



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

**SCRUTINY**  
**COMMITTEE**

Security of Guernsey's Electricity Supply

**HANSARD**

**Royal Court House, Guernsey, Wednesday, 8th January 2014**

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**Members Present:**

*Chairman:* Alderney Representative Paul Arditti  
Deputy Robert A. Jones  
Deputy Paul R. Le Pelley  
Deputy Scott J. Ogier  
Deputy Lester C. Queripel

*In attendance:*

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

**Business transacted**

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*The Committee adjourned at 10.03 a.m.  
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*The Committee recessed at 10.47 a.m.  
and resumed its sitting at 10.55 a.m.*

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*The Committee adjourned at 11.33 a.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 second hearing of the Scrutiny Committee's Security of Electricity Supply Review.

In the previous hearing, we collected evidence from the Commerce and Employment Department, Treasury and Resources and the Policy Council, about the current Electricity Security Policy. We also heard from Guernsey Electricity, about their views of the current policy.

10       Today, we will be taking evidence from two key consumers of electricity, Sure (Guernsey) Limited and Guernsey Data Park Limited. We will also be taking evidence from the Island's Regulator, the Channel Islands Competition and Regulatory Authority (CICRA).

After this, today's session will continue with further questions to the Energy Policy Sub-Group of the Policy Council, represented today by Deputy Kevin Stewart and supporting staff.

15       This session was unfortunately postponed on 13th November, due to the need to complete the business of the October meeting of the States. I take this opportunity to apologise to our witnesses for this inconvenience.

#### **EVIDENCE OF Mr E Saints, Chief Executive, and Mr T Stonebridge, Head of Service Assurance, Sure (Guernsey) Limited**

**The Chairman:** Deputy Jones, could I ask you to ask your questions.

20       **Deputy Jones:** Good morning.

The first few questions I am going to ask you are to give us a general understanding of what Sure understands the Security of Electricity Supply Policy to be. So my first question is: is Sure (Guernsey) Limited clear about the detail of the n - 2 policy?

25       **Mr Saints:** Good morning, Mr Chairman and Members of the Committee.

30       Thank you for that question. When you say are we clear on it, no I would not say we are 100% clear on it. We do understand what is trying to be achieved; there are various configurations that one would put in. I think the underlying intent, as we understand it, is that the security and the affordability of the electricity supply to consumers on this Island is of paramount importance to everybody and the success of Guernsey as a whole, and that there are measures are put in place to ensure that is achieved, both from the provider of electricity and those that actually consume it.

**Deputy Jones:** Does Sure agree that the n - 2 policy is fit for purpose?

35       **Mr Saints:** Again, there is some clarification that we would like to understand, as to how far and how deep the n - 2 policy goes. But as we understand it, we see that most of the focus is primarily off-Island and in the resilience of cable energy generation, whether it be on-Island or off-Island, but having security in the context that if any one of those facilities fail, the Island's power supply is continued.

40 Now, the issue we have that we all understand, and there is rationale for it, is how far can the n - 2 policy go for the local distribution to the consumer at the home for instance? How n - 2 to the home requires significant investment and other needs.

I can tell the Committee my experiences in other small island jurisdictions: Bermuda is where I come from, and they have the same issues of having to generate, and unlike here in Guernsey and Jersey, they have to generate their own electricity from fuel, and they have had a number of issues where they have had generation failures, island-wide black-outs, failures in local distribution, which is commonplace.

45 We do not see that here. We see a completely different level of service here and reliability that is unmatched by other comparative jurisdictions around the world.

**The Chairman:** But Deputy Jones, just because we are always against the clock with these hearings, you mentioned other jurisdictions, I wonder if you could just mention the other jurisdictions of which you have knowledge. We do not need you to explain your experience in those jurisdictions. We will assume that your answers are informed by your experience in those jurisdictions, if you could just mention what they are.

55 **Mr Saints:** Yes, the comparative jurisdictions to the Channel Islands would be Bermuda, the Cayman Islands, Barbados and a number of the Caribbean Islands that I have had a very close working relationship with.

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

60 **Deputy Jones:** Well, you have outlined some of your concerns there. In terms of how the policy is – the oversight of the policy – do you have any concerns as to how often that is reviewed or how...?

65 **Mr Saints:** Yes, we would like to be more involved. We do have a close relationship with the Guernsey Electricity, in that our team is reliant on electricity and so we not only provide our own redundancy and capabilities, but making sure that when there is civil works going on, that we are aware, because there could be problems. So there is a very close relationship that already exists.

70 What we would like to be more actively involved in is the formation of policy and the strategy and the on-going reviews. That would be something that we would welcome.

**Deputy Jones:** You mentioned briefly there that you provide your own back-up if there were a failure. How resilient is Sure's back-up power generation?

75 **Mr Stonebridge:** I can answer this one. We have got battery back-up on each of our sites, at each of our street cabinets. On top of that we have also got generators at our major sites; so we have got 14 generators with 9,200 kVA, the back-up generation. So when there is a power cut, we have got 20 minutes' minimum battery back-up and that is enough time for our generators to kick in, to take that load.

80 **Deputy Jones:** You have answered my next question actually, in terms of how long that back-up... It kicks in after 20 minutes?

**Mr Stonebridge:** Ten hours of running time, approximately.

**Deputy Jones:** Ten hours, approximately.

85 **Mr Saints:** It kicks in right away.

**Deputy Jones:** It kicks in right away.

90 **Mr Saints:** But it takes time for the generators to speed up and the power to be normalised.

**Mr Stonebridge:** It does depend on which site and how much load has been taken off the site at the time.

95 **Deputy Jones:** But the length of time we are saying is ten hours. We have had evidence in these hearings and submissions prior to that, that there are many larger customers that have their own privately generated back-up. How effective do you think the provision of privately generated back-up is?

100 **Mr Stonebridge:** We need it primarily because we have got guarantees on SLAs for our services that we offer our customers. We have always had back-up generation because we know from our experiences, whether it is distribution network or imported power or our own power distribution on our own sites, we have failures, on any one of those three parts of the power network, so we have always invested in generation to ensure we can meet our SLAs for our services.

105 **Mr Saints:** If I can just add to that, the clients that we host at our data centre for instance, are global customers who bring their business to Guernsey and then distribute worldwide. They require levels of performance that is almost 100%. Now, we cannot guarantee 100% but it is 99.999% availability. So to provide that, it is essential that we supplement what the Guernsey Electricity provides with our own capabilities, and there is a number of levels of protection we have in our networks to deliver that level of  
110 service.

**Deputy Jones:** I do not want to stray into anybody else's ground.

115 **The Chairman:** Could I just ask, you mentioned that the back-up cuts in seamlessly. Are the customers aware of any interruption?

**Mr Stonebridge:** No.

120 **The Chairman:** They are not.

**Mr Stonebridge:** No.

**The Chairman:** So, if that is the case, what is the problem?

125 **Mr Stonebridge:** In terms of...?

**The Chairman:** If your back-up can cut in seamlessly, and your customers are not inconvenienced in any way, what is your concern?

130 **Mr Saints:** The concern we have is just again, understanding what is a very essential supply of resource to our business. It is far less expensive to use generated electricity than it is for us to generate ourselves and so reliance on that.

Now, we have had situations – and again it is a feature of the electricity – when there has been a problem within the domestic network, there has been spike surges and so on, that has an effect on our  
135 network. Sometimes it can actually go through our filtering systems and effect our equipment. These things happen, we understand them, we have various levels of resilience to protect that, but it is those areas of having a more normalised and a service that is consistent that is important to us, and we have been working with Guernsey Electricity to achieve that, particularly when they are doing works in their own infrastructure. Having a communication so that the network operation centre know and that we have more  
140 normalisation between us.

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

145 **Deputy Queripel:** Thank you, Mr Chairman.

Gentlemen, I have got three questions for you. The first one – can you give me your views, please, regarding the future provision and security for the electricity supply to the Island?

150 **Mr Saints:** Sure. We are very pleased with the announcement that was made recently on the £13 million investment in providing additional off-Island connectivity, particularly between Guernsey and Jersey and also into France. That is a real plus. For us, it is more the affordability and also the reliability of power, so we are very encouraged by that.

We are not too sure about what the plans are for the domestic distribution. That is a part that affects our consumers, so when there is a... and they do get sub-stations that have problems, we understand all that –  
155 but for our consumer, it affects, say, the routers that we deliver the broadband service to and that creates a whole level of impact to us. But to address n - 2 to the consumer level is a humungous task and one which I think realistically we have to accept that unless we are prepared to put in a lot of money, we are going to have to face those issues on an as-needed basis.

160 But we are quite pleased with that investment; we know that investment plan has been going on for a long time. The investment announcement has not been made because of what the Scrutiny Committee is doing today or because of the power failures of the last year or so. It takes years to define, to sign, to raise funds, to get everybody on side to make those sorts of commitments. So we do know that the Guernsey Electricity, Jersey Electricity are always planning, always working together, always planning for the future, as far out as another cable in eight to ten years we understand, and we know that is part of their planning.

165 So, we are quite encouraged by that, but what we do is we are working up to supplement our needs. No matter what they do, in terms of their investment internationally, we will always have to invest in our own infrastructure to give us another level of protection, and that will always be the case.

**Deputy Queripel:** Thank you.

170 The second question is a two-part question. What additional megawattage is required by Sure to supply your future business needs? And do you have any concerns regarding GEL being able to meet your requirements?

175 **Mr Stonebridge:** I can answer that, in that we have currently got more capability into our site than we are consuming, so we have got no massive demand on top of what we are capable of receiving today. So in terms of how much power we believe we need, we think our infrastructure onto our site can deliver that to us.

180 **Mr Saints:** And also just to note that with new developed technologies that we are bringing in. For instance, as we speak, we are about to announce the investment of up to \$20 million or £15 million on telecom infrastructure, but that technology is very energy efficient. It is actually using less electricity than we had under older technology. So, in the mix of it, as we evolve our networks, the demand for electricity is optimised should I say. So, it is a big factor of our business is managing costs and electricity is one and using new technology really helps save that.

185 **Mr Stonebridge:** So our new base sites for example are 17% more efficient than current, and that is just the nature of the way that technology has evolved.

**Deputy Queripel:** Thank you.

190 Final question – is your company satisfied that Guernsey Electricity’s on-Island distribution network is capable of distributing power for the entire Island during periods of peak demand?

195 **Mr Stonebridge:** I would say that we have experienced outages, spikes and other scenarios that have affected our customers and ourselves. Because of the investments that we have made in our battery back-up and generation back-up then we can absorb those.

They have become more frequent at certain times; we need to just ensure that Guernsey Electric continues to invest in its distribution network, to ensure that the generation, the n - 2 generation can be distributed fairly.

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

**The Chairman:** Can I move, please, to Deputy Le Pelley.

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

205 I have got two questions for you. The first one is: does Sure (Guernsey) Limited have concerns about electricity output prices, and any effect that prices have on the local economy?

210 **Mr Saints:** Yes, I will answer that. Yes, we are always considering costs. Operating our business is a costly base, we are always looking for ways to optimise our expenditure and that helps us keep the price of telecommunication services down to our consumers. We understand also, that based on whether we do our own generation on the Island here, versus bringing the Island capacity from France, there is an economic benefit of doing that and that helps stabilise price, it helps keep prices down.

215 Our data centre if we go back to that, is a big investment for this Island; it generates a tremendous amount of income for Guernsey. But with that we have to be competitive, we have to be competitive on our pricing. Not only the telecom side but the use of electricity to drive the data centres and all the racks and the disks and everything else they have.

So we are very conscious that when there are price increases in electricity, and it has been quite consistent over the past three years or so, where every six months there has been an increase, but we

220 understand why there is a need for that, and we expect that to be addressed once this additional off-Island capability is brought into place. So yes, the cost of electricity is always a big concern for any of our consumers. And as I said earlier, for us it is one of the many resources that we have to effectively manage to keep the value of our services to our consumers, most competitive.

