

Guernsey Electricity Limited

**Report and financial statements**

**31 March 2014**

# Guernsey Electricity Limited

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# Guernsey Electricity Limited

## Directors, officers and professional advisers

<b>Directors:</b>	Advocate IH Beattie	(non-executive chairman)
	AM Bates	(managing)
	DS Hipple	(finance) from 9 July 2013
	IJ Limond	(finance) retired 9 July 2013
	RW Beebe	(operations)
	S-A David	(corporate strategy)
	D Farrimond	(non-executive) retired 6 August 2013
	MJ Mann	(non-executive)
	RP Lawrence	(non-executive)
	IA Hardman	(non-executive)
	RJ Dutnall	(non-executive) appointed 6 August 2013
	CM Holmes	(non-executive) appointed 6 August 2013

**Secretary:** SB Pattimore

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

HSBC Bank Plc  
Arnold House  
St Julians Avenue  
St Peter Port  
Guernsey  
GY1 3AT

**Legal advisers:** Mourant Ozannes  
1 Le Marchant Street  
St Peter Port  
Guernsey  
GY1 4HP

**Independent auditor:** KPMG Channel Islands Limited  
PO Box 20  
20 New Street  
St Peter Port  
Guernsey  
GY1 4AN

**Registered office:** PO Box 4  
Electricity House  
North Side  
Vale  
Guernsey  
GY1 3AD

**Company number:** 38692

# Guernsey Electricity Limited

## Chairman's statement

The 2013/14 financial year has been a much improved one for Guernsey Electricity. Following the cable failures of 2012, we have not experienced any further major operational issues and the organisation has been able to continue to deliver electricity supplies and a high quality service to its customers.

The major focus during the year has been planning for and the proposed delivery of further imported power. Working with our colleagues at Jersey Electricity I am pleased to report that we expect the next cable between Jersey and France to be operational this autumn which will significantly increase our importation capacity. Our plans now are directed to delivering increased resilience of imported supplies and we will be making proposals to our shareholder this summer to support further investment.

We are acutely aware of our responsibility to our customers and the infrastructure of the Island and our commitment remains to provide reliable and affordable energy. It is clear to me that this can only be achieved with the loyalty and commitment of our dedicated staff and I would like to take this opportunity to thank them for their support.

There are a number of changes to the Board which I would like to note. Martyn Mann who has served the Board as a non-executive director for the past 6 years is retiring on 1 July 2014. He has provided reliable guidance and support during that period and we are indebted to him. Also following the departure of David Farrimond in 2013 and in anticipation of Martyn's departure, we recruited two new non-executives; Bob Dutnall and Christine Holmes, both of whom joined the Board in August 2013.

# Guernsey Electricity Limited

## Managing director's report

The last year has been a much more stable one for Guernsey Electricity in terms of its operational activities. Following the repair of the Guernsey to Jersey sub-sea cable in 2012 we have had a full year in which we have been able to import power from France, although the actual amount of that import has been significantly lower than we would like. Nevertheless we have almost been able to return to a breakeven operating result following last year's £3.4m loss, and more importantly, maintain our tariffs at the levels that were set in October 2012.

### Business Performance

Our import capability has been restricted for the whole of the financial year due to the fact that the Channel Islands Electricity Grid, of which Guernsey Electricity is a joint venture partner, has only one operational cable between Jersey and France. As a result, the amount of electricity available to us via this route has been limited, equating to 156 MWh, just 41% (28% last year) of our total supply to the Island. As last year, the consequence of less imported power has adversely affected our financial performance.

Another factor affecting the financial performance was that we experienced a particularly mild winter. Temperatures during that period were almost two degrees above 2012/13 and there were no cold spells; this contrasted with the previous year which brought heavy snowfalls and very cold weather. The result is that we have seen a 4% reduction in electricity usage by our customers and these combined factors have led to a reduction in revenue, however, by carefully controlling costs, we have limited our financial loss to only £0.2m before tax.

The winter storms in January led to a complete loss of imported power for over two hours as RTE, the French transmission operator, experienced an interruption to their network. This affected both Guernsey and Jersey but the resilience that our on-Island generation provides meant that we were able to minimise disruption and maintain supplies in Guernsey with just 13,000 customers being off supply for up to 25 minutes.

Whilst the loss of power is never good news, I am pleased to report that Island customers, both domestic and commercial, only experienced 37.2 minutes loss of supply on average compared to 68.6 minutes lost during the previous financial year. The risk mitigation and standby procedures we have introduced, and which we continually monitor, have enabled us to continue to meet customers' demands for electricity supply.

### Major Project

In February of this year we commissioned and began operating our new medium speed Diesel engine, 2D which provides us with an additional 17MW of on-Island generating capacity. This enormous piece of equipment, weighing in at almost 400 tonnes, could be seen by many Islanders as it was unloaded at St Sampson's Harbour in August 2012 and transported along the quayside to the power station. Its installation has been a major project for the company and represents a significant investment.

### Financial Performance

The last year has seen a significant improvement in the company's trading performance with overall results showing an operating loss of £0.3m compared with a loss of £3.4m the previous year. The improvement has come from lower costs and the full year impact of the October 2012 price increase of 9%. In 2012 we suffered the loss of our import cable for 6 months which resulted in reliance on generation whilst this year the cable has operated without interruption. Our costs therefore, show a reduction in generation expenditure and an increase in lower priced imports, however due to the restrictions in our import capacity it has still been necessary to generate locally to meet 59% of customer demand.

# Guernsey Electricity Limited

## Managing director's report - continued

Overall loss before tax was £0.2m, an improvement of £3.2m from the prior year loss of £3.4m. The results reflect a good performance given the operational difficulties. The company continues to benefit from a strong balance sheet with our fixed asset base of £112.3m increasing by £12.1m from the previous year reflecting our investment of £12.6m in the Normandie 3 (N3) cable from Jersey to France.

