

Office of Utility Regulation

Guernsey Electricity Limited Price Review 2011

Final Decision

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Office of Utility Regulation

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1. Introduction

This document sets out the price control for Guernsey Electricity Limited for 2011-12 made by the Director General of Utility Regulation. This Final Decision document follows on from the consultation paper¹ and draft decision² issued by the OUR in November 2010 and January 2011.

The last price control³ for Guernsey Electricity was set in 2007 and expires on 31 March 2011, the new control will therefore commence from 1 April 2011. The OUR consultation paper (OUR10/13), which invited comment from stakeholders, set out the issues under consideration and the process which the DG would follow in arriving at a new price control for Guernsey Electricity. This was followed by the Draft Decision paper, which set out the DG's proposed price control and invited responses from interested parties.

This Final Decision paper sets out the key aspects of the price control for Guernsey Electricity.

For this price review, as indicated in the draft decision, the DG has decided to issue a one year price control for 2011-12, rather than the originally proposed 4 year price control.

For 2011-12 the DG has decided to allow GEL a 6.5% increase in revenue. He has also decided to change the price control from a price cap (determining increases for individual tariffs) to an overall revenue cap, which will allow GEL more freedom in setting tariffs than the previous approach.

This decision allows a slightly lower price increase than GEL originally asked for. It includes £1m allowance for pass through of costs arising from increases in costs outside their immediate control.

¹ OUR 10/13: *Guernsey Electricity Limited Price Review 2010 - Consultation Paper*

² OUR 11/04: *Guernsey Electricity Limited Price Review 2010 – Draft Decision*

³ OUR 07/04: *Guernsey Electricity Limited Price Control – Final Decision*

2. Structure of this Paper

This Paper sets out the Director General (the DG) of Utility Regulation's Final Decision on the Price Control for Guernsey Electricity for the period commencing 1 April 2011.

Structure

The rest of this paper is structured as follows:

- Section 3:** Summarises the legal framework of this price control;
- Section 4:** Reviews the responses to the Draft Decision;
- Section 5:** Sets out the price setting process;
- Section 6:** Summarises the Decision

Comments

This is the final decision paper for the 2011-12 price review. The comments received from respondents to the consultation at the earlier stages of this process have been considered for this final decision.

In accordance with the OUR's policy on consultation as set out in document OUR 05/28⁴, all non-confidential responses have been published on the OUR's website, www.regutil.gg and are available for inspection at the OUR's office during normal working hours.

⁴ OUR 05/28: Regulation in Guernsey: Revised Consultation Procedures Information Paper

3. Legislative and Licensing Background

Overview

The legislative framework underpinning the regulatory regime for the electricity sector is governed by:

- The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (the “Regulation Law”);
- The Electricity (Guernsey) Law, 2001 (the “Electricity Law”);
- The Electricity (Guernsey) Law 2001 (Commencement and Amendment) Ordinance 2001; and
- States Directions to the DG adopted by the States of Guernsey⁵.

The Electricity Law defines the three activities that constitute the electricity supply chain under the current legislative framework. These are:

- the generation of electricity;
- the conveyance of electricity across the electricity network; and
- the supply of electricity directly to homes and businesses.

These terms are defined in the Electricity Law and govern the current licensing framework that is outlined below.

Current Licensing Regime

The States of Guernsey has issued a number of States Directions in relation to the licensing of electricity activities in Guernsey. In accordance with those Directions the DG issued the first licences for electricity generation, conveyance and supply to the incumbent electricity company – GEL - on 1st February 2002.

The market for generating electricity is, in principle, open to competition. In terms of conveyance, under the current regime no other operator can lay electricity cables until 2012 and anyone generating electricity must therefore use the existing electricity network of GEL to convey that electricity from their generation plant to customers. Until 2012 only GEL may sell electricity to end customers.

Legislative Background to Price Regulation

Section 5(1) of the Electricity (Guernsey) Law, 2001, provides that the DG may include in licences such conditions as he considers necessary to carry out his functions. The Law specifically provides that such conditions can include (but are not limited to) conditions regulating the price premiums and discounts that may be charged or (as the case may be) allowed by a licensee which has a dominant position⁶ in a relevant market⁷.

⁵ Billet d’Etat No.XVIII 2001, pages 1263-1264 and Billet d’Etat I of 2003, p.55

⁶ Condition 5(1)(f) of the Electricity (Guernsey) Law, 2001.

