

STATES OF JERSEY



JERSEY ELECTRICITY PLC.: REFERRAL OF STAND-BY CHARGES TO THE CHANNEL ISLANDS COMPETITION AND REGULATORY AUTHORITIES (P.88/2017) – COMMENTS

**Presented to the States on 29th January 2018
by the Council of Ministers**

STATES GREFFE

COMMENTS

SUMMARY OF PROPOSITION (as amended):

“THE STATES are asked to decide whether they are of opinion –

- (a) to request the Minister for Treasury and Resources, as shareholder representative, to request Jersey Electricity plc. not to impose stand-by charges on commercial customers who generate their own power from 1st November 2017, until the opportunity has been provided to the Channel Islands Competition and Regulatory Authorities (“CICRA”) or another qualified body to undertake further research into the implications of this charge and to report on any findings to the States;
- (b) to request the Minister for Treasury and Resources to request CICRA or another qualified body to undertake research into the implications of such charges for the competitiveness of the market for the generation and supply of electricity in Jersey;
- (c) to request the Council of Ministers to bring forward the legislation required to permit CICRA to become the economic regulator of Jersey Electricity plc.;
- (d) to request the Council of Ministers to bring forward proposals to update the Electricity (Jersey) Law 1937 and thereby open up debate on locally-generated renewable electricity targets; and
- (e) to request the Minister for Economic Development, Tourism, Sport and Culture to bring forward an Action Plan setting out how he intends to exploit and facilitate the development of the renewable energy sector in Jersey as stated under Key Objective 3 in the Economic Development Department Business Plan of 2014.”

Council of Ministers’ response

Executive summary

The Council of Ministers would like to thank the Deputy of Grouville for bringing these important matters in respect of the generation of local renewable energy forward as a matter of priority.

In summary, the Council of Ministers is pleased to accept all parts of this amended Proposition except part (c), which they do not accept. This is because part (c) calls for the preparation of legislation to bring forward full economic regulation of Jersey Electricity, which is felt to be an outcome that pre-empts the, as yet unknown, recommendations that will be drawn from earlier work undertaken in response to the other parts of this Proposition.

Since the proposition was first lodged *au Greffe* in October 2017, a cross-departmental political and officer group has been established to oversee the work-streams that have been initiated by virtue of the proposition and the important matters it raises.

The political oversight group comprises –

- the Minister for the Environment (also Chair of the Energy Executive and responsible for co-ordinating the delivery of the Energy Plan);
- the Assistant Chief Minister;
- the Minister for Economic Development, Tourism, Sport and Culture¹;
- the Assistant Minister for Treasury and Resources; and
- the Minister for Treasury and Resources² has been kept sighted on these matters.

The political oversight group is assisted by the following officer group –

- Director of Environmental Policy, Department of the Environment (who leads on energy policy);
- Director of Treasury Operations and Investments, Treasury Department (who represents the States of Jersey's shareholding in Jersey Electricity);
- Director of Strategic Development, Chief Minister's Department (who holds responsibility for market competition and the regulatory authority CICRA) and;
- Economic Adviser (Chief Minister's Department).

The political oversight group have agreed that in this capacity, the Minister for the Environment will take the lead on co-ordinating this work and will act as the *rapporteur* for this Proposition. The Minister for the Environment and his officers have liaised with the Deputy of Grouville, discussed the matters she has raised, and kept her briefed on the progress made since October 2017.

A review of stand-by charges (part (a)) has been scoped in consultation with stakeholders, and is currently out to tender with an expectation that the review will be completed by March.

Considering the implications of the review of the stand-by charge on the competitiveness of the renewables industry (part (b)) forms a natural second phase of the above work, and will commence at the completion of the first review.

An Action Plan outlining the necessary steps for Government to support the development of the local renewables industry will be developed (part (e)) following on from the review of stand-by charges and a consideration of the impact of these charges and any necessary changes in policy required.

¹ The [Electricity \(Jersey\) Law 1937](#) delegates the States' representation in all or any matters arising out of this Law, and generally safeguarding the public interest, to the Minister for Economic Development, Tourism, Sport and Culture. In addition, the Assistant Chief Minister has responsibility for competition matters.

