

# Annual Report & Accounts 2011/2012





'To provide a secure, sustainable and reliable electricity service to the Island, which is affordable to our customers whilst minimising the impact on the environment in which we live'

Mission statement, Guernsey Electricity

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We are committed to delivering a high quality service at an affordable price

The world energy markets remain a challenge for Guernsey Electricity. The Fukushima disaster has had a far-reaching effect on European energy markets and the electricity market reforms in the UK have also affected the electricity generation industry.

Guernsey Electricity cannot be immune from the effects of the larger markets as indeed, in a way, it is a part of those markets. It therefore gives me great pleasure to report that the company has, despite that background, made good progress this year in developing its strategic plans and has returned a reasonable profit even when compared to the assets employed in the business. This profit will allow us to continue with the crucial infrastructure investments which are vital in order to allow us to meet the energy needs of Guernsey.

Two major contracts have been signed this year: first, a ten year contract for the supply of electricity from France and second a contract for the purchase of a new medium speed diesel generator to complement our existing baseload fleet. The new Electricité de

France contract for the supply of imported electricity was concluded in July 2011 and secures our low carbon and renewable energy supply allowing the electricity in Guernsey to continue to be decarbonised. The generator contract was placed in December 2011. This generator will ensure that the security of supply for the Island is maintained in a manner which is affordable to all.

The islandwide power cuts in September 2011 were stark reminders of the current position in terms of security of supply. The power cuts also demonstrated our resilience in terms of island generation and how important the power station is in ensuring that we can supply electricity to our customers.

The Board remains committed to delivering a high quality service at an affordable price. Securing affordable forward prices through hedging and focussing on efficiency within the organisation has allowed tariff increases to be kept at a reasonable level. This is despite the escalation in imported electricity and oil prices.

Our tariffs have also been affected by regulatory price control and the Board is disappointed that it continues to have to recover significant costs from previous years in today's tariffs.

The Board has also changed this past year and I am pleased to welcome four new directors.

The Engineering Director, Steve Morris, retired in July 2011 which gave us the opportunity to re-evaluate the focus and direction of the Board. Aware that high levels of service are required by our customers, we appointed Bob Beebe to the Board as Operations Director. Bob will ensure we meet our customer's high expectations in terms of delivery of electricity supply to the Island. We have also appointed Sally-Ann David to the Board as the Corporate Strategy Director. Sally-Ann is responsible for the organisation's strategic planning. The company's planning has to span over 40 years, the life of some of the infrastructure assets, and her careful management will ensure the business delivers a reliable and secure supply into the future.

Sally-Ann and Bob were existing members of the Guernsey Electricity senior management team and the internal promotions are part of the wider drive to restructure the business in order to be ready for the future.

In addition, the Board appointed two new non-executive members, Ian Hardman and Rob Lawrence. Ian is Lloyds TSB's Senior Island Manager for Guernsey and Rob will be known to many as the former CEO of Jersey Telecoms. Both bring invaluable experience, enthusiasm and commitment to an already strong board of directors.

Finally, I would like to thank the Board and all the employees at Guernsey Electricity for their loyalty and dedication to the organisation's activities. The company and its staff remain committed both to its customers and to ensuring its activities are for the benefit of the Island.





# We have a vision to become the Island's primary energy provider

A very warm welcome to the Guernsey Electricity Report and Accounts 2011/12. This is now my second year as Managing Director and during that time the company has operated in unprecedented economic times.

Against the backdrop of the continuing global recession, Guernsey Electricity has continued to provide a reliable and cost-effective energy source to the people of Guernsey. This, despite the fact there has been a continuing global trend of high oil prices resulting in a policy of maximum cable link import for the majority of the year. This was reflected with a split between local generation of electricity of 17.9% versus imported of 82.1%

In general, the last 12 months have been very successful for the company. The business has returned to a commercial level that will enable continued investments to be made in our infrastructure and our community.

The operating profit for the last year was £4.7 million which is significantly above the levels achieved in recent years. At Guernsey Electricity we require a high level of cash flow to fund our capital investment programme. Simply put, making a profit means we have the funds to invest in the Island.

The current mechanism for funding the business is 'save to spend', a prudent mechanism for building up cash reserves for large costs associated with

the business. However, we realise we need to balance this so that today's customers are paying for today's assets and not tomorrow's.

The Board acknowledges that the financial funding of future investments to deliver the security of supply for the people of Guernsey, as well as the low carbon future that we all aspire to, requires a fundamental review of how this is made affordable to our customers.

With the approval of the States Energy Resource Plan in February 2012, Guernsey has set out its expectations in terms of reducing the carbon intensity of the Island and has identified the actions we need to complete today, to enable us to set out on the renewables road ahead.

The security and sustainability of what we do today remains a key focus of the Board. The impact of infrastructure decisions made today lasts for decades, as typical strategic planning can span 40 years or more. Strategic infrastructure alignment,

that is making sure that what we as a business do, is what the States requires for the Island is essential and, as a States-owned enterprise, Guernsey Electricity is a core part of island planning.

We have actively worked with the Office of Utility Regulation to create the potential for a regulatory environment which delivers high value scrutiny at a reasonable cost, rather than adding little real value and costing a disproportionate amount of money.

In the future, we need to ensure that in a small island such as ours, the desire for choice does not actually result in the virtual disintegration of the business and higher bills to our customers.

In short, there is an unprecedented rate of change in the world of energy with all the utilities, big or small, balancing the needs of customers today with everyone's aspirations for tomorrow.

## OUR VALUES

We will act with integrity and professionalism in all the activities we undertake to build our credibility to our stakeholders

We will deliver a quality service to all our customers to ensure customer satisfaction

We will be effective in everything we do

We will always act upon the health, safety and well being of people

We will encourage and advise on the responsible use of energy

We will do what is right for the Island and its residents



# 29,458

THE NUMBER OF GUERNSEY ELECTRICITY CUSTOMERS



# 1500%

INCREASE IN ELECTRICITY USAGE  
SINCE 1950 - 25GWH TO OVER  
400GWH



## WHAT IS DECARBONISING?

Not burning fossil fuels such as oil, gas, coal and wood.

## WHAT ARE RENEWABLES?

Large scale offshore tidal or wind energy producers

## REDUCING OUR CARBON CONSUMPTION

The Rt. Hon George Osborne MP, the UK Chancellor of the Exchequer, recently stated that environmental sustainability has to be financially sustainable as well. This is particularly relevant when considering small jurisdictions, such as Guernsey, where economy of scale can be both a barrier and an opportunity to residents.

