided assistance in the C&W Guernsey's Price Control;
- GOS Consulting Ltd provided assistance and support across a range of telecommunications projects including MNP;
- Regulaid assisted in the review of C&W Guernsey's Wholesale business
- Red-M undertook the audit of emissions from radio masts;
- Dotecon assisted in the Mobile Market Review;
- Brockley Consulting Ltd provided assistance with the Guernsey Post price control and LVCR Review;
- McCann Fitzgerald Solicitors provided specialised legal advice during 2008; and
- Direct Input provided PR assistance and media support.

Activity Report:

Under the Regulation of Utilities (Guernsey) Law, 2001, the Director General has a duty to promote, and where they conflict, to balance, objectives that underpin the work of the OUR. The following report outlines the Office's duties as set out in Section 2 of the Regulation Law 2001 and some of the initiatives undertaken in 2008 in performing these duties.

Duties

To protect interests of consumers and other users in the Bailiwick in respect of prices charged for and the quality, service levels, permanence and variety of utility services.

To secure, as 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.

To ensure 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.

Performance

- Three year price control set for C&W Guernsey. This resulted in prices being frozen for services such as line rental and certain leased line services and price decreases for services such as local calls.
- The OUR reviewed C&W Guernsey's wholesale business which identified a range of improvements that C&W Guernsey has agreed to implement. The changes should improve the transparency of how wholesale services are provided, provides for improved provisioning times and enhanced penalties in the event of missed targets. These measures are designed to facilitate competition by making it simpler for new entrants to access C&W Guernsey's wholesale services and compete against C&W Guernsey's retail business.
- The OUR, at the request of the Commerce and Employment Department, undertook a review of the fulfillment sector to assist it in discussions with the UK Government. The report set out the contribution that fulfillment makes to the wider economy and proposed certain measures to help protect this sector of the economy in the Bailiwick.
- By working with the Jersey regulator, the OUR enabled the launch of MNP in the most cost effective manner possible thereby reducing the cost to mobile operators and consumers.

Activity Report:

Duties

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.

To improve the quality and coverage of utility services and to facilitate the availability of new utility services within the Bailiwick.

To lessen, where practical, any adverse impact of utility activities on the environment.

Performance

- The OUR facilitated the launch of Guernsey's third mobile operator, Airtel-Vodafone, in March 2008. The company launched services later than originally planned and since launch has continued to roll out its network.
- The OUR, in co-operation with the mobile operators and the JCRA in Jersey, facilitated the successful launch of Mobile Number Portability (MNP) in December 2008. To-date over 2,000 customers have ported their mobile number between operators.
- The OUR launched a consultation seeking expressions of interest from operators interested in providing telecoms services using 2.6GHz spectrum. Such spectrum could provide for an alternative, radio based network to the current fixed network or be used to enhance mobile broadband services.
- Through our review of the mobile market, fees for site sharing between operators were reduced by over 40% in 2008, thus providing a real commercial incentive to share mast sites where possible and allowed under the planning process.
- An audit of emission levels at all mobile mast sites in the Bailiwick was undertaken. It assessed operators processes and procedures for on-going compliance and the safety guidelines against which compliance is assessed. The audit concluded that all sites comply with safety guidelines and safety standards remain appropriate.

Report of the Director General and Financial Statements for the Year Ended 31st December 2008 for Public Utilities Fund

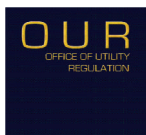
Contents of the Financial Statements For the Year Ended 31st December 2008

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Public Utilities Regulation Fund

Fund Information For the Year Ended 31st December 2008

Director General:	Mr John Curran
Office Address:	Suites B1 & B2 Hirzel Court St Peter Port Guernsey GY1 2NH
Auditors:	Grant Thornton Limited PO Box 313 Island House La Grande Rue St Martin Guernsey GY1 3TF



Public Utilities Regulation Fund

Report of the Director General for the Year Ended 31st December 2008

The Director General presents his report with the financial statements of the Fund for the year ended 31st December 2008.

PRINCIPAL ACTIVITY

The principal activity of the entity in the year under review was that of a utilities regulator.

REVIEW OF BUSINESS

The results of the year and the financial position of the Fund are as shown in the annexed financial statements.

