P.2026/94

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR THE* ENVIRONMENT & INFRASTRUCTURE
AND
STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY - ELECTRICITY STRATEGY IMPLEMENTATION PROGRAMME

The States are asked to decide:

Whether, after consideration of the policy letter titled Guernsey Electricity – Electricity Strategy Implementation Programme dated 9th November, 2026, they are of the opinion:

1. To agree that, in accordance with the provisions of Section 4 of this policy letter, the security of supply criteria shall be N-1 when Guernsey Electricity enters into a contract for the supply and installation of an additional interconnector into Guernsey and N when that interconnector enters operation, to ensure a cost optimal approach to on-island generation infrastructure investment.

2. To authorise the Policy & Resources Committee to:

   (a) provide loans or loan guarantees: firstly, for a second interconnector, subject to the States' Trading Supervisory Board's approval of Guernsey Electricity's business case and recommended interconnector route; and, secondly, for the refinancing of Guernsey Electricity's existing private sector borrowings.

   (b) enter into new borrowing on such terms and conditions as the Committee deems appropriate to lend on to Guernsey Electricity for the purposes set out in Proposition 2(a) and to be repaid by Guernsey Electricity over a term and at a rate determined by the Committee to ensure that there are no residual costs to the States of Guernsey.

3. To agree that the authorities set out in Proposition 2 above shall be limited to the following:

   (a) In the case of the second interconnector, a sum not exceeding £136m for the Jersey-Guernsey 2 route option or £253m for the Guernsey-France 1 route option, as set out in Section 9 of this policy letter;

   (b) In the case of the refinancing of Guernsey Electricity's existing private sector borrowings, a sum not exceeding £51m as set out in Section 7 of this policy letter.

4. Subject to the approval of Proposition 1, to rescind Resolution 2(d) of Article I of Billet d'État XIII of 2023, as set out in Section 11 of this policy letter.

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

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR THE* ENVIRONMENT & INFRASTRUCTURE
AND
STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY - ELECTRICITY STRATEGY IMPLEMENTATION PROGRAMME

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

9th November 2026

Dear Madam

1 Executive Summary

1.1 The Committee *for the* Environment & Infrastructure ("CftE&I") and the States' Trading Supervisory Board ("STSB") ("the joint committees") are presenting together this policy letter on Guernsey Electricity's ("GEL") implementation of the Electricity Strategy, specifically additional interconnection.

1.2 Additional interconnection is in line with the States of Guernsey's agreed strategic approach to the provision of electricity on the Island. This approach was initially agreed through Objective 1 of the 2012 Energy Resource Plan[1] and was subsequently reaffirmed by the States through the following:

- Firstly, the 2014 Guernsey Electricity Supply – Future Strategy[2];
- Secondly, resolution 8 of the States of Guernsey Energy Policy 2020-2050[3], which superseded the Energy Resource Plan; and,
- Thirdly, the 2023 Electricity Strategy for Guernsey[4] ("the Electricity Strategy").

This demonstrates that, over a sustained period, additional interconnection has been identified as an important part of securing the Island's electricity resource.

[1] Article 9 of Billet d'État III of 2012 - Energy Resource Plan
[2] Article 3 of Billet d'État XII of 2014 - Guernsey Electricity Supply - Future Strategy
[3] Article 8 of Billet d'État XI of 2020 - States of Guernsey Energy Policy 2020-2050
[4] Article 1 of Billet d'État XIII of 2023 - Electricity Strategy for Guernsey

1.3 Therefore, based on additional interconnection, this policy letter sets out:

- a proposed graduated pathway for the transition down from the "N minus 2" ("N-2") to the N security of supply criterion, rather than a single step change;
- an update on the options and the factors being taken into consideration in evaluating potential interconnector routes;
- the implications of the choice of route for GEL's long-term financial model and the nature of its medium-term capital investment programme over the next ten years;
- the affordability of the options under consideration;
- the work undertaken in consultation with the Policy & Resources Committee ("P&RC") on the development of funding mechanisms; and,
- proposals for the provision of States' loans (or loan guarantees) to GEL to enable that programme.

1.4 The Electricity Strategy adopted by the States in 2023 established an electricity supply pathway that sought to balance the six policy objectives agreed under the Island's energy policy. These were:

- Security and resilience of supply;
- Greater energy independence;
- Consumer value;
- Appropriate competition and consumer choice;
- Minimise carbon emissions and environmental impact; and,
- Transparency and fairness.

The Electricity Strategy concluded that decarbonising the electricity sector further, through both additional interconnection and more local renewables, was the optimum long-term approach for Guernsey and maintaining the status quo would be the most expensive option over the longer term. It was noted that there were no "no-cost" or "low-cost" pathways. Accordingly, the States agreed[5] a combination of the installation of a second interconnector, the development of offshore wind, and the adoption of additional solar PV systems.

1.5 A second interconnector provides further benefits to the electricity system relating to resilience and security of supply. When relying on a single interconnector, the Island is exposed to a single point of failure, as experienced in both 2012 and 2018.

[5] Resolution 2(a) of Article 1 of Billet d'État XIII of 2023 – Electricity Strategy for Guernsey

This meant relying on hydrocarbon powered generators at the power station. This not only exposes the Island to further price risks, but also other supply risks related to the importation of hydrocarbons. A second interconnector significantly reduces the likelihood of any lengthy importation outage, reduces the need for running of the on-island power station, and allows for maintenance to take place.

1.6 Additional interconnection acts as an enabler for the development of local renewables by enhancing Guernsey's ability to balance their variable output. It also improves the Island's security and resilience of supply. This allows for a reduction in the requirement for, and expenditure on, on-island generators retained for security of supply (back-up) purposes. It also allows for alternative approaches to on-island energy provision to be considered, such as the use of grid scale battery storage systems.