We continue to work with the States of Guernsey in exploring the balance between the delivery of an environmentally sustainable electricity supply and the financial consequences this can have on our customers.

Understanding the renewable technology available and how much it would cost to implement here in Guernsey is important in ensuring that prices are at a level where both the Island and our customers not disadvantaged.

What this means is that we will continue to monitor the development of renewable technology, particularly tidal power and will recommend its use when financially viable. With the direction of energy policy heading towards carbon reduction, we are keeping a keen eye on new technologies being developed with a view to investing when it makes commercial sense.

### ENERGY EFFICIENCY

In the meantime we all need to examine and where necessary change, our energy usage behaviour. This not only makes financial sense but will also ensure expenditure on capacity is efficient because we can take the intensity out of energy demand. The energy industry is now talking about and setting "Negawatt": targets to reduce the amount of energy we consume, particularly inefficiently consumed energy.



Protecting the  
environment  
and conserving  
resources





# FLEXIBLE ELECTRICITY GENERATION FOR THE ISLANDS

Flexible electricity generation is essential for the Island at a level which ensures the security of our electricity supplies.

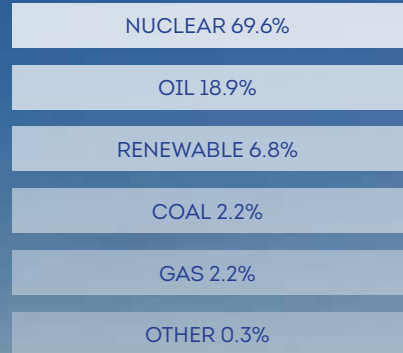
Having the ability to generate electricity on-island is essential so that we can deal with any unforeseen breaks in supply such as those we experienced with the French network in September 2011. These unfortunate events highlighted the obvious need to retain both our Island operations and the dedication and competency of our staff who worked tirelessly around the clock to identify and rectify these outages.

Our drive to improve the security of our supplies led us to sign two major contracts in the last year. Firstly, for the supply of a new 17MW medium speed diesel generator. The project to install this 18V46 Wartsila unit is on

track and scheduled to be operational by February 2013. This will mean a more efficient and more flexible Island generation and allow us to meet our security of supply obligation; namely having enough electricity to supply the Island's needs.

The second major contract was signed in June 2011 for a new 10 year electricity supply to Guernsey. We signed with our current supplier, EdF, who are the world's leading nuclear energy company and are at the forefront of renewable energy.

We are planning future improvements in import capacity which will not only deal with decarbonising the Island but will also deliver greater import security and flexibility and allow large scale renewables to be developed around the Island in the future.





## GENERATION AND IMPORT OF POWER

### WHAT IS FLEXIBLE ELECTRICITY GENERATION?

The term used for ensuring the Vale Power Station meets the needs of the Island's electricity supply - heavy fuel oil and gas oil (also known as fossil fuels) supply the diesel generators and gas turbines.

The different types of flexible generation provided by Guernsey Electricity can be used for different circumstances eg the diesel engines provide electricity at a high efficiency and are used daily for basic supply. The gas turbines, which can start very quickly, are used to meet unexpected peak demands and for swift restoration of supplies when unforeseen supply interruptions occur.

# 76.4%

IN THE LAST YEAR, 76.4% OF GUERNSEY'S ELECTRICITY ORIGINATED FROM NUCLEAR GENERATION AND LOW CARBON RENEWABLE RESOURCES, IMPORTED BY THE CABLE LINK

## INVESTMENT

The last year for Guernsey Electricity has been marked by investment; not just capital investments but also investment in our people and the community that we operate in.



*Trainee engineers L-R Iain Thompson, Liam Sumner and Adam Greening*

*Students from the University of Exeter visiting Guernsey Electricity*

### STAFF INVESTMENT

Training of staff is crucial to maintain our high standards. For a number of years we have been investing in and reviewing new safety rules, operational procedures and training for all our operational staff. We have been assisted by Seal Safety and Training Limited who are all former UK electricity supply managers. As a result, we believe that the competence of our engineers and craftsmen is fully up to – and in some cases better than – UK industry standards. With this investment we feel confident that the future of Guernsey Electricity's generation and electricity distribution is in safe hands.

### CUSTOMER INVESTMENT

We continue to listen to our customers, balancing meeting the needs of our customers' expectations, providing a reliable supply and ensuring a responsible price which is the constant focus of energy companies worldwide.

We also aim to provide our customers with the right products and services at the best possible prices.

### GUERNSEY ELECTRICITY APPRENTICESHIP SCHEME

We are registered with the Education Council as an employer under the States Apprenticeship Scheme which has been in existence for over 40 years and is still viewed as one of the best youth training schemes in Europe according to apprentice scheme inspectors from the UK.

We commit to offering the opportunity for students to work in a recognised trade and study for further qualifications at the same time.

The scheme has provided us with a primary source of new talent for the business and currently have 12 employees who started their careers with us through the apprenticeship scheme. We also employ and train mature apprentices who may not have had the opportunity to learn a trade when they left school.



## INVESTING IN OUR COMMUNITY

Guernsey Electricity has always played an active part in the local community and the last 12 months were no exception. We have been involved in;

- Over 20 site visits for schools
- Giving talks on electricity to schools
- Helping with funds towards the 2011 Guernsey Life Boat Charity
- Sponsoring four students under the Confederation of Guernsey Industry (CGI) at £2,000 per student as well as support for the Management Shadow Students
- Providing students work experience
- Supporting the Young Enterprise
- Promotion at the annual Careers Fair at Beau Sejour

We have our own Sponsorship and Donations Committee which meets six times a year and decides how to allocate funds to worthy causes. These have included:

- 30-30 Cycle Challenge for Les Bourgs Hospice
- Lighting of event in Market Square for the Pink Ladies
- Guernsey Young Enterprise (annual sponsorship)
- Guernsey Sailing Trust
- Celebration of Achievement Awards for Guernsey Youth Service
- Airport Tree of Joy Display for Rotary Club of Guernsey
- Movember – men's health
- Guernsey Alzheimer's Association
- Adam Harvey – World Surf Kayak Championships
- Island Netball Association – participation in World Cup in Brisbane

We are actively exploring other good causes for staff to get involved in as we believe this not only supports our community but also gives staff the opportunity to develop their own skills.

