



**OFFICIAL REPORT**  
**OF THE**  
**STATES OF GUERNSEY**

**SCRUTINY**  
**COMMITTEE**

Security of Guernsey's Electricity Supply

**HANSARD**

**Royal Court House, Guernsey, Wednesday, 6th November 2013**

**Volume 1, No. 1**

*All published Official Reports can be found on the  
official States of Guernsey website [www.gov.gg](http://www.gov.gg)*

*Published by Her Majesty's Greffier, The Royal Court House,  
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**Members Present:**

*Chairman:* Alderney Representative Paul Arditti  
Deputy Paul R. Le Pelley  
Deputy Scott J. Ogier  
Deputy Barry J. E Paint  
Deputy Lester C. Queripel

*In attendance:*

Mr M. Huntington (*Principal Scrutiny Officer*)  
Mr Alistair Doherty (*Advisor*)

**Business transacted**

Procedural – Remit of the Committee ..... 3

EVIDENCE OF Deputy Peter Harwood, Chief Minister; Mr Steve Morris, Energy Policy Advisor;  
Dr Andy Sloan, States of Guernsey Economist; and Mr Damon Hackley, Strategic Planning Officer,  
Policy Council ..... 3

*The Committee adjourned at 9.47 a.m.  
and resumed its sitting at 9.58 a.m.*

EVIDENCE OF Executive Directors: Mr A M Bates (Managing); Mrs S A David (Corporate Strategy); Mr  
R W Beebe (Operations) – Non-Executive Director: Mr I H Beattie (Chairman),  
Guernsey Electricity Limited..... 15

*The Committee adjourned at 10.51 a.m.  
and resumed its sitting at 2.55 p.m.*

EVIDENCE OF Deputy Kevin Stewart, Minister; Mr Jason Moriarty, Chief Officer; and  
Mr Steve Morris, Energy Policy Advisor,  
Commerce and Employment Department..... 28

*The Committee adjourned at 3.57 p.m.  
and resumed its sitting at 4.01 p.m.*

EVIDENCE OF Deputy Gavin St Pier, Minister  
Treasury and Resources Department ..... 41

*The Committee adjourned at 4.38 p.m.*

## Scrutiny Committee

### Security of Guernsey's Electricity Supply

*The Committee met at 9.00 a.m. in Room 6, Royal Court.*

[ALDERNEY REPRESENTATIVE ARDITTI *in the Chair*]

#### **Procedural Remit of the Committee**

5 **The Chairman (Alderney Representative P Arditti):** Good morning. This is the first public hearing of the Scrutiny Committee's planned business review of the security of electricity supply in Guernsey. The Scrutiny Committee has identified an apparent trilemma in balancing security, affordability and environmental considerations of Guernsey's electricity supply.

10 The purpose of this hearing is to take evidence from key witnesses about the policy of the States of Guernsey for securing the electricity supply for Guernsey now and in the future; whether it is fit for purpose; how the policy is planned, monitored and reviewed; and who is accountable for the development of the policy, as well as the impact of the policy for household and commercial consumers.

A *Hansard* transcript of today's proceedings will be prepared and it is intended to publish this with the Committee's findings in the early part of the New Year.

15 It is not our practice to hear prepared statements from witnesses. Similarly, we should be grateful if you will endeavour to provide brief answers to our questions, on the basis that we shall ask you supplemental questions if we need you to expand on any part of your answer. This is a technical subject, but our hope is that we can ensure that these sessions are understandable to the informed lay person. I hope you will keep that in mind in your responses.

20 However, if you feel there is something that you were unable to say, you will be given the opportunity to do so at the end of the session.

During the session, if a question is directed to one of you and another is better able to reply, please do so. Unless we say otherwise, there is no requirement that a particular witness answers the particular question.

25 Apart from *Hansard*, no other recording or photography is permitted within this building. I ask everyone to check now that their mobile phones and iPads are switched off.

Today's Review Panel comprises Deputies Barry Paint, Scott Ogier, Paul Le Pelley, Lester Queripel and myself, Alderney Representative Paul Arditti.

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#### **EVIDENCE OF Deputy Peter Harwood, Chief Minister; Mr Steve Morris, Energy Policy Advisor; Dr Andy Sloan, States of Guernsey Economist; and Mr Damon Hackley, Strategic Planning Officer, Policy Council**

**The Chairman:** Chief Minister, thank you for coming.

Briefly, can you explain the role of the Policy Council in the security of Guernsey's electricity supply?

35 **The Chief Minister (Deputy Harwood):** Yes, sir, if I may. Policy Council has an Energy Sub-Group, an Energy Policy Sub-Group, which is made up of Ministers from the Policy Council. That Sub-Group, since May last year, has been acting as a co-ordinating group within Policy Council.

40 That Sub-Group comprises the Minister for Commerce and Employment, the Treasury and Resources Minister, Environment Minister, the Public Services Department Minister and myself. We act as a co-ordinating... We recognise, actually, the primary responsibility for security, in accordance with the

objectives and the policy set down by the States of Guernsey rest with Commerce and Employment and Treasury and Resources in their different capacities.

45 **The Chairman:** Thank you.  
Deputy Barry Paint.

**Deputy Paint:** Good morning, gentlemen.  
What is understood to be Guernsey's security of electricity supply policy?

50 **The Chief Minister:** There are two arms of that policy. In 2001, the States of Guernsey resolved, at the time of the connection with Jersey, through till the parliament was created, that Guernsey should retain on-island generation sufficient to meet the demands. The second objective was set in 2005, which was when Commerce and Employment brought to the States of Guernsey a proposal that really codified what was then existing practice, which is the so-called 'n - 2' policy, which in broad terms – and I am not a technician  
55 –means that we have to be able to demonstrate that there is sufficient generating capacity to cover a situation if two of the principal, major supplies of energy fail. It could be two generators or a cable and a generator.

60 **Deputy Paint:** Could you explain the policy in detail and what it actually means in practice?

**The Chief Minister:** Well, as I say, the first arm of that policy, which is the one dating from 2001, requires that we would have available on-Island generation sufficient to cover the capacity. The second aspect, as I said, really, is that we need to be able to demonstrate that we can continue to meet demand, notwithstanding the failure of two key components of the generating capacity – either generating or  
65 importing capacity.

**Deputy Paint:** What is an 'n - 2' policy? Where is an 'n - 2' policy documented?

70 **The Chief Minister:** That is documented in a report that was brought to the States of Guernsey in 2005 by the Commerce and Employment Department. So, it is a resolution of the States and the n - 2, as I say, is normal generation capacity... if you knock out two of those particular parts of that generating capacity, we can still continue to meet demand.

75 **Deputy Paint:** Does the States of Guernsey have any other policies in place to assist the security of our electricity supply?

**The Chief Minister:** Well, the States of Guernsey, in 2011 or 2012, adopted the Guernsey Energy Resource Plan. Part of that Plan does actually talk about, in general terms, the energy resource, if I can quote:  
80

'The Energy Resource Plan recognizes that:

- Energy has become an essential commodity for the economic and social wellbeing of the Island and we need to provide affordable security and resilience of our energy supplies.'

85 **Deputy Paint:** Does the Policy Council claim any part in determining or approving the routes of sub-sea cables?

**The Chief Minister:** That is within the realms of operational control of Guernsey Electricity.

90 **Deputy Paint:** So it does not do it?

**The Chief Minister:** Policy Council itself has no particular mandate in that regard. I think it is an operational matter which you need to discuss with Guernsey Electricity.

95 **Deputy Paint:** Thank you.  
Do you liaise or does anybody liaise, in determining and approving the routes, with shipping companies, fishing associations?

100 **The Chief Minister:** That, again, is an area of operation which you need to discuss with Guernsey Electricity.

**Deputy Paint:** Does the Policy Council liaise with the French Government over the sub-sea cables?

105 **The Chief Minister:** Policy Council has, from time to time, through the External Relations Group, primarily, held conversations with colleagues in La Basse Normandie and La Manche. We were due to have a meeting in December, where we were actually going to take somebody from Guernsey Electricity, to open up negotiations with the relevant French authorities for the possibility of a new cable.

110 **Deputy Paint:** Are there plans of the seabed? Are plans of the sea bed used at all?

**The Chief Minister:** I do not have that information. Again, I think that is a matter, really, for operational...

115 **The Chairman:** Deputy Paint, does Mr Morris have an answer to that question?

**Mr Morris:** I could answer it, yes sir.

**The Chairman:** Please do.

120 **Mr Morris:** The answer is they do use seabed surveys, which are extremely detailed, in planning where a cable should be laid.

**The Chairman:** And, perhaps, just going back to a previous question of Deputy Paint. Mr Morris, what consultation takes place with the shipping and fishing industries in respect of planned cable routes?

125 **Mr Morris:** There are extensive consultations with representatives of all the seabed users, as to the existing uses of the seabed before any cable would be constructed. Clearly, it is particularly important to avoid fishing grounds.

130 **The Chairman:** Thank you.

Deputy Paint, you may wish to address some of your questions to Mr Morris, as well as the Chief Minister.

135 **Deputy Paint:** Yes, thanks. Possibly, it will be Mr Morris, because... Would Mr Morris have any concerns about the areas where cables could be potentially laid?

**Mr Morris:** That is not an easy question to answer. I will tackle it only as so far as the existing cable has been laid on the route which was established with great care. I am sure that any new cables would be similarly laid on routes established with great care. That does mean you have to avoid clear obstacles.

140 **Deputy Paint:** So, the plan of where the cables are is only an indication. It is not an actual plan?

**Mr Morris:** They are actually charted very accurately and where the cables run is displayed on a navigational chart.

145 **Deputy Paint:** Yes, but I mean there is a plan in here that we have, where the cables actually run from Jersey to Guernsey and another one, a potential cable plan from the north part of Guernsey to France. Would that be accurate?

150 **Mr Morris:** I am afraid I cannot answer the question, because I do not know which plan you are referring to.

**The Chairman:** Deputy Paint, thank you.

155 I am going to move on to Deputy Queripel in just a minute but before I do so, could I just ask any of the witnesses that are able to answer this question: in the Chief Minister's response to the Scrutiny Committee's consultation, the Chief Minister wrote:

160 'It is essential the parties involved in power system planning, operation and regulation have a detailed common understanding of the meaning of the criterion.'

Are you, Chief Minister, and you, Mr Morris; are you happy that there is such a detailed common understanding? Chief Minister first.

165 **The Chief Minister:** I believe there is, but I am also aware that there is a tension when it comes to CICRA, as to whether or not... the attention that CICRA pays to the policy for security.

**The Chairman:** Mr Morris, are you happy that there is a detailed common understanding of the parties involved in power system planning, operation and regulation?

170 **Mr Morris:** No, I think I echo the Chief Minister's answer, in that regard.

**The Chairman:** Dr Sloan, Mr Hackley...?

175 **Dr Sloan:** You refer to the n - 2 criterion? I think there is a common understanding, but the views of the legitimacy of that criterion in the past have differed.

If I may I answer part of the supplemental to Deputy Paint's previous question.

**The Chairman:** Please do.

180 **Dr Sloan:** One of the, in practice, consequences of n - 2 is the additional capital cost that the States or Guernsey Electricity therefore have to carry. And given the extra redundancy that one has on Island, one of the issues it to analyse the legitimacy of the n - 2 criterion in any review.

185 **The Chairman:** Thank you  
Deputy Queripel.

**Deputy Queripel:** Chief Minister, could you tell me, please, is Guernsey's current security of electricity supply policy adequate?

190 **The Chief Minister:** I believe the adequacy of the policy was tested last year, when we had problems with cable link and there was still sufficient on-Island generation to cover demand.

**Deputy Queripel:** Thank you.  
The second question, how was the n - 2 policy decided upon?

195 **The Chief Minister:** I was not party to the original decision. My understanding is that there was an external consultant who was engaged to advise Commerce and Employment and it reported to the States in 2005.

200 **Deputy Queripel:** Thank you.  
What criteria were used to determine that n - 2 was the most appropriate policy?

**The Chief Minister:** I am not sufficiently close to the original decision on the n - 2. We would need to refer back to the report of Commerce and Employment which was brought to the States in 2005.

205 **The Chairman:** Deputy Queripel, I wonder... Mr Morris, yes, Mr Morris can you...?

210 **Mr Morris:** In answer to the extent that n - 2 policy has been in existence for a very long time. It has been in existence, to my knowledge, throughout my career with Guernsey Electricity, and it was adopted by the States formally at the time of commercialisation, and for very good reason, because, as the States' Economist earlier pointed out, it does have a significant impact on capital expenditure. It has certainly been in existence for a very long time and the consultants would have duly examined whether it was a reasonable criterion for an island of this type, and the reason this was tested as to what sort of economy you have. Guernsey has an advanced economy: it expects a reliable electricity supply. The two things fit together.

215 **The Chairman:** Is it just used because it was always there?

**Mr Morris:** No, I do not believe so, sir. I think, given that the consultants examined it, I think it was tested and examined at the time and felt to be reasonable in all the circumstances.

220 **The Chairman:** And now, has it been re-examined?

*Mr Morris:* Did you wish me to answer that, Chief Minister? I think the correct answer to that would be, there is a programme of investment, which I am sure you will be discussing with Guernsey Electricity later. Those investments will require a re-examination of security of supply policy and it is the intention that there will be a States' report in the early part of next year which will address those questions, amongst others.

225  
230 **The Chairman:** Thank you.  
Deputy Queripel.

**Deputy Queripel:** You have possibly answered my next question, but I will put it in anyway, just in case you can expand on it. How is this criterion determined?

235 **The Chairman:** The  $n - 2$ .

*The Chief Minister:* In my earlier response to Deputy Paint, I think I indicated that my understanding of the basis of  $n - 2$  is it is a basic calculation. But perhaps Mr Morris might want to add...

240 *Mr Morris:* If you examine it, there are a number of ways of trying to achieve correct probability that the power system would be adequate. All your security of supply criterion does is govern the probability that the system will be adequate.  $N - 2$  is very common for small isolated power systems of which Guernsey is one.  $N - 1$  is another one you could use. If you were operating a large system, you would use a fairly complex mathematical probability model to determine your likelihood of success. It is a very common policy, which is why, I would imagine, the consultants who examined it regarded it as reasonable in all the circumstances.

245  
**The Chairman:** Thank you.

**Deputy Queripel:** Could you tell me please, how were the alternatives to  $n - 2$  evaluated?

250 *The Chief Minister:* I think I refer to the answer that Mr Morris has already given. There are a number of different methods of measuring adequacy or probability that are involved in mathematical modelling. Maybe Mr Morris or Dr Sloan...

255 *Dr Sloan:* If I may, Chair?

**The Chairman:** Dr Sloan, yes.

260 *Dr Sloan:* Hopefully, again in layman's terms, but I have party to the original review. What one does is one takes the assessment of the probability of failure, the assessment of the cost of that failure and weighs that up against the costs of the redundancy required to resist that failure. So, it is a balance in the end, but you balance up the risks against the probabilities and the scale of those risks. Then you come to a rational decision which, at the end of the day, is based on your appetite for risk. If you are risk averse with a closed economy that has very limited options, then you might take a higher risk aversion than you would do in a much larger jurisdiction.

265  
**The Chairman:** And Mr Morris, I think you were about to...?

*Mr Morris:* No, I think that is very helpful.

270 **The Chairman:** No? That is fine.  
Deputy Queripel.

**Deputy Queripel:** Thank you. My next question: who monitors that  $n - 2$  is still the most appropriate policy for Guernsey?

*The Chief Minister:* The answer to that is Commerce and Employment primarily. As Mr Morris has already said, we plan to bring a report to the States of Guernsey in the early part of next year when the policy will again be submitted for approval of the States. There may be a variation to that policy or there

280 may be a different policy, but it will be a matter for the States to determine the policy, once the electricity generating... the Guernsey Electricity... *[Inaudible]*

**Deputy Queripel:** Thank you.

How is this monitored, against what criteria and how are these criteria determined?

285

**The Chief Minister:** I think I would have to refer to Mr Morris, or possibly I think it may be a question better asked of Guernsey Electricity.

I would also add, Treasury and Resources, as representing shareholder, has also been in regular communication with Guernsey Electricity and I believe they have had a number of meetings. You will learn more of that from Treasury and Resources' representatives later.

290

**Deputy Queripel:** Thank you.

I think you may have answered part of this question, but who is involved in reviewing policy, how is this done and how often is it reviewed?

295

**The Chief Minister:** Well, as I indicated, the Policy Council's involvement in this really is to co-ordinate between Treasury and Resources, Commerce and Employment, both of whom have different aspect of the issue under control. And as I said, we will be bringing a report to the States ready for a review of the security policy.

300

**Deputy Queripel:** Thank you

What are the reporting requirements of these reviews?

**The Chief Minister:** Again, I would defer that I think, to Treasury and Resources, possibly to Commerce and Employment, who you will be talking to later today. They can give you detail.

305

**Deputy Queripel:** You may not be able to answer the next question, then, but what have the reviews found?

**The Chief Minister:** Again, I think that you need to refer to Treasury and Resources and Commerce and Employment.

310

**Deputy Queripel:** Yes, okay. Thank you.

What plans are in place for the security of electricity over the longer term, looking 15 to 20 years ahead?

315

**The Chief Minister:** Again, that has been discussed within the Energy Policy Group for Policy Council. We are aware of the ageing profile of some of the on-Island generators and that, again, I suspect will be discussed in full. There will be further discussion with Guernsey Electricity later today and, again also, we are aware that Guernsey Electricity and we have discussed with Guernsey Electricity as the Policy Sub-Group, the advisability of trying to create a second cable linked to a direct cable linking to France.

