

The Office of Utility Regulation

Annual Report and Accounts 2009



Office of Utility Regulation

24th August 2010

Deputy Carla McNulty Bauer
Minister for Commerce and Employment
Raymond Falla House
Longue Rue
St Martins
Guernsey
GY4 6AF

Dear Deputy McNulty Bauer,

I am pleased to submit this report on the activities of the Office of Utility Regulation for the period 1st January 2009—31st December 2009.

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

Yours sincerely,



John Curran
Director General



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Director General's Report

I am pleased to submit the 2009 Annual Report for 2009 to the States of Guernsey.

In 2009 the OUR's work was again focused on increasing competition where it is sustainable and ensuring consumers are able to get competitively priced utility services at a quality that meets their needs. Providing keenly priced utility services is an important goal in the current economic climate, both from an individual consumers' perspective but also in the wider context of supporting the competitiveness of Guernsey's economy.

While regulation has a clear role to play in achieving this aim, competition in the provision of services is a much more effective tool. Competition in the provision of services helps make firms more efficient and more productive. Competitive markets also benefit consumers by driving innovation and improving quality of service.

In telecoms, 2009 saw further competition introduced to the mobile market with the licensing of C&W Guernsey to provide 3G services. In addition, our decision to relax rules on spectrum use and further steps to encourage mast sharing, has resulted in much more competitive pricing for all mobile customers. Mobile packages from all operators now offer far greater bundles of calls and texts for cheaper prices than existed in 2008. It is clear that the introduction of Mobile Number Portability, which allows mobile customers to change provider quickly and free of charge, has driven the mobile operators to respond. This is clear evidence of competition benefiting consumers.

The decision by the States of Guernsey in July 2009 to approve the introduction of competition legislation is further acknowledgement that a competitive economy, with fair and robust competition between firms, is very much in the best interest of consumers and the economy.



Work to develop the detail of the competition regime is progressing and we are working closely with the Jersey Competition Regulatory Authority to ensure the two Island's competition regimes are as closely aligned as possible. It is hoped that the funding needed to implement the legislation will be made available in the near future.

The OUR's proposals to increase competition, in limited circumstances, in the postal market were finalised in December 2009. While these proposals were initially appealed to the Royal Court, I am pleased that we have now reached agreement with Guernsey Post on a constructive way forward.

This Office fully recognises the importance of a sustainable, high quality postal service. It is a key enabler of economic activity, both directly and indirectly. It is also a key social service, allowing friends and family to stay in touch.

It must be recognised however that the way in which business and individuals communicate is changing. In 2001 that the States agreed the current scope of the Universal Service Obligation that Guernsey Post is required to provide. Since then the wider communications market has changed beyond recognition. It is a failure to adapt to these changes that poses the greatest threat to the sustainability of a universal service.

I am hopeful that the constructive discussions we have had recently with Guernsey Post, and the very real steps it is taking in partnership with its staff, will help meet the challenges the postal industry is facing.

Director General's Report

It is now recognised from postal markets where liberalisation has occurred that competition can actually support the universal service by accelerating efficiency savings, by encouraging innovation and by stimulating a debate on which parts of the postal service we as consumers place most value. With traditional mail volumes predicted to fall further in future years, being proactive in objectively reviewing what we need from our postal service will be critical in ensuring a strong, robust, efficiently provided postal service for the future.

The global energy market remained volatile during 2009, although energy prices have fallen back from the high levels seen in 2008. In October 2009, Guernsey Electricity requested a review of its current price control (due to expire in March 2011). As part of that request, the company has altered significantly its investment programme, which has the potential to result in significantly increased tariffs for all electricity customers.

While the OUR accepts the current funding arrangements for capital expenditure (the 'Save to Spend' approach) is the States' preferred model, it is an issue that would benefit from an objective debate as to whether it remains the most effective means of delivering the Island with a high quality, keenly priced electricity supply. I recognise the sensitivity around this issue but the current approach has the potential to significantly disadvantage electricity customers when equally effective alternatives remain available but unused.

Looking forward, the key development is the continuing efforts to work more closely with Jersey. Combining the roles of Director General of the OUR with the role of Executive Director of the Jersey Competition Regulatory Authority is a very exciting development.

It is a recognition of, and a response to, the calls across both Islands for greater co-operation, where such co-operation can clearly be of benefit to businesses and consumers.