## CELEBRATION OF ACHIEVEMENT

Guernsey Electricity has supported the 'Celebration of Achievement' Young People Awards for the last four years, sponsoring the Mark Mauger Triumph Over Adversity Award. The award is given to an individual who has succeeded against the odds by achieving their goals in spite of difficult circumstances.



*Competition winners of Owl energy monitors*

*A combined Jersey and Guernsey Electricity team finished 3rd out of 452 international teams in the world's largest triathlon, raising funds for the charity Headway*

## INVESTMENT

### SYSTEMS

We have recently endorsed asset management as a key part of our business and have successfully installed asset management software. Asset management shifts the focus from how much things cost to how much things cost to own, operate and maintain in relation to the service the asset provides. This means we have to assess the entire life cycle of our assets, from purchase to disposal and look at their overall cost of ownership and compare it to the value it brings to the company. By looking at our assets in this way, we can identify where costs can be reduced and asset value increased.

This shift in culture, which is rapidly becoming commonplace in large infrastructure dependent companies worldwide, represents a significant change for the company and will help us make well-informed decisions based on risk and service expectations.

### AUTOMATED METER SYSTEMS

After several years of a replacement programme converting old electromechanical meter technology for state-of-the-art automated meters (AMR meters), it is intended that the replacement programme will be completed during the next financial year - 2012/13. Ageing pre-payment meter technology is also being replaced for AMR technology meters using contactless card technology, offering significant new benefits to pre-payment customers.

These include:

- Greater access to retail top-up facilities
- No disconnection out of normal business hours
- No disconnection at weekends or public holidays
- Meters also provide daily energy consumption usage to our administration systems allowing further understanding of how energy is being used by customers to enable greater energy advice to be given.

### ASSETS

**Kings Mills Transformer Replacement**  
Having completed an assessment on the condition of the two existing 14MVA 33/11kV transformers at Kings Mills substation, it was concluded that the two transformers were at the end of their useful economic life. To accommodate future load growth in the south west of the Island, it was decided to replace and upgrade the new transformers with two new 20 MVA 33/11kV transformers.

The project started in January 2011, with the final transformer commissioned in October 2011.



### ISLANDWIDE INVESTMENT

We worked on more than 400 projects during the year. Efficient planning and operating meant we closed the year delivering these projects 21% under budget, despite price increases for materials and services.

# 1,393

KILOMETRES OF UNDERGROUND  
CABLE IN GUERNSEY



## CHANNEL ISLAND ELECTRICITY GRID – CIEG

The Jersey-France electricity submarine cable links currently have a total installed capacity of 145MW compared with Jersey's peak demand of 158MW. Guernsey contributed to the costs of the second Jersey-France cable when it was installed in 2000 and the cable has a capacity of 55MW.

Contract negotiations continue on Guernsey joining a Jersey Electricity Company (JEC) project to install an additional 100MW cable Jersey-France. In return, Guernsey would increase its capacity over the network by a further 24MW.

A fourth interconnector between Jersey and France has been envisaged as an upgrading of the existing EdF1 link, installed in 1986. Its design life of

25 years has been reached and plans are advanced in replacing, possibly on the same route, or on a differing route, depending on the results of the French network constraints currently being explored.

However, despite this increase in capacity, the single Guernsey-Jersey cable remains a 'single point of failure' meaning there is no alternative route for imported electricity should supply through this cable be interrupted. A fault with the submarine cable could take six months to rectify even though mitigation service agreements and contracts with service providers have been made and equipment is available if required.



The consequences of the present arrangement and the proposed new Jersey-France cable, is that Guernsey may be able to import 95% of its electricity from France but will still be dependent on the use of local thermal generated energy from our slow speed engines to meet high demands during the winter months. The thermal energy plant will also be required to provide security of supply given the single cable interconnector to Jersey and to provide economic generation in the event that energy prices in Europe rise above local generation prices.

### Channel Island Electricity Grid



# 380,760

MEGA WATT HOURS OF ELECTRICITY ENERATED/IMPORTED IN 2011/12

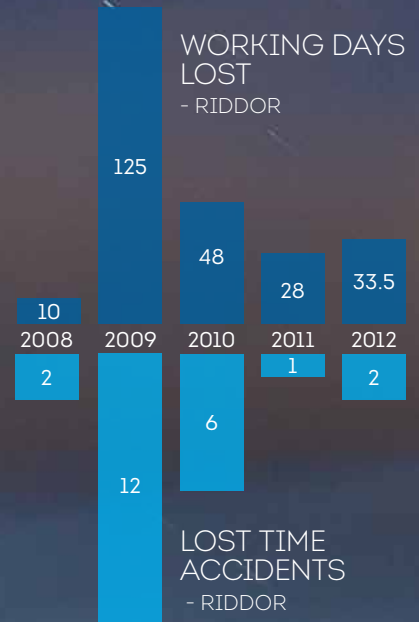
## HEALTH & SAFETY

Guernsey Electricity remains committed to understanding the risks associated with its activities and putting in place the procedures to ensure we protect people. We are reinforcing the systems we have put in place in the past and developing proactive measures to ensure everyone is engaged in the improvement of our performance.

We are succeeding and this year our main performance indicator 'working

days lost due to accidents' continues to show the downward trend and we will continue to focus on achieving zero time losing accidents.

Health and safety performance remains a key management objective and the organisation will continue to put in place all measures necessary to deliver our goal of an accident free business.



## SERVICE STANDARDS

At Guernsey Electricity we have twelve guaranteed service standards. For most of the standards, we have managed to achieve the 100% target which is testament to the hard work and commitment of our staff. Regrettably, we did not meet the target for 'payments owed under the standard' which was due to one incident where three houses were off supply for more than 18 hours and

we did not manage to pay the penalty set by the Office of Utility Regulation (OUR) within 10 working days. However, this must be put into context, as of the 7,922 supplies that needed to be put back on within 18 hours, 7,919 were achieved. We will continue to work hard for our customers over the next 12 months, to make sure this and all the standards are met.