320

**The Chairman:** Deputy Queripel, I wonder if I could just go back to Dr Sloan, if I may, when we were discussing how the n – 2, the criteria were determined and the alternatives evaluated. You said the 'cost of failure'. The cost of failure to whom? How do you, the relevant witnesses, balance commercial with domestic demands?

325

**Dr Sloan:** Speaking in generic terms, Chair, the cost of failure would be the company-wide, society-wide cost of failure and also supply to business and to households and individuals.

The specifics of the balance and the weighting ascribed to them in the specific review that was undertaken by the consultants in 2005: I would not be able to answer the question without referral to the original report.

330

**The Chairman:** Can any witness, maybe Mr Morris...? Going back to the trilemma of affordability, security and environmental considerations, how would you balance commercial demands and domestic demands?

335

**Mr Morris:** The answer is it is extremely difficult, Chairman, because commercial demands frequently seek a higher standard of reliability than domestic customers might be wishing to pay for. So, it is a balancing act. You have rightly identified that, but where we place that balance is, at the end of the day, a



340 matter of judgment. There is no right answer. It is a matter of judgment as to how secure you wish to make your supply versus the additional cost.

The one thing I would say is that the actual capital cost of moving up the reliability tree, if you like, is comparatively small relative to the overall cost of the investment which is required in the total electricity system. Nevertheless, it is a matter of judgment. It is not an easy judgment. If you try and measure the cost of lost supply, there are lots of different ways of doing it and they produce, potentially, conflicting answers, so it is a balancing act as you have rightly identified, and it is a matter of judgment.

**The Chairman:** Just before I ask Dr Sloan to come back in, I will be moving on to Deputy Le Pelley next.

350 Dr Sloan.

**Dr Sloan:** Sorry, just to supplement what Mr Morris said, Chairman, your reference to the trilemma of security of supply, sustainability and affordability, that is inherently a policy trade-off and is the fundamental reason for the current review by the Energy Policy Group of security policy – hence the rationale for bringing the report to the States for its subsequent decision later next year.

355 But it is always going to be a tension when you have three not necessarily mutually exclusive, but competing priorities.

**The Chairman:** Does anyone else have anything to add? Mr Hackley?

360 **Mr Hackley:** I think that answered it very well. I think, obviously, the more reliable and secure your energy provision, your electricity provision, the higher the costs. It is a case of balancing those issues and obviously, as Dr Sloan said, environmental issues come into it at the moment, that is likely to drive costs up with a higher percentage of sustainable or locally produced renewable energy that is in your mix.

365 So, it is definitely a balance and, as you have heard, we are working on a States report to go to the States before Easter hopefully that will work very closely with Commerce and Employment as the overseer of the regulator; with Treasury and Resources, as the overseer or the shareholder of Guernsey Electricity and we will try and put in place a strategy and policy that allows Guernsey Electricity to invest in the appropriate infrastructure, with confidence, over the next 10 to 15 years.

370 **The Chairman:** Thank you.  
Deputy Le Pelley.

**Deputy Le Pelley:** Thank you, Mr Chairman.

375 Gentlemen, my area of questioning will focus on whether Guernsey's current security of electricity supply policy is properly implemented and if it represents value for money.

My first section is on the funding investment. As far as investment costs are concerned, how are the necessary capital investments funded to support the n - 2 policy?

380 **The Chief Minister:** The policy has, in the past, I believe, been 'save to pay'. I mentioned at the outset that there is a sort of tension with CICRA, which I am sure they will be able to elaborate on, but the concern is that the cost of investment is not necessarily reflected in the price – this is where CICRA comes into it – in the tariff prices charged to consumers.

Anyone else have any comment on that?

385 **Dr Sloan:** Adding on that to the Chief Minister, the historic policy was save to pay, and obviously in the States' Budget of 2011-12, T&R was given devolved responsibility to stand behind any borrowings for Guernsey Electricity and its investment programme.

390 But the historic tension that the Chief Minister refers to with the regulator had been an assessment of the current capital infrastructure of Guernsey Electricity. There was a legacy dispute about what was a fair assessment of the capital costs that Guernsey Electricity had to carry. In a small jurisdiction, they are a disproportionately large because we do not have economies of scale.

**Deputy Le Pelley:** Fine, so GEL is still operating under the save to spend policy to fund future investment?

395

**The Chief Minister:** Well, I think as Dr Sloan mentioned, in the Budget for 2013, Treasury and Resources were given authority to act as guarantor if Guernsey Electricity wanted to borrow.

400 I believe that historically Guernsey Electricity has borrowed – if we go back to the 1980s, I think I recall there was some borrowing.

**Deputy Le Pelley:** So, how will future cable replacement costs be planned for?

405 **The Chief Minister:** Well, that is the \$84,000 question. Almost certainly, the save to pay policy is not going to be able to cope with that. They will have to resort, I suspect, to external borrowing.

**Deputy Le Pelley:** Thank you.

410 I move on to the cost to consumers – domestic consumers. The price rises due to go on on-Island generation: are these long term?

**The Chief Minister:** I think that is a question, really, for Guernsey Electricity, but my understanding is possibly not. But at the moment, because of the break in the cable link, clearly there is a heavy reliance on on-Island generation, which in turn is reliant upon the price of oil.

415 **Deputy Le Pelley:** So, would an n - 1 policy reduce the price of electricity for consumers?

**The Chief Minister:** I do not think it would necessarily reduce the price of energy... sorry, the price to the consumer, but it would certainly reduce the investment cost to Guernsey Electricity.

420 **Mr Hackley:** I think it would depend on how you approached implementing an n - 1 policy, because to do so, you would probably have to invest heavily in new infrastructure. If you are going to invest in new infrastructure, then obviously there a capital cost to pay, so that would be quite a difficult question to answer.

425 **Deputy Le Pelley:** Okay, so is the Government considering a move to n - 1, then, in order to reduce electricity prices for consumers? Is that something you have thought about?

**The Chief Minister:** We have not yet progressed to that level of policy development.

430 **Deputy Le Pelley:** So, in that case, you could not tell us what the price to consumers would be, obviously?

**Dr Sloan:** If I may, Chair?

435 **The Chairman:** Yes, do.

440 **Dr Sloan:** It is a logical inference, if I may, Deputy Le Pelley. One of the issues that we needed to address and assess – Mr Morris will smile when I say this, because future relative costs are inordinately difficult to forecast, particularly when it comes to the price of energy – but we do need to at least make some sort of assessment of the relative cost of the various options. If they are *all* more expensive in the future, they are all more expensive in the future – it is the relative that is important to us and we need to factor in issues such as n - 1 into that, when we make an assessment of relative costs of the options, to be able to determine that best appropriate balance between the three criteria that we have for energy supply.

445 **Deputy Le Pelley:** Thank you.

Wider Government is currently undertaking cost saving measures, whilst Guernsey Electricity Ltd has announced a 10% rise in electricity prices to the consumer. How is the domestic user, especially those in already challenging financial circumstances, meant to cope with this increase?

450 **The Chief Minister:** I think the short answer is probably with difficulty, in some instances.

The increased costs have been reflected in the winter fuel allowance which is proposed by SSD, as you will be aware. The increase in the cost of electricity to consumers was primarily driven, my understanding is at least, because we have had to resort to on-Island generation and therefore, we have had to resort to greater importation of oil and therefore we are more vulnerable to the oil prices.

455 Does anyone else want to...?

**Mr Morris:** No, I think that is entirely true. As Dr Sloan said, forecasting the future price of energy is a very dangerous game indeed. So, it is difficult to tell you what the difference would be in future years. That

460 is not possible. We will do our very best to provide the States with clear information on the cost of staying with n - 2 versus moving to an n - 1 policy in the report which comes to the States in the New Year.

**Deputy Le Pelley:** Thank you.

465 I would like to move on now to the cost to commercial consumers. Does the Policy Council have a view on whether the Guernsey Electricity Ltd should recognise private investment and consumption and introduce a commercial rate accordingly which reflects these factors?

470 **The Chief Minister:** I am not sure I fully understand the question, but I am aware that the Commerce and Employment Department have brought to the States in September proposals that would enable them to enter into special agreements, special arrangements with large consumers, and that may be part of your answer.

**Deputy Le Pelley:** That was what I was getting at. For using back-up generation during maximum peak demand periods.

475 **The Chief Minister:** And linked with that possibly is also the buy-in power of people who actually are using solar panels as part of the renewable strategy.

**Deputy Le Pelley:** Thank you very much indeed.

480 Is French nuclear power preferred over on-Island electricity generation in the long term and, if so, why?

**The Chief Minister:** I think the short answer is probably yes, because we can meet some of our environmental targets by importation of nuclear power, or at least importation of power from France. As I said, it reduces the dependency upon oil of on-Island generation and, again, there is an environmental benefit there. It also, possibly, gives greater price stability, but I am not... Perhaps Mr Morris might want to add a further comment to that.

**Deputy Le Pelley:** Yes, I would be very grateful if you could talk about the financial and environmental considerations in a bit more detail.

490 **Mr Morris:** Well, it might be just worth highlighting the strength and diversity which we currently have, when we can generate Island power from oil, if we so wish – indeed, we did wish last year and we still are wishing. But being able to import it from the European grid provides a diversification benefit. It can provide an economic benefit and it can provide a low carbon benefit. Nuclear power is low carbon and there are renewable sources being applied in the European grid as well, so it has that benefit.

495 But the diversification is highly significant. I think it is reasonable to say that the price of generation from whether you do it locally or whether you are importing it, you may expect those two things to vary with time. There is a connection between the price of fuel and the price of electricity on the European grid, but from time to time there is some elasticity in it, so it may well be cheaper, as it has been in the past, to generate locally than to import. So there is a significant strength in having that diversified resource.

500

**Deputy Le Pelley:** Thank you.

That leads on nicely to my next question, which is what is the future policy for on-Island generation? For example, should an on-Island generation plant at the end of its life be replaced, in your opinion?

505 **The Chief Minister:** This comes back to where we started from, which is the N-2 debate. You will see that quite a lot of generators themselves are coming to the end of their natural life, although there may be an argument as to how long they can be sustained. But it is precisely the N-2 against n - 1 debate that will determine to a certain extent the investment profile and the investment programme for replacement of the on-Island generating capacity.

510

**The Chairman:** Deputy Le Pelley, I am going to move on in just a minute to Deputy Ogier, but I wonder if I could address this question to Mr Morris.

515 Going back to the forecasting of future cost of fuel, admittedly difficult, but you still have to do it and the panel's question is really are we betting on the costs, the future costs of French nuclear fuel, because all these cables, all these different planned cables all seem to be pointing towards French nuclear fuel?

**Mr Morris:** I think the best way to answer that would be to remind the committee that the connection is with the European grid. Now, it is absolutely true that a large source of electricity within France is currently

520 nuclear power. It is equally true that the French Government has announced a policy of reducing that  
commitment. They have not actually announced what they are going to replace it with, I do not believe, but  
the connection to Europe is a connection to Europe and, within the context of the market, it is at least in  
theory conceivable that you might choose to buy your electricity from another European country.

525 So, it is not simply that you are connecting up to French nuclear; there are a large number of sources of  
electricity on the European grid and that really goes back to the strength of diversity which I was talking  
about a few seconds ago.

**The Chairman:** Does any other witness want to add anything to?

530 **Dr Sloan:** In echo, Mr Chairman, I think you are right in implying that effectively you are tying  
yourself in via importation into the market price of European grid electricity.

**The Chairman:** Deputy Ogier.

535 **Deputy Ogier:** Thank you.

Following on from the n - 2 ramifications, if you have a number of 16-megawatt generators, it can be  
easy to have an n - 2 policy as you only have 16 megawatt generators to back up. Were you to move to two  
very large capacity cable links to France, what ramifications would that have for the n - 2 policy? If you  
have two 100-megawatt cables, what do you have to provide on Island in that circumstance?

540 **The Chief Minister:** Can I just give an overall view and then ask Mr Morris to give a more detailed...?

**The Chairman:** Yes, please do.

545 **The Chief Minister:** The answer is it does change the mathematics quite considerably, I believe. At the  
moment, I believe, in the calculations the allowance for the importation is about 16 megawatts, I think is the  
measure, and therefore it is less of a problem. If you have to take that one out of the equation, there is less  
of an issue.

550 If you increase the importation significantly, say 40 or 50 – and I believe, potentially, we could do that,  
once the cables are back operating – if you took that higher figure, then clearly it will skew the figures quite  
considerably and you will need possibly more on-Island generators in order to compensate for it.

Mr Morris, do you want to add to that?

555 **Mr Morris:** Yes, I think it is worth saying that, if the future investment pattern produces a stronger  
network of importation cables, then that, in itself, would be a primary reason for reconsidering both the  
need for on-Island generation and the nature of that on-Island generation. That will be the subject of the  
report which the States will be seeing in the New Year.

It is absolutely correct that if you change the goalpost, then you need to reconsider the policy and that is  
precisely what the States will be offered the opportunity to do.

560 Clearly, if you were to go to a situation where your local power generation was just two large machines,  
then failure of one of those machines would imply failure of a large proportion of the Island's supply,  
which is something which would clearly have liability impact. There have been occasions in the past in the  
Island where only one generator has been supplying the Island's power. If it stops, the consequences are  
fairly obvious, but that situation does not apply today.

565 **Deputy Ogier:** Thank you very much. Thank you.

Moving on to the Energy Resource Plan, if I may? Objective 1 is to maintain the safety and security of  
affordable and sustainable energy supplies. What does the Policy Council do in practice to ensure this is the  
case?

570 **The Chief Minister:** Well, again, I think this links back to the role of Policy Council is to co-ordinate  
the different interests. So, in relation to this, actually in terms of sustainability – and it comes back in one of  
the later bullet points – there is an environmental impact, so therefore the Environment Department is  
involved in the Energy Policy Group for that reason.

575 One of the issues on sustainability clearly comes back to the security argument, which is really the  
subject of this morning's discussion, whether n - 2 is still appropriate, whether it is right that we maintain  
the ability to have on-Island, local generation sufficient to meet our demand, rather than being totally reliant  
upon importation.

580 **Deputy Ogier:** Do you have a feeling for what the Energy Policy Group, in its current make-up, believe the word, 'sustainable' to be?

*The Chief Minister:* Sustainable in this context, I believe is resilient.

585 This became an issue last summer when we were faced with the situation when the cable broke and we had a presentation from Guernsey Electricity on the implications and, at that stage, the recognition that Guernsey Electricity may have to accelerate the replacement of one of its generators and that then linked in with a concern that we had, or the group had, because of the environmental impact. If you suddenly had to resort more heavy on-Island generation, then our ability to achieve some of the environmental targets becomes more difficult.

590 **Deputy Ogier:** Thank you.

Could you tell me whether the older plant causes or are there any issues with pollution from the on-Island generation plant, especially with some of the older plant?

595 *Mr Morris:* Well, the straightforward answer is yes, there have always been. The older plant and, indeed, any fossil-fuel burning plant produces carbon dioxide in large measure. It also produces various other atmospheric pollutants.

600 **Deputy Ogier:** Do you know – it may not be a question for you – if it meets its emission targets? Are there emission targets?

*Mr Morris:* To the best of my knowledge, unless anything has changed, there are no specific emission targets. There is a general clear air requirement but there are no specific emission targets, but then, of course, the emissions are emitted 55 metres up in the air, which is the purpose of the chimneys.

605 **Deputy Ogier:** Thank you.

You have touched on the role of the Energy Policy Group. I wonder if you would be kind enough just to elucidate its purpose, please?

610 *The Chief Minister:* Well, as I said at the outset really, its purpose is... Having presented the Energy Resource Plan, the role really at the moment is that of co-ordination, to ensure that the different Departments in the States of Guernsey are actually operating together. We are trying to deliver a joined-up approach and to ensure there is a momentum, for example, in bringing the report to the States next year.

**Deputy Ogier:** Thank you.

615 Given that there are energy efficient measures, the States are promoting energy conservation and has had some success in that area, is the Policy Council envisaging a reduction in demand for electricity in the future or growth?

620 **The Chief Minister:** One of the things that the Energy Policy Group is looking at is whether or not we can achieve efficiency and savings. We are mindful of the success that Jersey has had in some of its efficiency projects and the Policy Group has been looking at that. There is a cost implication and there is a funding implication.

Damon, do you want to...?

625 *Mr Hackley:* It is quite a difficult question to answer, isn't it, because I think the demand for electricity is probably always on an upward curve? Who would have thought we would be reading books using electricity 10 years ago? But that is obviously off-set against greater efficiencies and that is achieved through measures that the Chief Minister has mentioned.

630 So, I think it is difficult to say where we will be in 10 years' time in terms of energy use. I think we have to plan for an increase in demand. I think that is the way that the developed world is going.

*The Chief Minister:* Can I just add, the Energy Policy Group has also looked at other sources of energy, I mean, gas, oil, renewables and we take a broad view over all those. Renewable, again, falls within Commerce and Employment – the Renewable Energy Team is embedded within Commerce and Employment.

**Deputy Ogier:** Thank you.

I would like to move onto governance, if I may. Please explain briefly the role of Policy Council and the States of Guernsey with Guernsey Electricity?

640

**The Chief Minister:** Treasury and Resources, it represents a shareholding interest in Guernsey Electricity.

645

**Deputy Ogier:** And do they have a place on the GEL board, as the main shareholder or the only shareholder?

650

**The Chief Minister:** I am not immediately aware of that, but they do, certainly, attend... They have a programme of regular meetings with Guernsey Electricity but I suggest that is a question really to be asked directly of Treasury and Resources.

**Deputy Ogier:** Thank you.

There are currently three Departments of the States with responsibility for the security of electricity supply, being T&R, Commerce and Employment and Policy Council. How is their work co-ordinated? Again, is that through the Energy Policy Group or is that through Policy Council?

