P.2021/80

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY LIMITED – ANNUAL REPORT AND ACCOUNTS

The States are asked to decide:-

Whether, after consideration of the policy letter entitled 'Guernsey Electricity Limited – Annual Report and Accounts' dated 15 June, 2021, they are of the opinion:-

1. To note the Annual Report and Accounts of Guernsey Electricity Limited for the period ended 30th September 2020.

The above Proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1) of the Rules of Procedure of the States of Deliberation and their Committees.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY LIMITED – ANNUAL REPORT AND ACCOUNTS

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

15th June, 2021

Dear Sir

1 Executive Summary

1.1 The Annual Report and Accounts of Guernsey Electricity Limited (GEL) are hereby presented to the States.

2 Guernsey Electricity – Annual Report and Accounts

2.1 Under the terms of Section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, the States' Trading Supervisory Board (STSB) is required to submit GEL's Annual Report and Accounts to the States for their consideration.

2.2 GEL's Annual Report and Accounts for the period ended 30th September, 2020, are therefore appended to the policy letter.

2.3 As reported in the 2018/19 Annual Report and Accounts[1], the Board of GEL previously approved a change in the fiscal year end date for the company from 31 March to 30 September. The 2019/20 accounting 'year' is therefore a transitionary eighteen-month period from 1 April, 2019, to 30 September, 2020.

2.4 As a consequence of the above, the results for the 2019/20 financial period are not directly comparable with those of the previous twelve months.

[1] Billet d'Etat XXIV or 2019 – States' Trading Supervisory Board – Guernsey Electricity Limited – Annual Report and Accounts.

3 Compliance with Rule 4

3.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

3.2 In accordance with Rule 4(1), the Proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

3.3 In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the proposition above has the unanimous support of the Board.

3.4 In accordance with Rule 4(5), the Proposition relates to the duties of the STSB to carry out the States' role as shareholder of any incorporated companies which are owned by the States and which the States have resolved to include in the mandate of the Board.

Yours faithfully

P J Roffey
President

C N K Parkinson
Vice-President

N G Moakes
Member

S J Falla, M.B.E.
Non-States Member

J C Hollis
Non-States Member

Securing the energy transition

Report and financial statements
2019/20

Guernsey Electricity
Powering Life, Today & Tomorrow

Directors, officers and professional advisers

Directors:	IA Hardman	*(Non-Executive Chairperson)*
	AM Bates	*(Chief Executive Officer)*
	JPC Turner	*(Chief Financial Officer and Deputy Chief Executive Officer)*
	S–A David	*(Chief Operating Officer)*
	RP Lawrence	*(Non-Executive) retired by rotation on 15 September 2020*
	RJ Dutnall	*(Non-Executive) retired by rotation on 15 October 2019*
	GM Browning	*(Non-Executive)*
	P Shaefer	*(Non-Executive)*
	RL Denton	*(Non-Executive)*
	T Songini	*(Non-Executive) appointed on 15 September 2020*
	I Chapman	*(Non-Executive) appointed on 15 September 2020*

Secretary: SL Walden

Bankers:

Barclays Bank Plc
PO Box 41
Le Marchant House
St Peter Port
Guernsey, GY1 3BE

Royal Bank of Scotland International
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey, GY1 4BQ

HSBC Bank Plc
Arnold House
St Julian's Avenue
St Peter Port
Guernsey, GY1 3NF

Legal advisers:

Carey Olsen (Guernsey) LLP
PO Box 98
Carey House
Les Banques
St Peter Port
Guernsey, GY1 4BZ

Independent auditor:

Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey, GY1 4AF

Registered office:

PO Box 4
Electricity House
North Side
Vale
Guernsey, GY1 3AD

Company number: 38692

Contents

Board members

Ian Hardman

Non-Executive Chairperson

Ian became a Non-Executive Director of Guernsey Electricity Limited in 2011. He has a background in banking and, having joined Lloyds Bank in 1973, worked his way up to the position of Senior Islands Manager, responsible for the four retail branches in Guernsey and Alderney. He worked on the offshore merger of Lloyds Bank and TSB Bank Channel Islands in 1996 and was involved with the legal aspects of the takeover of HBOS by LTSB. Ian is an Associate of the Chartered Institute of Bankers and the Institute of Chartered Secretaries and Administrators.

Bob Lawrence – *retired by rotation on 15 September 2020*

Non-Executive Director

Bob is the former Chief Executive Officer of Jersey Telecom Limited and led it from a state-controlled entity into a private limited company that operates in a highly competitive market. He has extensive engineering knowledge as well as the experience of operating and managing within a regulated market similar to the Channel Islands and became a Non-Executive Director of Guernsey Electricity Limited in 2011.

Bob Dutnall – *retired by rotation on 15 October 2019*

Non-Executive Director

Bob is a qualified Chartered Accountant with substantial business and commercial experience. His senior management career has involved working for a number of different organisations, particularly in the engineering sector. In 2005 he joined Sportingbet Plc, a FTSE 250 internet gaming company, before moving in 2012 to take on a new part-time role as an Executive Director of betway.com, a privately-owned internet gaming group. Bob became a Non-Executive Director of Guernsey Electricity Limited in 2013.

Rick Denton

Non-Executive Director

Rick has 30 years' experience of leading UK and international subsidiaries of four major banking groups. Subsequently he became CEO of a specialist family office business, managing property developments and acquiring companies. Rick now leads his own consultancy and has a range of international Non-Executive Director positions. Locally he chairs the Guernsey Banking Deposit Compensation Scheme. He is a National Council Member for the Institute of Directors, representing the international branches. Rick holds an MBA with distinction from Warwick University; is an Associate of the Chartered Institute of Bankers; a Chartered Member of the Institute of Securities and Investments and a Member of the Society of Trust and Estate Practitioners. He has also recently achieved the Henley Certificate in Executive Coaching and the Institute of Directors' Diploma in Company Direction.

Peter Shaefer

Non-Executive Director

Peter has an honours degree in Geology and is a Chartered Accountant. He has substantial business and commercial experience, having held a number of senior positions in both energy and consumer products industries, including being a member of the Executive Committee of the US listed company Coty Inc. He currently holds a number of both Executive and Non-Executive Director positions, joining Guernsey Electricity Limited as a Non-Executive Director in 2018.

Gillian Browning

Non-Executive Director

Gillian was appointed as Non-Executive Director of Guernsey Electricity Limited in 2018, after participating on the NED Development Programme with the company since 2016. Gillian is also Director of the Investment, Fiduciary and Pension Division at the Guernsey Financial Services Commission (GFSC), a role that includes leading policy development, supervisory oversight, risk management and good corporate governance. Gillian joined the GFSC from the UK Financial Conduct Authority (FCA), and prior to that the Cabinet Office where she was a Minister's Private Secretary and Policy Officer. Gillian graduated from Exeter University where she read History and Politics.

Ian Chapman – *appointed on 15th September 2020*

Non-Executive Director

Ian is the CEO of the UK Atomic Energy Authority, the UK's largest energy research organisation with over 2000 scientists and engineers. He has held a number of international roles in fusion research, currently chairing the IAEA Fusion Research Committee, as well as sitting on a number of ministerial committees in the UK and advising other governments on clean energy issues. He has won a number of notable international awards, including the Royal Society Kavli Medal in 2019, the American Physical Society Stix Medal in 2017 and the Institute of Physics Paterson Medal in 2013. Ian was made a Fellow of the Institute of Physics in 2013 and became a visiting Professor at Durham University in 2015.

Tania Songini

Non-Executive Director

Tania worked for German engineering multinational company Siemens for over 18 years, including five years within its NW Europe Energy business, which focussed on the construction and installation of large-scale renewable energy and infrastructure projects. She currently sits on the boards of Thrive Renewables and the Private Development Infrastructure Group, London Energy and Oxford Policy Management, and has a comprehensive understanding of sustainable energy technologies and strong governance track record. Tania is the Chair of ViaNinos UK, a charity she established in the UK in 2009 that supports children in Ecuador.

Alan Bates
Chief Executive Officer

Alan became Managing Director (2010) then Chief Executive Officer (2015) having joined from Manx Gas, where he was Managing Director. He commenced his career with P&O Cruises as an Engineering Officer followed by 19 years in the oil and gas industry working for Mobil Oil/BP Oil and IEG. He has a degree in Electro Mechanical Power Engineering and an MBA in Executive Leadership. Alan is a Chartered Electrical Engineer (MIET), a Chartered Mechanical Engineer (FIMechE), has qualifications in risk and safety management (IIRSM) and is also a member of the Institute of Asset Managers. Alan is also a Director of CIEG.

Julian Turner
Chief Financial Officer and Deputy Chief Executive Officer

Julian joined Guernsey Electricity Limited as Chief Financial Officer in 2015. A Deloitte qualified Chartered Accountant with substantial commercial, compliance and process transformation experience, he has held a number of varied finance roles with regional responsibility including EMEA in large multinationals such as Procter & Gamble, Flowserve and GE. Julian has an MBA from Alliance Manchester Business School and is a designated CIA. He is also a Director of CIEG.

Sally-Ann David
Chief Operating Officer

Sally-Ann was appointed to the Board in 2011. She is a Chartered Electrical Engineer with over 30 years' experience in the power and submarine cable market. Sally-Ann is a fellow of the Institute of Electrical Engineers, has an MBA, and is a Chartered Director. She is also a Director of CIEG.

Chairperson's statement

We all take it for granted that we can turn on a light, have power for our fridge-freezer, television, laptops or mobile phones. Our 200 plus employees, who with the support of the shareholder, the States Trading Supervisory Board ("STSB"), are truly dedicated to powering Guernsey life today, as well as preparing to enable the decarbonised future for our island. Guernsey Electricity Limited ("Guernsey Electricity", "GEL", or the "company") is owned by the people of Guernsey, through the States of Guernsey. Islanders have every reason to be proud of the company and have confidence that we will continue to do what is right for our island and our community.

The responsibility for leading the energy transition for Guernsey Electricity continues to be a rewarding experience for the directors. There are many varied challenges presented in navigating the transition in Guernsey, which requires prudence to ensure the island continues to enjoy a reliable, secure and sustainable electricity supply, that remains affordable for all islanders.

More recently, COVID-19 impacted the business (and of course the island), with Guernsey Electricity recognising its vital critical infrastructure role, and the responsibility to maintain services during this extremely disrupted period.

Challenges and achievement

The replacement of the subsea cable was a major infrastructure project for the island and was delivered in record time. A project of this stature would normally take two to three years to complete, yet our team achieved this in just seven months and under budget.

The replacement of the cable dramatically reduced the financial and environmental impacts created by the limits on electricity import capacity on the unreliable existing cable.

I was a proud Chairperson standing at Havelet Bay when the cable came ashore. Having this reliable electricity supply remains vital for our lives and economy today, but also to deliver the island's carbon reduction targets and facilitate on-island renewable energy generation.

We are also delighted with the switch to all imported electricity now coming from renewable sources, such as hydro, wind and solar, ensuring all islanders are able to contribute towards the global climate change issue.

Therefore, securing a second connection remains an absolute priority.

By understanding our responsibility as a pivotal part of the energy transition, we can deliver the island's desire for locally generated renewable energy. We firmly believe in social equity and our community solar arrays ensure all islanders benefit equally. We now have large scale community solar systems at several locations around the island, enabling all customers to benefit from this technology in a fair way.

The future needs to be sustainable

Overall, the past 18 months have been a successful period for the company with many great achievements. But we now need to focus on the future, to ensure we are ready for the next 30 years and successfully play our role in enabling the island's Energy Policy to become a reality.

During this financial period we have redefined Guernsey Electricity's environmental vision and set out our strategy to achieve environmental sustainability. To reinforce this strategy, we released our 'Climate Change Statement' setting out our commitment to playing an active part in making a positive contribution to our island environment today and for the benefit of future generations.

We firmly believe in social equity and our community solar arrays ensure all islanders benefit equally.

Before I close, I would like to thank Peter Ferbrache, President of the STSB and his committee, both political and non-political, for their advice and support throughout the last 18 months. I look forward to working with the new President of the STSB, Peter Roffey, and his committee.


The NKT Victoria in Havelet Bay during the cable replacement operation

I would like to take this opportunity to thank Robert Dutnall and Robert Lawrence, who both stepped down as Non-Executive Directors during this financial period, for their significant contribution to the company and welcome two new Non-Executive Directors to the Board, these being Ian Chapman and Tania Songini who both bring a wealth of relevant experience to complement and add future value to the Board. I would also like to thank my fellow Directors, Company Secretary and colleagues at Guernsey Electricity for their continued hard work and contribution to the ongoing success of the company.