**Deputy Le Pelley:** Thank you.

225 The next question has got a couple of parts to it. Does Sure (Guernsey) Limited consider 20 minutes' latency in power supply to be an acceptable part of the Island's n - 2 policy for 2014? And in real terms how have outages affected Sure, and how significant are electricity costs to your business? Do you want me to break them down?

230 **Mr Stonebridge:** I will answer that in the best way possible. I think that 20-minute latency refers to the 20-minute time it takes for on-Island generation to kick in. We can absorb that at the moment with our current infrastructure in terms of our battery back-up and generation. If that changes, we may well have issues.

235 Is 20 minutes the right number now? I am not entirely sure – I do not know that answer. I would question the fact that we need to review that and see whether 20 minutes is acceptable or not.

**Deputy Le Pelley:** I said 2014 but, of course, obviously the outages would only be 2013, so you are looking at your experiences in the last year, but also looking forward?

240 **Mr Saints:** Sorry – is there anything else you wish to add?

**Mr Stonebridge:** Not on the 20 minutes.

245 **Mr Saints:** Okay. Just on the cost and how significant it is to our business – yes, we are a big consumer of electricity on the Island, I would think, and Mr Bates would know more accurately based on other demands on the market.

250 But we are a big consumer of electricity, and I would say in excess of £1.3 million a year, in terms of bills. But it is not a major or...it is a significant cost, but is not the major cost of our business; our major cost is people, and that is a different issue and we are not here to discuss that. But where we can optimise and save, it helps keep the cost of telecommunications down for our consumers. So yes, the power is required for everything, not only powering the client's equipment but the environmental protections, all the security systems wrapped around it, is all part of delivering value to our consumers.

255 I am not too sure if that helps you too much, but it is a big expense which, if we can manage to get down, I think the other part is the demand for electricity that we use is pretty constant. Our data centres are driving electricity both in peak times and also in low demand times, and we are always interested in some type of tariff that would help us manage the nature of our electricity consumption a little bit better. There is not a tariff that is oriented towards our business. We have spoken with GEL on this, but we have not been able to come up with maybe a more effective tariff that meets the demand use that we have for our business.

260 **Deputy Le Pelley:** Okay. But in real terms, though, how have outages affected you, in the last year?

265 **Mr Stonebridge:** I can answer that one. The smaller outages and spikes affect our customers or consumers at the home, which means their broadband service drops, which gives them some real tangible impact. The actual street furniture that delivers the service has got battery back-up, so that is always up and running. If the consumer has got a UPS or something at home, then they would not notice anything in particular. So when we get geographic power failures, that is how it is generally noticed.

270 In terms of impact on our main infrastructure, then obviously our equipment will kick in, our batteries will kick in, our generators will kick in. The customer does not notice any break in service in that instance. We obviously take a hit on the diesel and the fuel that is used, and then there is obviously the wear on the equipment, as well.

**Deputy Le Pelley:** So how significant are electricity costs to your business?

275 **Mr Saints:** Well, they are a significant cost, in excess of £1.3 million a year is an excessive cost, but in reality, it is one of many elements of costs we have in our business, which is a substantial concern of our organisation. Wherever we can optimise the use of electricity and achieve a tariff that is reflective of our consumption needs is good, because it helps us at the end of the day to make sure our services remain competitive, consumers benefit from it and Guernsey itself is marketable on the international arena.

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

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

285 **Deputy Ogier:** In one of the consultation responses that we received, GEL is described as having a long established monopolistic attitude towards customers and an engineering led mentality. That was from one of the responses we received within the consultation.

What would your view be to those remarks, in your experience?

290 **Mr Saints:** I do not see it as critical as that, I would not state it as being an entrenched monopoly.

Yes, the utility has been around for *many* years with the States of Guernsey, like our business was once, under Guernsey Telecom, and there is a particular way you run your business in that type of environment.

295 The only area of concern that we would like to see a little bit more commercial or indentation in the marketing approach, would be maybe adjusting tariffs to help us manage the demands of our business and the needs for electricity. Help us in managing and maintaining our business as competitively as we can on what is a very competitive global market place for us, so in that respect.

300 I do not think they are arrogant at all – very open, very easy to accommodate. I have access straight to Alan and his team. My team has access to his executive team. We do not find any negative side, we do not find any non-receptive views – very accommodating, so I do not see that entrenched monopolistic view reflective of their attitude or their approach to working with consumers. I do not see that – maybe members of my panel here will.

**Mr Stonebridge:** No, I do not.

**Deputy Ogier:** Thank you.

305 You mentioned adjusting tariffs. Do you have any examples of how that might work out, what you would be looking for – a reduction in the greater the usage?

310 **Mr Saints:** Well, just like any consumer, I want it for free! But that is not going to happen. (*Laughter*) They have costs and they have demands, as well. So I think the point for us is we would like to engage more at that level. I know they are receptive to it, we just have not had the opportunity to do that, and I think it is a way of finding a win-win situation, where we can both find ways in which we work together to help us continue to market Guernsey as the jurisdiction of choice for our customers around the world.

315 **Deputy Ogier:** Thank you. Do you have any concerns about the long-term view and framework past 2020 from GEL?

320 **Mr Saints:** Not at this stage at all. The big announcement was the investment in subsea systems, the n - 2. The only area I would like to know more about, and I am sure we will have the opportunity to do it, is to engage in longer term planning, because it is integral to what we do on a wider network here in Guernsey, as well as Jersey for that matter, since we have an operation there as well.

325 So not concerned about that far out, really concerned about this coming year, more than anything else, but again, they are long-term thinking – they do have plans and concepts for a new cable system eight to ten years from now. So, for us like our business, we are thinking long term and I do not have any concerns that they do not have their finger on the pulse, at this point.

**Deputy Ogier:** You said earlier you were pleased with the cables plan, is there anything more that you would like to say on the cables plan that you have not already stated?

330 **Mr Stonebridge:** I have got one. It is a really good plan, it is something we support, we work with Jersey Electricity as well, so we have got a relationship with those guys regarding Normandie 3. The only thing I would like to add is the protection of assets on the seabed, making sure that those assets and investments are protected and there is adequate protection in place.

**Deputy Ogier:** Thank you.

335 Do you think that you would be willing to accept a trade-off, say of greener electricity suppliers?

**Mr Saints:** When you say ‘trade-off’, what do you mean?

340 **Deputy Ogier:** A trade-off between green electricity suppliers at an additional cost. With your business of providing and what you do...

*Mr Saints:* Sure, I think this goes back to another issue which was the extension of the licence for generation and distribution for electricity on the Island. That was extended a further until, what 2022? I think it was.

345 *Mr Stonebridge:* 2022, yes.

*Mr Saints:* And that was interesting, because it was happened with no consultation; it was just an extension of the monopoly licence, a licence to provide a monopoly service.

350 A little bit disappointed in that, only from the standpoint that we have to understand, we live in a new technology world where we are able to generate electricity ourselves. If you look at some of the architect... and you can probably consult the architectural community, who will tell you that some of the building designs – homes, offices and others – are actually environmentally green oriented, that actually can produce electricity and funnel it back into the national grid.

355 **Deputy Ogier:** Do you find any barriers to that self-generation at perhaps a larger scale?

*Mr Stonebridge:* We self-generate when we need to. There is obviously a high cost because of fuel – the price we pay for fuel for our own generation is significantly greater than discounts that negotiated parties that Guernsey Electricity can obtain through their bulk purchase. So obviously there is a cost trade-off for that as well.

With the environmental initiatives, and the fact that we have got 70% less power consumption on our mobile base sites, that obviously helps, massively.

365 **Deputy Ogier:** Do you find you suffer from the rebound effect or the Jevons paradox where the more energy efficient you get, it does not necessarily result in an energy reduction, but that the energy that you saved is often used for other initiatives?

370 *Mr Stonebridge:* In terms of the base sites, they have got a sole purpose, a sole job which is to run that mobile network, so there is no other use, at that for those particular locations because we draw that electricity for.

**Deputy Ogier:** Right.

375 *Mr Stonebridge:* So all it means is there is less load and less consumption at that point for us, which means there is more power probably available for other consumers.

**Deputy Ogier:** What other actions have you taken to reduce your carbon footprint?

380 *Mr Stonebridge:* Obviously reducing consumption in general, on our base sites and with some renovation projects...

385 **Deputy Ogier:** Would you say often the reduction in energy usage is utilised elsewhere? If you are saving energy on one location, that means that you have effectively free energy that you can use up somewhere else, or do you actually notice a reduction in your energy consumption overall, when you introduce energy efficient measures?

*Mr Stonebridge:* I think it is more overall to be honest.

390 **Deputy Ogier:** Yes?

*Mr Stonebridge:* Because we have quite a distributed network –

**Deputy Ogier:** You have noticed a decrease in your energy usage overall?

395 *Mr Saints:* That is attributed to many things: one is being more efficient at our business, but also clients have changed their configurations with us which is less demand for us.

**The Chairman:** One more minute, Deputy Ogier.

400

**Deputy Ogier:** Do you have any other initiatives that you are running to reduce your carbon footprint?

**Mr Stonebridge:** We have an Environment Committee. We are helping with some projects such as stream clearance and beach cleaning and those sorts of things, which do not directly... they help the environment, but they are not directly impacting on our green label, I guess.

405

**Mr Saints:** And then there is the upgrade of our networks to more energy efficient technology being deployed. That is a big focus for us as an organisation. And optimising our presence on the Island, so one of the areas is we are migrating and consolidating to Centenary House, instead of having a Bermuda operation. Centenary are having one site and we are sharing the resources of that site. So it is saving in terms of use of resources for us, as well.

410

But back to your point earlier, we do encourage development and use of green energy. There is a trade-off and I think we have to understand what that trade-off is versus the affordability of electricity to the Island, but it is something we need to continue to be involved with and use well into the future.

415

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

Are there any circumstances... is there any level of reliability that Guernsey Electricity might achieve, in which you would not have a back-up supply of your own?

420

**Mr Stonebridge:** I do not think so, not that I am aware of, no.

**The Chairman:** Now, you were once a state monopoly, and are now in a commercial, competitive market. Guernsey Electricity were the same, and are now commercialised. What does that word mean to you in the context of Guernsey Electricity?

425

**Mr Saints:** When you say 'commercialised', they still hold a monopoly in terms of the provision of generation and distribution. So, 'commercialised' to me would mean that they are lot more oriented towards the market demands, the consumer requirements, being competitive in terms of the pricing, making sure that the affordability of electricity is the best it can be and that they are constantly planning for the future – to make sure that the protection of this very important resource for us is provided for in the best possible way. That would be my view. And of the commercialisation aspect, competition brings a whole new layer of focus, believe this. It will challenge you to look at every aspect of your business, right from people right down to infrastructure, the way you do things, how you distribute and that may not be a focus on the commercial side.

435

**The Chairman:** I am wondering what the commercialisation of Guernsey Electricity means to you in circumstances where there can be no liberalisation of electricity supply.

**Mr Saints:** All that I would expect from that is that we have a team, Guernsey Electricity, which we do recognise them as being a team that is forward thinking and they are planning, they are trying to be as efficient as they possibly can, to provide the security and safety of electricity, at the best possible price available on the market. That is how I would view the commercialisation aspect to be.

440

You layer another focus of competition and somebody else will then drive you to think a little bit more differently, and then you would be challenged to look at how you do things, the way you do things, whether you need to do some of the things you have, that is another layer of focus, which I do not view as commercialisation.

445

**The Chairman:** Implicit in your answer is that these things cannot be achieved by a state monopoly, is that your view?

450

**Mr Saints:** In its own way, no.

**The Chairman:** And why is that? Why can these things not be achieved by a state monopoly?

455

**Mr Saints:** Because I think under a state monopoly, you are very much focused on delivering an objective which simply is, making sure the reliability is there and that it is at an affordable price. It is not about make sure it is the best possible price you have, in fact re-think your business, think out of the box, transform your organisation to bring the price even lower or in fact diversify your thinking to create new

460 lines of business, new technologies in the market, and so on. You are not driven to think that way; that is not my experience anyway in state monopolies.