655

**The Chief Minister:** It is through the Energy Policy Group on behalf of Policy Council.

**Deputy Ogier:** Thank you.

What communication takes place generally between States of Guernsey and Guernsey Electricity?

660

**The Chief Minister:** Well, do you mean the States of Deliberation?

**Deputy Ogier:** I do, yes.

665

**The Chief Minister:** Well, the States of Deliberation has the opportunity to consider the annual accounts of Guernsey Electricity. Treasury and Resources is primarily responsible to represent the shareholder interest in Guernsey Electricity.

670

**Deputy Ogier:** And what sort of communication takes place throughout the year between Government Departments and Guernsey Electricity?

**The Chief Minister:** That is a question to be asked of Treasury and Resources. My understanding is that there is a regular pattern of meetings between Treasury and Resources and Guernsey Electricity.

675

**The Chairman:** Dr Sloan?

680

**Dr Sloan:** Just to add to the Chief Minister's comment, obviously the role of T&R as the shareholder of Guernsey Electricity is one thing. In terms of the Energy Policy Group, the Guernsey Electricity then becomes a stakeholder within that group to have discussions via the Energy Policy Group. So, discussions and presentations have been had in that role, so there is, with respect, a question of wearing of hats. So Guernsey Electricity is stakeholder when it comes to the Energy Policy Group, but when it comes to T&R, it is a direct relationship, T&R being the shareholder for Guernsey Electricity.

685

**The Chairman:** Deputy Ogier, two minutes.

**Mr Hackley:** Can I just add to that as well?

Obviously, you have picked up that responsibilities for energy sit with various parts of the States. The Policy Council's role, through the Energy Resource Plan, is to co-ordinate policy, as you have heard.

690

The Energy Resource Plan is obviously part of the States' Strategic Plan, so it is a way of identifying one of our resources, along with land, infrastructure, population and to look to use that wisely.

695

What the Energy Resource Plan has done really is to bring into play the environmental issues involved with energy. Before that, obviously, you have got Commerce and Employment and T&R having responsibility for electricity issues and, within that, there was not really a strand of identifying environmental concerns. That has really been introduced through the introduction of the Energy Resource Plan in 2012.

**Deputy Ogier:** Thank you.

700 What guidance does Policy Council offer to Guernsey Electricity in balancing the various policies and priorities such as the Energy Resource Plan and the Fiscal and Economic Plan? What guidance is given to Guernsey Electricity?

**The Chief Minister:** The Policy Council does not give direct guidance. Guidance is given through Treasury and Resources. Again, I come back to the situation last summer: Treasury and Resources were represented on the Energy Policy Group and, through that, Treasury and Resources were able to have dialogue with Guernsey Electricity as to the way forward.

**Deputy Ogier:** My final question then: what role do the fuel ships have in securing the Island's electricity supply and what measures are in place to ensure their continued operation in the future?

710 **The Chief Minister:** The security of the Island's energy supply is largely dependent upon the importation of oil, and the fuel ships are a critical part of that.  
Does anybody want to add to that?

715 **Mr Morris:** It might be pertinent to point out that those fuel ships are not relevant to Guernsey Electricity. Guernsey Electricity have their own separate shipping contract. It is a very different grade of oil that is being imported.

**The Chairman:** Well, thank you very much for attending. The panel will now retire for five minutes while the next witnesses take their seats. Thank you again.

720

*The Committee adjourned at 9.47 a.m.  
and resumed its sitting at 9.58 a.m.*

**EVIDENCE OF  
Executive Directors: Mr A M Bates (Managing);  
Mrs S A David (Corporate Strategy); and Mr R W Beebe (Operations)  
Non-Executive Director: Mr I H Beattie (Chairman)  
Guernsey Electricity Limited**

725 **The Chairman (Alderney Representative P Arditti):** Good morning and thank you for coming.  
Is Guernsey Electricity aware of any surveys on domestic consumers' attitudes to security versus cost?

**Mr Bates:** I think we have done various surveys or market surveys in the past, some of them looking at various areas of acceptability of tariffs – the main one, more recently, being associated with the ability or willingness to pay for green power and whether there is an appetite for green power.  
730 In terms of the more general ability to pay, there have not been any recent surveys done.

**The Chairman:** Do you feel that consumers are willing to put up with some disruption in order to have lower bills?

735 **Mr Bates:** I think one of the things Guernsey has become very used to in recent years, with the importation from France, is very good security. One of the things we do hear a lot is that it does disrupt family life a lot more than it did in the past. In terms of acceptability of will they accept a lower security standard, I think that will vary from individual customer to individual customer.

740 **The Chairman:** Yes, but I think you have said, at the outset, that you have asked about environmental considerations, but you have not asked the different consumers, domestic on the one hand and commercial on the other, about their tolerance for security, or for *insecurity*, versus cost?

745 **Mr Bates:** No, I do not believe there has been a specific study done into those areas, although we do know commercial customers make provisions in other ways, depending on how secure they want their electricity supply to be. This varies from customer to customer, with the most energy secure customers putting additional systems into their property to make sure their supply is very secure.

**The Chairman:** Thank you.

750 Deputy Paint.

**Deputy Paint:** Good morning, ladies and gentlemen.  
Does Guernsey have its own policies to safeguard the security of supply?

755 **Mr Bates:** Yes, obviously, we have heard today about the n - 2 security policy. That is very much a policy to do with what is traditionally called 'keeping the lights on for the Island'. Guernsey Electricity itself has its own security supply policy that goes further down the scale, looking at network issues for all the different branches.

760 **Deputy Paint:** What are the biggest risks to the common cable infrastructure?

**Mr Bates:** In terms of?

765 **Deputy Paint:** Operating.

**Mr Bates:** Okay, well, in terms of the subsea cables, obviously one of the biggest risks is third party damage from an anchor or other objects that come into contact with the cable.

770 In terms of cables within the roads, there are many things that can affect it: again, third party damage can affect the reliability of those cables; age is another factor; the ground conditions are another factor. There are many factors that affect cables in the road. Obviously, in Guernsey there is a very high density of underground assets in our roads.

**Deputy Paint:** I was really meaning about the subsea cables.  
Has there been any damage caused in the cables so far by other means, by means of anchors and ships?

775 **Mr Bates:** I will ask Sally to answer that question, because obviously we do monitor the cables very, very closely, but Sally, if you can answer that.

780 **Mrs David:** We certainly do a lot of work with fishing communities to make sure they are informed where the cable is and to make sure they avoid the area. We have seen, on our surveys, which we undertake every three or four years, some evidence of some fishing operations. The power cable has never been damaged or moved by any fishing operations.

785 **Deputy Paint:** So, why do cables fail? We have had a failure recently. Could you explain why?

**Mrs David:** Yes, we belong to an international cable consortium that actually looks at the statistics of cables worldwide, and the statistics show that over half the damages to cables are usually by either anchors or fishing. The next highest is due to very high tide currents, particularly in an area where it is on reef and the cable is wearing away. Then you may get some lower order issues, where maybe it is to do with the actual cable construction is not appropriate.

790 **Mr Bates:** Just to clarify, though, the failure of 2012 was not associated with any of those factors. It was a failure associated with an internal failure of the electricity cable.

795 **Deputy Paint:** Thank you.  
What process is followed in the event that there are problems with the cable? Have you got a process that you...? Say, you find...?

800 **Mr Bates:** We have a power cable maintenance agreement. What that provides for is if there is a failure on a subsea cable, we have provisions in place to bring in equipment and skills to the Island to repair it.

**The Chairman:** Mr Beebe, have you something to add?

805 **Mr Beebe:** Well, I did not know if the question was to do with restoration of supply during a failure or whether the monitoring...?

**Deputy Paint:** Well, the thing is there should be a process, as we have had here, where something failed within the cable. So, there should be a process that you immediately go into.



810 *Mrs David:* Yes, there is.

**Deputy Paint:** So that is what you did. You had it all absolutely satisfactory.

815 **The Chairman:** And just to be clear, could you explain that process?

*Mr Bates:* That process now involves contact with a provider of supply who has all the provisions in place to load the spare cable and the appropriate equipment onto a barge, the barge to come to the area and have all the equipment then for cutting, lifting and joining the cable together after repair.

820 **The Chairman:** Deputy Paint.

**Deputy Paint:** How often is the cable monitored for faults? And, how is this done?

825 *Mr Bates:* Electricity cables are permanently monitored in many ways with protection systems to look for faults and those protections will cut the power to the cable under certain situations and that is actually what happened last year. The cable was cut off when the protection system sensed there was a problem with the cable.

830 **Deputy Paint:** So, how long did it actually take to repair the cable – obviously, this one?

*Mrs David:* It took three and half months.

*Mr Bates:* I would add that is very dependent on the time of year and the weather conditions.

835 **Deputy Paint:** What is the life expectancy of a cable?

*Mr Bates:* The design life is 25 years. It is not uncommon for the type of construction of these cables to last longer than that, or you can have faults before that. That is the design life.

840 **The Chairman:** Deputy Paint.

Has there been any improvement in cable resilience? New cables, were they to be laid now, would they be more reliable than those that are in place?

845 *Mr Bates:* I would probably say yes, the knowledge of cables is improving every year in terms of subsea cables. There are more and more subsea cables being put in, particularly related to renewable energy. So the technology is changing all the time and you only have to look back to maybe the first ever cable to the Channel Islands, which was to Jersey, which was an oil-filled cable. The technology has moved on and they are now very much constructed with a plastic, what is known as cross-linked polyethylene, a much more robust construction and much more reliable. But as I said, the technology is changing all the time and the understanding of the environment the cables live in is changing all the time.

850 **The Chairman:** Thank you.  
Deputy Paint.

855 **Deputy Paint:** Yes, is insurance in place for the cables and what does it cover?

*Mr Bates:* We, through the Channel Islands Electricity Group, we have insurance in place for the subsea cables. They generally cover, as most insurance policies do, for accidental damage. What they do not cover is wear and tear.

860 **Deputy Paint:** Does Guernsey Electricity have detailed plans of the seabed which can be used in planning the cable routes?

865 *Mr Bates:* We have some seabed surveys. In terms of new cables, a key part of the process for the planning process is to have a subsea survey, which is a very detailed survey, both looking at the topography and also what sits below the seabed.

**Deputy Paint:** So when you do any surveys of the seabed, you go beneath it for burying the cable.

870 **Mr Bates:** Yes.

**The Chairman:** Thank you.  
Now, if we could move onto Deputy Queripel.

875 **Deputy Queripel:** Thank you, Mr Chairman.  
Mr Bates, could you tell me please, what is the long-term plan for ensuring security of the electricity supply to Guernsey?

880 **Mr Bates:** We are currently focusing on two strategic areas. One is the importation of electricity to Guernsey and how we can achieve security via a number of cable routes. The consequence of that then is we are also reviewing our on-Island generation strategy. One of the big factors within that will be what level of on-Island security we will require when we have multiple cables to the Island.

885 **Deputy Queripel:** Thank you.  
Has a direct cable link to Alderney been considered?

890 **Mr Bates:** We have looked at cable links to Alderney for the rationale of supplying Alderney with electricity. Obviously, with Alderney's plans to do with France/Alderney/Britain, there are also obviously opportunities in the future to look at potential connections to Alderney, because that would open up both the UK and the European market. We currently understand those plans are set to move into the 2020s and we need to look at some cable solutions earlier than that.

But I would say we have not discounted that as an option.

895 **Deputy Queripel:** Thank you very much.  
Has a direct Guernsey to UK link been considered?

900 **Mr Bates:** Yes, that was also considered and some contact was made with the National Grid in the UK. Not only the distance is challenging, but the onshore infrastructure on the south coast of England causes issues with that connection.

**Deputy Queripel:** Thank you very much.  
Are GEL aware of the suggested potential 1,000 years' gas supply reserves located recently in the UK?

905 **Mr Bates:** I believe you are referring to shale gas. Obviously, we do keep an eye on the whole energy market, not just the electricity market and certainly the impact different fuel evolutions can have on those markets.

In terms of shale gas and what effects it will have on the energy market, in particular the electricity market, it may well bring the electricity market down if there is some very cheap gas fuel.

910 If the question is directed as to whether that gas should be brought to Guernsey, you would then be into the same situation: how do you secure gas supplies to Guernsey? Is it one pipeline, two pipelines? And, also, probably the most efficient way of bringing energy to the Island would be through the electricity cable and if you wanted to build a gas-fired power station, you would be better to do it somewhere else and transmit electricity.

915 It is worth mentioning, electricity is a means of transmitting energy from one place to another. There is not a natural electricity supply. It is generated in one location, so electricity is a form of transmitting energy from renewables, gas-fired power stations, nuclear power stations or any other means of electricity generation.

920 **The Chairman:** One more minute, one question, Deputy Queripel.

**Deputy Queripel:** My final question: would the installation of the new cables have an impact on the n - 2 policy?

925 **Mr Bates:** I think in our submission we made it very clear that we believe, as the strategic plan is developed, in terms of both importation and generation, the security of supply policy should be reviewed, probably independently again, to give us some assurance that it is meeting common good practice or common industry practice.

Again, I think, as alluded to earlier, electricity supply to a small island has to be looked at on an individual basis as well.

930 **Deputy Queripel:** Thank you, Mr Bates.

**The Chairman:** Thank you Deputy Queripel.

935 Before I move on to Deputy Le Pelley – or should I call him Deputy Paint? (*Laughter*) – can any of you or all of you, perhaps, answer this question of the panel: is Guernsey unique in its difficulties of ensuring electricity supply?

940 **Mr Bates:** No. Any... either a small community on a large land mass or a small island has very much the same issues, but they do vary and the extent to how those issues affect... So, for example, we are a lot further from the French coast than Jersey and, therefore, there is an issue with the distance. Some off-shore islands are so far away that they cannot consider a cable connection at all.

Obviously, again, our unique tidal position affects shipping into the Island, which is quite unique to Guernsey, but shipping can be difficult for other islands as well. So, the factors are the same. The actual influence it has on how you take that into account in terms of security of supply can be different.

945 **The Chairman:** Does anyone want to add to that?

950 **Mr Beebe:** I just think that many people in the Island, 30 or 40 years ago, were comfortable with the sort of electricity supply we had. I think today the expectation is a lot higher, especially from younger people as well, and our security standards are on a par with the UK or better. We try to maintain that and I think that is what people expect in a safe society.

**The Chairman:** And lastly, before I move to Deputy Le Pelley, why has one option been chosen above the other? (*Mr Bates:* For...?) For security, yes.

955 **Mr Bates:** For the n - 2 security?

**The Chairman:** Yes.

960 **Mr Bates:** Obviously, I cannot comment where the n - 2... It is quite a common policy, and basically we are talking about there is redundancy –

**The Chairman:** Well, not in Jersey, it is not.

965 **Mr Bates:** Oh, well, Jersey have a different policy and that was basically because they had multiple cable connections that they have changed their policy.

I guess, when they decided that, at the time it was about affordability and acceptability of having enough security in the Island – n - 2 / n - 1 / n - 3, they are common policies around the world.

970 **The Chairman:** Thank you.  
Deputy Le Pelley.

**Deputy Le Pelley:** Thank you, sir. Again, my area of questioning is going to focus on value for money, in particular about the funding investment.

975 How are the necessary capital investments funded to support the n - 2 policy?

**Mr Bates:** In the past, Guernsey Electricity operated a save to spend policy. This was a policy whereby some of the profits from each year were retained for future investment.

980 That policy would work if the investment was very flat and did not really change each year. Obviously, save to spend is not appropriate for large scale investment. To try and save an awful lot of money just prior to buying a large piece of equipment is detrimental to the current consumer.

External borrowing – borrowings is a much fairer way, a much more equitable way to finance some of the large infrastructure projects and that is currently how Guernsey Electricity is funding its very large scale projects via a combination of equity and debt.

985 **Deputy Le Pelley:** Who are you hoping to borrow from? From the States or other external...?

**Mr Bates:** No, no, we have external borrowings.

990 **Deputy Le Pelley:** Let me to move onto the cost to consumers. Would you give us an overview of what the sort of prices have been like over the last four or five years?

995 **Mr Bates:** I think what I can say about energy prices over the last decade is they have changed dramatically. A lot of that has been associated with the volatility of the oil price. The oil price in the late 1990s was \$10 a barrel. It peaked in 2008 at over \$150 a barrel. That had a knock-on effect to the other energy markets.

Approximately two thirds of Guernsey Electricity's cost to sales is the cost of the product, the purchased product, and on that basis, if there is enough volatility in those markets, that does flow through to tariffs.

1000 What I can say, under the previous regulatory price control model, the flow-through of those prices did not always align with the change in the wholesale markets, which did cause some confusion in terms of why prices were moving at certain times.

**Deputy Le Pelley:** Right. A bit of crystal ball gazing, but are prices likely to go up or down in the future?

1005 **Mr Bates:** Well, that really is a crystal ball. What we can say, the indications are for the near-term future, which is the next three to five years, is electricity pricing in Europe is fairly stable. Obviously, as Guernsey Electricity, we hedge and forward purchase to protect the position of the customer, to take that volatility out, but every indication is that energy is not going to become any cheaper. This is not just electricity; *energy* is not going to become any cheaper.

1010 **Deputy Le Pelley:** So, would Guernsey Electricity consider an n - 1 policy and, if so, would an n - 1 policy reduce the price of electricity for consumers?

1015 **Mr Bates:** I think a fundamental part of agreeing the future strategic plans is to review security of supply for the Island and n - 1 may be an option as part of that review.

1020 **Mr Le Pelley:** Okay. I move onto the commercial side of it now. Does the Guernsey Electricity Limited recognise private investment and consumption and its use of commercial rate accordingly which reflects these factors?