The net cash outflow for the year of £10.7m compared with £8.1m in the previous year is largely attributable to net capital expenditure which had a net cash cost of £18.7m. This comprised an £8m increase over the previous year, principally as a result of the investment in the N3 cable. Cash inflow from operating activities increased from £2.2m last year to £7.7m this year as a result of the company's improved operating results.

At the year-end we had net debt of £1.8m comprising £6.0m loans and closing cash balances of £4.2m compared to net cash balances of £9.0m last year; these amounts include balances with the States of Guernsey of £3.5m (2013:£4.3m)

Shareholder's funds have decreased by £2.1m, from £98.5m to £96.4m. This was a result of £0.2m of post-tax losses for the year and the actuarial loss in the pension scheme, net of the movement in deferred tax relating to the pension deficit of £1.9m. The company is part of the States of Guernsey Pension Scheme.

The net pension deficit after deferred tax, reported under Financial Reporting Standard 17 ("FRS 17") Retirement Benefits, has increased from £15.2m to £18.1m. We await the outcome of the current changes proposed for the States' Public Servants Pension Scheme; we support the position that the scheme is no longer affordable or sustainable.

### **The Future**

For Guernsey Electricity, our strategic priorities are aligned with delivering a reliable and efficient electricity service in a challenging environment, both in terms of size and energy supply. Guernsey is a small Island with only 30,000 customers and as a guiding principle, our aim is to ensure we maintain affordability today whilst also planning for increased security and carbon reductions into the future. The geographic location of the Island in relation to Jersey and France is such that the importation of electricity supplies does present problems and risks which will remain until the import infrastructure is more robust. As a consequence we have to be in a position to generate locally to meet the whole Island's demands if necessary.

We have been working closely with Jersey Electricity for a number of years strategically and practically, planning the installation of a further cable from Jersey to France (N3) which, when commissioned, will enable us to increase our electricity imports to between 80 and 90%. We are moving towards a future whereby we will only need to operate the power station for short periods of high demand or when imported supplies are interrupted.

# Guernsey Electricity Limited

## Managing director's report - continued

A key issue for the company is that even with a robust and resilient cable network in place we are still required to maintain an on-Island generation facility under the N-2 security standard previously set by the States of Guernsey; this standard requires Guernsey Electricity to ensure sufficient capacity to meet maximum demand in the event of the loss of its two largest sources of supply. Following a recent investigation by the States of Guernsey Scrutiny Committee, we expect to receive feedback as to the appropriateness of the current security requirement later this year. In addition, a report on strategy and security of supply has been jointly produced by the Policy Council, Treasury & Resources Department and the Commerce & Employment Department and following consultation will be considered by the States in July. It would appear unlikely that there will be significant changes to the security policy or the requirement to maintain on-Island generation, however Guernsey Electricity continues to keep a watching brief on commercially viable alternatives, particularly in relation to the role both renewables and energy storage will play in the future.

### **The Team**

I would like to finally stress that the company and its employees remain fully committed to providing a high level of service to its customers and that we will continue to deal with the challenges we face whilst striving to improve what we do in the future.

# Guernsey Electricity Limited

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2014. These comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement and notes to the financial statements set out on pages 21 to 38.

### **Incorporation**

Guernsey Electricity Limited 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.

### **Customers**

The number of customers as at 31 March 2014 is 29,812 (2013: 29,633).

### **Units**

Importation through the cable link between Guernsey, Jersey and the European grid provided 41% (2013: 28%) of the island's electricity needs in the year ended 31 March 2014 and 59% (2013: 72%) was generated on the island, as shown by the units analysis below:

	2014	2013
Units imported MWh	155,964	111,244
Units generated MWh	<u>227,057</u>	<u>288,760</u>
<b>Total units imported/generated MWh</b>	<b><u>383,021</u></b>	<b><u>400,004</u></b>

### **Average price**

The average price per kWh sold in the year ended 31 March 2014 was 14.92 pence (2013: 14.43 pence) and this change was primarily as a result of the 9% tariff increase which was effective from 1 October 2012.

### **Reliability**

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power outages can be caused by failures of generation plant, the distribution network or the cable link. Customers lost 10.80 minutes due to generation activity (2013: 24.65 minutes) and 26.35 minutes were lost per customer in respect of distribution (2013: 43.95 minutes).

### **Directors and their interests**

The directors of the company, who served during the year and to date, are as detailed on page 1. The directors have no beneficial interests in the shares of the company.



# Guernsey Electricity Limited

## Directors' report - continued

### 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

A resolution for the appointment of auditor will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors



**IH Beattie**



**DS Hipple**  
*Directors*

*10 June*

2014

# Guernsey Electricity Limited

## Corporate governance

Guernsey Electricity's corporate governance arrangements are based on the proportionate and relevant application of good practice principles in corporate governance and predominantly those contained within the UK Corporate Governance Code published in September 2012.

### **Directors**

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, the non-executive directors are appointed by the States of Guernsey on the nomination of the States of Guernsey Advisory & Finance Committee, now the Treasury & Resources Department. The first executive directors were appointed by the Advisory & Finance Committee after consultation with the non-executive directors. Further appointments of executive directors are made by the company's Board of Directors.

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, sets its values and standards and takes decisions objectively in the interests of the company, its shareholders and other stakeholders.

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.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to the shareholder and those which can be delegated to Sub-Committees of the Board or senior management.

There were 10 Board meetings held during 2013/14. If a Board member cannot attend a meeting, they receive a copy of the agenda and the accompanying papers in advance of the meeting and are able to comment on the matters to be discussed.

The names of directors and the membership of the Board Sub-Committees are set out in the sections below. The Board Sub-Committees have authority to make decisions according to their terms of reference.

### **Chairman and Chief Executive**

Guernsey Electricity has a non-executive chairman and a managing director. There is a clear division of responsibilities between the two positions with the chairman responsible for the running of the Board and the managing director responsible for the running of the company's business.

Ian Beattie spends on average 1 day per week in his role as chairman. The Board consider that he has no other external directorships which make conflicting demands on his time as chairman.

Robert Lawrence is the deputy chairman appointed by the Board.