Repair service fuse failures within 3 hours of call	100%
Restoring supplies within 18 hours	99.9%
Provide a supply to a new customer within 3 working days	100%
Give 5 days notice of any planned interruption of supply	100%
Investigate and correct all voltage faults within 7 working days	100%
Answer all written payment and charges queries within 3 days	100%
Investigate and explain meter disputes within 7 working days	100%
Investigate prepayment meter failure within 4 hours of call	100%
Change of meter payment method within 7 working days	100%
Making and keeping appointments	100%
Make payments owed under standard within 10 working days	0%
Estimate of charge for new or altered supply within 5 working days	100%



*RIDDOR - Reporting of Injuries, Diseases and Dangerous Occurrence Regulations is the UK standard used for the reporting of health and safety statistics*

*A Lost Time Accident (LTA) is an accident that results in an employee being unable to carry out their normal working duties for three days or more. It is one of the main safety indicators in industry.*

## CONCLUSION

In conclusion, the year has been operationally challenging and financially rewarding. However, the long-term strategic nature of the business now needs to be developed to meet the needs of our customers, the Island and the environment in which we live. This will ensure we meet the high expectations of us and continue to deliver a high quality service to the Island of Guernsey.

I would like to thank all my colleagues at Guernsey Electricity for their continued dedicated efforts to make the company successful. The team at Guernsey Electricity is committed to delivering a secure and affordable electricity supply to the island, today and in the future.

'The team at Guernsey Electricity is committed to delivering a secure and affordable electricity supply to the Island, today and in the future'



## BOARD OF DIRECTORS

### Registered Office

P.O. Box 4,  
Electricity House,  
Northside,  
Vale,  
Guernsey  
GY1 3AD

### Place of Registration

Guernsey

### Company Registration Number

38692

**CIEG** - Director of Channel Islands  
Electricity Grid (CIEG)



#### **Ian Beattie, Chairman**

Ian joined the Board in 2002 and became Chairman in 2011. He qualified as an English solicitor and is also a Guernsey Advocate and Notary Public. He was a partner in the Channel Islands' largest law firm, Carey Olsen between 1985-2011.

#### **Alan Bates, Managing Director** CIEG

Alan became the Managing Director of Guernsey Electricity in 2010, having joined from Manx Gas in the Isle of Man where he was Managing Director. He has an MBA in Executive Leadership, is a Chartered Electrical Engineer and a Chartered Mechanical Engineer.

#### **Bob Beebe, Operations Director** CIEG

Bob joined Guernsey Electricity in 1990 as an operations engineer and was appointed to the Board in 2011 as Operations Director.

He has worked in the power industry all his life, starting work with the CEGB (Central Electricity Generating Board) in 1976 in the UK. He has held various engineering posts throughout his career, at large thermal power plants in the Midlands region of the UK.

#### **Sally-Ann David, Corporate Strategy Director** CIEG

Sally-Ann is a Chartered Electrical Engineer with over 30 years experience in the power and submarine cable market. She is a fellow of the Institute of Electrical Engineers, has an MBA, a Diploma in Company Direction and is a director of the International Cable Protection Committee, a world-wide industry body representing cable owners and the development of the industry.





**Ian Limond, Finance Director** CIEG

Ian was appointed to the post of Finance Director in 2002.

He qualified as a chartered accountant with the Institute of Chartered Accountants of Scotland in 1976 and has spent 25 years in public practice and 16 years in commerce.

Prior to joining Guernsey Electricity he spent 15 years with the accountancy firm Deloitte in Guernsey.

**Martyn Mann, Non-Executive Director**

Martyn holds an Msc in Electronics and began his career in Guernsey with Tektronix, a USA electronics company. After a stint in the UK with Tektronix, he returned to Guernsey to work for Polar Instruments as their Engineering Director and then becoming Chief Executive. He is currently the company's Non-Executive Chairman. Martyn is a Chartered Director and a Fellow of the Institute of Directors and became a Non-Executive Director with Guernsey Electricity in 2008.

**Bob Lawrence, Non-Executive Director**

Bob is the former Chief Executive Officer of Jersey Telecom Ltd 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 like the Channel Islands and became a Non-Executive Director of Guernsey Electricity in 2011.

**David Farrimond, Non-Executive Director**

David is a retired chartered accountant who was formerly a partner with accountancy firm KPMG in the Channel Islands. He became a Non-Executive Director of Guernsey Electricity in 2007.

**Ian Hardman, Non-Executive Director**  
Ian became a Non-Executive Director with Guernsey Electricity in 2011.

Ian has a background in banking, having joined Lloyds Bank in 1973 and worked his way up to the position of Senior Island 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 more recently been involved with the legal aspects of the takeover of HBOS by LTSB. Ian is an Associate of the Chartered Institute of Bankers and Institute of Chartered Secretaries and Administrators.



## DAVID GILLIVER, PHOTOGRAPHER

My long exposure photographs represent periods of time, whether it be a few minutes or sometimes even hours, that have been compressed into a single image. Long exposures allow me time to walk into the frame while the photograph is being taken, where I can then create light sculptures by moving around a portable hand-held light source.

I'm normally present in each photograph, throughout the entire exposure, remaining invisible partly due to the dark clothes I wear but mainly because I continually move around the landscape. This makes it impossible for the camera to capture me in the poorly lit conditions.

I find the process of light painting both therapeutic and relaxing. Standing there alone at night for hours, under a sky that is littered with stars, while making my work is an entirely different experience to daytime photography.





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Electricity**

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## Directors' report

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## Directors, officers and professional advisors

<b>Directors:</b>	Advocate IH Beattie	(non-executive Chairman) – from 19 July 2011
	AM Bates	(managing)
	IJ Limond	(finance)
	SJ Morris	(engineering) – retired 1 July 2011
	RW Beebe	(operations) – from 10 October 2011
	S-A David	(corporate strategy) – from 10 October 2011
	D Farrimond	(non-executive)
	MJ Mann	(non-executive)
	RP Lawrence	(non-executive) – from 29 September 2011
	IA Hardman	(non-executive) – from 29 September 2011
<b>Secretary:</b>	SB Pattimore	
<b>Bankers:</b>	Barclays Bank Plc PO Box 41 Le Marchant House St Peter Port Guernsey GY1 3BE	
<b>Legal advisers:</b>	Mourant Ozannes 1 Le Marchant Street St Peter Port Guernsey GY1 4HP	
<b>Independent auditor:</b>	KPMG Channel Islands Limited Chartered Accountants PO Box 20 20 New Street St Peter Port Guernsey GY1 4AN	
<b>Registered office:</b>	PO Box 4 Electricity House North Side Vale Guernsey GY1 3AD	
<b>Company number:</b>	38692	



## Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2012. 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 12 to 25.