1025 **Mr Bates:** The Electricity Law allows for all consumers to be connected to electricity. With the Office of Regulation, now called the Guernsey Regulatory and Competition Authority, a set of charging mechanisms was developed for both shallow and semi-deep reinforcement, which is associated with how much the customer would need to pay to be connected, and that varies for every single customer. Different customers pay different amounts depending on the distance from where they might want to take the power and how much power they might like to take.

**Deputy Le Pelley:** Thank you.

1030 The whole of Government is currently undertaking cost-saving measures, whilst Guernsey Electricity Limited has announced a 10% rise in their electricity prices to the consumer. What reasons can you give to justify this price rise?

1035 **Mr Bates:** If I can cover the efficiency question first: Guernsey Electricity is also driven to become more efficient. We are looking at new ways and better ways of doing what we do. So, a 9% rise was not associated with inefficiency. The 9% price rise was only associated with the additional cost of generating electricity – no other factor.

1040 **Deputy Le Pelley:** I would like to move on to power outages, if I may, and perhaps someone else might to jump in as well. What have been the main causes for the outages over the last three years?

**Mr Bates:** If I can cover the two larger ones, then I will ask Mr Beebe to give you the other two.

There have been two significant outages over the last three years. One was in September 2011. There were actually two in one week, one on a Monday and one on a Wednesday, and they were associated with the fact that in the summer in Guernsey, we had 100% importation. We had no local generation running.

1045 There were two faults in the French network in the same week that basically cut the supplies to both Jersey and Guernsey – the advantage with the Channel Islands being, we have got local power stations and within one hour we could restore those supplies. So within an hour, all the supplies were back on to the Island.

1050 The other significant power outage or disruption was in April last year and that was associated with the failure of the subsea cable.

So, in terms of the two major events, they were the ones in September 2011 and April 2012. If I could ask Bob to cover... because, obviously there are more local faults that are associated with both generation and network assets. Maybe Bob, you would like to expand.

1055 **Mr Beebe:** Yes, I think it is interesting that last year, many people remember how many times there were partial supply disruptions across the Island and, yes, we did meet n - 2 last year, but I do not think people want last year's supply security as being like that.

1060 The principal reason was because we did not have a cable link. When there is a problem with an engine, for example, if there is a fuel leak or something that needs to be dealt with immediately, without the cable link, it means that there are going to be supply disruptions at various parts of the Island.

But the n - 2 policy did work. But with the cable interconnector, the cable can take up to 50%, 60%, 80% of whatever the load is at the time on the cable on top and additionally, we can buy energy from Jersey to support that. So, for many years, I think – seven to eight years – in fact, the generation customer minutes lost were actually zero, because engines did fail, but the cable protected us.

1065 On top of last year, we have had a little bit above a normal number of high voltage faults in the Island. I think this year we are so far up to 14. Typically it is about 10 to 11, one a month, and depending on what part of the network that affects, it may mean just a few seconds outage or it could mean half an hour, 20 minutes or a hour, depending.

1070 The reason for those faults are varied. It could be ground conditions; it could be the amount of rain we had over the last 18 months was very high. Sometimes, if there is joint failure after 30 or 40 years, there may be water ingress – that causes failure. Up to 30% of outages this year have been caused by third party damage – people hitting our cables and that is something we are very proactively educating all the contractors in the Island, to be aware of where cables are.

1075 So that all the portfolio of things that can go wrong, whether it is cable failures, cable damage, cable strikes, and if we have not got a cable interconnector, that is more visible to the public.

**Deputy Le Pelley:** Okay. So, how is Guernsey Electricity intending to improve the reliability of the distribution network?

1080 **Mr Bates:** If I could just maybe go to a higher level, this very much comes back to affordability. Now, everyone can have a very secure supply in their house, but they will not be able to afford to use their electricity. I think that is one of the biggest balances... We keep talking about n - 2 and the security level there. When we start getting into how many transformers, how many cables, having bits of plant you have in the street, there is another assessment.

1085 When you are talking about whether people are willing to pay more, that is one area I think they probably are saying, 'Actually, we would like to be back on within an hour, but we are not willing to pay an awful lot more to have three or four cables down the same street to have two connections, for every connection, to our own house.'

1090 **Deputy Le Pelley:** I would like to move on to on-Island generation, if I might. What percentage of electricity is currently being generated on the Island? According to your website, it is 72%. Why is the cable link not being used more?

1095 **Mr Bates:** One of the things that Guernsey very much benefits from was Jersey having two connections to the Island. With that second connection, we were able to import up to 82% annually through the cable.

With only one connection to Jersey and the share of entitlement on that cable, we have been reduced to about 30%, one third, importation – which is one of the drivers for further investment in capacity through Jersey.

1100 **Deputy Le Pelley:** So, does on-Island generation lead to higher electricity prices?

**Mr Bates:** Yes.

1105 **Deputy Le Pelley:** A couple of questions just to finish off, if I may? What currently happens if two or three on-Island generators break down?

**Mr Bates:** Well, obviously the n - 2 allows for two. It depends which two those are and it depends what time of year it is. The worst case scenario would obviously be a very cold evening, when we were

1110 approaching maximum demand. If you get more than two failures, then you could start to see loss of power to some of the Island.

**Deputy Le Pelley:** Thank you. Does the policy have a stronger focus on either domestic or commercial customers?

1115 **Mr Bates:** Sorry, does the...?

**Deputy Le Pelley:** Does your policy have a stronger focus on domestic or commercial customers?

1120 **Mr Bates:** No, our security policies are equitable across all customers.

**Deputy Le Pelley:** And does the interpretation of the policy mean that maximum peak demand must be able to be met 365 days a year?

1125 **Mr Bates:** Yes. There is enough on-Island generation to meet the maximum demand all year.

**Deputy Le Pelley:** Thank you very much. That concludes my questioning, sir.

**The Chairman:** Thank you, Deputy Le Pelley.  
Can you explain why on-Island generation is more expensive?

1130 **Mr Bates:** It is very much down to the wholesale markets. Currently, importation though the cable is – it varies with the time of year, but – between 30% to 50% cheaper than on-Island generation. That is because when you take the oil, you have to put it through an engine and create electricity, the power through the cable just comes straight in. So it is just a consequence of the wholesale cost of the fuel and the  
1135 wholesale cost of importing electricity.

**The Chairman:** Thank you.

Some commercial companies have talked of Guernsey Electricity being engineer led. Are you aware of the criticism? How would you respond to it?

1140 **Mr Bates:** I have been with Guernsey Electricity for three years, just over three years and I have heard the ‘engineering led’ and ‘gold plating’ comments. I would suggest that some of that is because of the consequence of living on an island and the need to make sure that things are appropriate, but I would not say that there has been an over investment in infrastructure. I would say there has been an appropriate level  
1145 of investment in infrastructure and there is actually an appropriate level of resource to support that infrastructure.

**The Chairman:** Anyone else got a comment? Mr Beebe?

1150 **Mr Beebe:** I would agree with that. I guess that, if you are a hospital, it is led by medical specialists and our business is primarily engineering to keep the lights on, but we do look all the time at our business processes and how to deliver the product as efficiently and effectively as possible. I think that we have got more to do there, but we are looking at that and it is all about the bottom line, but it is also about keeping the lights on and that balance of equity between those two factors.

1155 **Mr Beattie:** Can I just interject there?

**The Chairman:** Yes, please do.

1160 **Mr Beattie:** I think it is worth mentioning that the board of the company is set up in such a way that the majority of directors are non-executives and those non-executives are, I would say exclusively, not engineering based.

So, you have got a board which has engineers on it, obviously, at the executive, but the non-executives are drawn from Island life generally and are not engineers.

1165 **The Chairman:** Thank you. Thank you, very much.  
Deputy Ogier.

**Deputy Ogier:** Thank you.

1170 It has not always been more expensive to generate power on-Island. In the past, it has been cheaper to generate on-Island. You must have done some form of pestle analysis, where you gauge the political, economic, environmental, social, technological and legal threads to your policy. What has it thrown up with regard to laying cables? Because, in the past it has been cheaper to generate on-Island and more expensive to bring in via cable. Now that has changed around.

1175

**Mr Bates:** I understand there has only been one point in the last 13 years when it was cheaper – or one year, in the last 13 years – to generate cheaper on the Island. In fact, as we connected the cable to France, through Jersey, the prices were fairly equal.

1180 What I can say is the markets have diverged since that point and there has only been the one point in 2008, when it was actually cheaper – oh no, 2009 – to generate on-Island than it was to import and that was because crude oil went from \$150 down to about \$30, only for a short time, though.

**Deputy Ogier:** Thank you.

1185 **Mr Bates:** And in terms of analysis, obviously we do carry out all sorts of analysis in terms of the threats to those assumptions. We actually use external resources very much to allow us to get a wider view than just maybe that we have within Guernsey Electricity. So we do take a lot of independent advice in terms of where the energy market is going to move.

1190 But I would add that the markets can move for many, many reasons and not just demand and supply, but there can be other political factors that can severely affect the markets.

**Deputy Ogier:** Does your governance structure allow you to take into consideration the expense or otherwise of Island generation versus the cable link? I know historically you had a mandate to provide electricity at the lowest cost. Is that still – ?

1195

**Mr Bates:** We still have a mandate to supply, yes – it is the least cost generation mandate. We are still obliged to supply the Island at the least cost, whether it be on-Island generation or importation.

**Deputy Ogier:** Thank you.

1200 Looking at Objective 1 of the Energy Resource Plan that is to maintain the safety and security of affordable and sustainable energy supplies. How does Guernsey Electricity fulfil that objective?

1205 **Mr Bates:** Obviously, in terms of the security and reliability, we have expressed, we are doing an awful lot of work to understand what is the optimum solution for the Island in terms of importation and generation.

1210 Within that, in terms of sustainability, we take account of the environmental impact of our operations, not just by the running of the power station, but also the sourcing of electricity imported. Also in terms of that sustainability, we do need to understand the supply chain threats that can occur, which is also sustainability, but it will affect the security and reliability.

**Deputy Ogier:** To what degree are you able to factor in environmental considerations when you are picking your source of electricity? If you are mandated to supply at the lowest cost, how can environmental considerations really play a part or do they just align as and when?

1215 **Mr Bates:** Currently we cannot and we believe that is one of the things that needs to come out of the Energy Resource Plan, is more specific direction in terms of the environment.

**Deputy Ogier:** Thank you.

1220 I just want to touch on any issues with pollution or emissions on your generating plant. Are there any emission limits that you have to meet?

**Mr Bates:** We have currently got a mandate to try and use low sulphur fuel oil wherever possible. On the basis that you use that and you run your engines efficiently, you will know your emissions, which is why we can calculate our carbon intensity.

1225 That is the only mandate I am aware of that sets emissions targets is the actual quality of the fuel oil you use.

**Deputy Ogier:** Okay, there are no limits, as such, that you have to meet by Environmental Health or anyone else?

1230

**Mr Bates:** No.

**Deputy Ogier:** No. Thank you.

1235 Has one of your analyses thrown up the possibility that electricity usage may decrease in the long run as we become more efficient? I know historically that increased efficiency does not lead to a reduction in demand.

1240 **Mr Bates:** We have just done a 25-year model to look at options for importation and generation. Obviously within that we have done many sensitivities, a lot to do with the assumptions associated with the cost of fuel and the cost of importing electricity, but some of them were also to do with demand – demand varying from our projected curves going forward.

So, yes, we do understand that there are many things that can affect the demand on the Island: some are efficiencies, some are economic factors, so we do factor those into our analysis.

1245 **Deputy Ogier:** Thank you.

I would like to spend a few minutes on governance now, and your relationship with the States of Guernsey. First, though, you must have a risk register in place. Do you also have a fraud risk register?

1250 **Mr Bates:** We have a risk management system that looks at various aspects of our business and within that, there are risks associated with fraud.

**Deputy Ogier:** Is that that an enterprise risk management system?

1255 **Mr Bates:** It is, yes.

**Deputy Ogier:** Thank you.

Do you consider that your operation is running efficiently, as a business?

1260 **Mr Bates:** I have been with Guernsey Electricity for three years, and I would not like to say we are 100% efficient. We are fairly efficient and we are now striving to become more efficient.

We have to balance that off, though, against the risks of doing those efficiency advantages. An example of that, for example, is when we were importing almost all our electricity, we could have run our power station staff down to almost none. That would have back-fired last year, when we had to then start running the power station full time. So, we had to look at how we can become more efficient, but also more flexible.

1265

**Deputy Ogier:** Do you feel that you have a – ? I know you are in a monopolistic situation, but is there a competitive edge? Do you feel the urge to be competitive and efficient and lean? Where does that drive come from?

1270 **Mr Bates:** Yes. Well, it comes from myself, personally.

**Mr Beattie:** I think it should be noted as well that we are not the only provider of energy on the Island. So, our competitors for central heating, for instance, are the oil and the gas companies. You can have central heating by electricity so we have got competitors there.

1275 So, there is competition to save. We are a monopoly for the provision of light, but not for energy.

**Deputy Ogier:** That's true. Thank you.

1280 With regard to the governance of Guernsey Electricity, where are the governance arrangements laid down? What do you follow? What documents do you follow or company Acts do you follow in order to get your governance?

1285 **Mr Bates:** Well, obviously, we come under the Companies Law, so there is governance associated with that. We have a board of directors comprised of both executive and non-executive directors. We follow all the good practices associated with corporate governance –

**Deputy Ogier:** Is that the UK code of corporate governance?



1290 **Mr Bates:** On that basis, we do have audit and risk committees, and remuneration and nomination committees. We also have, within the company, other governance associated committees. Probably one of the main governance issues is back to the shareholder: we have a memorandum of understanding with our shareholder as well.

1295 **Deputy Ogier:** How does that relationship work, with Treasury and Resources Department? Do you have a board member?

1300 **Mr Bates:** No, there are no board members on the Guernsey Electricity board. It is a States' trading company. We have not got any political representatives on the board. We do have a memorandum of understanding. That requires us to present on an annual basis our strategic plans; on a twice-year basis to present our financial performance. There are also other regular meetings between Treasury and Resources and ourselves, and particularly over the last 18 months, there has been very regular contact between those parties associated with our more distressed position in terms of importation.

**Deputy Ogier:** How regular would regular be?

1305 **Mr Bates:** I would say I phone and speak to Treasury and Resources almost once a week.

**Deputy Ogier:** Thank you.

1310 You mention the remuneration committee. Why is the remuneration of the board of directors not a public matter, as it would be in other commercial entities?

**Mr Beattie:** The requirement to give details of directors' emoluments is a requirement under English law. There is no provision for that under Guernsey law. So, that is an initial statement.

1315 It has not been the policy in the past for civil servants' salaries to be made public and I guess because of our quasi-relationship with the States through our ownership, that philosophy has held true as well.

But, I think, primarily, there is no legal requirement to do so and it would just be gratuitous to do so.

**Mr Bates:** It is worth mentioning the combined remuneration of the directors and non-exec directors are in the annual report, every year.

1320 **The Chairman:** Deputy Ogier.

Mr Beattie, you have just explained what the position *has* been. What is your view?

**Mr Beattie:** On the...?

1325 **The Chairman:** On disclosing emoluments.

1330 **Mr Beattie:** I think in a community such as ours, there would be no great benefit given by it. Individuals are not as anonymous as they are in England, and I can see the benefit that giving detail of someone's income would be outweighed by the negativity of knowing that individual's income.

**The Chairman:** Well, it could be argued that in a population of 77 million, your next door neighbour might read the same newspaper as you, or the same newspaper as discloses the emolument.

1335 **Mr Beattie:** That is true, but it is not going to be... the chances are not going to be as large as living in a population of 60,000.

**The Chairman:** Deputy Ogier.

**Deputy Ogier:** Thank you.

1340 You mentioned you converse with T&R almost on a weekly basis. Are there any other Government bodies that you converse with on a regular basis or Departments?

1345 **Mr Bates:** We work very closely with Commerce and Employment and, in particular, the Renewable Energy Team. We have contact with various other utility companies, whether state or privately owned around the Island and, obviously, their appropriate political boards and, obviously, we have in the past had very close communications with the regulator. That has not been so much over the last 12 months.

**Mr Beebe:** I would also add that we also speak with those in Environmental Health and one of my principal Government contacts would be the Health and Safety Executive.

1350

**Deputy Ogier:** Do you find the roles and the relationships with those various multi-party bodies acceptable, efficient? Are there any changes that you would suggest or do you find that that is a relationship that works well in practice?

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**Mr Bates:** I think there was some, as we highlighted in our submission, accountability/responsibility confusion in the past. We are hoping that can be further clarified as we go forward as we make much larger investments.

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**Deputy Ogier:** Thank you. That concludes my questions.

**The Chairman:** Deputy Le Pelley.

**Deputy Le Pelley:** Thank you, sir.

1365

I would like to come back, if I may, on one section and it is to do with on-Island generation. Is some of the on-Island generation plant at the end of its life?

**Mr Bates:** Yes.

1370

**Deputy Le Pelley:** What contingency/replacement plans are in place and how will this be funded?

**Mr Bates:** That falls into asset management and asset replacement. We are just installing a new generator. That is part to do with security of supply, making sure our security of supply level is correct. It is also, in part, the start of the asset replacement of the older generation requirement on the Island.

1375

The oldest generator is coming up to 35 years old. There was a view at a point in time that that could be extended, but that extension was based on the assumption that it would not run very often, and when I say 'very often', probably only a few hundred hours a year.

With the events of last year, all the on-Island generators had to run thousands and thousands of hours, so we have used the potential longer life of that plant already.