Ian Hardman
Chairperson

Chief Executive Officer's report

Overview

What has changed in the last 18 months? As I write the 2019/20 annual report the answer to that question seems to be – everything.

Even before the pandemic became the number one factor impacting every business, Guernsey Electricity was going through an extremely busy, challenging and at times turbulent period.

Despite this, the highlight of the period has to be the record-breaking pace of the subsea cable replacement project, which was nothing short of outstanding; procured, manufactured, installed and put into service in just seven months. The direct result of this decision is a reliable and affordable supply of low carbon sustainable electricity for the island. Indirectly, having reliability returned to the cable has allowed the business to plan its future capital investment programme with much greater confidence.

The replacement of the cable was combined with a move to 100% renewable energy importation, which immediately allowed the island to continue progress on its energy transition journey; a huge positive for our community.

Alongside the subsea cable replacement project, the company has over the 18-month period also been heavily involved in an Enterprise Resource Planning ("ERP") project to replace legacy IT systems, some of which, including our billing system, have been in place since the 1990's. This project has consumed significant levels of internal resource and remains a critical project to allow the business to plan for the future and be ready to provide a service to support the islands decarbonisation aspirations through the energy transition.

Policy Direction on Energy

Last year's report raised the point that the reliability and affordability of electricity today was set by company decisions made a quarter of a century ago. The Board of Guernsey Electricity is acutely aware of this and therefore how the business will be judged in terms of strategic investment decisions for the future. These decisions on assets which span many decades of service, need to be based on a clear policy direction in terms of the island's future energy needs, and these directions need to remain in the long-term best interest of electricity customers.

For this reason, Guernsey Electricity has consistently raised the need to update the island's energy policy. The 2012 'Energy Resource Plan' had become outdated by virtue of the pace of change of the energy transition. The island's energy market and the development of new technology were not waiting for policy, which started to create further unnecessary disruption in the island energy market. Obvious questions in terms of subsidies for electric vehicles and planning policy for local renewables became just two of the matters that needed a clear directive for the island.

The approval of a new Energy Policy in June 2020 has allowed that planning process to commence. The policy is quite naturally a foundation document which will allow different workstreams to develop much more detailed policy direction aligned to the rapidly changing technology. This will ensure our market direction remains aligned to the overarching energy policy and the island's climate change aspirations.

It is extremely important to now clearly articulate what the journey looks like. Some of the first policy directions will need to set out the desired market structure and then how the costs within that market are fairly recovered.

Local renewable resources

To create a clear pathway for the energy transition journey, an early decision needs to be made on where and how the island wants energy to be generated. Understandably, there is a desire to utilise the natural resources around the island. We have plentiful sun, wind and tidal resources which we must factor into our decisions on a local renewables target.

This decision must also take into account how technology can harness these resources affordably. But also how we can cover off the intermittency of local renewable generation with energy storage, and how we create security so when those resources are not available we have a secure and affordable resource to provide the island's energy needs. Our fortunate geography and ability to be connected to the European grid provides this provision at an affordable cost to consumers.

This is not an easy equation to develop and solve for a small jurisdiction.

Marketing content from the "Renewables for All" campaign announcing the switch to renewables

The PV array at Envoy House, part of Guernsey Electricity's portfolio of community PV arrays which feed into the network

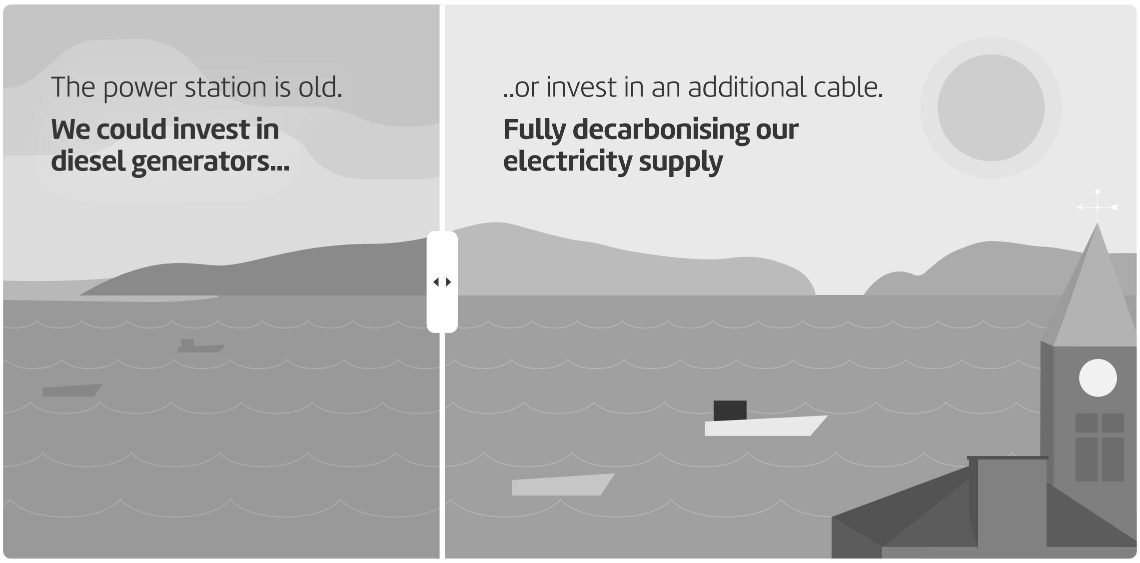
Any direction set must remain agile and adaptable to changes in the journey created by outside influence. It will also need to be pragmatic and ultimately understand that the speed of progress will need to be aligned to our ability, as a small island, to pay.

Energy security for locally generated renewables

There is clearly a need for significant capital investment to start the energy transition journey. A direct subsea cable connection to France to provide security of our low carbon electricity supply will almost double the size of Guernsey Electricity from a balance sheet perspective. But without this second connection we cannot securely cover off the intermittency of local renewables using low carbon energy. The cover without the second connection would remain the hydrocarbon power station.

If this was the case, then for the power station to be reliable in this security role we would need to spend almost the equivalent amount of money of the direct cable to France, on replacing the old generation engines at the power station.

Some may think this is a credible option, as whilst the power station may be a hydrocarbon sourced back-up, it does give us independence from the European electricity grid. To some degree this is correct.



The island needs to invest to support the energy transitions. There is no "do nothing" option

However, the current power station electricity generators require imported fuel to operate and this is potentially likely to suffer a greater degree of supply chain disruptions as the world uses less and less hydrocarbon for energy.

Therefore, Guernsey Electricity continues to recommend the direct cable to France as the optimal solution to provide security and reliability of electricity supply. This facilitates the adoption of local renewable technology by providing a low carbon and sustainable resource, and displaces the current top-up role of the power station.

As with the journey for local renewables, the only matter to be considered and addressed in terms of this investment is again, who pays and when. This is a matter Guernsey Electricity will bring back to the States of Guernsey through its shareholder, the States Trading Supervisory Board "STSB"), in 2021.

The role of Guernsey Electricity

Notwithstanding this complexity around planning for the energy transition journey, Guernsey is in an extremely fortunate position whereby the key asset to facilitate that pragmatic and sustainable route remains in State ownership. This gives the States of Guernsey complete control in ensuring policy coherence is achieved. In this regard, the purpose of Guernsey Electricity as an entity in relation to energy transition, economic stability and social policy needs to be carefully considered to ensure well informed decisions are made in terms of the future business role of the company.

Guernsey Electricity as a State-owned entity continues to understand that it has a direct responsibility to assist in leading the energy transition for the island. This includes creating an understanding of how the transition pathway can be delivered in an affordable and fair way for all in our community.

The energy transition does create some risks for our small jurisdiction, but these are far outweighed by the opportunities for Guernsey to strategically manage the journey and create real value for the community, our economy and our island environment.

However, to set off on the journey with a complete understanding on how much it will cost we must now fix our legacy issues, so we are in the most favourable position to manage the energy transition whilst preserving and enhancing our environment for the future of our island.

Transparency on the recovery of costs

Guernsey Electricity continues to promote a community focused approach to delivering the energy transition, where all islanders benefit in a fair and equitable way. To do this the understanding of how future energy transition costs are going to be created and reflected into the energy market will be absolutely key in deciding how those costs are then recovered from customers. Aligned to the desire for local renewables and the need for a secure supply of energy we need to be clear on who pays and when – both today and in the future.

However, at this time, Guernsey Electricity continues to be the custodians of the "broken" electricity market model. Decades of regulatory dysfunction has resulted in an under recovery of costs and misleading tariff structures not aligned to the delivery of the energy transition. This means future generations will be picking up the costs of past electricity consumers, and today's customers will potentially be making misinformed investment decisions based on the consequence of offsetting their fair share of fixed cost recovery. We must fix this for the benefit of islanders and the environment

What has created this "broken" model? The energy transition and policies to achieve decarbonisation has seen greater adoption of new technologies, such as solar PV and battery storage offering consumers the opportunity to self-generate and store energy for their own use. The adoption of these technologies will allow customers to lead their own energy transition. However, the consequence of this needs to be managed in terms of maintaining security of electricity supply. The electricity industry, whilst supporting these technologies, is aware that this leads to a reduction in electricity consumption without a corresponding decrease in maximum demand.

Indeed, as the energy transition progresses the increase in the number of electricity customers and electricity appliances, such as electric heating and electric vehicles, will in fact continue to disproportionately increase the maximum demand.

The consequence of this increasing demand is that the capacity and security of the electricity network has to be increased so as to be able to meet that maximum demand, even if that capacity is not being used all of the time. Therefore, for Guernsey Electricity it is the maximum demand which is the factor which drives capital investment to maintain capacity and to ensure security of electricity supply and it is this investment which creates the fixed costs that need to be recovered.

Unfortunately, Guernsey Electricity's existing tariff structures have not significantly changed since 1993 and are not appropriate for the necessary effective recovery of these fixed costs. Currently a variable consumption charge (to cover the actual consumption of electricity by customers) recovers over 90% of costs with the remainder being through standing and demand charges (to cover infrastructure investment costs which are driven by the electricity demand on the network). The level of fixed costs created by infrastructure investment to meet the maximum demand represents significantly more than the 10% recovered.

The Board of Directors is extremely concerned about this growing divergence between fixed costs to provide for an increased demand and a resilient and secure network and the variable cost recovery associated with decreasing/static level of electricity consumption.

Under the existing tariff structure this has the very real risk of disrupting the recovery of fixed costs to pay for future investments in infrastructure.

Guernsey Electricity therefore believes complete transparency needs to be provided to all customers on the costs to provide a reliable and secure electricity infrastructure for the island. By doing this, customers can make informed investment decisions by understanding how much electricity as a commodity actually costs from the different generation sources. This transparency will enable us, as a community, to focus on how we can best achieve our environmental and economic expectations affordably.

Guernsey Electricity continues to support the implementation of a smoother tariff evolution model which promotes customers making behavioural and appliance changes to manage any cost changes.

Regulatory environment challenges

To achieve the island's energy transition, there now needs to be clear direction given on what form of regulation, if any, the future energy market may need and whether another form of market oversight may give greater value to the island and energy customers.

Guernsey Electricity has for many years openly stated that in our opinion, the current regulation of the electricity sector adds little value and imposes additional unacceptable cost and time burden on a company 100% owned by the States of Guernsey. The Board has also conveyed its continued concerns at the length of time the dysfunctional regulatory environment has been allowed to be in place.

On this basis, Guernsey Electricity supports the intention to align future market licencing to energy policy direction. A clear view needs to be provided, as soon as possible, to allow the market to continue investment planning. It also remains critical that, in conjunction with the market structure direction, the work to ascertain how costs should be recovered is carried out as soon as possible to allow a transparent and understandable tariff evolution to be presented to customers.

Financial and Operational performance

As reported in last year's financial statements, the Board of Guernsey Electricity approved a change in fiscal date from 31 March to 30 September. This accounting period is therefore a transitionary 18-month period from 1 April 2019 to 30 September 2020. Consequently, this financial period's results are not directly comparable with the results of the previous 12-month period.

The unexpected replacement of the existing cable forced us to bring forward the planned investment in the subsea cable by over 10 years. As a result, the business has also brought forward an inevitable financial consequence of continuing to operate within an environment of long-term lack of appropriate revenue control. Without any revenue control, created by the continuing regulatory environment which is not fit for purpose, the business has been unable to consistently build its financial reserves to fund such projects.

