

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

14th July, 2021

Proposition No. P.2021/65

Policy & Resources Committee, Committee for Economic Development and the
States' Trading Supervisory Board

Guernsey Electricity - Interim Amendments For Tariff Regulation

AMENDMENT

Proposed by: Deputy H L De Sausmarez
Seconded by: Deputy S P Haskins

To delete Proposition 2 and replace with:-

- “2. To:
- a) Issue a States Direction to the Guernsey Competition & Regulatory Authority that the exclusive licences issued to Guernsey Electricity covering conveyance and supply activities, subject to any exemptions granted by the Director General under Section 1 (2) of the Electricity (Guernsey) Law, 2001, should be extended until the electricity strategy and review of licencing is completed, providing clarity on the direction of the electricity market, but to revert to the States to review the position at the December 2024 meeting should the strategy and licencing reviews not be completed;
 - b) Only if 2a is approved; Direct the States’ Trading Supervisory Board to issue a shareholder direction to Guernsey Electricity that, for the period of its supply and conveyance licence exclusivity, it will cease new activity related to the installation of renewable energy systems, except where directed by the States Trading Supervisory Board as an installer of last resort, and to negotiate appropriate Power Purchase Agreements with owners of local renewable energy systems who wish to sell electricity;
 - c) To direct the Guernsey Competition & Regulatory Authority, by Ordinance, to revise the regulatory licencing requirements for central dispatch “merit order” such that:

- pre-committed energy production, prioritising on-island renewable generation, is placed ahead of flexible dispatchable production; and
- a “relevant price” is set for this electricity, (which means the marginal cost at which the licensee is able to procure the generation and delivery of electricity into the Conveyance System, allowing flexibility around the average electricity price);”

Rule 4(3) Information

The amendment will not increase the costs beyond those already envisaged to be incurred by the direction to the Guernsey Competition & Regulatory Authority outlined in the policy letter.

Explanatory note

Whilst the Energy Policy has set out the broad direction for the energy transition, it is the review of the Electricity Strategy which will provide the detailed approach for the island’s electricity market over the coming years. That work is currently being carried out and is anticipated to be brought to the States for consideration by or during Q3 2022. This amendment guards against unintended consequences that may result from the expiry of Guernsey Electricity’s exclusivity in the conveyance and supply market in that interim period before the States agrees the Electricity Strategy. One such consequence could be the creation of so called “micro grids” under a supply licence which, once in place, would be difficult to remove once the Electricity Strategy has been agreed, even though they would run counter to a pillar of the Energy Policy – *“to facilitate a competitive energy supply market using shared critical infrastructure as appropriate”*.

This amendment provides for continuity within the electricity marketplace, subject to the publication of the ongoing review of the electricity strategy and the implementation of any changes following the consultation on licencing as resolved under the Energy Policy (Resolutions 9 and 6 respectively). It is anticipated that the updated Electricity Strategy will be submitted to the States for consideration by the Committee *for the Environment & Infrastructure* by or during the third quarter of 2022. The Strategy will consider what changes to the structure of the electricity markets should be put in place but there is a requirement to establish stability within the marketplace in the interim to ensure that GEL can maintain continuity of existing electricity production arrangements.

Under the terms of the Electricity (Guernsey) Law, 2001, the term “conveyance” covers the transportation of electricity from the generating station to the final substation. This is closely aligned to GEL’s high voltage (HV) network. The term “supply” encompasses Guernsey Electricity’s low voltage (LV) cabling that is provided between the final substation and the property receiving the electricity. In a small number of cases, supply

activities can also encompass elements of the HV network, as some customers are supplied with HV directly. The breakdown of GEL's current network is approximately one third HV and two thirds LV. Therefore, GEL's licensed "supply" activities extend beyond simply the retail arrangements it has in place for the sale of electricity to its customers: it also involves the provision and maintenance of the substantial proportion of the Island's electricity network.

An extension of Guernsey Electricity's exclusivity, for a relatively short period to allow a full review to take place, is the most straightforward method of delivering market stability in the short term. **Proposition 2a** therefore seeks to extend the exclusive conveyance and supply licences to Guernsey electricity until such time as the review is complete.