⁷ Section 22 of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 states that: “A dominant position in relation to a relevant market shall be construed as it would be in the United Kingdom under the Competition Act 1998, but with the substitution, where appropriate, of references to the Bailiwick

In accordance with these provisions, the “Electricity Licence Conditions” include the following condition 20.2:

“The DG may determine the maximum level of charges the Licensee may apply within a relevant market in which the Licensee has been found to be dominant. A determination may;

- (a) provide for the overall limit to apply to such charges;
- (b) restrict increases in any such charges or to require reductions in them whether by reference to any formula or otherwise; and
- (c) provide for different limits to apply in relation to different periods of time falling within the periods to which any determination applies.”

This condition allows the DG to regulate the prices that a licensee charges for its electricity services in a way and for a period that he deems appropriate, provided the licensee has a dominant position in the relevant market.

As set out in a previous OUR document (OUR03/07), Guernsey’s retail electricity market currently possesses a monopolist/dominant operator that also has a dominant position throughout the electricity supply chain. This position of economic strength is unlikely to change in the near to medium term. In this context, it is essential the social objective of maintaining the affordability of electricity provision, thus underpinning economic growth, is safeguarded. In the absence of competition, price control is widely accepted as the most appropriate tool to achieve this.

The OUR also wish to highlight the States guidance to the Treasury and Resources Department at the time of commercialisation of GEL. This guidance stated, inter alia, that:

4. Financial performance targets for Guernsey Electricity Limited shall be set so as to:

- 1. deliver improved efficiency in fulfilling the requirements of the Public Supply Obligation imposed under the regulatory regime whilst drawing a balance between seeking a commercial return on the resources employed and the effect on the community of any increase in charges which may result; and*
- 2. achieve as soon as is practicable an appropriate commercial return on the resources employed in the provision of other services.*

for references to the United Kingdom.” The Competition Act 1998 utilises the definition of dominance that has developed under European Community Competition Law.

4. Responses to the consultation

The OUR received two responses to its consultation document OUR 11/04:

- Guernsey Electricity Limited (GEL)
- Guernsey Gas Limited (GGL)

Copies of these responses are posted on the OUR website, www.regutil.gg.

General

GGL support the overall form (RPI-X) and scope of the price control for the period suggested, including the move to a revenue cap. The company agrees with minimising the regulatory burden and welcomes the review of tariffs.

GEL believes that the regulatory and licensing background does not take account of the findings of the RPI report and that the OUR's final decision should go no further than proposing the level of price increase to be adopted on 1 April 2011. GEL believes that the OUR continues inappropriately to apply price cap regulation when RPI has deemed this form of regulation inappropriate; prevents timely recovery of substantial costs; exaggerates differences between customer and shareholder interests; and over reaches the regulatory role by proposing regulatory involvement in capital expenditure undermining the role of the board and shareholder. The OUR's proposals on regulatory revenue will result in an unpredictable and uncertain revenue basis on which to base the company's imminent future investment plans. However, GEL also states that a headline increase in line with the draft decision is in all stakeholders' interests.

Revenue & Tariffs

GGL expresses its concern with a strategy that allows GEL to set its own tariffs, but it welcomes the proposed tariff review and would welcome the opportunity to input into the Terms of Reference for the review. GGL identifies a need to determine to what extent growing peak electricity demand is the result of under-pricing of electricity in the heating market.

GEL has no objection in principle to a review of tariffs. The company is concerned that "OUR's approach should not give undue leverage to particular interest groups and thereby distort competition".

Capital Value, Rate of Return and Depreciation

GGL's main concern in this area is the rate of return allowed on GEL's pre-commercialization assets. It does not believe that the issue has been adequately addressed or that the rate of return generates sufficient funds for GEL to finance its functions.

GEL sees no reason to revisit the rate of return for pre- or post-commercialization assets.

Operating costs and efficiency

GGL agrees with OUR's objective of promoting efficiency within GEL as there seems to be a lack of efficiency drivers given the ownership model, but note that there is a need to take account of small island dis-economies of scale.

GEL believe that the draft decision assumes too low a level of operating costs given the very large capital investment programme on which the company has embarked and sets a new efficiency target which has no justification and is inappropriate.