1380

**Deputy Le Pelley:** How reliable is your aging plant?

**Mr Bates:** It is reasonably reliable. There is a thing called a 'bathtub curve' in engineering, which basically says all your troubles will come at the beginning and at the end. If someone could tell me when the end of the bathtub is, I can tell you when those engines will last to.

1385

It is worth mentioning, it is not just the engines. It is, obviously, all the associated plant and equipment to do with the engines – all the cooling systems, chimneys, the switch gear, the equipment to make electricity. They are also very, very old and some of those are almost unreplaceable.

1390

**Deputy Le Pelley:** So, the answer to the next question, can it be run on a continuous basis, is probably not?

**Mr Bates:** It can, but it is then down to, the reliability of that machine would not be what you would expect of a much younger machine.

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**Deputy Le Pelley:** Thank you.

What is the future policy for on-Island generation?

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**Mr Bates:** I think we have just completed our strategic plan. Part of that strategic plan looks at trying to firm up our aspirations in terms of importation. A direct consequence of knowing that will be what the generation strategy will be for the Island.

Obviously, we have a provision at the moment, whereby we can meet maximum demand from on-Island generation. I cannot imagine we will move to something where we cannot meet maximum demand. It is then just how much more we want in terms of redundancy above that.

1405

**Deputy Le Pelley:** Can we ask Mr Beebe, what your view is on this question?

1410 **Mr Beebe:** On the long-term generation strategy? I think, as the Managing Director said, it all depends on what happens in the next few years. If the Island believes that further interconnectors are good and valid for the Island, then I think that the existing philosophy of replacing the large engines with similar large engines going forward might not be the right thing. Perhaps we might want fast-start gas turbine plant in the future. Perhaps we want smaller medium-speed engines.

But I think you cannot get to that viewpoint until you know what the cable infrastructure is going to be in the future – and I alluded to the reliability of the cable infrastructure just earlier.

1415 **Deputy Le Pelley:** What are the life expectancies of the four diesel generators from the 1970s and 1980s that you have got and how much do they cost to maintain at present?

1420 **Mr Beebe:** I think ‘C’ Station is a great station. Those four engines there, commissioned from 1979 onwards and still functioning today, albeit we did not expect them to be running 7,000 or 8,000 hours a year, but maybe just 500 to 700, as the Managing Director said.

1425 This year, for example, on 2C, a 1983-commissioned engine, we had to replace, I think it was six pistons and five cylinder heads – all part of the maintenance programme, and that can go on and go on, but, as the Managing Director said, it is all the other infrastructure around it, all the cabling systems that are 35 years old as well. And the cost of maintenance is more or less £40,000 to £100,000 a year, which is within that window, but it is not what we should be doing.

**The Chairman:** Deputy Le Pelley, thank you. We are going to move to Deputy Ogier.

1430 **Deputy Ogier:** With so many replacements on the engines, is there a danger that they become the electricity ‘broom’, with eight new heads and four new handles?

**Mr Bates:** I do think you need to understand when the useful economic life of an engine is reached, and I would suggest that we are approaching that point with our existing slow speed diesel plant.

1435 **Deputy Ogier:** Thank you.

Could you just explain to me what strategic direction is provided by the Government to Guernsey Electricity and how it is provided? And is any guidance given to you on meeting what can be, at times, alternate views presented in fiscal and economic plans, environmental plans, social plans?

1440 **Mr Bates:** We have heard this morning the term, the ‘energy trilemma’, which balances security, the environment and affordability. That term emanated from the UK a few years ago, from one of the big six chief executives. We also work with that trilemma as well, where we are trying to balance the security aspirations of the Island, certainly the aspiration we have become less environmentally intensive or carbon intensive as an industry, and also how that flows through to the affordability, when there are only 30,000 customers. Obviously, the scale of the Island, the scale of the customer base compared to the scale of the assets we are putting in are quite extreme.

In terms of direction, obviously we have had the 2001 direction in terms of ‘you will put enough generation on the Island to meet maximum demand.’

1450 The reiterated n - 2 policy in 2005 which was based on a review by Mott MacDonald, in terms of security of supply, where they recommended that for our economy and our size, it was a very robust approach to security. The affordability is affected by, it must be lowered not just by investment and what we do in terms of those two factors, but it is also affected by the wholesale markets around the world. So, there is a lot to balance.

1455 We, obviously, within the last 18 months are spending an awful lot of time with Treasury and Resources and the Energy Policy Group, in terms of putting forward our concerns and the factors we think should be considered in determining any policy going forward.

1460 **Deputy Ogier:** That speaks to special events. On regularity, on a regular basis, what sort of direction is given to GEL or is there really little direction with regard to the strategy of the States of Guernsey?

1465 **Mr Bates:** The last direction in terms of policy was the Energy Resource Plan. We actually present our strategic plan to Treasury and Resources on an annual basis, and we get feedback on that strategic plan at that point as well. So, we get some direct input into our strategic planning and, obviously, in terms of policy, we end up with various directions, the last being the Energy Resource Plan.

**The Chairman:** Thank you, Deputy Ogier.

How does Guernsey Electricity propose to meet the additional megawattage required for new developments such as the Guernsey Data Park?

1470 **Mr Bates:** I think one of the things we have done in our long-term planning is we have tried to factor out very large influences such as tens of megawatt additional loads in a very short timescale. However, we do look at that on an individual basis and look at what the impact might be, in terms of what additional infrastructure would be required, and what affect that may have on the existing structure. So, we have been working with developers in understanding what would be required to do and, as much as there may be disadvantages, there can also be advantages – by the Island having more consumption, that can actually lower the price to everyone else as well, because the fixed costs would be spread across far more units.

**The Chairman:** Thank you.

1480 Guernsey Electricity, at present, are a commercial monopoly. What are the prospects for a genuine liberalisation of the electricity supply market in Guernsey?

**Mr Bates:** Currently, there is only one licence issued to Guernsey Electricity in terms of conveyance and supply. The generation market, currently, is open to competition.

1485 In terms of would competition or a liberalised market create lower electricity prices, I think with such a small customer base, that may be difficult, because the cost of investment is so high.

**The Chairman:** Well, now, you were not here for the opening remarks, although hopefully, you were given the piece of paper. Is there anything else you would like to add, before I close this session?

1490 **Mr Bates:** I think the only thing we have not clarified is the n - 2 policy. In terms of a policy, it was about keeping the lights on and about supplying the maximum demand in the Island. We have actually achieved that. The n - 2 policy has served the Island very well in the past.

1495 However, it did not take account of affordability. It did not take account of environmental impacts and it did not take account of network reliability. We believe that any revision to security of supply for the Island should take account of those factors.

Also, electricity cannot be looked at in isolation. Electricity is part of the energy market for Guernsey and in terms of heating, represents only about a quarter of that market or less. The larger part of that market is oil, so I think to look electricity in terms of security on its own is wrong. In terms of energy security you need to look at the whole market.

1500 **The Chairman:** Thank you very much.

Again, the panel will retire and you vacate the seats and the next witnesses arrive.  
Thank you very much.

1505 *The Committee adjourned at 10.51 a.m.  
and resumed its sitting at 2.55 p.m.*

**EVIDENCE OF  
Deputy Kevin Stewart, Minister; Mr Jason Moriarty, Chief Officer; and  
Mr Steve Morris, Energy Policy Advisor,  
Commerce and Employment Department**

**The Chairman (Alderney Representative P Arditti):** Good afternoon. Good afternoon, Minister. Thank you for coming, and welcome back – you could not stay away!

1510 **Mr Steve Morris:** Absolutely not.

**The Chairman:** Could I ask Deputy Paint if he would ask his questions, please.

1515 **Deputy Paint:** Good afternoon gentlemen  
What is understood to be Guernsey's security of electricity supply policy?

**Deputy Stewart:** The policy? Well, the policy really comes from two Billets, one in 2001 and one in 2005. I could probably refer you to them. The Resolution from 2001, the key wording from that is:

1520 'However electricity services are provided in future, they are to be provided within a policy retaining sufficient on-Island generating plant to meet the total long-term demand to cover for the possibility of interruption or unavailability of power from the cable link to France.'

And the second Resolution which comes from 2005 confirms a States' commitment to, and I quote:

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'The existing policy of retaining sufficient sources of electricity to meet requirements in any circumstances where two such sources (on-Island generators on the CIEG cable link to France) were unavailable at the same time (the n - 2 policy).'

**Deputy Paint:** Has it been successful over this period of time?

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**Deputy Stewart:** I think it has been extremely successful.

**The Chairman:** Deputy Paint.

Can you elaborate on that? In what respect do you feel it has been...?

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**Deputy Stewart:** Well, I think when the EDF1 cable had problems and subsequently we lost that cable, which is the old oil-filled cable, and we then had to revert to on-Island generation, we had more than enough capacity to cover the winter peak demand, which is set at 85 kilowatts. So, we kept the lights going, we kept the fires burning, so clearly the policy that was in place was adequate to cope with that problem that we had back in 2012.

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**The Chairman:** Thank you.

Deputy Paint.

1545

**Deputy Paint:** Does the States of Guernsey have any other policies in place to assist with the security of the electricity supply?

**Deputy Stewart:** Well, the n - 2 is the key policy. C&E has key strategic responsibility for ensuring security of supply through, one, our membership of the Energy Policy Group and also through the C&E Board, but, at the moment, the n - 2 policy is the main policy that we work to.

1550

**Deputy Paint:** Does the Commerce and Employment Department play any part in determining or approving the routes of the subsea cables? Does it have plans of the seabed?

1555

**Deputy Stewart:** One, where the cables go is clearly something that is a matter for GEL in terms of determining where those cables go.

In terms of the seabed, through our work with RET, the Renewable Energy Team, we are looking, and are talking to the UK Government now about getting rights to put the seabed out to 12 miles, either ownership rights or rights in perpetuity, which will enable us to develop renewable energy, and so we are hoping that we will get towards that by 2015 at the moment.

1560

**The Chairman:** Mr Moriarty, if you wish to answer a question or, indeed Mr Morris –

**Deputy Stewart:** No, he is just getting excited, sitting next to me... [Inaudible]

1565

**The Chairman:** You have a choice; you can either have your Minister answer the question, another point, or by all means answer for yourself.

**Mr Moriarty:** Just for the purposes, just to explain that on an on-going basis, GEL and T&R engage with the Energy Policy Group and the senior board on a regular basis and, if there are any strategic developments, then they would bring those to the C&E board and to engage with and around the views and explain how the options that are readily available.

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**Deputy Stewart:** I think it is fair to say that we have got an excellent working relationship, both at Minister level and at Board level with T&R, who we also liaise with on a regular basis.

1575

**Deputy Paint:** What consultation takes place with the shipping and fishing industries in respect of planning the cable routes?

1580 **Deputy Stewart:** I cannot answer that question. I think that would probably be a question for GEL. That is a much more technical level for me, unless Steve here wants to jump in.

1585 **Mr Morris:** I think that emerged in this morning's discussions. It is really a matter for GEL and there is extensive discussion between the company and particularly fishing interests, but also commercial shipping interests in defining the route of any cable.

1590 **Deputy Stewart:** I think the only thing I could possibly add that might be helpful to that is, of course, planning permission, particularly if you are looking at landing a cable in France: it is where the French also might give you planning permission to actually land that cable on their foreshore.

**The Chairman:** Deputy Paint.

1595 Just, Mr Morris identified, perhaps, an important point. Mr Morris is appearing twice before us and will find that some of the questions are similar to the questions that were asked this morning. There is a reason for it. We are very much addressing our questions now to Commerce and Employment, whereas this morning we were addressing our questions to the Policy Council, in case that helps.

Deputy Paint.

1600 **Deputy Paint:** I think you have partially answered the next question which is, does the Commerce and Employment Department liaise with the French Government over the subsea cable routes?

1605 **Deputy Stewart:** Well, again, on the subsea routes, that is more a matter for GEL. However, we do have considerable engagement with Le Prefet and his Department, and we have had several meetings with them on renewable energy and certainly I am sure we will be talking to them when we understand from GEL, at a political level, where they might need to land some cable. But at the moment we are not talking directly to them about that.

**Deputy Paint:** Are GEL cable link proposals in accordance with the existing policy, such as we are not restricting to the n - 2 policy or do proposals form part of any new policy direction?

1610 **Deputy Stewart:** Well, where we are in terms of... as you know, I spoke about the States' Resolutions from 2001 and 2005. The Energy Policy Group will be bringing a report to the States in early 2014. We already have an early draft of that as a Policy Group, and that will bring some detail to the States for them to make further decisions on what policies are appropriate going forward.

1615 **Deputy Paint:** I have no further questions.

**The Chairman:** Thank you, Deputy Paint.  
Can I turn now to Deputy Queripel.

1620 **Deputy Queripel:** Thank you, Mr Chairman.  
Minister, in your opinion, is Guernsey's current security of electricity supply policy adequate?

**Deputy Stewart:** Yes.

1625 **The Chairman:** Again, can I ask you to –

**Deputy Stewart:** Again, yes. *(Laughter)*

**The Chairman:** – expand a little?

1630 **Deputy Stewart:** First of all, we are an island. We know that cable links can be broken, either they can have a fault, which is what I understand that our cable link with Jersey was, and of course, as we saw with EDF1, that was also a fault there as well. So we had basically one cable, I think was kinked, and the second one where it was just old and the oil leaked out of it. What that demonstrated in 2012 was that we did have enough capacity to be able to pick that up.

1635 But, what I would remind you is that the n - 2 policy does not include the 16 megawatts, and that is the figure we work on, because although we could draw as much as 55 megawatts with that cable link that we have at the moment, 16 is what we are contracted for. So, Jersey can turn that wick up and down. They

1640 cannot turn it down any lower than 16 and, therefore, as it is not one of the two highest, it is not actually included in the n - 2 policy, which basically refers to just the on-Island generation.

I think, basically, what you are looking at with the n - 2 is a figure of 131.9 megawatts, if you add up all of both the slow and medium diesels and, if you like, what I call the jet engines, and then if you take away the two Thomassen which both generate 19.5 megawatts each, that then gives you a figure of 108.9 megawatts. So, we have got a fair bit of headroom on that 85.

1645

**The Chairman:** Deputy Queripel.  
Minister, are you happy with that arrangement?

1650 **Deputy Stewart:** I am very happy at the moment. I think, certainly, in respect to not only domestic supplies, but I can remember times when we did have, years ago, fairly frequent power cuts in Guernsey and, if you now look at the figures, we are very low, very much on a par, not much above the UK and, certainly, in fact, slightly less than Jersey who, I think, found themselves in much more difficulty than we did when the EDF cable broke.

1655 **The Chairman:** My question was more directed to that part of the arrangement whereby Jersey can turn the wick up and down.

1660 **Deputy Stewart:** Well, that is a commercial arrangement and that was the contract that was at the time. So, if there was a new cable, which I believe is planned, to be put between Guernsey and Jersey, than that would then probably give us a lot more capacity and at that point we could then start revisiting whether you think n - 2 is appropriate or n - 1 policy and that would a matter for the States to decide upon.

**The Chairman:** Right.  
Did you want to add something? Deputy Queripel.

1665

**Deputy Queripel:** Thank you, Mr Chairman.  
Second question, Minster, can you tell me, please, who monitors that n - 2 is still the most appropriate policy for Guernsey?

1670 **Deputy Stewart:** Well, it is the States of Guernsey.  
As I said, there have been two reports: 2001 and 2005, and there will be a further report brought by the Energy Policy Group to the States early in 2014, but that has been the policy since 2001.  
If you are also asking who else is involved, obviously CICRA is involved as well, to some degree.

1675 **Deputy Queripel:** Okay. Thank you.  
Next question: what plans are in place for the security of electricity over the longer term looking 15 to 20 years ahead?

1680 **Deputy Stewart:** Longer term, over the next couple of years, you are looking at EDF1 is going to be overlaid by Normandie 1. We going to have another cable, Normandie 3 I think it is, that will be a new cable between Jersey and the mainland. I think I am correct in saying that. You are then looking at another cable laid between Jersey and Guernsey. Also, remembering that Jersey have also improved their on-Island infrastructure as well, and then there is the possibility of also looking at a direct Guernsey/France cable as well.

1685 Other opportunities may present themselves. For example, discussions that I have had with Baroness Verma at DECC in the UK, in terms of partnering someone for renewable energy. So if we were looking at, for example, renewable energy on the Shoal Bank, which might generate 100 megawatts, clearly that is more than we need, and we would need a partner in that. Now, we could look at the UK or we could look at France, and that might then also give you an opportunity for additional connectivity either to France or to the UK.

1690 So although some things are reasonably certain, in terms of the Normandie cables and another cable here, there may be other opportunities that present themselves over the next few years.

**Deputy Queripel:** Thank you.

1695 Could you tell me, how does the Commerce and Employment Department ensure that the long-term plan is adequate in relation to data parks?

1700 **Deputy Stewart:** Basically a data park is an empty shell. So, when you build a data park, you do not suddenly switch it on and suck 40 megawatts of power out of the grid. The data park is basically, if you go inside the data park, you will see lots and lots of individual cages. Within those individual cages are servers and those servers are all individual clients who rent a cage in a data park. So, you will never get a sudden big surge. It will be a gradual increase as the business develops.

1705 The other thing to remember is that a data park, by its very business model – if you own a data park, you have to be energy efficient – it is a very competitive market for data. So, your whole business model is based around being hugely energy efficient. Now, if we do not use data parks, what you will get is energy creep anyway, in my opinion, which is all the little servers that we have in broom cupboards around the States and in people's offices are using, probably, standard air conditioners, are not running at very high energy efficiency levels, so actually it is in the interest, in my personal belief, that data parks are an extremely good way forward to be energy efficient, rather than... I venture to suggest if you go into even some of the racks units that the States have where they have servers, that you will probably find standard air conditioners, not particularly efficient.

