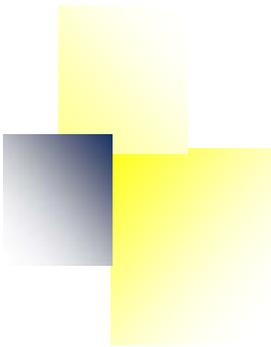




Office of Utility Regulation, Bailiwick of Guernsey

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Annual Report and Accounts 2004

Year Ending 31st December 2004



Annual Report: 2004



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

10th August, 2005

Dear Deputy Falla,

I am pleased to submit this report on the activities of the Office of Utility Regulation for the period 1st January 2004 to 31st December 2004.

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 as soon as practicable.

Yours sincerely,

John Curran
Director General of Utility Regulation

Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey GY1 2NH
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“One major challenge that we all face in small jurisdictions is to ensure that our economies have in place the key essential infrastructure that is essential to underpin successful economic activity. At the same time we need to make sure that the needs of our people for high quality, value for money, innovative services are met now and into the future.”

Speech given by Laurie Morgan, Guernsey’s Chief Minister at OUR conference





The provision of first rate, high quality, competitively priced utility services is very important in a small economy such as the Bailiwick's. The OUR recognises that electricity, telecommunications and postal services underpin much of the economic and social life of the Bailiwick and ensures Guernsey can be competitive on the international stage. The OUR's core focus in 2004 continued to be ensuring that these services are provided at a quality customers demand and at a price that is value for money for the customer. The sustainability of the utility services is also crucial.

Each sector has an increasingly important role to play in ensuring the economic prosperity of the Bailiwick. The Bailiwick competes on the global stage for inward investment, the finance industry being a case in point. Guernsey needs to be able to demonstrate to the business community at large that it can provide an environment where reliable, competitively priced utility services are available that meet or better those on offer from our competitors. The regulatory regime has a vital role to play in ensuring that the utility companies contribute towards the Bailiwick's economic growth.

The record of the utility companies in meeting this goal is commendable. The range of telecoms services being

provided to meet customers' needs has increased with the liberalisation of the telecoms market. It is satisfying that in 2004 Guernsey became the first Channel Island with an operating 3G service and a choice of mobile operators. Line rental charges, while increasing as C&W Guernsey rebalances its prices, still remain competitive in comparison to other jurisdictions whilst competition has driven down international call charges.

The quality of the electricity network is also worthy of note. Ensuring continuity in the supply of electricity is crucially important in maintaining existing business and attracting further inward investment. Guernsey Electricity has been successful in contributing to the promotion of Guernsey's image as a secure and reliable place to do business.

Guernsey Post has made significant improvements in its quality of service. While much work still remains to be done, Guernsey Post is positioned to assist in increasing the diversity of the Bailiwick's economy and to further support the existing bulk mail industry. Ensuring that its services are provided efficiently and cost-effectively remains a key area of focus.



Director General's Report

However, while much has been achieved much more needs to be done. Guernsey's competitors for inward investment are not standing still and we need to make sure that we are positioned to respond.

We also should not lose sight of the needs of local, home-grown businesses and ordinary residential consumers. The utility providers need to respond to, and help support these customers also. Telecoms services need to be provided at more competitive prices and the range of services on offer needs to increase even further. Postal services need to be competitively priced and quality must be kept consistently high. Reliable electricity supplies at prices that are competitive must be the main focus of Guernsey Electricity. The cost to consumers of all these utility services needs to be controlled so that consumers benefit.

At the time of writing, the review of commercialisation and regulation initiated by the Departments of Commerce & Employment and Treasury & Resources in 2004 is ongoing. However, even without this review, as with any organisation, the OUR undertakes a continuous assessment of how its activities are carried out, to ensure that our objectives are met efficiently and effectively and that regulation is targeted to achieve the aims set for it by the States.

Linked to this is the need to control costs. The OUR is very conscious that

we are funded by licence fees on the three industries and that keeping our costs to a minimum is important. It was therefore disappointing that in 2004 licence fees to all sectors had to increase to cover the costs that arose directly from C&W Guernsey's appeal which has heard by the Utility Appeal Tribunal in 2003. The scale of the costs associated with that appeal — which have amounted to over 20% of the OUR's total costs in 2003 and 2004 — has been commented upon previously by the OUR. Our concerns with the appeal process were raised early in 2004 with the Department of Commerce & Employment. I am encouraged by the response to those concerns and hope that this issue will be resolved shortly.

Outside of the appeal costs, we continue to ensure that all projects that involve external advice are awarded following competitive tender and professionally managed to ensure they come in within budget. I believe that, benchmarked against other sector specific regulators in the UK, the OUR compares very favourably with those agencies. The OUR is determined to ensure that the cost of regulation is controlled on industry while at the same time representing good value for money for the consumer. It is important that the users of utility services are the primary focus. It is reassuring that past effort on certain areas are now beginning to bear fruit for the consumer.



Director General's Report

Looking forward, a key task for 2005 will be strengthening contact with business and residential consumers of utility services. By improving communications with consumers, the OUR can continue to focus efforts on areas that are of priority to consumers and to gain valuable feedback on the impact that specific regulatory measures are having. It will help the OUR target its work more effectively which should ensure that the impact to utility companies remains only the minimum required to protect consumers and promote competition.

The accountability of the OUR, given that the Office is supported by licence fees paid by the utility companies, is an area where further effort is being made. While the OUR complies with the requirements currently on it under the Regulation Law, it is important that confidence in the way that funding is managed is maintained. The OUR intends to strengthen the internal audit role prior to the commencement of the 2006 financial year. It is also intended to publish the OUR's code for financial management.

At the end of 2004, the former Director General of the OUR, Regina Finn, announced that she would be leaving to return to Ireland to take up a senior post in the energy sector there. Since 2000, Regina has been instrumental in shaping the regulatory landscape in Guernsey and it is largely due to her sterling efforts that

so much has been achieved. We wish her well in her new role.

The OUR is and will remain a small core team of experienced staff. Since its inception the Office has worked with a maximum of five staff. It is due to the professionalism of the staff that so much has been achieved in a relatively short time.

It must be remembered that the regulation of the three sectors is still in its initial phase. The work to-date has been concentrated on getting a solid platform in place upon which to build future benefits for consumers. Much of the work to-date is only now beginning to have an impact. As a consequence, I would anticipate that the costs both of the Office and of compliance should continue to reduce going forward.

While much has already been achieved, I am conscious that a significant amount of work remains to be done. 2005 in particular will be an important year for this Office with the culmination of price control projects in each of the three sectors. However, we look forward to the challenge and to working with industry, consumers and the States in ensuring that the Bailiwick of Guernsey continues to be competitive.



John Curran
Director General of Utility
Regulation

Balancing Interests

- Consumers not a single homogenous entity;
- Within each group there are both different priorities and both short term and long term interests;
- Regulation takes long term view and balances interest of consumers and operators within framework of States' policy; and
- Operators need to ensure that market delivers.

WEA Economic Viewpoints of
Guernsey, 2nd February 2004



January 2004

Regulation in Guernsey: Revised Consultation Procedures; Utility Appeals Tribunal delivers its first decision on an appeal taken by C&W Guernsey.

February 2004

OUR participates in the WEA Seminar Programme.

March 2004

OUR publishes decision on Guernsey Post's Proposed Tariff Increases - sets maximum prices for postal services; Vulnerable Users Workshop with Social Policy Working Group; C&W Guernsey launch Telephone Assistance Scheme for vulnerable users.

April 2004

OUR consults on C&W Guernsey's proposed Reference Offer for Interconnection and Access; New licensing scheme for ISPs introduced - lessens regulatory requirement on ISPs; Consultation on introduction of Carrier Pre-Selection (CPS) and Number Portability (NP) undertaken.