Capital expenditure and save to spend reserve

GGL suggests that the OUR fully investigates the drivers for increases in peak demand. GGL recommend that OUR investigates GEL's treatment of customers who generate their own electricity and its approach to the buyback tariff both of which GGL believes to be barriers to entry into the market and GEL's connection charges. GGL supports alternative approaches to defer or reduce the need for GEL to have a significant investment programme and to reduce the cost of its investment programme.

Guernsey Electricity is pleased that the OUR has agreed its capex programme. However GEL believes that the OUR over reaches its regulatory role by proposing regulatory involvement in capex control throughout the period of a price control which micro manages GEL and undermines the role of the board and shareholder. The proposed publication of plans is an unnecessary step and would result in the need to spend time and resources on public explanations of necessary changes. GEL believe that the proposed incentive scheme is perverse, and believes that customer's own backup generation does nothing to reduce peak demand and that any use of such equipment to back up normal supply at times of high demand is unlikely to be acceptable to customers.

Cost Pass Through

GGL believes it is clear from GEL's accounts that the company has not been fully recovering its fuel and power purchase costs and is concerned that GEL and OUR can calculate materially different values for cost pass through. GGL's view is that once the costs have been agreed, they should be recovered in full as soon as is practicable, but understand why it may need to be phased in over a period of time and take the view that any such arrangement should be seen as a one-off.

GEL believes that the draft decision changes the basis of cost pass through calculations and reduces the additional allowance for 2009-10 from £6.3m to £1.6m. It states that the draft incorporates a lack of clarity on past and future CPT calculations, leaving the board with no ability to control or understand with confidence its future income stream.

CO2 Emissions

GGL comment that the appropriate method for calculating carbon intensity should be applied for the application in question. GGL do not believe it is appropriate to adopt a fuel labelling approach to inform energy policy decisions.

GEL comment that a price review is not the ideal vehicle to determine issues such as a standardised approach to the calculation of CO2 emissions.

5. Scope and Principles of the Final Decision

Revenue & Tariffs

In the draft decision the DG proposed to move from a price cap, where the regulator sets the maximum allowable price increase (the price limit) applicable to each individual tariff, to a revenue cap. The DG looked at the amount of revenue required by GEL, and set a revenue cap in line with this. He also proposed to express this revenue cap as a percentage increase in the allowed revenue after allowing for growth in demand.

This approach will allow GEL more freedom to set its own tariffs, as it has requested. The DG does not expect to see wholesale changes to the range of GEL's tariffs in the first year of this new approach, although he notes that GEL may wish to use this opportunity to adjust, for example, the balance between peak and off-peak tariffs or to look at the balance between unit and maximum demand charges for industrial customers.

In the draft decision the DG requested that GEL publish all its tariffs, including the "buy back" tariff and tariffs that are no longer available to new customers, but which continue to be used by existing customers ("legacy tariffs"). GEL's licence (condition 20) requires it to publish its tariffs. However GEL raised practical concerns about publishing information and requested the opportunity to discuss the issue. While it is unclear from GEL's response what specific practical issues this should raise, the OUR will discuss those issues with the company prior to publication.

Following on from concerns raised in responses to the earlier consultation document, and as already signalled in the draft decision, the OUR intends to carry out a more detailed review of GEL's tariffs during 2011.

The amount of revenue GEL is allowed to recover from its customers, and the level of any increase (or decrease) in prices, is determined by a number of factors.

- Regulatory capital value and assumed rate of return;
- Depreciation and the treatment of pre-commercialization assets;
- Operating costs and efficiency targets;
- Level of profits, tax and dividends;
- Capital expenditure and the funding needed to finance the investment programme;
- Any catch up allowed for previously incurred pass through costs.

Capital Value, Rate of Return and Depreciation

The regulatory capital value determines the base value, the RAB (Regulatory Asset Base) on which the company earns a return. For GEL this is made up of two parts, assets inherited prior to commercialization (the "old" assets) and the "new" assets which have been acquired since commercialization. The reason for this distinction is because the rate of return allowed on the pre- and post-commercialization assets is different.