### 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.

### Financial performance

During the year ended 31 March 2012, turnover from electricity sales amounted to £48,257,000 (2011: £46,292,000) which represents an increase of 4.24% (2011: 11.19%). Tariffs to our customers increased by 6.5% on 1 April 2011 and 2.5% on 1 October 2011 (1 April 2010: 8.5% increase).

The profit for the year before the dividend paid amounted to £4,026,000 (2011: £1,467,000). The retained profit, after the dividend paid in the year, of £3,542,000 (2011: £1,467,000) has been transferred to reserves.

It should be noted that a significant actuarial loss this year from the accounting for pensions, calculated with assumptions based on financial market conditions at the balance sheet date, has been debited to reserves.

### Dividend

During the year, a dividend of £484,000 was paid (2011: £Nil paid), being £0.0044 per share (2011: £Nil per share paid).

At the company's forthcoming Annual General Meeting due consideration will be given to a proposed dividend of £1,000,000 (2011: £484,000 proposed), being £0.0092 per share (2011: £0.0044 per share proposed).

### Future prospects

The global energy market is continuing to give major concerns to governments, customers and companies operating in the energy industry. As directors of Guernsey Electricity Limited we share these concerns. The volatile costs in the global market are a severe risk which the company faces and manages on a daily basis. Although the directors are making efforts to minimise the impact on customers, it was somewhat inevitable that charges to customers would have to increase. The price control decision by the Office of Utility Regulation (OUR) in March 2011 covered a one year period from 1 April 2011 to 31 March 2012. This resulted in the decision to increase tariffs by 6.5% from 1 April 2011. During 2011, the price control was considered in the context of the unrecovered non-controllable costs incurred during the previous four year price control, which are largely those relating to wholesale oil and import costs. This resulted in a decision by the OUR for a further increase in tariffs of 2.5% from 1 October 2011. This decision also allowed for another 2.5% increase in tariffs from 1 April 2012, which is to be maintained for a four year period in order to recover these uncontrollable costs. Further income will be needed to fund the capital investment requirements of the company. In addition, the company is faced with an initial cash outflow estimated at £10,000,000 payable over the coming months to cover the cost of a repair to the cable link between Guernsey and Jersey following a cable fault on 29 April 2012. (See note 27).

### Customers

The number of customers as at 31 March 2012 is 29,458 (2011: 29,280).

### Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 82% (2011: 78%) of the island needs in the year ended 31 March 2012 and 18% (2011: 22%) was generated on the island, as shown by the units analysis below:

	2012	2011
Units imported MWh	312,703	308,600
Units generated MWh	68,056	84,633
Total units imported/generated MWh	380,759	393,233

**Average price**

The average price per kWh sold in the year ended 31 March 2012 was 13.57 pence (2011: 12.33 pence).

**Reliability**

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power failures can be caused by a failure of generation plant, a failure of the distribution network or a failure of the cable link. Customers lost 62.19 minutes due to generation activity (2011: Nil minutes) and 22.14 minutes were lost per customer in respect of distribution (2011: 10.00 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.

**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**

**IJ Limond**

Directors

14 June 2012



## 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 June 2010.

### 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 company is controlled through the Board of Directors, which currently comprises five non-executive and four executive directors. As the Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Managing Director's responsibilities focus on running the business and implementing strategy. All directors are able to take independent professional advice in furtherance of their duties, if necessary.

The Board monitors the exposure to key business risks and reviews the strategic direction. It also considers environmental and employee issues. The Board has established a number of standing sub-committees and each operates within defined terms of reference. The principal sub-committees are:

- Audit and Risk
- Land and Property
- Remuneration and Nominations

In addition, senior management team meetings are held monthly.

### Directors' remuneration

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, the remuneration of the non-executive directors is determined by the Treasury & Resources Department. The remuneration of the executive directors is determined by the company's Remuneration and Nominations Committee, which consists entirely of non-executive directors.

### 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 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.

### 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

An ongoing process for identifying, evaluating and managing the significant risks faced by the company is in place. The monitoring of this process is one responsibility of the Audit & Risk Sub-Committee and a system of developing the way in which the company captures and assesses its risks is in place.

### Risk management

The Board of Directors has overall responsibility for identifying, evaluating and managing major business risks facing the company. A risk register is in place and this is administered by the Corporate Strategy Director, who in turn gives regular updates to the Audit & Risk Sub-Committee providing assistance and assurance to the Board in these matters.

**Compliance**

All business units have well established compliance procedures.

**IT systems**

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 an independent consultant.

**Internal audit**

Internal audit has a continuing role in monitoring and reporting on business risks. This service continues to be provided by RSM Tenon, a leading entity in providing such services. The Corporate Strategy Director, in association with RSM Tenon, 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.



## 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 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, 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 6, 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements. 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 2012 and of its profit 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 Accountant  
15 June 2012

**The maintenance and integrity of the Guernsey Electricity 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.**



## Profit and Loss Account for the year ended 31 March 2012

Note		2012 £'000	2011 £'000
2	Turnover	51,887	50,380
	Cost of Sales	(35,870)	(36,994)
	Gross profit	16,017	13,386
	Net operating expenses	(11,349)	(11,365)
3	Operating profit	4,668	2,021
	Loss on disposal of assets	(27)	(239)
	Profit on ordinary activities before interest, other finance cost and other income	4,641	1,782
4	Interest receivable	521	355
4	Interest payable	(1)	(1)
	Other finance cost	(103)	(335)
	Profit on ordinary activities before taxation	5,058	1,801
5	Taxation	(1,032)	(334)
	Profit for the financial year after taxation	4,026	1,467

All activities derive from continuing operations.  
The notes on pages 12 to 25 form an integral part of these financial statements.

## Statement of total recognised gains and losses for the year ended 31 March 2012

Note		2012 £'000	2011 £'000
	Profit for the financial year	4,026	1,467
24	Actuarial (loss)/gain recognised in the pension scheme	(7,218)	5,198
14	Movement on deferred tax relating to pension deficit	1,394	(1,001)
	<b>Total recognised (loss)/gain for the year</b>	<b>(1,798)</b>	<b>5,664</b>

The notes on pages 12 to 25 form an integral part of these financial statements.