1710 So, one, you will get energy creep anyway and inefficient use of space, and putting it into a data park means that you will get efficiencies; and then, going forward also in a data park, we are going to start looking at the manufacturers of hard drives. Again, their business model revolves around those hard drives being hugely energy efficient, and you are not far away from being able to store energy at a molecular level. So probably in five or ten years' time you will be using products, there will be products which are being developed in Manchester initially and then around the world such as graphing, where you start storing data at a molecular level, which basically uses very little or tiny amounts of energy.

1715 So, it is a little bit like any other industry. Their whole business model is based around efficiency. So, frankly, I do not share people's fears that you are going to have these huge data parks which are going to be sucking tonnes and tonnes of energy. However, if there is an increased use in supply, then that may be that we can pass on efficiencies to consumers.

1720 I think my Chief Officer is just pointing out, if I am not waffling on enough, that I can actually just say that we did actually bring into the States, as you may remember in September 2013, the special agreements under the Electricity (Guernsey) Law. Under that Law, Guernsey Electricity does have a general duty to supply electricity, but it is not obliged to provide a supply if it is prevented from doing so by circumstances not reasonably within its control, and the purpose of that States' report was to give Guernsey Electricity guidance on what specific considerations it needs to take into account when considering its obligation to supply large scale customers such as data centres.

1725  
1730 **The Chairman:** Thank you.  
Deputy Queripel.

1735 **Deputy Queripel:** Thank you, Minister.  
Next question, what provision would be made for infrastructure for energy exports when new cables are laid?

**Deputy Stewart:** Sorry, for energy...?

1740 **Deputy Queripel:** Exports.

**Deputy Stewart:** Well, it is very unlikely we will be exporting energy from Guernsey to anywhere else, unless it is through renewable energy.

1745 So, those are the discussions that we have had both with France on more than several occasions our RET team has met with teams in France, and also meetings that I have had and my team have had, the RET team have had, with DECC in the UK.

1750 Obviously, if we were to build a wind farm, it would be more power than we need, and therefore, we would need to export that, and that would be part of whatever commercial arrangements were done as part of the business case for that, whether it was a wind farm or, maybe, somewhere in the future, tidal, for example.

**Mr Morris:** Can I just assist the committee with that one...?

**The Chairman:** Thank you.



1755 **Mr Morris:** There are technical issues concerning the export of electricity into the French network. We actually have to make sure that France network is happy, technically, to receive it. There are also commercial issues surrounding such export, but neither or those two would necessarily be considerable. It is something which if the Island had the capacity to export; I think we are all thinking that in terms of, perhaps, renewable developments, then that is something which could be arranged. But you would have to get the necessary commercial and technical approvals for it to happen and you might have to modify some of the technical equipment to allow it to happen.

1760 **The Chairman:** Thank you.  
One last question, Deputy Queripel.

1765 **Deputy Queripel:** Yes, thank you, Mr Chairman.  
Minister, has the Commerce and Employment Department considered the potential impact of the suggested 1,000 years of gas supply reserves located in the UK – as yet, an untapped resource on electricity supply for Guernsey?

1770 **Deputy Stewart:** Sorry, I cannot quite hear your question, as you are talking downwards, sorry.

**Deputy Queripel:** Okay. Has the Commerce and Employment Department considered the potential impact or the suggested potential 1,000 years of gas supply located in the UK recently?

1775 **Deputy Stewart:** In what respect?

**Deputy Queripel:** For the electricity supply in the future for Guernsey. In competition, the impact of the 1,000 years gas recently discovered in the UK.

1780 **Deputy Stewart:** In terms of whether we could import gas from the UK, for example, is that your question?

**The Chairman:** Well, that is one possibility. Has your Department considered, in any way, the impact that the products of this new fracking might have upon the matters we are discussing at the moment?

1785 **Deputy Stewart:** Well, there may well be.  
Fracking is in its very early stages and I have heard stories of trillions of cubic metres of the stuff under Morecambe Bay, or wherever it is, which made Blackpool have an earthquake or something, I think. But, clearly if that was to produce *very* cheap gas, and the UK... and, I think, to look at putting a pipeline in could be an option at some point in the future.

1790 I think one of the advantages of having a team at RET is we are very alive to all the developments that are going on, not just in the UK, but across Europe, and we do have, through External Relations Group, I have regular meetings with DECC, other Ministers in the UK, politicians, many of whom have an energy mandate and, in fact, two MPs that I work closely with: Alun Cairns MP, from Wales, and I am just trying to think of the other chap's name – he is going to kill me for not remembering it, and it is on *Hansard*, (*Laughter*) but two of them are now part of David Cameron's policy group and I meet with those MPs two or three times a year.

1800 **The Chairman:** Thank you.

**Deputy Stewart:** I will try and remember the name for you.

1805 **The Chairman:** If at any stage, if any of the three of you remember the name, let us get it into *Hansard*.

**Mr Morris:** Can I just add something to that?  
There is a distinct diversity of opinion as to whether fracking is going to genuinely increase the supply within Europe and change the pricing structures. There are those who are strongly in favour, and there have been some fairly wild suggestions as to what it might do to the price of gas, and conversely there are a large number of people who are opposed because they are worried about the consequences of fracking. And I think, at the moment it is very much an open question as to whether it will change the energy environment within Europe.

1815 People look to the USA and they say it has had significant effect on prices in the USA, but the one thing that they have in the USA which we do not have in Europe is a lot of unoccupied land, and that is the significant difference between the two continents.

At the moment, I think, frankly, the jury is out as to whether fracking will really make a big difference to Europe and conversely, therefore, whether it would make a difference to us here in Guernsey.

1820 **The Chairman:** Thank you for that.

**Deputy Stewart:** I can help you: Jake Berry MP. So both Alun Cairns MP and Jake Berry MP are now part of the Policy Group and their remit is energy, and I have regular meetings with them.

1825 So, I think we have got very good contacts with the UK and very good ones with France, too.

**The Chairman:** Good. Well, thank you, Minister.  
If I could now turn to Deputy Le Pelley.

**Deputy Le Pelley:** Thank you very much indeed, Chairman.

1830 Minister, I am going to be looking, really, at value for money: funding investment, cost to consumers domestic and cost to consumers commercial.

As far as the investment costs are concerned, how are the necessary capital investments funded to support the n - 2 policy?

1835 **Deputy Stewart:** That is more of a question for T&R and for GEL. That is not really a matter for Commerce and Employment, other than those sorts of things will come across the table, probably at the Energy Policy Group. But in terms of putting the business case together and how those are funded, it is really a matter for Treasury and Resources, so you would probably need to direct that question to them.

1840 **Deputy Le Pelley:** I certainly will. Thank you.  
Cost to consumers. Price rises due to on-Island generation, are these long term?

**Deputy Stewart:** Again, the pricing is managed at the moment, through CICRA, and there will be considerable investment needed, I think that is apparent to everyone, in terms of cabling.

1845 Now, how Guernsey Electricity and CICRA and T&R will work together, T&R as shareholder, CICRA as the regulator, GEL as the supplier, that is, again, more of a question for them, though I know that the very close way that we do work, certainly Commerce and Employment would be consulted.

1850 My personal view is that it would be better, rather than the prices going up and down, to probably have some sort of smoothing. I can see a point where prices might drop, when the Normandie 1 cable is put back in and we may be able to draw – although we say that cable is 16 – if we are able to draw up to 40 or 50 megawatts off that, then that could reduce the price.

1855 I think it could send a very confusing message to consumers, in my own view, if the price zooms up and down. So, I think, in fairness, although the price hike of 9% was I think a shock to some people, when you actually look at our domestic tariff in context with other European countries, for example, Denmark, you are somewhere over 25 pence for a kilowatt hour, and in Germany just well over 20 pence per kilowatt hour. We are much cheaper than Belgium, we are cheaper than, I believe, the Netherlands, cheaper than Spain and Portugal. So, we are slightly more expensive than Jersey, and the reason for that is Jersey gets more of its power from France; it has less on-Island generating capacity. But, even if you were to drop one of the main... if you went to an n - 1, I think the figures that I have seen show that the drop in price would  
1860 only be about 0.6 of a percent, if I am right.

So, where we fit in Europe – yes, there are some cheaper, but we tend to sit in about the middle, to be honest, at the moment with our pricing.

**Deputy Le Pelley:** Thank you.

1865 My next question was going to be, would an n - 1 policy reduce the price? You have just answered that. Is the Government considering a move to n - 1 in order to reduce electricity prices for consumers?

1870 **Deputy Stewart:** Well, again, I think that is something that is for the States to decide, as they did back in the reports back in 2001 and 2005. We will, as I have said, be bringing a report early in 2014, and that will... I think, if we were to move from the n - 2 policy, we would have to be certain that we really did have security of supply, because that is what people have come to expect – both domestic users and industry – and it is vital for the reputation of this Island as a modern, democratic society that the lights stay on.

**Deputy Le Pelley:** Thank you.

1875

**The Chairman:** Deputy Le Pelley, five minutes.

**Deputy Le Pelley:** Thank you.

1880

I would like to move onto the commercial section, if I may. Does Commerce and Employment have a view on whether the Guernsey Electricity Limited should recognise private investment and consumption and introduce a commercial rate accordingly which reflects these factors?

**Deputy Stewart:** I think, again, that is more for the shareholder and more of a question for Guernsey Electricity.

1885

I have not had any... when we did all of our work, which will soon be published in our Economic Development Strategy, I think the reliability of supply was more of a concern than the actual cost. If you want to... Different governments have different policies, and I think we listen to industry at C&E. If there was a move from industry to get, if you like, better commercial tariffs, I think, again, that is something that we would possibly bring to the States, if we felt there was demand for that.

1890

Certainly, if you look at countries like France, if you are a big motor manufacturer and a *massive* user of energy, I think you would sort of get it for 'fluppence' with the French Government's policy.

But, yes, there is no reason why we cannot look at varying policy. But at the moment, I am not aware of any major dissatisfaction with the current pricing policies.

1895

**Deputy Le Pelley:** Does Commerce and Employment have a view on whether thought should be given to working with larger customers and using their back-up generation during the few maximum peaked demand periods during the year, in return for lower charges? Would you support that?

1900

**Deputy Stewart:** I think that is a good idea. I am not sure how many of ...certainly, if you are referring to the data park and areas like that when it is built, yes, it may well be an option, and it would be in everyone's interest if that actually was something that was able to be agreed.

1905

My general feeling is that a lot of industry here, because of the size of office space, because of the lack of land, a lot of companies that would perhaps secure in the UK might have back-up generators, perhaps do not have their own backup generators just because of the scarcity of land and with the availability of a suitable place to store your generators.

**Deputy Le Pelley:** So do you believe that Government has role in setting the price of electricity to ensure that Guernsey remains competitive in relation to other jurisdictions?

1910

**Deputy Stewart:** Well, at the moment, that price is managed through CICRA.

1915

I think, and it is in the public domain, that Treasury and Resources and C&E have also been looking at whether CICRA is giving value for money in terms of its regulation of Guernsey Electricity. Is the cost of regulation, which, of course, has to be borne by the consumer, is that appropriate? What sort of regulation should we be having? So these are things that Treasury and Resources and C&E have been working on to get the right level of regulation, proportionate regulation and are we getting value for money? Is the cost of regulation... is the burden of that regulation appropriate? So, I think we do try and look at every area.

**Deputy Le Pelley:** You have been very clever there, because that is my next question – which you have actually asked yourself. Would you like to answer it? (*Laughter*)

1920

And are CICRA in your view effectively regulating the current price of electricity?

1925

**Deputy Stewart:** I do not think I have reached a view on that yet. That work with Treasury and Resources and Commerce and Employment is on-going. We have had several meetings at political officer level and also with CICRA, and that also relates to GEL as well, looking at both Guernsey Electricity and GPL and so, yes, it is important that the cost of regulation is borne by the consumer and we want that regulation to be proportionate and balanced, and so I think it is right and proper that we are looking at that at the moment.

1930

**Deputy Le Pelley:** So, what, in your opinion, is the role of the regulator in the context of major investments in the infrastructure?

**Deputy Stewart:** Is the...?

1935 **Deputy Le Pelley:** What is the role of the regulator in the context of major investments in the infrastructure?

1940 **Deputy Stewart:** Well, very little input from the regulator on that, because, in many ways – I am trying to remember my history – but there was a policy, ‘save to spend’ in the past which clearly, with the amount of investment, we would be saving for an extremely long time, and that policy now is not in place by the regulator.

1945 I think it is the responsibility of Government, frankly, to ensure that we have strategically a resilient supply of electricity. Regulators regulate. I do not think regulators... They might have a view on whether our policies are appropriate or not, but we make the policy. I think there is a huge amount of investment that needs to be looked at, going forward with the numerous cables and options. I think, really, the role of the regulator, at a time when we are going through so many changes, is actually quite a difficult one for them.

**Deputy Le Pelley:** Okay, my very last question...

1950 **The Chairman:** Deputy Le Pelley, just before you do that...

I think the point that the panel was trying to drill down to with Deputy Le Pelley’s question was that, if you borrow to invest and need to recoup that investment through charges to the customer, does CICRA get in the way?

1955 **Deputy Stewart:** I am not aware they do at the moment.

I think, perhaps, in my opinion, I am led to understand that I believe they have in the past.

**The Chairman:** And is that a matter that the Commerce and Employment have considered?

1960 **Deputy Stewart:** I certainly would not want CICRA interfering in the investment policy when it is so strategic for this Island, at this current moment. And therefore, my own view is that I do not think it is appropriate that CICRA are involved in those capital decisions. I think that is a matter for the shareholder and GEL, to look at the most appropriate way and cost effective way of funding what will be a huge capital investment over the coming six years, I guess, over the next few years.

1965 **The Chairman:** Deputy Le Pelley.

**Deputy Le Pelley:** My very last question, sir.

1970 Is French nuclear power preferred over on-Island electricity generation in the long term and why? And, bearing in mind in your answer, could you also talk about the financial and environmental considerations that you have taken to.

1975 **Deputy Stewart:** If you import electricity, it is going to be cheaper. There is no question about that, at this moment in time. Though the French have no real strategic... because of the way their system works of governance, there is no strategic view over their supply, strangely enough, I read – he did not correct me so I must be right!

**The Chairman:** He will have an opportunity to do so in a minute. *(Laughter)*

1980 **Deputy Stewart:** In terms of nuclear power, obviously, that is carbon neutral, though a lot of people do not like it, for whatever reasons. I think that it does give us a chance to import renewable energy, as well. You will be aware of all the wind farms that have got along the Normandy and Brittany coast now, and their massive commitment to renewable energy.

1985 In terms of, obviously, if we are importing more power, nuclear, renewable or whatever, from France or England for that matter, that it will reduce our own carbon footprint, because we will not be generating diesel, but no matter how many cables we have, it will be a matter for the States to decide how much on-Island generation capacity we want to keep. As those cables connect, so we might get a bit more comfortable, but I think a mixed on-Island and import is going to be a model for quite a few years yet, and, as we saw, two cables failed. Two separate cables failed in 2012, which gave us the huge difficulties, but  
1990 fortunately, we were able to cope with them under the current policy.

**The Chairman:** Is there any aspect that Mr Morris wishes to disagree with?

**Mr Morris:** No, fortunately, there is not!

1995 But I would just like to make the point that you might regard the Islands, both Jersey and Guernsey as being rather fortunate, inasmuch as that we are not having to choose between a low cost supply and an environmentally sensitive supply. We might well be having to make that choice, but actually, because of our situation relatively close to Europe, we are able to choose a supply, an imported supply, which fits both of those two characteristics, so I think that is a position which...

2000 That is geography, if you like. And I know that there are many other European islands who are very envious of that position – because they cannot get access to a grid network because they are too far away. The Azores comes to mind particularly. They cannot even lay cables between the islands in the Azores because the water depths are so enormous. And so that is a matter of our good fortune, if you like, and that reinforces the Minister's answer that importation is likely to be, in the long term, part of the Island's future. It does not mean it is the only part of our generation ability and it does not mean that we will not be using renewable resources in the future. It just means that it is a long-term part of our strategy.

**Deputy Stewart:** I think the other important thing to remember, with cabling, is also some of the capital costs can be mitigated by having fibre inside that and so clearly you can see how, actually, with that connectivity, some of the costs could be defrayed by also leasing out neutrally to whatever telco operator wanted to use it in the future.

I think it is important that the States retains control of any future fibre that connects with France or England, that then can be leased out on a neutral basis to any one of a hundred telco operators who will transmit data around the world, so that will help to defray the cost of the capital investment.

2015 **The Chairman:** Thank you. I think that concludes your questions, Deputy Le Pelley.

Before I pass on to Deputy Ogier, could I ask you this – does Commerce and Employment consider that its ability to attract new information and communication technology businesses to the Island is constrained by Guernsey Electricity's generating and distribution capacity?

2020 **Deputy Stewart:** No, not all.

We have proved that we have got a really resilient supply, with a loss of minutes to consumers in recent times. It is actually nearly as good as, for example, you would expect on mainland UK or France. And, actually, it is not something... I think more difficult is our cost of internet connectivity as opposed to the energy supply. Generally, I would say there is a higher level of satisfaction and, certainly, it is not an issue, and I know of a couple of major companies that are moving here over the next couple of months and they have moved, one from the UK, and one from mainland Europe – both of whom are quite content with the resilience of supply.

2030 **The Chairman:** And in terms of attracting industry to Guernsey, is it price of electricity or reliability of supply that matters the most?

**Deputy Stewart:** It is always a matter for individual companies in terms of... but I do not think that the cost of our electricity... As I mentioned earlier, it is actually cheaper than Germany and various other countries, so I do not think that is a major factor.