Regulatory Asset Base

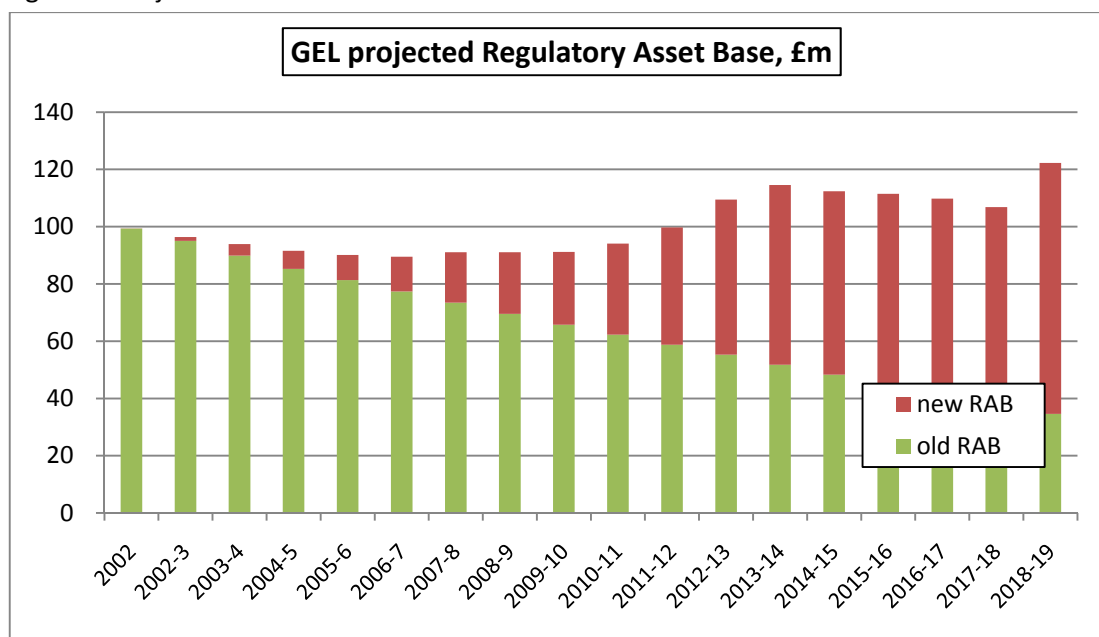
For Guernsey Electricity the total regulatory asset base (RAB) as at 31 March 2010 was £91.2m, split between its new and old (pre- and post-commercialisation assets) as follows:

OLD (pre commercialization) assets	£65.8m
NEW (post-commercialization) assets	£25.4m
Total Regulatory Assets Base (RAB)	£91.2m

This figure is projected to be approximately £100m by the end of 2011-12.

The chart below illustrates the projected RAB for future years, based on GEL's proposed capital investment programme, showing the makeup of the asset base between "old" and "new" assets. Over time, as more new investments are made and older assets continue to be depreciated, the value of new assets dominates the RAB.

Figure 1: Projected RAB



Cost of Capital

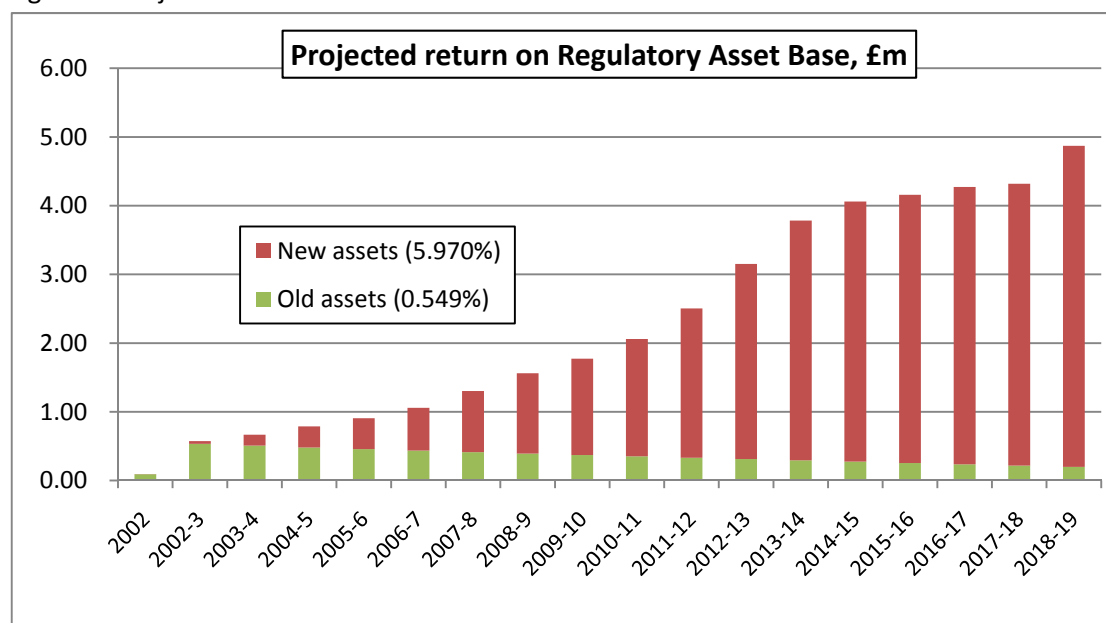
For pre-commercialization ("old") assets the rate of return was determined on the basis of principles proposed by a panel of independent experts. The approach they proposed and the value of 0.549% continues to be appropriate for the current review. For new assets, the appropriate cost of capital was related to the cost of equity rather than the cost of debt because of the way GEL finances its investments in accordance with the States policy of Save to Spend. The DG has determined that a value of 5.97% continues to be the appropriate for the company's post-commercialisation ("new") assets.