# Guernsey Electricity Limited

## Corporate governance - continued

### **Board balance and independence**

Throughout the year 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 four 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.

### **Appointments to the Board**

During 2013 Iain Limond and David Farrimond retired from the Board. David Hipple, Robert Dutnall and Christine Holmes joined the Board.

Recommendations for appointments to the Board are the responsibility of the Remuneration & Nominations Sub-Committee. The appointment of non-executive directors is made by resolution of the States of Deliberation. All Board appointments are made in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001 and the company's Articles of Incorporation.

### **Information and professional development**

For each scheduled Board meeting the chairman 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. The Company Secretary is available to give ongoing advice to all directors on Board procedures and corporate governance matters.

# Guernsey Electricity Limited

## Corporate governance - continued

### Attendance at Board meetings

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

Director	Meetings Attended/Total Meetings Held
IH Beattie	10/10
AM Bates	10/10
DS Hipple	7/8
RW Beebe	7/10
S-A David	8/10
MJ Mann	10/10
RP Lawrence	10/10
IA Hardman	9/10
RJ Dutnall	6/7
CM Holmes	5/7
IJ Limond (retired during year)	2/2
D Farrimond (retired during year)	2/2

### Performance evaluation

The Board undergoes an annual evaluation of its performance. The last assessment was for the period up to 30 April 2013 and the next assessment is currently taking place. The evaluation consists of an internally produced confidential questionnaire, which is independently assessed by the Company Secretary who then prepares a report for consideration by the Board.

### Election and re-election of directors

Guernsey Electricity's Articles of Incorporation require that non-executive directors retire by rotation but provide that they are eligible for re-election. Non-executive directors are submitted for re-election in accordance with the principles agreed with the company's shareholder. Non-executive directors serve the company under letters of appointment, which are generally for an initial three year term.

At the 2014 annual general meeting, IA Hardman and RP Lawrence will retire from the Board by rotation and will be recommended by the Board for re-election. M Mann will retire from the Board at the 2014 annual general meeting in accordance with the principles agreed with the shareholder.

### Remuneration

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the chairman and non-executive directors are determined by the Treasury & Resources Department.

# Guernsey Electricity Limited

## Corporate governance - continued

### **Remuneration (continued)**

The Remuneration & Nominations Sub-Committee, which is chaired by Martyn Mann, consists solely of a minimum of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the executive director and senior management remuneration policy as agreed from time to time by the Board. 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.

The Remuneration & Nominations Sub-Committee is also tasked with considering the balance of the Board, director and senior management job descriptions and objective criteria for Board appointments and succession planning.

### **Accountability and Audit**

#### **Financial reporting**

The company has a comprehensive system for reporting the financial performance of the company and each of its business units. Management and the Board of Directors review these monthly. The financial statements for the accounting period ending on the accounting reference date of 31 March are reviewed and signed on behalf of the Board of Directors, and will be presented to the shareholder at the forthcoming annual general meeting.

#### **Internal control and risk management**

During 2013/14 the executive team continued to identify, monitor and review the risks facing the business, so as to be able to put into place and maintain robust controls and actions to manage them. The Board is updated regularly on risk matters. The risk management process is the responsibility of the Corporate Strategy Director.

All directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company's systems are designed with the purpose of providing the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

The Board obtains its assurance on the effectiveness of the system of internal control from a variety of sources, including internal audit, regular updates on risk management and internal control, health and safety, monthly management information and representations from the executive team.

Internal audit has a continuing role in monitoring and reporting on business risks. This service continues to be provided by Baker Tilley (formerly RSM Tenon), a leading entity in providing such services. The Corporate Strategy Director, in association with Baker Tilley, reports on all internal audit work in accordance with the plan approved by the Audit & Risk Sub-Committee. Specialist engineering audits complement this, again as approved by the Audit & Risk Sub-Committee.

The company has established controls and procedures over the security of data held on IT systems and has in place comprehensive disaster recovery arrangements. These arrangements are tested regularly and reviewed by independent consultants.

# Guernsey Electricity Limited

## Corporate governance - continued

### **Audit & Risk Sub-Committee and auditor**

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.

The Board has delegated responsibility to the Audit & Risk Sub-Committee for reviewing the effectiveness of the system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law. Whilst the Sub-Committee has no executive powers, it has wide ranging terms of reference and reports to the Board on a regular basis. It is empowered to make recommendations to the Board where such are considered necessary to ensure the proportionate and relevant application of good practice principles in corporate governance and the management of the company's relationship with the company's external auditor.

The Audit & Risk Sub-Committee members comprise non-executive directors. Robert Lawrence is the chairman 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.

The Audit & Risk Sub-Committee meets at least once a year with representatives of the company's external auditor.

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

For the period from 1 April 2013 to 6 August 2013:

Chairman: D Farrimond  
Member: IH Beattie  
RP Lawrence

With effect from 6 August 2013:

Chairman: RP Lawrence  
Members: IH Beattie  
RJ Dutnall  
CM Holmes

Attendance during the year for Audit & Risk Sub-Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
RP Lawrence	3/4
IH Beattie	4/4
RJ Dutnall	2/3
CM Holmes	3/3
D Farrimond	1/1

# Guernsey Electricity Limited

## Corporate governance – continued

### **Sub-Committees of the Board and main terms of reference**

In addition to regular scheduled Board meetings, the company operates through Board Sub-Committees, of which the main terms of reference are set out below (except the Audit & Risk Sub-Committee which is outlined above).

#### **Remuneration & Nominations Sub-Committee**

Martyn Mann is the chairman of the Remuneration & Nominations Sub-Committee.

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.

In deciding the remuneration and other employment conditions of executive directors, the Sub-Committee acts independently of the executive and seek to safeguard the interests of the company's shareholder.