Inevitably, this has created the need to take on more debt to fund the asset replacement programme to ensure a reliable and secure supply of electricity to customers. Fortunately, our dependable underlying EBITDA earning capability continues to ensure we can provide affordable electricity to our customers today.

However, the inability to make an appropriate level of return on our asset base has now started to challenge sustainable capital investment on much needed new and replacement assets. This untenable position has required the business to again review its cost structures to maintain compliance with these financial constraints.

Whilst this is an appropriate and pragmatic approach in the near-term, it is incompatible when considering the island's economic recovery from the pandemic and the residents' natural desire to progress the energy transition to meet our climate aspirations.

The Board of Guernsey Electricity is working closely with the STSB, as shareholder, to ensure the issues constraining the company are fully identified and considered. They must be resolved as soon as reasonably possible.

The financial performance and level of business profitability therefore continues to be significantly below the level required to continue to fund the island's electricity infrastructure. This remains a significant issue as we plan for future capital investments.

During this 18-month financial period we have reinvested £32.7m of cash back into our business activities, whilst only being able to recover uncontrollable costs through tariff increases. This level of investment was below the planned level of underlying planned replacement capital investment when adjusted for the cable project.

The reported operating loss before pension settlement gains was £9.0m (31 March 2019: operating loss £7.8m). The complete cable failure in October 2018 and the consequential restricted ability to import electricity has by far been the largest impact on financial performance in both 2019 and 2020. The additional generation on-island for the financial period has cost £3.4m (31 March 2019: £6.5m).

Weakening of the £:€ exchange rate continues to increase the cost of importation year on year. We continue to manage the risk arising from this exposure through our foreign exchange hedging programme.

Despite the impacts of COVID-19, the 2018 cable failure, delayed tariff increase and the foreign exchange headwinds, on an adjusted basis the underlying business performance is profitable and is reflective of the continued strong execution of business transformation initiatives and bold decision making for the long-term benefit of the company.

In terms of financial performance, the returns from the business are considered on a three-year rolling average basis. This allows the Board to assess the underlying financial dynamics created by weather, the wholesale markets and the required changes that may be required to tariff levels.

The Board is, however, mindful of the continuing cost pressures on the business, particularly accentuated by the impact of Brexit on our foreign exchange costs.

The Guernsey Competition and Regulatory Authority ("GCRA") approved uncontrollable cost recoveries of 6.8% and 4.8%, effective from 1 July 2019 and 1 September 2020 respectively, applying this to tariffs across the board for three years to cover historic increases in foreign exchange and commodity costs.

This rise will enable Guernsey Electricity to recover the last three years costs created by increases in external costs to import electricity and generate on-island. The increase associated with these historic changes in the price of commodities and foreign exchange rates do not recover other costs which have increased, or the need to maintain or replace assets. These are the first changes in electricity tariffs since 2012.

The agreement and implementation of a forward-looking agreed tariff model is now pressing, particularly in the light of significant future capital spend which will need to be properly funded and recovered. Additionally, a debt restructure is being explored to optimise the mix of debt and equity to ensure the secure funding of the business in order to deliver on its significant 10-year planned capital programme.

The company continues to benefit from a strong asset base with the statement of financial position with our non-current asset base of £150.8m, the largest changes being the completion of our investment in our subsea cable network and our ERP replacement business system. The net cash inflow for the period is largely attributable to net drawdowns on credit facilities of £21.6m. At the period-end, we had net debt of £38.7m compared to £13.6m at the last period. This comprised £43.6m loans and closing cash balances of £4.9m; these amounts include balances held with the States of Guernsey of £23,000 (31 March 2019: £7.3m).

Shareholder's funds have reduced by £14.5m, from £108.1m to £93.6m. This was primarily the result of the actuarial loss in the pension scheme, net of the movement in deferred tax relating to the pension deficit of £8.2m together with the additional costs of on-island generation of £3.4m associated with the cable link failure.

One of the key operational performance metrics for Guernsey Electricity is the level of importation of electricity from France and the associated carbon intensity of the business. The level of import capacity has been increasing due to investment in the Channel Islands Electricity Grid ("CIEG") with importation being the preferred source based on both economic and environmental factors. Whilst additional import capacity had been gained the cable reliability issues in 2015 and 2018 resulted in the inability to utilise the full importation capability. The importation levels are given in the table below.

We report our greenhouse gas emissions annually in accordance with international accounting tool, the GHG Protocol, and the UK Government's 'Environmental Reporting Guidelines'.

Our methodology and reporting process is validated annually by external greenhouse gas reporting specialists. In 2020, we changed our greenhouse gas reporting to a calendar year basis from 1 January to 31 December (previously 1 April to 31 March). This helps us to align our GHG emissions calculations with the data that we receive from our suppliers of imported electricity.

Our strategic importation plan remains for imports to meet or exceed 85% of our island electricity demand. The current import capacity is facilitated through our investments in the CIEG. Importation is limited by the capacity of the Guernsey to Jersey based assets with a calculated maximum import level of well over 90% of the island's electricity annual demand possible if required. From the 1 January 2020 all imported electricity is from renewable resources guaranteed through certificates of origin.

Over the rolling 18-month period 1 April 2019 to 30 September 2020, we have seen a 7.1% decrease in electricity usage by our customers. Adjusting for the weather, and the impact of COVID-19, we believe that the underlying demand will continue the downward trajectory of previous years, which is mainly reflecting energy efficiency improvements in our customer base. However, we are starting to see some growth from the decarbonisation of transport and heat.

In terms of our service to our customers, I am pleased to report a significant improvement in supply reliability with customers, both domestic and commercial, experiencing 53.7 minutes loss of supply on average for the 18-month financial period compared to 66.81 minutes lost during the previous 12-month financial year. This level of average minutes lost includes an island-wide loss of electricity incident on 2 September 2019 associated with on-island generation during the replacement of the subsea cable. Without this single event the figure for the period would have been 34.50 minutes, which aligns to the previous trend in reliability improvement.

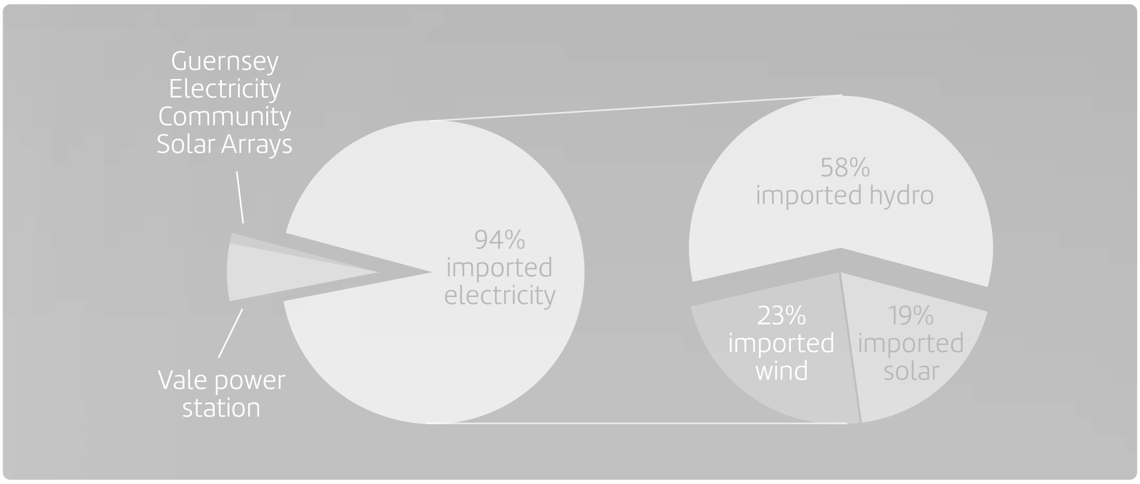
Pensions

The company is part of the States of Guernsey Pension Scheme and we are continually assessing the funding risks that come with membership. To this end we closed our Career Average Revalued Earnings ("CARE") to new members in 2017. As a continuance of this risk mitigation strategy the company transferred the pension liabilities of all retired and deferred members as at 30 June 2018 to the States of Guernsey Combined Pool. The Board understands the liability created by the older schemes and keeps the affordability of these under review.

Electricity Usage and Generation summary

Calendar Year	On-Island Generation MWh		Importation MWh					Total Distributed MWh	Intensity of Distributed Electricity gCO2equiv./kWh
	Vale Power Station	Community PV	Hydro	Nuclear	Wind	Solar	% Imported		
2017	50,733	–	119,402	196,062	–	–	86%	332,264	120
2018	105,444	110	106,993	160,416	–	–	72%	354,023	112
2019	199,139	123	112,980	64,151	–	–	47%	342,647	410
2020	22,783	369	200,942	–	81,430	64,328	94%	331,899	68

Import percentages



During 2020 all imported electricity bought in Europe was from renewable sources and is broken down in the above diagram by source type.

Health, safety and environmental performance

Nothing is more important than the safety of our employees, contractors and customers.

In May 2019, a 1,000,000 hours milestone was achieved without a "lost time injury" to employees. This is testament to the focus from the business over recent years where we have conducted a full review of our health and safety arrangements and rolled out a new Health, Safety and Environment ("HSE") management system aligned to ISO standards. It is a systematic, explicit and comprehensive process for managing safety risks befitting a modern organisation.

As a business we firmly believe that delivery of effective health, safety and environmental management systems makes not only sound business sense but ensures that our moral and legal obligations are met and are at the core of our operation for now and into the future.

We have invested our time in ensuring our HSE performance exceeds expectations and encourage all our colleagues to be involved in sound health, safety and environmental practice and management.

Community highlights

Playing an active part in the community is extremely important to Guernsey Electricity. All Guernsey residents are our customers, as are all of our employees. Supporting our community, whether that be financial or with our teams' skills is a key part of what we stand for.

We again sponsored the Safety Calling initiative, which teaches Year Six students how to handle an emergency situation and gives them a chance to make a 999 call to the emergency services.

In September 2019, a group of employees took part in the annual Beachwatch campaign at Bordeaux beach and Banque Imbert beach as part of the nationwide initiative. At Guernsey Electricity we feel it's important to look after our island and so do our employees, which is why we get involved with the coastal clean-up every year.

Last winter, we also supported the annual Be Safe Be Seen Campaign with local radio station Island FM.

To celebrate the switch to importing 100% renewable energy earlier in the period, Guernsey Electricity distributed over 2,000 packets of seeds of wildflower species through the 'hedge veg' stalls of its employees' homes dotted around the island.

Seeds of Change was a fun way of helping islanders reconnect with nature and make a difference to the wildlife in their gardens during the 'lockdown'.

Seeds were distributed to the public to celebrate "Renewables for All"

We also supported a local initiative which encouraged islanders during the month of September 2020 to 30 days of 30 ways to enjoy living more sustainably. The challenges include changes to grocery shopping, tips to use less energy, and opting to walk, cycle or taking the bus instead of a usual car journey.

As part of its commitment to building a strong community, Guernsey Electricity supported the new Guernsey festival of food, drink and artisanal crafts – 'Eat Drink & Be Local' – during the summer 2019.

We partnered with Guernsey Post to run an Eco-Schools Challenge to encourage local school children to consider how their schools could become more sustainable. Teams were tasked with putting forward creative ideas, plans of action and drawings or models.

'Be Safe Be Seen' public education campaign delivered in partnership with Island Fm

Winners of 2020s EcoSchools Challenge

Sustainability a public campaign to help the public reduce their personal environmental impact

2020 EcoSchools Challenge

Guernsey Electricity employees outside Electricity House and in the Power Station

Guernsey Electricity Employees in C station for the internal announcement on the switch of imported electricity to renewables

The team

This financial period has been extremely challenging for the team at Guernsey Electricity. The replacement of the subsea cable was a significant achievement. This success is made possible by not just the project team but also the wider business that supports our activities.

Of particular note were the significant efforts required by the power station and network teams to ensure our electricity supplies remained reliable. I would like to thank all of my colleagues who have engaged with and taken the company forward to deliver these outstanding contributions to the organisation and our community. Our employees remain dedicated to providing a high level of service to our customers and continue to deal with the future challenges we face, whilst striving to improve what we do today.

I continue to appreciate how all Guernsey Electricity employees operate professionally every day, remain loyal and committed to the company and bring our values to life through their behaviours and work.

I would also like to record recognition of the key role the Board and our shareholder, the STSB, has played in providing significant guidance whilst dealing with the challenges faced by the company over what continues to be a demanding period.