The OUR and the JCRA work closely together on projects in the regulated sectors and the opportunity to make such co-operation deeper has the potential to realise real benefits for business and consumers. Both organisations will of course remain accountable to their respective Governments. However within this framework the potential for progress is, I believe, significant. The support of the Board of the JCRA, the Commerce & Employment Department and the Economic Development Department in Jersey for this initiative is very much appreciated.

I would like to acknowledge the continued hard work and support of our Audit, Risk and Remuneration Committee (ARRC) for its assistance and advice. The report of the Chairman of the ARRC is included in this report and details the wide range of areas it has addressed over 2009. I would also like to thank the staff at the OUR for their continued professionalism and support, without whom the successes achieved to-date would not be possible. The OUR is a small professional team which works extremely diligently to ensure the three utility sectors deliver value for consumers.

The OUR will continue to champion the interests of consumers to ensure they receive the best in price, choice and quality for the services they receive from the companies regulated by this Office. Ensuring utility services are provided efficiently and at affordable levels will remain an important goal for the OUR.



John Curran
Director General



2009 in Brief

January

Deadline extended for expressions of interest in Broadband Fixed Wireless in Guernsey;

Information note published on electricity price increase and a review into GEL's customer billing practices;

Information note published on Maximum Re-sale price of electricity in Guernsey.

February

OUR publishes Telecommunications Market Data report January—June 2008.

April

Final Decision published on Mobile Market Review;

Consultation Document published on Competition in the Mobile Telecoms Market and the possibility of a further licence award;

May

Final Decision published on reduction in Mobile Termination Rates.

June

Final Decision published on Competition in the Mobile Telecoms Market and a further licence award.

Consultation Document issued on C&WG's Reference Offer and Interconnection Rates.

July

Register of mobile phone operator mast sites and audit of emissions from sites published;

July

Proposals to modify Airtel-Vodafone's 2G Mobile Licence published;

Telecommunications Market Data report July—December 2008 published;

Statutory invitation to comment issued on amendment to C&WG's Mobile Licence;

Decision issued on amendment to Airtel-Vodafone's 2G Mobile Licence;

Decision issued on amendment to C&WG's Mobile Licence.

August

Consultation paper issued on Guernsey Post Ltd's proposed Tariff changes;

September

OUR publishes information notice on buy-back rate review;

OUR commences review of Guernsey Electricity Ltd's approach to billing customers.

October

OUR publishes draft decision on C&WG's Reference Offer and Interconnection Rates;

Draft Decision published on Guernsey Post Ltd's proposed tariff changes.

December

Final Decision published on Guernsey Post Ltd's proposed tariff changes.



The Guernsey Regulatory Environment

The States of Guernsey has set out the regulatory framework for telecommunications, post and electricity sectors in various Laws and Orders that were made in 2001 and 2002.

The States has also issued a number of Directions to the Director General of Utility Regulation that develop States policy in more detail. The OUR, which was established in 2001, is charged with implementing that policy and regulating in the best interests of the Bailiwick.

Legislation

The principal piece of regulatory legislation is the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (as amended), which establishes the OUR, sets out the governing principles of the Office and allows the States to assign further functions to the Office over time. Three other key laws are:

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

Where empowered to do so, the Director General has also introduced regulations and orders. Texts of all relevant legislation can be found on the OUR website at www.regutil.gg.

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.

Directions issued to-date have addressed issues such as 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 and any special or exclusive rights that should be granted to any licensee in any of the sectors.

The States debated and agreed policy directions in relation to all three sectors in 2001. The full text of the directions that were in place in 2008 is included in Annex A to this report, in accordance with Section 8 of the Regulation Law.



The OUR Team

John Curran, Director General

John has been Director General of Utility Regulation since February 2005 and has recently been appointed as Executive Director of the Jersey Competition Regulatory Authority. He previously worked with the OUR when the office was first established in 2001. After a period as a regulatory advisor with the Australian telecoms incumbent Telstra John returned to the OUR in April 2003 as Director of Regulation. John has a strong background in regulation. Before joining the OUR he worked for six years in communications regulation in Ireland. He began his career in the Irish Civil Service upon graduating from the Galway Institute of Technology. John also holds a Diploma in Company Direction from the Institute of Directors.