² Under the [Public Finances \(Jersey\) Law 2005](#), Article 68, the Minister for Treasury and Resources may exercise the rights, and is responsible for the liabilities attached, to the shares that the States owns in a company, and shall act in the interests of the States in that capacity.

The Minister for the Environment has already committed to a review of the [Electricity \(Jersey\) Law 1937](#) (part (d)), and although it is a large and complex piece of work, it is anticipated that the project will initiate in mid-2018 and run for approximately 18 months. Much of the output of this work will inform whether full economic regulation of Jersey Electricity is a desirable outcome (part (c)), but this latter point is by no means a foregone conclusion and requires significantly more consideration before such a conclusion is reached and bought before the States Assembly.

Sections of the Proposition

(a) The Council of Ministers accepts this part of the Proposition.

The Council of Ministers would like to accept part (a) of the Proposition. They recognise –

- There is a cost to JE for being the supplier of last resort, providing infrastructure, providing voltage and frequency stability services to embedded renewable energy generators³.
- Although minimal currently, the number and scale of embedded renewable energy generators could grow at a significant rate. Without charging the embedded generators the true cost of ‘standby’, inequality is caused with non-generators potentially subsidising generation and non-generators being asked to bear an increased burden of fixed costs.

Nevertheless, the Council of Ministers recognises that the level of the charge being proposed by Jersey Electricity⁴ would benefit from external review by an appropriate independent adviser to establish that it is been calculated by taking all the relevant factors in account. The Council of Ministers does not consider that it is appropriate for CICRA to undertake this review, but the Deputy of Grouville’s amendment allows another suitability qualified body to undertake this work. Progress to complete this aim is as follows –

- A political and officer group has been established to manage the review process as described in the introduction. The working group will manage the process of the review and consider the out-turn from the review, and the Council of Ministers will then agree a way forward.
- A scope for the review has been drafted by officers and consulted upon by key stakeholders. Following the stakeholder input, a revised scope was agreed by the officer group, signed off by the political group, and was put out to open tender via the Channel Islands Tender Portal on 11.01.2018 (tenders close 05.02.18, project completion expected 30.03.18).
- Following a request from the Minister for the Environment (12.01.2018) Jersey Electricity have agreed to further defer the imposition of the stand-by charge until 01.05.2018, by which time the review is expected to be completed and its outcomes considered.

³ Jersey Electricity have made their calculation of this cost in accordance with their current operating model. JE will provide details of their current operating model to the advisers in order for them to understand the context in which the charge has been calculated.

⁴ £3.25/kWh/p per month (including GST).

(b) The Council of Ministers accepts this part of the Proposition.

The Council of Ministers would like to accept part (b) of the Proposition. They recognise that, once the review of the level of the stand-by charge outlined in part (a) is completed, there will be a requirement to undertake research into the implications of this charge for the competitiveness of the market for the generation and supply of renewable electricity in Jersey. Therefore, the work described in part (b) follows naturally on from the tariff review in part (a).

Once the quantum of the stand-by charge is advised by the review and the point at which it should be introduced, government will then be in a position to make a policy decision with respect to incentivising (or not) renewable energy, should the level of the charge appear punitive for the renewable industry.

The Minister for the Environment has committed to carry this work out in his capacity as Chairman of the Energy Executive. Although it is not considered appropriate for CICRA to carry this work out, the Deputy of Grouville's amendment now allows for an alternative qualified body to assist with work if necessary.

(c) The Council of Ministers rejects this part of the Proposition.

The Council of Ministers believes that full economic regulation of Jersey Electricity by CICRA is considered pre-emptive, given that a review of the 1937 Electricity Law in the context of the Island's Energy Plan will be undertaken (see part (d)). Currently, there is not the necessary detailed rationale or evidence or sufficient examination to conclude that this is an appropriate step. Economic regulation *can* be costly, ineffective and wide-ranging in its impacts, and this is a substantial step that should only be taken if the Island's Energy Plan aspirations can't be achieved through an update and extension of the Law supported by the appropriate policy levers. The work described in response to part (d) of the Proposition will explore many of these issues that might lead to the conclusion that economic regulation of Jersey Electricity is required. If the evidence leads towards this conclusion, an options appraisal and any supporting work will be carried out, and these matters and appropriate recommendations will be brought to the Council of Ministers and the States Assembly.