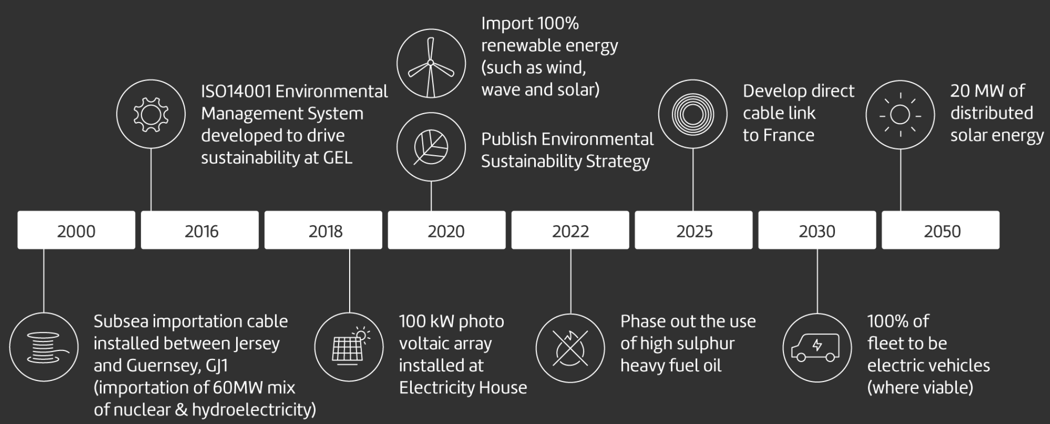
Environmental sustainability

Events over the last 18 months have brought into sharp focus the challenging yet exciting times ahead for Guernsey Electricity as we strive to balance environmental sustainability with the delivery of a safe, stable, value-for-money energy supply.

For the first time ever, the World Economic Forum's annual risk report has placed environmental related issues – including climate change, biodiversity loss and extreme weather events – top of the risk agenda; the United Nations has advised that "unprecedented changes are needed to reduce greenhouse gas emissions, requiring serious effort at every level of society".

Locally, the States of Guernsey has released the long-awaited Energy Policy, a Climate Change Policy and a revised Strategy for Nature for Guernsey, all signalling the need for businesses to take action.

Since the last reporting period, Guernsey Electricity has responded to these external drivers with the release of a 'Climate Change Statement' which highlights our commitment to support the energy sector in taking the lead in creating a more sustainable world in which to live and at the same time help tackle climate change. In parallel, we have reviewed and increased the ambition of our Environmental Sustainability Strategy and supporting objectives for 2020 – 2025; placing environmental sustainability firmly at the heart of the business.



We will also:

- Explore all opportunities across all business activities and resources to encourage and drive environmental sustainability performance improvements and initiatives that benefit our community, the island and our climate.
- Quantify the environmental performance of Guernsey Electricity-owned assets and business activities within Guernsey Electricity-owned site boundaries.
- Achieve a phased transition from heavy fuel oil to a product less damaging to the environment and which aligns with the strategic investment strategy for the business.
- Explore and develop a business case for carbon offsetting and route to carbon neutrality.
- Develop a corporate social responsibility (CSR) programme that prioritises ways to promote energy efficiency and the environment within our island community.

GEL's glidepath to supporting the energy transition

Climate Change Statement

Our revised Environmental Sustainability Strategy presents how Guernsey Electricity intends to deliver on the Climate Change Statement across the business and includes the following targets designed to help shape our environmental journey:

- achieve ISO14001 Environmental Management System ("EMS") Certification;
- develop a Guernsey Electricity carbon reduction action plan and glidepath to align with the targets set within the Climate Change Policy;
- phase out carbon emissions from on-island generation.

Guernsey Electricity's carbon reduction journey started in 2000 with the installation of the subsea cable between Jersey and Guernsey, GJ1, which enabled 60MW of our 89MW maximum demand to then be imported. This greatly reduced the amount of energy that was generated on-island using fossil fuels and enabled Guernsey Electricity to select what type of energy was allocated from the French grid to supply to our customers.

In January 2020, Guernsey Electricity took the next step towards transitioning the island to a greener future by changing the type of energy allocation we source from France, previously a mix of nuclear and hydro, to 100% renewable energy such as solar, wind and hydro-electricity.

The next step along our environmental sustainability path over the next reporting period shall be to achieve certification of our (currently aligned) ISO14001 EMS. Putting in place an externally validated EMS will give us the assurance that we have in place the best system we can to drive environmental sustainability performance improvements and initiatives across the business which shall in turn benefit our community, the island and our climate.

Guernsey Electricity's Climate Change statement which was published in the Environmental Sustainability Strategy alongside the switch to imported renewable energy

NKT Victoria the vessel used to replace the GJ1 cable


NKT Victoria at sunrise in Havelet Bay


On board the NKT Victoria when the cable laying operation is underway


The cable being loaded onto the NKT Victoria in Sweden

GJ1 replacement project

Following another failure of our subsea cable in 2018, GJ1, that connects us directly to the European grid via Jersey, we were met with significant operational, financial, and environmental challenges when further inherent faults within the cable were discovered.

This resulted in an inability to operate the cable above 25% of its designed capacity, compromising reliability and security of supply. The shortfall in electricity demand had to be generated at the power station, which brought an additional generation cost of circa £10m and produced an associated 216,000 tonnes of carbon dioxide.

Following the repair in October 2018 (and the two previous repairs in 2012 and 2014) and considering the impact of ongoing reduced import capacity, replacing the subsea section was concluded to be the only option available to provide a reliable solution. Therefore, in early 2019, the replacement project was initiated.

Contracts were signed in March 2019 to secure a manufacturing slot and installation for that calendar year.

The project presented complex challenges, including weather and tidal conditions, but thanks to the hard work of all teams at Guernsey Electricity, our main subcontractors and the cable manufacturer NKT, the replacement was installed and in operation by autumn 2019. Importantly, this was completed in time to provide a reliable energy supply over the 2019-2020 winter period.

We are proud to have completed the replacement of the cable in such a short timeframe, allowing Guernsey to return to importing more than 90% of its electricity from sustainable sources and for the power station to return to its back-up role.

The support we received for the project from local stakeholders and the general public in both Guernsey and Jersey was greatly appreciated.

The failure of GJ1 reinforces the importance of securing a diverse and sustainable supply of electricity for Guernsey and reducing our reliance on fossil fuels through our on-island generation option.

Directors' report

The directors present their report and the audited financial statements for the 18-month period ended 30 September 2020. These comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, the cash flow statement and notes to the financial statements set out on pages 33 to 65.

Incorporation

Guernsey Electricity Limited (the "company") was incorporated on 24 August 2001.

Principal activities

The principal activities of the company are the generation, importation and distribution of electricity and the sale of associated goods and services.

Dividend

No dividend was paid during the period (31 March 2019: £nil paid), representing £nil per share (31 March 2019: £nil per share paid). The company will not be proposing a dividend at the 2021 Annual General Meeting (2019: £nil proposed).

Customers

The number of customers as at 30 September 2020 is 30,859 (31 March 2019: 30,678).

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 74% (31 March 2019: 55%) of the island's electricity needs in the 18-month period ended 30 September 2020 and 26% (31 March 2019: 45%) was generated on the island, as shown by the units analysis below:

	30 Sept 2020	31 Mar 2019
Units imported MWh	**394,069**	203,968
Units generated MWh	**137,809**	165,043
Total units imported/generated MWh	**531,878**	369,011

Average price

The average price per kWh sold in the period ended 30 September 2020 was 15.10 pence (31 March 2019: 14.54 pence).

Reliability

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power outages can be caused by failures of generators, the distribution network or the cable link. In the 18-month period ended 30 September 2020, customers lost 21.51 minutes due to generation/importation activity (31 March 2019: 31.68 minutes) and 32.19 minutes were lost per customer in respect of distribution (31 March 2019: 35.13 minutes).

Directors and their interests

The directors of the company, who served during the period and to date, are as detailed on page 2.
The directors have no beneficial interests in the shares of the company.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Ernst & Young LLP (EY) have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors.

IA Hardman

Director

AM Bates

Director

20 April 2021

Corporate governance

As a Board we take corporate governance very seriously. We make significant investments in our governance and compliance systems and the training of our people to ensure these systems are running effectively.

Guernsey Electricity's corporate governance arrangements are based on the proportionate and relevant application of good practice.

The Board

The Board's role is to provide entrepreneurial leadership of the company within a prudent framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the company, to deliver the company's values and standards and takes decisions objectively in the interests of the company, its shareholders and other stakeholders.

Division of responsibilities

Chairperson

Ian Hardman, the Chairperson, is responsible for the running of the Board and spends on average 1.5 days per week in his role. The Board consider that he has no other external directorships which make conflicting demands on his time as Chairperson. Gillian Browning is the Deputy Chairperson appointed by the Board.

Chief Executive

Alan Bates is the Chief Executive Officer and is responsible for running the company's business and is head of the Executive Leadership Team ("ELT").

Executive Directors

The Chief Financial Officer and Deputy Chief Executive Officer, Julian Turner and Chief Operating Officer, Sally-Ann David are the other two Executive Directors on the Board and ensure the company's financial and operational objectives are delivered and the governance and compliance systems are working effectively.

Non-Executive Directors

Non-Executive Directors help to develop and challenge the company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for Executive Directors.

The Shareholder

Guernsey Electricity Limited is 100% owned by the States of Guernsey, through the States Trading and Supervisory Board. There is a Memorandum of Understanding between the shareholder and the company setting out matters which can be dealt with by the company and those which should be referred back to it together with inclusion of the shareholder expectations in respect of corporate governance.

How the Board operates

Board balance and independence

Throughout the financial period the company has had a balance of independent Non-Executive Directors on the Board who ensure that no one person has disproportionate influence. There are currently six Non-Executive Directors and three Executive Directors on the Board.

All of the Non-Executive Directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

Robert Dutnall and Robert Lawrence retired from the Board on 15 October 2019 and 15 September 2020 respectively. Ian Chapman and Tania Songini both joined the Board on 15 September 2020.

Information and professional development

For each scheduled Board meeting the Chairperson and the Company Secretary ensure that the directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled Board meeting, the directors receive the prior month and cumulative company financial and operating information.

All newly appointed directors participate in an internal induction programme that introduces the director to the company and key stakeholders.

The Company Secretary, who is appointed by the Board is responsible for facilitating compliance with Board procedures. This includes recording any concerns relating to the running of the company or proposed actions arising there from, that are expressed by a director in a Board meeting. The Company Secretary is also Secretary to all of the Board's Sub-Committees.

Board meetings and attendance

Attendance during the financial period for Board meetings is given in the table below:

Director	Meetings attended	Total meetings held
IA Hardman	8	8
AM Bates	8	8
JPC Turner	8	8
S-A David	8	8
RP Lawrence (retired by rotation 15 September 2020)	7	7
RJ Dutnall (retired by rotation 15 October 2019)	3	3
RL Denton	8	8
GM Browning	8	8
P Shaefer	8	8
I Chapman (appointed 15 September 2020)	1	1
T Songini (appointed 15 September 2020)	1	1

Board strategy

The Board meets once a year for the Board Strategy Day, attended by the ELT and other senior employees to agree strategic priorities for the next three years and to provide direction on key issues to the ELT. The Board also meets annually for the Board Risk Review Session. The company's top strategic risks and annual risk actions, as proposed by the ELT are reviewed and approved by the Board, thereby setting the company's risk management strategy for the year.