STATEMENT OF DIRECTOR GENERAL'S RESPONSIBILITIES

The Director General is responsible for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Fund and of the income or deficit of the Fund for that period. In preparing those financial statements the Director General is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Director General is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to ensure that the financial statements comply with the applicable accounting standards. The Director General is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 13 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the Director General shall keep proper accounts and records in relation to those accounts and shall prepare in respect of each year a statement of account giving a true and fair view of the state of affairs of the Office of the Director General.

The Law also requires that the Director General to have the accounts audited annually by auditors appointed with the approval of the Department of Commerce and Employment. The Director General, with the approval of the Public Accounts Committee, has appointed Grant Thornton Limited as the auditors to the Public Utilities Regulation Fund.



Public Utilities Regulation Fund

Report of the Director General for the Year Ended 31st December 2008

The audited accounts shall be submitted to the Department for Commerce and Employment which shall in turn submit them together with the auditors' report thereon to the States of Guernsey with the Director General's annual report.

AUDITORS

The auditors, Grant Thornton Ltd, have indicated their willingness to continue in office.

ON BEHALF OF THE BOARD



Mr J Curran
Director General of Utility Regulation

Dated: ...19 August 2009

Report of the Independent Auditors to the Director General of the Public Utilities Regulation Fund

We have audited the financial statements of Public Utilities Regulation Fund for the year ended 31 December 2008 on pages 18 to 24. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Office of the Director General, as a body, in accordance with The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Office of the Director General, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Director General and Auditors.

As described on page 15, the Fund's Director General is responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a fair and true view and are properly prepared in accordance with the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. We also report to you if, in our opinion, the Report of the Director General is consistent with the financial statements, if the Fund has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Director General's remuneration and other transactions with the Fund are not disclosed.

We read the Report of the Director General and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director General in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

Report of the Independent Auditors to the Director General of the Public Utilities Regulation Fund

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence and give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

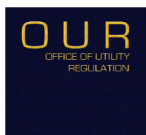
- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Fund's affairs as at 31 December 2008 and of its deficit for the year then ended; and
- have been properly prepared in accordance with the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001.

In our opinion the information given in the report of the Director General is consistent with the financial statements.

Grant Thornton Limited

Grant Thornton Limited
PO Box 313
Island House
Grande Rue
St Martin
Guernsey
GY1 3TF

Date: 19 August 2009.



Public Utilities Regulation Fund

Income and Expenditure Account For the Year Ended 31 December 2008

	Notes	2008 £	2007 £
INCOME			
Licence fees		561,552	735,935
Bank Interest		<u>31,211</u>	<u>36,705</u>
		592,763	772,640
EXPENDITURE			
		758,118	716,916
(DEFICIT) /SURPLUS FOR THE YEAR ENDED 31 DECEMBER 2008		(165,355)	55,724
TRANSFER FROM/ (TO) CONTINGENCY RESERVE	7	165,355	(55,724)
		_____	_____
NET OPERATING RESULT FOR THE YEAR		_____ -	_____ -
		=====	=====

The Fund has no other gains or losses for the current or preceding financial year other than those stated in the Income and Expenditure Account.

These notes form part of the Financial Statements

Public Utilities Regulation Fund

Balance Sheet 31 December 2008

	Notes	<u>2008</u>		<u>2007</u>	
		£	£	£	£
FIXED ASSETS					
Tangible assets	4		14,997		15,344
CURRENT ASSETS					
Debtors	5	20,792		11,438	
Cash at bank and in hand		<u>533,880</u>		<u>687,510</u>	
		554,672		698,948	
CREDITORS					
Amount falling due within one year	6	<u>95,377</u>		<u>74,645</u>	
NET CURRENT ASSETS			<u>459,295</u>		<u>624,303</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>474,292</u>		<u>639,647</u>
RESERVES					
Contingency reserve	7		<u>474,292</u>		<u>639,647</u>
			<u>474,292</u>		<u>639,647</u>

The financial statements were approved on 19 August 2009 and signed by:



Mr J Curran
Director General of Utility Regulation

Public Utilities Regulation Fund

Notes to the Financial Statements **For the Year Ended 31 December 2008**

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost Convention.

Income

Income represents net invoiced licence fees and income from organisation of conferences and is accounted for on an accruals basis.