**The Chairman:** Which one?

2040 **Deputy Stewart:** Well, I think the resilience is accepted, the price is not disputed.

**The Chairman:** Thank you.

**Deputy Ogier:** Thank you.

2045 You mentioned, during the course of your answers, that the n - 2 policy does not currently include the 16 megawatts from the cable, as we have generation capacity larger than that on-Island. If we were to move to a situation where we would be relying more on the cable, maybe there is a number of cables with quite large capacity that would bring it into the n - 2 policy. How would you envisage that policy going forward, if we had to rely on a few large cables, the loss of two of which might cause a problem?

2050 **Deputy Stewart:** I think, again, that is a matter that would have to be considered very carefully and I think it would be a matter that would be brought to the States. I think the report that will be coming from the Energy Policy Group in 2014 will give the States a clear sense of direction of our energy policies that we feel are appropriate for the near future.

2055 What we are in, really, is a period of change. We are in a period where we understand that we have to be good international neighbours and be aware of our own carbon footprint, and therefore on-Island generation with stuffing sulphur, diesel or carbon monoxide and killing half the birds round St Sampson's is perhaps not the best way forward, and being able to use greener – and I include in green nuclear energy which is low carbon, but a lot of people may not think it is green – but being able to tap into the European grid, is clearly a sensible way forward for us in Guernsey and our own renewable energy policy. If the technology  
2060 for tidal power, wave power comes forward, we could be, as Deputy Queripel questioned me, maybe an exporter in ten years' time.

But these technologies are not certain yet. So, we will have, I believe, over the next ten years, we are going to have to be quite adaptable. We are and have done a huge amount of research. We have and are engaging with both France and the UK. I think our information network on renewables and energy is very  
2065 good and I think we will just have to bring things to the States as they become certain, and vary our policy as we feel appropriate.

**Deputy Ogier:** Thank you.

2070 You mentioned energy policy in there. The first objective of the energy policy is to maintain the safety and security of affordable and sustainable energy supplies. How is this achieved and maintained?

**Deputy Stewart:** Well, that is achieved through the n - 2 policy. So, I think we have demonstrated or Guernsey Electricity have demonstrated that it is affordable and the n - 2 has given us resilience. I think those are the two resolutions from 2001 and 2005 that we work to currently. Now, to change that policy  
2075 would be a matter for the States.

**Deputy Ogier:** That is actually the objective of one of the energy resource plan. How does Commerce and Employment fit into that? What is your role in maintaining the security and affordable and sustainable energy supplies?  
2080

**Deputy Stewart:** Well, if I can just refer back...

**Deputy Ogier:** What does Commerce and Employment do?

2085 **Deputy Stewart:** Well, we are basically... I am a member of the Energy Policy Group, so though the Energy Policy Group, through our own work with CICRA, with the regulator, and also with our discussions with the shareholder, T&R, and also, from time to time, discussions with Guernsey Electricity. So, I think our role in that is reasonably clear.

I think also our further role is to develop renewable energy where we have that team working through  
2090 both research, securing the seabed for future ventures, so I think our role is quite widespread.

**Deputy Ogier:** Does the Commerce and Employment Department communicate directly with Guernsey Electricity or do all communications go through T&R?

2095 **Deputy Stewart:** We communicate directly, sometimes with Guernsey Electricity. We communicate with T&R. In fact, actually, I believe we are extremely well networked up. I think also the relationship that I have with the Minister of T&R, which is one where we work extremely closely together on all the projects, does also help with that too.

2100 **Deputy Ogier:** Okay, thank you.

Because there are three Departments of the States with responsibility in this area, which are T&R, yourselves and the Policy Council, how is the relationship between those three entities maintained? How does it work in practice?

2105 **Deputy Stewart:** In practice, we have joint Board meetings with T&R. We had one just a month ago. Obviously, through the regular Energy Policy Group meetings, which both the Minister of T&R and I sit on.

2110 Less formally, I probably speak to Deputy St Pier most days, and we will also talk informally. And so I think, in my view, there is very little silo government going on in terms of energy and I think everyone is very focused on making sure that we do develop the right policies, that we keep the right policies in place and at the forefront is the resilience of our supply as well as maintaining a reasonable cost base.

**Deputy Ogier:** Thank you.

2115 Just going back to Objective 1 of the Energy Resource Plan, in it, it mentions sustainable energy supplies. What is your view of sustainable? What would your definition of sustainable be?

*Deputy Stewart:* It is...

2120 **Deputy Ogier:** If you are one of three Departments responsible for ensuring a sustainable supply, how do you ensure that sustainability?

2125 *Deputy Stewart:* I think by having both your on-Island generation and developing the cable links and keeping that mixed flow of electricity, and that is working to the current policies. It is clearly delivering that sustainability.

**Deputy Ogier:** Thank you.

While you are here, perhaps a question for Mr Morris – what is the exact role of the Energy Adviser, please?

2130 *Deputy Stewart:* Do you know, I have often wondered that myself. *(Laughter)*

**Deputy Ogier:** I am not going to ask if we get value for money, but, at the moment, what is the exact role of your position?

2135 *Mr Morris:* It is an interesting question and I hope the answer will be equally interesting.

I am actually employed by Commerce and Employment, so the fact it says Policy Council in there, I actually work for the Policy Council but I work for Commerce and Employment in equal measure. Strangely enough, I have been known to even talk with Treasury and Resources as well. *(Laughter)* It is a role where I am trying to assist the States as a whole to move in the right direction with energy policy.

2140 **Deputy Ogier:** Thank you.

2145 Staying on the Energy Policy Resource Plan for a moment, Objective 2 talks about using energy wisely and efficiently and without waste. I can see, if Mr Morris does his job well, he has already had an impact in Government and the usage of electricity and energy in Government has got markedly better over the last few years. If that trend were to continue into domestic and commercial environments, would you see that, in the future, the demand for electricity may drop?

2150 *Deputy Stewart:* I do not have a crystal ball. I think if I am going to be absolutely honest, I think we do an absolutely rubbish job at telling consumers how they can save energy, and that is something that the Energy Policy Group is looking at very closely at the moment.

If you actually go on to gov.gg, you cannot find any advice about energy whatsoever, and I think that that is something that Energy Policy Group realises, that is something that needs to be put right. I think for people to make the right decisions, they need information.

2155 Having said that, there is a huge amount of information out there, and I think that the States of Guernsey has a wider responsibility to ensure that information is easily available, even if we just had a couple of pages on our own Government website with links to other places where they can get information.

But I have to say that is one area where I think the States of Guernsey actually should lift its game and it is actually an area that Energy Policy Group is now looking at extremely seriously and to see whether there are some resources to actually make sure that people understand how to use their energy wisely.

2160 **Deputy Ogier:** Do you feel that the Energy Resource Plan has been sufficiently resourced?

*Deputy Stewart:* Has been sufficiently...?

2165 **Deputy Ogier:** Resourced.

2170 *Deputy Stewart:* You can always throw more money at things. I think in terms of engagement with general consumers, I think there is more work to be done there. There may need to be some more resources placed at Government's disposal to, perhaps, communicate those messages a lot better than we have done in the past.

**Deputy Ogier:** Thank you.

2175 You mentioned none of us have a crystal ball – that is quite correct. Deputy Queripel’s questions revolved a lot around the possible increase in the availability of cheap gas from the UK and other countries. Nobody really knows what is around the corner. What does Commerce and Employment do to keep abreast of any political changes, economic changes, technological changes, economic changes that might change our plans? We have got some fairly substantial plans here being developed with regard to the supply of electricity over here. What do we do to make sure that any threats or changes in a number of different areas are taken into consideration?

2180 **Deputy Stewart:** I would think there are several threads that we have. You asked Steve Morris what does he do and part of his job is to advise us on policy and part of Steve Morris’s job is to keep abreast of a lot of these things. On top of that we have the work that is done through our Renewable Energy Team and that is quite a diverse group, and through our engagement with the French Government, through our engagement with the UK Government, and also through CICRA as well. So, I think we are basically, in my view, on top of what is happening now. There is, as I mentioned earlier, a huge amount of work, through external relations – I am part of the External Relations Group, so I am constantly meeting MPs and officers in the UK who are part of making UK energy policy. So, those discussions are probably once every six, seven weeks. I would imagine I am back in the UK, on I think it is December 17th and some of those meetings will involve... Well, I am meeting Alun Cairns who is part of the Policy Group for David Cameron now on energy.

**The Chairman:** Deputy Ogier, Mr Morris wanted to add something...

2195 **Mr Morris:** I would just like to go back to the question Deputy Ogier asked a few seconds ago. He very kindly credited me with achievements in reductions in energy consumption in the States. It would be unfair of me to take the credit for that. The reality it is the Strategic Property Group, who Treasury and Resources engaged on that, and in my humble opinion they are doing a rather good job of reducing internal energy consumption. It is an area which I anticipated I might have to become quite active in and I was rather pleased to discover that actually I did not need to be that active.

**Deputy Ogier:** Thank you for that clarification.

2205 **Deputy Stewart:** I think if I may just further answer your question. Whether energy consumption will go up or down is very difficult. What we can say is that appliances – whether it is computers, whether it is washing machines, whether it is fridges – are becoming more and more energy efficient, and in industry as well, it is in everyone’s interest now to be energy efficient and for manufacturers to make energy efficient hardware. So, but then... where we had one television, we have now got three or four and probably a different charger – I do not know how many chargers I have got! But, I think people, and through technology, they will become more efficient. So, that is why I made the point about, I think actually as Government we need to educate consumers more on how they can better use their energy.

**The Chairman:** Thank you, Minister, you have made that point. We are short of time. So, Deputy Ogier, if you would like to...

2215 **Deputy Ogier:** Mr Morris has been in front of us twice – there is a law for that, isn’t there? There is a law for the lack of return you get, the more efficient you become and I am surprised you have not illuminated the room (*Laughter*) in the two hours that you have been here, as to what that is called.

2220 Finally then, does Commerce and Employment have a role in providing strategic direction to Guernsey Electricity on balancing the variety of policies that come out of the States of Guernsey, fiscal and economic and the Energy Resource Plan? Do you have a role there in helping them understand what it is that Government expects from them?

2225 **Deputy Stewart:** I think we do, certainly through the Energy Policy Group, which I find a very effective group and it is like sons, you cannot really have a favourite son, but it is one of my favourite groups to sit on.

**Deputy Ogier:** Well, nobody understands the word sustainability yet today, so there is some work to be done there.

2230 **Deputy Stewart:** Well, sustainable... It depends. Sustainability, in my view, is about continuation of supply...



**Deputy Ogier:** Exactly.

2235 **Deputy Stewart:** And I think policy does give that sustainability.

**Deputy Ogier:** That is not the meaning of sustainability within the Energy Resource Plan, however.

2240 **Deputy Stewart:** Can I ask you how you see that, because I may just be misunderstanding the question. How do you see sustainability?

**The Chairman:** You must be very quick.

2245 **Deputy Ogier:** Sustainability is the ability of future generations to continue their activities in the same way that we have. So sustainable in that regard, rather than what keeps them coming down the pipeline.

**Deputy Stewart:** Gosh, you know... In 50 years, things will probably change out of all proportion. The half-life of technology...

2250 **Deputy Ogier:** I am just merely saying the idea behind the word sustainability in the Energy Resource Plan was that version of sustainability, but I think we are out of time on questions, now.

**Deputy Stewart:** I was enjoying that one. *(Laughter)*

2255 **The Chairman:** Thank you. Minister, Guernsey Electricity are a commercial monopoly. What are the prospects for a genuine liberalisation of the electricity supply market in Guernsey?

**Deputy Stewart:** Well I think we would be bonkers if we did that.

2260 We are 63,000 people and if you want to trust the strategic supply of energy to this Island by letting private companies in and generate, I think it would be daft. I think we have got a... I mean the room for improvement is the biggest room in the world, so we could always improve.

2265 On balance, my experience of Guernsey Electricity is, yes, there could be more efficiencies there, perhaps, we could always drive more efficiencies and that is what we try and do. But, on balance, I think they deliver a good, reliable product at a reasonable price and that is all you can ask for and when you are an island of 63,000 people shoved in the bay of St Malo, you have very little choice, and if you are looking at such a small market, I mean 85 megawatts is the winter peak, it is hardly Las Vegas, it probably would not even drive one Las Vegas hotel. So, I think the economies of scale are not there, and then you are going to need to regulate all these things, the cost of regulation will go up and I think it probably goes...

2270 My background is as an entrepreneur, so in some ways this flies in the face, but I think the reality of it, strategically, and the best deal for Guernsey, the tax paying citizens of Guernsey, is a well run, well managed state-owned, if you want to call it a monopoly, that basically acts like a paternal grandfather, making sure that we have a good supply for the Island's economy, delivered at the right price. I think to start letting all and sundry coming in here and rock up and do their own electricity, I think, no thank you  
2275 very much indeed, and I would imagine my Board would consider that for about a nanosecond before they chucked it out.

**The Chairman:** Thank you very much to Commerce and Employment for coming and the panel will retire for four minutes and resume at four o'clock.

2280

*The Committee adjourned at 3.57 p.m.  
and resumed its sitting at 4.01 p.m.*

**EVIDENCE OF  
Deputy Gavin St Pier, Minister,  
Treasury and Resources Department**

2285 **The Chairman (Alderney Representative P Arditti):** Good afternoon, Minister. Thank you for coming and if I could go straight to Deputy Paint.

**Deputy Paint:** Good afternoon, gentlemen.  
What is Guernsey's security of electricity supply policy?

2290 **Deputy St Pier:** Well, my understanding of that is in relation to the n - 2 policy. So, in relation to can we continue to supply the Island at its maximum demand if we lose our two largest pieces of kit?

**Deputy Paint:** Has it been successful since it has been implemented?

2295 **Deputy St Pier:** Well, I guess it has probably had its most severe test in the last 12 months with the loss of the cable link to France and, given that we were importing so much of our electricity through that link and having to then import 100% on-Island and clearly that literally kicked in immediately, so I think that is probably the best proof that, in the ten years or so that the policy, there have not been any failures that have not been met by local generation.

2300 **Deputy Paint:** Does Treasury and Resources Department play any part in determining or approving the routes of subsea cables?

2305 **Deputy St Pier:** The routes of the subsea cables: well, I suppose the answer to that is the cable is down there already. So, in that sense there is nothing for Treasury to become involved with. Clearly, the extent to which there may be any new cables put in, we would expect, as shareholder, to have a dialogue with Guernsey Electricity on those kinds of plans, but in terms of the location of those cables, I guess that would be a matter for the technical expertise of where it needed to go and the planning authorities and so on.

2310 But, again, in terms of the direction, for example, whether we would have a direct link to France as one of the options, then that would be an issue that we would expect to have dialogue a with Guernsey Electricity, and indeed, we have already begun that dialogue.

**Deputy Paint:** So, would you have any plans or would T&R have any plans of the seabed?

2315 **Deputy St Pier:** I think that level of... in terms of the location on the seabed, no. Certainly we have no plans and we have not got into that level of detail.

**Deputy Paint:** Okay, thanks.

2320 **Deputy St Pier:** To the extent that there may or will be on the new cable.

**Deputy Paint:** Would you have any consultation at all with other marine industries like shipping, fishing industries in respect of the planned routes or do you then delegate that to somebody else?

2325 **Deputy St Pier:** Again, I do not think Treasury and Resources' role as shareholder would be expecting to be engaged in that level of dialogue. I think that would be wider Government, perhaps through the Environment Department, in considering the marine spatial policy and so on. I would think they would be taking those kinds of things into account. And, indeed, Guernsey Electricity, I am sure, would as they plan a route in liaison with the other jurisdictions.

2330 **Deputy Paint:** And in regard to Treasury and Resources' role liaising with the French Government over seabed routes, you would lead that also?

2335 **Deputy St Pier:** I think in the first instance, yes. I cannot see the immediate need why we as shareholder would need to become involved at that level of detail. But again, until dialogue has got to that level, I cannot say with any great certainty that there may not be a role for us, but it is not immediately obvious to me.

**Deputy Paint:** Thank you, I have no further questions.

2340 **The Chairman:** Thank you, Deputy Paint.  
Deputy Queripel.

2345 **Deputy Queripel:** Thank you, Mr Chairman.  
Minister, in your opinion, is Guernsey's current security of electricity supply adequate?

*Deputy St Pier:* Yes. I think it has achieved, in relation to the role as I responded to Deputy Paint, in terms of has it delivered what we were wanting from it, i.e. security of supply? I think it has.

**Deputy Queripel:** Thank you.

2350 My next question is a three-part question. Who monitors and reviews that n - 2 is still the most appropriate policy for Guernsey? How is this done? And how often is it reviewed?

*Deputy St Pier:* It is primarily the responsibility of the Policy Council through the Energy Policy Group and that group includes representatives of Treasury and Resources, Commerce and Employment, and the Chief Minister on behalf of the Policy Council itself. So, that is how the policy is monitored.

2355 Treasury and Resources have a role in ensuring that the company complies with the policy, and that is primarily done through its regular dialogue with the company. Formally, under the terms of the memorandum of understanding, considering the business plan and the strategic plan of the company which we do annually. And then informally, there is a high degree of informal contact between the company at officer level and also political level, so we have an ongoing role in ensuring that the policy is adhered to.

2360 In terms of, the second part of the question, how is its review undertaken? That, as I said, would be through the Energy Policy Group.

2365 And how often? Well, I think it is probably an ongoing issue, but I think it has probably been brought to the fore with the loss of the cable link last year and, therefore, then reconsidering what the options are, including what alternative cable links there will be.