May 2004

Wave Telecom fails to launch mobile service as required under licence and OUR sets new deadline; Number of disputes relating to mobile issues investigated and resolved.

June 2004

Revised licence fees set for telecoms, postal and electricity sectors; OUR begins large project to set new price control for C&W Guernsey; OUR consults on review of market dominance, review of the scope of the price control and related issues; A seminar on Postal Misdemeanours with presentations from Guernsey Post, Postwatch UK and the OUR.

July 2004

Launch of Wave Telecom mobile service - competition introduced to whole of telecoms market; The conclusion of the OUR's review of C&W Guernsey's Regulatory Accounts published; OUR publishes findings of investigation into C&W Guernsey charges for Exchange Line Rentals which results in a significant number of consumers receiving refunds.

August 2004

Revised guidelines published for C&W Guernsey's regulatory accounts; OUR publishes advice to Internet Users on Rogue Diallers and Modem Hi-Jacking.

September 2004

OUR hosts presentation by Ofcom on Broadband Fixed Wireless Access in Guernsey and invites expressions of interest in licences; OUR consults on amending Guernsey Post's licence to cover services outside the Reserved Sector; Timetable for Guernsey Post tariff proposals review published for consultation.

October 2004

Information note on developments in ENUM - a new means of accessing multiple customer services through telephone numbers; Guernsey Post licence amended following consultation; Timetable for Guernsey Post tariff application finalised.

November 2004

OUR hosts international conference for Regulators from other small island jurisdictions; OUR begins first ever audit of emissions from radio masts licensed by the OUR; Appeal to the Utility Appeals Tribunal launched by Guernsey Post into modification of its licence.

December 2004

Regulatory Accounting Guidelines for C&W Guernsey updated; Wave Telecom launches mobile services in Alderney and Sark.

“The Director General shall exercise his functions and powers with fairness, impartiality and independence and in a manner that is timely, transparent, objective and consistent with the States’ Directions and the provisions of this Law and any relevant sector Law”

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

The Guernsey Regulatory Environment



The States of Guernsey set up the regulatory framework for telecommunications, post and electricity 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** 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. 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, 2001.

Each law sets out in more detail the powers and functions of the Director General in the relevant sector. Secondary legislation has been enacted by the States on a number of issues including commencement ordinances for each of the laws, exclusion of liability ordinance and the Utility Appeals Tribunal Ordinance which sets up an appeals mechanism for decisions of the OUR.

Where empowered to do so the Director General has also introduced regulations and orders and these, along with directions, decisions and the large body of published documentation on the OUR website, record the implementation of the legislative and policy framework for regulation of utilities in Guernsey.

Texts of all relevant legislation are available from 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. 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



The Guernsey Regulatory Environment

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 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 2004 is included in **Annex A** to this report in accordance with section 8 of the Regulation Law.



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

OUR Team

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.

During 2004 the Office had four core staff in addition to the Director General and continued its use of external specialist technical expertise to complement in-house resources and to handle specific projects.

John was appointed by the States of Guernsey as Director General of Utility Regulation in February 2005, having previously been Director of Regulation from 2003. John worked with OUR when it was initially set up in 2001 and returned in April 2003 after spending eight months as regulatory adviser with the Australian telecoms incumbent, Telstra.

John Curran



John has a strong background in regulation. Before joining OUR John worked for six years in communications regulation in Ireland, four in telecommunications and two dealing with broadcasting and cable TV. He started his career in the Irish Civil Service having studied Electronic Engineering at Galway Institute of Technology.

Jon Buckland



Jon joined the OUR in October 2001 shortly after it was established. Jon has lead responsibility for the regulatory work programme in the postal sector, developing quality of service standards and setting postal price controls. He also supports OUR's projects in the telecoms and electricity sectors.

Prior to joining OUR, Jon was a Strategy and Economics Manager at the Independent Television Commission (ITC) and previously he worked for a number of consultancies specialising in environmental economics primarily in the water sector advising water companies, Ofwat, Environment Agency, European Commission, EBRD and the World Bank. Jon has a BSc in Economics and Politics from the University of Bath and an MBA from the University of Warwick.



The Office of Utility Regulation

Michael joined the OUR in June 2005 as Director of Regulation and is working initially on putting in place a price control for the electricity sector as well as supporting the OUR's work in the telecoms and postal sectors. Prior to joining the OUR, Michael was Head of Retail Competition at the Office for Gas and Electricity Markets (OFGEM) in the UK, leading case investigations and reviews within the domestic and non-domestic energy sectors.

Michael Byrne



He has previously worked in the area of commercial television regulation and as a consultant, specialising in the dairy manufacturing industry. Michael 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.

Michael Begg

Michael joined the OUR in May 2005 as Director of Economics and is working on a number of projects across the three sectors, including work on C&W Guernsey's price control, market definition issues in the postal sector and issues in the mobile market.



Prior to joining the OUR, Michael was an Economic Advisor in the UK communications regulator OFCOM from its launch in 2003 and had previously worked at the Independent Television Commission, for economic consultants NERA (specialising in transport and telecoms) and as a lecturer in economics at the University of Edinburgh. Michael has an MA in Economics and Accountancy and is currently completing a PhD in Economics

Nicola became part of the OUR team in May 2002 and since then has managed the Office and provided support to all the team assisting with projects across all sectors.

Nicola Whittaker

Nicola also manages all communications with the media, and as Customer Care Manager, is responsible for responding to and investigating complaints against OUR Licensees.

Before joining the OUR Nicola worked as an Environmental Consultant and holds a degree in Environmental Management and Technology.





It is OUR policy to operate with a small core team of **experienced professional staff** and utilizes 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.

During 2004, the following consultants and **external specialists** worked with the OUR on a range of specific projects, as well as in providing general support for the OUR work programme:

- **Brockley Consulting Ltd** provided assistance in the review of Guernsey Post Ltd's application for tariff increases.
- **Cellular Design Services** undertook an audit of all licensed telecommunications antennae in the Bailiwick to assess operators' compliance with their licence obligations.
- **Design & Implement Ltd** continued to support the OUR work in the electricity sector during the year.
- **Europe Economics Ltd** provided specialist support on both the review of C&W Guernsey's Regulatory Accounts and on C&W Guernsey's interconnection and access charges.
- **Frontier Economics Ltd** assisted the OUR in its work on reviewing C&W Guernsey's price control and on a number of related matters.
- **GOS Consulting Ltd** advised on a wide range of telecommunication projects including interconnections, Reference Offer review, regulatory accounts and others.
- **Mott MacDonald** were engaged by the Department of Commerce & Employment and OUR to assist in the strategic review of Guernsey's electricity sector.
- OUR's legal advice during 2004 was provided by **Babbe Le Pelley Tostevin, Ogier & Le Masurier** and **Landwell Solicitors**.

OUR Communication

OUR operates in a **transparent** and **open 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 heavily used as a means of communicating with the operators within the regulated industries and with interested members of the public on a fair and open basis. 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. OUR publishes all decisions with reasons and a commentary on

the views received.

The website has continued to be invaluable and an efficient method of conducting public consultations and disseminating information with **25 papers** published in 2004. A full list of all the documents published in 2004 is at **Annex B**.

The Director General and OUR staff also held public meetings and presentations during the year on a range of issues as well as speaking to various interest groups among which were a presentation to the WEA as part of its programme of seminars on economic issues. The OUR also was involved, with **Postwatch Guernsey** and Guernsey Post in a seminar on postal mis-deliveries.

The OUR continues to maintain strong contacts with the UK regulators such as **Ofcom** (who have a major role in matters relating to telephone numbers and frequency spectrum) and Postcomm (given its role in regulating Royal Mail and its work on matters of a common interest to the OUR). The OUR also looks to maintain contact with regulators from jurisdictions of a similar size to the Bailiwick and which may face similar issues. The OUR's conference in November was extremely useful in this regard.

