

**WRITTEN QUESTION TO THE CHIEF MINISTER  
BY DEPUTY G.P. SOUTHERN OF ST. HELIER  
ANSWER TO BE TABLED ON TUESDAY 23rd FEBRUARY 2016**

**Question**

Will the Chief Minister inform members what discussions/negotiations, if any, have taken place between the Channel Islands Competition Regulatory Authority officials and Jersey Gas over potential reductions in retail gas tariffs to reflect those in the UK?

Will he further inform members when he expects to be able to report any progress on this issue to the States, and if not, why not?

**Answer**

This matter falls within the area of responsibility led by Assistant Minister, Senator Philip Ozouf.

The States debated Deputy Southern's proposition, calling for Regulations to reduce the Jersey Gas Company's domestic and commercial tariffs by 10% with immediate effect, on the 20<sup>th</sup> of January (P.154/2015).

That proposition was not successful but during the debate it was made clear that the JCRA would undertake further work to understand the gas market. If it appears to the JCRA that there is a problem with the operation of the gas market, intervention could take a number of forms depending on the circumstances: including recommendations to the States on legislation, following up under the competition law or seeking a voluntary commitment from the Gas Company.

The JCRA has issued an invitation to tender (ITT) for the stage two review of the gas market and has received two bids that it is currently considering. It would not be right to openly discuss matters related to the ITT whilst negotiations are continuing with consultants. However, an update will be issued on timescales once a consultant has been appointed.

The terms of reference were summarised for the benefit of States Members in the Council of Minister's Comment to P.154. The full terms of reference are now appended to this answer.

It is important that the JCRA is allowed to complete its work before any judgments are made about whether or not price regulation is warranted.



## Invitation to Tender

The Channels Islands Competition and Regulatory Authorities (comprised of the Jersey Competition Regulatory Authority (JCRA) and the Guernsey Competition and Regulatory Authority (GCRA)) is the competition authority and telecommunication regulator for Jersey and the bailiwick of Guernsey. It also regulates the Ports of Jersey and Guernsey Electricity as well as the postal sector in both jurisdictions. This work is specific to the JCRA.

In May 2015, CICRA agreed Terms of Reference with the Assistant Chief Minister to carry out a stage one assessment of the fuel market in Jersey. These can be found at: <http://www.cicra.gg/files/Fuel%20Market%20Review%20Jersey%20ToR.pdf>. In October 2015, CICRA published a Statement on the First Stage Findings: <http://www.cicra.gg/files/Review%20of%20the%20Fuel%20Market%20in%20Jersey%20104109%20V2.pdf>. CICRA is now seeking to engage an advisor to carry out a focussed assessment of certain matters following discussions and identified in a Statement made by the Assistant Chief Minister on 14 December 2015.

With regard to the gas market in Jersey there are two areas of analysis sought:

- provide further analysis on retail prices and how they compare over time in Jersey relative to an appropriate benchmark, such as equivalent retail prices in the UK or elsewhere and the appropriate wholesale prices in the UK, recognising there are two primary retail gas products in Jersey – bottled LPG and a gas network supplying LPG.

An analytical framework is sought that provides an in depth understanding of the relationship between retail and wholesale gas prices over time in Jersey, in particular to answer the question whether retail prices bear a reasonable relationship to market-based wholesale prices, and if not what factors might account for material divergences over time.

This assessment will include consideration of the medium to long term relationship between retail and wholesale gas prices in Jersey, establish what other factors play a role in the level and movement of retail prices charged in Jersey (such as low volumes, transport costs) and explain the influence these factors have on the retail price to Jersey consumers. The effects of the changing volumes of gas sold (as outlined in the first stage report) should also be taken into account and explained in relation to any movements in the relative position of the benchmark(s) chosen.

- further analysis of rates of return and gross margins, including consideration of the value of the asset base and analysis of operating costs

The first stage assessment carried out by CICRA considered statutory accounts in arriving at estimates of margins and returns. The successful applicant will carry out an analysis of the relevance of differences between Jersey Gas's statutory accounts and a reasonable economic valuation of the assets and operating costs of the gas business, as a basis for arriving at such margins and returns. Where differences contribute to material variation in the estimates of margins and returns these should be discussed and substantiated.

Tenders for these two areas of work should provide separate prices for each area as well as a single price where both areas of work are bid for. A brief outline of the approach the assessments will take should also be provided in the bid. The final outputs would be a single or two separate reports, which fully explain the analysis undertaken and its findings in a form which can be made available to States Members and the

general public. If necessary, confidential versions to CICRA should also be provided where information provided is commercially confidential.

Tenders are invited from applicants to assist CICRA in this area. The closing date for submissions is Friday 12<sup>th</sup> February, 17:00.

Applicants should provide an overall estimate of the costs, either as a fixed price or on the basis of a fixed price or as an estimated number of days and the corresponding rates.

Please provide details of the individuals or team expected to carry out the work and previous experience in conducting similar assessments or other relevant experience.

Any potential conflicts of interest should be disclosed.

Such conflicts would not rule out candidates, and prior knowledge and understanding of the issues relevant to this area in the Channel Islands or similar jurisdictions may be advantageous. However, candidates must indicate how they would avoid actual conflicts of interest and manage the confidentiality of information within their organisation.

The key criteria used in the assessment of applicants proposals will be experience and value, which combined will enable CICRA to complete the assessments in the most efficient and cost effective manner in the available time.