



Sir Charles Frossard House
La Charroterie
St Peter Port
GY1 1FH
+44 (0) 1481 717000
www.gov.gg

The Presiding Officer
The Royal Court
St Peter Port
Guernsey
GY1 2PB

12th May 2020

Dear Sir,

Committee *for the* Environment & Infrastructure: States of Guernsey Energy Policy 2020-2050 (P.2020/47)

I refer to the above Propositions and supporting policy letter submitted by the Committee *for the* Environment & Infrastructure and scheduled for debate by the States of Deliberation on 20th May, 2020.

The States' agreed policy priorities for the current political term, as set out in the Future Guernsey Plan, include meeting Guernsey's energy needs; and work under this area of focus encompasses the development of an overarching energy policy and programmes relating to renewable energy and the supply of hydrocarbons. Accordingly, the Committee *for the* Environment & Infrastructure has submitted a policy framework for the management of Guernsey's energy supplies through to 2050 which would, if agreed, also set direction for further work to be undertaken on the Guernsey Hydrocarbons Supply Programme and the Renewable Energy Programme.

The Committee *for the* Environment & Infrastructure has put forward what it describes as an "enabling policy" that recommends a "high-level policy direction to enable the States to manage the transition of the energy market" to a lower-carbon economy. The policy letter describes the present-day and future challenges of meeting Guernsey's energy needs in the local and global contexts but it generally does not seek to prescribe precisely how in practice these challenges should be met. Instead, the States are asked to approve the foundations of the Island's future energy market; and this, in turn, will provide the parameters, strategic direction and (a greater degree of) certainty to States committees and energy sector stakeholders, which will be necessary to enable the subsequent technical and detailed work to be undertaken.

This is an appropriate and necessary approach to take at this stage in the policy development process. For instance, until decisions are made on the principle of the introduction of licensing of the hydrocarbons market, it may be possible to make only limited progress in the Hydrocarbons Supply Programme. Similarly, before further resources are committed to designing a licensing framework for the electricity market, it is reasonable, as a first step, to ask the States to make a number of decisions on the principles relating to the operation and oversight of the electricity market. Further, in due course the States will need to take strategic decisions relating to the Island's security of supply standard; however, these will be contingent on progress being made in other areas outlined in the policy letter. It is therefore appropriate to seek an 'in principle' rather than binding decision on this matter at this stage and which provides the **potential to adapt policy** as necessary.

Once the States have set their "high-level policy direction" there will be a high degree of expectation that where further detail is required, the relevant States' committees will return to the States of Deliberation in a timely manner with more fully-formed proposals to implement the Energy Policy. Since the policy was drafted however, the Island's circumstances have changed significantly as a result of the COVID-19 pandemic. The economic and social consequences of the pandemic are likely to have an impact on the policy's immediate timeline and actions. **It is therefore critical that the energy policy is also considered as part of the overall Recovery Strategy that the States will consider in due course, and that the next steps in relation to the implementation of the Energy Policy support the objectives of the Recovery Strategy.**

Whilst the Energy Policy's Propositions do not directly request funding, the initial actions planned to progress the policy are expected to require additional resources. The current and projected economic situation in Guernsey, as well as the States' financial position, are now greatly different to when the policy letter was prepared and published. There is undoubtedly going to be a need to closely review, reprioritise and reduce States' expenditure, both in respect of existing services provided and in considering how to fund any new initiatives approved. It might therefore be necessary for the Committee *for the Environment & Infrastructure* to provide assurance in debate that the timeframes set out in the policy letter can continue to be met or to update the Assembly on any necessary changes to the timeframes as originally published.

The Energy Policy outlines a number of initiatives for which funding would need to be requested as part of the annual budget cycle. This funding route has the benefit of allowing the States to consider and prioritise resource applications in the context of all government business, an aspect that the Policy & Resources Committee would like to see reflected in future policy letters and which will be particularly important for recovery planning. It does mean, however, that if the Energy Policy is agreed it will not have guaranteed funding for all its work streams. Without guaranteed funding, it will be particularly important that the Energy Policy timeline remains flexible and that

strong project management is in place to maintain coordination and oversight of the delivery of the policy proposals.