OUR Work Programme

The OUR publishes its indicative work programme on its website and updates this regularly. However the Office also has to be able to react to specific issues that may arise particularly where consumers are impacted unfairly. The work programme is therefore flexible and can be adjusted as necessary.

In particular, an area outside of the control of the OUR but which has the potential to impact significantly on both the resources of the office and its cost are appeals. In 2004 two separate appeals (both relating to the postal sector) were initiated. One was dismissed by the Utility Appeals Tribunal at an early stage. The second - an appeal by Guernsey Post against a modification of its licence – is currently before the Tribunal. Inevitably, with a small core team, the re-assignment of resources to litigation will have an impact upon other key work areas.

Utility Appeals Tribunal

Following the launch of an appeal against a decision of the Director General in July 2002, the Utility Appeals Tribunal (UAT) deliver its decision in January 2004. The resulting costs required the Director General to amend the licence fees that the utility companies are required to pay. **Instead of the projected decrease in licence fees**, as a direct result of the Tribunal's ruling licence fees to the telecoms sector were



increased in 2004 (OUR 04/08).

The OUR has expressed on a number of occasions, both prior to the final UAT decision and subsequent to it, its concerns with the costs that have arisen from the current appeals process. In 2004, a further charge has been made to the OUR accounts of over £50,000 to cover costs from the C&W Guernsey appeal. This Office is hopeful that the concerns expressed to-date will result in modifications to the appeals process in the near future.

OUR Consultation Process

To further increase the transparency of the consultation process, the OUR amended its consultation process in January 2004 to provide for the **full publication of responses to consultations** received from respondents. The OUR believes that increased transparency in the manner in which key decisions are made will help further with confidence in the regulatory process.

OUR Conference

In November, the OUR hosted an International Conference in Guernsey which was attended by Regulators and policy makers from 12 other small island economies. The event provided an excellent opportunity for the OUR to gain from the work that other regulators have done. It was particularly useful that these regulators were from other smaller jurisdictions – many of them with the financial sector as a key feature of their economies – so that topics were considered against a common background.

The event, which was self-funding, took place over three days at the St Pierre Park Hotel. We were delighted to welcome delegates from near and far, with representative from Mauritius, Bermuda, Jamaica, The Bahamas, Gibraltar, Jersey and Greenland.



**Guernsey's Chief Minister
and Regina Finn meet
Derek Redman of ECTEL,
St Lucia.**

Source: Guernsey Press



The Office of Utility Regulation

The conference opened with a welcome address from the Chief Minister, Deputy Laurie Morgan. Speakers at the conference included members of the OUR team as well as industry experts and covered a wide range of topics ranging from the **principles of good regulation** to the more technical aspects of regulation such as price control, regulatory accounts and return on investment.

Many of the issues and challenges facing the regulatory regime in Guernsey are not unique and by bringing together regulators from other small islands this event proved to be an excellent opportunity to share each others' experiences and gain valuable contacts within this very specialised industry.



The Guernsey Telecoms Market

2004 was an important year in the telecoms market with competition finally reaching the mobile market with the launch by **Wave Telecom** in July 2004 of both its **2G and 3G mobile networks** on Guernsey. By the end of the year it had rolled-out its network to Alderney and Sark. It is hoped that with two strong competitors in the mobile market customers will see the benefits through lower tariffs, an increased range of services and more innovation.

2004 saw a significant amount of investment by all the main telecoms companies in Guernsey. **Newtel Solutions** connected its fibre-optic link between Guernsey and Jersey across the Channel Island Electricity Grid link to Jersey. This was followed later in the year by **Cable & Wireless Guernsey** announcing that it had also increased its capacity off-island. Continuing investment by both mobile operators saw new services being launched throughout the year, with 2.5G and Wave Telecom's 3G services being available.

A significant amount of the work on the telecoms market in 2004 was dedicated to a number of large projects. A detailed review of Cable & Wireless Guernsey's published **Regulatory Accounts** was carried out and a number of recommendations made to further improve the usefulness. Cable & Wireless Guernsey's first set of Interconnection and Access tariffs based on those accounts had been produced at the end of 2003. However a number of issues were identified with the proposed tariffs and a detailed review of the manner in which they had been calculated was undertaken. 2004 also saw the start of a review of the price control on Cable & Wireless Guernsey to replace the existing control which was due to end in March 2005 (but was subsequently extended to September 2005).

Following on from an earlier consultation in 2003, additional work was carried out on investigating in more detail how **Carrier Pre-Select (CPS)** and **Number Portability (NP)** might be offered in Guernsey. In November 2004, the first detailed **Audit of Emissions** from licensed telecoms networks was undertaken across the Bailiwick, with the results being published in early 2005. All masts were well within the most stringent international standards.

In March 2004, Cable & Wireless Guernsey introduced new price changes for fixed services and, following discussions with the OUR, announced the creation of a scheme to assist vulnerable users, the **Telephone Assistance Scheme**, which is targeted at users who are in receipt of assistance from the Department of Social Services. The OUR also undertook an investigation into Cable & Wireless



Telecommunications: Overview

Guernsey's charges for exchange line reconnections which resulted in a significant number of customers receiving refunds from Cable & Wireless Guernsey.

The year also saw the conclusions to the first appeal against a decision of the OUR. In January 2004 the **Utility Appeals Tribunal** delivered its decision on an appeal taken by Cable & Wireless Guernsey. While the OUR was satisfied with the outcome of this appeal, it was and remains concerned about the level of costs that was incurred during the course of this appeal and believes that as a consequence confidence in the regulatory process may have been weakened. The OUR raised this matter a number of times during 2004 with the Department of Commerce & Employment and is hopeful that these concerns will be addressed in the near future.



Introduction

Competition finally reached all sectors of the telecoms market in 2004 with the successful launch by Wave Telecom of its 2G and 3G networks across the Bailiwick. Further competition in the fixed market continued to increase with carrier select services from Wave Telecom being enhanced. Increased investment by all telecoms companies saw an increase in the range of services being made available to both business and residential customers. Ensuring an **environment which encourages on-going investment** is a central pillar of the OUR's approach to regulation.

The OUR's work on the core areas such as the development of the interconnection and access regimes, the development of the regulatory accounts system, the ongoing monitoring of Cable & Wireless Guernsey's compliance with its price control requirements and facilitating access issues on the mobile telephony sector were key work areas in 2004.

The OUR continues to work closely with **Ofcom** (the UK communications regulator) on a range of issues including spectrum and numbering issues. The OUR is extremely grateful to Ofcom for its continued assistance and for the professional and supportive manner in which assists the OUR. Without this relationship the OUR's work and role would be a more challenging task.

Fixed Telecoms Market

Having largely put in place the framework for the fixed telecoms market in 2003, the OUR's work in 2004 was focused on further strengthening that framework and on examining further measures to help promote competition and to **facilitate innovation** by new and existing licensees and the promotion of **new technologies**.

A consultation was carried out into examining further the interest in the introduction of **Carrier PreSelection** and **Number Portability (OUR 04/05)**. The consultation outlined a number of possible options for the introduction of these services and sought to establish the interest in and the ability of local operators to offer these services to consumers in the Bailiwick. This work is still ongoing with industry working groups currently examining the technical issues associated with these services.

The OUR also looked to promote the availability of licences for **Broadband Fixed Wireless Access**. The OUR organized a presentation from Ofcom (the licensing authority for spectrum in the Bailiwick) for interested operators in September 2004. A number of licences were made available to the Bailiwick and following discussions between the OUR and Ofcom, the fees were set at levels which were aimed at encouraging the take up of that service. A further information note was



Telecommunications: Activity Report

published in October 2004 on **ENUM (Electronic Numbering)** – a new numbering scheme being considered and trialled that can allow an individual to be contacted using only one set of contact details, but using any of several different communications devices (**OUR 04/21**).

