STATES OF JERSEY

GAS TARIFFS: REDUCTION

Lodged au Greffe on 14th December 2015
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

(a) to request the Minister for Treasury and Resources, or another Minister as appropriate, to bring forward Regulations for approval by the States, under the powers assigned by Article 89(1) of the Jersey Gas Company (Jersey) Law 1989, in order to reduce the Jersey Gas Company's domestic and commercial tariffs by 10% with immediate effect; and

(b) to request that the Minister for Economic Development commission research to verify that the proposed standing charges are indeed revenue-neutral to the company and fair to their consumers.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

When I lodged P.18/2015, Gas Tariffs: reduction, on 17th February 2015, I little thought that I would be forced to return to the subject of gas tariffs less than a year later. Sadly, that is the case. That proposition requested the Minister for Treasury and Resources to use his powers under the Jersey Gas Company (Jersey) Law 1989 to reduce gas tariffs by 5%. Shortly after, we saw a reduction of 3.5% in tariffs.

What we learned from then was that:

There was a link between oil prices and the wholesale price of propane, which is the core commodity of Jersey Gas, and that over the 4-year period up to the start of 2015 gas tariffs had risen by over 32% against a background of low inflation. So what has changed now?

The Assistant Minister for Economic Development commissioned the CICRA to examine the fuel market in Jersey. In respect of the gas market, the report can be summed up thus –

> **Gas**
>
> 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 the 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.

The Jersey Evening Post had this to say about the quality of this report –

> "*SENATORS Philip Ozouf and Lyndon Farnham are right to call for another look at gas prices. In March, ministers agreed terms of reference for a detailed review by the Channel Islands Competition Regulatory Authorities of the energy market, looking into whether the open market was working properly for the benefit of consumers.*
>
> *What was published last month was anything but a detailed report. It ran to 16 pages, with the consumer watchdog concluding that there were 'no reasonable grounds' to think that the market was not working in the interests of consumers.*
>
> *It is hard to believe that CICRA could come to such a clear finding given the caveats which pepper the report. It says that the information received from Jersey Gas showed no evidence of excessive margins 'based on the information provided' (the watchdog did not use its powers under the law to force disclosure, but relied on voluntary submissions) and admits there is 'no obvious comparator for benchmarking'.*

> *It is not difficult to see why some ministers are so unimpressed with the watchdog.*".

In short, the report provided no evidence that gas consumers could rely on. Instead, a further report was commissioned –

> "*The price of fuel in Jersey is to be investigated further after the politician with responsibility for competition said he did not believe a recent review of the Island's gas market would give consumers 'comfort'.*
>
> *Senator Philip Ozouf, who is an Assistant Chief Minister, made the comment after a review by the Channel Islands' Competition and Regulatory Authorities found that there were 'no reasonable grounds to suspect' that the Jersey gas market was breaching competition law.*".

CICRA was commissioned to look into the gas, petrol and heating oil fuel markets.

However, it found there were 'no reasonable grounds to suspect' that the fuel markets were not acting in the best interest of consumers.

The watchdog added that a second more detailed look at the sector was not proposed, as a formal investigation can only be initiated if there are 'reasonable' suspicions that there may have been a breach, or intention to breach the competition law.

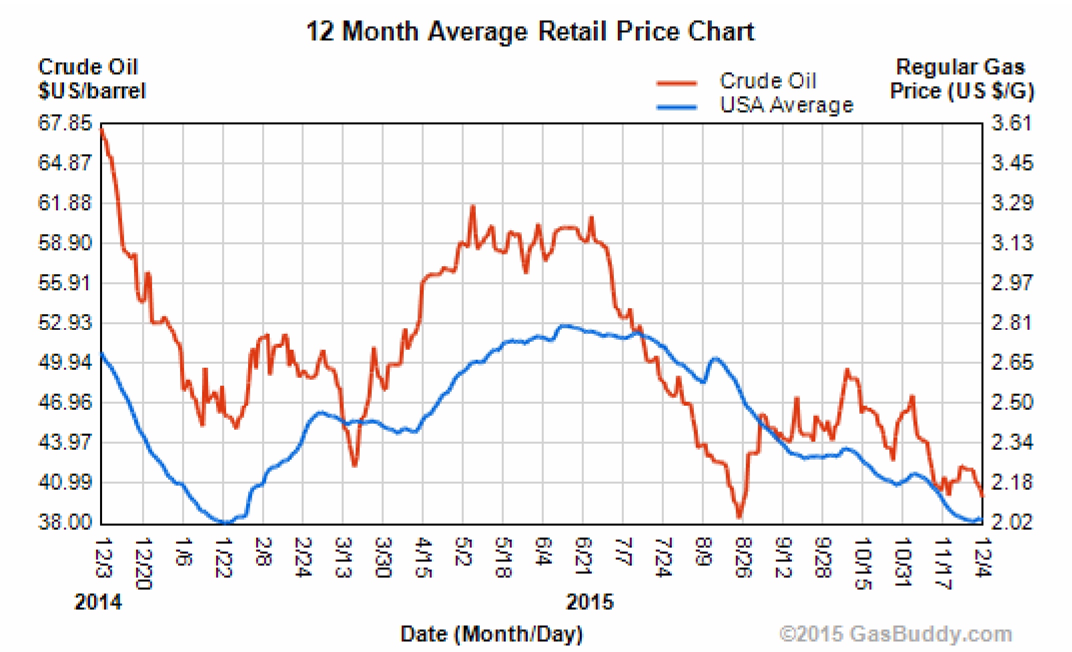
So instead of a comprehensive analysis of the market after 8 months, consumers are faced with the prospect of … another review.