Michael Byrne, Director of Regulation

Michael joined the OUR in June 2005 as Director of Regulation. Michael has led work across a variety of projects in all three sectors, in particular in the energy and telecoms sectors.

Prior to joining the OUR, Michael was head of Retail Competition at Ofgem in the UK. He led case investigations across various aspects of the UK energy sectors. He has worked in commercial television regulation and as a consultant, specialising in the dairy manufacturing industry. He has a BSc Honours degree in Mathematics, Statistics and Economics from the University of Natal. He also has a post-graduate diploma in Competition Policy and an MBA from the University of Warwick.



Jeanne Golay, Head of Regulatory Policy

Jeanne Golay joined the OUR in June 2010 after 13 years as Economic Regulation Advisor for Water UK, the industry association for the water companies in the UK. Prior to this Jeanne worked for the UK Post Office Group Planning department and as an accountant, for managing the Post Office £300m capital budget. She has also worked in the gas industry as an Ofgas director, and in the telecommunications and transport sectors for Coopers & Lybrand. She has economics and law degrees from the University of Lausanne, a Master in Science from the London School of Economics and a diploma in European competition law from King's College, University of London.



Rosie Allsopp, Office Manager/Case Officer

Rosie joined the OUR in January 2007. She manages the office and provides administrative support. In addition to this, she is a case officer for dispute resolution. Rosie was educated locally at the Grammar School and was formerly a journalist with the Guernsey Press for more than seven years where she was deputy news editor and business editor and developed a strong interest in local politics and business. Rosie studied for a post-graduate diploma in journalism at the Press Association-affiliated Editorial Centre.



Communication and Expert Support

It is OUR policy to operate with a small core team of professional staff and utilise expert consultants as needed on specific projects. This ensures that the Office works efficiently and effectively and keeps its skills and expertise up to date with knowledge transfer from experts in their fields.

The OUR operates in an open and transparent way, and seeks to consult with as wide a range of stakeholders as possible on all key decisions.

The OUR website (www.regutil.gg) is used as a means of communicating with operators within the regulated industries and with the public.

All consultation documents are published on the site as well as being made available in hard copy on request and responses, where not confidential, are also made available. The OUR publishes all decisions with reasons and a commentary on the views received.

During 2009, the following consultants and external specialists worked with the OUR on a range of specific projects, as well as providing general support for the OUR work programme:

- Frontier Economics provided assistance in a review of interconnection charges;
- KPMG LLP provided assistance and support across a range of telecommunications projects ;
- Red-M undertook the audit of emissions from radio masts;
- Petrus Consulting provided general assistance on a number of electricity regulatory matters;
- Cambridge Economic Policy Associates provided assistance on the proposed changes to postal reserved area;
- Brockley Consulting Ltd provided assistance with Guernsey Post Ltd's proposed Tariff changes;
- AO Hall and McCann Fitzgerald Solicitors provided legal advice during 2009;
- Mott McDonald provided support in the review of mobile termination rates; and
- Direct Input and Echo Communications provided PR assistance and media support.



Activity Report:

Under the Regulation of Utilities (Guernsey) Law, 2001, the Director General has a duty to promote, and where they conflict, to balance, objectives that underpin the work of the OUR. The following report outlines the Office's duties as set out in Section 2 of the Regulation Law 2001 and some of the initiatives undertaken in 2009 in performing these duties.

Duties

To protect interests of consumers and other users in the Bailiwick in respect of prices charged for and the quality, service levels, permanence and variety of utility services.

Performance

- The four year price control for GEL which commenced in April 2007 continued over 2009. Given large changes in international energy prices since the price control was implemented, Guernsey Electricity requested a price control reopener in October. Particular issues of concern were the timing of the passthrough arrangement, a marked change in GEL's expectations in demand given the increased usage of electricity through developments such as data centres in Guernsey, as well as the continued weak UK-Pound: Euro exchange rate relative to historic exchange rates. The OUR is currently reviewing the implications of these matters for electricity customers.
- One year price control set for Guernsey Post. This resulted in important price changes, driven primarily from the introduction of Pricing in Proportion (PiP), which introduced pricing based on weight, format and size and altered the existing set of products to Letters, Large Letters, and Packets. While some customers will face price increases in this price control period, driven by an increase in some of GPL's operational costs, namely the Royal Mail charges, there are opportunities for significant savings as well, especially through the conversion of Packets into Large Letters.
- The OUR began a review of the reference offer and interconnection rates charged by C&W Guernsey. This workstream reflects the importance given to the need for prices for interconnection and access services to be set at cost in order to support the development of effective competition, provide efficient 'build or buy' signals to new entrants and enable the provision of competing services in retail telco markets.