The updated Electricity Strategy will provide an opportunity to determine the future structure of the electricity market in Guernsey which is being brought forward by the Committee *for the* Environment & Infrastructure in accordance with the Energy Policy. It is anticipated that this Strategy will include recommendations on the establishment of a target for the generation of on-island renewable energy and, in doing so, identify the following:

- What arrangements can be put in place to facilitate more adoption of local renewable energy at both a micro and macro level;
- How the electricity market should be structured in future to support the development of the local renewable energy sector and, in particular, what changes might be made to the centralised model currently in place;
- How electricity tariffs might be adapted to incentivise the development and adoption of local renewable energy;
- What changes should be made to the "merit order" under which GEL is currently required to operate. The merit order ranks the electricity sources available to GEL for dispatch into the network and is based solely on their ascending order of price (such that the cheapest must always be dispatched first). Changes to the merit order could require a greater weighting or priority to be given to the dispatch of locally generated renewable electricity and would enable GEL to stimulate the market by entering into committed power purchase agreements with suppliers of such electricity.
- In considering the future market structures, the updated Electricity Strategy will provide an opportunity for the States to consider how the development of local renewable electricity can improve the Island's energy independence and how this relates to the States' current N-2 security of supply requirements under which GEL is currently required to operate.

Provision for the sale of renewable electricity is a key concern under the current market structure. The Energy Policy supports the use of locally produced renewable electricity and the Electricity Strategy will deliver greater detail around this. However, in the

interim it is important that the market is working in a way to enable renewable electricity to develop in Guernsey. Under the current market structure, it is possible to sell electricity to Guernsey Electricity for distribution through the grid.

Proposition 2b seeks to remove any potential conflict Guernsey Electricity may have by removing the company from the specific renewable energy marketplace and to provide clear guidance for the purchase of renewable electricity whilst promoting the purchase of local renewable electricity.

The direction to Guernsey Electricity would dovetail with Proposition 1 of the Policy letter, with part of the ongoing review of tariffs to include setting appropriate values for the purchase of local renewable electricity. It is anticipated this review would have the involvement of the States' Trading Supervisory Board and the Committee *for the Environment & Infrastructure* in addition to Guernsey Electricity.

By removing Guernsey Electricity from the tendering process, and only involving them should the market fail to deliver the desired outcomes of the Energy Policy, this amendment encourages competition, economic growth and sustainability through private investment. The electricity could then be purchased on the basis of a guaranteed power purchase agreement with Guernsey Electricity as the conveyor.

The inclusion of Guernsey Electricity as an installer of last resort, at the direction of the States Trading Supervisory Board, allows for flexibility should the marketplace be unable to deliver on the aims of the Energy Policy. In this instance direction could be given to Guernsey electricity to invest in a specific project, however it is not envisaged this would be likely during the time period outlined.

The propositions do not seek to change nor prevent behind-the-meter generation installations. It will still be possible to install and run behind-the-meter networks, an example being the on-site generator and local network at the Princess Elizabeth Hospital.

Proposition 2c seeks to facilitate the delivery of on island renewable energy by removing the requirement for Guernsey Electricity to purchase the least cost electricity where the electricity is sourced from an on island renewable sources. This electricity would be effectively "pre-committed" on the basis of a Power Purchase Agreement. Without the direction on dispatch Guernsey Electricity would still be required to dispatch least cost electricity first.

A relevant price is required to have an agreed acceptable cost to consumer for the purchase of local renewables compared to the average price of electricity.

Marginal cost is an established economic principle linking incremental cost to incremental quantities of production. This makes it applicable in concept to both flexible dispatchable generation, which has both incremental cost and incremental quantity

dimensions, and pre-committed electricity generation (includes contractually committed pre-purchased units or units generated by renewable energy schemes already committed in cost) which has an incremental quantity dimension but no incremental cost dimension. This means the cost of renewable electricity would have a zero-rated marginal cost, so an appropriate price is required.