In respect of remuneration matters the Sub-Committee's responsibilities include:

- The determination, maintenance, and development of documentation, detailing broad company policy and clear, formal and transparent procedures in regard to remuneration and performance related issues in respect of executive and senior management remuneration, bonus and performance matters. This is done on behalf of the Board and all significant policy and procedural changes in relation to remuneration matters must be approved by the whole Board.
- The determination of the remuneration and other employment conditions of executive directors and senior management (including contractual issues) with the objective of ensuring that executive directors and senior management are provided with appropriate incentives which will encourage enhanced performance and that they are competitively, fairly and responsibly rewarded for their individual contributions to the company's overall performance.

In respect of nomination matters, the main terms of reference of this Sub-Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board and holders of any executive office.

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

For the period from 1 April 2013 to 6 August 2013:

Chairman: MJ Mann  
Members: IH Beattie  
IA Hardman

With effect from 6 August 2013:

Chairman: M J Mann  
Members: IH Beattie  
IA Hardman  
RJ Dutnall  
CM Holmes

# Guernsey Electricity Limited

## Corporate governance - continued

### Remuneration & Nominations Sub-Committee (continued)

Attendance during the year for Remuneration & Nominations Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
MJ Mann	3/3
IH Beattie	3/3
IA Hardman	3/3
RJ Dutnall	2/2
CM Holmes	1/2

### Land & Property Sub-Committee

David Hipple is chairman 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 chairman of the Board together with all of the executive directors.

Attendance during the year for Land & Property Sub-Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
DS Hipple	3/4
S-A David	5/7
RW Beebe	5/7
IH Beattie	7/7
AM Bates	5/7
IJ Limond (retired during year)	2/2

### 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 (now Treasury & Resources Department) to undertake, on behalf of the States, the role of shareholder. In accordance therewith, the share certificates for the whole issued share capital are held equally in the names of the Minister and Deputy Minister of the Treasury & Resources Department, in trust, as nominees, on behalf of the States of Guernsey. Provision is also in place for the States to give guidance to the Treasury & Resources Department on the policies it wishes to be pursued in fulfilling this role. Each year, the company submits its forward plan to the Treasury & Resources Department. 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.



# Guernsey Electricity Limited

## 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 year. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable 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
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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 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.

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

We have audited the financial statements of Guernsey Electricity Limited (the "Company") for the year ended 31 March 2014 which comprise the Balance Sheet, Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its loss for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

### **Matters on 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:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited  
*Chartered Accountants*  
Guernsey

11 June 2014

The maintenance and integrity of the Guernsey Electricity Limited website 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 or audit report since they were initially presented on the website.

# Guernsey Electricity Limited

## Profit and loss account for the year ended 31 March 2014

	<i>Note</i>	<b>2014</b> <b>£'000</b>	2013 £'000
Turnover	2	55,895	56,443
Cost of sales		<u>(43,928)</u>	<u>(48,140)</u>
Gross profit		11,967	8,303
Net operating expenses		<u>(12,222)</u>	<u>(11,714)</u>
Operating loss	3	(255)	(3,411)
Loss on disposal of assets		<u>(88)</u>	<u>(235)</u>
<b>Loss on ordinary activities before interest, other finance cost and other income</b>		<b>(343)</b>	<b>(3,646)</b>
Interest receivable	4	402	257
Interest payable	4	(82)	(1)
Other finance cost		(208)	(161)
Other income	5	<u>-</u>	<u>198</u>
<b>Loss on ordinary activities before taxation</b>		<b>(231)</b>	<b>(3,353)</b>
Taxation	6	<u>37</u>	<u>831</u>
<b>Loss for the financial year after taxation</b>		<b><u>(194)</u></b>	<b><u>(2,522)</u></b>

All activities derive from continuing operations.

The notes on pages 21 to 38 form an integral part of these financial statements.

# Guernsey Electricity Limited

## Statement of total recognised gains and losses for the year ended 31 March 2014

	<i>Note</i>	<b>2014</b> <b>£'000</b>	2013 £'000
Loss for the financial year		<b>(194)</b>	(2,522)
Actuarial loss recognised in the pension scheme	23	<b>(2,298)</b>	(1,540)
Movement on deferred tax relating to pension deficit	14	<b>443</b>	301
		<hr/>	<hr/>
<b>Total recognised loss for the year</b>		<b><u>(2,049)</u></b>	<b><u>(3,761)</u></b>

The notes on pages 21 to 38 form an integral part of these financial statements.

# Guernsey Electricity Limited

## Balance sheet at 31 March 2014

	<i>Note</i>	2014 £'000	2013 £'000
<b>Tangible fixed assets</b>	8	<u>112,300</u>	<u>100,186</u>
<b>Current assets</b>			
Stocks and work in progress	9	6,385	7,236
Debtors and prepayments	10	11,714	12,525
Balances with States Treasury	11	3,510	4,346
Cash at bank and in hand		<u>734</u>	<u>4,632</u>
		<u>22,343</u>	<u>28,739</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(9,260)</u>	<u>(10,612)</u>
<b>Net current assets</b>		<u>13,083</u>	<u>18,127</u>
<b>Total assets less current liabilities</b>		125,383	118,313
<b>Creditors: amounts falling due after more than one year</b>	13	(10,159)	(4,057)
<b>Provision for liabilities and charges</b>	14	(750)	(619)
<b>Net pension deficit</b>	23	<u>(18,064)</u>	<u>(15,178)</u>
<b>Net assets including pension deficit</b>		<u>96,410</u>	<u>98,459</u>
<b>Share capital</b>	15	109,209	109,209
<b>Reserves</b>	19	<u>(12,799)</u>	<u>(10,750)</u>
<b>Shareholders' funds</b>	20	<u>96,410</u>	<u>98,459</u>

The financial statements on pages 17 to 38 were approved by the Board of Directors on 10 June 2014.

Signed on behalf of the Board of Directors

IH Beattie

DS Hipple  
Directors

The notes on pages 21 to 38 form an integral part of these financial statements.