The OUR also concluded its review of the **licensing arrangements for ISPs** with the publication in April 2004 of its decision (**OUR 04/04**). The aim of this review was to ensure that the licence obligations on ISPs were **proportionate** and would be sufficient to ensure that **consumers were protected** while allowing ISPs to concentrate on developing their businesses.

Mobile Telecommunications Licensing

The Office's work on mobile issues was dominated by the launch in 2004 of Wave Telecom's 2G & 3G networks across the Bailiwick. Wave Telecom had been required under the terms of its licence to launch its service by 30th April 2004. It failed to achieve this requirement and was directed to launch its service by 1st July 2004 (**OUR 04/07**). In the intervening period a number of **formal disputes** were lodged by Wave Telecom relating to what it considered were breaches by Cable & Wireless Guernsey of its licence. These related mainly to issues of site sharing and interconnection and/or access issues. Following the OUR's intervention these issues were resolved and on 1st July 2004 competition finally reached the mobile market in Guernsey. By the end of 2004, Wave Telecom had rolled out its network to **Alderney and Sark**.

In November 2004, the OUR undertook a full audit of emissions from radio masts in the Bailiwick. The audit, undertaken on the OUR's behalf by Cellular Design Services, reviewed both the processes and procedures that each operator has in place to ensure on-going compliance with the **International Commission for Non-Ionising Radiation Protection's (ICNIRP)** standards for the maximum level of emissions from radio antennae. The audit also involved detailed measurements at **48 separate sites** through the Bailiwick. The results which were published in February 2005, showed all masts were operating well within the guidelines.

Price Control

Significant preparatory work was undertaken in 2004 on forming a new price control for Cable & Wireless Guernsey to replace the current control which was implemented in 2002. The price control, which had been introduced in 2002, sets price controls on Cable & Wireless Guernsey across four main baskets of products in

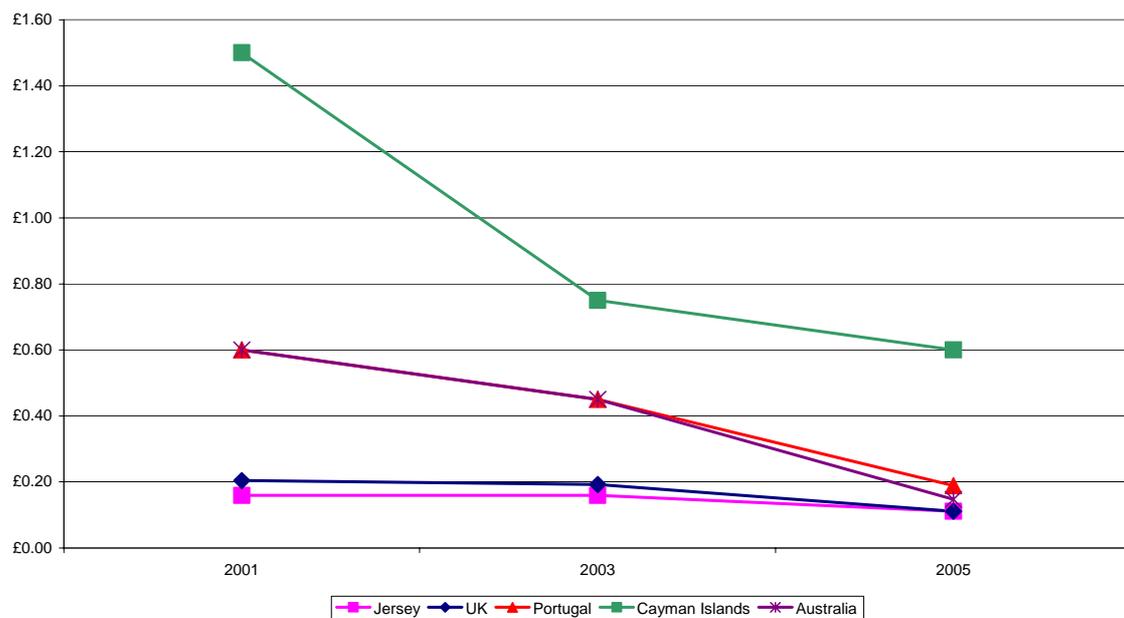
Telecommunications: Activity Report



the fixed telecoms market in which the company has a dominant position. In summer 2004 a range of linked consultations were held on the scope and structure of the new price control (**OUR 04/09, 04/10 and 04/11**).

Further work on ensuring Cable & Wireless Guernsey is in compliance with its price control obligations continued in 2004. Since the introduction of regulation and the licensing of new operators in competition with Cable & Wireless Guernsey, charges for most services in Guernsey have **fallen significantly**. The table below shows the decreases in the price paid by consumers for a three minute call to a number of popular destinations. This is reflective both of the price control work that the OUR has undertaken and of the impact that introduction of competition is starting to have for telecoms users in the Bailiwick.

Cost of 3 minute call from Guernsey as of April each year



Separate to the price control the OUR has also monitored on an on-going basis changes in prices applied by the company to certain services. In 2004, following complaints from the public, the OUR carried out an investigation into the charges being applied by Cable & Wireless Guernsey for re-connection of exchange lines in certain circumstances. Following the conclusion of that investigation (**OUR 04/13**) Cable & Wireless Guernsey refunded a significant number of customers who had been charged incorrectly for reconnections of their telephone line.

Interconnection and Access

Following the submission in November 2003 by Cable & Wireless Guernsey of its proposed charges for services included in its **Reference Offer (RO) for interconnection and access** the OUR commenced a detailed review of those charges and the manner in which they had been determined. The OUR initially consulted upon a number of proposed structural changes Cable & Wireless Guernsey had proposed (**OUR 04/03**).

In tandem with this, and work on the company's Regulatory Accounts, significant effort was put into ensuring that in future the charges to be paid by other licensed operators to Cable & Wireless Guernsey for access to and interconnection with its network were more closely aligned with the costs to Cable & Wireless Guernsey of providing these services.

Regulatory Accounts

Following the publication in late 2003 of the first sets of Cable & Wireless Guernsey's Regulatory Accounts, there was a need to assess the degree to which the accounts were fit for purpose. This task, which commenced in late 2003, resulted in a direction to Cable & Wireless Guernsey (**OUR 04/12**) requiring the company to take a number of further measures to improve the transparency and manner in which the accounts are prepared.

Regulatory Accounts are a very important element of the regulatory regime and an important tool for regulators. These accounts provide clear signals to other operators of the costs of key services and they assist the OUR in a wider number of areas. They also inform the regulated company more accurately of the actual costs associated with its services and it is therefore imperative that they are accurate and fit for purpose.

Much comment has been made on the degree to which the requirements of the OUR in this area are more than is necessary for a market such as Guernsey. The OUR believes that for consumers in Guernsey to reap the benefits from the **promotion of competition**, getting this key element right is essential. While the OUR would have preferred that the development of the regulatory accounts could have occurred in a more proportionate manner, this is not an area that is solely within the control of the OUR.

The OUR does acknowledge that there has been a change in emphasis on this issue within Cable & Wireless Guernsey which has resulted in a significant amount of progress. The Director General is appreciative of the efforts now being made by Cable & Wireless Guernsey in this area.



Guernsey Postal Market

The key development in the Guernsey postal market in 2004 was the conclusion in February 2004 of the OUR's review of Guernsey Post's application for revised postal charges. This resulted in increased postal prices for Guernsey's consumers.

There were a number of factors which led to the increases but the primary cause has been a change in the commercial relationship between Royal Mail and Guernsey Post.