1.7 GEL has identified that a second interconnector between Guernsey and Jersey ("GJ2"), which would connect into existing Channel Islands Electricity Grid ("CIEG") assets, could be a viable alternative to an interconnector direct to France ("GF1"). The CIEG is a jointly owned company established in 1998 by Guernsey Electricity and Jersey Electricity to install and operate the high-voltage transmission network that connects Guernsey to Jersey to mainland France, and to manage the import of electricity to the Islands. A chart of the CIEG network and potential future cables is provided in paragraph 3.3.

1.8 Guernsey Electricity ("GEL") is currently required to operate under the N-2 security of supply criterion. This requires GEL to maintain sufficient on-island thermal generation plant to ensure that the Island's peak demand ("N") can still be met with the two largest generators simultaneously unavailable. The States agreed[6] this would be reduced to N when a second interconnector was commissioned, whereby sufficient back-up generation capacity is maintained to match peak demand, but with no allowance needed for two inoperable on-island generators.

1.9 A reduction in the security of supply criterion can also be justified if the GJ2 option emerges as the preferred route due to the increased resilience in the import system it would provide. The CftE&I is proposing a graduated pathway for the transition down from the N-2 to N criterion, rather than a single step change. Reducing the criterion to "N minus 1" ("N-1")[7] at the point a contract for a second interconnector is agreed will optimise the investments required in the on-island generation fleet and reduce costs that would otherwise have to be met by customers. In doing so, the proposed approach balances the policy objectives of consumer value, security and resilience of supply and minimising carbon emissions and environmental impact.

[6] Resolution 2(d) of Article 1 of Billet d'État XIII of 2023 – Electricity Strategy for Guernsey

[7] Sufficient backup generation capacity on island to meet peak demand in the event the largest generator is inoperable

1.10 For the avoidance of doubt, the reduction in the security of supply criterion is intended as a policy to support optimum investment in the electricity system and prevent wasted investment. This will not result in the decommissioning of existing generators immediately following a decision to amend the criterion. Rather, any decommissioning would progress over time in line with the ongoing obligation to ensure adequate security of supply in accordance with the revised criterion through retirement and replacement of existing generators at the Vale Power Station only as and when required.

1.11 The addition of a second interconnector cannot be considered in isolation of GEL's wider capital programme, as doing so would be sub-optimal in terms of timing, decision making and cost. The interconnector is a fundamental driver of the broader investments that GEL needs to undertake in its other generation assets and conveyance network. The choice of interconnector route will change the type and timescale of those investments. The implications of that choice for the total value and nature of GEL's investment programme over the next 10 years are presented in Section 7.

1.12 The choice facing the Island is not whether investment in the electricity system should occur, but how that investment should be undertaken. There is no credible "do nothing" option. Significant expenditure is required to maintain security of supply, replace ageing infrastructure, and meet future demand. The key issue is which approach delivers those necessary investments in a manner that meets the Electricity Strategy's objectives, avoids unnecessary replacement expenditure and minimises pressure on customer tariffs.

1.13 The joint committees have been working with GEL to evaluate and establish the long-term funding options for its capital investment programme. GEL has developed a 30-year Financial Model that takes into account all its investment requirements over that period. This modelling indicates that GEL can generate sufficient earnings to service the loan funding required for the capital programme needed to support implementation of the Electricity Strategy.

1.14 Whilst the average annual increases in tariffs required over those 30 years would be below the assumed average annual rate of inflation, above-RPI increases would be required in the earlier years. This is to ensure GEL can service the debt required to fund the much higher levels of capital expenditure necessary in the early stages of implementing the Strategy. GEL's target is to limit such increases to no more than RPI+2% in those initial stages. The Financial Model indicates that this can be achieved in scenarios based on the GJ2 route.

1.15 In consultation with the Policy & Resources Committee ("P&RC"), the STSB will continue investigating different funding mechanisms to facilitate the required investment. This will include different States or commercial loan options or alternative private sector funding mechanisms, such as third-party asset

ownership. All modelling assumes that GEL will pay back the principal sum, interest and directly attributable financing costs. The joint committees and the P&RC recognise that the necessary tariff increases, particularly in the earlier years, will be difficult for some households and businesses. The near-term effect on bills will require continued scrutiny and active considerations of possible mitigations. So, these investigations will also include options to see if and how those might be mitigated, such as: an equity injection from the States; and/or, adjusting the phasing or structure of debt repayments to the States.

1.16 To maintain delivery momentum and preserve commercial flexibility, the joint committees are proposing that the P&RC should have delegated authority to provide loans or loan guarantees for a second interconnector, within clearly defined funding limits of £136m for the GJ2 option or £253m for the GF1 option. This reflects the current stage of the business case development process and associated cost estimates, together with prudent contingency and indexation allowances. It would be subject to the STSB's approval of the business case. The proposed maximum funding envelope is intended to provide adequate headroom while project costs, risks and delivery assumptions continue to be refined. It should not be interpreted as an expectation that the final project cost will reach those levels. It is also proposed that the P&RC should have authority to refinance GEL's existing private sector loans with States' provided or guaranteed ones. The delegated authority would not oblige the P&RC to borrow or lend, and it would retain the discretion to decide against doing so.

1.17 Finalisation of the interconnector business case, including identification of the preferred interconnector route, will require sustained engagement and negotiation with a wide range of stakeholders and suppliers. Public disclosure of detailed negotiating positions, commercial assumptions, pricing information, financing proposals and contractual arrangements could materially prejudice GEL's ability to secure the most advantageous outcome for the island. It could weaken negotiating leverage, influence market behaviour, impact the procurement processes and adversely affect discussions with counterparties whose engagement is required to deliver the project.