## Balance sheet at 31 March 2012

Note		2012 £'000	2011 £'000
7	Tangible fixed assets	93,527	93,182
8	Investment	-	1
	<b>Current assets</b>		
9	Stocks and work in progress	7,830	5,998
10	Debtors and prepayments	10,762	10,275
11	Balances with States Treasury	16,829	13,779
	Cash at bank and in hand	253	433
		35,674	30,485
12	Creditors: amounts falling due within one year	(8,629)	(8,320)
	<b>Net current assets</b>	27,045	22,165
	<b>Total assets less current liabilities</b>	120,572	115,348
13	Creditors: amounts falling due after more than one year	(3,874)	(3,672)
14	Provision for liabilities and charges	(1,222)	(98)
24	Net pension deficit	(13,256)	(7,076)
	<b>Net assets including pension deficit</b>	102,220	104,502
15	Share capital	109,209	109,209
19	Reserves	(6,989)	(4,707)
20	<b>Shareholders' funds</b>	102,220	104,502

The financial statements on pages 8 to 25 were approved by the Board of Directors on 14 June 2012.

Signed on behalf of the Board of Directors

IH Beattie

IJ Limond

Directors

The notes on pages 12 to 25 form an integral part of these financial statements.

## Cash flow statement for the year ended 31 March 2012

Note		2012 £'000	2011 £'000
16	Net cash inflow from operating activities	8,600	6,566
	Returns on investments and servicing of finance		
	Interest received	521	367
	Interest paid	(1)	(1)
	Net cash inflow from returns on investments and servicing of finance	520	366
	Capital expenditure and financial investment		
	Payments to acquire tangible fixed assets	(6,226)	(5,439)
	Proceeds/(costs) of disposal of tangible fixed assets	114	(20)
	Customers' contributions towards capital expenditure	346	431
	Net cash outflow from capital expenditure and financial investment	(5,766)	(5,028)
6	Equity dividends paid	(484)	-
	Net cash inflow before use of liquid resources and financing	2,870	1,904
	Management of liquid resources		
	Net cash movements with States Treasury	3,050	2,414
17 & 18	Decrease in cash	(180)	(510)
	Net cash inflow	2,870	1,904

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 12 to 25 form an integral part of these financial statements.

# Notes to the financial statements

## Year ended 31 March 2012

### 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.

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



Notes to the financial statements - continued  
Year ended 31 March 2012

## 1. Principal accounting policies (continued)

### Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

### 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.

### 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. 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.

Notes to the financial statements - continued  
Year ended 31 March 2012

## 2. Turnover

	2012 £'000	2011 £'000
Sales of electricity	48,257	46,292
Other sales	3,630	4,088
	51,887	50,380

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. One of the significant advantages of the company's new automatic metering system (AMR) is that a very high proportion of customer's meter readings can now be collected at the balance sheet date.

## 3. Operating Profit

Operating profit is after charging/(crediting):

	2012 £'000	2011 £'000
Depreciation (note 7)	5,521	5,340
Rentals under operating leases	12	12
Auditors' remuneration - statutory audit	36	33
Bad debts	31	57
Emoluments - non-executive directors	41	40
- executive directors		
- basic remuneration	349	346
- other benefits (including pension costs under FRS17)	136	163
Regulatory costs - external (excluding non-audit services)	360	423
- internal	133	178
Other operating income	(609)	(620)

Notes to the financial statements - continued  
Year ended 31 March 2012

#### 4. Interest

	2012 £'000	2011 £'000
<b>Interest receivable:</b>		
Deposits with banks and States Treasury	380	215
Hire purchase	141	140
	521	355
<b>Interest payable:</b>		
Bank overdraft	-	-
Security deposits	1	1
	1	1

#### 5. Taxation

The company's profits or losses from the activities subject to licence from the Office of Utility Regulation 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.

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 19.3209% (2011: 19.2619%) 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 2012.

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

	2012 £'000	2011 £'000
Timing differences on capital allowances and depreciation	71	69
Short term timing differences (pension)	(92)	12
Short term timing differences (other)	(26)	(37)
Movement on unrelieved trading losses	1,079	290
	1,032	334



Notes to the financial statements - continued  
Year ended 31 March 2012

## 6. Dividend

	2012 £'000	2011 £'000
Paid in the year, £0.0044 per share (2011: £Nil per share)	484	-
Proposed dividend of £0.0092 per share (2011: £0.0044 per share proposed)	1,000	484

## 7. Tangible fixed assets

	1 April 2011 £'000	Additions £'000	Written off/ disposals £'000	31 March 2012 £'000
<b>Cost</b>				
Land and buildings	30,048	499	51	30,496
Cable link	28,856	92	-	28,948
<b>Plant and machinery:</b>				
Generation	34,970	2,454	29	37,395
Distribution	11,165	698	52	11,811
Distribution network	27,969	1,717	220	29,466
Motor vehicles, furniture and equipment, minor plant	4,838	546	374	5,010
	137,846	6,006	726	143,126
	1 April 2011 £'000	Charge for the year £'000	Written off/ disposals £'000	31 March 2012 £'000
<b>Depreciation</b>				
Land and buildings	7,622	902	34	8,490
Cable link	11,327	1,266	-	12,593
<b>Plant and machinery:</b>				
Generation	14,197	1,408	21	15,584
Distribution	2,065	324	28	2,361
Distribution network	6,818	1,041	155	7,704
Motor vehicles, furniture and equipment, minor plant	2,635	580	348	2,867
	44,664	5,521	586	49,599
<b>Net book value</b>	93,182			93,527

Included above are assets in the course of construction of £3,924,000 (2011: £4,896,000), which are not depreciated.

Notes to the financial statements - continued  
Year ended 31 March 2012

### 8. Investment

In 2004, the company invested £250,000 in Marine Current Turbines Limited as part of its initiatives to keep abreast of the research and development of alternative energy sources. This investment was a minority interest and the holding was less than 5%. The benefits of this investment were spread over more than one year with a total impairment of £249,000 being charged to the profit and loss account over the period 2004 to 2008, leaving a carrying net book value of £1,000. In 2012, the company sold its shares to the majority shareholder, receiving cash proceeds of £114,000 representing £2.05 per share. The profit on disposal of £113,000 has been credited to the profit and loss account.

