

29 January 2019

Private & Confidential

Mr Michael Byrne
Chief Executive
CICRA
Suite 4, 1st Floor
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WITHOUT PREJUDICE

Dear Mr Byrne

GEL STANDBY CHARGE – COMMENTARY ON DRAFT DECISION

Following the issue of the confidential draft decision on Standby Charges applied by Guernsey Electricity Ltd (GEL) on 20 December 2018 by your office, IEG has now had opportunity to consider the draft decision, read and understand all of the respondent's comments. In addition, we have taken into consideration the broader aspects of the Island Energy Policy which is due for imminent draft release for consultation, which we believe has a material impact on the proposed GEL Standby Charge going forward.

As IEG were the initial complainant in relation to the existing Standby Charges which have been in place for over twenty years, we were surprised at the sentiment expressed by all but one of the respondents, and especially the depth of feeling over the charge. IEG believes once the draft decision is made public there will be even greater interest from private small embedded generator owners.

A competitive market for embedded generation should be given the opportunity to develop

IEG does not unfortunately agree with commentary from GEL but we feel that detailing all the raised points that they make is beyond the scope of this response letter. One point we wish to raise however, is the GEL reference to Ofgem's commentary. These comments are based on a market which has changed beyond recognition and now, with a substantial proportion of the UK electricity market being from renewables, there needs to be balanced apportionment in some way.

In addition, we will also be offering our small generation schemes to community housing projects and individuals from all income levels of island society and therefore in a non-discriminatory manner across all societal groups.

Ofgem did not seek to impose any such barriers until the renewables market had established a foothold in the sector and only then once it was of such a size as to make the supplier of last resort question a legitimate one.

Embedded Generation should only apply to systems in excess of 25KW installed capacity

With regard to the draft decision notice, in section 1, we recommend adding in a clause that any future standby charges (if any are finally decided upon) are only for embedded generation systems in excess of 25kW installed capacity.

Embedded Generation will benefit security of supply

Having reviewed an extract of the STSB response to the draft decision:

Embedded generation might have benefits for Guernsey's economy which needs articulating as part of the emerging energy policy and as such also reduces the need for GEL to actually reduce capital investment.

This was one of our observations at the outset of our electricity licence application and is forward thinking. Indeed, our proposed energy centres do not simply have a single generator and expect the grid to pick up the lost generation as in old legacy standby principles. The major projects that we are presently working on have ultimately between four and six generators in an N-1 or N-2 configuration for maintenance/electrical loading efficiencies and for security of supply to our customers.

IEG is therefore carrying and contributing the cost of security of supply and being connected to the public electricity network (which in many cases is only a single cable supply) actually enhances the technical characteristics of an integrated holistic electricity network. The value of which has not been covered in any detail to date by any parties, my colleague Bob Beebe can explain this in much more detail face to face if needed.

Interim Standby Charge Setting Value

With reference to Jersey Electricity Company's (JEC) charge of £3.07 per kW installed capacity as an interim value, IEG is not convinced that the report by NERA covers all the aspects of the applied charge appropriately. This is primarily due to JE not being a fully regulated utility and therefore we are mindful that the costs covered for JEC may not be transparent and solely applicable for the required levels of security of supply. This is also the case for GEL where we believe many cross subsidised costs could be included in any similar developed charge on the same principles unless scrutinised appropriately. We note that neither GEL nor JEC produce regulatory accounts or any regulatory cost analysis therefore it is highly unlikely that the need for the assets included in the charge and the efficient costs of those assets and services have had any regulatory or efficiency challenge.

Whilst we are pleased that the need for the standby charge is being addressed we remain concerned that any temporary arrangement could easily become permanent. There is no incentive for GEL to conclude this matter in a timely manner. There was public announcement of GEL tariff revisions over a year ago and these have still not been concluded.

The risk of a serious increase in any unknown Standby Charge, after the full assessment of the charges is carried out, that will be applied retrospectively, could put our distributed energy division out of business for long term contracts (c.20 years) entered into during the interim assessment period.

The draft decision places no obligation or timeframe on GEL to provide any detailed information to CICRA or the market to justify this charge. GEL is a monopoly service provider and as such it is

incumbent upon it to behave in an open and transparent manner and to not take advantage of its monopoly position.

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In summary, we believe that the Standby Charge should be considered at zero as a first choice until the energy market becomes developed, for example to 15 or 20% of embedded generation penetration across the island.

Where generation schemes on larger CHP type projects are proposed over 25kW, these would need to meet certain security considerations (N-1 or N-2 etc) of which we are happy to explore and importantly fund ourselves at no cost to the Island.

If the Standby Charge is to be set at £3.07 for a specific period as suggested in the draft decision notice, then we would respectfully request that any contracts entered into by IEG with our customers at this value are grandfathered until the final determined Standby Charge value is concluded. This will stimulate the market immediately in competition terms and also incentivises the incumbent operator to conclude the matter in a shorter period.

We would recommend that a final decision should be concluded within a maximum of nine months of issuing the imminent draft decision. We then feel during this period we have a level playing field in which to operate as both competitors and can make supply offers to customers.

May we also respectfully request that when any such full public electricity tariff proposals from GEL are received by your office and reviewed, that embedded generators '*per se*' are protected from any proposed punitive disincentivisation charges that may be proposed.

IEG believes that distributed generation using renewable and CHP technology is the way forward in reducing Carbon footprint, particulate matter and NOx/SOx emissions and is far more efficient than conventional generation and distribution models. The proven technology is now available for this to proceed and will benefit the Island as a whole and will support the Island Energy Policy which is due for release imminently.

Rather than developing the energy market through innovation and technology, and democratising the energy market, if punitive standby charges are applied, the Island risks calcification of the energy market instead through the protectionist measures that the Standby Charge presently imposes.

IEG has provided previous substantial evidence for this and stands by its previous observations in raising our complaint on Standby Charges.

We believe that through carefully managed private investment in the Island's electricity market, the Island as a whole will benefit through economic enabling systems and schemes, reducing carbon emissions and helping the environment. Indeed, through a forum meeting with the Energy and Infrastructure working group two weeks ago we consider that the four pillars of the proposed future Island Energy Policy will be met by abolishing the archaic Standby Charge, which we also believe to be the highest anywhere in the modern world and non-existent in Europe (as previously submitted evidence).

May we request that this letter remains confidential but hope that a fair and equitable way forward can be found in the draft decision that:

- Allows IEG to commence operations across all market sectors
- Stimulates the energy market
- Removes new electricity operator entrance barriers
- Removes dominant practices affecting embedded generators
- Is cognisant of future Energy Policy objectives in reducing Carbon and other harmful emissions

IEG is happy to meet at any time to discuss any matters pertaining to the Standby Charge and would wish to thank you for time spent in recent meetings on this matter.

Yours sincerely



Ian Plenderleith
Group Managing Director
International Energy Group