**The Chairman:** You pointed to inefficiencies within Guernsey Electricity. Has the commercialisation of Guernsey Electricity – why have these inefficiencies persisted in your view, notwithstanding the commercialisation of Guernsey Electricity?

465 **Mr Saints:** No, let me correct myself. I am not saying that there is inefficiencies there; I do not know anything about the detail of your organisation. All I am assuming is that there is always – and I can only speak from the standpoint of Guernsey Electricity, Cable and Wireless, now Sure – is that there is always to improve, always ways to be better, we were once a 365 organisation, we are now 205 here on the Island. So  
470 it pushes you a little differently, that is all.

**The Chairman:** Thank you.

Very lastly, and I am sorry, we are short of time: what in your view have been the benefits and advantages of the commercialisation of Guernsey Electricity?

475 **Mr Saints:** All that we have experienced today, and that is...but there is more that we can do. There is planning, which we are quite comfortable on, we are assured that the future requirements of the Island are being considered and planned for. I just think that we would like to work more on pricing modelling, focusing on our unique requirements of electricity consumption, so that we can optimise our expenditure  
480 and make sure that we remain competitive in this jurisdiction.

**The Chairman:** Thank you very much, you have been most helpful. Thank you.

485 **Mr Saints:** Thank you very much, for your time.

*Mr Ogier and Mr Devine were called at 9.33 a.m.*

**EVIDENCE OF  
Mr M Ogier, Director, and Mr P Devine, Head of Regulatory Affairs,  
Guernsey Data Park Limited**

**The Chairman:** Right, without further ado, we welcome Guernsey Data Park Limited, thank you very much for coming.

490 Deputy Jones, I wonder if you could ask your questions.

**Deputy Jones:** Good morning.  
I think you were sat at the back during that half hour.

495 **Mr Ogier:** We were.

**Deputy Jones:** So I am going to ask you some similar questions to the ones that we posed to Sure, in order to grasp your understanding of Guernsey's security of electricity supply.

500 So my first question is in relation to whether you hold any major concerns relating to the current n - 2 policy?

**Mr Ogier:** I think what we would say is, historically, it seems to have worked. Certainly we have seen that last year. I think the question is whether or not going forward it is the right policy and whether it is going to work going forward. I think what we have seen is we have seen that we have got a very aging power station. That is of concern to us, and whether or not that n - 2 policy can be maintained because of that, and certainly, the announcement on new cable systems and new infrastructure to Jersey and France is very much welcomed by us, in terms of that, to look at whether or not that policy is going to be right going forward.

510 **Deputy Jones:** Do you feel that the policy over the last few years has been reviewed adequately? Could it have been done better or should we focus more on going forwards?

515 **Mr Devine:** I think looking back over the history of it; I am not quite sure how often the policy was reviewed. I am not saying it was not, but it certainly was not reviewed in this type of very explicit and open way. So I think now is a very good time to be reviewing it. It has been in place for quite a long time and situations and circumstances do change, so it is very good to have this review.

**Deputy Jones:** Thank you.

520 In terms of the outages and in particular the experiences we had last year, what are your concerns about power outages and the repercussions you think those outages would have on your customers?

525 **Mr Devine:** Sorry, can I just say I think it might be worthwhile drawing some comparison with ourselves and Sure. We are not really in the same statement as such, and our concerns would come slightly differently. Sure, we appreciate has got a very wide customer base across the whole Island and geographically across the Island. Our issues relate to Guernsey Data Park which is, if you like, a closed site. So when we talk about concerns with these things, they tend to be rather different. Yes, we have concerns, we have to keep the site running 24 by 7 by 365, and therefore power is a very big concern to us and the reliability of that supply.

530 **Deputy Jones:** So when outages occur, I am assuming or can I assume that you have a back-up generation system?

535 **Mr Ogier:** Absolutely, in the same way as Sure described. There will be back-up in terms of UPS batteries that will take on the load immediately, and then generation on site which will pick up the load, be that for somewhere between 24 and 48 hours of on-site capability to power.

**Deputy Jones:** And as we questioned Sure, how noticeable would those outages be? Your back-up would kick in immediately?

540 **Mr Ogier:** Immediately, so the UPS pick up that load immediately, because the customers cannot see any sort of down time.

545 **Mr Devine:** I think one does have to be very careful about this – there was a question that came up earlier, about can you ever afford an outage? Well, I think nothing is 100%... True, real 100% for anything is next to unaffordable, and we recognise that. The issue is to get it down to a 99.999% or better, with only perhaps just a few minutes a year; you need to be working in those sorts of areas.

**Deputy Jones:** Yes, because I think one of the questions that was asked was is there any level of reliability that we could ever have where no back-up would be required and I think you are sort of answering that question.

550 So how resilient then – you have mentioned 24 to 48 hours, is that how resilient your back-up is?

**Mr Devine:** Yes.

555 **Deputy Jones:** And you think that is effective and would be sufficient for the business that you are involved in?

**Mr Devine:** Yes.

560 **Deputy Jones:** My final question is in relation to Guernsey Electric working with larger customers to use their backup generation during peak demands in return for lower charges. I think the gist of some of the answers that we have got there; there were concerns about the tariffs and that. Do you share a similar view in terms of sharing your back-up in return for lower charges?

565 **Mr Ogier:** It is worth noting here we are working very closely with Guernsey Electricity, and as with Sure we have a very good relationship with them, and it is something we are exploring at the moment. Because there is only a very limited period of time where the Island is pulling all of its peak loads and at those moments in time, whether or not we could be putting on our generation, which has to be run up periodically anyway, to take off some of that load. So it is something that we are certainly open to and working with Guernsey Electricity to discuss.

570 **Deputy Jones:** Thank you.

**The Chairman:** Thank you.

Could I just ask you, would Guernsey Data Park like to be able to generate their own electricity entirely?

575

**Mr Ogier:** No, I think is the answer to that. We are not a generation company; we are not looking to be. The reason for the generation on site is purely as a back-up. It is a customer requirement of any data centre, to have that back-up. So, no, we have no interest in becoming a generation company.

580

**The Chairman:** Deputy Queripel.

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

Gentlemen, my first question to you is: do you have an opinion regarding Guernsey Electricity's plans for future provision and security for electricity supply?

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**Mr Ogier:** Yes, well, as I have said, we are very pleased with the announcements on the new cable infrastructure.

We firmly believe that new cable infrastructure to Jersey and France is the way forward for the Island for a number of reasons. A lot has been talked about sustainability of supply and we see that as a holistic approach to cost, and surety of supply,

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**Mr Devine:** The environmental issues.

**Mr Ogier:** The environmental issues and all of those, which we do not think can really be achieved with on-Island generation. Certainly, I think that has been proven with the emissions that we have seen as we have had to generate more and more on-Island. So we certainly see that importing more electricity from the continent and the European grid, to take advantage of that greener energy, or low carbon energy, is certainly the way forward for the Island.

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**Deputy Queripel:** Thank you.

My second question is a two-part question. Does your company have any concerns about GEL's distribution network; and is your company convinced that GEL is capable of distributing power to the whole Island during periods of peak demand?

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**Mr Ogier:** I think that is a question that we cannot answer in terms of the whole Island-wide, as Pat has already alluded to. Our concern focuses primarily on one site on the Island. That site will be served with new infrastructure; resilient infrastructure to enable that site to work, and that is something we are working with Guernsey Electricity to be able to do. The wider aspects is something that obviously Sure are concerned with, because they have a customer base around the Island, but I do not think we are in a position to really answer that in terms of the wider Island.

605

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

My final question, what additional megawattage will be required by your company to supply your future business needs and do you have any concerns regarding GEL being able to meet your requirements?

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**Mr Ogier:** No, as we said, in terms of concerns, we are working very closely with GEL about our power requirements to match our requirements with what they can generate and what can be supplied. So we have a very close relationship with them to balance that between them, because we are very aware that it is – it is a relationship between the two entities.

620

Our initial phase, we are looking at around a 10-megawatt demand to get us up and running and that will keep us going for a number of years, and then obviously over a number of years, that may ramp up, depending on what we see in terms of demand.

**Mr Devine:** It is very difficult to know what future demand in data centres will actually be. There are a number of factors; it was alluded to earlier about the increasing efficiency of the equipment of telecoms and IT equipment, and that is one factor. A counter factor is that the demand for data centre services is growing, so it is quite difficult to know over a very long period. And we are talking here about 10, 20, 30 years' time, a lifetime for this as a project. It is very difficult to know what that would be, that far forward. So, we work quite closely here with electricity to try and match that supply and demand. It is one of the reasons why we see cables to France as a good way going forward, because that is a very large source of power, should it be required.

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630

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

635 **The Chairman:** Thank you Deputy Queripel.  
Deputy Le Pelley.

**Deputy Le Pelley:** Thank you, good morning gentlemen.  
My questions relate to proper representation and value for money aspects. In your consultation  
640 response, you claimed that GEL had a long established monopolistic attitude towards customers; an  
engineering led mentality and entrenched labour relations.  
Could you explain what you meant by this and do you still stand by this statement?

**Mr Devine:** Bearing in mind that our submission was put down as the end of 2011 –

645 **Deputy Ogier:** Well, we have got a date of 11th December 2012.

**Mr Devine:** Yes, thank you. Historically, I think there has been a lot of truth in that and there was a lot  
of discussion earlier on about the behaviour of commercialised companies and companies that are in  
650 competition. That is clearly not the case with GEL; it is a *de facto* monopoly and as Mr Saints referred to,  
earlier, extending its monopoly by 10 years without any particular consultation. Well, we hold our breath on  
that sort of thing; we hold our tongues on that sort of thing.

We have seen changes in the last 12 months or so, I think really that the cable outage has shaken people  
up rather, and has changed the landscape, and people really having to think rather more about how this  
655 works. I would, just to look at it historically... The Policy Institute Report of 2010 reflected on the general  
behaviours of monopolies.

**Deputy Le Pelley:** Does the current policy serve consumers well; does it offer them value for money?

**Mr Devine:** If you take ‘consumer’ here to be in the widest sense, so not just Guernsey Data Park, I  
660 think the answer to that is: you have to wonder. If you look at the price of electricity here and you compare  
it to prices in Europe and generally, electricity here is quite expensive. So you have to start looking at the  
reasons for that.

If you compare us with, say, Jersey, you have to ask why we would be different from Jersey. And the  
665 CICRA Report on Electricity in Jersey, highlighted how much more expensive it is here than it is in Jersey.

Jersey Electricity has a policy of keeping its prices within plus or minus 10% of the European average  
and it engineers its business to do that. Now, we do not see that going on here, so we think it would be – it  
perhaps go back to this question of engineering led, we think there is a lot of scope for a lot of change, and  
it would benefit all customers.

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

Does GDP have concerns regarding the development of a more prudent and cost efficient electricity  
supply solution over (a) the medium and (b) the long term?

675 **Mr Devine:** Sorry, is that the cost of doing it?

**Deputy Le Pelley:** Well, the development of it and cost efficiency being involved, yes.

**Mr Ogier:** Well again, we think that actually the cables to France will be a cost efficient way to look at  
680 the medium and long-term importation of power. The capital cost, yes it seems high initially, but I think the  
long-term cost of that, when you are looking at buying from the European grid, and I think there has been  
some discussion over pricing in this forum and certainly in previous areas, of how that is worked out.

We look at the European pricing as the pricing once you take away all the taxes and other areas that are  
in Europe and are priced to consumers. Once you strip all of that away and get down to the bare bones of  
685 the price per kilowatt of that electricity, we are significantly higher. So if we are buying at that price in  
Europe, or close to that, and then there is a cost on top of that for the infrastructure to import, we still see  
that we should be more efficient, and only a small amount above those European prices and considerably  
cheaper than where we are now.

**Deputy Le Pelley:** Thank you very much for that, yes.  
690 What plans would GDP like to see put in place to adequately accommodate rising electricity demand in the  
future?

