



Friends of the Earth Guernsey

6 Clos des Pointues Rocques
St Sampson
GY2 4HW
Tel: 01481 247679
e-mail mail@foeg.org.uk
www.foeg.org.uk

Office of Utility Regulation
Suite B1 & B2
Hirzel Court
St Peter Port
GY1 2NL

13th October 2005

Dear Sirs

Guernsey Electricity

Friends of the Earth Guernsey are in support of the OUR's stance on electricity price rises linked to investment in new generation. We believe that Guernsey Electricity should be encouraged by the OUR to take more account of **demand side management (DSM)**. Demand side management has a central role in any sustainable energy policy for Guernsey as we will need to contain energy consumption if we are to achieve reductions in carbon dioxide emissions in the short term. It would entail the promotion of energy efficient appliances, home and office insulation and the provision of advice for customers. There are considerable commercial and employment possibilities in energy efficiency businesses, and the general improvement of housing stock provides other social and economic benefits: there are health benefits to be gained by reducing damp, cold and mouldy conditions, housing values are enhanced and reduced fuel bills lead to a freeing up of money which then becomes available for spending on other sectors of the local economy. Energy supply relying on imported fuels does not provide very much local revenue, relatively speaking.

A major strand of DSM is **least cost planning**, a practice developed in the USA whereby gas and electricity regulators will only allow fuel utilities to pass on the costs of investments to their customers if they can prove they have taken the most cost-effective response to demand. This has resulted in many utilities finding it more profitable to sell, or even give away, insulation, heating controls or other energy-saving measures than it would be to build new generating capacity. In this way it has been made possible for fuel utilities to profit from conservation rather than increased fuel supply, but the approach will only work when all fuel utilities operate under the same scheme. To properly address DSM it will be necessary for the local fuel

utilities to cooperate, and that is not likely if they perceive energy efficiency primarily as a threat to their business. They must be able to benefit from sustainable behaviour.

Besides reducing energy demand, it is also necessary in a post-Kyoto, post-Hubbert climate to begin replacing generating capacity with renewable energy and cleaner technologies. Removal of perverse subsidies should be considered, such as the tax allowances for diesel generating equipment in the absence of a similar allowance for renewable technologies, for instance.

In the field of energy use we find that the tariff structure rewards environmentally damaging behaviour patterns at the expense of sustainable energy use.

In this case the fixed costs include initial connection charges to mains services and regular standing charges for ongoing connection to the service. The marginal costs are the fuel prices, and these often include bulk discounts for heavy users.

This is a socially regressive regime, with low-level users paying a higher charge **per unit** than a heavy user, because the fixed costs are spread over fewer units. Heavy use is doubly rewarded – firstly because the fixed costs are spread over a larger number of units and secondly through bulk discounts. As the consumer moves from frugal to liberal and on to extravagant energy usage, the cost per unit becomes less and less.

The impact of such a scheme on energy efficiency measures is also negative. In cases of fuel poverty – where fuel bills are a major part of a household's expenditure, even though little fuel may actually be used – reductions in energy usage don't yield a proportional reduction in bills due to the fixed costs. This makes investments in energy efficiency less attractive by extending the payback period. For wealthier, heavy consumers the lower unit costs and the ability to afford high bills also undermines any incentive to reduce energy usage. Simply increasing fuel costs to increase pressure for efficiency measures is neither effective nor equitable under this scheme.

This is a criticism that was levelled at the UK government's imposition of VAT on domestic fuel, and is a major drawback to a tax-only approach. Although a pure "carbon tax" or "energy tax" can be applied in the current pricing structure to reduce demand, it still penalises the fuel-poor and provides little incentive for the wealthier, extravagant user.

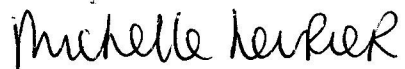
However, by revising the price structure, to a progressive rather than regressive regime, all of these concerns can be addressed.

We would, therefore, generally support the message that the OUR is giving to Guernsey Electricity, but would hope that the regulator would be prepared to take a wider and more socially responsible stance by instigating

discussions with GE on progressive pricing mechanisms and least cost planning practice.

It is in both our local and global interest to seek to reduce our energy usage rather than simply aim to meet increases in demand by providing further generating capacity, and we would suggest that it is the Regulator's role to ensure that energy providers actively work towards this aspect of energy conservation.

Yours sincerely

A handwritten signature in black ink that reads "Michelle Levrier". The signature is written in a cursive, flowing style.

Michelle Levrier
Friends of the Earth Guernsey

Cc: Paul Veron, Policy Council
Fiscal Working Party, Treasury & Resources Dept
Social Policy Working Party