



Office of Utility Regulation,
Bailiwick of Guernsey

Annual Report and Accounts 2002

Year ending 31st
December 2002

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Annual Report: 2002



Deputy FJ Roper
President
Board of Industry
Raymond Falla House
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30th June 2003

Dear Deputy Roper,

I am pleased to submit this report on the activities of the Office of Utility Regulation for the period 1st January 2002 to 31st December 2002.

In accordance with section 8 of the Regulation (Bailiwick of Guernsey) Law, 2001, I would be grateful if you would present this report to the States of Guernsey as soon as practicable.

Yours sincerely,

Regina Finn
Director General of Utility Regulation

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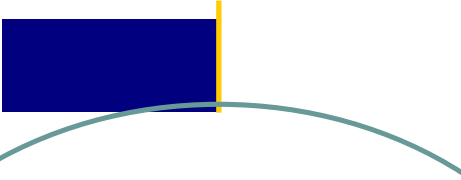
Annual Report: 2002

Contents

<u>Director General's Report</u>	5
<u>The Year in Brief</u>	7
<u>The Guernsey Regulatory Environment</u>	9
<u>The Office of Utility Regulation</u>	11
<u>Telecommunications: Overview</u>	15
<u>Telecommunications: Activity Report</u>	17
<u>Post: Overview</u>	23
<u>Post: Activity Report</u>	25
<u>Electricity: Overview</u>	27
<u>Electricity: Activity Report</u>	29
<u>Alderney and Sark</u>	35
<u>Financial Report and Accounts</u>	37
<u>Annex A: States Directions</u>	47
<u>Annex B: Documents Published by OUR in 2002</u>	53




Annual Report: 2002



The importance of the communications sector lies in its impact on all other sectors of the economy. It offers the potential for organisations to make best use of their investment in information technology and to realise productivity gains, improvements in quality and opportunities for greater social inclusion.

- European Commission, 2003



The single market for electricity will, progressively, produce a competitive and vibrant electricity market across the European Union. It will contribute to the three European energy policy objectives of increased competitiveness through better service for energy consumers, improved environmental protection, and greater security of energy supplies, while ensuring the continued achievement of basic public service requirements.

- European Commission, 2002



Director General's Report



The year 2002 will be remembered, amongst other things, for the feeling of suspense in international markets while developments on the **global stage** were nervously awaited. In between the terrible events of September 2001 and the impending Gulf War of 2003, businesses worldwide remained nervous and conservative, particularly in the technology sector.

Although global markets may have remained sluggish, in Guernsey, 2002 will be remembered as a year in which there was much change and progress in the utility sectors of post, telecommunications and electricity. In fact this period has afforded Guernsey a vital **window of opportunity** to put in place many of the building blocks for these three sectors that allow it to catch up with other western economies.

At OUR, **2002** will be remembered as an eventful year in which much progress was made in the regulation of utilities in Guernsey. Over the year the regulatory framework took shape with the opening up of the fixed telecommunications market to **competition** being one of the most significant developments.

Other important events included the OUR **review of the electricity sector** and the completion of the first set of regulatory accounts for the generation, conveyance and supply businesses of Guernsey Electricity Ltd.

The launch of a **mobile telephony licensing** process was also significant and heralded the opening up of the mobile market to competition in 2003.

Director General's Report

At the same time, other significant changes were taking place within the sectors during the year, in particular the commercialisation of the States Electricity Board in February, the purchase of Guernsey Telecoms Ltd ("GT") by Cable & Wireless Regional in May and the mechanisation of the postal service in December.

Throughout all of these changes the OUR has continued to seek the widest possible input from all parties affected by the regulatory regime and decisions of the Office, particularly **customers** of utility service providers.

We have listened to what customers want – value for money, choice and high quality services – and the contribution of the regulatory regime towards meeting those needs is now beginning to be seen.

This second annual report of the OUR provides more detail on the achievements of the Office in the first full calendar year of operation, and the changes that we are beginning to see in the markets as a result.

The OUR will continue to work towards its primary aims of enabling competitive markets to flourish and deliver the best result to customers, but the **players in the market** are the ones who will deliver the services that end users need.

I would like to welcome the efforts of those players, existing and new, in adapting to the changing environment and striving to meet the ever more sophisticated needs of Guernsey customers.



Regina Finn
Director General of
Utility Regulation



The Year in Brief

January 2002

OUR publishes licensing framework for electricity including final licence terms and conditions for generation, conveyance and supply and exemptions from requirements to hold licences.

February 2002

Guernsey Electricity Ltd (“GEL”) is granted licences to generate, convey and supply electricity; GEL publishes service standards; Licence terms and conditions for new telecoms operators published along with application forms and guidelines.

March 2002

First price control on services provided by Guernsey Telecoms (“GT”) limits scope for price increases in fixed telecommunications services; Accounting Separation Guidelines for GT published.

April 2002

Guernsey moves towards licensing new 2G and 3G mobile operators with the publication of a report on the process for licensing mobile telephony.

May 2002

GT purchased by Cable & Wireless Ltd (C&W). OUR report on implementation of the regulatory regime for electricity is published; GEL issues key operational documents including a Statement of Opportunity and Statement of Connection and Use.

July 2002

GT Reference Offer (“RO”) for Interconnection and Access published; interim interconnection and access prices published; GT appeals against certain decisions by the OUR in relation to the RO. OUR holds major public meeting on electricity policy and publishes detailed consultation document on the future for Guernsey’s electricity sector; GEL introduces compensation to customers for service failures.

August 2002

Maximum resale price for electricity set; consultation papers on price control in electricity, telecoms licence fees, electrical inspections and Directory Enquiries published; Competition for 2G and 3G Mobile Licences in Guernsey is launched.

September 2002

GT rebranded as Cable & Wireless Guernsey Ltd, Dispute Resolution Guidelines published and an investigation into C&W’s ADSL product is launched. Broadband ADSL services launched by C&W; GEL concludes first set of separated accounts; GEL publishes codes of conduct.

October 2002

Consultation on Service Level Agreements for retail leased lines launched; Report on Directory Enquiries published.

November 2002

OUR publishes its report to Board of Industry on the future of Guernsey’s electricity market; Fees for new telecoms licences published; Investigation into ADSL concluded.

December 2002

Report on Service Level Agreements for Leased Circuits published; Report on electrical inspections and draft regulations published; OUR publishes a guide to communicating with OUR and participating in consultation processes

Annual Report: 2002



Guernsey's Regulatory Objectives are:

- Protect the interests of users of utility services in terms of
 - Prices
 - Quality
 - Service Levels
 - Permanence and
 - Choice
- Secure utility services to satisfy reasonable demands;
- Ensure utility sectors contribute to the economic and social development and well-being of the Bailiwick;
- Introduce, maintain and promote effective sustainable competition;
- Improve quality and coverage of utility services;
- Facilitate availability of new utility services;
- Lessen adverse impact on the environment.

- the Regulation of Utilities
(Bailiwick of Guernsey) Law,
2001

The Guernsey Regulatory Environment

By the end of 2002, Guernsey's regulatory environment was just over **one year old**. Much of the legal and policy framework had been set in 2001 and was described in detail in the OUR's first annual report. Significant elements of the new regime were developed and implemented during 2002 and 2003, building on the core legislation and policy statements made in 2001.

Legislation

The main piece of regulatory legislation is the **Regulation of Utilities (Bailiwick of Guernsey) Law, 2001** which establishes the Office of Utility Regulation (OUR), sets out the governing principles of the Office, and allows the States to assign further functions to the Office over time. This law was enacted on 1st October 2001.

The following three further laws have been put in place, one for each of the three utility sectors:

- The Telecommunications (Bailiwick of Guernsey) Law, 2001;
- The Post Office (Bailiwick of Guernsey) Law, 2001; and
- The Electricity (Guernsey) Law, 2001.

Each law sets out in more detail the powers and functions of the Director General in the relevant sector. The telecoms and postal laws were brought into effect on 1st October 2001, whilst the electricity law came into effect on 1st February 2002.

States Directions

The Regulation Law provides that the States of Guernsey may give **States Directions** to the Director General on certain specific issues in each of the sectors. These include directions on:

- The identity of the **first licensee** in each sector to be granted a licence with a universal service obligation;
- The scope of a **universal service** or minimum level of service that all customers in the Bailiwick must receive;
- Any **special or exclusive rights** that should be granted to any licensee in any of the sectors and
- Any requirements on licensees that might be needed for Guernsey to comply with any of its **international obligations**.