Activity Report:

Duties

To secure, as far as practicable, the provision of utility services that satisfy all reasonable demands for such services within the Bailiwick, whether those services are supplied from, within or to the Bailiwick.

To ensure utility activities are carried out in such a way as best to serve and contribute to the economic and social development and well-being of the Bailiwick;

Performance

- The OUR initiated a review of Guernsey Electricity's procedures in the area of customer billing to assess whether there is scope to improve GEL's billing practices. The basis on which deposits are taken, the level of direct debits and disconnection policy formed a key focus of this review.
- The OUR's review of electricity buy-back rates, initiated at the request of the Energy Policy Working Group, was concluded in 2009. The buy-back rate is the rate domestic consumers receive from GEL when they sell electricity back to GEL which has been generated using micro-generators. This workstream is complete given the Energy Policy Working Group's conclusion that greater overall benefit is likely to arise from initiatives in energy efficiency rather than promoting micro-generation in Guernsey.
- A further workstream arising from the mobile review was the move to commence removal of restrictions in mobile operator licences on the spectrum that can be used to deliver services. 2G and 3G licences were modified in 2009 to allow 2G and 3g services to be delivered regardless of whether 900MHz, 1800MHz or 2100MHz spectrum is used, providing greater flexibility and potential efficiencies in delivering these services to Bailiwick customers. It is anticipated this process will be completed in early 2010.



Activity Report:

Duties

To introduce, maintain and promote effective and sustainable competition in the provision of utility services in the Bailiwick, subject to any special or exclusive rights awarded to a licensee by the Director General pursuant to States' Directions.

To improve the quality and coverage of utility services and to facilitate the availability of new utility services within the Bailiwick.

To lessen, where practical, any adverse impact of utility activities on the environment.

Performance

- A third 3G mobile licence was awarded in 2009 to C&W Guernsey. The award was made as part of a range of initiatives which resulted from a review of the mobile market during 2009.
- As part of Guernsey Post Ltd's one-year price control the OUR revised the Reserved Area where Guernsey Post has exclusivity rights to provide postal services. Further to this revision, reserved services were altered to non-packet items which cost less than £1 to send. This reduction of barriers to the entry of new operators will have the effect of promoting effective and sustainable competition in the Guernsey postal market.
- An audit of mast sites was carried out by Red-M to ensure that telecoms operators continue to comply with best practice with regard to emissions. A register was produced detailing the location of all Bailiwick mast sites.
- The OUR has contributed to the work of the Renewable Energy Commission during 2009 in its efforts to develop a framework to promote the exploitation of tidal resources in Bailiwick waters. The role of feed-in tariffs has been a particular aspect of GREC's initiatives where the OUR has offered its expertise and experience. The OUR was engaged in a study of global feed-in tariffs and reported its findings to GREC.



Report of the Director General and Financial Statements for the Year Ended 31st December 2009 for Public Utilities Fund

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Public Utilities Regulation Fund

Fund Information For the Year Ended 31st December 2009

Director General:

Mr John Curran

Office Address:

Suites B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

Auditors:

Grant Thornton Limited
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
Guernsey
GY1 3TF



Public Utilities Regulation Fund

Report of the Director General for the Year Ended 31st December 2009

The Director General presents his report with the financial statements of the Fund for the year ended 31st December 2009.

PRINCIPAL ACTIVITY

The principal activity of the entity in the year under review was that of a utilities regulator.

REVIEW OF BUSINESS

The results of the year and the financial position of the Fund are as shown in the annexed financial statements.

STATEMENT OF 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 the Fund and of the income or deficit of the 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; and
- 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.

In accordance with Section 13 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the Director General shall keep 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 that the Director General to have the accounts audited annually by auditors appointed with the approval of the Department of Commerce and Employment. The Director General, with the approval of the Public Accounts Committee, has appointed Grant Thornton Limited as the auditors to the Public Utilities Regulation Fund.



