2025-17

REPLY BY THE PRESIDENT OF
THE STATES' TRADING SUPERVISORY BOARD
TO QUESTIONS ASKED PURSUANT TO RULE 14 OF THE
RULES OF PROCEDURE BY DEPUTY AIDAN MATTHEWS

Question 1

The STSB decision notice of 22-May-2025 for Guernsey Electricity Tariff Increase permits a change to increase the proportion of revenue gathered by the standing charge from 12.5% to 15%. In reaching its decision the STSB notes that increasing the unit charge would otherwise adversely affect customers who cannot afford to adopt micro-renewable technologies. The justification is that shift away from unit charge to standing charge helps those less well-off. This is in line with the Electricity Strategy advice that "The fixed costs do not adequately reflect the costs incurred of maintaining the system and security of supply."

However, the resulting increase from Guernsey Electricity Limited to quarterly standing charges from £68.25 to £86.75, the equivalent of about 95p per day or £347 annually, is extremely high at a time of rising cost of living for many less well-off islanders. The standing charge is significantly higher – almost double – than the current Ofgem standing charge price cap of 53.8p per day, equivalent to £188 annually, which applies to Great Britain but does not cover the Channel Islands. Ofgem also proposes a "zero standing charge tariff" with various options under consideration to reduce the impact of the standing charge, particularly on low-income households where electricity use is also low, reflecting more limited impact on the supply of electricity.

Given the impact on low income households, does the STSB propose any mechanism to similarly limit the impact of the standing charge for low income households?

Answer

The States' Energy Policy and Electricity Strategy provide the policy framework for the STSB's consideration of GEL's tariff applications.

The Electricity Strategy acknowledged that work to rebalance GEL's tariffs to properly reflect the fixed and variable costs of the business is required, noting that European countries had experienced similar issues and were moving towards tariff structures based upon a higher proportion of fixed charges. This was borne out by tariff benchmarking subsequently undertaken by the STSB in 2023.

If steps are not taken to correct the imbalance in GEL's tariffs between fixed and variable charges, then the risk is that as more consumers adopt behind-the-meter sources of renewable electricity, GEL's revenues from its variable charges will reduce disproportionately and it will be unable to afford the fixed costs of maintaining and upgrading the Island's electricity network without introducing disproportionate increases in its variable charges. That would most adversely affect customers who cannot afford to adopt micro-renewable technologies or who are unable to do so. That risk has to be balanced with the negative impacts that increases in standing charges can have both on low volume electricity consumers and on the payback period for consumers considering investing in micro-renewable technologies.

This year, the STSB has agreed that GEL should be permitted to increase the proportion of its total revenues generated from its standing charges from 12½% to 15%. However, looking ahead, the Board has agreed with GEL that no further rebalancing of the fixed and variable charges will be undertaken pending a full review of the cost reflectivity of all its tariffs.

As part of that process, GEL anticipates that consideration should be given to a sliding scale of standing charges linked to the different levels of maximum demand that customers can place upon the network, rather than the current "one-size fits all" charge. The roll-out of new domestic meters with inbuilt functionality to record maximum demand would present an opportunity to introduce a fairer and more transparent approach to the recovery of fixed standing charges based upon the "strain" customers place on the network rather than applying the same charge to all customers irrespective of their demand profiles.

Question 2

Zero standing charge tariffs can be complex. Guernsey has available the TRP (Tax on real Property) rating for each household, which approximately equates to property value and is approximately proportionate to household wealth and ability to pay. Has the STSB considered a simple approach of requiring the standing charge be proportionate to TRP amount for households (a measure of the area of a household in square meters) given this could also serve as an adequate proxy for anticipated strain imposed on electricity infrastructure?

Answer

The Energy Policy stresses the importance of ensuring that cost-reflective tariff systems are put in place across all forms of energy supplies. Its stated outcome is that costs must be properly reflected in tariffs and must be recoverable by energy providers. This will ensure greater clarity for investment by both existing suppliers and new market entrants, whilst providing customers with transparency in respect of what they chose to pay for. A standing charge proportionately linked to a household's TRP would not be a cost-reflective approach and is not something that the STSB is considering. It believes the focus should be on the development of a sliding scale of standing charges as set out in my response to Question 1.

Date of Receipt of the Question: **4 June 2025**
Date of Reply: **19 June 2025**