Historically Royal Mail and Guernsey Post had delivered each others mail and assumed the same amount of mail flows in each direction and that the costs balanced out. However, following a review by Royal Mail of its commercial relationship with Guernsey Post, it was identified that there was in fact significantly more mail going from Guernsey to the UK than vice versa. As a consequence, the commercial contract between the parties was renegotiated so that each postal operator paid for the other's services. The new commercial arrangements therefore resulted in a significant increase in Guernsey Post's cost base and consequently the company sought to introduced **increased tariffs** during the year.

This change in the commercial arrangements between Royal Mail and Guernsey Post will continue to increase the commercial pressure on Guernsey Post. It is important that every effort is made by the company to minimise its costs in other areas to offset as much as possible these increases. However, it is a reality that further increases are likely to arise for postal users in the Bailiwick over the coming years.

The knock-on impact of this is that charges for services such as **local mail** may also increase. This arises because while in the past Guernsey Post chose to provide these services below costs (as Guernsey Post was in a position to fund the shortfall for revenues from other services, such as revenue from mail to the UK) this is no longer the case.

During 2004 Guernsey Post proposed the closure of **L'Islet post office** and commenced a public consultation on the proposal. The OUR was among a number of respondents to this consultation. The company decided to defer a decision on the proposed closure pending clarification from the States on the scope of the Universal Service Obligation (USO).

Overview

In 2004 the OUR concluded its review of Guernsey Post's tariff application and the first full year of quality of service standards applying to Guernsey Post's services. Whilst Guernsey Post's tariffs were increased primarily due to the changed commercial arrangements between Royal Mail and the company, postal users in the Bailiwick continue to have a very **competitively priced postal service**. In addition Guernsey, in contrast to Jersey, has quality of service standards for the delivery of a range of postal services and Guernsey Post's **performance is independently measured** and published.

The DG also consulted on and then modified GPL's licence in the autumn in order to allow the OUR to price control GPL's services outside the reserved area under its licence. This subsequent decision has been appealed by GPL and is due to be heard by the Utilities Appeal Tribunal early 2005.

New Postal Tariffs

In March (**OUR 04/02**) the Director General concluded a review of Guernsey Post's tariff submission following a public consultation initiated in November 2003. The OUR received 31 replies to the consultation with some respondents providing a considerable amount of commercially confidential material to OUR to assist in the review process. There was, understandably, a general dissatisfaction with any increase in prices, while many respondents acknowledged that some increases were unavoidable.

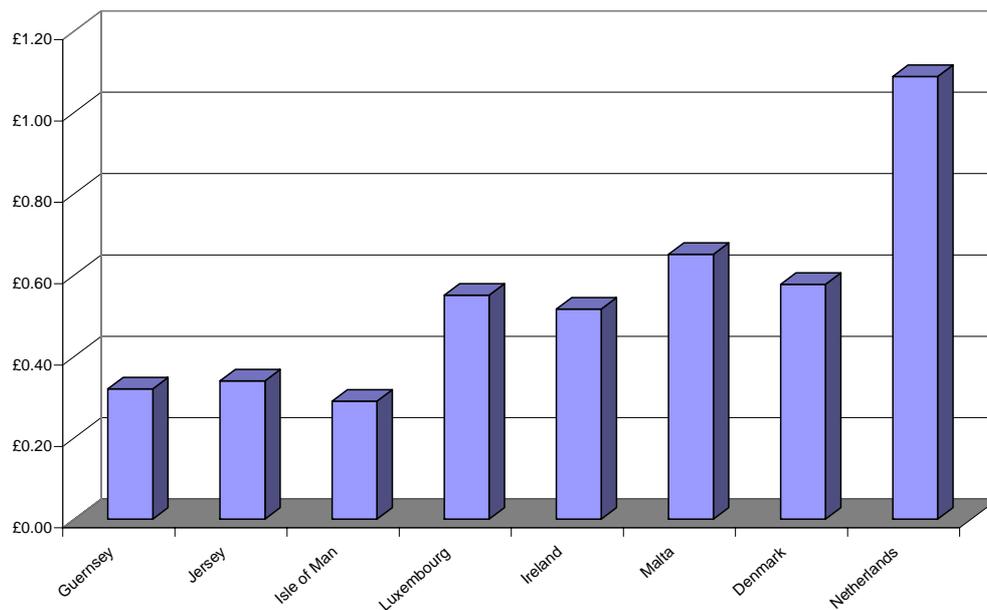
The Director General, while mindful of the need to ensure that services should remain competitively priced, also recognized that the **underlying commercial reality for Guernsey Post** has changed from that which existed when it was a States Trading Board. In coming to a carefully balanced decision the OUR's assessment of the company's financial position has had to take account of the step change in the company's cost base due primarily to **significant new charges introduced by Royal Mail**. This applies to the charges for the delivery of Guernsey mail in the UK and elsewhere.

In addition Guernsey Post faced **increases in local costs** such as labour and transport. Following a detailed review of the proposed tariff changes, the OUR approved tariff changes that the Director General believed was more appropriate and reflective of market needs.



As a result of the decision local stamp price were capped at 26p for items up to 100g and UK stamp prices were capped at 32p for items up to 60g. Guernsey Post were also required to introduce a **new bulk mail sea tariff** based on a “straight line price” mechanism reflecting the quality of service these customers received by sending their mail by sea. The new prices were capped until 31 March 2006 with Guernsey Post likely to request further changes from 1 April 2006.

Cost of Sending 60g letter to UK



As the table above indicates, Guernsey still has very competitive postal charges when compared with other countries and the OUR’s focus will be on maintaining that competitive advantage whilst ensuring that the Bailiwick retains a sustainable postal service.

Process and Timetable for 2006 Price Review

In September the OUR published consultation paper (**OUR 04/19**) explaining the process and timetable the Director General intended to follow in carrying out a review of Guernsey Post’s pricing proposals for 1st April 2006. A key concern in the tariff decision in 2004 was that insufficient time was available for an appropriate level of consultation on the changes being proposed. By setting out the intended process and timetable for the review in advance, OUR hoped to make it easier for interested parties to identify how and when they could participate in the review and provide their responses to the OUR.



Post: Activity Report

The OUR concluded its consultation in October and published a report (**OUR 04/23**) setting out the timetable for a number of work streams, such as the submission of Guernsey Post's tariff submission, the subsequent public consultation with the Director General's decision by **1st December 2005**. Any new tariffs being proposed would come into effect from 1st April 2006.

Quality of Service

Guernsey Post published its first annual quality of service report on its website which covered the period 1 October 2003 to 30 September 2004 in accordance with the Director General's Quality of Service Directions. The report demonstrated that Guernsey Post's quality of service improved over the year and the company **exceeded 16 of the 23 targets** set by the OUR for 2003/04. In contrast Royal Mail met just four of its 15 annual service standards during 2004/05 (it failed all of its targets in the previous year).

The Director General believes that it is appropriate that the steps taken by Guernsey Post to improve its quality of service since commercialization be recognised. It has managed to put the issues it faced with its quality of service in early 2003 behind it. There is no doubt that the level of service customers are receiving now is vastly improved. This is not to say that there does not remain **scope for further improvement**, nor that certain customers, the bulk mail sector in particular, have ongoing issues. However, the OUR is hopeful that the lessons learnt from the earlier mistakes are now being acted upon.

In June the Director General held a Seminar on **Postal Misdeliveries (OUR 04/14)** which included presentations from the OUR, Postwatch UK and Guernsey Post Limited. The principal objective of the seminar was to improve Guernsey Post's Quality of Service and to provide the company with the opportunity to set out the steps it was taking to reduce misdelliveries. The seminar was extremely useful as it provided an opportunity for Postwatch UK to share information on its "Stamp Out Misdelliveries" Campaign in the UK. The Director General must also express his appreciation for the efforts that **Postwatch Guernsey** has made during 2004 to contribute to the development of the regulatory regime.