In the meantime, Jersey Gas has proposed major changes to its billing structure, leaving many customers, in the words of the JEP, "angry and confused". One customer who contacted me over the new billing structure had this to say –

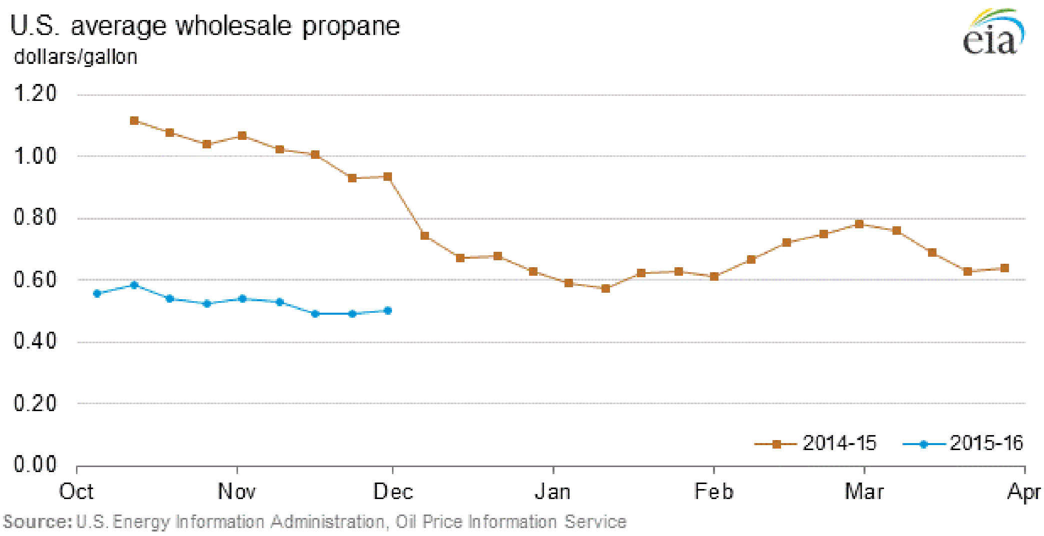
> "*I have managed to get my annual fixed charge down from £444 to £367 but that is still 3 times the original fixed charge of £123 and a very high fee for nothing if you choose not to use gas.*
>
> *Quite how Jersey Gas come to the conclusion that it is easier to budget when I pay by prearranged direct debit already is astounding.*
>
> *I keep a record of my usage and their fees so I have been able to prove that my usage has reduced by approximately 40% recently. Most people throw away their bills I would think.*
>
> *The overall income at these new prices may not increase for the gas company (initially) but the guaranteed income that they can expect has risen threefold, in my case.*
>
> *Their marketing and the general lack of understanding, by users and the supervisors, of what is going on is playing nicely into Jersey Gas' hands.*".

With rises in standing charges of this magnitude, it is hard to see how customers will not end up paying more for their gas.

So what has been happening to wholesale prices in the oil and gas markets? They have continued on their downward spiral.



The price of crude oil per barrel continues to fall throughout 2015 down to $40 from $67 at the start of the year, a drop of 40%. Equally, the wholesale price of propane has seen an enormous drop in price over past 12 months to stand at 60% of the price in March when the last tariff adjustment (-3.5%) was made in March 2015.