For 2011-12 the DG has determined that the rate of return on the company's assets shall be:

Pre commercialization assets	0.549%
Post commercialization assets	5.97%

Based on the projected RAB for GEL, the chart below shows the corresponding return on the asset base, using current rates of return.

Figure 2: Projected return on assets



One impact of the differential rates of return is that as older assets become fully depreciated and new assets replace them, the weighted average rate of return on assets will increase.

The return on assets allowed for 2011-12 is £2.5m

Depreciation

The DG accepts the asset depreciation figure submitted by GEL.

Allowed depreciation for 2011-12 is £5.6m.

Profits and Dividends

The DG does not specifically set a profit level for the business, but rather sets a price cap (in this case, a revenue cap) based on the company's submission of its costs, including operating costs and depreciation, and an appropriate rate of return on the regulatory asset base. The actual profit delivered by the business is determined by a number of factors, including the return on the company's capital value, how well it can control its costs and deliver efficiency improvements and any increases in tariffs to take account of the pass through of costs from previous years.

However, the level of profit achieved is relevant for the return to shareholders and in looking at the business' cash flow and the overall financeability of the price decision. In looking at this, OUR has assumed that the dividend policy remains unchanged, that is, that one third of net profits will be distributed as a dividend to the shareholder.

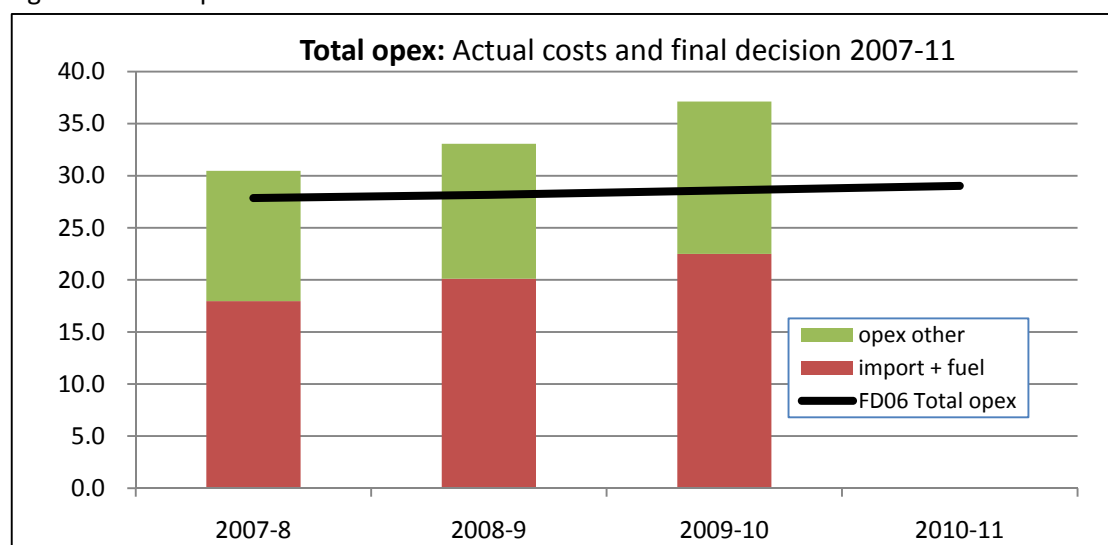
Operating costs and efficiency

Operating costs

The DG will base the allowance for future operating costs on the figures submitted by GEL. He will apply an efficiency target to the elements of operating costs that are not subject to pass through and for 2011-12 this target will be 2.3%, the level of the latest RPI figure for Guernsey. This is equivalent to GEL achieving a standstill on this part of its costs.