# Guernsey Electricity Limited

## Cash flow statement

for the year ended 31 March 2014

	<i>Note</i>	2014 £'000	2013 £'000
<b>Net cash inflow from operating activities</b>	<i>16</i>	<u>7,669</u>	<u>2,191</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		389	241
Interest paid		<u>(44)</u>	<u>(1)</u>
<b>Net cash inflow from returns on investments and servicing of finance</b>		<u>345</u>	<u>240</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(19,076)	(11,050)
Proceeds of disposal of tangible fixed assets		12	12
Customers' contributions towards capital expenditure		<u>316</u>	<u>305</u>
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(18,748)</u>	<u>(10,733)</u>
<b>Other income</b>	<i>5</i>	-	198
<b>Net cash outflow before use of liquid resources and financing</b>		<u>(10,734)</u>	<u>(8,104)</u>
<b>Management of liquid resources</b>			
Net cash movements with States Treasury		<u>(836)</u>	<u>(12,483)</u>
<b>Financing</b>			
Amounts drawn under medium term credit facility	<i>13</i>	<u>(6,000)</u>	-
<b>(Decrease)/increase in cash</b>	<i>17 &amp; 18</i>	<u>(3,898)</u>	<u>4,379</u>
<b>Net cash outflow</b>		<u>(10,734)</u>	<u>(8,104)</u>

Movements in balances with States Treasury and the other income are deemed liquid resources in accordance with Financial Reporting Standard 1, "Cash Flow Statements", ("FRS1") (as revised).

The notes on pages 21 to 38 form an integral part of these financial statements.

# Guernsey Electricity Limited

## Notes to the financial statements

*Year ended 31 March 2014*

### 1. **Principal accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

#### *Basis of preparation*

The financial statements have been prepared under the historical cost convention, they give a true and fair view, have been prepared in accordance with UK GAAP and are in compliance with the Companies (Guernsey) Law, 2008.

#### *Transfer of undertaking*

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.

#### *Sales of electricity*

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

#### *Hire purchase*

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 turnover at the inception of the hire purchase transaction and interest is included in interest receivable over the finance period of the transaction.

#### *Interest*

Interest receivable and payable are accounted for on an accruals basis.

#### *Deferred income*

Customers' contributions towards capital expenditure are credited in equal annual amounts to the profit and loss account over the estimated life of the assets to which they relate.

#### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less depreciation. 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 below.

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 1. Principal accounting policies - continued

#### *Tangible fixed assets and depreciation - continued*

Depreciation is calculated so as to write off the cost of tangible fixed assets over the period of their estimated useful lives using the straight line method. The estimated life of each class of fixed asset is set out below. Depreciation commences in the year of acquisition, or on completion of construction. Any shortfall of depreciation arising on the disposal, or write-off, of fixed assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. The estimated lives are as shown below:

	Estimated life in years
Buildings	40
Buildings Equipment	10
Cable Link	25
Plant and machinery - Generation	25 – 35
- Distribution	35
- Street Lights	20
Distribution network comprising:	
Distributors	35
Meters	5 – 15
Cyclocontrol receivers	5
Motor vehicles	5
Furniture and equipment	3 – 10
Minor plant	5 – 10

#### *Stocks and work in progress*

Stocks and work in progress are valued at the lower of cost and net realisable value. 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 stocks relating to strategic plant, based upon the remaining useful economic life of the assets to which they relate.

#### *Leases*

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

#### *Deferred taxation*

Provision for deferred tax is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise, based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. The pension scheme deficit shown in the accounts is net of the deferred tax asset. Deferred tax assets and liabilities are not discounted.



# Guernsey Electricity Limited

## Notes to the financial statements - continued

*Year ended 31 March 2014*

### **1. Principal accounting policies - continued**

#### *Foreign exchange*

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Foreign currency profits and losses are dealt with in the profit and loss account.

#### *Financial instruments*

The company enters into forward exchange contracts to mitigate the risk of fluctuations in the currency rate between the Euro and the Pound Sterling in meeting its financial obligations for the import of electricity units from the European grid and on major infrastructure projects, including the new on-island generator, 2D. Gains and losses on these contracts are deferred and recognised in the profit and loss account only when the delayed transaction has itself been reflected in the company's account. 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. Gains and losses are recognised in the profit and loss account when realised.

#### *Pension costs*

The employees' pension scheme is a defined benefits scheme. The company applies Financial Reporting Standard 17, "Post retirement benefits", ("FRS17"). In so doing, current service cost and any past service cost is charged to the profit and loss account, together with finance costs/income for the scheme which are charged/credited to the profit and loss account. The difference between the expected and actual actuarial gains and losses are charged to the statement of total recognised gains and losses. 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 FRS17.

#### *Joint Arrangements*

The Channel Islands Electricity Grid Limited is a Joint Arrangement between Jersey Electricity plc and Guernsey Electricity Limited who each own an equal 50% shareholding. The company was formed to manage the project and the ongoing operation of the cable link between Guernsey, Jersey and France. In accordance with Financial Reporting Standard 9, "Associates and Joint Ventures", ("FRS9"), 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 Joint Arrangement.

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 2. Turnover

	2014 £'000	2013 £'000
Sales of electricity	52,526	52,894
Other sales	<u>3,369</u>	<u>3,549</u>
	<u>55,895</u>	<u>56,443</u>

All sales of electricity arise from customers in the Island of Guernsey. Other sales are made to customers throughout the Bailiwick of Guernsey. As stated in the accounting policy for sales of electricity, each year an estimate of the unbilled units as at 31 March is determined.