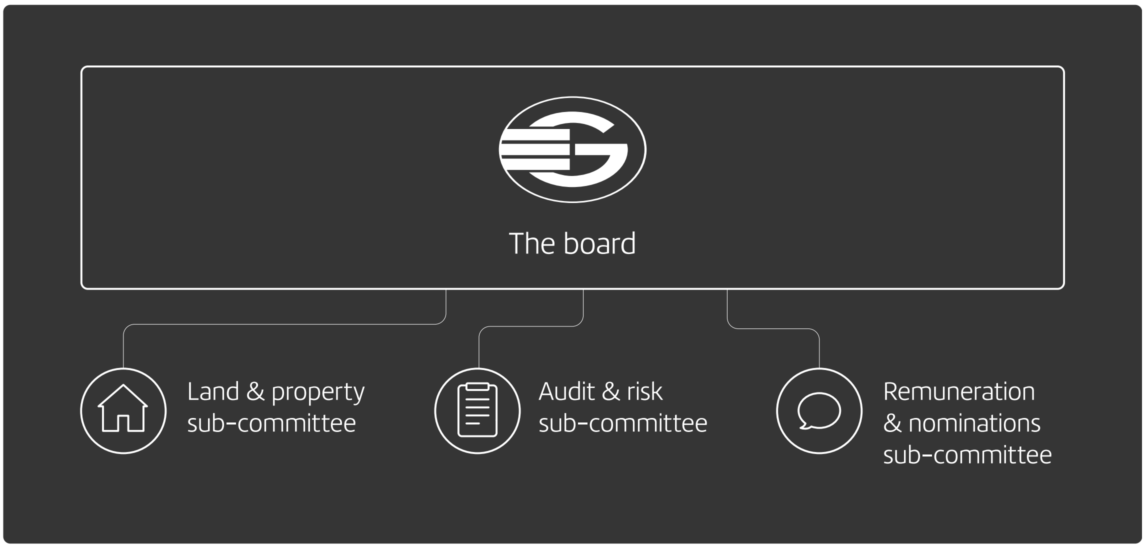
Key areas of focus for the Board

The principle areas of strategic focus and development agreed by the Board and monitored throughout the financial period were:

- Guernsey to France interconnector cable (GF1)
- Network investment programme and funding
- Enterprise Resource Planning ("ERP") system
- Regulatory framework

How we are governed

In addition to regular scheduled Board meetings, the Board has delegated some of its governance responsibilities to various Sub-Committees. Each of the committees has Terms of Reference agreed by the Board.



Remuneration & Nominations Sub-Committee

The Remuneration & Nominations Sub-Committee, which is chaired by Gillian Browning, consists solely of a minimum of two Non-Executive Directors. The purpose of the Remuneration & Nominations Sub-Committee is to assist the Board in the effective discharge of its responsibilities for the remuneration and other employment conditions of Executive Directors and senior management and to act as a Nominations Sub-Committee as the need arises.

No director is permitted to be involved in deciding the amount of his or her own remuneration. The Remuneration & Nominations Sub-Committee considers that the policy and procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of the shareholder.

There were eight Remuneration & Nominations Sub-Committee meetings held in the financial period.

The membership of this Sub-Committee during the financial period was as follows.

Chairperson:	GM Browning (from 26 November 2019)
	RP Lawrence (until 26 November 2019)
Members:	IA Hardman
	GM Browning (until 26 November 2019)
	RP Lawrence (from 26 November 2019 until 15 September 2020)

Audit & Risk Sub-Committee

The purpose of the Audit & Risk Sub-Committee is to assist the Board of Directors of Guernsey Electricity Limited in the effective discharge of the Board's responsibilities for risk management, financial reporting and internal control in order to ensure high standards of probity and good corporate governance. In doing so, the Audit & Risk Sub-Committee is required to act independently of the executive and seek to safeguard the interest of the company shareholder.

Whilst the Sub-Committee has no executive powers, it has wide ranging terms of reference and reports to the Board on a regular basis.

The Audit & Risk Sub-Committee members comprise Non-Executive Directors. Rick Denton is the Chairperson of the Audit & Risk Sub-Committee and the Board is satisfied that the Sub-Committee has through its membership, access to recent and relevant experience to enable the duties of the Sub-Committee to be fully discharged.

There were nine Audit & Risk Sub-Committee meetings in the financial period, all attended by the company's Head of Risk & Compliance, Rob Winter and attendance at one meeting by representatives from RSM UK, the company's main external provider of business assurance and internal audit services.

The membership of this Sub-Committee during the financial period was as follows:

Chairperson:	RL Denton (from 5 November 2019)
	RJ Dutnall (until 15 October 2019)
Members:	IA Hardman (until 1 May 2019)
	RL Denton (until 5 November 2019)
	RP Lawrence (from 26 November 2019 until 15 September 2020)
	P Shaefer

Land & Property Sub-Committee

Julian Turner is the Chairperson of the Land & Property Sub-Committee. The main terms of reference for this Committee are to review and approve all routine property transactions undertaken by the company up to a limit set by the Board and to undertake such other tasks relating to land and property as directed by the Board. This Sub-Committee comprises the Chairperson of the Board together with all of the Executive Directors. There were eleven Land & Property Sub-Committee meetings held in the financial period.

Relations with the shareholder

The company's issued share capital is wholly owned by the States of Guernsey. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, provided for the States of Guernsey Advisory & Finance Committee (subsequently the Treasury & Resources Department) to undertake, on behalf of the States, the role of shareholder representative.

Following the re-organisation of the States of Guernsey and the introduction of "The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016" and the General Election of Deputies held in April 2016, the powers, duties and responsibilities of the Treasury & Resources Committee in relation to the company were transferred to the States Trading Supervisory Board. The shareholder functions, including holding equally the issued share capital of the company in trust on behalf of the States of Guernsey, of the Minister and Deputy Minister of the Treasury & Resources Department have also been transferred to the President and Vice President of the States Trading Supervisory Board by virtue of section 1.(1) The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016.

Provision is also in place for the States to give guidance to the States Trading Supervisory Board on the policies it wishes to be pursued in fulfilling its role. Each year, the company submits its forward plan to the States Trading Supervisory Board. In addition, the company has signed a Memorandum of Understanding with the States' shareholder representative concerning the manner in which the company and its shareholder's representatives will interact in respect of stewardship and corporate governance matters generally.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland and applicable company law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Guernsey Electricity Limited

Opinion

We have audited the financial statements of Guernsey Electricity Limited ("the Company") for the period ended 30 September 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and notes 1 to 24 to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2020 and of the Company's loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standards" applicable in UK and Ireland; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC") Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors' have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report but does not include the financial statements or our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters for which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Ernst & Young LLP
Guernsey, Channel Islands

Date: 5 May 2021

Notes:

1. The maintenance and integrity of the Guernsey Electricity Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of comprehensive income

for the period ended 30 September 2020

	Note	**30 Sept 2020 £'000**	31 Mar 2019 £'000
Revenue	*4*	**81,437**	54,920
Cost of sales		**(70,487)**	(52,216)
Gross profit		**10,950**	2,704
Net operating expenses		**(19,925)**	(10,455)
Operating loss before pension settlement		**(8,975)**	(7,751)
Pension settlement gains	*21*	**1,070**	18,194
Operating (loss)/profit after pension settlement	*5*	**(7,905)**	10,443
Net gains/(losses) on derivatives at fair value	*20*	**1,373**	(464)
Finance income	*6*	**169**	167
Finance cost	*6*	**(1,013)**	(257)
Other finance cost	*21*	**(278)**	(568)
(Loss)/profit on ordinary activities before taxation		**(7,654)**	9,321
Taxation	*7, 13*	**1,757**	(1,746)
(Loss)/profit for the financial period after taxation		**(5,897)**	7,575
Other comprehensive income:			
Effective portion of changes in fair value of cashflow hedges	*20*	**(414)**	(103)
Remeasurement of net defined benefit liability	*13,21*	**(8,232)**	8,906
Total comprehensive income for the financial period		**(14,543)**	16,378

All activities derive from continuing operations.

The notes on pages 37 to 65 form an integral part of these financial statements.

Statement of financial position

at 30 September 2020

	Note	30 Sept 2020 £'000	31 Mar 2019 £'000
Non-current assets			
Property, plant and equipment	*9*	**150,747**	133,852
Investments	*10*	**5**	5
		150,752	133,857
Current assets			
Inventories	*11*	**6,198**	6,963
Trade and other receivables	*12*	**14,179**	12,669
Balances with States Treasury	*14*	**23**	7,295
Cash		**4,855**	1,125
		25,255	28,052
Current liabilities			
Trade and other payables: amounts falling due within one year	*15*	**(15,823)**	(18,905)
Net current assets		**9,432**	9,147
Total assets less current liabilities		**160,184**	143,004
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	*16*	**(47,773)**	(26,264)
Pension deficit	*21*	**(18,815)**	(8,601)
Net assets including pension deficit		**93,596**	108,139
Equity			
Share capital	*17*	**105,209**	105,209
Reserves		**(11,613)**	2,930
Total equity		**93,596**	108,139

The financial statements on pages 33 to 65 were approved by the Board of Directors on 20 April 2021.

Signed on behalf of the Board of Directors

IA Hardman Director

AM Bates Director

The notes on pages 37 to 65 form an integral part of these financial statements.

Statement of changes in equity

for the period ended 30 September 2020

	Share capital £'000	Reserves £'000	Total equity £'000
1 April 2018	**105,209**	**(13,448)**	**91,761**
Profit for the financial year	–	7,575	7,575
Other comprehensive income for the year			
Remeasurement of net defined benefit liability	–	8,906	8,906
Effective losses on hedging instruments in a cash flow hedge	–	(103)	(103)
Total comprehensive income for the year	–	**16,378**	**16,378**
31 March 2019	**105,209**	**2,930**	**108,139**
Loss for the period	–	(5,897)	(5,897)
Other comprehensive income for the period			
Remeasurement of net defined benefit liability	–	(8,232)	(8,232)
Effective losses on hedging instruments in a cash flow hedge	–	(414)	(414)
Total comprehensive income for the period	–	**(14,543)**	**(14,543)**
30 September 2020	**105,209**	**(11,613)**	**93,596**

Cash flow statement

for the period ended 30 September 2020

	Note	**30 Sept 2020 £'000**	31 Mar 2019 £'000
Net cash inflow from operating activities	*18*	**8,646**	5,130
Cash flow from investing activities			
Finance income		**169**	168
Payments to acquire property, plant and equipment		**(33,196)**	(11,612)
Proceeds of disposal of property, plant and equipment		**19**	18
Customers' contributions towards capital expenditure		**259**	58
Net cash outflow from investing activities		**(32,749)**	(11,368)
Cash flow from financing activities			
Finance cost		**(1,050)**	(159)
Amounts drawn under credit facilities		**28,000**	22,000
Amounts repaid under credit facilities		**(6,417)**	(14,000)
Net cash inflow from financing activities		**20,533**	7,841
(Decrease)/increase in cash and cash equivalents during the period		**(3,570)**	1,603
Cash and cash equivalents at the beginning of the period		**8,420**	6,842
Exchange gains/(losses) on cash and cash equivalents		**28**	(25)
Cash and cash equivalents at the end of the period		**4,878**	8,420
Cash and cash equivalents consists of:			
Balances with States Treasury	*14*	**23**	7,295
Cash		**4,855**	1,125
		4,878	8,420

Movements in balances with States Treasury (note 14) and the other income are deemed cash equivalents in accordance with section 7 of FRS 102 (Statement of Cash Flows).

The notes on pages 37 to 65 form an integral part of these financial statements.

Notes to the financial statements

Period ended 30 September 2020

1. General information

Guernsey Electricity Limited was incorporated on 24 August 2001 and is registered in Guernsey. The company is governed by the provision of the Companies (Guernsey) Law, 2008. The address of its registered office is PO Box 4, Electricity House, North Side, Vale, Guernsey, GY1 3AD.

The company was established in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Law 2001 (Commencement) Ordinance and the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002.

The principal activities of the company are the generation, importation and distribution of electricity and the sale of associated goods and services.

The company is classified as a Public Benefit Entity given that its primary objective is to seek value and an appropriate return that provides best value to the island's economy whilst striking a balance with its enabling role in supporting the social, economic and environmental objectives for the long-term benefit of the island and its community.

2. Statement of compliance

The financial statements give a true and fair view, have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and are in compliance with the Companies (Guernsey) Law, 2008.

3. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial periods presented, unless otherwise stated.

Basis of preparation

As reported in last year's financial statements, the Board of Guernsey Electricity approved a change in fiscal date from 31 March to 30 September. This change in fiscal date aids business forecasting and reduces period end unbilled revenue estimation as the higher winter consumption periods move towards the beginning of the financial period. This accounting period is therefore a transitionary 18-month period from 1 April 2019 to 30 September 2020. Consequently, this financial period's results are not directly comparable with the results of the previous 12-month period. The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention as modified by the fair value for derivative financial instruments.

Going concern

On the basis of their assessment of the company's financial position and resources, the directors believe that the company is well placed to manage its business risks.