695 **Mr Ogier:** Well I think, again, I think we touched on that with the new cable infrastructure. We do think that that is the way forward, and putting in adequately sized cables that will enable that. Because there is no doubt that electricity usage will rise, and yes, efficiencies will come into that. But, if the Island looks to move away from uses of fossil fuels and various other areas, there is only going to be an increase we think, in electricity demand, albeit that the electricity used is being used more efficiently.

700 **Mr Devine:** And I think there is the issue of economies of scale. The Island has an opportunity now; it needs to refresh its power infrastructure. There is an opportunity to move toward more sustainable, environmentally friendly, imported power. But it needs to get some economies of scale into doing that, and power cables we see as the way to do that.

**Deputy Le Pelley:** Thank you.

705 My last question: what views does GDP have relating to Guernsey Electricity's recognition of private investment and consumption, and the introduction of a commercial rate accordingly which reflects these factors?

**Mr Ogier:** Sorry, can I ask you to repeat the question?

710 **Deputy Le Pelley:** What views does GDP have relating to Guernsey Electricity's recognition of private investment and consumption, and the introduction of a commercial rate accordingly, which reflects these factors?

715 **Mr Ogier:** Well, I think that comes back to the one size fits all. I think there would have to be some sort of recognition within that about different demands for different customers.

720 Currently there is a one size fits all in terms of the n - 2 policies and the policies going forward. I think, and certainly this discussion we are having with GEL over this about exactly that, if you have got on-site backups and you do not need the resilience or certain levels of resilience, there must be some way that we can work with GEL and that should be reflected, we think in the tariffs.

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

**The Chairman:** Thank you.

725 Could I ask you: costs, electricity costs, compared to other jurisdictions – in your view, is this a barrier or concern to business coming to Guernsey?

**Mr Ogier:** Yes. Is the simple answer to that! It is a major cost for a business in terms of electricity prices; there are a number of major costs, telecoms being one, electricity being the other, that we see as major barriers that the Island is facing at the moment.

730 So we do see that and we are talking to customers, and it is a total cost of coming and doing business on the Island, and electricity is one of those items. And certainly in the industry that we are in, we see it as a major cost factor and certainly a barrier to get more people here.

735 **The Chairman:** And what proportion of your costs will electricity form?

**Mr Devine:** I would not like to put a number on it, but it is perhaps one of the largest costs.

**The Chairman:** In percentage times, the order of magnitude?

740 **Mr Devine:** I do not want to put a number on it, but it is one of the largest costs. Power consumption in data centres and the whole of the data centre industry, the thing it concerns itself about most of the time is its efficiency and the cost of power and efficient use of power in data centres.

745 **The Chairman:** And do you recognise a tension between reliability on the one hand and cost on the other? In other words, reliability has a cost attached to it?

**Mr Devine:** Yes, of course and I think the whole thing about rebalancing the trilemma is at the root of this conversation and we think there is a different balance to strike.

750 **The Chairman:** Deputy Ogier, please.

**Deputy Ogier:** Thank you.

755 In your consultation response you described CICRA as being ‘constrained by its economist framework and the bounds of its legal powers.’ Could you explain what you mean by this and would you like to add to that?

760 **Mr Devine:** There is a big difference between... Okay yes, I can explain it. Historically, CICRA has looked to control GEL’s efficiency by price control and that has led to a long-term breakdown of relationship. This is recorded in other places, right. It has not been a very successful or happy story, that.

**Deputy Ogier:** Historically.

**Mr Devine:** Historically.

765 **Deputy Ogier:** Do you feel that relationship has changed recently?

**Mr Devine:** Well, I think that relationship is changing quite a lot with the new T&R sub-committee coming into play. We will see how that changes the landscape. We will see a more active shareholder.

770 **Deputy Ogier:** Right, even without the T&R sub-committee, which is a very recent addition, it has had no time to have a real effect, have you noticed a difference between the OUR or CICRA’s relationship between itself and GEL over the past say five years?

775 **Mr Devine:** Over the past five years, maybe in the past few months. One has heard that the relationship is changing. In the previous four and a half years, I think it was the same old story.

**Deputy Ogier:** Thank you.

Do you have any concerns or feelings on the long-term framework for Guernsey Electricity, post 2020?

780 **Mr Devine:** I am not sure I understand the question.

**Deputy Ogier:** Well the longer-term plans of Guernsey Electricity, we have got the cables and the longer-term plan for the cables, do you have any concerns or is your support unequivocal for that?

785 **Mr Ogier:** No certainly our support for the new cabling structure is absolute. We think it is the right way for the Island. We have great concerns obviously with the local generation in terms of the age of the plant that is down there, really the long-term sustainability of it. We know it is a very aging fleet, it will require massive investment there to replace an awful lot of the equipment down there if we were to use local generation, so I think, certainly for us, we see that importation is the way forward and we think it is a more sustainable way to go for the Island.

795 **Mr Devine:** I think it is also worth saying, and it refers to earlier discussion, about the behaviour of commercial companies and companies with competition. It would be extremely useful if GEL was, as it were, re-purposed to become an economic enabler on the Island, rather than just a mere supplier of a utility service.

Electricity is a real key enabler to the Island’s economy, and the development of the economy, and GEL has historically been able to sit there and be the supplier of almost a uniform, one size fits all service. If GEL was re-purposed to become a facilitator for economic development, that would be extremely useful. One of the effects of that would be prices closer to the European norm, European average.

800 **Deputy Ogier:** Would you like to expand on your view of prices and perhaps the funding of future major infrastructure projects. I know you would like to see prices closer to the European grid, how do we fund this?

805 **Mr Ogier:** We personally we think that borrowing is a way to look at this. We think that the long-term borrowing over the life of a cable, if you look at the cost of that cable and what it would do in terms of a per unit of electricity cost, it is not that substantial, and certainly if you have economies of scale there, the more electricity demand there is, then actually that cost of that cable is not that significant. If you can therefore be buying at a European price, and then you are only looking at the extra cost of transmission to do that, we think that it is actually a model that will work for the Island.

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**Deputy Ogier:** Thank you. You mentioned the trilemma, you mentioned environmental concerns, well how deep do your concerns on environmental issues go? What steps will you be taking to ensure your carbon footprint, for example, is as low as you can get it?

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**Mr Ogier:** For us, they are a major issue. One of the key drivers and certainly in the data centre industry and certainly with the companies that we are talking to, which are major global companies, to come to the Island, it is one of the major factors of what is that electricity, where is it generated and how is it generated? The key driver to that is that it is low carbon and as much as can be possible, green electricity. So for us, it is a major driver that we think for our business is the right way to go and certainly for the Island, we think it is the right way to go.

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**Deputy Ogier:** What sort of trade-off would you accept between green electricity, low carbon electricity and prices? Because the electricity that we get is low carbon, but there is also an element of green energy in there. Are you more for green energy, what are your comments on that?

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**Mr Devine:** I think this also goes back to the issue of efficiencies at GEL and the whole of the electricity supply. Currently, one cannot really tell what one is paying extra for green energy, because you cannot separate out the inefficiencies in the whole of the supply network, the whole supply system. Power prices are lower elsewhere, why are they much higher here? It is not because they are buying a certain percentage of (**Deputy Ogier:** Renewables.) renewables.

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**Deputy Ogier:** Would you be prepared to pay more for a green tariff?

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**Mr Ogier:** No, certainly not more than the current tariffs on Island, but we think that they are unnecessarily high. So I think that actually we are looking at this and saying that we think tariffs are too high at the moment, therefore we should be able to bring them down, whether or not there is therefore and then a slight premium on that for the green element, that is certainly something we would look at and we would not dismiss, but we still think that would still result in a lower price of electricity.

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**Mr Devine:** And I think it is also fair to recognise, it is not the absolute price of electricity that concerns us. It is the competitive price against other jurisdictions. If other jurisdictions are paying green taxes and such things, fine. But if we start to add them here at the moment, we will just be completely priced out of the market. We have to tackle these other issues.

845

**The Chairman:** Two more minutes.

**Deputy Ogier:** That is useful, thank you.

I think I am finished with my questioning, thank you Chairman.

850

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

Reading your submissions, for which we thank you, it was not clear what you wanted. It was not clear whether it was a cable and a gold-plated supply or a low-cost supply which acknowledges that you are going to rely on your own back-up anyway. I wonder if you could just expand on that part of your submissions.

855

**Mr Devine:** Well, I think that probably the best place to start is that we do not see a contradiction between some of these issues. Importing low emission electricity from Europe, even though that requires the capital cost of new cables, we would see a lower price of electricity here. So these things are not in – we do not see it as a contradiction.

860

**The Chairman:** Thank you.

I wonder if I can seek your views on this concept of commercialisation of GEL. It was a state monopoly – you never have been. When you view the status of GEL as a commercialised entity, what does this mean to you?

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**Mr Devine:** I think as Mr Saints was referring to earlier, there are *very* big differences between the behaviours of what have been long term state monopolies and if you like, we will make somewhere at the other end of the spectrum – say, a new entrant company, a real start up, they have *very* different behaviours.

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So to answer, there are two issues, I suppose. One is to have GEL's purpose made very clear, and this comes back to this thing about it becoming an economic enabler, and if that is its purpose, to make sure that

its behaviour matches that. That is not its historic purpose and its historic behaviour has been different. The other dimension to this is this is a small geography, is there room here for another power station?

875 **The Chairman:** Now, I did not ask you about liberalisation. Assuming that there can be no liberalisation of the electricity supply, on the basis that GEL is 100% owned by the state, it is your comments on this concept of commercialisation, whatever that may mean – what benefits do you think it has...? How do you think it has achieved the more commercial attitude that you were describing?

880 **Mr Devine:** I think over the – what is it now, 12 years I think, since commercialisation, something like that? – I think it has been very slow to change. We have seen acceleration in change in the last year or so.

**The Chairman:** And how do you think that has come about?

885 **Mr Devine:** I think things like the break in the cable has really shaken people up. I think the various reports over the last few years about the need for greater shareholder involvement have been very useful, and the new T&R sub-committee coming through to try and address some of those issues, is very useful. It is a slow change.

890 **The Chairman:** Well, we are very grateful. Thank you very much. We are going to break now for five minutes. Thank you.

*The Committee adjourned at 10.03 a.m.  
and resumed its sitting at 10.09 a.m.*

#### EVIDENCE OF

**Mr A Riseley, Chief Executive, Mr M Byrne, Deputy Chief Executive,  
and Mr J Tooley, Head of Policy and Consumer Affairs,  
Channel Islands Competition and Regulatory Authorities (CICRA)**

895 **The Chairman:** Right, thank you very much. We are now going to ask questions of the Channel Islands Competition and Regulatory Authority, known as CICRA, and I call upon Deputy Jones, please.

900 **Deputy Jones:** Good morning, thank you for coming. My questions are going to focus on the security of electricity supply policy and CICRA's role. My first question is: what measures does CICRA take to ensure that the current policy is adequate? For example, how often is that policy reviewed?

905 **Mr Riseley:** Well, I might take that one, Deputy Jones. I think we start from the principle that actually security of supply is inherently a matter for public policy, as it involves trade-offs which are properly matters for the elected States. In fact one of the reasons we welcome this review is because the n - 2 policy has not been scrutinised for several years and it is a key input to electricity regulation.

910 So I think the view that we have had both as the Office of Utility Regulation and since August 2012, as the GCRA or CICRA, has been that really n - 2 is a matter for public policy, but that in its existing format, with fairly scant detail attached to it, that it has involved both the regulator and the supplier in the form of GEL filling in some of the details.

915 In our view, it is very welcome that the States is looking, through both this process and through the Energy Policy Review, to asserting its role as the determiner of security of supplies policy.

**Deputy Jones:** Okay, thank you. Does CICRA consider that there is scope for competition in the electricity market in Guernsey?

920 **Mr Byrne:** I think this is one of those issues where you do not know until you try. But obviously the economies of scale in markets like this, suggest the scope for that is probably a lot more limited than other jurisdictions.

There is a question of whether competition at upstream – so in generation of power – is something that you could allow competition for, and then you might suggest perhaps that in conveyancing, it lends itself

925 far less to that in the sense that you have wires in the ground and we do not particularly want the Island dug up a second time by a competing conveyance or distributor.