Recent contributions from the 2 Ministers involved in the issue have been reported thus –

"*Addressing States Members, Senator Farnham said that it was not currently proposed to introduce price regulation to the sector.*

He added: 'Formal price regulation is a significant step that would require the States to use exceptional powers contained within the law and should not be undertaken lightly, particularly because it would have costs associated with it that could ultimately be borne by the consumer.'

Senator Philip Ozouf, who has responsibility for competition, said he did not believe that the Channel Islands Competition and Regulatory Authorities' recent review of the Island's gas market, which found that there were no reasonable grounds to suspect that it was breaching competition law, would give consumers 'comfort'.

Senator Ozouf has since ordered the States Economic Adviser to meet the watchdog to agree additional analysis.

He added that if, following a second look at the sector, there was evidence to show that gas prices were unreasonable then he would bring forward 'full price regulation of gas.'

During the States sitting Senator Farnham echoed those sentiments and said that the government would consider introducing price regulation if further work done by CICRA in conjunction with officers from his department uncovered evidence that the gas company was making excessive profits.

'The government has taken action by commissioning this review,' he said.

'If this review manages to find evidence of excessive price taking or profiteering by the gas company, upon advice, it [government] would have no problem to rectify the problem.

'Ultimately, that would be the decision of this Assembly'.

Conclusions

In the light of a continuing and persistent reduction in the wholesale price of propane, it seems appropriate to me to ask the Minister to negotiate a further reduction in the gas tariffs. Waiting for a further report (the last one took 8 months to arrive) is not an option – the cold weather approaches. Neither do arguments about the complexities of hedging the price paid on the wholesale market hold much weight. If the Gas Company cannot get its supplies at a good price after 2 years of falling prices, it is in the wrong business. The Ministers should act without delay to negotiate lower tariffs in the interests of their residents.

Financial and manpower implications

I maintain my position that there are no direct financial or manpower costs for the States arising from this proposition.

STATES OF JERSEY

GAS TARIFFS: REDUCTION

Lodged au Greffe on 17th February 2015
by Deputy G.P. Southern of St. Helier

STATES GREFFE

2015 Price code: B P.18

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to request the Minister for Treasury and Resources to bring forward Regulations for approval by the States, under the powers assigned by Article 89(1) of the Jersey Gas Company (Jersey) Law 1989, in order to reduce the Jersey Gas Company's domestic tariffs by 5% with immediate effect.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

The past few years have seen significant growth in the price of oil on international energy markets. This has led inevitably to increases in the price of oil derivatives, petroleum, domestic heating oil, natural and liquid petroleum (LPG) gas. These increases have had a major impact on the cost of living for communities across the world, not the least of which is Jersey, where the size of the market is a severe limitation on the ability of competition to bring energy prices down.

The rampant growth in the costs of heating has had the greatest impact on the elderly, who are most vulnerable to succumb to hypothermia during the winter months.

Age Concern Jersey was warning back in November that many pensioners will have to choose between heating and eating this winter. They pointed out that statistics show that more Islanders over the age of 75 die during the colder winter months than at other times of year.

> *"It is when they have not got the money that they have to decide whether to heat or eat. I don't think anyone should be in that position, certainly not old people."*
> *– Daphne Minihane, Head of Age Concern, Jersey*

This inflationary growth in energy costs is perhaps most clearly illustrated by examining the media coverage of the costs in the domestic gas market over recent years:

25th July 2011

> "**Jersey gas prices to rise in August**
>
> Prices for gas will be going up by about 7% from the start of next month. It is the second time the cost of gas has increased this year in Jersey. Customers will be paying about 15% more than at the start of the year, depending on their tariff.
>
> Rising gas prices mean you could pay about £190 more each year to heat your home in Jersey. Jersey Gas said the increases were necessary because of continued high world energy prices.
>
> Back in February when it rose, there were a number of complaints about rising energy bills so the Treasury Minister, Senator Philip Ozouf, asked Jersey's Consumer Council to investigate. Senator Alan Breckon who heads it up said given the current economic climate, rising gas prices were making life difficult for many families."

January 2012

> "Gas prices in Jersey will not be reducing in the coming months – despite suppliers in the UK slashing bills following a fall in wholesale costs.
>
> EDF Energy, British Gas and Scottish and Southern have all recently reduced prices by about five per cent after wholesale costs dropped to their lowest point in almost a year. However, Jersey Gas, which has increased its prices three times in less than 18 months, has today said that it has no plans to cut bills, as the wholesale cost of the type of gas used in the Island has remained high."