The Office of Utility Regulation

The OUR was set up under the Regulation Law in **October 2001** to regulate the three sectors of electricity, post and telecommunications independently from government and the players in the market, and in line with States policy and the provisions in the Laws.

OUR Office

OUR is located in its own separate offices in Hirzel Court in St Peter Port and, although small, continues to be independently run and staffed with its own computer network, telephone system and services.

The Office functioned for much of the year with a core of just **three staff** and the Director General. Over this period the Director General brought in specialist technical expertise to complement in-house resources and to handle specific projects at certain times in order to help develop the regulatory framework and assist in arriving at regulatory decisions, as well as using some short term temporary staff when workloads were particularly intense.

OUR Processes

OUR's procedures are in accordance with the principles set out in the Regulation Law and which are in line with best international practice and tailored to the specific context and needs of Guernsey. A key characteristic of the OUR's approach has been its open and **transparent** consultative process which underpins the Director General's decisions.

The Director General is required to take an **impartial** view of the three industries within her remit and her role in protecting the interests of any of the regulated companies exists only insofar as it is necessary to meet the objective of delivering the best outcome for Guernsey consumers and the Guernsey economy.

In line with international experience, where more **competition** develops, the Director General expects that the role of regulation will be reduced wherever possible, but only where customers' interests are adequately protected by the operation of effective competition. She will therefore continue to keep the three sectors under ongoing review.



The Office of Utility Regulation

OUR Communication

The Office has made extensive use of its website (www.regutil.gg) as a means of communicating both with the operators within the regulated industries and with interested members of the public. The website has continued to be invaluable and an efficient method of conducting public consultations and disseminating information with **44 papers** published in 2002.

The Director General urges industry players, policy makers, consumer groups and individual consumers to take the opportunity to respond to the OUR's consultations and make sure their **views** can help inform and shape the regulatory framework and individual regulatory decisions. To compliment and support the written consultation process the Director General also held **public presentations** and **industry workshops** on certain topics during the year and in December 2002 the OUR published a reminder on how to participate in the OUR consultation process (**OUR 02/44**) and use the various other communication channels to the office.

All of the OUR's reports on consultations and the Director General's decisions are available from the Office directly and also published on the OUR's website. Responses to consultations, unless marked as confidential are also available for inspection at the OUR's offices at Hirzel Court. A full list of all the documents published in 2002 is at **Annex B**.

The Director General and her staff have also had meetings and discussions with a wide range of individuals and companies that are interested in or affected by the regulatory regime and OUR continue to be pleased to have an ongoing open communication process.

OUR Co-operation

Throughout 2002, OUR had an opportunity to forge links with other organisations that play key roles in the regulated sectors, both locally and internationally. Very productive co-operation with the UK regulators, particularly on telecommunications numbering and the licensing of spectrum continued and the OUR would like to thank **Oftel** and the **Radiocommunications Agency** for their ongoing support and help during 2002.

The Office of Utility Regulation

The **Trading Standards Service** of the Board of Industry was involved with OUR in developing a complaint referral service for customers of utility companies who felt that the dispute procedures within the relevant company had not addressed their complaint. This set the groundwork for more development in 2003.

Other international regulators continued to provide a valuable source of support and assistance on an informal basis to OUR and by the end of 2002, the OUR was receiving requests to help other small regulators to develop their own regimes. The OUR continues to **maximise the benefits** of these links for Guernsey and its regulatory regime so as to ensure that Guernsey keeps pace with the first class economies against which it has to compete.

Independence and Accountability

The Regulatory Laws require the Director General to be **independent, fair and impartial**, in carrying out her functions and to do so in a manner that is **timely, transparent and objective** and consistent with States policy directions.

The clear legal separation between OUR and the States of Guernsey allows the Director General to make decisions in the **best overall interests** of the people and economy of Guernsey without any real or perceived influence from vested interests. The independence of the Office is underpinned by the fact that it is independently financed from licence fees in each of the sectors and is independently staffed and resourced.

The Director General is accountable to the States of Guernsey and must submit a report on the activities of the Office along with audited accounts each year. The Board of Industry also has the right to approve the overall numbers of staff in the Office, and the Law provides for an independent **Utility Appeals Panel and Tribunal** to hear appeals against decisions of the Director General. During 2002, GT, now Cable and Wireless Guernsey, appealed a decision regarding the contents of the company's Reference Offer and this appeal is expected to be heard by the Tribunal in 2003.

These measures strike a balance between the essential need for independence so as to ensure that the market has confidence in the impartiality of the Director General's decisions, while at the same time ensuring appropriate accountability and protecting the rights of parties affected by decisions of the Director General.

"Fairness is what justice really is"

- Potter Steward, Associate Justice, US Supreme Court



Annual Report: 2002



Guernsey's Telecoms Policy includes:

- The introduction and promotion of competition in the telecommunications market; in the Bailiwick of Guernsey at the earliest possible time;
- The provision of the following core telecommunications services to all telephony users in the Bailiwick at uniform affordable prices;
 - Access to the telephone network at a fixed location
 - Directory enquiry services and directories
 - Public pay phones

- States Directions

Telecommunications: Overview

The Global Telecoms Market

After the turbulent events of the previous year, 2002 proved to be another difficult year for the telecommunications sector across the world. Despite growth in the sector several high profile telecommunication companies were forced to declare bankruptcy and others were engaged in major restructurings. **Global Crossing** was the first company to shake the sector's foundations when it started the year by filing for Chapter 11 bankruptcy in the US after incurring USD22.4 billion in liabilities.

The next major shock came in June when **WorldCom**, the second largest long-distance phone company in the US and a major global carrier, admitted that it had misstated its financial results by USD3.8 billion and immediately filed for Chapter 11 bankruptcy protection owing USD41 billion to creditors with senior executives at the company facing fraud charges in the US. A string of further revelations followed in the telecommunications sector that exposed the difficulties the industry was facing.

Despite these difficulties, the worldwide telecommunications market continued to grow, albeit at a slower pace than previously. Total global revenue grew 1.3% to USD1.25 trillion with mobile revenues growing by 5.9% to USD491 billion and fixed public network services increasing by 2.8% to USD622 billion.

With all the restructuring and associated downsizing the one part of the telecoms market that has remained relatively stable has continued to be the dominant incumbent operators, those companies who started life as traditional phone companies and who still provide the core telecoms services we all use. As noted last year the nature of **core telecoms networks and services**, the way they serve as a true “utility” in our modern economy, has meant that traditional telecommunications operators remain strong and growing entities.

The Guernsey Telecoms Market

2002 has been a dramatic year in the Bailiwick's telecoms market. At the start of the year, the sole operator Guernsey Telecoms Ltd (“GT”) was a wholly owned States company with a legal monopoly in the fixed and mobile telecommunications markets within the Bailiwick.



Telecommunications: Overview

In January the States of Guernsey were in the process of identifying a strategic equity partner to buy a share of GT, and the process culminated in the sale of the company in its entirety to Cable and Wireless Limited (“C&W”). The sale was approved by the States in May 2002 and GT was rebranded later in the year and started to operate as **Cable and Wireless Guernsey** within Cable and Wireless Regional.

In line with the States Directions issued in 2001, a **universal service obligation** had been placed on GT and this was inherited by Cable & Wireless Guernsey. This requires the company to deliver basic services at affordable and uniform prices anywhere in the Bailiwick of Guernsey and it was implemented during 2002 by the setting of a **price control**.

One of the most important policy decisions underpinning the OUR’s work in 2002 was the decision by the States that the telecommunications market should be **opened up to competition** as quickly as possible. This decision recognised the key role that competition and liberalisation have played in delivering customer and economic benefits in telecommunications markets throughout the world. In 2001 the Director General announced a timetable for the removal of the monopoly that GT enjoyed at the beginning of 2002.

This meant that new operators could be licensed to provide **services** from **1st July 2002**, **networks** from **1st December 2002** and **mobile networks and services** from **1st April 2003**. Therefore by the end of 2002 C&W’s monopoly only remained in the mobile telecommunications sector and this was due to be removed early in 2003. The liberalisation timetable drove much of the OUR work during 2002 and the full text of the States Directions is set out in **Annex A**.