1.18 It is for these reasons that the STSB, acting as shareholder for the States, already determines business cases being presented by GEL. This reduces the risk of delay at critical stages of projects and provides flexibility to respond to commercial opportunities and procurement savings that may only be available for a limited period. The P&RC will consider what implications such loans or guarantees might have for the States and whether that means commercial loans or alternative private sector funding mechanisms are necessary.

2 Policy Setting

2.1 The States of Guernsey has adopted an Energy Policy[8] that sets out six policy objectives (as amended by the Electricity Strategy):

- security and resilience of supply,
- greater energy independence,
- consumer value,
- appropriate competition and consumer choice,
- minimise carbon emissions and environmental impact, and,
- transparency and fairness.

These objectives may conflict; for example, increased security and resilience of supply may require further investment which can raise cost, and so a balance must be found. As part of the work of the Electricity Strategy, these policy objectives were ranked to assist with the formation of the Strategy, with security and resilience of supply scoring highest.

2.2 The Electricity Strategy sought to balance these objectives, looking at options to achieve energy security, local provision and decarbonisation whilst understanding the cost effectiveness of the options. Having evaluated a number of alternative electricity supply pathways, the Electricity Strategy concluded that decarbonising the electricity sector further, through additional interconnection and local renewables (Pathway D), is the optimum long-term approach for Guernsey and is of lower overall cost when compared to maintaining a single generator and on-island generation (Pathway A). The Electricity Strategy also outlined that additional interconnection would provide additional security and resilience to the Island's electricity supply.

2.3 The Electricity Strategy explained that a second interconnector would provide a decarbonised route to meeting the Island's increased electricity demand that is forecast by 2050. This is expected to rise from the current peak demand of 94MW to 157MW by 2050, unless further work is undertaken to limit that, which could reduce peak demand to 125MW. Given the current peak demand already exceeds the import capacity of the existing single interconnector, additional interconnection is already required to further decarbonise the supply during winter months when demand exceeds import availability.

2.4 The Electricity Strategy set out the benefits of additional interconnection for the Island's resilience and security of supply. With a single interconnector to Guernsey, regardless of connection point, a failure can require immediate and prolonged running of the on-island power station, as seen in both 2012 and 2018. This impacts not only the carbon intensity of island electricity, air quality, and the

[8]Article 8 of Billet d'État XI of 2020: States of Guernsey Energy Policy 2020-2050

level of particulate pollution, but also the price of electricity production. On-island generation relies on the importation of fuel into St Sampson's Harbour which carries separate additional risks. The addition of a second interconnector removes the single point of failure for imported electricity and thereby reduces both the direct risk of loss of import capacity and the need to operate the on-island power station. The practical impact of additional interconnection around outages and asset management/maintenance is that there is a very low probability of compounding outages leading to the need to run the on-island power station for back-up for a prolonged period.

2.5 The Electricity Strategy acknowledged that, in the absence of additional interconnection, GEL would still be required to invest substantially in replacement and additional on-island generation under Pathway A ("the Status Quo"). However, given the reliance this would place on increasing volumes of fossil fuels, modelling showed (and continues to show) that this would be both a less cost-effective and more carbon-intensive way to meet future demand than Pathway D.

2.6 The conclusions reached through the Electricity Strategy, independently compiled utilising industry expertise, support the long-term policy position of additional interconnection supporting the Island's power system. This has been the States' policy since 2012, when first agreed through the Energy Resource Plan. It was reaffirmed in both 2014 and 2020 when the States of Guernsey Energy Policy 2020-2050 replaced the Energy Resource Plan as the States of Guernsey overarching energy policy.

2.7 Accordingly, under Pathway D the Electricity Strategy envisaged establishing a second interconnector with a 100MW capacity in addition to the existing interconnector between Guernsey and Jersey ("GJ1"). It also assumed increased local renewable electricity generation from both an offshore wind array in the region of 65MW and more solar PV, the target for the latter being 10MW by 2028. Additional interconnection supports the Strategy in two ways: it enables local renewable provision, by enhancing our ability to balance the variable output of solar and wind sources; and it improves the security and resilience of supply to the Island by removing a single point of failure. A second interconnector substantially reduces the likelihood of having to use on-island back-up thermal generation for a prolonged period in the event of a generator failing.

2.8 Building on these conclusions, both the Energy Policy and the Electricity Strategy concluded that on-island generators will continue to be required for the following: back-up generation (where there is disruption to the import system); top-up generation (where the peak demand exceeds the import capacity), particularly as demand increases over time; and system balancing[9]. However, the significant decrease in the likelihood of using on-island generation to meet the

[9] System balancing means ensuring the supply of and demand for electricity are matched in real time, such that the power system remains stable to within acceptable tolerances.

Island's needs for a sustained period of time means a reduction in on-island generation capacity can be made. It is acknowledged that emerging battery technology could also play a part in those roles in the future as the technology evolves and becomes increasingly commercially viable.

2.9 The Electricity Strategy acknowledged the pressing need for GEL to invest in its on-island thermal generation plant, albeit with total capacity of on-island generation reduced in the event of additional interconnection. Many of the existing generators are now beyond their normal reliable operational life and, by 2030, the oldest will have served over 50 years. The addition of a second interconnector has a very material impact on GEL's on-island generation strategy. The reduction in on-island generation, and the move to more responsive rather than continuous operation, allows a different approach to the Status Quo and the selection of appropriate, modern, and flexible technologies for the varying roles the on-island generators will play.