Public Utilities Regulation Fund

Report of the Director General for the Year Ended 31st December 2009

The audited accounts shall be submitted to the Department for Commerce and Employment which shall in turn submit them together with the auditors' report thereon to the States of Guernsey with the Director General's annual report.

AUDITORS

The auditors, Grant Thornton Ltd, have indicated their willingness to continue in office.

ON BEHALF OF THE BOARD



Mr J Curran
Director General
of Utility Regulation

Dated: 17 August 2010

Report of the Independent Auditors to the Director General of the Public Utilities Regulation Fund

We have audited the financial statements of Public Utilities Regulation Fund for the year ended 31 December 2009 on pages 19 to 23. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Office of the Director General, as a body, in accordance with 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 auditor's 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 Office of the Director General, 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 15 the Fund's Director General is responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a fair and true 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 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 the Director General's remuneration and other transactions with the Fund are 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 International Standards on Auditing (UK and Ireland) 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 and 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.



Report of the Independent Auditors to the Director General of the Public Utilities Regulation Fund

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Fund's affairs as at 31 December 2009 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.

In our opinion the information given in the report of the Director General is consistent with the financial statements.

Grant Thornton Limited
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
Guernsey
GY1 3TF

Grant Thornton Limited

Date: 17th August 2010



Public Utilities Regulation Fund

Income and Expenditure Account For the Year Ended 31 December 2009

	Notes	2009 £	2008 £
INCOME			
Licence fees		931,179	561,552
Bank Interest		<u>6,432</u>	<u>31,211</u>
		937,611	592,763
EXPENDITURE			
		857,838	758,118
(DEFICIT) /SURPLUS FOR THE YEAR ENDED 31 DECEMBER 2008		79,773	(165,355)
TRANSFER FROM/ (TO) CONTINGENCY RESERVE	7	(79,733)	165,355
		_____	_____
NET OPERATING RESULT FOR THE YEAR		_____ -	_____ -
		_____	_____

The Fund has no other gains or losses for the current or preceding financial year other than those stated in the Income and Expenditure Account.

These notes form part of the Financial Statements

Public Utilities Regulation Fund

Balance Sheet 31 December 2009

	Notes	<u>2009</u>		<u>2008</u>	
		£	£	£	£
FIXED ASSETS					
Tangible assets	4		11,621		14,997
CURRENT ASSETS					
Debtors	5	19,398		20,792	
Cash at bank and in hand		<u>611,925</u>		<u>533,880</u>	
		631,323		554,672	
CREDITORS					
Amount falling due within one year	6	<u>88,879</u>		<u>95,377</u>	
NET CURRENT ASSETS			<u>542,444</u>		<u>459,295</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>554,065</u>		<u>474,292</u>
RESERVES					
Contingency reserve	7		<u>554,065</u>		<u>474,292</u>
			<u>554,065</u>		<u>474,292</u>

The financial statements were approved on 17 August 2010 and signed by:



Mr J Curran
Director General
of Utility Regulation

Public Utilities Regulation Fund

Notes to the Financial Statements **For the Year Ended 31 December 2009**

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost Convention and in accordance with United Kingdom Generally Accepted Accounting Practices .

Income

Income represents net invoiced licence fees and income from organisation of conferences and is accounted for on an accruals basis.

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 (DEFICIT) /SURPLUS

The operating (deficit) /surplus is stated after charging:

	2009	2008
	£	£
Depreciation—owned assets	4,496	4,463
Auditors and accountants' fees	<u>6,300</u>	<u>5,150</u>

3. TAXATION

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

Public Utilities Regulation Fund

Notes to the Financial Statements For the Year Ended 31 December 2009

4. TANGIBLE FIXED ASSETS

	Office equipment £	Fixtures and fittings £	computer equipment £	Totals £
COST				
At 1 Jan 2009	43,225	3,675	36,374	83,274
Additions	480	-	640	1,120
Disposals	<u>(4,272)</u>	<u>(410)</u>	<u>(1,088)</u>	<u>(5,770)</u>
At 31 Dec 2009	<u>39,433</u>	<u>3,265</u>	<u>35,926</u>	<u>78,624</u>
DEPRECIATION				
At 1 Jan 2009	37,919	3,574	26,784	68,277
Charge for year	1,357	44	3,095	4,496
Eliminated on disposal	<u>(4,272)</u>	<u>(410)</u>	<u>(1,088)</u>	<u>(5,770)</u>
At Dec 31 2009	<u>35,004</u>	<u>3,208</u>	<u>28,791</u>	<u>67,003</u>
NET BOOK VALUE				
At 31 Dec 2009	<u>4,429</u>	<u>57</u>	<u>7,135</u>	<u>11,621</u>
At 31 Dec 2008	<u>5,306</u>	<u>101</u>	<u>9,590</u>	<u>14,997</u>