2370 So, I think we are in the midst of that ongoing review, with a view to bringing a revised... or bringing a Billet to the States early next year, which we would envisage being a tripartite-owned Billet, from the States' report from Policy Council, Treasury and Resources and Commerce and Employment, with a view to the States then having an opportunity to consider whether n - 2 is appropriate or whether there are any changes that we would recommend.

**Deputy Queripel:** Okay. Thank you.

2375 Next question: does the Treasury and Resources Department have a role in deciding and approving Guernsey's long-term plan for ensuring security of supply?

*Deputy St Pier:* Yes, we do, through the process of the memorandum of understanding and consideration of their business plan which, as I say, is considered at least annually by the Department, under the terms of the MoU.

2380 **Deputy Queripel:** Okay, thank you.

Are Treasury and Resources of the view that future investment will be repaid by higher electricity prices?

2385 *Deputy St Pier:* Well, ultimately, any future investment has got to be paid for by either consumers or the taxpayer. Those are really your only two options, and there is always going to be a consideration of whether all the burden should fall on consumers, and whether it should fall on the current consumers which, of course, has been the policy of save to spend – current consumers need to generate enough profit to enable the company to invest in the future – or, in fact, whether it is future consumers who pay, because they enjoy the assets over the life of the assets and that could be 25, 30 or 40 years. So, that is if you like an endemic consideration with any investment.

2390

**Deputy Queripel:** Okay, thank you.

2395 My last question: in your view, is the Social Security Fuel Allowance adequate, bearing in mind your recent increases in the cost of electricity?

2400 *Deputy St Pier:* That is a good question, in the context of security of supply! I am not sure that it is an issue that Treasury and Resources have specifically given consideration to. There has been some dialogue between Treasury and Resources and Social Security in the context of the Personal Tax and Benefit Review, in thinking... My understanding is that the Winter Fuel Allowance goes to those who receive Supplementary Benefit and there is a recognition that many of the recipients of that will be in what are now regarded as highly energy efficient units.

So, I suspect it is quite possible that there will be some for whom it is adequate and there will be some for whom it is inadequate, depending on the type of accommodation they have and their energy needs. But that is just a generic comment. I guess given by me as an individual politician, that would not necessarily

2405 represent a Treasury view, because it has not really been an issue that we have been required to consider under our mandate.

**Deputy Queripel:** Thank you. I have no more questions.

2410 **The Chairman:** Thank you very much, Deputy Queripel.  
I wonder if I could ask, Minister, is there a T&R representative on the board of Guernsey Electricity?

**Deputy St Pier:** No, there is not.

2415 **The Chairman:** Does the States have any representation on the board?

**Deputy St Pier:** Not at board level, no.

2420 **The Chairman:** The Commerce and Employment Minister described Guernsey Electricity as, and I quote, 'a state run monopoly'. Would you agree with that description and, if so, why does the States have no representation on the board?

2425 **Deputy St Pier:** I think I would disagree with him in that saying that it is a state-run monopoly. It is a state-owned monopoly and I think there is an important distinction. And that is a reflection of the transition of that business from pre-commercialisation, when it was a state-run monopoly, with politicians on the board as it then was, as the States Electricity Board, to the post-commercialisation era, when the relationship is arm's length in the sense that is an ownership, but it is not a hands-on, day-to-day running of.

So, I think there is a distinction. I think that subtlety may or may not have been conveyed by the Minister for Commerce and Employment.

2430 **The Chairman:** I understand the distinction. I am sure the Minister may well have intended to 'say state-owned'.

So, let us just stay with a state-owned monopoly. Why no representation on the board?

2435 **Deputy St Pier:** I think, as much as anything else, it reflects the history of the transition from – again, this is an observation, a personal observation – the company or the business, as it then was as a political board, and I think the pendulum swung from a high degree of involvement of politicians at board level through to the hands-off relationship.

2440 So, the intention was to create T&R as the shareholder. It is shareholders which exercise shareholder functions, including, of course, the appointment of the board, which we discharged by way of the AGM and then the appointment of directors through the articles, by ensuring, through the memorandum of understanding, that there is proper process by which directors are appointed with the appointments committee of the board of GEL, a proper selection processes, all those sorts of things.

2445 So, we regard our role as shareholder to ensure that there is an appropriately skilled board in place which should then be left in place to run the company.

2450 Now, I think the Commerce and Employment Department, in 2011, did make observations in relation to the level of scrutiny when they were reporting to the States on the regulation of utilities, about the need for a, what they termed, 'the shareholder resource', and that is something which we have given quite a lot of consideration to, which is seeking to understand and ensure that we described our role, effectively, as shareholder so that the shareholder role is one that is, perhaps, more active and less passive. And the shareholder, for example, starts to think about what objectives it wants from its shareholding, what are its purposes, and that is something that we are addressing. We have recently, as a board, created a shareholder sub-committee of the board, under the Rules of the States, whose sole function and mandate is to start to discharge that role as a more active shareholder.

2455 So, it is a process which is in evolution and it is a very long-winded answer to your question, so I apologise.

**The Chairman:** Not at all, thank you.

2460 If we could just, briefly, stay with the Minister of Commerce and Employment, who I hasten to say, gave his evidence very clearly and very helpfully. He said that it was 'bonkers' to entertain any genuine liberalisation of the electricity supply market in Guernsey. My question, in the light of that, is why commercialise Guernsey Electricity?

**Deputy St Pier:** I guess revisiting the decisions of our forefathers!

2465 **The Chairman:** Well, you represent the owners – that is why I ask the question!

*Deputy St Pier:* Yes, it clearly is a States' decision that was taken many years ago. I can understand the rationale of seeking to ensure you have a structure which does not have political interference at its most negative – or 'involvement' is another perhaps less pejorative term – in the day-to-day management of the business. I suspect that was very much what drove the decision of the States to commercialise. I have considerable sympathy for that.

2470 **The Chairman:** Is it anything that Treasury and Resources has reviewed or are they just simply pursuing a policy that they inherited?

2475 *Deputy St Pier:* I am not sure we are pursuing policy we have inherited. The previous policy of the States to commercialise has been enacted and we are working with the current structure. Are we seeking to reverse or unwind that, which is maybe the premise behind your question? In answer to that: no. Are we seeking to tweak and improve, via the shareholder sub-committee that I have described to you, and providing more active oversight and discharging our role as shareholder in a different way to that which has been done for the previous ten years of commercialisation, then the answer is yes.

**The Chairman:** Is it something that has been reviewed?

2485 *Deputy St Pier:* Yes.

**The Chairman:** It has. Thank you.  
Deputy Ogier... I'm sorry. Deputy Le Pelley.

2490 **Deputy Le Pelley:** Oh, thank you – I thought I was going to get off!

**Deputy Queripel:** So did I!

2495 **Deputy Le Pelley:** Good afternoon. My tranche of questions, Minister, will centre on and revolve around value for money. As the major shareholder, what is your view on the necessary capital investments funded to support the n - 2 policy? Are they really necessary?

2500 *Deputy St Pier:* There is always going to be a trade off, when thinking about security of supply, about the cost of providing that security of supply and there are capital costs in doing so, and there are operating costs in doing so as well, so I think that is... Certainly, one of the questions is the cost of the n - 2 policy and certainly, I think one of our thoughts is that clearly, if we were to have more than one cable to France, for example, and therefore did not have a single point of failure at risk with France, then that may provide an opportunity to actually have less local generation required, in order... without prejudicing security of supply.

2505 So, I think the answer to your question is, it is a judgment call and it is something which we now have... I think it is entirely appropriate to continue to keep under review, but reflecting both demand, as demand changes on the Island, and also as generating and importation capacity changes.

**Deputy Le Pelley:** Fine.

2510 If we look at the costs to consumers, domestic consumers, price rises due to on-Island generation: are these long term?

*Deputy St Pier:* I think, clearly the price, price controls and prices have been a matter for the company, and it is dealing with the Regulator, rather than for us as shareholder.

2515 Clearly the price increases that were necessitated by the increased cost of local production, as we import – and hopefully as we import at less cost than we can produce locally – then it may be possible to reflect that in lower prices.

2520 However, there is a question which links into Deputy Queripel's question, which is as we make other investments – and other investments which may improve our security of supply and indeed, our access to cheaper fuel, through cables – then that has to be considered how it is being paid for and whether that is done through current pricing and future pricing or the tax payer.

**Deputy Le Pelley:** So, as shareholder, what is your opinion on n - 1 policy reducing the price of electricity to the consumer?

2525 **Deputy St Pier:** I think it is an entirely appropriate question to ask. I do not think Treasury and Resources have a firm view on it at this stage, unless and until we have been presented with all the... in terms of options, in terms of how we ensure that we have got the energy *policy* we want – not just the energy security policy we want, but the energy policy we want – and it is only then we can say, in the light of that, we can actually do with n - 1 and actually that will be less cost to the consumer.

2530

**Deputy Le Pelley:** Thank you.

Can we move onto the cost to consumers, commercial consumers? Does Treasury and Resources Department have a view on whether the Guernsey Electricity Limited should recognise private investment and consumption and introduce a commercial rate accordingly which reflects these factors?

2535

It is to do with the recommendation by CICRA mentioning special arrangements with large consumers, using back-up generation during maximum peak-period demand.

**Deputy St Pier:** Right. I am not sure that Treasury and Resources would take a view on that.

2540

**Deputy Le Pelley:** Thank you.

Does the Treasury and Resources Department have a view on whether thought should be given to working with larger customers...? I think we have already done that one, sorry.

Does Government have a role in setting the price of electricity to ensure that Guernsey remains competitive in relation to other jurisdictions?

2545

**Deputy St Pier:** I think Government has a role in determining energy policy and, will no doubt, need to do that, cognisant of and thinking about the effect of energy policy on pricing to the consumer. But that is at a much higher level than determining the individual pricing I would suggest.

2550

**The Chairman:** Deputy Le Pelley, one more question.

**Deputy Le Pelley:** Thank you very much indeed. I will combine two then – I will do a Deputy Queripel! (*Laughter*)

2555

**Deputy Queripel:** I combined three, actually!

**Deputy Le Pelley:** Does the Treasury and Resources Department feel that the benefits of the n - 2 policy are commensurate with the costs? And does the Treasury and Resources Department have concerns about the effect that high prices may have on the local economy?

2560

**Deputy St Pier:** I think the Treasury view is that we have the policy which the States have adopted which is n - 2 and that is what we are working to. Our role is to ensure that that is delivered through our role as shareholder and our relationship with the company and to contribute through the Energy Policy Group to the review that policy, including the consequences on costs of maintaining a high level of security.

2565

**The Chairman:** Thank you, Minister.  
Deputy Ogier.

**Deputy Ogier:** Thank you.

2570

I am just going to briefly dip into the Energy Resource Plan and then move on to governance.

Objective 1 of the Energy Resource Plan is to maintain the safety and security of affordable and sustainable energy supplies. How, in your view, is this achieved and managed?

2575

**Deputy St Pier:** I think by ensuring that we have, I guess, a mix, in seeking to achieve the... I guess the balance of low carbon, which, of course, is being seen as achieved through the cable link.

There is a question of sustainable, and what is the interpretation of sustainable, in an environmentally sustainable sense or in an economically sustainable sense? I think the Energy Resource Plan has an interpretation of that.

2580

**Deputy Ogier:** You do get low carbon energy through the cable link. Guernsey Electricity, however, is mandated to provide at lowest cost. We happen to get low carbon, because it is lowest cost. How do you manage the... I am not going to use the word they used in the *Press* today! How do you manage that three-way dilemma of balancing security, affordability and environmental considerations? At the moment it is

2585 low carbon, because it is cheaper than generating on-Island. If it was cheaper to generate on-Island, we would generate at lower cost, but at higher environmental cost.

*Deputy St Pier:* Yes, you are right that, in a sense, we have been fortunate that we have been able to deliver low carbon at the lowest cost.

2590 **Deputy Ogier:** When push comes to shove, however, at the moment, it is cost that is going to win out?

*Deputy St Pier:* Yes, under the policy. Absolutely, yes.

2595 **Deputy Ogier:** In the Objective 1, it mentions sustainable energy supplies. What do you read as sustainable? What would your definition of sustainable energy supplies be?

*Deputy St Pier:* I think that is reliability, I think is my interpretation of sustainable, and being there when you need it –

2600 **The Chairman:** I think to be fair to the witness, Objective 1 of the Energy Resource Plan actually talks in terms of security of affordable and sustainable energy supplies. I don't know if that affects your answer?

*Deputy St Pier:* I don't think it does.

2605 **The Chairman:** Good.

**Deputy Ogier:** Moving on to the governance. If you could just neatly encapsulate T&R's role in the governance of Guernsey Electricity?

2610 *Deputy St Pier:* Our role is to discharge, on behalf of the States of Guernsey, the function of shareholder and that is dealt with principally through the memorandum of understanding and the articles of association. It is discharged through the regular dialogue, both formally and informally, and then through the other function that we have...as I say it is not really a governance issue *per se*, because it deals more with the energy policies, through the Energy Policy Group. But, in terms of governance, we do that directly as Treasury and Resources, as shareholder.

2615

**Deputy Ogier:** How often would you expect to either meet with or discuss issues with GEL?

2620 *Deputy St Pier:* It is very much... My experience is the MoU said one thing, which was very specific and descriptive about the information we should receive and when we should receive it... so participation at the Annual General Meeting, for example... so that is a formal interaction.

My experience has been that the level of contact has been considerably higher and that may have been a function of events in the period that I have been involved, because of the cable failure and dealing with the aftermath of that, dealing with the issues around the negotiations with the Channel Island Electricity Grid Limited and Jersey Electricity and so on.

2625

So it has been... I look to the officers to advise ... but my estimate would be probably every six weeks on average.

2630 **Mr Alistair Ford:** Yes, I think in terms of political level that would be fair to say. I think there are more informal arrangements obviously at staff level, and I would suggest that certainly no less than weekly liaison at staff level between the company and the board.

**Deputy Ogier:** Thank you.

2635 Currently there are three entities of the States of Guernsey that liaise with GEL: the Commerce and Employment, Policy Council and T&R. How, in your view, is that area coordinated? And, in T&R's view, is it an efficient way to go about interactions between the Government and GEL?

2640 *Deputy St Pier:* I have not experienced it producing any problems. It seems to work, in that there is a good level of dialogue between the relevant parties and again, at officer level and also at a political level. I have not noticed anything or sensed anything that is falling between the cracks or has been delayed unnecessarily. So, I think given our system of governance and our system of government and the mandates we hold, then it seems to discharge that function reasonably well.

**Deputy Ogier:** Thank you.

2645 Who is responsible for providing oversight over the corporate governance of the GEL board of directors? Would that be T&R?

*Deputy St Pier: Yes*

2650 **Deputy Ogier:** Would you be responsible for its corporate governance?

*Deputy St Pier:* Well, of course, the board is responsible for the corporate governance of GEL. Oversight of that would be us, as shareholders.

2655 **Deputy Ogier:** Okay, thank you.

How do you ensure, as the shareholder, that good governance is applied in GEL?

2660 *Deputy St Pier:* It comes back to the memorandum of understanding, reviewing the business plan, reviewing the annual accounts, meeting with the board, ensuring that they have adopted, for example, remuneration committees, appointments committees – that they have adopted best practice in relation to corporate governance.

2665 **Deputy Ogier:** Okay. You have created a sub-committee to deal with the shareholder issues for that. Do you feel that that has helped your concentration on corporate governance?

*Deputy St Pier:* It is very new. We only formally made the decision in July and only got going last month. I think there is a second meeting today.

2670 So, it is very new, but I think that it will ensure that T&R's function as shareholder receives the right amount of air time by Treasury and Resources at a political level, rather than competing for everything else as part of the main board agenda.

2675 **Deputy Ogier:** There are a number of set-ups of corporate governance on the States' trading entities. We have seen a number of slightly varied and different implementations of corporate governance. Is there no one-size-fits-all model that the States of Guernsey could apply to a States' trading entity or are we going to have to come up with a bespoke model?

*Deputy St Pier:* What differences were you alluding to?

2680 **Deputy Ogier:** Well, the way the different trading companies are set up – States' Works, for example, is not commercialised.

*Deputy St Pier:* Ah, I see. Okay, sorry, I understand that.

2685 **Deputy Ogier:** GEL is commercialised, Guernsey Post is; others are not. States' Dairy is still within the Civil Service.

2690 *Deputy St Pier:* Again, very good questions and certainly things that, again, we have considered, whether there is a standard model. Again, obviously many of the things that you have identified – Dairy, States' Works, Water and so on fall outside our area. Our view is that if we can... The model we are talking about, given that this is further down the track in terms of ten years of post commercialisation, it may well be that this will be a model which is appropriate and could well be used to provide good corporate governance and oversight of the other trading entities as well.

So, it is something which I can see evolving into that, in due course.

2695 **The Chairman:** Thank you, Deputy Ogier.

If I could just ask this question. Remuneration of directors and senior managers: Guernsey Electricity is wholly owned by the States, it has a monopoly and it is the intention of Treasury and Resources to see best practice from the board of directors. Are you happy that the public do not know what your remuneration is of directors and senior managers?

2700 *Deputy St Pier:* Well, I think it comes back to, as you say, best practice and I think it is argued that remuneration should be set in accordance with best practice with a remuneration committee, setting of objectives, all those sorts of things which is discharged within that corporate governance framework, and is



2705 not a matter in which we would become involved, providing that the framework and the structures are there to deliver that. So, the Treasury and Resources' role is confined to the determination of the remuneration of non-executive directors.

**The Chairman:** I see. Well, thank you very much for coming and thank you for providing us with the information we asked for.

2710 **Deputy St Pier:** Thank you very much.

**The Chairman:** And that concludes the session for today.

2715 *The Committee adjourned at 4.38 p.m.*