The development of the business case for a second interconnector is a critical work stream that is not dependent on States' budget allocation. The Policy & Resources Committee acknowledges the significant benefits that could be delivered by the interconnector, including security of supply, a significant contribution to the emissions target and the **potential to reduce the requirements of N-2**. It endorses the development of the business case by Guernsey Electricity Limited and its recovery of the costs through appropriate customer charges. It is vital that, even in the current circumstances, Guernsey Electricity Limited be provided with the support necessary to develop a robust and evidence-based case on which future decisions can be made in a timely manner.

The introduction of a second interconnector will likely provide the Island with the resilience needed to explore other economic opportunities in the energy sector, as well as ensuring that businesses and residents in the Island have a secure energy supply. As noted by the States' Trading Supervisory Board, it will also provide the opportunity for Guernsey Electricity Limited to operate more efficiently by switching from N-2 to N-1, or another suitable standard. The Policy & Resources Committee supports the potential, in principle, of revising of the N-2 requirement, acknowledging the benefits that more efficient operation might generate for consumers.

To further support economic development, the Energy Policy suggests facilitating a competitive energy supply market, including the revision of the existing licensing framework for the electricity market and the introduction of a licensing framework for the supply of hydrocarbons. The Policy & Resources Committee has noted that competition, particularly in the renewables sector, might help to stimulate the sector and promote consumer choice. The Policy & Resources Committee would however emphasise that competition measures need to be proportionate to the size of the Island market and should not be relied upon as the main option to support sector development. In short, competition should be an outcome, where it is proportionate to the market, not a defined output or a means towards achieving an outcome.

The Policy & Resources Committee would also draw attention to the content of the States' Trading Supervisory Board's consultation response of 26th February, 2020, which urges caution in respect of the "potential unintended consequences that could arise from changes in market structures" and how this could "prejudice the strategic role" of Guernsey Electricity Limited in delivering the objectives of the Energy Policy. The Policy & Resources Committee notes that the Committee *for the Environment & Infrastructure* does not propose wholesale competition in the electricity sector but instead proposes "targeted competition to support establishing on-island (including off-shore) renewable energy"; furthermore, the States' Trading Supervisory Board's explains that Guernsey Electricity Limited is "not itself opposed to competition within the generation markets where this can be used to encourage the development of

locally based renewables". Nevertheless, the Policy & Resources Committee agrees that caution needs to be taken to ensure that the operation and oversight of the electricity market does not have the unintended effect of undermining Guernsey Electricity Limited's ability to fulfil its strategic functions.

It is likely that the Energy Policy debate will include an exchange of views on the benefits and dis-benefits of targeted competition to support the development of locally-based renewables, and States' Members will naturally wish to subject this matter to careful consideration and discussion. The Policy & Resources Committee, however, would comment that it will not be possible for the States to form a definitive view on targeted competition in the electricity market until the Committee *for Economic Development* has completed the proposed technical consultation and brought more detailed proposals to the States. The Policy & Resources Committee would also expect the proposals to be developed by the Committee *for Economic Development*, working with the Committee *for the Environment & Infrastructure*, to address the request made by the States' Trading Supervisory Board in its consultation letter, relating to the preparation of an analysis of the costs and benefits of the proposed licensing framework.

A further change in circumstances since the policy letter was published was the recent announcement relating to the termination of the Channel Islands Competition and Regulatory Authority and the reversion to separate insular competition and regulatory authorities in Jersey and Guernsey. The Policy & Resources Committee notes the comments of the President of the Committee *for Economic Development* (in a statement to the States on 22nd April, 2020) that reverting to a separate insular authority for Guernsey would have benefits including in relation to the "significant, and material, role for the GCRA [Guernsey Competition and Regulatory Authority] in reviewing and revising the regulatory framework for energy on behalf of the Committee [*for Economic Development*]". Addressing this matter should be integral to the review of the scope of the GCRA that the Committee *for Economic Development* undertakes with the Guernsey Competition and Regulatory Authority in 2020.