Public Utilities Regulation Fund

Notes to the Financial Statements For the Year Ended 31 December 2009

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009	2008
	£	£
Trade Debtors	-	8,992
Accrued interest	59	3,636
Other debtors	<u>19,339</u>	<u>8,164</u>
	<u>19,398</u>	<u>20,792</u>

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009	2008
	£	£
Trade creditors	33,530	25,040
Deferred income	16,402	12,667
Other creditors	<u>38,947</u>	<u>57,670</u>
	<u>88,879</u>	<u>95,377</u>

7. CONTINGENCY RESERVES

Any surplus or deficit in the Income and Expenditure Account is either transferred to or from the contingency reserve.

	£
At 1 Jan 2009	474,292
Movement in the year	<u>79,733</u>
At 31 Dec 2009	<u>554,065</u>

Public Utilities Regulation Fund

Detailed Income and Expenditure Account For the Year Ended 31 December 2009

	2009		2008	
	£	£	£	£
Income				
Post Office revenue	140,000		80,000	
Telecoms revenue	638,179		369,837	
Electricity revenue	140,000		80,000	
Other income	<u>13,000</u>		<u>31,715</u>	
		931,179		561,552
Other income				
Bank interest		<u>6,432</u>		<u>31,211</u>
		937,611		592,763
Expenditure				
General overheads	90,749		94,663	
Salaries & staff costs	488,394		417,279	
Consultancy fees	206,393		176,378	
Legal costs	52,506		47,170	
Auditors and accountancy fees	6,300		5,150	
ARRC fees	<u>9,000</u>		<u>13,015</u>	
		<u>853,342</u>		<u>753,655</u>
		84,269		(160,892)
Finance costs				
Bank charges		<u>-</u>		<u>-</u>
		84,269		(160,892)
Depreciation				
Office equipment	1,357		1,145	
Fixtures and fittings	44		122	
Computer equipment	<u>3,095</u>		<u>3,196</u>	
		<u>4,496</u>		<u>4,463</u>
(DEFICIT) /SURPLUS FOR THE YEAR		<u>79,773</u>		<u>(165,355)</u>

This page does not form part of the statutory financial statements



OUR Corporate Governance

Audit Risk and Remuneration Committee Chairman's Report

The Committee continued to work under the terms of the 31st March 2007, the Projet de Loi entitled "The Regulation of Utilities (Bailiwick of Guernsey) (Amendment) Law, 2007, passed by the States of Guernsey. Section 6 of that Law introduced a new Section 13A to the 2001 Law which set out the formal establishment of the Audit, Risk and Remuneration Committee.

The current membership of the Committee is as follows:

- Alan Bougourd – Chairman
- Deputy Martin Storey
- Jane Needham
- Peter Woodward

All members are considered to be independent of the OUR.

The Committee met formally on three occasions in 2009 and carried out the following specific activities:

- Considered the results of the Internal Audit review of the internal controls in operation at the OUR, and made further recommendations for improvements to key controls.
- Participating with a detailed risk review for the activities of the OUR and reviewing, on an on-going basis, the implementation of the agreed risk management actions.
- Reviewing the Financial Statements of the Public Utilities Regulation Fund for 2008 and discussing the results of the audit thereof with the external auditors.
- Meeting the external auditors to monitor their independence and to confirm the nature, scope, fees and timetable for the audit for 2010.
- Monitoring and approving recruitment and remuneration of staff.
- Recommending improvements to employment contracts and the staff handbook and monitoring their implementation.
- Assisting with the production of a risk-based business plan for 2009-2011.

The Committee were pleased that their reviews, meetings and plans all produced positive results and thank the Director General and his staff for their co-operation and assistance throughout the year. The total annual costs of the Committee were less than £10,000.