2.10 For reasons set out in paragraphs 6.12 to 6.15 of this policy letter, investment timing is a crucial consideration, as that determines, the timing, size and type of that generation. If alternative lower carbon fuels are feasible, these could be used to operate the thermal plant to reduce associated emissions.

2.11 The Electricity Strategy was clear that the chosen electricity supply pathway was not a fixed delivery plan or a direct roadmap for when technologies should be implemented. It was presented as an enabling pathway that allowed for flexibility moving forward and it recommended solutions which were the most cost optimal as they were understood in 2023. Whilst analysis undertaken in developing the Electricity Strategy indicated that a second interconnector direct to France was the most viable technical and financial option, the Electricity Strategy was clear that it was not committing the Island to a specific cable destination and that other routes could be considered if circumstances changed.

2.12 Through the ongoing development of the business case for additional interconnection, GEL has identified that further interconnection through the existing CIEG network to France via Jersey is more viable than originally identified through the Electricity Strategy. Sections 5 and 6 set out in more detail this alternative option for dual interconnection that would both increase the resilience of supply and provide an increase in import capacity.

2.13 The joint committees agree with the Electricity Strategy's approach that decarbonisation of the electricity and wider energy sector remains important while needing to be achieved in a way that is affordable for the Island and maintains or improves the resilience of the electricity system. In approving the Electricity Strategy, the States resolved that detailed information and recommendations on all its components should be brought before them to ensure informed decisions are reached.

2.14 Therefore, this policy letter sets out the options under consideration for additional interconnection and the associated security of supply factors. It also explains the business case development process that GEL is undertaking to evaluate options, both direct to France and via Jersey, noting that its broader investment programme over the next decade in delivering the Electricity Strategy is fundamentally shaped by the selected interconnector route.

2.15 In agreeing the Electricity Strategy, the States resolved that, should they decide an alternate approach (due to alternative technologies, approaches, or on affordability grounds) the Strategy will be updated. Section 7 sets out that the proposal for additional interconnection remains the cost optimal approach.

3 Electricity Supply – Existing Arrangements and Strategic Context

3.1 Currently, Guernsey's electricity supply is predominantly provided by low carbon European electricity sourced through the existing GJ1 interconnector. This is part of a wider network of cables owned by the CIEG, a joint venture between GEL and Jersey Electricity.

3.2 GJ1 is reliant on the upstream network of the CIEG's three "Normandie" interconnectors (Normandie 1, Normandie 2 and Normandie 3) that connect Jersey and France. In Guernsey, the mix of local supply is predominantly diesel-powered thermal generation and approximately 4MW of distributed solar PV arrays.

3.3 Diagram 1 overleaf provides a plan of the CIEG network showing GJ1 and the three Normandie interconnectors. For illustrative purposes only, it includes the two alternative routes that GEL and the CIEG have been evaluating for additional interconnection to Guernsey: a direct connection between Guernsey and France (GF1); or a second interconnector between Guernsey and Jersey (GJ2).

Diagram 1 - Channel Islands Electricity Grid Assets



Note: Proposed GF1 and GJ2 routes are for illustrative purposes and subject to ongoing engineering designs, route surveys and technical investigations.

3.4 The practical capacity of the existing GJ1 interconnector is currently a maximum of 63MW, but with potential to increase that to 70MW, subject to revised contractual agreements within the CIEG. The Island's peak electricity demand is currently 94MW, but this level of demand only occurs for short periods, normally during cold winter weather events. When demand exceeds the interconnector's capacity, GEL's on-island thermal power plant is used to make up the shortfall.

3.5 For most of the year, normal electricity demand is less than the maximum import capacity, meaning that imported electricity could theoretically have satisfied more than 97% of total annual demand in 2025. In practice, that fell to 92% because of minimum continuous running requirements[10] for the thermal generation plant. A proportion of the on-island plant was required to run in addition to the interconnector for top-up purposes. This was predominantly through winter months totalling 1282 hours of operation in 2025, over 53 days out of the year, or 14.5% of the time, and this represented 8% of the total electricity supplied. For the rest of the time, the Island was fully served by the interconnector and local solar power production. The on-island thermal plant is also retained for back-up security of supply purposes (which is explained in further detail in Section 4).

[10] Once a generator is running it cannot be operated continuously below a certain output which can lead to levels of generation that exceed the actual need. The interconnector is used to balance this excess generation by reducing the amount of imported electricity to meet the Island's demand. Therefore, at times when the generators are running the interconnector will sometimes be importing below capacity.

4 Security of Supply

4.1 GEL currently operates under the "N minus 2" ("N-2") security of supply criterion which relates to the level of thermal generating back-up plant the Island maintains. For the purposes of this criterion, "N" is defined as the Island's peak demand. Therefore, the N-2 security criterion requires that GEL should maintain sufficient on-island thermal generating plant such that the Island's peak demand, N, can still be met with the two largest generators simultaneously unavailable (minus 2).

4.2 This approach covers the eventuality where the (single) interconnector cable is inoperable. The purpose of a security criterion is to provide a margin of on-island redundancy to ensure that there is sufficient generation plant to cope with forecast peak demand. The existence of the N-2 criterion does not guarantee that supply will be sufficient, as multiple sources of electricity might be unavailable simultaneously at a time that coincides with peak demand. However, the likelihood of system inadequacy is reduced with each additional security requirement.

4.3 This greater degree of redundancy results in higher costs, since more generators must be installed and maintained regardless of operational use. The direct costs associated with providing security of supply are essentially the costs of any generation capacity held in reserve (the generation capacity above what may actually be required to provide power to the Island).