The chart below compares GEL's actual operating costs with those assumed by the DG in setting prices for 2007-2011.

Figure 3: Total opex

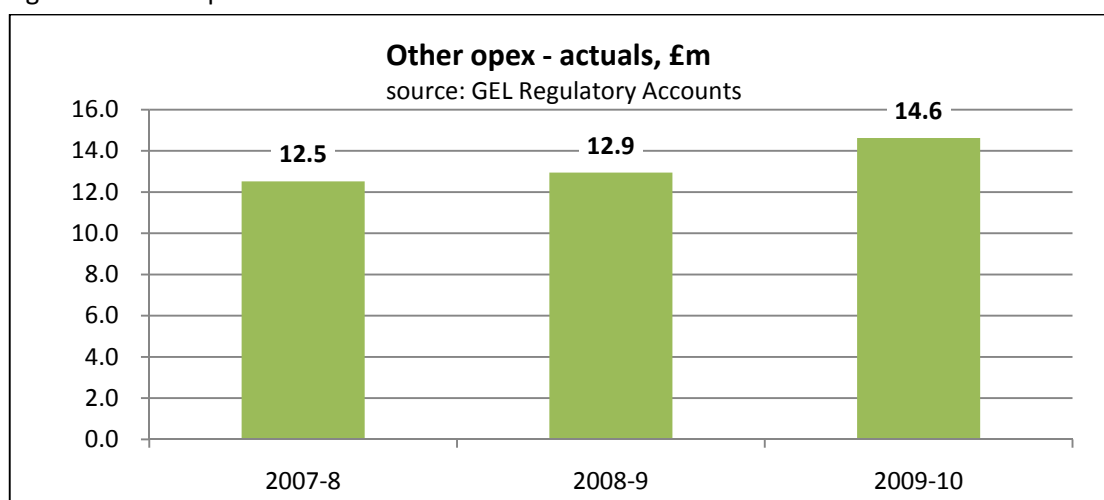


The chart shows that actual costs are significantly higher than anticipated than assumed when prices were originally set. Much of this increase has arisen from increased electricity

and oil import costs facing the business, but there has also been an increase in the general level of other operating costs.

The chart below shows GEL's non pass-through operating costs, as reported in its regulatory accounts.

Figure 4: Other opex



These costs have also shown a significant increase over the period.

Efficiency

Against this background of increasing external costs, it is important that other operating costs, which are more directly under the control of the business are kept under control and appropriate efficiency targets are set.

The scope of efficiency savings proposed by other regulators (based on work carried out by Europe Economics⁸) was set out in the Draft Decision paper. These efficiency targets were significantly less than the “average” sustained levels of efficiency improvements achieved by a range of utilities over a long period of time, set out in table below (from the same Europe Economics report).

Figure 5: Annual Cost Reductions achieved under regulation

Water	-3.7%
Sewerage	-4.1%
Electricity transmission	-6.5%
Electricity distribution	-6.8%
Gas transportation	-9.1%

⁸ *Europe Economics: A report for the Office of the Rail Regulator, July 2000*

The efficiency savings provide a useful context in terms of regulatory precedent and the actual efficiencies achievable by businesses operating in those industries that in many important respects share common features with GEL.

Such comparisons suggest substantial cost reductions in the range -3.7% to -9.1% per annum in real terms have been achieved by these businesses since their privatisation and regulation. The efficiencies actually achieved have exceeded those set by the regulators by some margins. The Europe Economics study highlights that falling unit costs were accompanied by improved service quality. These industries have achieved productivity growth significantly faster than the economy as a whole and generally faster than they managed before privatisation. This underlines the considerable success of commercialisation and privatisation in the UK, leading to substantial efficiencies and improved quality of service.

On Guernsey, GPL (Guernsey Post Limited) has agreed with OUR to improve its efficiency by reducing its overhead costs by £1m of a total overhead cost of £7.5m. This is a 13% reduction over the course of three years, with further substantial savings to be achieved in other operating costs over the same period. GPL forecasts savings in its controllable costs of £3m, approximately 25% over the course of the forthcoming price review period.

The DG notes the States' guidance to Treasury and Resources, highlighted in Section 3 above, which states that financial performance targets should be set to deliver improved efficiency.