The company holds credit loan facilities with total facility limits of £63m of which £19m remains available to draw down as at 30 September 2020 as set out in the table below:

3. Principal accounting policies – *(continued)*

Going Concern – (continued)

Credit Facility	Facility Limit	Term	Expiry	Drawn down as at 30 Sept 2020	Available to draw
RBSI Revolving Credit Facility	£20m (with option to increase to £35m)	5 years	2 October 2023	£16m	£19m
RBSI Term Loan	£15m	10 years	31 May 2029	£14.58m	–
States of Guernsey Bond	£13m	25 years	30 June 2045	£13m	–
Total	£63m			£43.58m	£19m

The company undertakes active monitoring of its loan covenants, maintaining sufficient headroom to ensure compliance and management have mitigating measures to deploy in order to avoid any potential breach.

The Guernsey Competition and Regulatory Authority ("GCRA") have approved historic cost recoveries of 6.8% and 4.8%, effective from 1 July 2019 and 1 September 2020 respectively, each applicable for three years from commencement to cover increased foreign exchange and commodity costs. These rises enable Guernsey Electricity to recover the uncontrollable costs related to the periods 1 April 2017 to 31 March 2019 and 1 April 2019 to 31 March 2020 respectively, created by increases in external costs to import electricity and generate on-island.

On 11 March 2020, the World Health Organisation declared Coronavirus ("COVID-19") as a global pandemic. Subsequently, on 25 March 2020 the States of Guernsey imposed universal lockdown restrictions on islanders and businesses, which lasted in some form until June 2020. A second COVID-19 related lockdown was imposed in the island on 23 January 2021 with relaxations to exit lockdown measures commencing on 22 February 2021. All operational and financial projections for the company have reflected on these events and the continuing circumstances of the pandemic, and as at the date of approval of these financial statements, the overall prospective impacts are considered to be manageable.

Therefore, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing these financial statements.

Revenue

a) Sales of electricity

Sales of electricity are accounted for on an accruals basis and include the estimated value of unbilled units at the period end. The unbilled units are valued at current tariff rates.

b) Sales of goods, commercial and hire purchase

The company operates a retail sales section offering white and brown goods to customers across the Bailiwick of Guernsey. Sales of goods are recognised on sale to the customer, as this is the point at which the company recognises the transfer of risks and rewards.

The company operates a commercial contracting section providing electrical and plumbing services to domestic, commercial and industrial clients. Revenue is recognised as the service is provided.

3. Principal accounting policies – *(continued)*

Revenue – (continued)

The company provides hire purchase facilities on the provision of goods and services ancillary to the principal activities of the company. The sales value is included in revenue at the inception of the hire purchase transaction and interest is included in finance income over the finance period of the transaction on an effective interest rate basis.

c) Rental income

Rental income is accrued on a time basis by reference to the agreements entered.

d) Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the statement of comprehensive income over the estimated life of the assets to which they relate.

e) Other income

This represents minor income streams including, but not limited to, consultancy services and discounts received. These sales are valued as the service is provided or receipt is due.

Employee benefits

The company provides a range of benefits to employees, including a defined benefit pension plan and holiday pay. The defined benefits pension plan was closed to new members from 1 October 2017. A new defined contributions pension plan was set up to receive members from 1 April 2018.

a) Short-term benefits

Short-term employee benefits such as salaries and compensated absence are recognised as an expense in the period employees render services to the company. Holiday leave accruals are recognised at each balance sheet date to the extent that employee holiday allowance has been accrued but not taken, the expense being recognised as staff costs in the statement of comprehensive income.

b) Pension costs

The employees' pension scheme is a defined benefits scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The company applies employee benefits, Section 28 of FRS 102. In so doing, current service cost and any past service cost is charged to the statement of comprehensive income, together with finance costs/income for the scheme which are charged/credited to the statement of comprehensive income. The difference between the expected and actual actuarial gains and losses are charged to other comprehensive income. Annually, the company engages independent actuaries to calculate the defined benefit obligation. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method. Full actuarial valuations are carried out on a triennial basis and annual updates are carried out to disclose the values and assumptions in accordance with Section 28 of FRS 102.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

3. Principal accounting policies – *(continued)*

Employee benefits – (continued)

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(i) the increase in pension benefit liability arising from employee service during the period; and

(ii) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'Other finance cost'.

This defined benefits scheme was closed to new members from 1 October 2017. A new defined contributions scheme was established and there were 44 members as at 30 September 2020 (31 March 2019: 10 members).

Leases

Operating lease rentals are charged to the statement of comprehensive income in equal annual amounts over the lease term.

Finance income/cost

Finance income and finance costs are accounted for on an accruals basis using the effective interest rate.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

a) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. The pension scheme deficit shown in the accounts is gross of the deferred tax asset.

3. Principal accounting policies – *(continued)*

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Assets transferred from the States of Guernsey Electricity Board as at 1 February 2002 are being depreciated over their residual estimated useful lives from that date applying the periods noted overleaf. Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income and included within the operating profit.

Depreciation is calculated so as to write off the cost of property, plant and equipment over the period of their estimated useful lives using the straight-line method. The estimated life of each class of non-current asset is set out below. The estimated life of associated assets within each category are aligned to the remaining useful lives of the major asset to which they are associated with and therefore individual assets may have lives up to, but not exceeding, the time periods noted below. Depreciation commences in the period of acquisition, or on completion of construction. Any shortfall of depreciation arising on the disposal, or write-off, of non-current assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. Major overhauls of generating assets are treated as separate components and depreciated on the basis of elapsed running hours for the relevant asset.

The estimated lives are as shown below:

		Estimated life in hours	Estimated life in years
Buildings			40
Buildings equipment			10
Cable link			25 – 30
Plant and machinery:	– Generation		20 – 35
	– Overhauls	24,000	
	– Distribution		20 – 35
	– Street lights		20
Distribution network comprising:	– Distributors		75
	– Meters		5 – 15
	– Cyclocontrol receivers		5
Motor vehicles			7
Furniture and equipment			3 – 10
Minor plant			5 – 10

3. Principal accounting policies – *(continued)*

Joint arrangements

The Channel Islands Electricity Grid Limited is a jointly controlled operation between Jersey Electricity plc and Guernsey Electricity Limited who each own an equal 50% shareholding. The company was formed to manage the cable link project and the ongoing operation of the cable links between Guernsey, Jersey and France. In accordance with Section 15 of FRS 102, "Investments in joint ventures", these financial statements include the company's entitlement to the assets, liabilities, cash flows and the shared items of this Joint Arrangement where the company's entitlements are fully determined by contracts with the other party to the jointly controlled operation.

The Channel Islands Electricity Grid Limited is considered to meet the definition of a jointly controlled operation. As a result, for its interest in the Channel Islands Electricity Grid Limited, Guernsey Electricity Limited recognises the following in its financial statements in accordance with FRS 102, paragraph 15.5:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs and its share of any income earned by the joint venture.

The jointly controlled operation assets are included within property, plant and equipment.

Impairment of non-financial assets

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset or asset's cash generating unit ("CGU") may be impaired. If there is such an indication the recoverable amount of the asset or CGU is compared to the carrying amount of the asset or CGU. The recoverable amount of the asset or CGU is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's or CGU continued use.

The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset or CGU is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income.

Inventories

Inventories are valued at the lower of cost and estimated selling price less cost to complete and sell. Inventories are valued at weighted average cost. In respect of goods held for resale, a provision is made based on the time elapsed since the goods were purchased. Provision is made for other inventories relating to strategic plant, based upon the remaining useful economic life of the assets to which they relate. The cost of work in progress includes costs directly related to the units of production and a systematic allocation of fixed and variable production overheads. Inventories are recognised as a cost of sale in the period in which the related revenue is recognised.

3. Principal accounting policies – *(continued)*

Inventories – (continued)

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the statement of comprehensive income.

Foreign exchange

a) Functional and presentation currency

The company's functional and presentation currency is Pounds Sterling, being the primary economic environment in which the company operates. All amounts in the financial statements have been rounded to the nearest £1,000.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period-end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Financial instruments

a) Financial assets

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including receivables and cash and bank balances, are initially recognised at transaction price plus transaction costs, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

3. Principal accounting policies – *(continued)*

Financial instruments – (continued)

b) Financial liabilities

Basic financial liabilities, including trade and other payables and short-term loans, are initially recognised at transaction price less transaction costs, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

c) Derivatives

Derivatives, including interest rate swaps, heavy fuel oil commodity swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in the statement of comprehensive income, except when applying hedge accounting.

The company enters into forward exchange contracts to mitigate the risk of fluctuations in the currency rate between the Euro and Sterling in meeting its financial obligations for the import of electricity units from the European grid and on major infrastructure projects. The company does not hold or issue financial instruments for speculative purposes. The company also hedges against the fluctuation in the price of heavy fuel oil, including the movement in the US Dollar, which is inherent in the pricing.

These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties on the basis of 'exit' model methodologies.

The company applies hedge accounting for its foreign exchange hedging of the Euro exposure for the import of electricity. These relationships are designated as cash flow hedges of highly probably forecast transactions. The fair value of these hedges is shown in note 20. Changes in the fair value of derivative financial instruments which are designated as highly effective hedges of future cash flows are recognised directly in other comprehensive income and any ineffective portion is recognised immediately in profit or loss in the statement of comprehensive income. When hedges mature, amounts deferred in other comprehensive income are recognised in profit or loss in the statement of comprehensive income in the same period as the hedged item. The risks being hedged are as outlined above. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Until that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss that has been recognised in other comprehensive income is transferred to profit or loss in the statement of comprehensive income.

3. Principal accounting policies – *(continued)*

Financial instruments – (continued)

d) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, balances with States Treasury, highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within trade payables in current liabilities.

Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Revenue

Sales of electricity include an estimate for the value of unbilled units at the end of each financial period which represents the estimated units consumed by customers since the last billing date. These unbilled units are valued at current tariff rates. See note 4 for the value of unbilled units included in sales of electricity.

(ii) Property, plant and equipment (note 9)

a) Recognition

The costs of property, plant and equipment are only recognised as an asset when there is sufficient certainty that the asset will be completed. For significant projects, an assessment is made at least annually, or at the time of key project milestones, and the associated costs are recognised in the statement of comprehensive income until such time that management considers it probable that the project will proceed to completion.

b) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 9 for the carrying amount of the property, plant and equipment.

3. Principal accounting policies – *(continued)*

Critical accounting judgements and estimation uncertainty – (continued)

c) Impairment/disposals

At each statement of financial position date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset or CGU may be impaired. If there is such an indication, an estimation of the recoverable amount of the asset or CGU is determined which requires estimation of the future cash flows from the asset or CGU and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

(iii) Retirement benefit obligations – for details and assumptions see note 21

(iv) Deferred tax/unrelieved trading losses – for details and assumptions see note 7

4. Revenue

	30 Sept 2020 £'000	31 Mar 2019 £'000
Sales of electricity	**74,606**	50,182
Sale of goods, commercial and hire purchase	**5,940**	4,048
Rental income	**371**	247
Deferred income	**283**	182
Other income	**237**	261
	81,437	54,920

All sales of electricity arise from customers in the island of Guernsey. Sales of goods, commercial and hire purchase are made to customers throughout the Bailiwick of Guernsey. As stated in the accounting policy for sales of electricity, at the end of each financial period, an estimate of the unbilled units is determined.

The value of unbilled units included in sales of electricity above is £4,774,000 (31 March 2019: £6,706,000).

5. Operating (loss)/profit

Operating (loss)/profit is after charging/(crediting)

		30 Sept 2020 £'000	31 Mar 2019 £'000
Depreciation (note 9)		**11,069**	7,736
Impairment		**–**	3,367
Pension settlement gain (note 21)		**(1,070)**	(18,194)
Rentals under operating leases		**179**	124
Auditor's remuneration	– statutory audit	**125**	43
	– non-audit services	**–**	–
Bad debts		**437**	100
Director fees, salaries and other benefits		**1,438**	930
Regulatory costs	– external	**102**	60
	– internal	**127**	45
Loss on disposal of assets		**24**	45

The amount of inventories recognised as an expense during the period is as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Inventory write-offs	**63**	19
Inventory discrepancies	**31**	5
Inventory provision	**282**	10

6. Finance and income cost

	30 Sept 2020 £'000	31 Mar 2019 £'000
Finance income:		
Deposits with banks and States Treasury	**93**	23
Hire purchase	**76**	144
	169	167
Finance cost:		
Medium-term credit facilities	**669**	255
Long-term credit facility	**335**	–
Other interest payable	**9**	2
	1,013	257

7. Taxation

The company's profits, or losses, from the activities subject to licence from the Guernsey Competition and Regulatory Authority will be chargeable to tax at the company higher rate of 20%, as will rental income from Guernsey properties. For all other company activities, the company standard rate of 0% is applicable. The tax adjusted profits of the company have been determined so that the appropriate amounts are taxed at the applicable rate.