If you are looking at the retail side of the market, possibly, but again then you have the economies of scale – you have a market with an economy of 24,000 households. How big is that market to allow for it?

930 – There is possibly a question here which is when we were talking about competition in a different sense – one sense is that you have commercial entities competing with each other; another is that we as individuals or as businesses or as consumers can generate our own electricity through things like distributor generation and micro-generation. In the sense that that is competing, possibly more could be done to facilitate that.

935 **Deputy Jones:** Bearing your answer in mind, then, the current situation that we have is that GEL currently holds a monopoly. Just to expand a little bit on what you have said, do you think the best interests of Guernsey are maintained through that monopoly? You have given an indication of the scope for competition.

940 **Mr Byrne:** I think this is a difficult question. Ultimately it depends on what the incentives are on the business. If you think that the incentives are strong enough, adequate, comprehensive enough, then you start to wonder whether the benefits of competition are really going to add something that the existing business does not.

945 I think when you look back over the past in terms of our experience of regulating, the difficulty that we have, and we have a lot of sympathy for Guernsey Electricity in this, is they have had to fill in the gaps in policy, as Andrew was alluding to. So some of the issues that come in are, if you are running a business, you obviously want to – you are very much more averse to risk than you might otherwise – so while we have a security of supply policy that says that there must be sufficient alternative capacity to cope with failure of the two biggest generation sources, the challenge to a business is always when there is vagueness, where there is a gap in policy, you really do not have, I think, a sense of whether the incentives have worked out properly until we have clearer policy. I think Guernsey Electricity would probably agree with that. Certainly that is our experience.

955 **Mr Jones:** I am not sure... You may well have answered this question. During the first day of the hearing, Deputy Kevin Stewart commented that liberalisation of the electricity market in Guernsey would be 'bonkers'. What is your view on that comment?

960 **Mr Riseley:** Did he define what he meant by liberalisation? Did the context of the question indicate what was meant by liberalisation?

**The Chairman:** It was that the thought that you could have as – Mr Byrne evidence was very interesting – but I think the assumption at that stage was that you could not have multiple generators or distributors of electricity. I think his comment was about the concept of numerous electricity companies, whereas in fact, the panel was directing their question to this concept of commercialising what is actually an entity 100% owned by the States. Sorry, does that help...?

965 So the question is, do you have a comment about the notion...? As Deputy Jones has already said, you have answered the question about liberalisation, because you do see a possibility of some sort of multiplicity at least of generation, particularly if one thinks of micro-generation and that sort of thing, so the question really has been answered, as you thought, Deputy Jones.

970 **Mr Byrne:** I could supplement that answer if you like, in the sense that I think if we are dealing with... I think in our view what may work better is where you have an organisation that is commercialised – it has commercial incentives with very clear objectives that supplement it – where commercialisation does not meet entirely with the needs of public policy, supplemented by policy, for example in the areas of security of supply or others, and it is that supplement where policy fills the gap and is very important in doing so. But the bedrock, if you like, is a business that has proper commercial incentives in which to operate.

**The Chairman:** You have two more minutes, Deputy Jones.

980 **Deputy Jones:** Two more, okay I will move on.

Is CICRA content with the level of transparency within GEL in relation to wages, policies, operations, etc.? One of the things I could also ask is, do you agree that GEL should publish its internal salary scales?

985 **Mr Tooley:** It is not something that I think you would normally expect to see a utility do, in terms of putting in the public domain that kind of information about individual salary scales and those kinds of things. I guess that in general transparency is a good thing and it is very difficult to see arguments why transparency is not a good thing, but on the other hand, it does need to be a degree where the burden becomes overwhelming on a business to actually put everything into the public domain and open that up to debate.

990 So I think there clearly is a balance to be struck between the things that are of genuine public interest and ought to be in the public domain and things which consumers may be interested to know, but are not necessarily things that are going to help them in terms of managing their energy bills or taking decisions.

995 **Deputy Jones:** Thank you. I am up against a little bit of time here. In terms of...you did a review into the electricity market in Jersey. Has this been done, is it going to be done or is there a similar review going to happen here?

1000 **Mr Riseley:** Well we conducted the review into the electricity market in Jersey using our Competition Law powers. We are not the regulator of the electricity sector in Jersey so the decision was taken, in consultation with the Economic Development Department in Jersey, that some sort of a market study type review was appropriate.

1005 I do not think we considered that an equivalent review is necessary here, because we have a role – at least at present – as the regulator of the electricity sector in Guernsey. So we really were, in the case of the Jersey study, having a snapshot with no continuing role in regulating the sector; by contrast, since commercialisation in 2001, we have had a role as the electricity regulator under the Electricity Law.

**Deputy Jones:** I have got one more question.

1010 **The Chairman:** Yes, do please. One more question please.

**Deputy Jones:** It is quite important.

**The Chairman:** Yes.

1015 **Deputy Jones:** One of our earlier witnesses referred to CICRA as being constrained by its economic framework and bounds on its legal powers. I do not know whether you were in the room at the time. How would you respond to that criticism?

1020 **Mr Riseley:** Again, it rather depends what you mean by the economic framework and bounds on its legal powers. If we felt that there were aspects of our legal powers that required changing, then obviously we have a perfectly appropriate forum in which to agitate for changes to it.

1025 I would say, I think the experience... well the OUR and CICRA would say in respect of the economic framework and legal powers that one of the things that has arguably hamstrung effective regulation of the electricity sector in Guernsey over recent times has been the absence in some important aspects of public policy – and security supply is one of them – and the desire, on a seemingly semi-regular basis, to continue to investigate whether actually the existing system of regulation is appropriate. A state of constant revolution does not really assist either the regulator or the supplier in bedding down a means of trying to get on and form regulation.

1030 **The Chairman:** I am afraid time moves on.

I just need to clarify one answer. You refer to the importance of GEL, Guernsey Electricity having proper commercial incentives. How is CICRA making sure of this?

1035 **Mr Byrne:** What we do is we set a price control on Guernsey Electricity that takes account of their means or need to invest, their operating costs and a return on their kit, their capital investment. We, for example, will benchmark return on various jurisdictions, so we will do it in that way. We will look at operations and capital investment by getting in people, who quite often are actually involved in installing some of the kit and running of very similar operations, to scrutinise the business. Then we will look at that either in the capital proposals or in the operating cost proposals. If we consider that those proposals are higher than they need to be, we will take an efficiency slice out of that proposal from Guernsey Electricity and say, that is the amount of revenue you have to work with to achieve your ends and when we do that, we are cognisant for example of policies like n - 2 and that would take account of things like future demand, because ultimately price control is about over the future period of whatever a period control is set.

1045 **The Chairman:** Thank you. Deputy Queripel.

**Deputy Queripel:** Thank you, Mr Chairman.

Gentlemen, I have two questions for you. The first one is: what criteria does CICRA employ to determine whether or not the pricing structure implemented by Guernsey Electricity is fair and equitable?

1050 **Mr Riseley:** Could I ask, Deputy, when you talk about the pricing structure, do you have aspects of the pricing structure in mind? Do you mean the balance of tariffs between industrial and residential customers or do you just mean the overall level of tariffs?

1055 **The Chairman:** It is a general question; it is a very wide and general question.

**Mr Byrne:** With a lot of these things it is a question of where you put your resources, so we carried out three reviews; one was an overall review of the business, another was purely of its operating business and another was of its capital investment proposals. So there have been three reviews over time.

1060 One of the things that we have considered is, for example, who should share in the costs of security of supply, so in the cost that customers bear, there is a question should the single home owner out in Torteval be bearing the costs of a very high level of security supply that perhaps a finance business engaging in transactions of millions of pounds a day need? There are also some business's that actually can afford interruption because they have backup.

1065 So we raised that question, around what is equitable and fair. We did not pursue that further at the time as there were far bigger challenges if you recall over the last five or six years. Among them being the price of energy has gone up astronomically, and trying to get a handle on that and quite high capital needs of Guernsey Electricity overall. So certainly in terms of where resources have gone, those have been the big challenges.

1070 The overall efficiency and fairness of the price has been far more the focus rather than sub-groups of the customer face.

**Deputy Queripel:** Thank you.

My final question. Does CICRA have a role in determining the future direction of energy policy?

1075 **Mr Riseley:** I think we would like to think that we have a degree of expertise to contribute to deliberations on energy policy, but I guess to reiterate the comments that I made to an earlier question, we see issues such as security of supply to be probably matters of public policy for elected officials to determine.

1080 So while as a regulator in a particular sector we will always want to contribute our expertise and want to ensure that there is a system of regulation that is workable, and that we can play an appropriate role in. Yes, electricity policy, policy generally, I think the view of regulators all over the world would be we should not be here to make policy. I think one of the themes or comments from the Office of Utility Regulation and the GTA more recently on some areas, has been that the absence of policy in key areas of the energy sector, has had to be filled by a mixture of the regulator and the supplier, and that in fact, it is part of the reason why  
1085 this review is so welcome, that the proper place for that is in fact...the proper place to make decisions on trade-offs between resilience and prices and what level of security the general public wishes to have, really. I think that probably resides with yourselves.

**Deputy Queripel:** Thank you.

1090 No more questions, Mr Chairman.

**The Chairman:** Thank you.

Deputy Le Pelley.

1095 **Deputy Le Pelley:** Thank you, Mr Chairman. Good morning gentlemen.

My area of questioning is about implementation and value for money and I am going to draw on your expertise that you have referred to. Does CICRA consider that the n - 2 policy offers value for money?

1100 **Mr Riseley:** I suppose we can all contribute to that because actually we think it is a *very* important question and it obviously features to a significant amount in the submission that we made to the committee.

It is important to acknowledge that there are two sides of the ledger in terms of the security supply and I might be telling you stuff here that you already know, I am sure it is a theme that has come through other submissions, but it is very worth reiterating...

1105 **The Chairman:** Please do not be reticent. It is very important that we hear your evidence.

**Deputy Le Pelley:** Absolutely.

**Mr Riseley:** No. The costs of outages are very visible. The costs of ensuring security of supply are potentially less visible, but are no less tangible and real and it is very important to engage in that trade-off.

1110 This is not a problem that is unique to Guernsey. I grew up in a place a long way away, where the spikes are caused not by very cold days in the winter, but very hot days in the summer, when the air conditioning goes on and that issue of demand management, that issue of security of supply is not unique to Guernsey. The circumstances that Guernsey finds itself in are different. But it is a problem that faces, arguably, all jurisdictions.

1115

**Deputy Le Pelley:** Can you just state which place you are talking about?

**Mr Riseley:** Oh sorry, Southern Australia. My accent has mellowed over time.

1120 One of the things that is unusual about electricity is, it cannot be stored and the grid has to balance and therefore you do need to ensure that the security supply takes on an important aspect of that too, but if the Committee comes away with nothing else from our submissions, I think that importance of focusing on both sides of the ledger is very important.

1125 **Mr Tooley:** Yes, I think it is probably just worth adding that there really are those two aspects to security of supply. There is the long term security of supply against the overall level of demand from the Island. Security against outages like cable failures or break-down of an engine, security of the supply of oil that is needed to run on-Island generation and that has one set of solutions. And then, is there the security supply in terms of meeting the minute by minute demand for electricity on the Island? Those two things do have quite different aspects, quite different solutions, and really have differing impacts on the costs of maintaining security of supply.

1130

And, in particular, if you think about how you meet the minute-by-minute demand for electricity, there are short peaks in demand every day for half an hour or an hour, and in order to meet those you may need a substantial amount of kit that is used very infrequently, which may only be switched on for a short period each day in order to meet that peak in demand, particularly if you are relying on on-Island generating kit, rather than just increasing the amount of power that you draw through the cable link.

1135

So I think there are some questions about how it is best to manage those peaks in demand and what tools are available to the electricity company, to GEL, in meeting that demand. Thinking perhaps about things like methods of demand management, whether you can call on resources that may be held elsewhere around the Island, whether you can look at mitigating and managing those spikes in demand, so that there is a reduced amount of, if you like, duplication of capacity. But then of course, you do have to ensure, if you are going to have a n - 2 policy, that there is enough available capacity to cover for the longer term breakdown of those assets if they do not become available for a while.