Licence Modification

The Director General published in September a Statutory Invitation to Comment (**OUR 04/18**) on a proposed amendment to Guernsey Post's Licence which was intended to bring the company's licence in line with the primary legislation. The modification would allow the Director General to regulate Guernsey Post Ltd's

prices where it was found to be dominant in relation to a relevant market outside the monopoly reserved area. Following consideration of the comments received, the Director General decided to modified Guernsey Post's licence (**OUR 04/22**).

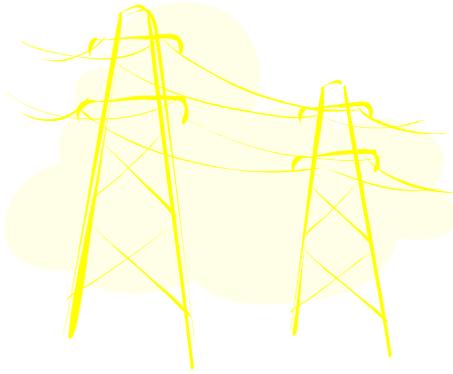
In November Guernsey Post appealed this decision alleging the Director General acted ultra vires and committed a material irregularity. The case is due to be heard in 2005 by the **Utility Appeals Tribunal**. The Director General is defending the position taken by the Office in this case. The Director General is very clear on what powers are available to the Office. Where the correct application of those powers is questioned, he has no choice but to vigorously defend such action.

However the Director General is firmly of the view that litigation of this nature may not best serve the interests of Guernsey consumers. It distracts both the OUR and the company taking any appeal from the important day-to-day issues that rightly should be the focus of our work. It adds costs to both parties, costs which the consumer may ultimately be asked to bear. The Director General is hopeful therefore that this issue may be resolved without further involvement of the Utility Appeals Tribunal.



“Our increasing dependence on imports for our energy supplies and the all too slow opening up of the European markets to competition will also bring fresh complexity and challenges – for companies, regulators and policy-makers.”

**Sir John Mogg, Chairman of
Ofgem**



Guernsey Electricity Market

The ongoing increases in world energy prices impacts upon Guernsey's electricity market. The costs, in particular of electricity in France, due to the increasing levels of imported electricity through the **Channel Island Electricity Grid (CIEG)**, (jointly run by Guernsey Electricity and Jersey Electricity) means that we remain exposed to the general market fluctuations in those markets.

In keeping with the trend since the CIEG link became available, Guernsey continues to import substantially more power than it generates. This is reflective of the both the cost of fuel prices for generating on-island and the favourable contract that the GIEG has agreed with its supplier in France for the period up to November 2005. However since that contract was agreed, energy prices worldwide have been increasing and realistically the costs of importing will increase from their current levels from the end of 2005 onwards.

The bulk of the OUR's work in 2004 on the electricity sector was spent assisting the Department of Commerce & Employment and its advisors, **Mott MacDonald**, on assessing **the Island's future generation options** and assessing the relative trade-offs between those options. This work commenced in 2003 following Guernsey Electricity's submission of its proposals for tariff increases at that time and the need to consider further States policy on future generation.

Guernsey has a number of generation options available to it, but in general terms it is a choice between further on-island generation (in a number of forms) or further importation (again there are a number of options on how this may work). With each of these options there are **trade-offs to be made**. These include assessing each option against the key issues of security of supply, environmental impact and independence. The report, which has looked at the longer term total costs of each option provides very useful information to enable the States consider how best to meet the Island's future electricity needs.

The report from Motts was submitted to the Commerce & Employment Department in December 2004 and its review and the States assessment of this will allow the OUR to set a new price control on Guernsey Electricity in 2005.

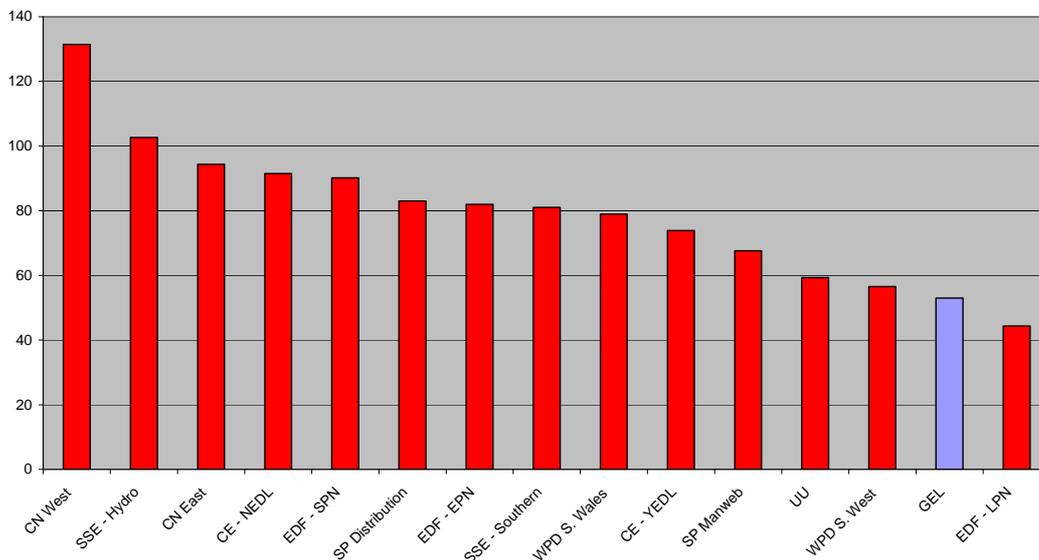


Electricity: Activity Report

The issue of renewable energy, and **tidal energy** in particular, made headlines in Guernsey's media on a number of occasions in 2004. There is no doubt that the waters around Guernsey have potential for generating a significant amount of energy. There are however substantial costs associated with developing the systems necessary to exploit this source of power and currently there are no commercially developed systems in place. Further, all evidence to-date points to the costs of such tidal power is, for the medium term, likely to be significantly higher than that for other sources of power, including other renewable technologies. Guernsey needs to very carefully assess the degree to which it is prepared to pay for such environmentally friendly sources of power and balance it against the actual environmental rewards for doing so.

The other core area where work has progressed with Guernsey Electricity is on its **quality of service targets**. For the year ending 31st March 2004 the company met all but one of the targets set by the OUR. From the 1st April 2004 Guernsey Electricity began reporting its performance against the 12 new Guaranteed Service Standards (for which customers are eligible for compensation) and seven Overall Standard targets following the OUR's review of the company's quality of service.

Comparison of 2003/04 Average Customer Minutes Lost GEL & UK Operators





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.

The developments in the telecoms and postal sectors during 2004 applied equally to Alderney and Sark. The OUR remains conscious of the fundamental importance of communications services for both Islands. The OUR recognises that the regulatory regime must ensure that the specific needs of both Islands are met.

Telecommunications

In late 2004 both Alderney and Sark benefited from the roll-out of **competition in the mobile sector**. Wave Telecom, who launched its mobile service in Guernsey in July 2004, extended its network to cover Alderney and Sark by the end of the year. The scheme introduced by C&W Guernsey for vulnerable users is also available in the two islands. The OUR's work on **monitoring emissions from radio masts** also assessed all licensed masts on both islands, and the results of that audit are available on the OUR's website. Further, because of the OUR's work across the regulatory regime and States policy on universal services, the inhabitants of Alderney and Sark were affected by exactly the same price changes as Guernsey in 2004.

Postal Services

The key issue for both Islands, given their need for efficient communications services is the quality and price of those services. The OUR's **quality of service** targets, which Guernsey Post must meet, include a specific target for intra-Bailiwick mail. This helps ensure that the quality of the postal service throughout the islands is **uniform**.