Tangible Fixed Assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Office equipment	-20% on cost
Fixtures and fittings	-20% on cost
Computer equipment	-20% on cost

2. OPERATING (DEFICIT) /SURPLUS

The operating (deficit) /surplus is stated after charging:

	2008	2007
	£	£
Depreciation—owned assets	4,463	(1,502)
Auditors and accountants' fees	<u>5,150</u>	<u>800</u>

3. TAXATION

Under Section 12 of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 the Fund is exempt from Guernsey Income Tax.

Public Utilities Regulation Fund

Notes to the Financial Statements For the Year Ended 31 December 2008

4. TANGIBLE FIXED ASSETS

	Office equipment £	Fixtures and fittings £	computer equipment £	Totals £
COST				
At 1 Jan 2008	41,360	3,675	34,123	79,158
Additions	<u>1,865</u>	<u>-</u>	<u>2,251</u>	<u>4,116</u>
At 31 Dec 2008	<u>43,225</u>	<u>3,675</u>	<u>36,374</u>	<u>83,274</u>
DEPRECIATION				
At 1 Jan 2008	36,774	3,452	23,588	63,814
Charge for year	<u>1,145</u>	<u>122</u>	<u>3,196</u>	<u>4,463</u>
At Dec 31 2008	<u>37,919</u>	<u>3,574</u>	<u>26,784</u>	<u>68,277</u>
NET BOOK VALUE				
At 31 Dec 2008	<u>5,306</u>	<u>101</u>	<u>9,590</u>	<u>14,997</u>
At 31 Dec 2007	<u>4,586</u>	<u>223</u>	<u>10,535</u>	<u>15,344</u>

Public Utilities Regulation Fund

Notes to the Financial Statements For the Year Ended 31 December 2008

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008	2007
	£	£
Trade Debtors	8,992	2,377
Accrued interest	3,636	625
Other debtors	<u>8,164</u>	<u>8,436</u>
	<u>20,792</u>	<u>11,438</u>

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008	2007
	£	£
Trade creditors	25,040	41,371
Deferred income	12,667	8,563
Other creditors	<u>57,670</u>	<u>24,711</u>
	<u>95,377</u>	<u>74,645</u>

7. CONTINGENCY RESERVES

Any surplus or deficit in the Income and Expenditure Account is either transferred to or from the contingency reserve.

	£
At 1 Jan 2008	639,647
Movement in the year	<u>(165,355)</u>
At 31 Dec 2008	<u>474,292</u>

Public Utilities Regulation Fund

Detailed Income and Expenditure Account For the Year Ended 31 December 2008

	2008		2007	
	£	£	£	£
Income				
Post Office revenue	80,000		120,000	
Telecoms revenue	369,837		495,935	
Electricity revenue	80,000		120,000	
Other income	<u>31,715</u>		<u>-</u>	
		561,552		735,935
Other income				
Bank interest		<u>31,211</u>		<u>36,705</u>
		592,763		772,640
Expenditure				
General overheads	94,663		96,455	
Salaries & staff costs	417,279		373,960	
Consultancy fees	176,378		106,505	
Legal costs	47,170		120,266	
Auditors and accountancy fees	5,150		800	
ARRC fees	<u>13,015</u>		<u>20,292</u>	
		753,655		718,278
		<u> </u>		<u> </u>
		(160,892)		54,362
Finance costs				
Bank charges		<u> </u>		<u>140</u>
		(160,892)		54,222
Depreciation				
Office equipment	1,145		(2,604)	
Fixtures and fittings	122		504	
Computer equipment	<u>3,196</u>		<u>562</u>	
		4,463		(1,502)
		<u> </u>		<u> </u>
(DEFICIT) /SURPLUS FOR THE YEAR		<u>(165,355)</u>		<u>55,724</u>

This page does not form part of the statutory financial statements

OUR Corporate Governance

Audit Risk and Remuneration Committee Chairman's Report

The Committee continued to work under the terms of the 31st March 2007, the Projet de Loi entitled "The Regulation of Utilities (Bailiwick of Guernsey) (Amendment) Law, 2007 was passed by the States of Guernsey. Section 6 of that Law introduced a new Section 13A to the 2001 Law which set out the formal establishment of the Audit, Risk and Remuneration Committee.

During the year Deputy Carla McNulty Bauer and Stephen Jones (Chairman) resigned their membership and Deputy Martin Storey and Alan Bougourd were appointed. The current membership of the Committee is as follows:

- Alan Bougourd – Chairman
- Deputy Martin Storey
- Jane Needham
- Peter Woodward

All members are considered to be independent of the OUR.