The DG has decided to set an efficiency target for GEL of 2.3% of its non pass through costs and to complete the remaining efficiency programme set out by PPA and agreed at the last price review. This amounts to a saving of just under £0.4m in total.

The overall operating costs and efficiency savings for 2011-12 are as follows:

Operating costs 2011-12	
Fuel and electricity import costs (subject to pass through)	£27.2m
Other opex	£14.6m
Efficiency target	(£0.4m)
Total opex	£41.5m

Capital expenditure and Save to Spend reserve

GEL set out the profile of its capital investment programme in the information submitted to OUR. The programme for the five years including the current year is summarized below.

Figure 6: GEL capital investment programme, 2010-2015

Capex, £m	2010-11	2011-12	2012-13	2013-14	2014-15
Generation	6.7	8.2	10.6	8.0	0.4
Conveyance	2.3	1.4	3.0	1.4	1.9
Supply	2.3	1.6	1.8	2.0	2.4
Total	11.3	11.2	15.4	11.4	4.7

While this is a significant and ambitious investment programme, amounting to nearly £2000 per customer over a number of years, the DG has made no specific adjustments to this investment programme and has allowed capital investment in line with GEL's request.

Capital expenditure allowance for 2011-12 is £11.2m

Incentive Mechanism for Capital Investment

In earlier consultations, the DG indicated that in accepting GEL's proposed investment programme and ensuring that future investment was safeguarded there was a need both to monitor progress against the programme and to put in place an appropriate mechanism to share the risks of investment between customers and the shareholder.

The DG proposed that an incentive mechanism be set up to include investments in the company's RAB when completed and, for increases in generating capacity, when required by increased peak demand from customers to meet the "N-2" security of supply obligation. In the draft decision this was revised to adjust the return on capital by a small amount in line with the differences between the company's forecasts of peak demand – the key driver of its investment programme – and the actual levels of peak demand to date.

In its response to the Draft Decision GEL signalled its discontent with this approach, both to ongoing scrutiny by the OUR of its investment programme and to any decisions made by OUR which would serve as a guide to what is likely to happen to future prices. GEL states that in the draft decision OUR "*over-reaches the regulatory role by proposing regulatory involvement in capex control within and throughout the period of price control which micromanages GEL and undermines the role of the shareholder since proper governance is in place*".

However, the RPI report⁹, quoted a number of times in GEL's response to the draft decision, identified the shareholder role as one issue in relation to the regulatory framework. The report notes issues with the lack of *"performance-focused exercise of the shareholder function"* and *"inherent weaknesses and tensions in the frameworks of governance and accountability for the commercialised enterprises"*.

The OUR's proposed approach to capex regulation is one which has been successfully used by other regulators and was proposed as an alternative to detailed up front review of capex which the company has also not welcomed. The OUR's role is to protect consumers and ensure that investments are made which will benefit consumers and that the risks (and rewards) of such investments are balanced between customers and the shareholder. The OUR has carried out the same role in post and telecoms without objection from those regulated sectors that it is not appropriate for the regulator to examine or to challenge proposed investment plans.

Given that this is now a single year price control the DG will review the issue of how best to incentivise the investment programme and to balance the risks between shareholder and customers at the next price control.

In the meantime however, GEL will be required to produce a summary for the OUR of its investment programme setting out the investment profile of the main projects (those with a value of more than £1m) together with key milestones and when they will be delivered. This will provide an essential baseline for the next price review and enable greater transparency of GEL's future investment.

Save to Spend

The DG has reviewed the company's core investment programme against the OUR's assessment of the current position of the state of the 'Save to Spend' reserve (as set out in the consultation document OUR 10/13) and against the more pessimistic view of the reserve held by GEL. He is satisfied that in neither case would any additional provision in price limits be required to finance the investment programme for 2011-12.

In other words, the cash generated by the business in the normal course of its operations given the expected level of profitability will be sufficient to finance investment without seeking additional funds from customers.

⁹ Regulatory Policy Institute: *Review of Guernsey's utility regulatory regime – A report for Commerce and Employment* by Prof G Yarrow & Dr C Decker, Oct 2010

Cost Pass Through

The Cost Pass Through mechanism (CPT) is a means for allowing interim adjustments to electricity prices without a full price review. It is intended to allow the company to recover increases in costs for items that are outside its immediate control. This includes increases in imported electricity prices or world oil prices, both of which can have a significant impact on the cost of electricity on Guernsey, and led to price rises of 17% in 2009 and 8.5% in 2010.