“The approach to any problem must recognise and reflect the interests of all elements of the community, individually and collectively, rather than the narrow interests of a reform proponent. Why should anyone support, or even acquiesce in, a reform measure that involves no apparent benefits and perhaps a few risks? Ideally everyone is a winner. Or, more realistically, there are substantially more winners than losers. And even the losers can be shown to have been treated fairly and equitably.”

Graham Samuel, Chairman, ACCC



Customer Complaints

In 2004 the OUR continued in its relationship with **Trading Standards Service** of the Department of Commerce & Employment, and their ongoing involvement in the **customer complaints process** with the regulated utility companies. The OUR is very

appreciative of the assistance which we get from Trading Standards and for their ongoing support.



Customers who are unable to resolve a complaint they have with their utility provider directly with the company, can contact Trading Standards Service who will act impartially and attempt to find a fair outcome for all the parties involved.

Customer Advice

Throughout 2004, the OUR continued to respond to customer queries and provide advice and information when requested. In response to a number of queries from the public, sections were introduced to the OUR website (www.regutil.gg) to assist consumers to deal with the problems with **premium rate services** and also how to stop **unsolicited sales and marketing communications** via telephone, fax, mail and email.

Internet Scam

In August, the OUR published an information note warning internet users of a scam that can cause customers who dial up to use the internet to unknowingly run up large phone bills. The document **(04/16)** provided some tips to help customer recognise whether their computer had been affected by the scam, known as “**Rogue Dialling**” or “**Modem Hi-jacking**”, and also suggested some preventative measures.

Telephone Line Re-connections

In response to a number of complaints received from customers concerning the price they were being charged to re-connect a telephone line, the OUR launched an investigation into Cable & Wireless Guernsey’s charging practice for exchange line reconnections. The investigation **(OUR 04/13)** found that Cable & Wireless Guernsey had changed the manner in which they charged for telephone line

reconnections which resulted in many customers paying significantly more for this service. At the conclusion of the investigation the OUR was pleased to welcome Cable & Wireless Guernsey's decision to **re-instate the original re-connection service**. Cable & Wireless Guernsey also refunded all customer who had been wrongly charged for a re-connection service.

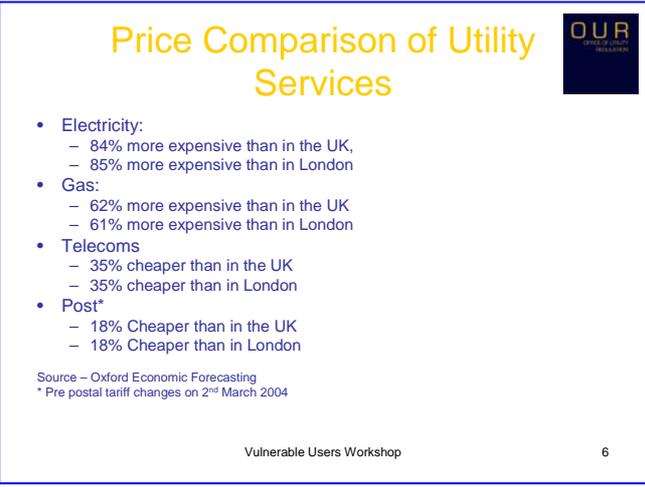
Audit of Telecommunications Masts

With the use of mobile phones becoming more prevalent and the subsequent increase in the number of masts, concerns over the safety of such masts continue to be voiced. The OUR therefore commissioned an audit of all telecommunications masts in the Bailiwick to ensure that they comply with the **highest international standards** for emissions levels. Specialist consultants were engaged to undertake the audit which was carried out at the end of 2004 and the results published early in 2005. As mentioned earlier, all masts were well within the international standard.

Vulnerable Users

During 2004 the OUR worked with the Advisory & Finance Committee's Social Policy Working Group (SPWG) looking into the options for protecting the more vulnerable members of Guernsey's society and the affordability of vital utility services.

The OUR hosted a workshop in March 2004 to which we invited representatives from the OUR licensees and also from the non regulated sectors, including Guernsey Gas and the States Water Board, to attend and share their approaches in assisting vulnerable users. The workshop featured presentations from the OUR, the SPWG and Citizens Advice Bureau and provided a useful opportunity for the participants to consider the problems facing vulnerable users



Price Comparison of Utility Services

- Electricity:
 - 84% more expensive than in the UK,
 - 85% more expensive than in London
- Gas:
 - 62% more expensive than in the UK
 - 61% more expensive than in London
- Telecoms
 - 35% cheaper than in the UK
 - 35% cheaper than in London
- Post*
 - 18% Cheaper than in the UK
 - 18% Cheaper than in London

Source – Oxford Economic Forecasting
* Pre postal tariff changes on 2nd March 2004

Vulnerable Users Workshop 6

and explore the options for further improving measures to target and assist vulnerable users in Guernsey. Also participating in the discussions were Trading Standards and members of the Post, Electricity and Telecommunications Consumer Councils.

Financial Statements and Report for the Period 1 January 2004 to 31 December 2004 for the Public Utilities Regulation Fund



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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.

2004 was an extremely busy year for 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. There was a necessity to increase licence fees in 2004 to cover costs associated with the appeal by C&W Guernsey to the Utility Appeals Tribunal. A further £50,000 was added to the OUR's costs in 2004 as a result of costs associated with the appeal. In spite of this costs were reduced by 7% compared with 2003.

The OUR continues to keep a tight rein on all major projects carried out by the Office in 2004 and all projects were within budget. The OUR has and will continue to use competitive tendering for the selection of external consultants for all major projects as we believe this ensures that we obtain best value for money while maintaining the high calibre of expertise required by the Office.

During 2004 the Office was staffed by four full-time staff as well as the Director General. This has been the first full year since the Office was established that it has operated with such a staff level for the full financial year. The Office occasionally used temporary staff for additional support. The OUR also used consulting expertise during 2004 to enable it to carry out its functions.

Fund Information

DIRECTOR GENERAL: Mr J Curran

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



Report of the Director General for the year ended 31 December 2004

The Director General presents his report with the financial statements for the Public Utilities Regulation Fund for the year ended 31st December 2004.

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. The functions of the Office relate to the regulation and licensing of the telecommunications, electricity and postal industries. The Office is funded by income received from the regulated industries and some funding from the Department of Commerce and Employment.

REVIEW OF BUSINESS

The results of the year and the financial position of the Fund are as shown in the annexed financial statements. In January 2005, Regina Finn left the post of Director General and was replaced by the then Director of Regulation, John Curran.

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 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;
- 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 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 Department of Commerce and Employment. The Director General, with the approval of the Department of Commerce and Employment, has appointed Chandlers Limited as the auditors to the Public Utilities Regulation Fund.

The audited accounts shall be submitted to the Department of 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, Chandlers Limited, have indicated their willingness to continue in office.

Mr J Curran
Director General of Utility Regulation
13th July 2005



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 the Public Utilities Regulation Fund for the year ended 31 December 2004 on pages forty-one to forty-four. 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 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 auditor

As described on page thirty-nine 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 the Director General'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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Fund's affairs as at 31 December 2004 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

Chandlers Limited
Chartered Accountants
Anson Court
La Route des Camps
St Martins, Guernsey
Dated: 18th July 2005

Public Utilities Regulation Fund



Income and Expenditure Account for the Year Ended 31 December 2004

	2004	2003
Notes	£	£
INCOME		
License fees	852,671	793,886
Office of Utility Regulation (OUR) conference revenue	12,132	-
Bank interest	3,978	8,319
	<u>868,781</u>	<u>802,205</u>
EXPENDITURE		
	<u>845,862</u>	<u>905,142</u>
SURPLUS/(DEFICIT) FOR THE YEAR ENDED 31 DECEMBER 2004		
	22,919	(102,937)
TRANSFER (TO)/ FROM THE CONTINGENCY RESERVE		
	<u>(22,919)</u>	<u>102,937</u>
NET OPERATING SURPLUS FOR THE YEAR/ PERIOD		
	<u><u>-</u></u>	<u><u>-</u></u>

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.