(d) The Council of Ministers accept this part of the Proposition.

The Minister for the Environment, in his position as Chair of the Energy Executive, has already made a commitment to a review of the 1937 Electricity Law (speech to the Chamber of Commerce September 2017) and is grateful to the Deputy of Grouville for further re-iterating the importance of this work-stream in her Proposition. The purpose of the review is to ensure that the Electricity Law is still fit for purpose, and future-proofs the Island's energy aspirations now and as new technology and storage and distribution systems become commercially available and widespread.

The expectation is that this work will begin in mid-2018 and extend into 2019. It is recognised that such a review is a significant piece of work that will require careful scoping and planning and a multi-departmental approach agreed by all the relevant Ministers. It will touch on many areas and the impacts must be carefully considered, quantified and consulted upon before any final decisions are brought before the States Assembly. This review of the Law will help to form a conclusion as to whether full

economic regulation as outlined in part (c) is required. However, it is by no means a foregone conclusion.

(e) The Council of Ministers accept this part of the Proposition.

An Action Plan to facilitate the development of the renewable energy sector in Jersey will be developed once the cost of stand-by and Government's policy position on the implications of these costs are established, i.e. the work outlined in parts (a) and (b). Through the amendment to remove the March deadline, there is now scope for this work to follow the review on stand-by charges and a consideration of the impacts of these on the industry, and on this basis the Minister for Economic Development, Tourism, Sport and Culture is happy to accept this part of the proposition. It is noted that the commitment made in the 2014 EDD Business Plan was meant to reflect work related to the potential for large-scale, offshore renewable energy. Nevertheless, on-Island domestic scale or commercial scale renewables will be added to the future Action Plan project.

FINANCIAL AND MANPOWER IMPLICATIONS

Part (a) – Initial indications are that the review of the standing charge is likely to cost in the region of £50 to £100k, although full tenders have not yet been received. This can be met from within 2018 existing revenue budgets within the Department of the Environment from money that was assigned to the delivery of the Energy Plan (if this cannot be successfully re-prioritised, another option is to find the budget from the Central Environment Management Vote – a small capital vote earmarked to help deliver the Energy Plan). Manpower to co-ordinate this work will be absorbed into the officer teams' work programmes across the relevant Departments for 2018.

Part (b) – Reviewing and defining Government's policy position on renewable energy in light of the stand-by charge review is considered part of the delivery of the Energy Plan. Additional funding that may be required for any further studies will be found from existing revenue budget that was assigned to the delivery of the Energy Plan (if this cannot be successfully re-prioritised, another option is to find the budget from the Central Environment Management Vote – a small capital vote earmarked to help deliver the Energy Plan). Manpower to co-ordinate this work will be absorbed into the officer teams' work programmes across the relevant Departments for 2018.

Part (c) – If the Assembly were minded to adopt this part of the proposition, and in the event that CICRA is asked to regulate JE, this is likely to require additional resource at CICRA and a corresponding increase in the current level of grant funding provided by the States which would need quantifying.

Part (d) – Planning the work-stream to review the Electricity Law has not yet begun. It is anticipated that this will be a multi-departmental piece of work led by the Environment Department, carried out by senior officers within their existing workload. However, it is expected that there will be a requirement for additional studies and impact analysis as part of the work-stream. The Department for the Environment expects to be able to meet these costs from within the budget intended to support the delivery of the Energy Plan.

Part (e) – The Minister for Economic Development, Tourism, Sport and Culture has committed to bringing forward an Action Plan in due course. It is expected that this work may require specialist external input which is not included within the Department’s 2018 revenue budget. The Minister will, however, endeavour to re-prioritise funding at the appropriate time, recognising that the Action Plan is pursuant to other work-streams outlined above.