The current Committee would like to record its thanks for the valuable contribution made by Jurat Jones and Deputy McNulty Bauer during their time on the Committee.

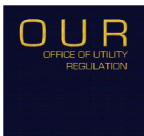
The Committee met formally on three occasions in 2008 and carried out the following specific activities:

- Considered the results of the Internal Audit review of the internal controls in operation at the OUR, and made further recommendations for improvements to key controls.
- Participating with a detailed risk review for the activities of the OUR and reviewing, on an on-going basis, the implementation of the agreed risk management actions.
- Reviewing the Financial Statements of the Public Utilities Regulation Fund for 2008 and discussing the results of the audit thereof with the external auditors.
- Meeting the external auditors to monitor their independence and to confirm the nature, scope, fees and timetable for the audit for 2008.
- Monitoring and approving recruitment and remuneration of staff.
- Recommending improvements to employment contracts and the staff handbook and monitoring their implementation.
- Assisting with the production of a risk-based business plan for 2009-2011.

The Committee were pleased that their reviews, meetings and plans all produced positive results and thank the Director General and his staff for their co-operation and assistance throughout the year. The total annual costs of the Committee were c. £13,000.



Alan Bougourd
Chairman



OUR Corporate Governance

In 2005, the OUR established an independent Audit, Risk and Remuneration Committee (ARRC) and in May 2006 the States formally agreed a Resolution requiring its establishment.

The OUR complies with a very high standard of controls and the OUR's annual accounts are externally audited. The OUR's ARRC provides further independent scrutiny of the controls in place within the OUR.

The members of the OUR ARRC during 2008:

- Mr Stephen Jones, who stepped down as Chairman in August and was replaced by Alan Bougourd
- Deputy Carla McNulty Bauer, who stepped down in April and was replaced by Deputy Martin Storey
- Ms Jane Needham
- Mr Peter Woodward

The following sets out the instruction to the ARRC.

OUR Audit, Risk and Remuneration Committee Terms of Reference

The following sets out the terms of reference of the OUR's Audit, Risk and Remuneration Committee (ARRC) as agreed by the Director General and the ARRC.

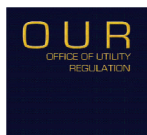
Role of the Committee:

The role of the ARRC will be, as part of the ongoing, systematic review of the control environment and governance procedures within OUR to;

- Oversee the external and internal audit function and advise the Director General in relation to the operation and development of that function;
- Review and advise on the Office's risk management procedures;
- Review and comment on the financial accounts of the Office;
- Review and comment on the remuneration policy of the OUR.

Membership

- The ARRC will be appointed by the Director General with the approval of the Commerce and Employment Department and will consist of not more than four people, who shall be external appointees. One of the four will be appointed by Commerce and Employment.



Duties

The duties of the ARRC shall be:

- to approve and keep under review the Charter for Internal Audit services so as to ensure that it clearly defines the purpose, authority, roles and reporting relationships for internal audit;
- To review and approve the work programme for internal audit;
- To request the inclusion in the programme of Internal Audit reports as considered appropriate;
- To assess the outcome of the internal and external audit processes having regard to findings, recommendations and management responses;
- To assess the implementation of agreed corrective actions by management having regard to follow up audits;
- Generally to foster the development of best practice in the conduct of internal audit, risk management and external reporting;
- To advise the Director General on all matters relating to risk management, internal control, governance, external financial reporting and remuneration;
- To advise on and review the membership of the ARRC as necessary.

Annual Report of the External Auditors

The ARRC will consider any report issued by the external auditors.

Meetings

ARRC meetings will be held not less than twice each calendar year.

A quorum of two will be required for each meeting. The members shall decide on the appointment of the Chairperson. The Chairperson's appointment shall expire on 31st December 2008. Thereafter the term will be for a period of two years.

The ARRC may request any person who has been contracted to carry out an internal audit assignment to attend a Committee meeting. The Director General shall attend on the invitation of the ARRC. The ARRC will also have the authority to request staff members to attend meetings if necessary.

At least once a year, the ARRC will invite the external auditor to meet them to discuss matters of mutual interest including the audit approach.

The OUR will provide such administrative support to the ARRC as it may require.

Working Procedures

The ARRC will adopt its own working procedures.

Access

Any member of the ARRC will have right of access to the Director General and/or any staff member.