4.4 The Electricity Strategy concluded that the resilience provided by dual interconnection would materially reduce the risk of having to use on-island thermal generation for back-up. Subject to the installation of a second interconnector, the States resolved to reduce the N-2 security criterion to N such that sufficient back-up generation capacity is maintained to match peak demand only, without additional capacity required to allow for the two largest on-island generators also being unavailable. This is intended to strike the optimum balance between the level of on-island thermal generation provided for back-up purposes; the costs entailed in maintaining such redundancy; and the reduction in the risk profile that a second interconnector will offer.

4.5 However, the wording of the resolution by the States when making the above change was such that the reduction in security of supply criterion is only applied in the event of a direct interconnector to France. Given the possibility that this is not the optimal solution for an interconnector destination, the joint committees are proposing that resolution 2(d) from the Electricity Strategy is superseded by proposition 1 of this policy letter, aligning the policy intention with the States' resolution. So, in the event of additional interconnection, regardless of its destination, the additional resilience the Island would then benefit from would still result in a reduction in the on-island security of supply requirement to N.

4.6 When considering the implications of a second interconnector with Jersey, it is important to understand how the interconnectors interact with the wider CIEG infrastructure. The three cables between Jersey and France (Normandie 1, Normandie 2 and Normandie 3) connect into two sections of the CIEG network on Jersey. Therefore, if additional interconnection connects into a separate part of the network in Jersey to GJ1, there remains no single point of failure across the CIEG system. The realistic worst-case scenario, leading to a longer-term outage, would be the loss of a key element of CIEG network infrastructure, which would likely result in continued capacity being available, albeit at a reduced quantum depending on the nature of the issue to be resolved. Ultimately, this means that the import capacity is unlikely to be reduced to zero over a prolonged period of time, and therefore the on-island provision can be reduced.

4.7 From a cost perspective, transitioning from N-2 to N means two fewer generators are required on-island. For example, two gas turbine generators (known as GT2 and GT3) are the largest on-island assets, with a combined output of 37MW. Independent modelling commissioned by GEL[11] indicates the costs associated with provision of those generators is £1.85m per annum. This means that a transition from N-2 to N would reduce the costs to the Island of providing back-up generation by a recurring £1.85m per annum compared to the Status Quo. Therefore, the CftE&I considers the adoption of N as being both in line with the policy direction of cost effectiveness and maintaining suitable resilience. The Island will retain sufficient on-island generating capacity to meet 100% of forecast peak demand, whilst reducing the cost burden that customers would otherwise have to meet.

4.8 The CftE&I has identified further efficiencies that would balance affordability with security of supply, as set out within the Energy Policy objectives. To support the optimal investment pathway, the CftE&I proposes that once a final investment decision is made to proceed with an additional interconnector and once the contractual commitment to delivery is made by GEL, the security of supply criterion should be reduced to N-1 on an interim basis. N-1 would ensure provision is made for the Island's peak demand, with just the single largest generator assumed as being unavailable and that would remain the criterion until the second interconnector is operational. At that point, the criterion would then be reduced to N (*or* would revert to N-2 in the unlikely event the project does not proceed).

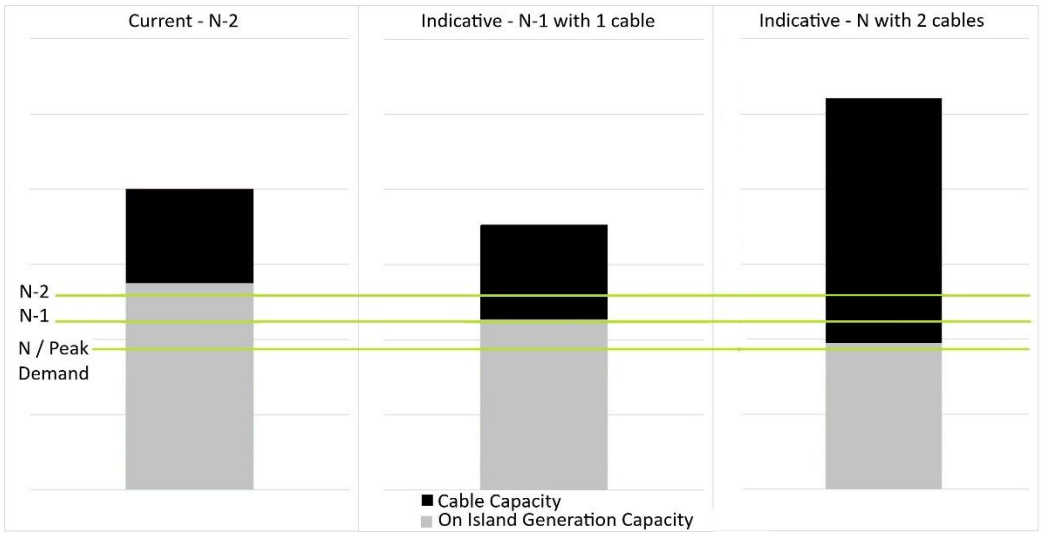
4.9 For the avoidance of doubt, this policy is intended to ensure GEL is not required to make sub-optimal investments in replacement plant to ensure policy compliance with N-2 once committed to an additional interconnector project. It is not intended this would result in an immediate reduction in existing on-island plant; rather, any decommissioning would only take place over time and in line with GEL's obligation to ensure sufficient security of supply in accordance with the revised criterion, involving retirement and replacement of existing generators as and when required.

[11] Source: E-Cube Strategy Consultants – Fair Cost Allocation Report

4.10 The rationale for this change is to ensure that, in the interim period between a contract being signed to ensure delivery of additional interconnection and that project then being commissioned, GEL is not required to make further investments in on-island plant that may become either superfluous or sub-optimal once there are two interconnectors in place and the final reduced security of supply criterion of N begins to apply. As with the transition to N, reducing the security of supply requirement to N-1 on an interim basis has the potential to alleviate a cost pressure on the overall electricity generation system. It also allows for a more strategic approach to the replacement of assets. This does, however, maintain a required security of supply provision on-island exceeding peak demand. Whilst this represents a potential increase in the Island's risk profile over the short term, the CftE&I views this as an effective mechanism for balancing the costs of the system against security of supply.

