STATES OF JERSEY

ELECTRICITY TARIFFS: REGULATIONS UNDER ARTICLE 22 OF THE ELECTRICITY (JERSEY) LAW 1937 (P.41/2009) – COMMENTS

Presented to the States on 4th September 2009
by the Minister for Treasury and Resources

STATES GREFFE

COMMENTS

This comment relates to the impacts this proposition has on the States' shareholding in Jersey Electricity Company (J.E.C.) and other revenues earned by the States from the J.E.C. The comment is made in conjunction with the comment Economic Development will release later this week.

If the current tariffs were reduced by 20%, this would impact the J.E.C.'s profitability in future years. The company estimated that the J.E.C. would suffer reductions in their profits of around £15m per annum on current levels. Therefore 2008 profits of £9.8m would translate into significant losses for future years. Implications are that the J.E.C. would then elect not to declare a dividend and therefore the States would not receive any shareholder return on its investment in the J.E.C. (2008 dividend received was £1.8m).

No calculations have been carried out to ascertain the significant impact this proposition would have on the longer term market valuation of the J.E.C. and thus its share price. However, it is clear that potential future year losses will negatively impact the Net Asset Value of the company, leading to a decline in the value of the States Investment in the J.E.C.

Estimated savings to States departments running costs as a result of the reduced prices are about £1.2m per annum. However the Treasury would suffer £4.7m in lost income; £1.1m reduced taxation income; £1.8m dividend income and £1.8m as a result of the J.E.C.'s opportunity to reclaim prior year tax losses.

In summary, the States would suffer an overall net loss in the magnitude of £3.5m per annum, plus, probably a substantial reduction in the value of its shareholding if this proposition is approved.