



CICRA media release

23 January 2012

New approach to electricity regulation proposed

The Channel Islands Competition and Regulatory Authorities (CICRA) are consulting on a new approach to regulating the electricity market in Guernsey.

The proposal is in response to the review of regulation carried out by Commerce and Employment in 2010 and will see the regulator drop price control (where tariff changes are approved in advance by the regulator) in favour of an on-going assessment system.

The new approach will give Guernsey Electricity more commercial freedom to change tariffs. The next tariff change is due in April. The regulator will review these changes in mid-2012 and determine whether Guernsey Electricity changes were appropriate.

From April Guernsey Electricity will be increasing its tariffs by 5.5% - 2.5% of which has been approved by the regulator as part of work in 2011. In October 2011, Guernsey Electricity indicated it wished to increase tariffs by an additional 3% on top of the increase already allowed.

The review system will mean that Guernsey Electricity is required to be more transparent on why tariffs are changing and set out how it intends to improve its efficiency. The company will also need to establish a ring-fence around the 'Save-to-Spend' fund into which electricity customers contribute to fund core business capital expenditure.

CICRA Executive Director, John Curran said: "This new approach will allow Guernsey Electricity greater commercial freedom with regard to when, and by how much, it changes tariffs. It will place the onus on the Guernsey Electricity board and management to satisfy

themselves that they have rigorously scrutinised and set challenging targets to improve the company's efficiency.

"The regulator's role will now change to one of reviewing the company's plans. If we are in agreement with its proposals then the tariff change will remain in place. If not, and the difference is material, consumers will be refunded later in the year."

The new approach will also see Guernsey Electricity ring-fence its core business funding reserves so that they are used solely for the purpose of providing core electricity services. In the past the cash reserves have been used to fund investments that were not related to meeting the island's electricity demand.

"Electricity customers make a contribution through their charges to help build up reserves that Guernsey Electricity needs to fund essential capital expenditure. It is important that those funds are available when they are needed and transparent ring-fencing of the fund is an important element of the new approach," he said.

"This move, to give Guernsey Electricity more commercial freedom, is being balanced by putting in place greater transparency around what electricity customers' money will be used for and better visibility on how the company plans to reduce costs. We believe this new approach addresses a number of the issues identified during the review of regulation."

Those wishing to respond to the draft decision are asked to provide their views in writing to CICRA at Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey GY1 2NH.

The draft decision will be available on CICRA's website: <http://www.cicra.gg/index.aspx>. A final decision will be issued prior to 1 March 2012.

Issued by Catherine Le Prevost, Orchard PR, Tel. 01481 240600

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NOTES TO EDITORS:

All enquiries should be directed in writing to CICRA Director General, John Curran, in Guernsey at the Office of Utility Regulation, Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey GY1 2NH or email info@cicra.gg and in Jersey at 2nd Floor, Salisbury House, 1 - 9 Union Street, St Helier, Jersey JE2 3RF

About the CICRA

The Channel Islands Competition and Regulatory Authorities (CICRA) is the name given to the two Channel Islands regulatory authorities, the Jersey Competition

Regulatory Authority (JCRA) and the Guernsey Office of Utility Regulation (OUR). A memorandum of understanding was signed in December 2010 to facilitate closer working between the two authorities. Both regulatory bodies were established in 2001. The JCRA was established under the Competition Regulatory Authority (Jersey) Law, 2001 and the OUR was established under the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. In Jersey the telecoms and postal sector are regulated by the JCRA, which is also responsible for administering and enforcing the Competition Law (Jersey) 2005. In Guernsey the telecoms, postal and electricity sector are regulated by the OUR. The aim of both authorities is to ensure that consumers receive the best value, choice and access to high quality services while Jersey has the added responsibility of promoting competition and consumer interests.