

Mr J Curran
Director of Utility Regulation
Office of Utility Regulation
Suites B1 and B2
Hirzel Court
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22 November 2010

Dear Mr Curran

Response to OUR consultation on Guernsey Electricity Price Control

I write with reference to the recent consultation document in relation to future pricing controls on electricity and would wish to make a number of comments as invited, mainly in relation to sections 5.2 and 5.3 of the document and in particular with regards to your analysis on the average charges across the tariffs.

As noted in your report, the average cost for users on the Industrial HV Maximum Demand tariffs is higher than that for domestic customers (if opting for the basic Economy 12 tariff). I would suggest that there is no justification for this and, if anything, there is a good case for the overall unit cost to HV MD customers to be lower.

Before setting out the economic arguments for this I note the comments of the Energy Group and can understand why one would be uncomfortable with establishing tariffs that appear to incentivise higher usage with the modern focus on reducing carbon emissions in the interests of protecting the environment. However I would suggest that a distinction needs to be drawn between a high usage that serves the interests of many people and high usage due to inefficiency of plant and operating arrangements etc. In this regard I enclose an article that was recently featured in the UK publication *Energy in Buildings and Industry* which highlights the extensive measures that the Culture and Leisure Department has taken to improve efficiency over the past four years.

Despite these measures, which it is worth pointing out have also helped Guernsey Electricity by improved efficiency of supply through much reduced power factor losses, we are still paying more per unit than domestic customers and I would therefore question whether this is appropriate.

Over the past four years Guernsey Electricity has increased all of its tariffs by 56%. The main driver of this being large increases in the cost of oil and imported electricity from France. In other words it has been due to incremental costs in the supply of power rather than those relating to plant and other overheads. This being the case, I would therefore question the justification for the increases in the MD charges which (as I understand it) are to reflect the cost of requiring additional generating capacity and which would not have seen the same level of price rises. There is therefore a strong argument to say that this charge is already out of proportion and unduly high in relation to the type of expenditure it is meant to cover.

I note that the pressure for further price increases next year is in fact due to the need for further generating capacity, which would appear to weaken my argument above. However in considering the various remarks in your consultation document, I would seriously question as to which type of customers are largely responsible for this because there appears to be an implication that the winter 'peaks' in demand relate to electric heating in very cold weather. As almost all industrial users would have such a need met by oil fired heating systems, it must be concluded that such peaks are driven by domestic customers – or at least in the sense of that they are requiring much more electricity at such times in relation to the average power demand that they pay for throughout the year.

Notwithstanding all of the above arguments, there is no doubt that in the case of Beau Sejour Centre, its electricity is supplied at a lower cost to Guernsey Electricity and I believe that this should be reflected in the tariff. In addition to the general economies of scale that all business would enjoy with larger volumes, I would point out the following:

- Power factor inefficiencies have been improved at the Centre significantly and are now always between 0.9 and unity. I would imagine that this is not the case with all domestic customers due to inductive load from television sets, fluorescent lighting etc;
- The Centre has now installed load shedding software which automatically slows a number of non essential pumps and air handlers when reaching a set demand ensuring that up to 12% of load is taken off at such times;
- Unlike domestic customers, the Centre had to pay for the installation of a HV transformer leading into the building and so has to continue to bear the costs and risks associated with it, and;
- Supply into the building is metered before the HV transformer from which there are losses in the subsequent voltage reduction process (not the case with most customers as these losses are normally at the expense of GE).

In order therefore to address what we would see as an unfair charging structure for users such as Beau Sejour, we would propose the following in any tariff review:

- A lower Maximum Demand charge to reflect that we are not the main driver of the need for additional generating capacity;
- A reduction in the low rate to reflect the fact that we are bearing the losses within the transformer, and;
- An extension of the 10 hour low rate period to include afternoons (12 hours in total like domestic customers) to enable the switching of some load when demand on the grid is lower.

With regards to the issue of supply security, I can appreciate that this is more critical for some commercial users given the nature of their business. In terms of Beau Sejour Centre, security is clearly important but in view of the various emergency lighting and other temporary power back up supplies, I would suggest that it is no more essential than for domestic customers. We would therefore contend that any increase in our tariff to reflect the issue of security of supply would be unjustified.

Finally I would wish to make one further comment on the principle of having to raise prices in order to fund additional generating capacity. If there is a growing need for additional plant, then surely self generation is something to be supported as this will inevitably reduce pressure on GE's present capacity. However as you know, customers who presently opt to generate their own power while remaining connected to the grid are required to pay a monthly standby charge of £5.63 per Kw. Whilst I can understand the principle behind this in that Guernsey Electricity should not be expected to provide what is effectively a form of free insurance, the current situation does raise the question as to how appropriate this charge is especially if self generation is at times when demand on the grid is high. As you may be aware, the Culture and Leisure Department did have a Combined Heat and Power Unit (CHP) at Beau Sejour that was capable of supplying up to 180Kw of electrical power although it was eventually taken out because of operational problems and the fact that the savings were not that great especially when Guernsey Electricity's standby charge was applied. However this was prior to 2006 – ie before prices started to increase significantly. If costs continue to rise at such an alarming rate then I am in no doubt that more and more customers (including ourselves) will have to reconsider the merits of self generation but in the light of the apparent growing pressures on the present generating capacity at GE, I would question whether the present standby tariff is too punitive.

I do not have any comments on the other issues in the document but would hope that my observations are able to be taken into account when agreeing future tariffs that will enable a fairer deal for essential industrial HV MD tariff customers. In the case of Beau Sejour I would argue that a case can be made for more favourable tariff terms both from the perspective of efficient use of supply and the fact that the overall costs of supply to GE are lower than will be the case for most other customers.

I trust that the above is of assistance but would of course be happy to explain my thoughts further if required.

Yours sincerely

Colin Thorburn
Estates Manager