Alan Bougourd
Chairman

OUR Corporate Governance

In 2005, the OUR established an independent Audit, Risk and Remuneration Committee (ARRC) and in May 2006 the States formally agreed a Resolution requiring its establishment.

The OUR complies with a very high standard of controls and the OUR's annual accounts are externally audited. The OUR's ARRC provides further independent scrutiny of the controls in place within the OUR.

The members of the OUR ARRC during 2009:

- Alan Bougourd
- Deputy Martin Storey
- Ms Jane Needham
- Mr Peter Woodward

The following sets out the instruction to the ARRC.

OUR Audit, Risk and Remuneration Committee Terms of Reference

The following sets out the terms of reference of the OUR's Audit, Risk and Remuneration Committee (ARRC) as agreed by the Director General and the ARRC.

Role of the Committee:

The role of the ARRC will be, as part of the ongoing, systematic review of the control environment and governance procedures within OUR to;

- Oversee the external and internal audit function and advise the Director General in relation to the operation and development of that function;
- Review and advise on the Office's risk management procedures;
- Review and comment on the financial accounts of the Office;
- Review and comment on the remuneration policy of the OUR.

Membership

- The ARRC will be appointed by the Director General with the approval of the Commerce and Employment Department and will consist of not more than four people, who shall be external appointees. One of the four will be appointed by Commerce and Employment.



Duties

The duties of the ARRC shall be:

- to approve and keep under review the Charter for Internal Audit services so as to ensure that it clearly defines the purpose, authority, roles and reporting relationships for internal audit;
- To review and approve the work programme for internal audit;
- To request the inclusion in the programme of Internal Audit reports as considered appropriate;
- To assess the outcome of the internal and external audit processes having regard to findings, recommendations and management responses;
- To assess the implementation of agreed corrective actions by management having regard to follow up audits;
- Generally to foster the development of best practice in the conduct of internal audit, risk management and external reporting;
- To advise the Director General on all matters relating to risk management, internal control, governance, external financial reporting and remuneration;
- To advise on and review the membership of the ARRC as necessary.

Annual Report of the External Auditors

The ARRC will consider any report issued by the external auditors.

Meetings

ARRC meetings will be held not less than twice each calendar year.

A quorum of two will be required for each meeting. The members shall decide on the appointment of the Chairperson. The Chairperson's appointment shall expire on 31st December 2010. Thereafter the term will be for a period of two years.

The ARRC may request any person who has been contracted to carry out an internal audit assignment to attend a Committee meeting. The Director General shall attend on the invitation of the ARRC. The ARRC will also have the authority to request staff members to attend meetings if necessary.

At least once a year, the ARRC will invite the external auditor to meet them to discuss matters of mutual interest including the audit approach.

The OUR will provide such administrative support to the ARRC as it may require.

Working Procedures

The ARRC will adopt its own working procedures.



Access

Any member of the ARRC will have right of access to the Director General and/or any staff member.

Reporting

The ARRC will formally report to the Director General and will offer such advice and recommendations as it may deem appropriate. The ARRC's activities will be recorded and reported in the Annual Report of the Director General.

The ARRC may report to any States Department or States Committee, including the Public Accounts Committee and the Scrutiny Committee.

Access to Independent Advice

The ARRC is authorised to:

- investigate any activity within its terms of reference;
- seek any information that it requires from any employee or external party, and all employees are directed to co-operate with any request made by the Committee, and;
- obtain outside legal or other independent professional advice.

Amendment of Charter

This Charter may be amended or updated in joint consultation between the Director General and the ARRC. It shall be reviewed by 31st December 2008 and thereafter as required.

Internal Audit Charter

Introduction

This Charter sets out the purpose, authority and responsibilities of OUR's Internal Auditor. It is intended that internal audit assignments will be outsourced to an appropriate, qualified, third party and conducted under contract.

Purpose

The Internal Audit function is an independent appraisal function established to examine, evaluate and report on the adequacy and effectiveness of the OUR's systems of financial internal control. As such, it provides management and stakeholders with assurance over the financial management of the Office of Utility Regulation, and stewardship of the resources entrusted to it.



Authority

Internal Audit is authorised to have:

- Unrestricted access (subject to the comments below) to all functions, records, property and personnel.
- Full and free access to staff, the Audit Committee and the Director General.
- Authority to require and receive such explanations from any employee as are necessary concerning any matter under examination
- Sufficient resources and personnel with the necessary skills to perform the internal audit plan.