4.11 It is reiterated that the reduction in the requirement does not immediately lead to the reduction in on-island provision, which would only occur as generation assets become decommissioned. However, it does allow for a longer-term optimised investment planning approach to be taken around asset management for GEL. Table 1 below illustrates the transition from N-2 to N:

Table 1 - Security of supply transition



5 Interconnection Options – Changing Circumstances

5.1 As set out in Section 2, the Electricity Strategy did not commit to a specific interconnector destination[12] and confirmed that other options should remain under consideration. Accordingly, GEL has continued to investigate alternatives.

5.2 GEL's current assessment of the GF1 project is that the earliest a direct connection to France could be commissioned is 2034. Whilst the project has previously been the subject of stakeholder engagement and route engineering analyses, it has been on hiatus since Brexit and requires formal approval from the French government to be restarted. GEL advises that a new commercial, legal and operational framework for the cable is required to facilitate delivery of the project and, given that GF1 entails both an entirely new offshore cable route and landing point into France, the environmental assessment, marine licensing, planning approvals and statutory consultations are likely to be significant and complex. Together, these issues present a significant level of uncertainty around the timeline for potential delivery, albeit GEL is continuing to engage with stakeholders in France to improve understanding of the key constraints and identify potential mitigations.

5.3 GEL has identified a viable alternative, this being a second interconnector between Guernsey and Jersey (GJ2) linking into existing CIEG assets. The CIEG has recently committed to replacing its Normandie 2 interconnector between Jersey and France. This, as well as further planned upgrades in the power network in France, will increase the total capacity of imports into the Channel Islands across the three Normandie cables. That provides the ability to import additional electricity to Guernsey via the existing CIEG network, maximising the use of the available capacity already invested into CIEG assets, whilst also providing resilience. As a replacement asset, the Normandie 2 project will not be subject to the same level of complexities set out above that the GF1 project will face. A second connection into the CIEG network could also be commissioned much sooner, expected to be by 2030.

6 Interconnector Route – Options

6.1 GEL is developing its business case for the second interconnector, which will evaluate the merits of both options, either direct to France or via Jersey. Whilst the Electricity Strategy confirmed that responsibility for approving that business case rests with the STSB, it will be subject to ensuring that it is financially sustainable and affordable and that the necessary loan funding is available, whether that is provided by the States or commercial lenders. The STSB has consulted with the P&RC on those matters, and the results of that engagement are set out in Section 10 of this policy letter.

[12] Section 6.10 - Article I of Billet d'État XIII of 2023 – Electricity Strategy for Guernsey

6.2 There are a range of environmental, operational, technical and financial factors that underpin the options analysis included in the business case. Each option's ability to meet predicted demand levels will be fundamental. The demand forecasts that underpin the Electricity Strategy indicate that peak electricity demand could increase to 157MW by 2050. As it is peak demand that drives the level of investment required, the Strategy highlighted the importance of introducing demand management measures to limit the increase in the peak to 125MW to optimise overall investment in the system. To that end, GEL has committed to investing in demand management and energy efficiency initiatives as part of its Smart Future Programme to ensure that peak demand does not exceed the 125MW forecast. Those include the introduction of next generation meter technology to improve customer awareness of their consumption patterns and tariff reforms that encourage load shifting to times when demand is lower.

6.3 Total importation levels under each option will differ as a result of factors that continue to be evaluated as part of the business case development and are subject to ongoing negotiation with the parties involved. These include:

- Whether agreement can be secured with the French network operator on the technical arrangements required to operate a GF1 interconnector direct to Guernsey in parallel with the existing GJ1 interconnector;

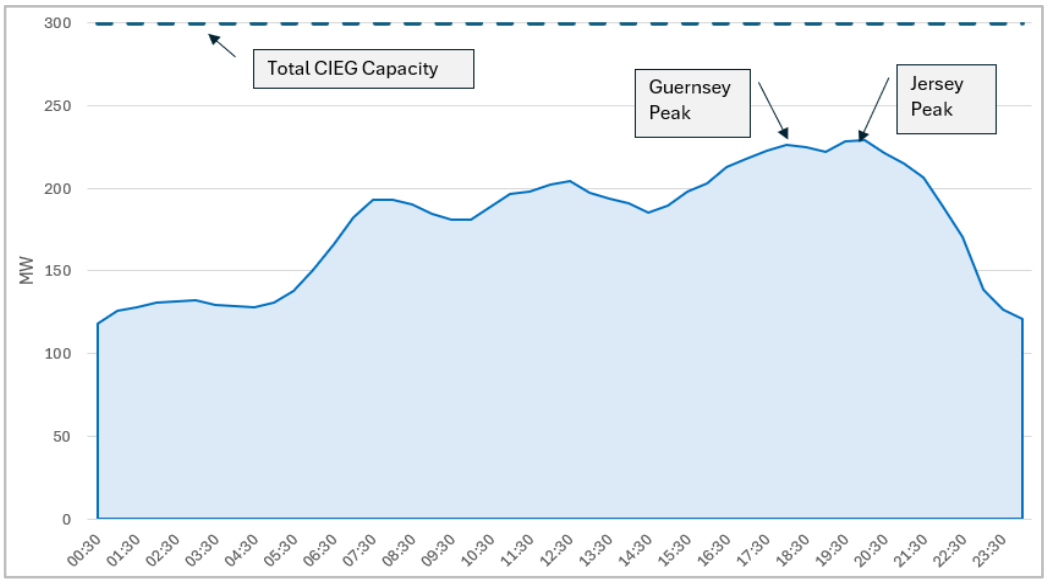
- What technical limits may be imposed on the parallel importation of electricity from France across the three existing Normandie interconnectors;

- Agreements within the CIEG on GEL's and Jersey Electricity's guaranteed contractual entitlements to electricity volumes imported through the Normandie interconnectors to Jersey for onward transmission to Guernsey (and their respective ownership shares of the interconnectors); and,

- Internal agreements within the CIEG on GEL's ability to make use of spare import capacity available within the CIEG beyond its contractual entitlements, but that is being unused by Jersey Electricity.