The present cost pass through approach is divided into 3 parts:

- increased oil and electricity import costs compared to the 2006 price review;
- pass through of 50% of any “excess” import costs above a market assessment;
- adjustment for a shortfall in revenue – allowing 85% of any shortfall;

GEL has indicated that there are substantial additional “pass through” costs that it will need to recover in future years. Overall, the company has indicated that it believes it is entitled to recover £35m of pass through costs from customers for the period 2007-11 (including an estimated £11m for 2010-11). To date, the DG has allowed price increases to recover £16m of these additional costs, with a further £1m in 2011-12.

The DG notes that over the first three years of the last price control, for which GEL believes it is entitled to recover £24m from customers, the adverse effect on its profitability was much less than this. In examining the accounts, if the OUR had perfect foresight and GEL had been awarded the extra £24m it believes it needed from customers, it would have been able to achieve profits of approximately £15m for the three year period, almost £10m more than the figure allowed for in the OUR’s 2007 decision (accepted by GEL) of £5.2m.

In their submission to the OUR, GEL asked for £0.4m of cost pass through to be included in their price limit for 2011-12. The DG has included a slightly higher figure, but notes that it is at GEL’s discretion whether to include all or part of this in its price increases.

For 2011-12, the DG has allowed for £1.0m of additional pass through costs to be recovered in GEL’s allowed revenue through increased prices.

In light of the other issues raised, the DG will review the remainder of the cost pass through later in the year, when the final costs for 2010-11 will be available. In this review he will consider the total amount of pass through for the 2007-11 period to which GEL is entitled, and the amount of revenue required to ensure that the company is able to meet its future financial obligations and safeguard its investment programme.

CO2 Emissions

It is the DG's view that it is not the role of the economic regulator to make a judgement about the relative merits of various forms of generation from the perspective of their environmental impact. But for policy makers it is important that the relevant information is available and disclosed on a comparable basis for all forms of generation and that both CO2 emissions and radioactive waste are relevant to any consideration of the environmental impact of importing electricity.

Nevertheless, the DG would reiterate his earlier comments that the approach adopted in Guernsey should be in line with accepted practice and that the approach adopted in the UK is most relevant because Guernsey's overall emissions are reported under the UK as signatory to the Kyoto protocol.

6. FINAL DECISION

This document sets out the change in revenue allowed for Guernsey Electricity for the allowed revenue, capex and operating expenditure from 1 April 2011.

In light of a number of areas of uncertainty at the time of this decision, and in line with the approach set out in the draft decision, the DG has decided to formally set the price control only for the single year, 2011-12, for which the allowed increase in revenue is 6.5%.

	Current year 2010-11	Price control 2011-12
Revenue increase		+6.5%
Allowed revenue		£50.6m
Notional ¹⁰ unit price (average after increase)	12.5 p/kWh	13.3 p/kWh

Indicative figures for later years were included in the Draft Decision but appear to have caused some confusion, therefore figures for subsequent years have not been included in this Final Decision.

¹⁰ The notional unit price is the average price for all units of electricity sold (peak and off peak) including standing and other charges.

7. Next Steps

It is expected that GEL will now adjust its prices to take effect from 1 April 2011 but has requested a discussion with the OUR prior to publication of all its tariffs, including legacy tariffs. The OUR will therefore assess GEL's issues as requested following this final decision.

The present resell price level is likely to change following this decision and the OUR will liaise with GEL on the next available level for these tariffs prior to publishing an information notice.

This decision has also indicated that the DG will be reviewing the structure of GEL's tariffs and this work will commence in the near future with a view to this work feeding in to any longer term price control that may be put in place from April 2012.

ANNEX A - Tariffs

All tariffs offered by Guernsey Electricity Limited are within the price control.

Tariffs currently offered by GEL to some or all of its customers include:

- Standard
- Super Economy 12
- Industrial Economy
- Maximum Demand
- Heat Pump
- Superheat
- Non peak
- Boiler
- Public Lighting
- Buy back

There are a number of aspects to the charging mechanisms under these tariffs, all of which are relevant in terms of setting future revenue requirements and prices:

- Unit charges for peak and off peak units;
- Periods when peak and off peak charges apply;
- Standing charges;
- kW capacity usage (maximum demand) charges;
- power factor adjustment charges;
- standby charges;