1140

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

1145

We must move on. How much influence does CICRA have over price rises?

**Mr Riseley:** Under the current system it is more of an influence really. The current system of regulation involves CICRA being required before GEL can amend its tariffs – well, certainly increase its tariffs – to approve any such change. So, as currently configured, it is a role that we do have. And I guess it is the principal role that we have, the principal regulatory tool available to us.

1150

**Deputy Le Pelley:** Okay.

My next question moves on to how do electricity prices in Guernsey compare with Jersey and other places? According to your review of Jersey Electricity, the standard rate in Jersey is 15.18p and in Guernsey 18.80p. How do you explain the cheaper prices in Jersey?

1155

**Mr Byrne:** I think possibly what is a... That particular study was looking at what was a major type of tariff that Jersey consumers were on, so it is important to make that comparison. It is probably better to compare the total average price of electricity and perhaps that might help in terms of discussing this aspect, and it goes back to what do you want for your money? So I do not think we can simply talk about prices; I am talking about some measure of quality of service, and it relates to your previous question, in that the question is what do you want? I think if you are looking for example at the power failure of 2012, the evidence is that Guernsey Electricity performed infinitely better than Jersey Electricity in terms of customer supply that was lost. In Jersey, they lost just under 300 minutes in the calendar year that they reported on. In Guernsey, we lost just under seven minutes. So Guernsey Electricity's performance was a lot better.

1165

1170 If you look at this differently, in terms of what your security of supply wants and what you are paying for, the Jersey Electricity review compared over 10 years customer supply that was lost and in that case, you see is a measure of quality: what you see is Guernsey Electricity is about 35% worse than Jersey. Then if you look at price, and if we are looking at the total average price, so the average total price in the last financial year that Guernsey Electricity reported is round about 14.4p per kilo watt hour, and the last two years between Guernsey and Jersey you find a range of about 19% to 26% higher in Guernsey than in Jersey.

1175 **Deputy Le Pelley:** And that includes the fact that Jersey has got a 5% GST on top of it?

*Mr Byrne:* Yes.

**The Chairman:** One more minute.

1180 **Deputy Le Pelley:** Okay, thank you.  
Do you think that GEL is doing enough to provide a reasonable price for consumers?

1185 *Mr Byrne:* We certainly think that they can work harder. I think there are several aspects to that. It is a business that is commercialised, but what its measures of success are, I think are too vague, and so I think, in terms of have they kept the lights on, even in the case of 2012, when the power to the interconnectors failed, the evidence is they did a – certainly a far better job than Jersey did. So by those standards, they did very well.

1190 In terms of efficiency, when you look at those price gaps between Islands, what we see is virtually the same electricity source, in terms of the component of its electricity supply. We have questions about why that gap is so big. We can understand why there is a gap: there is more kit; we are further out at sea; we have a more stringent security of supply policy. We are not convinced that explains that whole gap between those two price points.

1195 **Deputy Le Pelley:** Thank you.

**The Chairman:** Thank you, Deputy Le Pelley. We must move on, I am afraid.  
Deputy Ogier.

1200 **Deputy Ogier:** Thank you.

The Energy Resource Plan objective 1 states that we should maintain the safety and security of affordable and sustainable energy supplies. From your point of view, how is that achieved, and maintained?

1205 *Mr Byrne:* I think when we look at sustainability we try to balance generally four different things. One is how secure is your energy supply? The other is the impact on the environment and public health and other aspects looking at international agreements and obligations.

We also need to throw in affordability there and we also have to throw in resilience – when problems happen, how can we cope with them? And it is the balance between those that I think needs to be met with policy direction.

1210 If we have to throw in, in terms of consumers, there is increasingly a need and an emphasis on assessing when we make long-term decisions that will impact on the consumer, that we consider those who are less well-off, and particularly considering the long-term impact on them and that is an important part when we are looking at affordability of what should be considered. But it is a play-off between at least those four aspects.

1215 **Deputy Ogier:** How do you weigh those various aspects in your relationship with GEL?

1220 *Mr Byrne:* It is a combination of these, so we will simply take... the n - 2 policy says that if there is a failure, enough generation needs to be available to compensate for the two largest capacity components of the GEL's fleet. That is in many ways a simple arithmetic calculation so you can see if they need more kit or not.

We would challenge that, in terms of do they need it now? We would challenge their demand core costs that justify it, so that is how we would do it in terms of pure capacity that is needed and the amount. When it comes to affordability, we would look at things like efficiency, as I was talking about earlier. And in terms of when it comes to deciding the sort of things like resilience, we really would look at the

1225 reasonableness of ... we would look at experts giving us advice, in terms of saying, 'Look, this is how, what you do here.'

So a classic is how they keep their oil tanks warm? Do they keep them warm all the time or do they need them some of the time? Those kind of operational aspects of it inform resilience. So they relate to efficiency and those can be... In general terms, that is the sort of thing that we would consider. I can give you a lot more detail at the sort of aspects that we might look at, but that is more or less how we would look at things.

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

1235 Earlier you said that more could be done to facilitate the use of sustainable technologies on the Island, perhaps micro-generation. Such an aim does fit in with the Energy Policy, but what part are you playing in delivering those aims and what can you do to help deliver this in your relationship with GEL?

1240 **Mr Byrne:** So in terms of the part that we play, we do not actually play an active part in that. There is a buy-back tariff, which is more or less pitched at the marginal cost, avoided cost to Guernsey Electricity if they take electricity from somebody that has solar panels or ground source pumps or something like that, as opposed to generating and importing it themselves. So that tariff is part of the revenue consideration. It is a very small component, so in terms of materiality it does not really feature.

1245 When it comes to connections – so if you are generating in your home, or a business wants to connect to the grid – that connection is not necessarily about micro-generation, but if we are talking about if you are generating you need to connect to the grid, that would be something that could come to us in a dispute hearing for example, and we would consider in terms of the connection costs, but it certainly is not anywhere near what we would call a big part of our workstream.

**Deputy Ogier:** One more question.

1250

**Mr Riseley:** Can I follow up on that as well?

**Deputy Ogier:** Please.

1255 **The Chairman:** If you are quick –

**Mr Riseley:** Very brief.

**The Chairman:** We are short of time.

1260

**Mr Riseley:** Ultimately, if decisions are going to be made about favouring particular forms of generation, then I think our default position would be that that is a matter, again, of policy, for elected governments, rather than for regulators and suppliers to be setting.

1265 **Deputy Ogier:** Okay, thank you.

Some respondents to our consultation have indicated that some of the charges on the generation on the electricity, perhaps in the larger areas, act as a deterrent to them. Is this something that you have a view of?

**Mr Riseley:** Could you clarify that – charges on the generation...?

1270

**Deputy Ogier:** Perhaps some customers might like to install some generation capacity of their own. They find that there are barriers to entering into that sort of agreement. Does CICRA have a view on this?

1275 **Mr Tooley:** I think there are probably two aspects to that. One is how can they best make use of the assets that they have on site? Can they just supply themselves, or if they have a surplus, can they feed that back either to Guernsey Electricity, or perhaps to a neighbouring business or something like that, could businesses club together? So there are questions around that, I think. At the moment, I think they are only entitled to supply themselves. So that is probably a slight barrier to the incentives on providing that service.

1280 I think only remunerating what electricity is sold back at a marginal price, is clearly a strong indicator against people building some of their own capacity because clearly you are not going to do that unless you have got a substantial benefit. So something that perhaps reflects an average cost, or something along those lines, would provide better incentive to people to do that. It is just a matter of economics.

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

1285 I have got three questions for you, and I am going to have to ask you to give us the most succinct answer you can, with apologies, but there are other witnesses who follow on from you.

The first question is this: do you see it as CICRA's job to replicate the pressures which a true competitive market would place on Guernsey Electricity?

1290 **Mr Byrne:** Yes, with a soft touch, which is taking account of the policy that is there, that would supplement what a pure competitive market would deliver. And there are various needs for that, scale being not least of which.

**The Chairman:** Well, accepting that policy is in the background, how can a regulator do this? How can  
1295 a regulator replicate the pressures of a true competitive market?

**Mr Byrne:** We do this in two ways. In the past what we have tended to do is from the bottom up, to actually look at cost components and challenge them, either through our own expertise or through bought-in expertise. The other is top down, that we would compare it to other jurisdictions that have aspects in  
1300 common, and we would look at those to see how out of line or in line their costs are.

**The Chairman:** Thank you.

And lastly, the creation of a new sub-committee by Treasury and Resources, to manage State trading entities – how does this affect the role of CICRA?

1305 **Mr Riseley:** I think it is a matter that is yet to be fully settled. On the one hand, CICRA is firmly for the shareholder of Guernsey Electricity and Guernsey Post and other state trading entities taking a more active role. It is something that has come up in previous reviews of regulation as being very necessary.

1310 There are some aspects of the sub-committee's remit that may well overlap with what we would see an independent regulator doing. So we are in discussions with Commerce and Employment at the moment, about how best to reconcile the role of an independent regulator with a more active shareholder.

But the concept is a good one.

**The Chairman:** Thank you very much, and sorry we had to press you a little bit at the end.  
1315 We will break out for just five minutes.

*The Committee recessed at 10.47 a.m.  
and resumed its sitting at 10.55 a.m.*

**EVIDENCE OF  
Mr A M Bates, Managing Director, Guernsey Electricity Limited  
Deputy K Stewart, Minister, Mr D Hackley, Strategic Planning Officer, and  
Mr S Morris, Energy Policy Advisor,  
Energy Policy Sub-Group of the Policy Council**

1320 **The Chairman:** Good morning, and thank you to the representatives of Guernsey Electricity Limited, and the Energy Policy Sub-Group of the Policy Council. We apologise for detaining you for ten minutes. Thank you for your patience, and I will ask Deputy Jones if he could ask his questions, please.

**Deputy Jones:** Good morning. My questions relate to regulation in general.

1325 I will direct this one to Deputy Stewart to start with. What do you perceive CICRA's role to be, and are they effective?

**Deputy Stewart:** I think, at the moment that is under review, both between C&E and in discussions with T&R. I think any regulation should be examined from time to time, to see whether it is fit for purpose, whether the expertise is there within the regulation and whether that regulation is cost effective.  
1330

I think it is right that any form of regulation from time to time is reviewed by the Government.

**The Chairman:** Mr Bates, would you like to comment on that question?

1335 **Mr Bates:** In terms of regulation of Guernsey Electricity, obviously I was not Managing Director for the first nine years; I have been for the last three years. Prior to that, I came from another island utility, in the Isle of Man.

Regulation for me should achieve three things. It should try and look at how efficient the organisation is; whether it gives good service standards; and also then there is the profitability.

1340 Now, one of the problems with Guernsey, the regulation of Guernsey Electricity, was it very much focused on profits and money, and potentially not as much as it should have done on efficiency and service standards. I think because of that and the use of price control in one of the times of the worst changes in the price volatility of fuel products, have created a regulation that cost an awful lot of money and did not add a lot of value and potentially de-focused the organisation.

1345 So I do not think regulation has currently been successful in Guernsey, although some of the things that regulation tries to achieve are good points.

**Deputy Jones:** Thank you.

1350 You talk about price control, and those types of examples. I will put this one to you first, Mr Bates – why do we need a regulator for a monopoly supplier, and can the States of Guernsey regulate the prices instead?

**Mr Bates:** Do you need scrutiny of a state-owned organisation? I would say yes, you need the appropriate levels of scrutiny in a state-owned organisation. Does it have to be via regulation? I would probably say no. You do not need specific regulation to create the results you want.

1355 So my personal view is, yes, we need scrutiny and we need scrutiny particularly in the areas I mentioned, to do with service standards, and efficiency, and what we offer to our customers.

I would not say you need to overly focus on our profitability; we are not driven to create massive profits for shareholders. We are driven to create enough profit to reinvest in the Island. So it is a fundamentally different environment the company operates in than a truly privatised commercial business.