6.4 As Diagram 2 illustrates through the twin peaks, the peak demand points in Guernsey (first peak) and Jersey (second peak) have historically been at different times - approximately two hours apart. As such, there is a reasonable prospect that spare import capacity will be available within the grid at peak times above and beyond GEL's contractual entitlement that can be used to satisfy peak demand in Guernsey. Therefore, a key consideration will be understanding both Guernsey's and Jersey's future peak demand and load growth expectations.

Diagram 2 - Combined Guernsey and Jersey Winter Peak Day Load Profiles (five-year average)



6.5 The above factors have a material impact on the extent to which either route option could meet projected demand. For example, import levels under GF1 could materially exceed forecast peak demand, but only if it is possible to run GF1 in parallel with the existing GJ1 interconnector. Conversely, the availability of power through the GJ2 option will depend on the amount of spare capacity (beyond GEL's contractual entitlement) within the existing Normandie cables between Jersey and France that can then be utilised for onward importation to Guernsey.

6.6 GEL has consistently relied on such spare or "non-entitled" supplies to meet a proportion of its needs in the past and is putting in place updated agreements within the CIEG to ensure that can continue. As illustrated in Diagram 2, there is currently spare capacity even at peak demand times, allowing for some load growth. When considering the demand over the year, future opportunities for storage technologies become significant, due to total available capacity of around 2.5TWh[13] over the course of a year. This total available capacity compares to current total CIEG consumption of around 1TWh per year, indicating an approach that utilises storage to take advantage of the lower demand times has potential to limit the impact of higher peak demand across the CIEG.

6.7 Historically, importation has satisfied circa 90% of Guernsey's total annual demand, with on-island generation utilised to top-up imports to meet peak demand requirements. The business case will therefore need to evaluate the extent to which either option needs to rely on top-up generation, noting that the peak demand point is only reached for a small period over the course of the year.

[13] 1 TWh stands for one terawatt hour and is a measurement of energy consumption that equates to 1 million Megawatt hours (MWh) or 1 billion kilowatt hours (kWh).

Reliance on on-island generators for a greater, albeit limited, proportion of the Island's generation would mean the combined carbon intensity of the Island's electricity generation would therefore be slightly higher, and the business case will evaluate which option performs better.

6.8 The total cost of the GF1 project is currently estimated at £209m. The total project cost for the GJ2 project is currently estimated at £113m. These costs encompass a broad range of areas, including:

- Initial consultancy and investigation costs, including environmental impact assessments, surveying and geotechnical surveys;
- Physical infrastructure, including: manufacturing, transportation, storage and installation of the cable; on-shore electrical equipment to connect the cable to the grid; and investment in and reinforcement of the grid;
- Commissioning costs;
- Legal, insurance, permitting and consenting costs; and,
- Internal costs of GEL staff related to the project and external consultancy.

6.9 There remains a degree of both positive and negative cost uncertainty around the above estimates that is not untypical at this stage of a project lifecycle. Cost estimates will be refined through ongoing survey works, detailed design engineering, project design development, market engagement and value-engineering activities as the project progresses. These activities will enable assumptions to be replaced with project-specific evidence. They will inform decisions on route optimisation, installation techniques, burial requirements, landfall design and the identification of any mitigation measures required. This reflects the normal business case development process for major infrastructure projects, whereby uncertainty is progressively reduced and estimates become more robust as additional technical, commercial and environmental evidence is obtained. The current phase of work is intended to provide the information required to support a future investment decision with a higher degree of confidence.

6.10 If the GF1 option is confirmed as providing better peak demand performance, it would nevertheless result in a significantly higher cost for the increase in volume coverage and resilience that it could offer. So, even at this stage of the business case development, it is evident that there would be a significant balance to be struck between the incremental capacity improvement that GF1 can potentially offer and the significantly lower project costs of the GJ2 option.

6.11 Given the considerations set out above, the business case will need to take account of opportunities to mitigate the need for on-island generation under the GJ2 option in the medium term. For example, it is expected that developments in large-scale battery storage technology will, in time, enable GEL to import additional electricity during off-peak periods and store this for top-up use to

meet peak demand. In addition, batteries could be used to store electricity generated by locally produced renewable energy. Furthermore, the replacement of the existing GJ1 cable in the 2040s will provide an opportunity to consider a higher capacity interconnector if necessary to address peak demand requirements. In this sense, this approach would be consistent with the Electricity Strategy's position that the chosen supply pathway was not a fixed delivery plan or a direct roadmap for when technologies should be implemented.

6.12 Timing considerations also play an important part in the development of the business case. GEL is currently working with potential suppliers to establish what commercial options could be achieved if the GJ2 cable project is aligned with the Normandie 2 replacement project, whilst also determining what level of risk might need to be adopted to realise such opportunities. The value of this approach might go beyond potential financial savings. It might also improve project certainty by securing a cable manufacturing slot and an installation vessel for delivery in 2030. The ongoing analysis of associated risks will determine whether such financial and non-financial savings opportunities should be pursued or not.