### 3. Operating Loss

*Operating loss is after charging / (crediting):*

	2014 £'000	2013 £'000
Depreciation (note 8)	5,598	5,632
Rentals under operating leases	12	12
Auditor's remuneration - statutory audit	41	33
- non-audit services	15	-
Bad debts	25	65
Emoluments		
- non-executive directors	65	53
- executive directors		
- basic remuneration	493	455
- other benefits (including pension costs under FRS17)	216	180
Regulatory costs		
- external	75	129
- internal	19	71
Other operating income	<u>(619)</u>	<u>(668)</u>

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 4. Interest

	2014 £'000	2013 £'000
Interest receivable:		
Deposits with banks and States Treasury	266	122
Hire purchase	<u>136</u>	<u>135</u>
	<u>402</u>	<u>257</u>
Interest payable:		
Medium term credit facility	81	-
Other interest payable	<u>1</u>	<u>1</u>
	<u>82</u>	<u>1</u>

### 5. Other income

Of the £5,350,000 that the States of Guernsey Electricity Board had on deposit with the Bank of Credit and Commerce International when it ceased trading on 5 July 1991, £5,623,633 has been recovered. £Nil was received in the current year (2013: £197,477). Distributions by the liquidator are denominated in US Dollars and therefore exposed to Sterling / Dollar fluctuations. This represents a full recovery of the original capital deposit together with interest.

### 6. 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 year basis. The assessable profits for the current year have been offset against the unrelieved trading losses and excess capital allowances carried forward from prior years. Consequently, all tax is deferred and there is no tax payable for the current year.

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 6. Taxation - continued

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 19.2811% (2013: 19.6173%) 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 year ended 31 March 2014.

The deferred tax credit in the profit and loss account for the year is:

	2014 £'000	2013 £'000
Timing differences on capital allowances and depreciation	252	(50)
Short term timing differences (pension)	(168)	(228)
Short term timing differences (other)	(22)	(55)
Movement on unrelieved trading losses	<u>(99)</u>	<u>(498)</u>
	<u>(37)</u>	<u>(831)</u>

### 7. Dividend

At the Annual General Meeting, the company will be proposing a dividend in specie to its shareholder out of the profits it made during 2011/12. It is proposing to transfer the ownership of Tidal and Bathymetry Data that it has built up to its shareholder. As this data has a zero net book value it will be transferred for this amount.

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 8. Tangible fixed assets

	1 April 2013 £'000	Additions £'000	Written off/ disposals £'000	31 March 2014 £'000
<i>Cost</i>				
Land and buildings	30,589	396	100	<b>30,885</b>
Cable link	29,316	13,890	-	<b>43,206</b>
Plant and machinery:				
Generation	46,469	1,173	-	<b>47,642</b>
Distribution	12,047	592	2	<b>12,637</b>
Distribution network	31,266	1,583	106	<b>32,743</b>
Motor vehicles, furniture and equipment, minor plant	<u>5,426</u>	<u>179</u>	<u>45</u>	<u><b>5,560</b></u>
	<u>155,113</u>	<u>17,813</u>	<u>253</u>	<u><b>172,673</b></u>
	1 April 2013 £'000	Charge for the year £'000	Written off/ disposals £'000	31 March 2014 £'000
<i>Depreciation</i>				
Land and buildings	9,380	871	57	<b>10,194</b>
Cable link	13,706	1,242	-	<b>14,948</b>
Plant and machinery:				
Generation	17,013	1,468	-	<b>18,481</b>
Distribution	2,700	355	1	<b>3,054</b>
Distribution network	8,777	1,162	49	<b>9,890</b>
Motor vehicles, furniture and equipment, minor plant	<u>3,351</u>	<u>500</u>	<u>45</u>	<u><b>3,806</b></u>
	<u>54,927</u>	<u>5,598</u>	<u>152</u>	<u><b>60,373</b></u>
<b>Net book value</b>	<u>100,186</u>			<u><b>112,300</b></u>

Included above are assets in the course of construction of £16,739,000 (2013: £13,352,000), which are not depreciated.

# Guernsey Electricity Limited

Notes to the financial statements - continued  
Year ended 31 March 2014

## 9. Stocks and work in progress

	2014		2013	
	£'000	£'000	£'000	£'000
Fuel stocks		4,190		5,109
Purchased goods for resale	329		283	
Provision	<u>(7)</u>	322	<u>(3)</u>	280
Other stocks	3,612		3,444	
Provision	<u>(1,865)</u>	1,747	<u>(1,743)</u>	1,701
Work in progress		<u>126</u>		<u>146</u>
		<u>6,385</u>		<u>7,236</u>

## 10. Debtors and prepayments

	2014	2013
	£'000	£'000
Estimated value of unbilled units	6,512	7,867
Customer accounts outstanding	3,708	3,687
Other debtors	1,108	360
Prepayments	<u>386</u>	<u>611</u>
	<u>11,714</u>	<u>12,525</u>

Included in "Customer accounts outstanding" is an amount totalling £306,000 (2013: £293,000) due after more than one year.

## 11. 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.

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 12. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	1,786	4,361
Customer payments received in advance	5,638	4,833
Employee taxes and Social Security	165	168
Deferred income	154	146
Accruals and other creditors	<u>1,517</u>	<u>1,104</u>
	<u>9,260</u>	<u>10,612</u>

The company has a £1,000,000 overdraft facility with Barclays Bank Plc (2013: £750,000), 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. The facility is due for review on 18 February 2015. The States of Guernsey, by way of resolution at its meeting on 15 December 2011, authorised the Treasury & Resources Department to make an overdraft facility of £5m available to the company for a four year period from 1 January 2012 with interest payable at the States Treasury rate.

### 13. Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
Deferred income	4,159	4,057
Amount drawn under medium term credit facility	<u>6,000</u>	-
	<u>10,159</u>	<u>4,057</u>

The company entered into a five year, £20m revolving credit loan facility with HSBC to finance its share of the cost of the "Normandie 3" project relating to the installation of a new sub-sea cable interconnector between Jersey and France. The facility is guaranteed by the States of Guernsey and a facility charge payable to the States of Guernsey of 0.50% is levied on the value of the amount drawn down for the term of the loan. The loan incorporates an option to increase the credit facility to £30m for the purpose of the future financing of the company's share of the "Normandie 1" project which will see an overlay of the failed "EDF1" cable between Jersey and France. During the year, the company utilised £6m of the loan in a single drawdown.