However, with all of this structural and ownership change, the delivery of services to end users did not remain static and of particular significance was the fact that Guernsey saw the introduction of **broadband internet access** for the first time as ADSL was rolled out in October 2002.

Telecommunications: Activity Report

Overview

In its first full calendar year of operation, OUR concentrated much of its effort on the telecoms sector to facilitate the liberalisation of the market and ensure that the regulatory regime was developed as quickly as possible in line with States policy. This was a particularly high priority for the States of Guernsey as it was essential to ensure certainty for the prospective new owner of GT and make sure that as many of the **building blocks** of the regulatory regime were in place before that change in ownership.

During 2002 the OUR finalised **licence terms and conditions for new entrants** into the fixed telecoms market, facilitated the completion and publication of GT's **Reference Offer** for **interconnection and access**, including interconnection and access prices, and issued an invitation to tender for **3G mobile** licences and another **2G mobile** licence within the Bailiwick. Over the same period the OUR put in place a **price control** for GT's services in the fixed market and concluded consultations on a number of other issues directly concerning consumers. Apart from these major planned projects, the OUR also conducted a number of subject specific **investigations** during the course of the year.

Fixed Telecommunications Licensing

In January the Director General published her report and decision on the licence terms and conditions that should apply to **competing operators** in the fixed telecommunications market (**OUR 02/07**). Following this the Director General published Pro forma Telecommunications Licence Terms and Conditions (**OUR 02/08**) and an Information Notice and Application Form (**OUR 02/09**) for new entrants ready for the liberalisation of the sector later in the year.

In November 2002 fixed telecommunications licences were granted to **Wave Telecom Limited** and **Newtel (Guernsey) Limited** in readiness for the expiry of the exclusivity period for the provision of telecommunications networks.

The Director General also consulted (**OUR 02/31**) on how the annual licence fees for the OUR's telecommunication licensees should be raised in order to recover the OUR's operating costs. The report and decision notice (**OUR 02/38**) was published in November along with Guidelines to the licensees setting out how the licence fee should be calculated (**OUR 02/39**).



Telecommunications: Activity Report

By the end of 2002 the work of the OUR in developing the licensing framework had contributed to the fundamental **structural change** in the telecom sector within the Bailiwick, with the purchase of GT by C&W and two new players poised to enter the market.

Mobile Telecommunications Licensing

In April 2002 the OUR published the first of several papers on the mobile telephony market in Guernsey issued during the year. This first paper (**OUR 02/14**) reported on an earlier consultation and set out the Director General's decisions on the available frequency spectrum for new mobile telephony licences to provide 2G services – comparable to the existing GSM services, and 3G services – the next generation of mobile services. The paper also concluded that a comparative evaluation, or “**beauty contest**” would be the most appropriate means of awarding the new mobile licences in Guernsey should the demand for licences exceed the number of licences available.

One month later, the Director General published another consultation paper (**OUR 02/18**) which focused on the licence obligations and conditions for the new 2G and 3G licensees. The Director General appointed **Andersen Management International** (AMI), a company with a proven track record in the use of comparative evaluations in mobile telecoms communications as specialist advisors to the OUR to assist with the award of the available licences.

In July a final report and consultation paper (**OUR 02/21**) was published which asked respondents to comment on the proposed design of the competition and sought **expressions of interest** from operators so that demand for the licences could be ascertained. In the event more interest was expressed in the licences than there were licences available, therefore making it necessary, in the interests of fairness, to run a competitive selection process for the licence award. That process was launched in August when an Information Memorandum (**OUR 02/30**) was published and the **Invitation to Tender** was made available for purchase by interested parties.

By the time of the deadline for applications at the beginning of December, AMI received one application from **Wave Telecom Limited** for a 3G licence and a 2G licence. This application was being assessed by AMI on behalf of OUR at the end of the year in advance of the end of C&W's exclusivity in the mobile telecommunications market.

Forty two percent of European mobile phone users are interested in 3G services, according to the TNS Telecoms 3G 2003 report, carried out in 10 countries. But the good news for telecoms operators and manufacturers is that the majority of those users interested in 3G were prepared to pay extra for 3G handsets and services.

Telecommunications: Activity Report

Interconnection and Access

In liberalised markets it is critical for new entrants to be able to **access the network** of the dominant incumbent so that they can provide services to customers on that network. As the cost of this type of access can make up 40% of a new entrant's costs, the importance of this service cannot be underestimated.

To facilitate competition the Telecommunications Law provides for the publication by the dominant telecoms operator of a **Reference Offer ("RO")** for interconnection and access. OUR reported (**OUR 02/10**) on the public invitation to comment on GT's Reference Offer in February. The following month the Director General published an Information Note (**OUR 02/13**) to new entrants notifying the market that the OUR had identified significant additional analysis that was necessary before a robust RO document could be finalised, and therefore announced a revised timetable for the publication of the final Reference Offer.

The preparation of GT's Reference Offer represented a major work programme in the first half of the year and culminated in a range of complex and detailed Directions to GT to adjust its draft Reference Offer. The Reference Offer was finally published by GT in July 2002 as was a further Information Notice (**OUR 02/20**) from the OUR. GT decided to appeal certain specific directions issued by the Director General relating largely to **leased lines**. Notwithstanding the commencement of that appeal, GT published terms and conditions (including prices) for wholesale leased lines on its website later in the year.

At the same time as the publication of the Reference Offer, **prices** for key interconnection and access products were published by GT. These rates were set initially by the OUR because GT had not been able to provide cost-justified rates based on accurate, verifiable information.

Price Control

Early in 2002 the OUR completed its first price control review (**OUR 02/11**) after initiating this project in the winter of 2001. In an industry where the incumbent is a monopoly and is likely to maintain a dominant position for some time, explicit **price regulation** has a proven track record in protecting consumers' interests and was appropriate to apply to GT in certain aspects of the fixed telecommunications market.



Telecommunications: Activity Report

After extensive analysis and economic modelling the Director General imposed price controls across four main baskets of products in which GT (as it then was) had a monopoly. The price controls which were initially set for the period 2002 through to 2004, comprised

- limiting price increases **by RPI - 5%** per annum for the main basket of services;
- Allowing increases of up to **RPI + 7%** per annum in charges for **exchange line rentals** as part of tariff rebalancing by the commercialised operator;
- Protecting the interests of vulnerable users by requiring prices for the “**Shortcall**” basket to be constrained **by RPI - 3%**; and
- Freezing prices for **leased lines** at the levels they were at in March 2002.

Quality of Service

One of the aims of the liberalisation of the telecommunications market is to improve the level of service provided to customers through the introduction of competitive forces. **Service Level Agreements** (“SLAs”) for end consumers have become an important source of competitive advantage and a valuable commercial tool in competitive markets as they provide a means for an operator to differentiate itself from competitors on the level of service quality it provides to its customers.

In a competitive market the scope of an operators’ retail SLA would be determined by the market itself. Within the local market however C&W is a dominant incumbent with the fixed telecoms market only recently being opened up to competition. Given the critical nature of leased lines therefore, the Director General issued a consultation paper (**OUR 02/36**) on the minimum SLAs for C&W’s retail leased lines.

Following the consultation a Decision Notice was published (**OUR 02/42**) and C&W was required to provide retail leased line customers with a standard SLA which included targets for **service** delivery, fault **repair** times and the minimum **availability** of the service. C&W’s SLA was also required to include a **compensation** regime for when these targets were not achieved.

Telecommunications: Activity Report

In August 2002, the Office published a consultation paper (**OUR 02/26**) looking at the implications for Guernsey on the liberalisation of the UK's **Directory Enquiry** ("DQ") market. Oftel (the UK regulator) was introducing a new range of six digit numbers starting with 118 for the DQ Services in the UK in order to introduce service level competition into the UK market and as Guernsey is within the UK international number range (00 44) this had implications for customers within the Bailiwick.

Following the consultation the Director General decided to adopt the UK numbering policy with respect to accessing national and international DQ within the Bailiwick of Guernsey. This meant that customers would be able to access a range of **118XXX** DQ numbers once these were introduced in the UK. This is essential to the Bailiwick because after a period of parallel running, access to the current 192 and 153 codes would cease in August 2003.