Reporting

The ARRC will formally report to the Director General and will offer such advice and recommendations as it may deem appropriate. The ARRC's activities will be recorded and reported in the Annual Report of the Director General.

The ARRC may report to any States Department or States Committee, including the Public Accounts Committee and the Scrutiny Committee.

Access to Independent Advice

The ARRC is authorised to:

- investigate any activity within its terms of reference;
- seek any information that it requires from any employee or external party, and all employees are directed to co-operate with any request made by the Committee, and;
- obtain outside legal or other independent professional advice.

Amendment of Charter

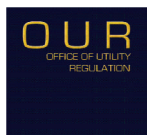
This Charter may be amended or updated in joint consultation between the Director General and the ARRC. It shall be reviewed by 31st December 2008 and thereafter as required.

Internal Audit Charter**Introduction**

This Charter sets out the purpose, authority and responsibilities of OUR's Internal Auditor. It is intended that internal audit assignments will be outsourced to an appropriate, qualified, third party and conducted under contract.

Purpose

The Internal Audit function is an independent appraisal function established to examine, evaluate and report on the adequacy and effectiveness of the OUR's systems of financial internal control. As such, it provides management and stakeholders with assurance over the financial management of the Office of Utility Regulation, and stewardship of the resources entrusted to it.



Authority

Internal Audit is authorised to have:

- Unrestricted access (subject to the comments below) to all functions, records, property and personnel.
- Full and free access to staff, the Audit Committee and the Director General.
- Authority to require and receive such explanations from any employee as are necessary concerning any matter under examination
- Sufficient resources and personnel with the necessary skills to perform the internal audit plan.

Access to confidential commercial information is permitted for the purpose of carrying out an internal audit solely in respect of enabling the auditors to ascertain that the Director General has carried out his functions as provided for within sections 2 and 4 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the various sector specific laws and States Directions to the Director General. Access will not be given to confidential information unless it can be proven that its intended purpose falls within scope of the internal audit role.

Internal Audit is not authorised to perform any operational duties or initiate or approve accounting transactions.

Role and Scope

The primary responsibility for identifying and implementing an adequate system of internal control rests with the Director General. The role of internal audit is to appraise the adequacy and effectiveness of those controls.

In particular, its role is to understand the key financial risks of the organisation and to examine and evaluate the adequacy and effectiveness of the system of risk management and financial control as operated by the organisation so as to ensure that:

- the systems of financial control, and their operation in practice, are adequate and effective;
- follow-up action is taken to remedy weaknesses identified by Internal Audit;
- employees and organisation actions are in compliance with policies, standards, procedures and applicable laws and regulations; and
- the corporate governance arrangements of the organisation are appropriate to the organisation and comply with relevant requirements.

Responsibilities and Reporting

The internal auditor will be accountable to OUR's ARRC and its work programme will be subject to the approval of the ARRC. No work should be undertaken without the prior approval of the ARRC.

All work undertaken should be planned and carried out in accordance with the Standards of Professional Audit Practice set by the Institute of Internal Auditors-UK.

On completion of an assignment, before a final report is issued, the internal auditor will communicate its findings to management and staff of the audited area for their views. These views will be considered and recorded in the final report.

Copies of the final report will be provided to the Director General and ARRC.

Annex A: States Directions; Telecommunications

Scope of Universal Service Obligation (USO)

The States resolved to give the following direction to the Director General in accordance with Section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

All users in the Bailiwick shall have available to them the services set out below at the quality specified, independently of geographical location and, in the light of local and national conditions, at an affordable price:

Access at Fixed Locations:

- *all reasonable requests for connection to the public telephone network at a fixed location and for access to publicly available telephone services at a fixed location shall be met by at least one operator;*
- *the connection provided shall be capable of allowing users to make and receive local, national and international telephone calls, facsimile communications and data communications, at data rates that are sufficient to permit Internet access;*

Directory enquiry services and directories:

- *at least one subscriber directory covering all subscribers of direct public telephone service providers shall be made available to users and shall be updated regularly and at least once a year;*
- *at least one telephone directory enquiry service covering all listed subscribers' numbers shall be made available to all users, including users of public pay telephones;*

Public Pay telephones:

- *public pay telephones shall be provided to meet the reasonable needs of users in terms of the geographical coverage, the number of telephones and the quality of services.*

Special measures for disabled users and users with special needs:

- *these provisions shall also apply to disabled users and users with special social needs, and specific measures may be taken by the Regulator to ensure this.*

Identity of First Licensee with USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a telecommunications Universal Service Obligation to Guernsey Telecoms Limited, the company established to take over the functions of the States Telecommunications Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.