### 14. Provision for liabilities and charges

	2014 £'000	2013 £'000
Deferred taxation:		
Balance at 1 April	(3,085)	(1,953)
Profit and loss account credit	(37)	(831)
Statement of total recognised gains and losses	<u>(443)</u>	<u>(301)</u>
<b>Balance at 31 March</b>	<b><u>(3,565)</u></b>	<b><u>(3,085)</u></b>
Which comprises:		
Capital allowances in excess of depreciation	7,861	7,609
Short-term timing differences (other)	(215)	(193)
Unrelieved trading loss for tax purposes	<u>(6,896)</u>	<u>(6,797)</u>
Provision for liabilities and charges	<u>750</u>	<u>619</u>
<b>Deferred tax asset on pension deficit (note 23)</b>	<b><u>(4,315)</u></b>	<b><u>(3,704)</u></b>

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 15. Share capital

	2014 £'000	2013 £'000
<i>Authorised:</i>		
125,000,000 ordinary shares of £1 each	<u>125,000</u>	<u>125,000</u>
<i>Issued and fully paid:</i>		
109,208,844 ordinary shares of £1 each	<u>109,209</u>	<u>109,209</u>

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.

### 16. Reconciliation of operating loss to net cash inflow from operating activities

	2014 £'000	2013 £'000
Operating loss	(255)	(3,411)
Depreciation charge	5,598	5,632
Pension service cost	2,082	1,812
Employer's pension cash contributions	(1,092)	(1,062)
Deferred income	(154)	(146)
Decrease in stocks and work in progress	851	594
Decrease/(increase) in debtors and prepayments	825	(1,747)
(Decrease)/increase in creditors	<u>(186)</u>	<u>519</u>
	<u>7,669</u>	<u>2,191</u>

### 17. Reconciliation of net cash flow to movement in net (debt)/funds

	2014 £'000	2013 £'000
(Decrease) / increase in cash in the year	(3,898)	4,379
Cash used to decrease liquid resources	(836)	(12,483)
Amount drawn under medium term credit facility	<u>(6,000)</u>	<u>-</u>
Change in net funds	(10,734)	(8,104)
Net funds at 1 April	<u>8,978</u>	<u>17,082</u>
<b>Net debt at 31 March</b>	<u><b>(1,756)</b></u>	<u><b>8,978</b></u>

### 18. Analysis of changes in net funds/(debt)

	At 1 April 2013 £'000	Cash flows £'000	At 31 March 2014 £'000
Cash at bank and in hand	4,632	(3,898)	734
Balances with States Treasury	4,346	(836)	3,510
Credit facility due after one year	<u>-</u>	<u>(6,000)</u>	<u>(6,000)</u>
	<u>8,978</u>	<u>(10,734)</u>	<u>(1,756)</u>



# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 19. Reserves

	2014 £'000	2013 £'000
Balance at 1 April brought forward	(10,750)	(6,989)
Loss for the financial year	(194)	(2,522)
Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	(1,855)	(1,239)
	<u>(12,799)</u>	<u>(10,750)</u>

### 20. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Shareholders' funds at 1 April brought forward	98,459	102,220
Loss for the financial year	(194)	(2,522)
Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	(1,855)	(1,239)
	<u>96,410</u>	<u>98,459</u>

### 21. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £11,615,000 as at 31 March 2014 (2013: £6,117,000). These relate to outstanding commitments on capital projects across a range of asset categories.

#### *Cable link commitments*

For the import of power from the European Grid, the company has a contract with Electricite de France ("EdF"). The existing electricity import contract with EdF is effective for a 10 year period which commenced from 1 January 2013. The related transmission agreement with Reseau de transport d'electricite ("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 ("CIEG") and Jersey Electricity plc, for a block of power over the term of the contract. The price at which the take or pay block is charged increases annually over the period of the contract and for calendar year 2015 this equates to a total commitment of €8.7m (2014: €8.3m) for Guernsey Electricity Limited.

#### *Operating lease commitments*

Commitments to make payments during the next year in respect of an operating lease are as follows:

	2014 £'000	2013 £'000
<i>Land and Buildings</i>		
Lease which expires:		
Within one year	13	-
Within two to five years	-	12

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 22. Financial instruments

#### (a) Import Financial Hedge

Import contracts with EdF and RTE are denominated in Euros. The company has entered into forward and participating forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	2014 €'000	2013 €'000
Forward contracts to purchase Euro	<u>3,850</u>	<u>5,572</u>
	£'000	£'000
Contracted prices	<u>3,281</u>	<u>4,778</u>
<b>Closing value at 31 March</b>	<u><b>3,183</b></u>	<u><b>4,700</b></u>
Unrecognised and unrealised loss	<u>(98)</u>	<u>(78)</u>

If the spot exchange rate falls below the forward rate, the company is protected by forward contracts to purchase Euros as follows:

	2014 €'000	2013 €'000
Forward contracts to purchase Euro	<u>5,500</u>	<u>7,960</u>
Forward exchange rate range	<b>1.1540 to 1.2027</b>	1.1460 to 1.1810

The sterling/euro rate at 31 March 2014 was 1.2098 (2013: 1.1853).

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 22. Financial instruments - continued

#### (b) On-island Generation Financial Hedge

The company has entered into a financial hedge on the commodity price of heavy fuel oil used for its on-island generation. The commitment to this is for an annual volume for financial year 2014/15 of 23,000 metric tonnes at an average price of £397.15/metric tonne amounting to a total hedged position of £9.1m. The prior year financial statements reported financial hedges on heavy fuel oil totalling £15.6m comprising 32,500 metric tonnes at an average price of £415.72/metric tonne and 5,000 metric tonnes at an average price of £413.00/metric tonne for 2013/14 and 2014/15 respectively.

#### (c) 2D Project Hedge

The main contract for the new medium speed diesel engine, 2D, was also denominated in Euros. The company entered into forward and participating forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	2014 €'000	2013 €'000
Forward contracts to purchase Euro	<u>—</u>	<u>174</u>
	<b>£'000</b>	<b>£'000</b>
Contracted prices	<u>—</u>	<u>148</u>
<b>Closing value at 31 March</b>	<u>—</u>	<u>147</u>
Unrecognised and unrealised loss	<u>—</u>	<u>(1)</u>

#### (d) Interest Rate Cap

The company has entered into an interest rate cap to hedge part of the interest rate risk associated with the £20m revolving credit facility. An interest rate cap of 3% has been applied to a notional amount of £8.4m and is referenced against the three month sterling LIBOR rate. The valuation of this instrument as at 31 March 2014 was £52,000.