Disputes and Investigations

In May, the OUR received a complaint alleging that GT was in breach of the terms of its Fixed Telecommunications Licence by **discriminating** between customers. The complaint claimed that GT was providing preferential levels of service for fault reporting to certain customers for charges similar to those paid by other customers who did not receive the preferential level of service, or in the alternative, for no charge. The complaint also alleged that GT was unfairly cross-subsidising its competitive service for **reporting faults** on telecommunications equipment with revenue received from its monopoly licensed operations.

The OUR investigated the complaint (**OUR 02/25**) and found that GT was in breach of certain conditions of its licence. During the investigation, GT committed to a number of actions which the Director General considered would address the concerns raised in the complaint and therefore, in the light of these commitments, the Director General decided not to take any further actions should GT comply with the commitments it made. Both parties to the complaint accepted the Director General's findings.



Telecommunications: Activity Report

In September GT launched its **broadband ADSL service** within the Bailiwick. Due to the importance of broadband connectivity to customers in the Bailiwick and the role it can play in enabling a technology literate, e-enabled society, supporting the State's strategy of promoting e-business, the Director General initiated an investigation (**OUR 02/34**) into whether the launch of this critical service was in compliance with the regulatory regime and, in particular, GT's licence conditions as a dominant operator.

The investigation focused on three areas: whether GT exercised **undue preference** and/or unfair discrimination in favour of GT Online by providing more and better information to GT Online than it provided to independent ISPs; whether the ADSL product and pricing structures acted as **effective barriers** to independent ISPs entering the market for provision of ADSL based ISP services in Guernsey, and finally an examination of GT's published **pricing levels**.

Shortly after announcing the investigation into pricing levels GT announced **significant reductions in its prices** across its broadband portfolio and the Director General welcomed these reductions and ceased her own pricing investigation as the overall retail prices were more in line with international experience and represented significantly improved value to Guernsey consumers compared with the original published prices.

The report of the investigation into the remaining areas (**OUR 02/40**) was published in November and overall, the Director General found that C&W Guernsey had acted in contravention of its Fixed Telecommunications Licence and that that were a number of actions that, if satisfactorily implemented, would remedy the breach of licence and these were included as Directions to C&W.



2002 was a catalyst year for the European broadband market, according to a new study by market analysts IDC, European Broadband Access Services Market Analysis, 2002-2007. The number of connections catapulted to 13.4m in Europe, which is more than twice the figure of the previous year, and revenues for broadband internet access reached E3.4bn.

World Postal Markets

Postal markets in Europe continue to face considerable change and immense challenges. There are a number of key factors which are determining the transformation agenda in the industry. Firstly greater liberalisation continues as markets are gradually being opened up to **competition**, with traditional postal operators starting to take a closer look at the financial costs associated with public services and making explicit trade-offs between social and commercial objectives.

Secondly corporatisation continues apace with separation of postal operations from government control. This has also meant the introduction of new financial and operational targets with operators having access to new sources of capital and greater operational freedom. Apart from these changes in ownership and market structure, the industry is also experiencing other changes such as globalisation, outsourcing of key functions and the development of e-networks, all of which provide opportunities for growth and efficiencies.

In May the UK Postal Regulator, **Postcomm**, announced its decision on how to open up the UK postal market to competition. The liberalisation of the market would be implemented in three phases with Phase 1 commencing from 1 January 2003 through to 31 March 2005 with competition in bulk mail above 4,000 items representing around 30% of the UK letter delivery market. On the 1st April 2005, the bulk mail threshold would be lowered to open up a total of 60% of the market by value. Finally on 1st April 2007 Postcomm intend to abolish all restrictions on market entry.

Within this context Postcomm has continued working on a replacement for Royal Mail's initial price control and on **access pricing** – the amount competitors should pay Royal Mail for delivering their mail. Decisions in both these areas would be taken in 2003. Within this regulatory framework Royal Mail continued to face difficult times in streamlining its operations, preparing for competition, cutting costs and meeting its regulatory requirements.



Guernsey's Postal policy includes;

- Ensuring that all postal users in the Bailiwick receive the following postal services at affordable prices:
 - Daily delivery to all addresses in the Bailiwick on six days a week;
 - Collections on six days a week;
 - Collection of all items up to 20kg;
 - Services for registered and insured mail.
- Reserving exclusive rights for Guernsey Post Limited insofar as this is needed to meet the above policy.

States Directions

Guernsey Postal Market

Postal services in Guernsey are provided by Guernsey Post Limited ("GPL"), the limited liability company wholly owned by the States of Guernsey which was established in 2001.



Post: Overview

Following the establishment of the legal and policy framework for postal service in 2001, during 2002 Guernsey Post Limited operated in a market that was open to competition with the exception of the provision of **reserved services**. Reserved services comprise what most postal users consider to be normal mail services and GPL retained a monopoly on these services in order to ensure it could meet the States policy of ensuring that there are daily deliveries and collections to all addresses in the Bailiwick on each of six days a week.

Whilst GPL has a monopoly in the reserved area, there are a range of other companies, such as Securicor, DHL, Fedex, Interlink Express, Relay Couriers, Skynet and TNT Express who provide services to customers in Guernsey in the parts of the market that are **open to competition**.

2002 was a year of significant change for GPL for two principal reasons. The first of these is the changing nature of the agreement between GPL and the Royal Mail in the UK. Royal Mail is GPL's major partner for the delivery and collection of mail outside the Bailiwick. In this context and within the regulatory regime in the UK Royal Mail has been seeking to **renegotiate** the terms and conditions on which it collects and delivers mail to Guernsey, as well as Jersey and the Isle of Man. In December **Jersey Post** announced **price increases of over 25%** in local mail to cover increased costs arising from its new agreements with Royal Mail. However by the end of 2002 GPL had not yet concluded its commercial negotiations with Royal Mail and customers had seen no price increases.

Towards the end of 2002 GPL moved from its premises at Guelles Road to new purpose built premises at Envoy House. With the move to Envoy House GPL were able to use modern mechanisation within the sorting office – a process that involved significant organisational change. However due to an accumulation of contributing factors, customers within the Bailiwick experienced a sharp **deterioration** in the quality of the postal service in terms of delays for delivery of intra-bailiwick and UK to Bailiwick mail over the Christmas period and this became the subject of a detailed investigation in 2003.

Post: Activity Report

Overview

During 2002 the Director General has been closely monitoring the changes in the relationship between GPL and Royal Mail. This contractual relationship is critically important as Royal Mail is GPL's major partner and represents a major external influence on the Guernsey postal market. At the same time the company was implementing radical change programmes including the introduction of automation into the sorting process and the accompanying changes in working practices.

OUR has used this first full year of operation to research and consider the development of the regulatory regime in the light of the operational and commercial developments. In particular OUR undertook extensive research into considering appropriate **quality of service targets** for GPL that would address customers' perceptions of the service offered by GPL.

Quality of Service

International best practice involves measuring the **end to end delivery times** – that is the time that elapses from when the mail item is posted by the customer to the time when it is received at its ultimate destination. Prior to the commercialisation of GPL, this information had never been measured. GPL commissioned Research International to measure these delivery times using sample mail and was able to compile time series data in 2002 which was an essential input in the development of GPL's licence conditions in what would be an important workstream for the OUR in 2003.

“The postal service forms part of the daily life of people all over the world. Even in the digital age, the Post remains, for millions of people, the most accessible means of communication and message delivery available”

- Universal Postal Union

Cost Base

The other main area that OUR addressed in 2002 was the ongoing identification of GPL's **efficient cost** base and the development of appropriate cost accounting systems which would have an input in any price control that might be needed in the future. Due to the continued negotiations between Royal Mail and GPL, the public consultation on a price control for GPL was deferred until 2003 when this **key external driver** for the Guernsey postal market is expected to be finalised.

Consumer Protection

During the year in accordance with its licence conditions GPL published its **Customer Charter** on its website and set out the levels of service it was currently committed to providing.



Post: Activity Report

In December the OUR received a complaint in the form of a request for dispute resolution. The complaint concerned GPL's planned closure of the Arcade Post Office in St Peter Port and the company's commitment to take space within the new market development complex in 2004. The complainant, believed the Arcade facility was heavily used by the elderly and disabled members of society and consequently, the absence of this facility within St Peter Port until the Autumn of 2004 would disadvantage these customers. The OUR commenced a formal investigation which would conclude early in 2003.