### 9. Stocks and work in progress

	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fuel stocks		5,330		3,377
Purchased goods for resale	317		351	
Provision	(5)	312	(7)	344
Other stocks	3,526		3,405	
Provision	(1,469)	2,057	(1,331)	2,074
Work in progress		131		203
		7,830		5,998

### 10. Debtors and prepayments

	2012 £'000	2011 £'000
Estimated value of unbilled units	6,535	5,458
Customer accounts outstanding	3,173	3,973
Other debtors	683	450
Prepayments	371	394
	10,762	10,275

Included in "Customer accounts outstanding" is an amount of £309,000 (2011: £327,000) 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.

Notes to the financial statements - continued  
Year ended 31 March 2012

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

	2012 £'000	2011 £'000
Trade creditors	2,778	3,328
Customer payments received in advance	4,646	3,829
Employee taxes and Social Security	157	161
Deferred income	137	127
Accruals and other creditors	911	875
	8,629	8,320

The company has a £750,000 overdraft facility with Barclays Bank Plc (2011: £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 August 2012. 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

	2012 £'000	2011 £'000
Deferred income	3,874	3,672

## 14. Provision for liabilities and charges

	2012 £'000	2011 £'000
<b>Deferred taxation:</b>		
Balance at 1 April	(1,591)	(2,926)
Profit and loss account charge	1,032	334
Statement of total recognised gains and losses	(1,394)	1,001
<b>Balance at 31 March</b>	(1,953)	(1,591)
<b>Which comprises:</b>		
Capital allowances in excess of depreciation	7,659	7,588
Short-term timing differences (other)	(138)	(112)
Unrelieved trading loss for tax purposes	(6,299)	(7,378)
Provision for liabilities and charges	1,222	98
<b>Deferred tax asset on pension deficit (note 24)</b>	(3,175)	(1,689)



Notes to the financial statements - continued  
Year ended 31 March 2012

#### 15. Share capital

	2012 £'000	2011 £'000
<b>Authorised:</b>		
125,000,000 ordinary shares of £1 each	125,000	125,000
<b>Issued and fully paid:</b>		
109,208,844 ordinary shares of £1 each	109,209	109,209

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.

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

	2012 £'000	2011 £'000
Operating profit	4,668	2,021
Depreciation charge	5,521	5,340
Pension service cost	1,579	1,697
Employer's pension cash contributions	(1,234)	(1,678)
Deferred income	(137)	(127)
Increase in stocks and work in progress	(1,832)	(307)
Increase in debtors and prepayments	(487)	(1,558)
Increase in creditors	522	1,178
	8,600	6,566

#### 17. Reconciliation of net cash flow to movement in net funds

	2012 £'000	2011 £'000
Decrease in cash in the year	(180)	(510)
Cash used to increase liquid resources	3,050	2,414
Change in net funds	2,870	1,904
Net funds at 1 April	14,212	12,308
<b>Net funds at 31 March</b>	<b>17,082</b>	<b>14,212</b>

Notes to the financial statements - continued  
Year ended 31 March 2012

#### 18. Analysis of changes in net funds

	At 1 April 2011 £'000	Cash flows £'000	At 31 March 2012 £'000
<b>Cash</b>			
Cash at bank and in hand	433	(180)	253
	433	(180)	253
Balances with States Treasury	13,779	3,050	16,829
	14,212	2,870	17,082

#### 19. Reserves

	2012 £'000	2011 £'000
Balance at 1 April brought forward	(4,707)	(10,371)
Profit for the financial year	4,026	1,467
Dividend	(484)	-
Actuarial (loss)/gain recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	(5,824)	4,197
<b>Balance at 31 March carried forward</b>	<b>(6,989)</b>	<b>(4,707)</b>

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

	2012 £'000	2011 £'000
Shareholders' funds at 1 April brought forward	104,502	98,838
Profit for the financial year	4,026	1,467
Dividend	(484)	-
Actuarial (loss)/gain recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	(5,824)	4,197
<b>Shareholders' funds at 31 March</b>	<b>102,220</b>	<b>104,502</b>

Notes to the financial statements - continued  
Year ended 31 March 2012

## 21. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £14,521,000 as at 31 March 2012 (2011: £2,859,000). 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 contract is due to expire on 31 December 2012. A new electricity import contract with EdF was signed on 15 June 2011 and is effective for a 10 year period commencing from 1 January 2013. Under the 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 2013 this equates to a total commitment of €7.9m for Guernsey Electricity Limited.

### Operating lease commitments

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

	2012 £'000	2011 £'000
Land and Buildings		
Lease which expires:		
Within one year	-	-
Within two to five years	12	12

## 22. Financial Instruments

### (a) Import Financial Hedge

Our import contract with EdF is 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:

	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	2012 €'000 Total	2011 €'000
Forward contracts to purchase Euro	385	812	2,226	2,100	420	160	170	2,380	1,988	2,415	13,056	10,440	
Contracted Prices	325	706	1,952	1,865	366	133	141	2,070	1,719	2,082	11,359	9,197	
Closing Value at 31 March	321	677	1,855	1,750	350	133	142	1,984	1,657	2,013	10,882	9,228	
Unrecognised and unrealised (loss)/gain	(4)	(29)	(97)	(115)	(16)	0	1	(86)	(62)	(69)	(477)	31	

### (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 2012/13 of 12,000 metric tonnes. This is priced at £390.00 per tonne for 9,000 metric tonnes and £400.00 per tonne for the remaining 3,000 metric tonnes. The market price from Esso for heavy fuel oil as at 30 March 2012 was £478.78.



Notes to the financial statements - continued  
Year ended 31 March 2012

**22. Financial Instruments (continued)**

**(c) 2D Project Hedge**

The main contract for the new medium speed diesel engine, 2D, is also 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:

	€'000	€'000	€'000
Forward contracts to purchase Euro	870	9,168	10,038
	£'000	£'000	£'000
Contracted prices	733	7,815	8,548
Closing value at 31 March	725	7,642	8,367
Unrecognised and unrealised loss	(8)	(173)	(181)
If the spot exchange rate falls below the forward rate, the company is protected by forward contracts to purchase Euros as follows:			
	€'000	€'000	€'000
Forward contracts to purchase Euro	870	11,460	12,330
Forward exchange rate	1.18708	1.1731	

**23. Contingent liability**

In connection with the matter reported in last years' financial statements, the company has carried out further investigations and discussions with specialists on the effects of some of our operations at the power station site. The main outcome of this is that during the next financial year anti-vibration engine support mountings will be constructed and fitted to the slow speed engine contained in D-station. The results of this will be monitored during the year and investigations will be initiated on alternative technical solutions should this first step be insufficient. Any further cost of resolving this matter is dependent on the outcome of the actions planned for next financial year. There is still significant risk surrounding the potential cost of resolving the matter but it is estimated to be in the range £0 to £440,000. The Board is seeking to achieve resolution at minimal cost.