The basis of assessment to Guernsey tax continues to be on an actual current period basis. The assessable profits for the current period have been offset against the unrelieved trading losses and excess capital allowances carried forward from prior years.

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. Various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate and the company higher rate. Deferred tax has been provided on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 12.2636% (31 March 2019: 15.0178%) has been used to provide for deferred tax. The blended rate has been calculated by reference to the company's effective rate of tax in the period ended 30 September 2020.

The actual tax (credit)/charge differs from the expected tax (credit)/charge computed by applying the higher company rate of Guernsey income tax of 20% as follows:

7. Taxation – *(continued)*

	30 Sept 2020 £'000	31 Mar 2019 £'000
(Loss)/profit on ordinary activities before taxation	**(7,654)**	9,321
Tax (credit)/charge at 20%	**(1,531)**	1,864
Effects of adjusting items:		
Income not taxable	**(428)**	(366)
Disallowed items	**5**	9
Income taxable at the company standard rate (0%)	**(196)**	(137)
Short-term timing differences (pension taxed at blended rate)	**299**	293
Short-term timing differences (other)	**94**	83
Tax (credit)/charge in the statement of comprehensive income	**(1,757)**	1,746

The tax (credit) / charge relates to changes in deferred tax and there is no tax payable for the current period.

8. Dividend

No dividend was paid during the period (31 March 2019: £nil paid), representing £nil per share (31 March 2019: £nil per share paid). The company will not be proposing a dividend at the 2021 Annual General Meeting (2019: £nil proposed).

9. Property, plant and equipment

Cost	1 April 2019 £'000	Additions £'000	Written off/ disposals £'000	**30 Sept 2020 £'000**
Land and buildings	35,307	382	8	**35,681**
Cable link	66,656	17,896	–	**84,552**
Plant and machinery:				
– Generation	63,138	1,792	22	**64,908**
– Distribution	15,130	1,526	–	**16,656**
Distribution network	42,178	3,905	165	**45,918**
Motor vehicles, furniture and equipment, minor plant	8,872	2,507	77	**11,302**
	231,281	28,008	272	**259,017**

Depreciation	1 April 2019 £'000	Charge for the period £'000	Written off/ disposals £'000	**30 Sept 2020 £'000**
Land and buildings	15,136	1,409	8	**16,537**
Cable link	27,733	3,185	–	**30,918**
Plant and machinery:				
– Generation	29,816	3,607	20	**33,403**
– Distribution	5,035	700	–	**5,735**
Distribution network	15,151	1,274	138	**16,287**
Motor vehicles, furniture and equipment, minor plant	4,558	894	62	**5,390**
	97,429	11,069	228	**108,270**
Net book value	133,852			**150,747**

Included above are assets in the course of construction of £9,241,000 (31 March 2019: £14,627,000), which are not depreciated.

10. Investments

	30 Sept 2020 £'000	31 Mar 2019 £'000
Channel Islands Electricity Grid Limited	**5**	5

The Channel Islands Electricity Grid Limited is incorporated in Jersey and is a joint arrangement between Guernsey Electricity Limited and Jersey Electricity plc who each own an equal 50% shareholding. The company was formed to manage the cable link project and the ongoing operation of the cable links between Guernsey, Jersey and France. Guernsey Electricity Limited holds 5,000 Ordinary shares of £1 each.

11. Inventories

	30 Sept 2020		31 Mar 2019	
	£'000	**£'000**	£'000	£'000
Fuel inventories		**2,764**		3,215
Purchased goods for resale	**224**		245	
Provision	**(11)**	**213**	(8)	237
Other inventories	**5,476**		5,486	
Provision	**(2,519)**	**2,957**	(2,240)	3,246
Work in progress		**264**		265
		6,198		6,963

The replacement cost of inventories was lower than the statement of financial position carrying amounts as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Fuel inventories	**(509)**	(38)

There is no significant difference between the replacement cost of purchased goods for resale, other inventories and work in progress and their carrying amounts.

12. Trade and other receivables

	30 Sept 2020 £'000	31 Mar 2019 £'000
Estimated value of unbilled units	**4,774**	6,706
Customer accounts outstanding	**4,214**	4,166
Other receivables	**470**	494
Prepayments	**743**	864
Deferred tax asset (note 13)	**3,312**	401
Derivative financial instruments (note 20)	**666**	38
	14,179	12,669

Included in "Customer accounts outstanding" is an amount totalling £nil (31 March 2019: £172,000) due after more than one year, relating to goods and services purchased by customers under interest free and hire purchase agreements, which run for periods of up to 30 months.

Under FRS 102, the pension scheme deficit is presented in the statement of financial position gross of deferred tax. The deferred tax relating to the pension scheme deficit is recognised as part of the net deferred tax asset included within trade receivables.

13. Deferred tax asset

Deferred tax assets comprise of:	30 Sept 2020 £'000	31 Mar 2019 £'000
Deferred taxation:		
Balance at 1 April	**401**	3,713
Statement of comprehensive income credit/(charge)	**1,757**	(1,746)
Statement of other comprehensive income credit/(charge)	**1,154**	(1,566)
Balance at 30 September	**3,312**	401
Which comprises:		
Capital allowances in excess of depreciation	**12,006**	8,917
Short-term timing differences (other)	**(226)**	(242)
Unrelieved loss for tax purposes	**(12,784)**	(7,784)
Deferred tax (asset)/liability	**(1,004)**	891
Deferred tax asset on pension deficit (note 21)	**(2,308)**	(1,292)
Net deferred tax assets (note 12)	**3,312**	401

14. Balances with States Treasury

The Treasury Department of the States of Guernsey is engaged to invest the company's liquid funds in excess of its daily requirements.

15. Trade and other payables: amounts falling due within one year

	30 Sept 2020 £'000	**31 Mar 2019 £'000**
Trade payables	**4,082**	9,907
Customer payments received in advance	**8,750**	6,651
Employee taxes and Social Security	**187**	194
Deferred income	**189**	182
Accruals and other payables	**2,569**	1,594
Derivative financial instruments (note 20)	**46**	377
	15,823	18,905

The company has a £1m overdraft facility with Barclays Bank Plc (31 March 2019: £1m), and interest is payable quarterly at 1.75% over UK base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. As at 30 September 2020, £nil was drawn on the Barclays Bank Plc overdraft facility (31 March 2019: £nil).

16. Trade and other payables: amounts falling due after more than one year

	30 Sept 2020 £'000	31 Mar 2019 £'000
Deferred income	**4,190**	4,264
Amount drawn under medium-term credit facilities (note 20)	**30,583**	22,000
Amount drawn under long-term credit facility (note 20)	**13,000**	-
	47,773	26,264

17. Share capital

	30 Sept 2020 £'000	31 Mar 2019 £'000
Authorised:		
125,000,000 ordinary shares of £1 each	**125,000**	125,000
Issued and fully paid:		
105,208,844 ordinary shares of £1 each	**105,209**	105,209

Two shares were issued on formation of the company and the remaining 109,208,842 shares were issued to equate to the consideration of £109,208,844 for the net assets acquired by the company from the States of Guernsey with effect from 1 February 2002.

On 13 December 2016, the company completed a share buyback of £4m of company shares from the States of Guernsey leaving the company with 105,208,844 issued shares equating to share capital of £105,208,844.

The ordinary shares do not confer any rights or preferences other than the right to vote, the right to participate in dividends or distributions that the company may make and such other rights, generally from time to time, including but not limited to, the rights, if any, to the repayment of capital as may be laid down in the company's Articles of Incorporation.

Dividends and distributions in particular, are subject to the provisions of Guernsey Company law and specifically, the Companies (Guernsey) Law, 2008 as amended or replaced.

The ordinary shares are subject to certain restrictions, including specifically, a restriction on the transfer of shares. In all cases, such restrictions are as laid down in the company's Articles of Incorporation and the provisions of any ordinance made by the States of Guernsey in exercise of its powers under the States Trading Companies (Bailiwick of Guernsey) Law 2001, as amended or replaced from time to time.

18. Reconciliation of operating (loss)/profit to net cash flow from operating activities

	30 Sept 2020 £'000	31 Mar 2019 £'000
(Loss)/profit for the period	**(5,897)**	7,575
Tax on (loss)/profit on ordinary activities	**(1,757)**	1,746
Net finance costs	**1,122**	658
Net (gains)/losses on derivatives at fair value	**(1,373)**	464
Operating (loss)/profit	**(7,905)**	10,443
Depreciation charge	**11,069**	7,736
Impairment	**–**	3,367
Loss on disposal of non-current assets	**24**	45
Exchange (gains)/losses on cash and cash equivalents	**(28)**	25
Pension service cost	**2,668**	2,394
Pension cost of benefit changes	**24**	-
Pension settlement gain	**(1,070)**	(18,194)
Employer's pension cash contributions	**(1,098)**	(809)
Pension administration costs	**24**	41
Deferred income	**(283)**	(182)
Decrease/(increase) in inventories	**765**	(1,277)
Decrease in receivables	**2,029**	825
Increase in payables	**2,427**	716
	8,646	5,130

19. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £10,335,000 (31 March 2019: £32,150,000 of which £24,804,000 related to the GJ1 cable link overlay project). These relate to outstanding commitments on capital projects across a range of asset categories.

Cable link commitments

Commodity risk

For the import of power from the European Grid, the company has a contract with Electricité de France ("EDF"). The existing electricity import contract with EDF is effective for a 10-year period which commenced from 1 January 2013 – this period was extended for a further 5 years on 25 June 2017. The related transmission agreement with Réseau de transport d'électricité ("RTE") also commenced from 1 January 2013. Under the import contract, there is a take or pay commitment, whereby the company is jointly and severally liable, along with the Channel Islands Electricity Grid Limited and Jersey Electricity plc, for a block of power over the term of the contract. The remainder of the requirement will be decided by a market pricing mechanism with no volume commitment. The price at which the take or pay block is agreed for the period of the contract, and for calendar year 2021 this results in a total commitment for Guernsey Electricity Limited of €8.9m, equating to £8.1m at the Sterling/Euro rate at 30 September 2020 of 1.1014, (2020: €8.9m, equating to £7.7m at the Sterling/Euro rate at 31 March 2019 of 1.1595).

Operating lease commitments

Commitments to make payments in respect of operating leases are as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Operating leases which expire:		
Within one year	**110**	110
Between one to five years	**101**	248

20. Financial instruments and associated risk management

The categories of financial assets and financial liabilities, at the reporting date, in total, are as below:

	Note	**30 Sept 2020 £'000**	31 Mar 2019 £'000
Financial assets at fair value through profit or loss			
Derivative financial instruments:	12		
– Interest rate caps		**45**	36
– Forward foreign currency contracts		**621**	2
Financial assets that are debt instruments measured at amortised cost			
Estimated value of unbilled units	12	**4,774**	6,706
Customer accounts outstanding	12	**4,214**	4,166
Other receivables	12	**470**	494
Cash and cash equivalents		**4,878**	8,420
Financial liabilities measured at amortised cost			
Trade payables	15	**4,082**	9,907
Customer payments received in advance	15	**8,750**	6,651
Deferred income	15,16	**4,379**	4,446
Accruals and other payables	15	**2,569**	1,594
Amount drawn under medium-term credit facilities	16	**30,583**	22,000
Amount drawn under long-term credit facility	16	**13,000**	–
Financial liabilities measured at fair value through profit or loss			
Derivative financial instruments – Forward foreign currency contracts	15	**46**	377

Financial Assets at fair value through profit and loss

(a) Classification of financial assets at fair value through profit or loss

Derivative financial instruments – Interest Rate Caps

Interest rate risk

The company is exposed to interest rate risk primarily through its loan financing arrangements. The company has a five-year interest rate cap to hedge part of the interest rate risk associated with the £20m revolving credit facility held with RBS International. An interest rate cap of 1.75% has been applied to a notional amount of £16m and is referenced against the three-month sterling LIBOR rate.

20. Financial instruments and associated risk management – *(continued)*

Interest rate risk – (continued)

The valuation of this instrument as at 30 September 2020 was £3,000 (31 March 2019: £36,000). A ten-year interest rate cap was entered into during the financial period, effective from 1 June 2019 in relation to a new ten-year loan facility with RBS International. An interest rate cap of 2.0% has been applied to a notional amount of £14.84m and is also referenced against the three-month sterling LIBOR rate. The valuation of this instrument as at 30 September 2020 was £42,000.