The notes form part of these financial statements

Balance Sheet 31 December 2004

	Notes	2004		2003	
		£	£	£	£
FIXED ASSETS:			21,227		
Tangible assets	4				32,185
CURRENT ASSETS:					
Debtors and prepayments	5	17,168		8,294	
Cash at Bank		165,448		185,147	
			182,616		193,441
CREDITORS: Amounts falling due within one year	6	113,766		158,468	
NET CURRENT ASSETS:			68,850		34,973
TOTAL ASSETS LESS CURENT LIABILITIES:			<u>£90,077</u>		<u>£67,158</u>
RESERVES:					
Contingency reserve	7		90,077		67,158
			<u>£90,077</u>		<u>£67,158</u>



John Curran

Director General of Utility Regulation

Dated: 13th July 2005

The notes form part of these financial statements



Notes to the Financial Statements for the Year Ended 31 December 2004

1. ACCOUNTING POLICIES

Accounting convention

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

Income

Income represents net invoiced licensed fees and income from organisation of conferences.

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/(DEFICIT)

The operating surplus (2003—operating deficit) is stated after charging:

	2004	2003
	£	£
Depreciation—owned assets	11,803	11,634
Auditors' Remuneration	<u>2,400</u>	<u>2,200</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

4. TANGIBLE FIXED ASSETS

	<u>Office Equipment</u>	<u>Fixtures and Fittings</u>	<u>Computer Equipment</u>	<u>Totals</u>
	£	£	£	£
COST:				
At 1 January 2004	36,076	3,065	19,028	58,169
Additions	<u>-</u>	<u>610</u>	<u>235</u>	<u>845</u>
At 31 December 2004	<u>36,076</u>	<u>3,675</u>	<u>19,263</u>	<u>59,014</u>
DEPRECIATION:				
At 1 January 2004	16,101	1,320	8,563	25,984
Charge for year	<u>7,215</u>	<u>735</u>	<u>3,853</u>	<u>11,803</u>
At 31 December 2004	<u>23,316</u>	<u>2,055</u>	<u>12,416</u>	<u>37,787</u>
NET BOOK VALUE:				
At 31 December 2004	<u>12,760</u>	<u>1,620</u>	<u>6,847</u>	<u>21,227</u>
At 31 December 2003	<u>19,975</u>	<u>1,745</u>	<u>10,465</u>	<u>32,185</u>

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
Trade debtors	13,010	-
Prepayments	<u>4,158</u>	<u>8,294</u>
	<u>17,168</u>	<u>8,294</u>

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
Trade creditors	110,866	129,274
Deferred Income	500	-
Accruals	<u>2,400</u>	<u>9,194</u>
	<u>113,766</u>	<u>158,468</u>

7. CONTINGENCY RESERVE

Any surpluses in the income and expenditure account are taken to the contingency reserve.



Detailed Income and Expenditure Account

	2004		2003	
	£	£	£	£
INCOME:				
Post Office revenue	120,000		120,000	
Telecoms revenue	552,671		493,886	
Electricity revenue	180,000		180,000	
OUR conference revenue	12,132		-	
		864,803		793,886
OTHER INCOME:				
Bank interest		3,978		8,319
		868,781		802,205
EXPENDITURE:				
Salaries & Staff Costs	350,334		315,781	
Consultancy Fees	252,759		189,344	
Legal Fees	91,024		313,975	
OUR Conference costs	12,089		-	
Utility Appeals Tribunal	50,616		-	
General Overheads	77,182		71,625	
		834,004		890,725
		34,777		(88,520)
FINANCE COSTS				
Interest—States of Guernsey loan	-		2,582	
Bank charges	55		201	
		55		2,783
		34,722		(91,303)
DEPRECIATION				
Office Equipment	7,215		7,215	
Fixtures and Fittings	735		613	
Computer Equipment	3,853		3,806	
		11,803		11,634
SURPLUS/(DEFICIT)		<u>£22,919</u>		<u>£(102,937)</u>

This page does not form part of the statutory financial statements



Annual Report: 2004



Annex A: States Directions; Telecoms

States Directions to the Director General in relation to telecommunications that were in force during 2004 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; Telecoms

Telecommunications: 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.



States Directions to the Director General in relation to post that were in force during 2004 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: 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.



States Directions to the Director General in relation to post that were in force during 2004 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: 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

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.



Annex A: States Directions; Electricity

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 2004

- 04/01 Regulation in Guernsey. Revised Consultation Procedures
- 04/02 Guernsey Post's proposed Tariff Increases. Decision Notice and Report on the Consultation Paper
- 04/03 Review of Cable & Wireless Guernsey's Proposed amendments to the Reference Offer for Interconnection and Access. Consultation Document
- 04/04 Licensing of Internet Access in the Bailiwick of Guernsey. Report on the Consultation & Decision Notice
- 04/05 Carrier Pre-Selection and Number Portability within the Bailiwick of Guernsey. Consultation Document
- 04/06 Wave Telecom Mobile Licences: Failure to Meet Launch Date. Statutory Invitation to Comment.
- 04/07 Wave Telecom Mobile Licences: Failure to Meet Launch Date. Statutory Notification.
- 04/08 Licence Fees for Telecommunications, Postal and Electricity Licences - Information Note
- 04/09 Market Dominance in the Telecommunications Sector in Guernsey. Consultation Document
- 04/10 Price Control for Telecommunications Services in Guernsey: Review of Price Control Scope and Structure. Consultation Document
- 04/11 Price Control for Telecommunications Services in Guernsey: Calculating Allowed Revenue and the Cost of Capital. Consultation Document
- 04/12 Review of Cable & Wireless Guernsey's Regulatory Accounts
- 04/13 Investigation into Cable & Wireless Guernsey Ltd's Charges for Exchange Line Reconnections. Finding
- 04/14 Postal Misdeliveries Seminar, 23rd June 2004
- 04/15 Update of OUR's regulatory Accounting Guidelines for C&W Guernsey. Consultation Paper
- 04/16 Advice to Internet Users on Rogue Diallers and Modem Hi-Jacking. Information Notice
- 04/17 Broadband Fixed Wireless Access in Guernsey. Licensing of 3.4GHz and 3.6GHz Spectrum. Information Note and Expressions of Interest.
- 04/18 Extension of Powers to Enable Control of Postal Prices outside the Reserved Sector. Statutory Invitation to Comment
- 04/19 2006 Postal Pricing Review – Process and Timetable. Consultation Paper
- 04/20 Extension of Powers to Enable Control of Postal Prices outside the Reserved Sector. Information Note: Notice of Extension of Deadline for Responses to Statutory Invitation to Comment.



Annex B: Documents Published in 2004

- 04/21 ENUM – Accessing multiple customer services through Telephone Numbers DTI Consultation. Information Notice.
- 04/22 Extension of Powers to Control Postal Prices outside the Reserved Sector. Report on the Consultation. Notice of Modification to the Licence issued to Guernsey Post Ltd under Section 2(1) of the Post Office (Bailiwick of Guernsey) Law, 2001
- 04/23 2006 Postal Price Control Review – Process and Timetable. Report on the Consultation
- 04/24 Update of OUR's Regulatory Accounting Guidelines for C&W Guernsey. Decision Notice and Report on the Consultation
- 04/25 Accounting Separation Regulatory Accounting Guidelines to Cable & Wireless Guernsey Limited