Electricity: Overview

World Electricity Markets

2002 was an important year in the European energy sector as European ministers agreed a date for the complete **liberalisation** of the energy market across the EU. By July 2004 all business users will be free to choose energy suppliers, and this right will be extended to all domestic users in 2007, and in many countries earlier.

Two of the biggest effects of energy liberalisation are likely to be cheaper prices and a wave of corporate mergers in the sector. These effects have been seen in the UK, which was at the forefront of the liberalisation process: electricity prices for big consumers have fallen by around 40% in Britain since 1998; 34% of customers have changed providers; and 55% of British households now get electricity from a foreign-owned company. As mainland Europe becomes increasingly liberalised, these effects are likely to be seen in the throughout the rest of the EU, with any downward pressure in wholesale prices via competition in Europe likely to feed through to end customers

Also in the UK, a number of companies such as British Energy and TXU Europe experienced financial difficulties arising primarily from the **excess capacity** that had built up following privatisation of the generation business in 1990. Following liberalisation, new firms entered the market and built more power plants. However as capacity increased over the past four years, there has been a significant reduction in wholesale prices which made much of the plant in the industry unprofitable, and **rationalisation** an inevitable policy.

Competition in the UK market has therefore meant that power-generators will continue to withdraw capacity until prices recover to levels that permit profitable generation. As there are high barriers to exit, companies tend to mothball plant rather than decommission and close plant which makes the threat of California style power cuts unlikely in the European context.

Guernsey Electricity Market

On the 1st February 2002 the States Electricity Board was commercialised and **Guernsey Electricity Limited** (“GEL”) was created. The new wholly States owned company serves the 30,000 electricity customers within the island of Guernsey.

Electricity: Overview

In 2002 GEL was the sole monopoly operator in the Guernsey electricity market, with vertically integrated generation, network and retail businesses as well as a variety of non-core businesses such as the sale of white goods or “appliances”. The company met the needs of the island by a combination of on-island generation capability and electricity imported over an interconnector from France via Jersey.

The Electricity (Guernsey) Law, 2001 which was approved by the States of Guernsey in 2001, came into effect on **1st February 2002**, the same date that the new GEL was created.

At the same time, a number of States Directions that had been agreed in September 2001 were activated. First, the States had decided that GEL when it was formed would play a central role in the Guernsey electricity market and issued a States Direction to the Director General to issue appropriate **licences** to GEL.

In directing the Director General to issue a public supply licence to GEL,

..... the States noted that the licence brought with it a **public supply obligation** that would ensure that the company was obliged to supply all premises in Guernsey with electricity on request, and therefore that the legislation and the new regime protected the interests of users and there was not a need to make additional directions in relation to universal service.

Guernsey’s Electricity Policy includes:

- Ensuring the security of Guernsey’s electricity sources now and into the future;
- Ensuring that all premises on the island of Guernsey receive an electricity supply on request;
- A monopoly on the operation of the electricity network in Guernsey;
- The possibility of new entrants into the generation market

The States also directed that GEL should not have any monopoly rights in relation to the generation of electricity meaning that any interested party could apply to OUR for a licence to generate electricity in the Island of Guernsey in **competition** with GEL.

With regard to the remainder of the electricity market – the conveyance of electricity and supply of electricity, the States directed that GEL should have a **monopoly on conveyance** for a period of 10 years as this aspect of the business is likely to be a natural monopoly and it has been common in other jurisdictions to retain it with one company.

In the supply market, the States directed that one year of exclusivity be granted to GEL in its licence and requested the Director General to **investigate** this aspect of the market and report back to the Board of Industry on the introduction of competition into this market in the future.

Electricity: Activity Report

Framework for Implementing Policy

The Director General published a report entitled “**Electricity in Guernsey: Moving Forward - from policy to implementation**” (OUR 02/19) in May which identified and co-ordinated the key strands of States energy policy. This provided the Director General with an opportunity to outline the OUR’s plans for implementing the regulatory framework for Guernsey’s electricity sector and so inform the Board of Industry, and other policy Committees of the key impacts of the regulatory framework, including the primary policy and strategic implications.

The report brought together various threads of policy that were relevant to the development of the electricity sector and the regulatory regime and identified a number of key issues that were of critical importance in the wider context of the Bailiwick’s economic development including:

- the **security of supply** of electricity in Guernsey, i.e. ensuring that the risk of interruption of electricity supply to Guernsey electricity consumers is minimised;
- commercial developments on the island, such as potential e-commerce initiatives in the Bailiwick, and the accompanying **demand** for electricity that such developments might generate and the increase in the supply of electricity that would be required; and
- the planned **energy-from-waste** plant and how this plant would contribute towards on-island generating capacity and the commercial arrangements between parties that would need to protect electricity consumers’ interests.

The report identified three main work areas for 2002; the review of the scope for supply competition; the development of the licensing regime to facilitate the introduction of new entrants into the generation market; and a consultation on a price control for GEL with the focus on efficiently incurred operating costs, an efficient asset base and a capital expenditure programme consistent with States policy with respect to security of supply.

Licensing

In January the Director General published a number of papers in preparation for the commercialisation and creation of GEL on 1st February. The first document (OUR 02/02) was a Decision Notice and Report on an earlier consultation paper on the Electricity Licensing Framework which set out those activities which were included within the electricity regulatory regime and how the regime would be developed.



Electricity: Activity Report

The next document (**OUR 02/03**) reported on the consultation on the specific electricity licence conditions and was followed by GEL's Licence (**OUR 02/04**) which covered the generation, conveyance and public supply aspects of the company's business.

By the end of January the Director General had also found (**OUR 02/05**) that GEL had a **dominant position** in the electricity conveyance, supply and generation markets in Guernsey and as such specific conditions in GEL's Licence relevant to dominant operators in a relevant market would apply, including *inter alia* issues relating to **pricing** and **quality of service**. The final paper published in January was a Direction (**OUR 02/06**) on **exemptions** from the requirement to hold a licence whereby those persons generating electricity and satisfying certain criteria would not be required to obtain a licence from the OUR.

In May the Director General published an Information Notice and Application Form (**OUR 02/16**) which set out the procedures **new entrants** should follow for applying for a licence to generate electricity on the Island of Guernsey. No applications were received or processed during 2002.

Accounting Separation

In September, following a significant amount of work carried out by both OUR and GEL, the company prepared separated accounts which identified the revenue and costs of each of the three core activities of generation, conveyance and supply. The accounts separately identified the revenues and costs associated with the retail business interests of GEL.

Pending a wide ranging review of the electricity markets, these accounts were based on the existing systems and data of GEL and a set of agreed **allocations of costs** to the separate businesses. Separated accounts are an essential tool for OUR to monitor and ensure GEL's compliance with its licence, including demonstrating that its monopoly business is run separately from other activities and showing that there is no unfair cross subsidisation from the monopoly business into other areas.

Review of Electricity Market

States Directions to the Director General required the OUR to review the impact of the introduction of competition into the electricity supply market in Guernsey and to make recommendations on the introduction of such competition to the Board of Industry to enable the Board to take appropriate policy recommendations to the States of Guernsey.

Electricity: Activity Report

In July 2002, the Director General launched a wide ranging consultation on the future of Guernsey's electricity market. A public presentation (**OUR 02/22**) was held along with an industry workshop, and a detailed consultation paper (**OUR 02/24**) was published concerning the development of the Guernsey electricity market and focusing on the introduction of **competition in the market for supplying electricity** directly to customers.

The consultation looked at the characteristics of the Guernsey market in some detail and then identified a number of options that might be viable in Guernsey, ranging from the existing structure with no competition, to the introduction of full competition for all customers in the market whereby anyone could chose different retail suppliers from whom to purchase their electricity. The implications of these various options were explored, including the possible benefits and costs of adopting the options, and respondents were asked to comment on them.

The Director General's Report to the Board of Industry (**OUR 02/35**) was published in November to assist the Board in preparing policy recommendations to the States. In reviewing the main options for introducing competition the scope for **savings in electricity costs** to end customers was believed to come from either lower generation prices as retailers buy from competing generators and / or lower costs of serving customers via the retail function (billing, metering, credit control).

