STATES OF JERSEY

GAS TARIFFS: REDUCTION (P.154/2015) – COMMENTS

Presented to the States on 18th January 2016
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers asks States Members to reject this proposition for the following reasons –

- The JCRA has undertaken a detailed review of the gas market as part of the first stage fuel market review and concluded that –

  > "In carrying out a first stage review of this market, CICRA received detailed information on Jersey Gas' businesses, evidence and explanation of its approach to hedging of gas costs and took into account the wider context of the market and implications for price setting.
  >
  > Given lack of evidence of any excessive margins or returns based on the information provided, the limited value in undertaking a full review of historic detailed business decisions and the lack of an obvious comparator for benchmarking, there appear to be no reasonable grounds to suspect that the Jersey gas market is not acting in the best interests of consumers at this time.".

- Given what the JCRA has concluded, the States needs to be even more careful about arbitrary price control. The reasons for rejecting this proposition are essentially the same as those contained in the Council of Ministers' responses to P.18/2015 and P.32/2015 (P.18/2015 Com. and P.32/2015 Com.) –

  - Formal price regulation is a significant step that should not be undertaken lightly, particularly as it will have costs associated with it that could ultimately be borne by the consumer.
  - The States would be setting itself up as regulator and would have to respond dynamically to changes in the market; it is not simply a case of setting a price and the States having no further responsibilities in this area. There would be an ongoing responsibility to regulate the market from this point forward.
  - Members are asked to consider carefully who is the right body to act as Gas Market Regulator; moreover, what additional resources might be required.
  - Even if it is established that there are issues with the operation of the gas market, it is not clear that direct price regulation is the appropriate solution.
  - Article 89 of the Jersey Gas Company (Jersey) Law 1989 requires that in making decisions about tariffs, States Members need to satisfy themselves that the company remains commercially viable. There are other issues to take account of, such as whether a price control decision will affect the security and reliability of gas supply.

- The States' role is to set the framework within which the JCRA operates, and to hold the Authority to account for its performance, but not to intervene directly in functions that are best dealt with by the independent regulator. The Oxera review into the Regulatory and Competition Framework has set out 23 recommendations in terms of how the JCRA and government can work together to improve that framework. It is the intention of the Council of Ministers to implement all the recommendations to ensure we have an up-to-date and robust framework in Jersey.

- Additional analysis is being agreed between the Chief Minister's Department and the JCRA to build on the JCRA's Stage 1 review of the gas market. However, Members should consider whether it is an appropriate response to introduce price regulation, given the JCRA's findings in the Stage 1 review and the lack of significant additional analysis in this proposition.

- The Chief Minister's Department is working with the JCRA to agree an Invitation to Tender (ITT) for further analysis of the gas market in Jersey. The intention is to agree the ITT this month, and for the JCRA to proceed to issue it in early February, seeking appropriate support for the completion of the work in the first quarter (although exact timescales will need to be agreed with the successful bidder). States Members will be updated on the timescales for delivery of the report after agreement has been reached with the successful consultant.

- The draft terms of reference aims to look further at the following issues –

    - Retail prices and how they compare over time in Jersey relative to an appropriate benchmark, such as equivalent retail prices in the U.K. or elsewhere and the appropriate wholesale prices in the U.K. This will include the medium- to long-term relationship between retail and wholesale gas prices in Jersey, what other factors play a role in the level and movement of retail prices charged in Jersey, and the influence of such factors have on the retail price to Jersey consumers.
    - Analysis of the relevance of differences between Jersey Gas' statutory accounts and a reasonable economic valuation of the assets and operating costs of the gas business, as a basis for arriving at an assessment of margins and returns. Where differences contribute to material variation in the estimates of margins and returns, these will be discussed and substantiated.

Part (b) of the proposition

The JCRA has informed us that it has received the gas model from Jersey Gas and looked at the impact of the changes in charging structure. The JCRA considers that it is consistent with public statements and assurances by the company to the effect that the changes are revenue-neutral. The model separates out 7 bands of users based on volume. The changes are also revenue-neutral across each of the 7 bands. However, the JCRA considers it was difficult to determine how the changes map onto low income or vulnerable consumer categories.

Jersey Gas offered 2 briefings for States Members last year to explain the changes to standing charges, but no members attended. Before determining whether any further work is required, it would be beneficial for States Members to have a briefing direct from Jersey Gas on the changes and their implications. Jersey Gas have informed the Chief Minister's Department that they would be happy to renew their offer to provide collective or individual briefings to States Members on the background to the changes in standing charges that took effect this year.

For these reasons the Council of Ministers asks States Members to reject part (b) of the proposition.

Financial and manpower implications

The Council of Ministers do not accept the statement by the Deputy that there are "no direct financial or manpower costs for the States arising from this proposition". It would inevitably lead to the requirement for the States to establish full gas market regulation, and there would be both financial and manpower implications for the States if it had to regulate the gas market directly or indirectly.