Response to OUR consultation on Guernsey Electricity Price Control

Cable & Wireless Guernsey Limited ("C&WG") welcomes the opportunity to respond to the OUR's Consultation Paper "Guernsey Electricity Limited Price Control", document number OUR 10/13, issued in November 2010. In the response that follows we provide comments only on those questions that are most relevant to C&WG as a customer of Guernsey Electricity Limited ("GEL"). Our responses below use the numbering of the OUR's document.

C&WG responses to relevant questions

4.1 C&WG agrees that RPI-X is an appropriate form of Price Control for GEL at this time.

4.2 C&WG's view is that the tariffs shown in Annex A are not an accurate reflection of the customers whom GEL serves. They fail to take account of changes to the requirements of its largest customers - including C&WG and its Data Centre business - whose requirements have changed considerably in recent years.

Specifically C&WG believes a new tariff should be introduced by GEL to serve the unique profile of customers with high electricity demand. This tariff should sit in an isolated price basket so as not to allow cross-subsidisation to and from other tariffs and to other GEL customers.

This new tariff should not only take account of the high usage of customers such as C&WG but also the efficiency savings that are made by selling so much capacity to a customer of our size and profile.

C&WG has a profile of usage that is constant, steady and predictable. Data centre businesses such as those operated by C&WG do not require erratic 'spikes' of supply throughout the day. Our use profile is also able to remain more constant during periods of extreme cold. This enables higher utilisation on the GEL access network, enabling a lower per unit cost to provide. The cost per unit of electricity for larger customers such as C&WG is therefore lower for GEL than the cost per unit of electricity it faces for its smaller customers.

The scope of this new tariff should also reflect our consistent use profile and be agnostic as to the time of day that capacity is required. That is, the new tariff should better reflect our unique customer profile.

The argument of scale and profile also applies to costs of metering per customer, billing credit control and postage costs. We do not understand why customers with a profile for capacity use as high as ours are put on to the same tariff as small businesses. The fact that the cost to supply for example, a metering service to us, is the same as it would be to these other businesses and yet the fact the revenues we provide to GEL are far higher, suggests that the current tariff is subsidising other customers' costs in these areas.

4.4 C&WG supports the OUR's objective to minimise the resources required for monitoring and compliance requirements under the price control, which is an equally important objective for other regulated sectors.

5.1 C&WG is concerned that GEL's argument for its Capex proposal is reliant on maximum demand instead of throughput. C&WG is familiar with similar issues in telecoms, for which it uses aggregated throughput forecast for the purchase of upstream internet feeds. Further, the phasing of that throughput needs to demonstrate "just in time" provision of additional capacity to improve capital cash flow. And lastly, the customer "pipeline" needs to be adequately reviewed to ensure a "volume x likelihood" factor is applied to give some reality to perceived demand.

C&WG would welcome the OUR considering how GEL could be incentivised to ensure these three factors are adequately considered. An option available to GEL is to contract potential customers to provide forecasts, with appropriate SLA and/or commercial incentives for those forecasts to be accurate. In this way GEL's own incentive risks sit "back-to-back" with those of their major customers.

Our exceptionally consistent and reliable demand for capacity as a customer means, that we are able to provide GEL with a safe source of revenue in the long term. We would welcome the possibility of negotiating fixed/other pricing over a longer term in recognition of our ability to provide long term commitments to them in return.

5.2 C&WG is surprised that the issue of cross-subsidisation might suggest that data centres are cross- subsidised by consumers. Firstly N-2 policy prevails regardless of the level of security of supply required, by your example being the finance sector. It should be noted that N-2 relates only to total firm capacity at the cost of that incurred by GEL – it does not apply to supply at customer locations. C&WG does in fact require N-2 themselves at the data centres in order to serve its markets, but it is not GEL who bears these costs. Rather it is C&WG who have paid the full incremental costs to GEL for the provision of a second power feed, and then to third parties for the cost of stand-by generators and fuel to run them.

Section 5.2 of consultation suggests, we should have to pay our share of costs which GEL have had to bear, to meet their largest customers demand for an increase to maximum capacity. We refute this strongly because it is clear we have already contributed directly to covering GEL costs.

Our demand for capacity would be higher, were it not for us investing in our own back-up power generators. This cost is covered entirely by us and were it not for this resource, we would inevitably have to demand more of GEL resources and hence by not doing so we are saving them resource and cost.

Furthermore any additional unit of power generated due to increase in demand, creates saving and financial benefit for GEL when it is supplied to the large customers who require it, owing to its largest customers having a lower per unit cost. As a result it is the revenues GEL yields from its largest customers which cross-subsidise its smaller, less cost-efficient customers. We therefore require a tariff that better reflects our customer profile which would be more effective in preventing the likes of C&WG cross-subsidising other GEL customers.

5.3 In addition to our comments in respect of our requirements for a new tariff under 4.2, we also feel that large customers are not given sufficient financial benefit for the exceptionally high electricity use and revenue yield they provide to GEL business.

GEL is able to create a tariff in line with its lowest capacity users, the Super Economy 12 tariff, allowing some customers to obtain discount by use in off peak times. For reasons already stated in 4.2 we would expect GEL to also offer a tariff that gives higher volume based discounts than we are currently receiving under the current tariff structure.

5.5 As section 7.2 and 7.3 of OUR 06/17 (Review of Guernsey Electricity Price Control Consultation Paper) in respect of overhead and generation costs is listed as confidential, we are unable to comment.

5.8 C&WG would suggest that 3 years is an appropriate period of Price Control. Whilst acknowledging this is a short period for the level of capital programmes being considered, C&WG believes that the “reliance on maximum demand” issue highlighted in 5.1 above could not be allowed to remain unresolved if a longer price control period were to be allowed.