1360

**Deputy Jones:** Thank you.  
Deputy Stewart?

1365 **Deputy Stewart:** I think in terms of where a lot of regulators tend to sit, regulators do what they do – they regulate. They tend not to be particularly proactive. And this I have seen across all forms of regulation.

So, for example, in a more political role, I would be saying things to Guernsey Electricity, ‘Rather than being reactive, let us be proactive.’ You have got smart metering – can we not have ability for people nowadays, on their mobile phones for example, to be able to monitor, in real time, their electricity supply, so they can better manage it?

1370 These are the sort of things that I think a better shareholder role could bring. It is about that proactive, where are we are going with the business; how can we make our services more accessible to the consumers? These are things that regulators tend not to do. Regulators tend to just be fairly reactive rather than proactive with a business.

1375 I think, one of the things to explore, and particularly with T&R sub-group, is about that more pro-active nudge, from time to time, from the board management at Guernsey Electricity, rather than just having this reactive approach which we appear to have had over the recent years.

**Deputy Jones:** Is it safe to say, the review you are conducting now will cover whether the regulation we have now is appropriate for the situation that we find GEL in i.e. – ?

1380

**Deputy Stewart:** Exactly, and I will come back to my three points – fit for purpose regulation, are we getting the sort of regulation that we really want? Is the expertise there? And, of course, is that regulation – because the regulator is funded by the taxpayer – cost-effective regulation? Are we getting the right bang for our buck?

1385

**Deputy Jones:** Thank you.

You have brought me nicely into another question. How does the new T&R sub-committee, established to manage the States’ role as shareholder in these entities, relate to CICRA?

1390 **Deputy Stewart:** Well, at the moment, CICRA’s role is under review. But notwithstanding that, I think for T&R to put in place more expertise, and to take a more active role as a shareholder, rather than being a fairly passive shareholder, which I believe they have been, in my view, in the past, is a good thing because they can be a little bit more proactive with the company, particularly at a time when there is likely to be a

1395 huge amount of investment and to have that better shareholder oversight, and more expertise brought in, particularly with the quality that I know they have on that sub-group, should be welcomed, in my view.

**Deputy Jones:** And in your view, do you think this will meet all Government's requirements in relation to these entities?

1400 **Deputy Stewart:** At the moment, the policy is that CICRA is the regulator. Under discussion is: do we need CICRA or should it be done by the sub-group? Now, that is still under discussion, and no final decision has been made on that. But this is really policy review in action at the moment – it is in play.

1405 **Deputy Jones:** My final question: this relates to commercialisation. Mr Bates, I know you mentioned you have been in the role for a short period of time. What do you see the main benefits of the commercialisation of GEL as being over the previous years?

1410 **Mr Bates:** In my opinion, I would suggest the board structure and the governance of the board is more proactive. I would suggest it takes the risk input in a way that does not skew good strategy with the business. It makes the board more commercial in its objectives for the business.

1415 So, my view of commercialisation is it has made the business more effective in what it needs to deliver for the Island. It does need scrutiny and it does need direction from the States, as 100% state owned, but I think commercialisation can be very successful. There is still a little way to go. I think it has got lost in regulation for a significant time and only now is it really striving ahead.

**Deputy Jones:** Thank you for your answer.

You gave us a theoretical... Have you got any examples of how GEL has achieved certain things on the basis that it has been commercialised, and is in what we consider a commercialised situation?

1420 **Mr Bates:** So what it has done, it takes a more commercial view of different activities it carries out. It spends a lot more time on strategic management. It understands risk within the business probably much more than it used to in the past – and I know generally most organisations are coming to terms with that. I think under the current Government structure, it is very dedicated to doing the right thing for the Island.

1425 Can it improve more? Yes, I would say so. I think it can still improve more, but it is definitely heading in the right direction and I say that coming from a world where I operate a commercial board.

**Deputy Jones:** Well, I am finished, unless anybody has got any further comments on the questions I have raised, I am quite happy to...

1430 **The Chairman:** Thank you, Deputy Jones.

Can I just pick up on, Mr Bates; you said commercialisation has got lost in regulation. Could you just elaborate a little on that?

1435 **Mr Bates:** I think when Guernsey Electricity was commercialised in 2001, it had a very clear view of where it wanted to go and what it wanted to achieve. I think through regulation, and the circular actions of both parties potentially, it went round and round and did not really understand where it was going and actually probably got lost in 'who is best at predicting the future for price control?', where really it should be saying 'what does the Island need in terms of infrastructure going forward?'

1440 I think now that we have had a break for a couple of years of that sort of intense price control, and obviously the reminder, as mentioned, of a cable failure in 2012, the company is much more focused on where it needs to go and what it needs to achieve.

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

1445 **Deputy Queripel:** Thank you, Mr Chairman.

Gentlemen, I will ask the questions and let you decide who is going to answer them. Perhaps my first one is best asked of Mr Hackley. Could you tell me, please, what will the future Energy Policy Report actually consist of?

1450 **Mr Hackley:** What will it... sorry?

**Deputy Queripel:** What will it consist of?

1455 **Mr Hackley:** The report is an opportunity for us to re-examine the n - 2 policy, and see if that is still fit  
 for purpose. We are hoping that it will provide a good policy framework, from Government, to enable  
 Guernsey Electricity to invest in infrastructure appropriately, and of course, that will mean having to  
 balance the issues that we have heard today, and during the first hearing, which are cost, security, and  
 environmental issues. We have heard from a number of people today, I think, who have said they recognise  
 that is a balance. How that balance is made will be a matter for Government to decide, and that will be the  
 1460 purpose of the States Report, to set those questions and to make recommendations accordingly.

**Deputy Queripel:** Thank you.

1465 Have you consulted with domestic and commercial consumers, to gather their views in compiling the  
 Report?

**Mr Hackley:** At the moment, there has not been any consultation, but the Chief Minister, I believe,  
 noted during the first hearing that there would be a round of consultation before the States Report is put to  
 the States.

1470 **Deputy Queripel:** Thank you.

Do you think consumers simply accept they have to pay high prices for electricity, or do you think  
 consumers would rather pay less, and risk having to endure more power cuts?

1475 **Deputy Stewart:** It depends what you mean by higher, really, Lester. If you look at domestic tariffs, we  
 sit about the middle of Europe. Germany is considerably higher than us; so is Denmark, Spain, Cyprus – a  
 whole bunch of them. I think what people get in Guernsey, at the moment, both sitting on C&E and on  
 Policy Council, is actually pretty good value for money.

1480 I think that energy prices are going to continue to rise. That is a global issue, not just a local issue, for  
 us. But on top of all the challenges that mainland Europe has, or the UK has, we have one that we are an  
 island and that we have to maintain an n - 2 policy for security of supply.

1485 I think, in terms of do people want power cuts, and remembering back to the 1970s in the UK –  
 absolutely not. I think the disruption it causes to even consumers now, having to reset just about every  
 electrical item in their house, having to then pay attention to food in freezers and fridges that we all have  
 now. I think that security of supply... If you were to do a survey, I would say that most people would  
 expect a very high level of security of supply these days, particularly of their reliance on electricity. Only  
 today, we know how important our freezers are. I have got bread in my freezer, so I am probably the only  
 person in my clos with bread, because of the storms that we have had!

1490 So, I think people have come to expect a very high percentage – and if you look at the outages, we are  
 about on par, and actually performed in some cases better than the UK, in terms of security of supply. I do  
 not think people pay a high price in comparison domestically to the rest of Europe. I think we are kind of  
 there in with the pack.

1495 To be honest, there can always be room for more efficiencies, and I know that both T&R and the  
 shareholder sub-group will be looking for that, and I know that Alan and his team are looking for that. But  
 in general, I think people here in Guernsey – and I speak as a consumer as well as a Minister – I think we  
 get a pretty good deal and a very good service.

**Deputy Queripel:** Okay.

**Mr Bates:** Sorry, can I just add there, Mr Chairman.

1500 Just to clarify some points I heard previously, particularly the comparison with Jersey electricity prices.  
 The Report carried out by CICRA at the end of 2012 related to just after Guernsey Electricity put its 9%  
 increase through, and just prior to Jersey Electricity putting their 9.5% increase through. Just to clarify the  
 position now, Guernsey is roughly on average about 17% more than Jersey Electricity in price. Why is that?  
 Well, Guernsey Electricity is currently generating 70% of electricity for the Island using its diesel  
 1505 generators, so only 30% is importation.

Jersey are currently importing almost 80% of their electricity from France, and only generating 20%.  
 Well, I think we have already indicated that it is significantly more to generate using on-Island generation,  
 varying over the time of the year, but generally I would say at least half, if not more again, and that is one  
 of the reasons. So the question should be ‘how is electricity in Guernsey so cheap?’ currently on that basis.

1510 Well, the basis is we are on a route where last year we posted a £3.4 million loss, this year we are  
 looking to break even, and with more importation in the future, we are hoping to return to the sort of  
 profitability level required for investment in the Island.

**Deputy Queripel:** I wonder if any other gentlemen would like to comment on my question? No.

1515 Okay, I will move on to my next question. When the cable link to Jersey failed in 2012, GEL had to generate more electricity on Island. Do you think 16 megawatts of power provision is sufficient, bearing in mind the considerable increase in cost to consumers?

1520 **Mr Bates:** No. And that is why we signed a deal in May 2013 to secure more importation capacity. We will have an entitled capacity of 40 megawatts on a single cable after that time, with provision to go up to 60 megawatts, which is the maximum capacity of that cable. We have also now put plans in place to secure more importation to the Island through further cables.

**Deputy Queripel:** Thank you for that.

1525 My final question: who would you say determines and dictates future energy policy – the domestic consumer or the commercial consumer?

**Mr Bates:** Energy or electricity policy?

1530 **Deputy Queripel:** Electricity.

**Mr Bates:** In terms of electricity, I think we have heard this morning from a lot of commercial users, and what may drive them in their expectations of what the electricity supply might be, and obviously we have got more domestic customers.

1535 On balance, there is a difference between a domestic customer's consumption and a commercial customer, and on that basis, in their requirements. So, I do not think there will be any one customer that will determine energy policy; we will have to look at across the range.

1540 One of the things we are doing, with such a fundamental change in infrastructure, as in more importation and less on-Island generation, we will be carrying out a review of all our tariff offerings to the market, and make sure they actually match the market.

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

**The Chairman:** Thank you.

1545 Deputy Le Pelley.

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

Good morning gentlemen. I have got four questions, and they are all based on pricing. Three of them are directed at Government and one to GEL.

1550 I will start the first one which is a question to Government, please. Will the new Energy Strategy lead to an increase in prices?

1555 **Deputy Stewart:** I do not believe so, but that is probably more of a question for my friend on the right. I do not believe so. I think what the policy we have looked at is, there will be some smoothing of pricing and I think Mr Bates can allude better to that.

1560 **Deputy Le Pelley:** If I can just interject a moment, just to say that on the *Hansard* script of 29th May, the Deputy Minister for Treasury and Resources suggested, in answer to a question from Deputy Gollop, that he anticipated that prices could even come down. Just to put that into the mix.

**Deputy Stewart:** I think that depends on where the policy sits. As you start to plug in some cables and get the forward investment, possibly what you do not want are the prices going up and down, if I may say, like a bride's nightie. I mean, basically, –

1565 **Deputy Stewart:** Probably best scrub that!

1570 I think what we are looking for is to try and look to the future, and get some stability in pricing. But actually, it is probably more of a question for Guernsey Electricity, but I know that is a topic that is currently under discussion. A lot of it depends on timing, and a lot of it may also depend on also some of the generation equipment that Guernsey Electricity has. It is fairly old, some of that might need to be replaced as well. So it is balancing the replacement costs over the efficiency of the slow diesels, and medium diesels. There are a lot of factors that have to be taken into account on pricing.

1575 But, I think it would be... in my personal view, to connect a cable and then suddenly drop the prices and then if they were any problems outstanding, then the prices go up again, I think that creates a lot of uncertainty in the market. What is probably best is to try and get a uniform price set out that does not rise or lower into greater margins, that gives people some certainty that will take into account blips along the way.