Access to confidential commercial information is permitted for the purpose of carrying out an internal audit solely in respect of enabling the auditors to ascertain that the Director General has carried out his functions as provided for within sections 2 and 4 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the various sector specific laws and States Directions to the Director General. Access will not be given to confidential information unless it can be proven that its intended purpose falls within scope of the internal audit role.

Internal Audit is not authorised to perform any operational duties or initiate or approve accounting transactions.

Role and Scope

The primary responsibility for identifying and implementing an adequate system of internal control rests with the Director General. The role of internal audit is to appraise the adequacy and effectiveness of those controls.

In particular, its role is to understand the key financial risks of the organisation and to examine and evaluate the adequacy and effectiveness of the system of risk management and financial control as operated by the organisation so as to ensure that:

- the systems of financial control, and their operation in practice, are adequate and effective;
- follow-up action is taken to remedy weaknesses identified by Internal Audit;
- employees and organisation actions are in compliance with policies, standards, procedures and applicable laws and regulations; and
- the corporate governance arrangements of the organisation are appropriate to the organisation and comply with relevant requirements.

Responsibilities and Reporting

The internal auditor will be accountable to OUR's ARRC and its work programme will be subject to the approval of the ARRC. No work should be undertaken without the prior approval of the ARRC.

All work undertaken should be planned and carried out in accordance with the Standards of Professional Audit Practice set by the Institute of Internal Auditors-UK.

On completion of an assignment, before a final report is issued, the internal auditor will communicate its findings to management and staff of the audited area for their views. These views will be considered and recorded in the final report.

Copies of the final report will be provided to the Director General and ARRC.

Annex A: States Directions; Telecommunications

Scope of Universal Service Obligation (USO)

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:

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.*

Identity of First Licensee with USO

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.

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:

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

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.

Identity of First Licensee with a USO

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.

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

Universal Service Obligation (“Public Supply 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 ensuring a Public Supply Obligation would be in place.

Identity of First Licensee with a USO

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.

Special or Exclusive Rights

Conveyance

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.

Subsequently, the States resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for conveyance activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Generation

The States made no resolution giving a direction to the Director General in relation to the period of exclusivity of any generation licence to be granted under the Electricity (Guernsey) Law, 2001.

Supply

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 (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.

The States also resolved 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 Board of Industry on the introduction of such competition.

The States subsequently resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for supply activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Annex B—Documents published in 2009

- 09/01 Broadband Fixed Wireless Access in Guernsey—deadline extension
- 09/02 Electricity Price Increase and Review of GEL’s Customer Billing Practices—information note
- 09/03 Maximum Resale Price of Electricity in Guernsey—information note
- 09/04 Telecommunications Market Data report January—June 2008
- 09/05 Mobile Market Review—Final Decision
- 09/06 Competition in the Mobile Telecommunications Market—Further Licence Award consultation
- 09/07 Competition in the Mobile Telecommunications Market—Further Licence Award final decision
- 09/07A Mobile Termination Rates in Guernsey—Information Notice
- 09/08 C&WG Reference Offer and Interconnection Rates
- 09/09 Register of Mobile Phone Operator Mast Sites in the Bailiwick of Guernsey—information notice
- 09/10 Audit of Emissions from Mobile Mast Sites—information notice
- 09/11 Notice of the Proposal to modify Airtel-Vodafone’s 2G mobile telecommunications licence
- 09/12 Telecommunications Market Data Report—July –December 2008
- 09/13 Amendment to C&W Guernsey Ltd’s mobile licence—statutory invitation to comment
- 09/14 Amendment to Guernsey Airtel Ltd’s 2G Mobile Licence—decision document
- 09/15 Amendment to C&W Guernsey Ltd’s mobile licence—decision document
- 09/16 Guernsey Post Ltd’s proposed tariff changes– consultation paper
- 09/17 Buyback Rate review—information notice
- 09/18 Review of Guernsey Electricity’s approach to billing customers—consultation paper
- 09/19 Cable & Wireless Guernsey Reference Offer and Interconnection Rates– draft decision
- 09/20 Guernsey Post Ltd’s Proposed Tariff Changes—draft decision
- 09/21 Guernsey Post Ltd’s Proposed Tariff Changes—final decision