**24. 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 2012 to 31 March 2013 are estimated at £1,061,000.

In recognising that further contribution was required to reduce the past service deficit, it was resolved by the Board of Directors to reduce the deficit by lump sums over a period of years. No additional sum has been contributed this year (2011: £400,000).

**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.

Notes to the financial statements - continued  
Year ended 31 March 2012

#### 24. Pension Scheme (continued)

The amounts recognised in the balance sheet are as follows:

	2012 £'000	2011 £'000
Fair value of Fund assets	43,184	42,756
Present value of funded obligations	(59,615)	(51,521)
Deficit in scheme	(16,431)	(8,765)
Related deferred tax asset	3,175	1,689
Net pension liability	(13,256)	(7,076)
<b>The amounts recognised in the profit and loss account are as follows:</b>		
	2012 £'000	2011 £'000
Current service cost	1,579	1,697
Interest on obligation	2,796	2,781
Expected return on Fund assets	(2,693)	(2,445)
Expense recognised in the profit and loss	1,682	2,033
Actual return on Fund assets	(73)	(4,304)
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
	2012 £'000	2011 £'000
Opening defined benefit obligation	51,521	51,168
Service cost	1,579	1,697
Interest cost	2,796	2,781
Contributions by members	470	481
Actuarial losses/(gains)	4,598	(3,338)
Benefits paid	(1,349)	(1,268)
Closing defined benefit obligation	59,615	51,521
<b>Changes in the fair value of Fund assets are as follows:</b>		
	2012 £'000	2011 £'000
Opening fair value of Fund assets	42,756	37,560
Expected return	2,693	2,445
Actuarial (losses)/gains	(2,620)	1,860
Contributions by employer	1,234	1,678
Contributions by members	470	481
Benefits paid	(1,349)	(1,268)
Closing fair value of Fund assets	43,184	42,756

Notes to the financial statements - continued  
Year ended 31 March 2012

#### 24. Pension Scheme (continued)

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

	2012 £'000	2011 £'000
Total actuarial (losses)/gains	(7,218)	5,198
Total (loss)/gain recognised in STRGL	(7,218)	5,198
Cumulative amount of loss recognised in STRGL	(20,175)	(12,957)

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

	2012 %	2011 %
Equities	67	63
Gilts	4	4
Corporate bonds	15	14
Property	6	6
Other assets	8	13

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

	31 March 2012 % p.a.	31 March 2011 % p.a.
Discount rate	4.5	5.5
Expected return on Fund assets at 31 March (for following year)	5.8	6.3
Rate of increase in pensionable salaries	4.05	4.7
Rate of increase in deferred pensions	3.3	3.7
Rate of increase in pensions in payment	3.3	3.7

#### 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 90, 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 92, 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 of 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.

Notes to the financial statements - continued  
Year ended 31 March 2012

#### 24. Pension Scheme (continued)

Amounts for the current and previous periods  
are as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Defined benefit obligation	59,615	51,521	51,168	35,273	33,355
Fund assets	43,184	42,756	37,560	28,610	35,868
(Deficit)/surplus	(16,431)	(8,765)	(13,608)	(6,663)	2,513
Experience (losses)/gains on Fund assets	(2,620)	1,860	6,068	(10,805)	(2,515)
Experience gains on Fund liabilities	932	504	1,208	426	659
Change in assumptions underlying the Present value of Fund liabilities	(5,530)	2,835	(14,464)	355	6,927
Total Experience (losses)/gains on Fund liabilities	(4,598)	3,338	(13,256)	780	7,586

The Fund assets for the year ended 31 March 2008 have not been restated to bid value (i.e. they are mid market value).

The balance sheet position in respect of the Actuarial Account has worsened, due to lower than expected investment returns and the effect of the economic assumptions derived from the market. A key factor in the worsening balance sheet position was a loss of about £2.6m as a result of the actual investment return being lower than expected. On the other hand, the balance sheet improved by around £0.9m due to favourable experience items.

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 1%, while the inflation assumption decreased by 0.4%. The effect of the change in assumptions was to increase the value placed on liabilities by about £5.5m.

The net position was an increase of around £7.7m in the deficit determined under FRS17 (before deferred taxation).

#### 25. Statement of control

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

#### 26. 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.

#### 27. Post Balance Sheet Event

On 29 April 2012, a fault arose on the power cable between Guernsey and Jersey. The company switched to on-island generation which assets are an essential requirement of our current security of supply arrangements. However, testing to date indicates that the cable will need a repair. The overall time to effect a repair is estimated at twelve weeks. On-island generation is more expensive than import over this period and in addition to the repair cost, the company is faced with additional costs of generation. The outlay over the coming months for both repair and on-island generation is estimated at a total of £10m. The repair and the on-island generation are subject to claims on two separate insurance policies.





## Key Statistics 2007/2008-2011/2012

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
<b>COMMERCIAL</b>					
Number of Customers	29,458	29,280	29,099	28,934	28,791
<b>DEMAND</b>					
Maximum Demand (MW)	81.5	85.0	84.0	78.6	76.3
Minimum Demand (MW)	22.7	22.9	22.9	22.0	21.7
<b>AVAILABILITY</b>					
Average Minutes lost per Customer	84	10	23	19	37
<b>FINANCIAL</b>					
Units Sold (MWh)	361,564	365,755	362,362	355,045	340,898
Sales of Electricity (£000's)	48,257	46,292	41,633	35,112	34,197
Profit Before Interest, Tax & Pension Costs (£000's)	4,641	1,782	-549	-3,084	-1,027
Capital Expenditure (£000's)	6,006	5,408	5,458	5,081	6,760
Total Expenses (£000's)	47,953	49,311	46,736	43,027	39,688
<b>PERSONNEL</b>					
Employees (Average FTE)	222.0	230.7	232.7	228.7	232.9
Employees per GWh Billed	0.61	0.63	0.64	0.64	0.68
Employees per 1,000 Customers	7.54	7.88	8.00	7.90	8.09

### Abbreviations used

MW - Megawatt or 1,000 kilowatts

MWh - 1,000 kilowatts for 1 hour or 1,000 units

GWh - 1,000,000 kilowatts for 1 hour or 1,000,000 units