

STATES OF JERSEY



ELECTRICITY TARIFFS: REGULATIONS UNDER ARTICLE 22 OF THE ELECTRICITY (JERSEY) LAW 1937

**Lodged au Greffe on 24th March 2009
by Senator A. Breckon**

STATES GREFFE

PROPOSITION

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

to request the Minister for Economic Development to exercise his powers under Article 35 of the Electricity (Jersey) Law 1937 to safeguard the public interest by bringing forward for approval without delay Regulations under Article 22 of the Law to determine the tariffs to be made by the Jersey Electricity Company in respect of electricity which it supplies at rates which are at a reduction of 20% reduction from the present tariffs, with the reduction to take effect no later than 1st July 2009.

SENATOR A. BRECKON

REPORT

To begin, I should declare an interest in that, along with Island residents, I am on the receiving end of the most recent 24% increase in electricity prices from January 2009; however, I should say that I am not bringing this Proposition out of personal interest.

I believe that there are a number of conflicts between the “Public interest” as represented by the States’ shareholding and the “general public interest” for the man and woman in the street.

States’ shareholding in Jersey Electricity Company

According to the Report and Accounts for 2008 –

62% of the ordinary share capital of the company is owned by the States of Jersey with the remaining 38% held by 300 shareholders via a full listing on the London Stock Exchange. Of the holders of listed shares there is one large institution, Utilico Ltd, which own just over 20% of the total ordinary share capital.

During the year the ordinary dividend paid was increased by 27% from £1.17 net of tax to £1.48. The proposed final dividend for 2008 at £1.12 is a 49% increase on last year.

Also from the 2008 Report and Accounts the following included –

Group Financial results

<i>Key Financial Information</i>	<i>2008</i>	<i>2007</i>	<i>% movement</i>
Turnover	£81.9m	£75.9m	8%
Profit before tax	£10.0m	£8.7m	14%
Profit in Energy business	£6.0m	£4.5m	33%
Earnings per share	£6.41	£4.94	30%
Dividends paid per share (net of tax)	£1.48	£1.17	27%
Dividend cover	4.3 times	4.2 times	3%

The Report and Accounts of the JEC are circulated to States Members and are publicly available.

It is the prices and, therefore, profit in the energy business that I wish to focus on because I do not believe that the general public interest is best served by maximising shareholder value and income from the latest price hike. The Jersey public are not benefiting in a transparent manner from the public investment.

Retail Price Index (RPI)

Because Jersey’s energy use is disproportionate towards electricity as compared with the United Kingdom where gas is more widely used, the effect of a 24% price increase will have significant impact on the RPI as it filters through into domestic economy and

inflation. No-one can or will escape – from small domestic users and businesses large and small. This increase will be passed on.

The real price increase/multiplier effect will become apparent as the year goes on across a range of goods and services; hairdressers, dry-cleaners, doctors and dentists' surgeries, as well as food outlets and shops and businesses of all size and description. They will increase prices to compensate for increased electricity costs, although some savings can be made by energy efficiency methods – alternatives are not available.

Immeasurable costs

The REAL cost to Jersey's economy of a 24% price increase in electricity has never been accurately measured. The reason I say that is that a perceived benefit to Jersey's Government as a return on a shareholding is offset by a very big downside with the effect the price increases have, and therefore I believe strategic intervention is required to exercise the weight of the shareholding for real public benefit by lower prices to Jersey consumers.

Although this may seem an extreme measure to some, I believe it is a timely intervention in a period of economic downturn and difficulty for many, and will demonstrate the Government's desire to take positive action while not interfering in the day-to-day operation of the company.

Those who wish to counter my proposal by pursuing technical and accounting arguments should refer to the JEC's year on year Reports and Accounts and make their case in a transparent manner which is understandable and not clouded by jargon.

Financial and manpower statement

There are no manpower implications. Financially, the effect is difficult to calculate, because the States of Jersey could benefit from the knock-on effect upon the Retail Price Index and of lower electricity prices.