# Guernsey Electricity Limited

## Notes to the financial statements - continued

*Year ended 31 March 2014*

### **23. Pension Scheme**

#### **Employee benefit obligations for Guernsey Electricity Limited**

The 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 to the PSPS at rates which are determined on the basis of independent actuarial advice, and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

As the PSPS is a multi entity arrangement, the States of Guernsey contracted the Scheme'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 triennial valuation at 31 December 2010 recommended the decrease of employer's contribution from 17.3% to 14.6% from 1 April 2012 and this was approved by the States of Guernsey. The value of these employer contributions to the Fund from 1 April 2014 to 31 March 2015 are estimated at £1,115,000.

The triennial actuarial valuation of the PSPS as at 31 December 2013 is still in progress and consequently, the results of this latest valuation were not available at the time of reporting.

#### **Description of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund ("the Fund")**

The Fund is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary.

The company recognises the requirements of Financial Reporting Standard 17 ("FRS17") Retirement Benefits on the following basis:

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. 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.

# Guernsey Electricity Limited

## Notes to the financial statements - continued Year ended 31 March 2014

### 23. Pension Scheme - continued

The amounts recognised in the balance sheet are as follows:

	2014 £'000	2013 £'000
Fair value of Fund assets	50,611	47,981
Present value of funded obligations	<u>(72,990)</u>	<u>(66,863)</u>
Deficit in scheme	<u>(22,379)</u>	<u>(18,882)</u>
Related deferred tax asset	<u>4,315</u>	<u>3,704</u>
Net pension liability	<u>(18,064)</u>	<u>(15,178)</u>

The amounts recognised in the profit and loss account are as follows:

	2014 £'000	2013 £'000
Current service cost	2,082	1,812
Interest on obligation	2,973	2,650
Expected return on Fund assets	<u>(2,765)</u>	<u>(2,489)</u>
Expense recognised in the profit and loss account	<u>2,290</u>	<u>1,973</u>
Actual return on Fund assets	<u>(2,814)</u>	<u>(4,687)</u>

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 23. Pension Scheme - continued

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
	£'000	£'000
Opening defined benefit obligation	66,863	59,615
Service cost	2,082	1,812
Interest cost	2,973	2,650
Contributions by members	493	479
Actuarial losses	2,347	3,738
Benefits paid	<u>(1,768)</u>	<u>(1,431)</u>
Closing defined benefit obligation	<u>72,990</u>	<u>66,863</u>

Changes in the fair value of Fund assets are as follows:

	2014	2013
	£'000	£'000
Opening fair value of Fund assets	47,981	43,184
Expected return	2,765	2,489
Actuarial gains	48	2,198
Contributions by employer	1,092	1,062
Contributions by members	493	479
Benefits paid	<u>(1,768)</u>	<u>(1,431)</u>
Closing fair value of Fund assets	<u>50,611</u>	<u>47,981</u>

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL):

	2014	2013
	£'000	£'000
Total actuarial losses	<u>(2,298)</u>	<u>(1,540)</u>
Total loss recognised in STRGL	<u>(2,298)</u>	<u>(1,540)</u>
Cumulative amount of loss recognised in STRGL	<u>(24,013)</u>	<u>(21,715)</u>

# Guernsey Electricity Limited

## Notes to the financial statements - continued Year ended 31 March 2014

### 23. Pension Scheme - continued

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

	2014 %	2013 %
Equities	70	69
Gilts	3	4
Corporate bonds	14	15
Property	9	7
Other assets	4	5

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	31 March 2014 % p.a.	31 March 2013 % p.a.
Discount rate	4.3	4.5
Expected return on Fund assets at 31 March (for following year)	6.6	5.8
Rate of increase in pensionable salaries	4.35	4.35
Rate of increase in deferred pensions	3.6	3.6
Rate of increase in pensions in payment	3.6	3.6

#### 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 87, if they are male, and until age 89, if female. For a member currently aged 45, the assumptions are that, if they attain age 65, they will live on average until age 89, if they are male, and until age 91, if female.

#### Description of the basis used to determine the expected rate of return on the assets

The company adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns, consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

# Guernsey Electricity Limited

## Notes to the financial statements - continued

Year ended 31 March 2014

### 23. Pension Scheme - continued

Amounts for the current and previous periods are as follows:

	2014	2013	2012	2011	2010
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	72,990	66,863	59,615	51,521	51,168
Fund assets	50,611	47,981	43,184	42,756	37,560
Deficit	(22,379)	(18,882)	(16,431)	(8,765)	(13,608)
Experience gains / (losses) on Fund assets	48	2,198	(2,620)	1,860	6,068
Experience (losses) / gains on Fund liabilities	(15)	28	932	504	1,208
Change in assumptions underlying the Present value of Fund liabilities	(2,332)	(3,766)	(5,530)	2,835	(14,464)
Total Experience (losses) / gains on Fund liabilities	(2,347)	(3,738)	(4,598)	3,338	(13,256)

The balance sheet position in respect of the Actuarial Account has worsened, due to the effect of the economic assumptions derived from the market.

An important financial factor underlying the change in assumptions item was the change in relationship between the corporate bond discount rate and the market derived assumption for future inflation. The discount rate decreased by 0.2%, while the inflation assumption remained the same. The effect of the change in assumptions was to increase the value placed on liabilities. The net position was an increase of around £3.5m in the deficit determined under FRS17.

### 24. Statement of control

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

### 25. Related party transactions

There are no disclosable related party transactions in this financial year. Of the company's annual income and expenditure, less than 20% of their respective value is due to transactions with other States entities.