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Suite 4, 1<sup>st</sup> Floor  
La Plaiderie Chambers  
La Plaiderie  
St Peter Port  
GUERNSEY  
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9th  
August, 2018

Dear Sir

### **Standby Charge for Embedded Electricity Generation**

The States' Trading Supervisory Board (STSB) has considered the Call for Information published by CICRA in respect of the above. The STSB acts as shareholder on behalf of the States of Guernsey in Guernsey Electricity (GEL). Whilst I understand that GEL will be responding to the Call for Information itself, the STSB would nevertheless like to submit its own response as well.

In considering this matter, the STSB has been conscious of the following:

- Where a customer chooses to self-generate, there will most likely remain a need for them to retain a connection to GEL, which in turn will need to maintain infrastructure to their premises;
- As embedded generation increases, GEL's revenues from self-generating customers will fall, which has implications for how it funds its wider capital investments as the provider of the Island's electricity infrastructure;
- Embedded generation might have benefits for Guernsey's economy, which ideally need to be articulated and considered as part of its emerging Energy Policy;
- There is a risk that the standby charge discourages uptake of embedded generation and the development of competition in the sector;
- Changes to tariffs in one area may risk increases in others as GEL seeks to recover its capital investment costs. Removing or zero-rating the standby charge in isolation risks introducing unfairness into the market place, as other customers who are unable to install or afford embedded generation would be cross-subsidising those who can;
- Embedded generation could potentially reduce the Island's maximum demand, which in turn could reduce future capital investment requirements for GEL.


Against the background of the above, the STSB wishes to register its objection to the proposal to set the standby charge at zero for the following reasons:

- There is a risk that, if a standby charge is set too low or at zero, GEL may be unable to fully recover its justified costs, with the result that other customers cross-subsidise

- the provision of a standby service to those with embedded generation. This cannot be fair to those customers;
- Reducing the charge to zero, albeit as an interim measure, must surely be considered as both premature and prejudicial to the pending review of the charge as part of a wider review and restructuring of GEL's tariffs;
  - The suggestion that the standby charge should be set at zero has been made without any attempt by CICRA to properly analyse the impact or consequences for the wider market place beyond IEG and GEL. Whilst IEG may well accept that this is proposed as an interim measure, there is a risk that the market will become distorted as other customers chose to move to embedded generation who may not understand or know that the zero rating of the standby charge is temporary and may be reapplied, either at a new level or in a different form, at a later date;
  - There is scope to adopt an alternative approach under the 2001 Electricity Law. Section 16 of the Law provides for customers who require electricity supplies to enter into a "special agreement" with GEL for supplying electricity on such terms as may be specified in that agreement (rather than in accordance with GEL's standard terms and tariffs). Importantly, this section of the Law also states that customers "*shall enter into such an agreement in any case where it is reasonable in all the circumstances for such an agreement to be entered into*". The use of such an agreement on an interim basis pending a full review of the standby charge should be encouraged by CICRA as a more proportionate response, rather than setting it at zero.

The STSB also believes that the Call for Information is too quick to dismiss the possibility of benchmarking GEL's standby arrangements against those being proposed in Jersey. Whilst acknowledging that Jersey Electricity's proposed charge would operate in a different manner to Guernsey's current one and that the charge there is presently under review, the STSB wants to flag its concern that benchmarking against Jersey is being dismissed so readily. For example, the STSB and GEL have previously undertaken a benchmarking exercise of average tariffs against Jersey which demonstrated that account could be taken of the differences in the two markets (for example: economies of scale; different electricity security policies; and, additional distance of the sub-sea cable from France).

Yours faithfully



**Deputy Peter Ferbrache**  
President  
States' Trading Supervisory Board