May 2012

> "Gas prices will rise by about 5% in Jersey from 10 May. Gas prices will rise by roughly five per cent next week – the fourth increase in less than two years. Jersey Gas announced that they were 'reluctantly' changing fuel tariffs on 10 May in response to increased wholesale prices.
>
> Commercial director John Davies warned that prices were expected to stay high for the foreseeable future and that if the cost of crude oil continued to rise, so would customers' bills."

January 2013

> "**Guernsey and Jersey gas prices to rise by 3%**
>
> A 3% rise in gas prices in Guernsey and Jersey is being blamed on rising global prices.
>
> John Davies, commercial director of Guernsey and Jersey Gas and Kosangas, claimed the move had been "forced" on the company by wholesale energy costs.
>
> Mr Davies said prices were expected to remain high "for the foreseeable future"."

August 2013

> "**Channel Islands gas prices to rise by 3.5%**
>
> Channel Island gas prices will rise by 3.5%, the International Energy Group has announced.
>
> Both standing charges and tariffs will increase from 16 August, with unit prices in Guernsey rising from 12.4p to 12.83p and 12.76p to 13.21 in Jersey."

August 2014

> "Jersey Gas announces a further 2.9% rise in Jersey Gas domestic tariffs.
>
> In total we have seen an increase in domestic gas tariffs of 32.4% over the 4-year period, an average of 8% annually; a figure that far outstripped inflation as measured by the RPI which averaged only 3.3% over the same period."

What goes up …

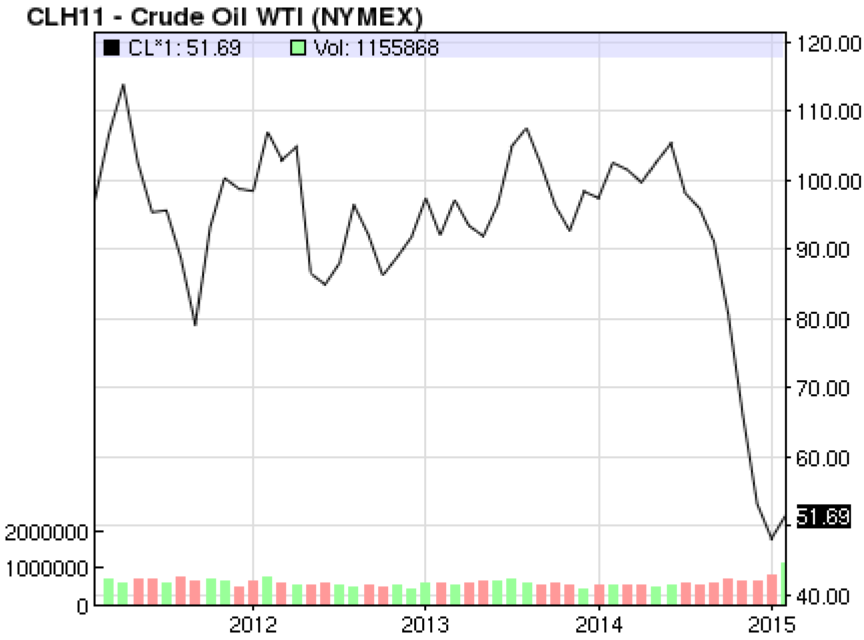
In this brief survey of prices, it is interesting to note two of the statements from Jersey Gas, namely –

(a) if the cost of crude oil continued to rise, so would customers' bills, and
(b) prices were expected to remain high "for the foreseeable future".

The first establishes the link between the cost of oil and the price of our own LP gas (a mixture of propane and butane derived from oil).

The second brings us to the unforeseen – the price of oil has gone down, and logically with it, the Jersey consumer can reasonably expect that the price of gas will follow.

We have already seen a significant reduction in the cost of petrol on Jersey forecourts, along with a reduction in the cost of domestic heating oil in recent months. They are a reflection of the recent halving of crude oil prices seen here.



20th January 2015, 1:03 p.m.

15th January 2015 headlines

> "**Wholesale oil prices drop... but no change for gas and electricity**
>
> Gas and electricity prices in Jersey will not drop in the coming months – despite a significant decrease in the wholesale cost of oil across the globe.
>
> Oil prices have fallen sharply over the past few months, with the cost of a barrel now almost half of what it was in June 2014. But both Jersey Gas and Jersey Electricity say they have no plans to change their prices – despite power companies lowering rates in the UK.
>
> The Jersey Consumer Council in its February 2015 Newsletter "What is going on with oil prices" points out the discrepancies between prices for oil derived products thus:
>
> > *"Whist oil prices have come down by 55% in the past 7 months, the price of unleaded and diesel in Jersey has reduced by only 16%, but the fall in heating oil has been more commensurate, falling by over 30%." "*

The JCC examines the reasons for these differences, but does not question the absence of any reduction in the price of gas. As can be seen below, there has been a significant drop in the price of propane in the US (by over 60%). One has to assume that there has been a similar fall in the UK and across Europe. If this is the case, then we should be seeing a fall in the price of gas to Jersey households.