The report concluded that there was little scope for customer savings to be made that would provide for meaningful price based competition in electricity retailing in the short term. Furthermore, the cost of implementing that competition would be likely to be equal to, or greater than the level of potential savings to customers, thus negating the price benefits.

On the basis of the analysis undertaken the Director General made a number of recommendations to the Board of Industry including that the States direct that **exclusive conveyance and supply licences** be issued to GEL for the period ending 31st January 2012 although prior to this the issue would need to be re-examined, particularly if there were any changes in the OUR's underlying assumptions.

Competition and Regulation for the Guernsey Market



- Competition or regulation is not a black or white choice - a balance needs to be struck between -
 1. A monopoly where the OUR would seek to drive efficiencies via regulation
 2. A competitive market where OUR requires central mechanisms to be put in place and funded by the market to enable multiple players and efficiencies are driven by competitive forces.
- The choice for Guernsey retail sector is*"what mix of competition and regulation delivers the most efficient outcome?"*

17 July 2002

Designer Markets

15



Electricity: Activity Report

Price Controls

In August a consultation paper (**OUR 02/29**) was published on proposals for introducing a **retail price cap** on GEL as a dominant incumbent. The consultation paper considered the appropriate mechanism to do this; the types of services likely to be included in a price cap; and the issues that should be taken into account when assessing the levels of the overall price cap and any specific controls on certain services within the overall basket(s). The paper also described in detail the work that OUR would undertake in setting a price control and comments were invited by September.

By the end of the year GEL had provided the OUR with a detailed Business Plan with **opex** and **capex forecasts** for a 15 year planning horizon reflecting the long term nature of the business. This was an important project both for GEL and the OUR in 2002. OUR undertook a review of the assumptions underlying GEL's Business Plan in detail so that a decision on price control could be taken early in 2003.

Also in August 2002 the OUR confirmed the **maximum resale price** of electricity should be 9.62 pence per kilowatt hour (**OUR 02/27**). The purpose of setting a maximum resale price for electricity is to protect customers who do not purchase electricity directly from a licensed electricity supplier but from a third party e.g. where a landlord pays for the electricity used by their tenants and separately charges the tenant for electricity often via the landlord's coin meter.

Market Development

In May the Director General announced (**OUR 02/15**) that GEL had published and made freely available on its website its first Statement of Opportunity in accordance with Condition 33 of its Licence. The **Statement of Opportunity** allows all interested parties to obtain an overview of the electrical system within the island of Guernsey. It is primarily a technical report on current system performance and provides details of anticipated changes in the network and demand over the next five years. It outlines future requirements for network augmentation and expected levels of generation and demand and is updated on a quarterly basis.

One of the advantages of the Statement of Opportunity is that it provides a single source of up to date, transparent information on the electricity network to all interested parties, ranging from potential new entrants to any business or person who needs to consider a connection to the electricity network, for example housing developments or new e-commerce parks.

Electricity: Activity Report

Technical and Operational Codes

In May the Director General announced (**OUR 02/17**) that GEL had published its first version of the company's **Statement of Connection and Use of System Charges** in accordance with Condition 31 of its Conveyance Licence. The connection charging statement sets out the methodology GEL will use to derive the connection charges which will enable it to recover the costs involved in providing the assets, which afford connection to the conveyance system. These charges relate to the costs of the assets installed for the benefit of the user and the statement is intended to demonstrate that the costs are determined on a non-discriminatory basis.

Similarly the use of system charges reflects the cost of installing, operating and maintaining the overall conveyance system. The statement is designed to provide clarity of the **principles** and transparency of the **methodology** used by GEL in setting these charges, thereby informing existing users and potential new entrants with stable and accurate cost messages.

Consumer Protection

Following commercialisation in February, and in accordance with its licence, GEL published its **service standards** across 17 quality of service indicators ranging from restoration of supplies to charges and payments. By the end of the year GEL had introduced compensation for failure to meet publicised quality of service targets for replacing faulty service fuses, providing connections for new customers, faults relating to prepayment meters, changing meters and investigating voltage complaints within agreed time frames.

Prior to the Electricity Law being enacted, the former States Electricity Board, had an obligation to undertake electrical inspections under previous electricity legislation enacted in 1933 and 1955. Section 20 of the Electricity (Guernsey) Law, 2001 allows for the Director General to make regulations providing that any licensee shall appoint **electrical inspectors** to undertake inspection and testing of electric lines and electrical plant within the Island of Guernsey for both new installations and alterations to existing equipment.



Electricity: Activity Report

In August the Director General issued a consultation paper (**OUR 02/28**) seeking views on a number of matters to assist her in deciding whether to make regulations requiring Guernsey Electricity Ltd, as the sole Conveyance Licensee in Guernsey, to carry out inspections of electrical installations to its

Electricity is a true utility service and ensuring that electricity supply to consumers in Guernsey is reliable, sustainable and cost-efficiently produced and provided is an objective that the States of Guernsey has set to underpin the legislative and operational regime for electricity in the island.

agreed standards. In December a report on the consultation (**OUR 02/28**) concluded that GEL was the most appropriate entity to carry out such inspections and a set of draft regulations were published with the report for further comments from interested parties.

Inclusion and Equity

The Bailiwick of Guernsey comprises a number of islands including Guernsey, Alderney, Sark, Herm, Jethou, Brecqhou and Lihou. Both **Alderney** and **Sark** have their own independent parliaments separate from the States of Guernsey.

Alderney and Sark come within the regulatory regime for telecommunications and postal services and the Law explicitly recognises the inclusion of these islands. Both islands operate separate electricity arrangements from those in Guernsey and the OUR does not have any jurisdiction in the other islands.

The development of the regulatory regime for **post** and **telecommunications** during 2001 affected Alderney and Sark as significantly as Guernsey. Of particular importance is the fact that the States Directions to the Director General in relation to the provision of universal telecommunications services and universal postal services in the Bailiwick of Guernsey extend to Alderney and Sark as well as the other islands of the Bailiwick.

Therefore, in relation to post and telecommunications, the people living on Alderney and Sark are entitled to receive the same basic services as the people in Guernsey at the same **uniform affordable price**. This protects the interests of users in those islands in relation to core telephony services and postal deliveries.

The licence provisions developed by the Director General also encompass Alderney and Sark and therefore any provisions protecting consumers and the market in general extend to Alderney and Sark and provide protection there also. For example the investigation into ADSL services that was carried out in 2002 applied to Alderney and Sark and the terms, conditions and prices for this service in the islands is identical to that in Guernsey.



www.alderney.gov.gg

In implementing the regime, the OUR remains conscious of the special position of the other islands and this proved to be a particularly important issue in relation to the quality of postal services in 2003.

www.sark.info



Annual Report: 2002

Financial Statements and Report for the Period 1 January 2002 to 31 December 2002 For the Public Utilities Regulation Fund

Contents

<u>Fund Information</u>	38
<u>Report of the Director General</u>	39
<u>Report of the Independent Auditors</u>	40
<u>Income and Expenditure Account</u>	41
<u>Balance Sheet</u>	42
<u>Notes to the Financial Statements</u>	43
<u>Detailed Income and Expenditure Account</u>	45

Foreword to the Accounts

Regulation of Utilities requires a keen understanding of all the facets of industry and an ability to combine expertise in law, engineering, accounting, audit, economics and business analysis to develop innovative and practical solutions to facilitate market development.

2002 was the first full calendar year of operation for the Office of Utility Regulation. During that period the fees payable to the Director General of Utility Regulation were paid into the Public Utilities Regulation Fund which was initially established in 2001. Fees were collected from licensees in the three regulated sectors of telecommunications, post and electricity, charges were levied on specific companies for investigations carried out in 2002 and the Office also received some grant aid from the Board of Industry and a loan from the Treasury.

During 2002 the Office was staffed by three fulltime officers as well as the Director General and the Office occasionally used temporary staff for additional support. The OUR also used consulting expertise during 2002 to enable it to carry out its functions.



Public Utilities Regulation Fund

Fund Information

DIRECTOR GENERAL:	Ms R Finn
OFFICE ADDRESS:	Suites B1&B2 Hirzel Court St Peter Port Guernsey GY1 2NH
AUDITORS:	Chandlers Limited Chartered Accountants Anson Court La Route des Camps St Martin's Guernsey

Public Utilities Regulation Fund

Report of the Director General for the period 1 January 2002 to 31 December 2002

I have pleasure in submitting the annual report and audited financial statements for the Public Utilities Regulation Fund for the period ended 31st December 2002.