The Energy Policy's objective to support a vibrant economy forms part of its alignment to other States' goals (though the 'vision for Guernsey's energy future' in section 2 of the policy letter does not overtly refer to the Energy Policy as an economic enabler). The Policy & Resources Committee recognises that the Energy Policy was developed through consultation with industry and with input from a number of States' Committees, particularly the Committee *for Economic Development* and the States' Trading Supervisory Board. The economic consequences of the coronavirus outbreak this year underscore the need to ensure that Guernsey's economy is sufficiently diverse and resilient to external and internal economic shocks. The Policy & Resources Committee therefore welcomes the recognition of the role of the Energy Policy in the economy and in particular the economic development benefits associated with renewables in terms of strengthening Guernsey's energy independence and creating new employment opportunities. This will inform the Committee's thinking in its

development of the Island's COVID-19 Recovery Strategy. As stated above, the Policy & Resources Committee recognises that broad policy directions need to be put in place before many of the detailed elements can be set out; however, the Policy & Resources Committee is of the view that further details on this aspect of the Energy Policy would help States' Members to gauge the economic development potential of the proposals.

The Policy & Resources Committee notes that the Energy Policy includes measures which will contribute to climate change mitigation, such as an emissions target, albeit that the target is being put to the States separately to, and before, the States will debate the Climate Change Action Plan. The future debate on Climate Change Action Plan will be the opportunity for the States to discuss wider climate measures (though, at the time of writing, the relevant Propositions and supporting policy letter are yet to be lodged). Clearly, there are significant elements of commonality across these policy areas, as the Committee notes there is little in this policy letter addressing reduction in demand through initiatives such as grants for building insulation, however, the Policy & Resources Committee would not wish for the forthcoming States debate on the Energy Policy to act as a proxy-debate on climate change and supports the Committee *for the Environment & Infrastructure* in its focused approach.

The proposed Energy Policy addresses a range of issues critical not only to meeting Guernsey's energy needs but also to achieving a number of the States' priorities, for example in relation to the Long Term Infrastructure Framework, and it will be important to ensure that in addition to focusing on matters which intersect with climate change policy, sufficient time and focus is given in the Energy Policy debate to the full range of issues which the Energy Policy addresses.

In that respect the Policy & Resources Committee welcomes the proposal (Proposition 13) to direct the Committee *for Employment & Social Security* working with the Committee *for the Environment & Infrastructure* to co-ordinate an investigation of the most effective means of addressing energy poverty and report back to the States by the second quarter of 2021. This work has already been identified by the Policy & Resources Committee in its published policy letter 'Improving Living Standards' currently scheduled for debate in July. Work on fuel poverty identified the extant 2016 States' Resolution to review the winter fuel allowance and would ensure that the existing arrangements for the winter fuel allowance are evaluated against the wider context of energy poverty and with appropriate input from the Committee *for the Environment & Infrastructure*. Progress in this area would contribute towards achieving the States' long-term outcomes of a 'healthy community' and 'sustainable public finances' (provided efficiencies can be realised).

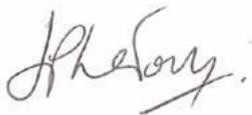
The Policy & Resources Committee is mindful that, if the Energy Policy is to be successful, ongoing collaboration will be required with stakeholders across government and the private sector. The need for collaboration across States' committees is exemplified by the aim to develop the renewable energy sector and in the future, the hydrocarbons supply chain. Promoting renewables is likely to require

input from a range of committees and organisations if it is to be progressed successfully. It is the Policy & Resources Committee's view that the further development of the sector would benefit from the re-establishment of the Renewable Energy Team, or a comparable group, in order to ensure that work is promoted and coordinated across committee boundaries. The hydrocarbons programme will now be actively viewed in the context of the Energy Policy and alongside the States' Trading Supervisory Board's St Peter Port Harbour Development Programme.

The Energy Policy specifically directs the Policy & Resources Committee to work with the Committee *for the* Environment & Infrastructure on the position of energy related taxes. These taxes would be considered as fiscal levers to promote environmental objectives, rather than a mechanism to raise revenue. They will, however, need to be viewed within the wider tax base in order to understand the impact on the community, and, as such, this work will need to be aligned to any fiscal review conducted by the States, which in turn will reflect the Recovery Strategy that the States agree.

The Policy & Resources Committee recommends that the Energy Policy Propositions should be supported, noting the long-term benefits that the Energy Policy can bring to the Island. In the short-term, however, the immediate plans and funding requirements will need to be reviewed in the context of the ongoing pandemic and the States' recovery plans.

Yours faithfully



Deputy J P Le Tocq
Member, Policy & Resources Committee