**Deputy Le Pelley:** Mr Bates.

1580 **Mr Bates:** Obviously, one of our objectives is to introduce some sort of stability and predictability into our tariff structures. That can be done in certain ways. Obviously, you just referenced the influence investment can have on that stability. Also the wholesale markets can have probably a bigger effect on the stability and predictability; we try and manage both those.

1585 So, one of the things we now do when we present any investment appraisal, we look at the impact on the customer, and the impact on tariffs, and what it might mean. So we try and make it very tangible to what it will mean to the market.

**Deputy Le Pelley:** Thank you.

1590 My next question is actually directed to Guernsey Electricity. One of our earlier witnesses referred to GEL as having 'a long established monopolist attitude to all customers, and an engineering-led mentality.' How do you respond to that statement?

**Mr Bates:** I heard that with much interest, actually.

1595 Monopolist attitude? Well certainly in terms of the market, if you are talking about lighting and your fridge, maybe there is a monopoly. The largest part of the energy market in Guernsey is heating. There are heating rates and transport rates, and there are no monopolies in there at all.

So, in terms of our tariffs, we are very aware of the markets that we operate within. We want to make sure they actually reflect the burden they put on both the infrastructure and, of course, the wholesale price at the time.

1600 Engineering led? Well, we are an island. It is very important on an island to make sure that things work. Yes, we have a lot of engineers, very dedicated engineers, a lot of people who are very dedicated to providing a good service to the Island. And coming from another island gas supply monopoly, I would not say we are any more engineering led than they were. We have to make sure things work.

1605 **Deputy Le Pelley:** And that island was?

**Mr Bates:** The Isle of Man.

**Deputy Le Pelley:** Thank you, just to confirm.

1610 My next question then, and there are two to come, to Government. Does Government consider that the current cost of electricity to commercial or domestic consumers are reasonable?

**Deputy Stewart:** I think the answer to that is, yes, with the current policy we have.

1615 I think if you are to start having different tariffs for commercial and consumers, and obviously there are businesses that would like to have some of the offers that, for example, are subsidised – for example, made in France. I know the car manufacturers there have subsidised electricity. I think the difficulty is that in a market such as ours, if we were to give tariff advantages to commercial organisations, then this will have to be borne by the taxpayers, one way or the other – either the other electric users, domestic users of electricity, or the taxpayers generally. Bearing in mind most of our taxpayers are individuals, since Zero-10, then that will mean more of the burden borne by the man in the street.

1620 So, I think that might be a policy that would not find favour with the public.

**Deputy Le Pelley:** Thank you.

1625 My last question to Government: on the first day of our hearing, Guernsey Electricity informed us that they would be funding future investment through external borrowing. Does this represent the best deal for the Guernsey citizen, bearing in mind how much interest will be paid over the time of the loan? This is to Government.

1630 **Deputy Stewart:** Borrowing could be a lot of things. For example, there is a history going back a long time in Guernsey, and one example I can think of is back in the 1930s, where we needed to secure our water supply: what Guernsey Water did was sell its own bonds to the local population. Now, that is a form of borrowing, but it was local people that invested in their local infrastructure.

I do not know really what form the borrowing could take, so without you getting into those discussions... My personal view is that I quite like the way that Guernsey Water did that back in the 1930s.

1635

**Deputy Le Pelley** Could it be done again?

**Deputy Stewart:** And it could be done again. So, I think that... Borrowing is a difficult word to bandy around in the States. I think we are very proud of the fact that, as a Government, we have no sovereign debt.

1640

I think for commercial organisations this is a standard way of running your business, and it is a fairly standard practice for utility companies to look at issuing their own bonds. It has been done in the past in Guernsey. And it is probably something – a funding mechanism, one of many – that we could look at.

What we want to do is get the most efficient borrowing vehicle, so as to reduce the burden both for Guernsey Electricity and the consumers.

1645

**Deputy Le Pelley:** Thank you very much indeed.  
I am through, Mr Chairman.

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

1650

How will the investment in any future cable be balanced between taxpayers and customers? I ask that question to any and all.

**Mr Bates:** Well, I can put from Guernsey Electricity's perspective. Just to go for the borrowing, just to clarify my comment at the previous hearing. Guernsey Electricity has taken on external borrowings for its investment in the Normandie 3 and Normandie 1 cable projects, which are the two cables between France and Jersey. This is a facility, if there is a central States scheme to provide borrowing that we could utilise. So it is not that we have left ourselves so we cannot change our borrowing profile.

1655

If you could just remind us...?

1660

**The Chairman:** Yes, I will repeat if, of course, of course, no, problem.

How will the investment in any future cable be balanced between taxpayers and customers?

**Mr Bates:** Our current financial modelling is shown to be all borne by the electricity consumer. However, I think that, at the moment, the investments are purely in terms of capacity and it has a very positive effect for all customers. When you move into the area of who pays for security – and this is a conversation they are having in the UK, who pays for security – then there is a conversation to be had on whether it needs to be the consumer or the taxpayer.

1665

**Mr Morris:** if I may, Chairman?

1670

**The Chairman:** Please, thank you.

**Mr Morris:** It may help the Committee just to point out that that question you just asked is actually one of the questions which the States will be invited to consider. Precisely what you are asking: should it be taxpayers, should it be electricity customers, or should it be a combination of the two? And the States will be invited to consider that very question.

1675

**The Chairman:** Good, thank you very much.  
Deputy Ogier.

1680

**Deputy Ogier:** Thank you.

Deputy Stewart, on the first day of the hearing, you said that the Government was not doing enough to support green initiatives, and you would like to do more – news which I personally welcome. What sort of initiatives do you have in mind?

1685

**Deputy Stewart:** Is that a direct quote?

**Deputy Ogier:** I think it was, yes!

1690

**Deputy Stewart:** I do not know whether it was a direct quote, Deputy Ogier. I think, we are doing an awful lot to support green initiatives. I think probably, the part where we are not supporting is, for example, in solar and that has been something we have wanted to do at RET. Unfortunately, this has been a legal

1695 blockage, at Environment, where we wanted to establish a trial perhaps six-acre site, which would deliver about a megawatt of power. Unfortunately, what would be quite useful would be a derelict viney site. However that is horticultural; solar PV is categorised, at the moment, under the current planning laws, as light industrial. So, I would say that has been quite a frustration for RET, which is under the Commerce and Employment mandate, and I think it is a bit of a frustration to us all on the Energy Policy Group, because it would have been nice to at least have a solar PV. All our sums at the moment indicate that there would be a good rate of return on that, and it would be nice to have something on Island that was renewable and contributing, and something that we could at least start to gain some experience from.

1700 I think in terms of where else we are with renewables; we have done a huge amount of work now, with our colleagues in France, and engaged with the French both at political level, officer level and educational level with the links with universities, as we have done in the UK. And in fact in the last year, I met Baroness Verma, who is one of the Ministers at DECC, we built up a very good relationship, and we are looking at the moment at – and it is not quite clear – whether we will have access to some of the support mechanisms within the EU, by working with DECC. Those conversations are on-going, both at a political but particularly at an officer level now, and we are waiting to hear, basically, whether we are able to get those support mechanisms from the EU, to have, for example, offshore wind, maybe to the northeast of the Island, and also maybe to do some trials on tidal power, and wave power in Guernsey, as well.

1710 I think renewables are one of those things where the will is there, the technology is not, just yet. But, I think we need to keep abreast of it. Certainly my RET team is keeping abreast of it.

Solar PV is a bit of a frustration but the planning, as we know, there is the whole Strategic Planning Review underway, and I hope that we will be able to release some land, but perhaps particularly in the north of the Island which is not so useful for agriculture, that could be used for some of these solar PV sites.

1715

**Deputy Ogier:** You had a case in the capital prioritisation turned down on that issue, did you not? If it such a good rate of return, does it need to go through that process or could it not be a stand-alone project?

1720 **Deputy Stewart:** We might be able to do it as a stand-alone project with a commercial... but Deputy Ogier, I do not give up, so I do not care if it is category C; I will just keep knocking at Treasury, until I make such a nuisance of myself, they will finally give in.

I think that part of why it was probably moved down was the fact that we cannot actually do it at the moment. We are undertaking research at the airport, because, as you know, the land around the airport does not come under the planning. It is a part of a different zone which is the airport, and what we are doing is some research, to look at whether we can put some solar PV there, but at the same time ensure that pilots on approaching aircraft would not have bad reflection, which I understand happened with Marks & Spencer's in Jersey, with their roof, and dazzle all the pilots. So, I think we are doing is some research at the moment.

1725 So we have not given up, and we will not give up on that, because I do think that is worthwhile us looking at.

1730

**Deputy Ogier:** Thank you.

With regard to whether it was a direct quote or not, I am sure we will check to ensure that you are reported accurately.

1735 **Deputy Stewart:** I am happy with answering the question.

**Deputy Ogier:** In the UK and in the European Union, subsidies are given for low carbon and green technologies. Do you know if... I know it was in one of the previous energy policy plans that we would look at maybe grants and subsidies and link them to energy efficient measures. Do you know if Guernsey has plans to offer similar subsidies, grants or loans for green initiatives?

1740

**Deputy Stewart:** Not at this moment in time. I think it is more about us trying to link in to those subsidies in Europe to get a macro-renewable site of Guernsey, and that would be key to it.

1745 I think, and actually I remember what I said now in my initiative, I feel that what Government is not doing, is making consumers more aware of how they can manage their electricity best.

**Deputy Ogier:** So we would need an Energy Adviser or something? *(Laughter)*

1750 **Deputy Stewart:** I think that if we go into gov.gg, there is very little information to consumers, about how to manage their energy efficiently, and there are other sources on the internet.

I think we have a duty as Government to ensure that consumers are aware of how they should be saving electricity, how they can use it more efficiently. Basically, to give some advice on heat pumps, and these

sorts of things, which people are putting in domestically, and micro-renewable energy, and to at least give some sense of direction on that.

1755 I do not think that we do that particularly well as a Government, and the thing with Guernsey Electricity is they have got this smart metering. They went to Las Vegas and picked up a lovely award there... a few years ago...they picked up an award in Las Vegas.

1760 I would like to be able to monitor my electricity in real time, so I know when my wife has left all the lights on, or I have, and to be able to – and I am sure it would be of benefit to a lot of people to be able to – monitor their electricity in real time, to be more efficient. Basically, the more efficient we can be as consumers, both commercially and domestically, the less draw there is on our resources.

**Deputy Ogier:** Thank you.

1765 **The Chairman:** Thank you, Deputy Ogier.

Efficiency of Guernsey Electricity has been questioned by some earlier witnesses, and I would like to ask you what is your response?

1770 **Mr Bates:** I think, I would be a brave man to say we are as efficient as we can be – obviously, there are more efficiencies to be driven into the organisation. Some of those related to our investment programme. They will deliver efficiency savings, and some of them are different ways of working. Unfortunately you cannot deliver all those straight away. They take time to manage and change and make sure it does not affect the service standards. Yes, we are driven by being more efficient.

1775 **The Chairman:** Thank you.

And have you looked at a cable via Alderney to France, or to pick up on the FAB Link for example, at Alderney?

1780 **Mr Bates:** I think, certainly last time, we indicated if there was a link between France, Alderney, Britain, we would not discount a cable to Alderney, because it obviously would open up another market for us.

1785 In terms of running our next interconnector direct to France via Alderney, it is a much longer route. It is also quite difficult laying cable in that region, because of the tidal currents, and certainly, whilst not discounting it, it is certainly is not one of the main work streams at the moment.

**The Chairman:** Does anyone have anything to add to that question? No?

Well, thank you very much. This concludes the public hearings. I would like to thank everyone who has contributed to the process so far, and it is our hope that our report will be available to the public by mid-2014.

1790 Thank you.

**Deputy Stewart:** And at least the lights stayed on! *(Laughter and interjections)*

*The Committee adjourned at 11.33 a.m.*