Financial Year

The accounting period consists of the twelve months from 1st January 2002 to 31st December 2002.

Principal Activities

The Office of the Director General of Utility Regulation was established in 2001 under the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. During 2002 the Office was assigned functions in the electricity sector, which were additional to its existing functions in the telecommunications and postal sectors. The functions of the Office relate to the regulation and licensing of these three sectors. The Office is funded by income received from the regulated industries and grant aid from the Board of Industry.

Statement of the Director General's Responsibilities

The Director General is responsible for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of and the income or deficit of the public Utilities Regulation Fund for that period. In preparing those financial statements the Director General is required to,

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Director General is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to ensure that the financial statements comply with the applicable accounting standards. The Director General is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors and Accounts

In accordance with Section 13 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the Director General shall keep all proper accounts and records in relation to those accounts and shall prepare in respect of each year a statement of account giving a true and fair view of the state of affairs of the Office of the Director General.

The Law also requires the Director General to have the accounts audited annually by auditors appointed with the approval of the Board of Industry. The Director General, with the approval of the Board of Industry, has appointed Chandlers Limited as the auditors to the Public Utilities Regulation Fund.

The audited accounts shall be submitted to the Board of Industry which shall in turn submit them together with the auditors' report thereon to the States with the Director General's annual report.

The auditors have indicated their willingness to continue in Office.

Regina Finn
Director General of Utility Regulation
30 June 2002





Public Utilities Regulation Fund

Report of the Independent Auditors to the Members of the Public Utilities Regulation Fund

We have audited the financial statements of Public Utilities Regulation Fund for the year ended 31 December 2002 on pages 41 to 45. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Fund's members, as a body, in accordance with Section 13 of the Regulation of Utilities (Bailiwick of Guernsey) Law 2001. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Director General and auditors

As described on page two the Fund's Director General is responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Regulation of Utilities (Bailiwick of Guernsey) Law 2001. We also report to you if, in our opinion, the Report of the Director General is not consistent with the financial statements, if the Fund has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and transactions with the Fund is not disclosed.

We read the Report of the Director General and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director General in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

In our opinion the financial statements give a true and fair view of the state of the Fund's affairs as at 31 December 2002 and of its surplus for the year then ended and have been properly prepared in accordance with the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001.

Chandlers Limited
Chartered Accountants
Anson Court
La Route des Camps
St Martins
Guernsey



Dated: 30 June 2003

Public Utilities Regulation Fund

Income and Expenditure Account for the Year Ended 31 December 2002

	Notes	Year Ended 31.12.02	Period 1.10.01 To 31.12.01
		£	£
INCOME			
License fees		732,381	105,000
Grants		287,359	62,008
Bank interest		1,125	98
		<u>1,020,865</u>	<u>167,106</u>
EXPENDITURE			
		915,887	101,989
		<u>104,978</u>	<u>65,117</u>
TRANSFER TO CONTINGENCY RESERVE		(104,978)	(65,117)
NET OPERATING SURPLUS FOR THE YEAR/PERIOD		<u>-</u>	<u>-</u>

The notes form part of these financial statements

Public Utilities Regulation Fund

Balance Sheet 31 December 2002

	Notes	2002		2001	
		£	£	£	£
FIXED ASSETS:					
Tangible assets	4		43,634		52,301
CURRENT ASSETS:					
Debtors	5	170,972		6,953	
Cash at Bank		270,890		21,801	
			<u>441,862</u>		<u>28,754</u>
CREDITORS: Amounts falling due within one year	6	315,401		15,938	
NET CURRENT ASSETS:			<u>126,461</u>		<u>12,816</u>
TOTAL ASSETS LESS CURRENT LIABILITIES:			<u>170,095</u>		<u>65,117</u>
RESERVES:					
Contingency reserve			170,095		65,117
			<u>170,095</u>		<u>65,117</u>



Regina Finn
Director General of Utility Regulation
Approved on 30 June 2003

The notes form part of these financial statements

Public Utilities Regulation Fund

Notes to the Financial Statements for the Year Ended 31 December 2002

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention.

Income

Income represents net invoiced licensed fees and grants received from the States of Guernsey.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Office Equipment	-20% on cost
Fixtures and Fittings	-20% on cost
Computer Equipment	-20% on cost

2. OPERATING SURPLUS

The operating surplus is stated after charging:

3. TAXATION

Under Section 12 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 the fund is exempt from Guernsey Income Tax.

	Year Ended 31.12.02	Period 1.10.01 To 31.12.01
	£	£
Depreciation—owned assets	11,597	2,753
Auditors Remuneration	2,000	1,500

4. TANGIBLE FIXED ASSETS

	Office Equipment	Fixtures and Fittings	Computer Equipment	Totals
	£	£	£	£
COST:				
At 1 January 2002	32,961	3,065	19,028	55,054
Additions	<u>2,930</u>	<u>-</u>	<u>-</u>	<u>2,930</u>
At 31 December 2002	<u>32,961</u>	<u>3,065</u>	<u>19,028</u>	<u>55,054</u>
DEPRECIATION:				
At 1 January 2002	1,708	94	951	2,753
Charge for Period	<u>7,718</u>	<u>613</u>	<u>3,806</u>	<u>11,597</u>
At 31 December 2002	<u>8,886</u>	<u>707</u>	<u>4,757</u>	<u>14,350</u>
NET BOOK VALUE:				
At 31 December 2002	<u>27,005</u>	<u>2,358</u>	<u>14,271</u>	<u>43,634</u>
At 31 December 2001	<u>31,253</u>	<u>2,971</u>	<u>18,077</u>	<u>52,301</u>

Public Utilities Regulation Fund

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Grants	152,678	6,953
Licence fees due	10,000	-
Prepayments	8,294	-
	<u>170,972</u>	<u>6,953</u>
		£

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Bank Loans and overdrafts	7,093	5,026
States Loan	150,000	-
Trade creditors	84,584	1,798
Accruals	73,724	9,078
	<u>315,401</u>	<u>15,938</u>

Public Utilities Regulation Fund

Detailed Income and Expenditure Account For the Year Ended 31 December 2002

	Notes	Year Ended 31.12.02	Period 1.10.01 To 31.12.01
		£	£
INCOME:			
Post Office revenue		120,000	30,000
Telecoms revenue		447,381	75,000
Electricity revenue		165,000	-
Grant—Board of Industry		287,359	62,008
		<hr/>	<hr/>
		1,019,740	167,008
OTHER INCOME:			
Bank interest		1,125	98
		<hr/>	<hr/>
		1,020,865	167,106
EXPENDITURE:			
Salaries & Staff Costs		271,297	80,638
Consultancy & Legal Fees		563,607	-
General Overheads		69,204	18,598
		<hr/>	<hr/>
		904,108	99,236
		116,757	67,870
FINANCE COSTS			
Bank charges		182	-
		<hr/>	<hr/>
		116,575	67,870
DEPRECIATION			
Office Equipment		7,178	1,708
Fixtures and Fittings		613	94
Computer Equipment		3,806	951
		<hr/>	<hr/>
		11,597	2,753
		<hr/>	<hr/>
		104,978	65,117

This page does not form part of the statutory financial statements



Annual Report: 2002

Annex A: States Directions: Telecommunications

States Direction to the Director General in relation to telecommunications that were in force during 2002 are set out below in accordance with Section 8(2) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

Telecommunications: Universal Service Obligation

The States resolved to give the following direction to the Director General of in accordance with Section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

All users in the Bailiwick shall have available to them the services set out below at the quality specified, independently of geographical location and, in the light of local and national conditions, at an affordable price:

Access at Fixed Locations:

- all reasonable requests for connection to the public telephone network at a fixed location and for access to publicly available telephone services at a fixed location shall be met by at least one operator;
- the connection provided shall be capable of allowing users to make and receive local, national and international telephone calls, facsimile communications and data communications, at data rates that are sufficient to permit Internet access;

Directory enquiry services and directories:

- at least one subscriber directory covering all subscribers of direct public telephone service providers shall be made available to users and shall be updated regularly and at least once a year;
- at least one telephone directory enquiry service covering all listed subscribers' numbers shall be made available to all users, including users of public pay telephones;

Public Pay telephones:

- public pay telephones shall be provided to meet the reasonable needs of users in terms of the geographical coverage, the number of telephones and the quality of services.