Financial Assets that are debt instruments measured at amortised cost

(a) Classification of financial assets that are debt instruments measured at amortised cost

Credit risk

The company's credit risk is primarily attributable to its trade and other receivables which include receivables arising out of estimated value of unbilled units, customer accounts outstanding and other receivables. Trade receivables generally arise from transactions within the usual operating activities of the company. They represent undiscounted amounts of cash expected to be received (within a year) except for customer accounts outstanding which are due after more than one year. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. Allowances are made where there is evidence of a reduction in the recoverability of cashflows. Cash and cash equivalents include cash at bank and in hand and balances with States Treasury with original maturities of three months or less (refer to note 14).

(b) Fair values of financial assets that are debt instruments measured at amortised cost

The carrying amounts of financial assets and liabilities measured at amortised cost are assumed to be the same as their fair values due to their short-term nature.

Liquidity risk

The company maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments so that cashflows are appropriately balanced and to ensure that the company meets all its financial obligations as they fall due.

Financial liabilities measured at amortised cost

The carrying amounts of trade payables, customer payments received in advance, deferred income, accruals and other payables are assumed to be the same as their fair values due to their short-term nature.

Loan Commitments

(a) Revolving credit facility

The company holds a five year, £20m revolving credit loan facility with RBS International. This loan facility is for general working capital and capital expenditure purposes. The loan incorporates an option to increase the credit facility to £35m for the purpose of the future financing of key infrastructure expenditure and an extension to £22m under this option was exercised on 18 March 2019. Interest costs for the commercial loan were at commercial rates of less than 2%. A commitment fee is payable on any undrawn amount in line with the terms of the arrangement. As at 30 September 2020, the company had utilised £16m of the loan (31 March 2019: £22m). The drawn amount has been classified as a financial liability measured at amortised cost. This facility expires on 2 October 2023.

(b) Term Loan facility

During the period, the company entered into a ten-year, £15m term loan facility with RBS International, effective from 1 June 2019. The purpose of this loan facility was for the part funding of the replacement Guernsey to Jersey interconnector. Interest costs for the commercial loan were at commercial rates of less than 2%. As at 30 September 2020, the balance drawn on the loan was £14.58m.

20. Financial instruments and associated risk management – *(continued)*

Loan commitments – (continued)

(c) States of Guernsey Bond

During the period, the company entered into a twenty five-year, £13m loan agreement with the States of Guernsey. The purpose of this loan was for the part funding of the replacement Guernsey to Jersey interconnector. The interest rate for the loan is fixed at 3.625% for the loan term. As at 30 September 2020, the balance payable on the loan was £13m.

Financial liabilities measured at fair value through profit or loss

Derivative financial instruments – Forward Contracts

(a) Import Financial Hedge

Currency risk

The company is exposed to currency risk through its import contracts with EDF and RTE which are denominated in Euros. The company manages the currency risk through derivative contracts. The company has entered into forward contracts for the purchase of the Euro. The company's commitment to forward contracts at the previous year ending 31 March 2019 was as follows:

Maturity	Notional amount €'000	Average hedged rate
Less than one year	12,770	1.1193
Greater than one year and less than two years	1,575	1.1023

As at 30 September 2020, the company is holding the following euro forward and participating forward contracts to hedge the exposure on its electricity import over the next 24 months. These dates represent when the cash flows are expected to occur and when they are expected to affect profit or loss:

Maturity	Notional amount €'000	Average hedged rate
Less than one year	17,979	1.1126
Greater than one year and less than two years	10,479	1.1331

The impact of hedging instruments designated in cash flow hedging relationships as of 30 September 2020 on the statement of financial position of the company is as follows:

Line item in the statement of financial position	Notional amount €'000	Carrying amount £'000
Trade and other receivables	22,458	621
Trade and other payables: amounts falling due within one year	6,000	(46)

20. Financial instruments and associated risk management – *(continued)*

Derivative financial instruments – Forward Contracts – (continued)

As at 30 September 2020, the outstanding contracts for import all mature within 24 months of the period end. These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties. The gain included within the statement of comprehensive income was an income of £1,373,000 (31 March 2019: The loss included within the statement of comprehensive income was £464,000). A £414,000 expense (31 March 2019: £103,000 expense) was recognised in other comprehensive income during the period reflecting the effective change in value of hedging instruments designated for hedge accounting.

A total of £138,000 (31 March 2019: £39,000) has been reclassified from equity to the statement of comprehensive income during the period. Gains and losses on the derivatives are recycled through the income statement at the time the purchase of power is recognised in the income statement.

Determination of fair value on contracts

These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties on the basis of 'exit' model methodologies.

21. Pension scheme

Nature of the Guernsey Electricity Limited actuarial account

Some employees of the company are members of the States of Guernsey Public Servants Pension Scheme ("PSPS"). This is a defined benefits pension scheme funded by contributions from both employer and employee at rates which are determined on the basis of independent actuarial advice. As the PSPS is a multi-entity arrangement, the States of Guernsey contracted the PSPS's qualified independent actuaries to identify the actuarial account for each entity and, therefore, the value of the pension fund assets and liabilities attributable to this company.

The actuarial account operated by the company provides retirement benefits based on final pensionable pay for service to 29 February 2016 and based on career average revalued earnings from 1 March 2016. Some protected members will continue to accrue benefits from 1 March 2016 linked to final pensionable pay. Employees recruited after 1 May 2015 accrue benefits based on career average revalued earnings. The actuarial account forms part of the PSPS. The PSPS is currently open to both future accrual and new members. However, Guernsey Electricity Limited's actuarial account was closed to new members during the financial year to 31 March 2018.

The most recent formal valuation of the company's actuarial account carried out as at 31 December 2016 reported that the actuarial account was in surplus. The company chose to maintain the contribution rate of 11.5% of pensionable pay using some of the surplus to cover the shortfall in the required contribution rate at the valuation date of 11.8% of pensionable pay and some as a prudent margin to cover any adverse future experience within the actuarial account. This contribution rate was approved by the States of Guernsey. The calculations for the FRS 102 disclosures have been carried out by running full actuarial calculations as at 30 September 2020.

Funding policy

The company's actuarial account is funded by means of regular contributions to cover current benefit accrual, with the rates of contribution set after each triennial actuarial valuation. The funding method currently employed is the Projected Unit Method, which sets contribution rates based on the benefits expected to be accrued in the year following the valuation date. This contribution rate is then adjusted to take account of any surplus or shortfall in the actuarial account. The States of Guernsey determine the level of contributions payable to the actuarial account following advice from the scheme's actuary.

21. Pension scheme – *(continued)*

Actuarial account amendment

During the accounting period, a number of CARE Transition Members opted to be treated as Elected CARE Transition Members for benefits accrued from 1 March 2016. This has resulted in a small past service cost over the accounting period.

There was a settlement gain of £1,070,000 on 30 September 2020 in relation to a transfer of liabilities in relation to active leavers over the period from 1 April 2019 to 30 September 2020. A transfer value was paid from the actuarial account to the Combined Pool in respect of these liabilities.

Employee benefit obligations for Guernsey Electricity Limited in respect of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund

The amounts recognised in the statement of financial position are as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Fair value of actuarial assets	**36,456**	32,747
Present value of funded obligations	**(55,271)**	(41,348)
Net underfunding in actuarial account	**(18,815)**	(8,601)
Related deferred tax asset (note 13)	**2,308**	1,292
Net defined pension liability	**(16,507)**	(7,309)

The amounts recognised in the statement of comprehensive income are as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Service cost	**2,668**	2,394
Cost of benefit changes	**24**	–
Settlement gains	**(1,070)**	(18,194)
Net interest on net defined benefit liability	**278**	568
Expense/(income) recognised in the statement of comprehensive income	**1,900**	(15,232)

21. Pension scheme – *(continued)*

The net interest on net defined benefit liability is comprised as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Interest on obligation	**1,489**	1,611
Interest on assets	**(1,211)**	(1,043)
Net interest on net defined benefit liability	**278**	568

The amounts recognised as remeasurements in other comprehensive income are as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Return on assets (not included in interest)	**3,370**	606
Actuarial (losses)/gains on obligation	**(12,756)**	9,866
Total remeasurements recognised in other comprehensive income	**(9,386)**	10,472
Cumulative amount of remeasurements recognised in other comprehensive income	**(2,237)**	7,149
Actual return on actuarial account assets	**4,581**	1,649

The following other costs will also need to be charged in the relevant sections of the accounts.

	30 Sept 2020 £'000	31 Mar 2019 £'000
Administration expenses paid from actuarial account	**24**	41
Other items	**24**	41

In addition, the company should charge any other administration expenses relating to the actuarial account which are paid directly from company funds.

The company contributed £1,098,000 to the actuarial account over the period from 1 April 2019 to 30 September 2020. Members of the actuarial account contributed £681,000 to the actuarial account over the same period.

The company expects to contribute £724,000 to the actuarial account over the next year from 1 October 2020 to 30 September 2021. Contributions by members of the actuarial account are expected to total £459,000 over the same period.

21. Pension scheme – *(continued)*

Changes in the present value of the actuarial account's defined benefit obligation are as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Opening defined benefit obligation	**41,348**	100,694
Service cost	**2,668**	2,394
Contributions by members	**681**	506
Cost of benefit changes	**24**	–
Liabilities extinguished on settlements	**(3,696)**	(53,205)
Benefits paid	**–**	(785)
Interest on obligation	**1,489**	1,611
Experience (gains)/losses	**(1,695)**	270
Losses/(gains) from changes in assumptions	**14,452**	(10,137)
Closing defined benefit obligation	**55,271**	41,348

The weighted average duration of the liabilities of the actuarial account was 28 years as at 30 September 2020.

Changes in the fair value of actuarial account assets are as follows:

	30 Sept 2020 £'000	31 Mar 2019 £'000
Opening fair value of actuarial account assets	**32,747**	65,620
Interest on assets	**1,211**	1,043
Return on assets (not included in interest)	**3,370**	606
Assets distributed on settlements	**(2,627)**	(35,011)
Contributions by employer	**1,098**	809
Contributions by members	**681**	506
Benefits paid	**–**	(785)
Administration expenses	**(24)**	(41)
Closing fair value of actuarial account assets	**36,456**	32,747

21. Pension scheme – *(continued)*

The major categories of actuarial account assets as a percentage of the total are as follows:

	30 Sept 2020 %	31 Mar 2019 %
Equities & alternatives	**67**	75
Bonds, fixed interest and short-term securities	**23**	18
Property	**10**	7

The actuarial account holds no financial instruments issued by the company nor does it hold any property or other assets used by the company.

Principal actuarial assumptions used for the FRS 102 disclosures:

	30 Sept 2020 % p.a.	31 March 2019 % p.a.
Discount rate at end of period	**1.50**	2.40
Discount rate at start of period	**2.40**	2.50
Inflation	**2.70**	2.40
Rate of increase in pensionable salaries	**3.45**	3.15
Rate of increase in deferred pensions	**2.70**	2.40
Rate of increase in CARE benefits	**2.70**	2.40
Rate of increase in pensions in payment	**2.70**	2.40

Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 86 (31 March 2019: 87 years) if they are male and until age 88 (31 March 2019: 89 years) if female. For a member currently aged 45, the assumptions are that if they attain age 65 they will live on average until age 88 (31 March 2019: 88 years) if they are male and until age 90 (31 March 2019: 90 years) if female.

21. Pension scheme – *(continued)*

Amounts for the current and previous period are as follows:

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Defined benefit obligation	**55,271**	41,348	100,694	102,975	80,848
Actuarial Account assets	**36,456**	32,747	65,620	62,301	54,726
Deficit (gross)	**(18,815)**	(8,601)	(35,074)	(40,674)	(26,122)
Actuarial gains/(losses) on Actuarial Account assets	**3,370**	606	2,437	6,937	(1,987)
Experience gains/(losses) on Actuarial Account liabilities	**1,695**	(270)	3,945	3,487	859
(Losses)/gains from changes in assumptions	**(14,452)**	10,137	2,103	(23,316)	4,241
Total Actuarial (losses)/gains on Actuarial Account liabilities	**(12,756)**	9,866	6,048	(19,829)	5,100

22. Statement of control

The company is wholly owned and ultimately controlled by the States of Guernsey.

23. Related party transactions

There are no disclosable related party transactions in this financial period. See note 5 for disclosure of directors' remuneration.

24. Subsequent events

There are no subsequent events requiring disclosure.

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