Special or Exclusive Rights

The States resolved to give the following direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

In accordance with section 3(1)(b) of that Law, the States directs the Regulator to decide the duration of any exclusive or special privilege granted to any licensee in relation to the provision of telecommunications networks and/or services with a view to ensuring that competition is introduced into all parts of the market at the earliest possible time.

The Regulator may decide on different terms for privileges granted in different markets or segments of the market. In any case, the States directs that the term of any such rights shall not exceed three years at most from the date of this Direction.



Annex A: States Directions; Post

Universal Service Obligation

The States resolved to give the following direction to the Director General in accordance with section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;*
- *Collections shall be for all postal items up to a weight of 20Kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;*
- *Services for registered and insured mail.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.

“access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

Identity of First Licensee with a USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a postal Universal Service Obligation to Guernsey Post Limited, the company established to take over the functions of the States Post Office Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.

Post: Special or Exclusive Rights

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Post Office Limited the exclusive right to provide postal services in the Bailiwick to the extent that such exclusive right is necessary to ensure the maintenance of the universal postal service specified by States' directions under section 3 (1)(c) of that Law; and

To request the Director General to review and revise the award of exclusive rights from time to time with a view to opening up the Bailiwick postal services market to competition, provided that any such opening up does not prejudice the continued provision of the universal postal service.

Annex A: States Directions; Electricity

Universal Service Obligation (“Public Supply Obligation”)

The States did not make any Directions in relation to a Universal Service Obligation in the electricity markets, as it noted that the provisions of the Electricity Law adequately protected the interests of users by ensuring a Public Supply Obligation would be in place.

Identity of First Licensee with a USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain an electricity Universal Service Obligation to Guernsey Electricity Limited, once that company is established to take over the functions of the States Electricity Board.

Special or Exclusive Rights

Conveyance

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited an exclusive electricity conveyance licence in respect of the conveyance of electricity in Guernsey for a period of 10 years once that company has been formed.

Subsequently, the States resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for conveyance activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Generation

The States made no resolution giving a direction to the Director General in relation to the period of exclusivity of any generation licence to be granted under the Electricity (Guernsey) Law, 2001.

Supply

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited (once that company has been formed) an exclusive electricity supply licence in respect of the supply of electricity in Guernsey for a period of one year.

The States also resolved to request the Director General to investigate the impact of the introduction of competition into the electricity supply market further and to provide a recommendation and advice to the Board of Industry on the introduction of such competition.

The States subsequently resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for supply activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Annex B—Documents published in 2008

- 08/01 Guernsey Airtel Mobile Launch — Failure to meet launch date
- 08/02 Investigation of Guernsey Electricity Ltd's Supply Connection Charges — finding
- 08/03 Energy Policy Report: OUR response to Energy Policy Steering Group
- 08/04 Guernsey Airtel 2G and 3G Mobile Licences: Failure to meet launch date
- 08/05 Proposed Application of The Code by Wave Telecom Ltd and Modification of Wave's Licence
- 08/06 Application of The Code to Wave Telecom Ltd and Modification of Wave's Licence
- 08/07 Price Control for Cable & Wireless Guernsey — Decision Document
- 08/08 Mobile Number Portability — Proposed Direction
- 08/09 Review of C&WG's Wholesale Business — consultation document
- 08/10 Mobile Number Portability — Final Decision
- 08/11 Extension of Consultation Deadline for Wholesale Review of C&WG business — Information Notice
- 08/12 Register of Mobile Phone Operator Mast Sites in the Bailiwick of Guernsey
- 08/13 Audit of Emissions from Radio Masts — Information Notice
- 08/14 Mobile Market Review — Consultation on Further Development of Mobile Market
- 08/15 Review of C&WG's Wholesale Business — Draft Decision
- 08/16 Review of C&WG's Wholesale Business — Final Decision
- 08/17 Buy-Back Rate Review — Consultation
- 08/18 Mobile Review — Draft Decision
- 08/19 Broadband Fixed Wireless Access in Guernsey — Information Note and Calls for Expressions of Interest