Special measures for disabled users and users with special needs:

- these provisions shall also apply to disabled users and users with special social needs, and specific measures may be taken by the Regulator to ensure this.



Annex A: States Directions: Telecommunications

Telecommunications: Identity of First Licensee

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a telecommunications Universal Service Obligation to Guernsey Telecoms Limited, the company established to take over the functions of the States Telecommunications Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.

Telecommunications: Special or Exclusive Rights

The States resolved to give the following direction to the Director General in accordance with Section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The provision of telecommunications networks and services in the Bailiwick of Guernsey shall be opened up to competition at the earliest possible time consistent with the Regulation of Utilities (Bailiwick of Guernsey) Law 2001.

In accordance with section 3(1)(b) of that Law, the States directs the Regulator to decide the duration of any exclusive or special privilege granted to any licensee in relation to the provision of telecommunications networks and/or services with a view to ensuring that competition is introduced into all parts of the market at the earliest possible time.

The Regulator may decide on different terms for privileges granted in different markets or segments of the market. In any case, the States directs that the term of any such rights shall not exceed three years at most from the date of this Direction.

Annex A: States Directions: Post

States Direction to the Director General in relation to post that were in force during 2002 are set out below in accordance with Section 8(2) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

Post: Universal Service Obligation

The States resolved to give the following direction to the Director General in accordance with section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- One collection from access points on six days each week;
- One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;
- Collections shall be for all postal items up to a weight of 20Kg;
- Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;
- Services for registered and insured mail.

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.

“access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

Post: Identity of First Licensee

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a postal Universal Service Obligation to Guernsey Post Limited, the company established to take over the functions of the States Post Office Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.



Annex A: States Directions: Post

Post: Special or Exclusive Rights

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Post Office Limited the exclusive right to provide postal services in the Bailiwick to the extent that such exclusive right is necessary to ensure the maintenance of the universal postal service specified by States' directions under section 3 (1)(c) of that Law; and

To request the Director General to review and revise the award of exclusive rights from time to time with a view to opening up the Bailiwick postal services market to competition, provided that any such opening up does not prejudice the continued provision of the universal postal service.

Annex A: States Directions: Electricity

States Direction to the Director General in relation to post hat were in force during 2002 are set out below in accordance with Section 8(2) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

Electricity: Universal Service Obligation

The States did not make any Directions in relation to a Universal Service Obligation in the electricity markets, as it noted that the provisions of the Electricity Law adequately protected the interests of users by ensure a Public Supply Obligation would be in place.

Electricity: Identity of First Licensee

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain an electricity Universal Service Obligation to Guernsey Electricity Limited, once that company is established to take over the functions of the States Electricity Board.

Electricity: Special or Exclusive Rights

The States resolved;

To give a direction to the Director General in accordance with section 3(1)(b) of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited an exclusive electricity conveyance licence in respect of the conveyance of electricity in Guernsey for a period of 10 years once that company has been formed.

To give a direction to the Director General in accordance with section 3(1)(b) of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited (once that company has been formed) an exclusive electricity supply licence in respect of the supply of electricity in Guernsey for a period of one year.

To request the Director General to investigate the impact of the introduction of competition into the electricity supply market further and to provide a recommendation and advice to the States Board of Industry on the introduction of such competition.



Annual Report: 2002

Annex B: Documents Published in 2002

- 02/01** Guernsey Telecoms Consumer Code of Practice: Invitation to Comment
- 02/02** Electricity in Guernsey: Licensing Framework – Decision Notice and Report on the Consultation Paper
- 02/03** Electricity Licence Conditions – Report on the Consultation Paper
- 02/04** Electricity Licence Conditions
- 02/05** Decisions under the Electricity (Guernsey) Law 2001. Decision Notice and Report on the Consultation Paper
- 02/06** Direction on Exemptions from the Requirement to hold a Licence - Issued under section 1 (2) of the Electricity (Guernsey) Law 2001
- 02/07** Telecommunications Licence Terms and Conditions – Report on the Consultation Paper and Decision Notice
- 02/08** Proforma Telecommunications Licence Terms and Conditions for New Entrants
- 02/09** Application for Licence to Provide Fixed Telecommunication Services and Networks in Guernsey – Information Notice and Application Form
- 02/10** Guernsey Telecoms Reference Offer for Interconnection and Access - Report on Invitation to Comment
- 02/11** Price Regulation of Fixed Telecommunications Services Report on the Consultation Paper and Decision Notice
- 02/12** Accounting Separation - Regulatory accounting guidelines to Guernsey Telecoms
- 02/13** Guernsey Telecoms Ltd Reference Offer for Interconnection and Access; Information Notice for New Entrants
- 02/14** Mobile Telephony Licensing in Guernsey - Report on the Consultation Paper and Decision Notice
- 02/15** Publication of Statement of Opportunity by Guernsey Electricity Ltd: Information Note
- 02/16** Application for a Licence to Generate Electricity in Guernsey - Information Notice and Application Form
- 02/17** Publication of Statement of Connection and Use of System Charges by Guernsey Electricity Ltd - Information Notice



Annex B: Documents Published in 2002

- 02/18** Mobile Telecommunications Licence Terms and Conditions - Consultation Paper
- 02/19** Electricity in Guernsey: Moving forward - from policy to implementation
- 02/20** Reference Offer for Interconnection and Access - Information Notice
- 02/21** Competition for Mobile Telecommunications Licences. Response to Consultation, Call for Expressions of Interest and Call for Comments on Preliminary Tender Document
- 02/22** Designer Markets - What is the best fit for Guernsey? OUR Presentations 17th July 2002 Industry Workshop & Public Presentation Slides
- 02/23** Information Note - Mobile Telephony Licencing in Guernsey
- 02/24** Designer Markets - Options for Guernsey's Retail and Generation Electricity Markets: Consultation Document
- 02/25** Investigation into an alleged breach of Guernsey Telecoms Limited's Fixed Telecommunications Licence Conditions: Summary of Finding in Dispute D01/02
- 02/26** Liberalisation of the UK Directory Enquiry Market: Implications for Guernsey: Consultation Paper
- 02/27** Maximum Resale Price of Electricity in Guernsey - Information Note and Direction
- 02/28** Electrical Inspections - Consultation Paper
- 02/29** Proposals for the Price Regulation of Network and Retail Electricity Services - Consultation Paper
- 02/30** Competition for Mobile Telecommunications Licences - Information Memorandum
- 02/31** Licence Fees for Telecommunications Licences - Consultation Paper
- 02/32** Dispute Resolution procedures - Information Note
- 02/33** Designer Markets - Options for Guernsey's Retail and Generation Electricity Markets - Information Notice
- 02/34** ADSL in Guernsey - Notification of Investigation into Cable & Wireless Guernsey's ADSL product

Annex B: Documents Published in 2002

- 02/35** Review of Guernsey's Retail and Generation Electricity Markets - Report to the Board of Industry
- 02/36** Cable & Wireless Guernsey Limited Service Level Agreements for Retail Leased Services – Consultation Paper
- 02/37** Liberalisation of the UK Directory Enquiry Market - Report on the Consultation Paper and Decision Notice
- 02/38** Fees for Telecommunications Licences - Report on the Consultation Paper and Decision Notice
- 02/39** Annual Licence Fees - Guidelines for Telecommunications Licensees
- 02/40** ADSL in Guernsey - Summary of Finding in Investigation into Cable & Wireless Guernsey's ADSL product and Notice of Direction in accordance with section 27 of the Telecommunications (Bailiwick of Guernsey) Law, 2001
- 02/41** Extension of Deadline for Submission of Applications for Mobile Telecommunications Licences in Guernsey: Information Note
- 02/42** Cable & Wireless Guernsey Limited - Service Level Agreements for Retail Leased Circuits. Report on the Consultation and Decision Notice
- 02/43** Electrical Inspections - Report on the Consultation and Notice of Regulations to be made under Sections 19 and 20 of the Electricity (Guernsey) Law, 2001
- 02/44** Communication - OUR way: Information Notice