



Office of Utility Regulation

Media Release – Embargo 6.00am 27th September

Regulator to cap electricity prices for 3 years

Guernsey's utilities regulator is proposing capping increases in electricity prices from now until 2009. Guernsey Electricity (GEL) wants to increase prices by 34% by 2008 but the Office of Utility Regulation (OUR) does not believe this is justified. In a draft decision published today, it is proposing to allow a maximum increase of 7.5% in the first year, with further increases in 2007 and 2008 that are below inflation. That decision will now be open for consultation, before being formalised later this year.

'We have carried out a detailed review of Guernsey Electricity's proposals and believe there is potential for significant further savings to be passed on to its customers. This proposed decision will save Guernsey Electricity's customers almost £11million over the period of the price control', said John Curran, Director General of the OUR. 'Most people will be aware that energy prices elsewhere are increasing and Guernsey is not immune from this; but given the present range of cost pressures it is important that every effort is made to minimise as far as possible the impact that this has on consumers by keeping costs down and ensuring that the customer is always considered first when investments are being made'.

Among the factors influencing the increase requested by Guernsey Electricity is its policy of financing future capital expenditure by putting a premium on electricity prices. The OUR estimates that GEL currently holds approximately £700 per customer (approximately £20m) in cash reserves. The interest alone on this cash accounted for more than 60% of GEL's reported profits for 2004/05, further emphasising the reliance by GEL on these borrowings from consumers.

The OUR believes that GEL should also show consumers exactly how investments will benefit them, before asking their customers to pay for them in the form of higher electricity

prices. In this case, the Regulator is proposing not to allow GEL to recover the costs associated with its investment in tidal energy and its automated meter reading projects from consumers as the company has failed to demonstrate how they benefit customers.

While the OUR recognises that tidal energy is a possible future source of clean energy, the technology needed to generate electricity from the tidal streams around Guernsey is at least 10 -12 years away and the latest assessments indicate it will be more costly than most other renewable sources. Current estimates are that by 2017 it will still be 150% more expensive even than the current high price of electricity. The OUR believes a more appropriate way of reducing greenhouse gas emissions is to focus on energy efficiency as this has greater potential to deliver immediate and more sustainable improvements for Guernsey.

‘The issue for us is whether it is reasonable for customers themselves to be financing this investment, when it is so high risk given the availability of proven and cheaper means to reduce air pollution’ says John Curran. ‘The risk that Guernsey’s consumers will receive no benefit from investment in tidal generation is high and seems more appropriate for venture capitalists or large multinational corporations. If GEL is confident in this venture then it is appropriate that it bear the risks itself, rather than putting the burden on Guernsey’s consumers by pushing up prices’.

The OUR’s proposals allow for electricity tariffs to increase by 3.7% on 1st January 2006, with a further 3.7% on 1st April. Further increases of 3.7% are proposed for 1st April 2007 and 1st April 2008. Tariffs will be held at this level until 31st March 2009. The OUR is making an allowance in the tariffs for the future funding of investment in electricity generation.

Capping this price increase follows a decision by the OUR to freeze Guernsey Electricity’s prices altogether in March 2003 – despite that decision GEL has remained profitable and has actually increased its cash reserves, which suggests that prices were historically high and there was scope for greater efficiency.

-ENDS-

Notes

- The period for comments on the proposed decision runs until the 28th October 2005.
- The proposed price control decision (OUR 05/23) published today is available on the OUR website www.regutil.gg, or by calling the OUR on 711120.

Price Proposals

This table compares GEL's proposed tariffs with those being allowed by the OUR:

	GEL Request	OUR Proposal	Standard Tariff (with increase applied)*
December 2005	9.8%	3.7%	9.34p
April 2006	8.4%	3.7%	9.67p
April 2007	6.0%	3.7%	10.03p
April 2008	6.0%	3.7%	10.40 p
Total	34%	15.6%	

*indicative tariff

Energy Efficiency

Ofgem, the UK energy regulator estimates that the UK's Energy Efficiency Commitment (a scheme established by the Department for Environment, Food and Rural Affairs (Defra)) resulted in total gross saving for all consumers of around £350 million per annum over the life time of the measures which are fitted in their homes. This equates to an average saving of £35 per household, per year for each home which benefited

- **About the OUR**

The Office of Utility Regulation was established in 2001 to regulate the three utilities of post, telecommunications and electricity in the Bailiwick of Guernsey. The Office is headed up by Director General, John Curran and has four staff.

The role of the OUR is to protect the interests of Guernsey consumers and the economy. It does this by ensuring that customers receive the best in price, choice and quality services in the three regulated sectors, while at the same time ensuring that those sectors are vibrant and robust so that they can positively contribute to and underpin a successful Guernsey economy.

The OUR licenses and regulates telecommunications operators, Guernsey Electricity Ltd and Guernsey Post Ltd. Wherever possible, the OUR promotes the introduction of competition by ensuring that there is fair play and a level playing field between the operators. Where competition is not yet effective or where it is not feasible, the OUR regulates prices and quality of services to end customers. More information is available from the OUR website www.regutil.gg, or by contacting the Office of Utility Regulation on 01481 711120.