Propane Monthly Price – US Dollars per Gallon

Month	Price	Change
January 2014	1.40	–
February 2014	1.44	3.44%
March 2014	1.06	-26.26%
April 2014	1.10	3.48%
May 2014	1.04	-5.27%
June 2014	1.05	0.29%
July 2014	1.04	-0.96%
August 2014	1.02	-1.74%
September 2014	1.06	4.32%
October 2014	.94	-11.86%
November 2014	.80	-14.32%
December 2014	.56	-30.42%

Price control

Ministers seem powerless in the face of price rises year after year, but to their credit, the Council of Ministers has tried to ensure that these recent reductions in the price of raw materials is passed on to the consumer. The Minister for Economic Development has taken the lead, and was reported thus –

> "**Firms told to pass on drop in oil price to consumers.**
>
> Economic Development Minister Lyndon Farnham wants companies, including ferry operator Condor on its passenger routes, to take advantage of the lower cost of fuel and pass the reduction on to customers as a way to boost trade and the economy.
>
> While Condor has reduced costs for its freight services following the fuel price drop the minister wants third party operators importing goods to the Island to pass on the savings to consumers and reduce prices – particularly for food.
>
> Meanwhile, Assistant Minister to Economic Development, Senator Ozouf, has offered a CICRA investigation into the widening gap between pre-tax and pre-duty fuel prices in Jersey, but that brings no comfort those struggling with increased living costs in the short term."

In short, the Ministers seem unable to act effectively on energy prices. The discussion paper containing the Council of Ministers' priorities for the Strategic Plan contains only one statement on prices and the cost of living –

"Cost of living pressures are a growing concern to many Islanders. Government can play a key role in helping relieve these pressures by ensuring that markets and competition work in the interests of consumers, businesses and our economy."

As ever, the Ministers are reliant on competition to control prices, but in a monopoly market (there is only one gas provider) there is clear evidence presented here of market failure. The market responds quite readily to wholesale price rises, but seems incapable of a response to falling costs.

In the face of market failure, the government must act in the interests of the consumer. Fortunately, the States has reserved the power to intervene on gas prices. This proposition asks the States to do so.

"**89 Power of States in connection with gas tariffs**

(1) Where it appears to the States to be necessary to do so in the public interest, the States may by Regulations –

(a) determine the tariffs to be made by the Company in respect of gas which it supplies; and

(b) specify the manner in which the tariffs are to be assessed and make provisions incidental thereto."

Financial and manpower implications

There are no direct financial or manpower costs for the States arising from this proposition.

APPENDIX

EXTRACT FROM
JERSEY GAS COMPANY (JERSEY) LAW 1989

89 Power of States in connection with gas tariffs

(1) Where it appears to the States to be necessary to do so in the public interest, the States may by Regulations –

(a) determine the tariffs to be made by the Company in respect of gas which it supplies; and

(b) specify the manner in which the tariffs are to be assessed and make provisions incidental thereto.

(2) In determining the tariffs, the States shall have regard to the following or any other relevant matters –

(a) the present needs of the Company and the future expansion of services provided by the Company;

(b) the ability of the Company so long as its business is managed efficiently to pay –

(i) interest on and reimbursement of money borrowed, raised or owing by the Company,

(ii) a dividend on the preference shares issued by it at the rate fixed under the terms of issue of those shares, and

(iii) a reasonable dividend on the ordinary shares issued by it;

(c) any capital expenditure which the Company may reasonably be expected to incur during the next 5 years and the desirability of the Company's charging that expenditure, or part thereof, to revenue;

(d) the ability of the Company to pay all proper expenses of and connected with the working, management and maintenance of the Company;

(e) the provision of any contributions, whether set apart out of revenue or otherwise, which the Company may lawfully carry to a reserve, contingency or amortisation fund;

(f) the ability of the Company to make good depreciation, whether or not provision therefor is made by a reserve or contingency fund; and

(g) the ability of the Company to meet all other costs, charges and expenses, if any, properly chargeable to revenue.

(3) Regulations made under this Article, unless previously renewed by the States, shall lapse after 12 months from the date on which they come into force.