6.13 The commissioning date of a second interconnector is also a significant timing consideration for GEL in planning for its future on-island thermal generation fleet, noting that the current security of supply standard will reduce from N-2 to N at the point it is commissioned and operational for the reasons set out in Section 4. A full list of the existing on-island generation fleet and a plan of the three existing generating halls (B Station, C Station and D Station) is attached as Appendix 1. The Vale Power Station ("VPS") is a spatially constrained site. So, careful planning and sequencing of major works within the site are necessary to enable the N solution to be achieved whilst optimising overall long-term investment demands and making the best and most efficient use of available assets.

6.14 The GJ2 option offers a commissioning date of 2030, some four years earlier than GF1. This is a significant planning consideration. Under the GJ2 scenario, no further investment in replacement on-island generators for back-up purposes would be required before the second interconnector is operational in 2030. It would also enable the decommissioning of C Station, which is already reaching end-of-life, to begin in 2032. This enables the power station to transition away from Heavy Fuel Oil.

6.15 However, under the GF1 scenario, a second interconnector would not be operational until 2034, with a contract for it likely signed two years before that. This would delay the point at which the security of supply standard could be reduced on either an interim basis to N-1 or permanently to N. GEL would therefore need to consider further investing in an extension to the service life of its C Station engine assets. This will incur additional expenditure and increase risk, given its reliance on an ageing asset. Alternatively, GEL could consider investing in new thermal plant or energy storage assets at the VPS. However, the spatial constraints at the VPS and the development planning considerations mean those

options would be very limited whilst C Station remains in situ and may necessitate the need to look at alternative sites outside the VPS. In practical terms, a later interconnector commissioning date increases the likelihood that further expenditure will be required on assets that may subsequently become redundant.

7 Financial Considerations

7.1 GEL has developed a 30-year Enterprise Financial Planning Model ("the Financial Model") that enables comparisons to be made between the two interconnectors (thereby following the approved Electricity Strategy pathway) and continuing with a single interconnector under the Status Quo. The Financial Model is based on the current estimated project costs for GF1 of £209m and for GJ2 of £113m. The model accounts for project costs being incurred over several years and therefore escalates those from current prices using assumed rates of inflation.

7.2 The Electricity Strategy concluded that all Pathways require a significant level of capital investment. There is no credible low-investment or do-nothing option available to the Island. That is borne out by the Financial Model, which enables comparisons to be made between the Status Quo, the GJ2 and the GF1 options:

Table 2 - Financial Model

Enterprise Financial Planning Model – 2025-2054							
	Total CAPEX[1]	Total OPEX[2]	Total Expenditure	Interest Payments	Maximum Net Debt	Total Debt Drawdown	Peak Gearing[3]
Status Quo	£1,464m	£3,470m	£4,934m	£296m	£290m	£671m	121%
GF1	£1,583m	£3,428m	£5,011m	£337m	£360m	£726m	167%
GJ2	£1,491m	£3,395m	£4,886m	£289m	£283m	£668m	128%

Notes:

1. Includes: expenditure on interconnectors, network and local generation assets.
2. Includes: operating costs for individual interconnector, thermal and solar generation assets; and all other operating costs associated with importing, generating, supplying and conveying electricity.
3. Gearing is a financial leverage metric that quantifies the proportion of GEL's capital structure funded by debt relative to equity.

The model takes account of the Electricity Strategy projections for increases in demand and is based on a wide range of market-driven assumptions, including: an assumed rate of inflation from 2028 of 3% per annum[14]; supplier costs; oil

[14] Assumed rate of inflation for 2027 is 3½%

prices; electricity import costs; interest rates; and exchange rates. It will continue to evolve over time as these assumptions are reviewed regularly and certainty around them improves. As such, it should be considered as indicative.

7.3 Given the long-term nature of the Financial Model, some of the assumptions that underpin it are necessarily high-level in nature. However, a more granular level of detail on GEL's planned capital investment programme under the alternative GJ2 and GF1 options is available over the next 10 years. That includes:

- Firstly, investment required for Business as Usual (BAU) purposes to maintain existing infrastructure to provide a reliable and secure supply of electricity for the Island, in essence "to keep the lights on"; and,

- Secondly, investment directly related to the Electricity Strategy, whether that be additional interconnection or enabling the wider electricity system in the future to respond to the Strategy's aims and objectives.

7.4 The alternative GF1 and GJ2 capital investment programmes include investment in the following:

Table 3 – 10-Year Capital Investment – Business as Usual & Electricity Strategy

Business as Usual:
• Replacement and renewal of ageing on-island generators for top-up and back-up purposes. • Life extension of on-island generators where this is most cost-efficient. • Replacement of local network assets, transmission infrastructure and control systems. • Replacement of the existing CIEG Normandie 2 interconnector and supporting network. • Property, fleet and IT investment.
Electricity Strategy:
• Estimated project costs for additional interconnection. • Investment in next generation meters to support effective demand management. • Development of bulk supply points to distribute increased electricity imports. • Development of renewable generation opportunities and battery storage. • Tank farm development to enable use of alternative fuels.

Table 4 and Table 5 set out GEL's planned expenditure programme for the next 10 years for both the GF1 and GJ2 scenarios, broken down into investment between Generation, Network and Other expenditure areas.

Table 4 - GUERNSEY ELECTRICITY – MEDIUM TERM CAPITAL EXPENDITURE FORECAST – Guernsey-Jersey 2 Interconnector Option

10-YEAR CAPITAL EXPENDITURE PROGRAMME – (GJ2 - JERSEY)											
	2027	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**TOTAL**
GENERATION £'000 [1]	£1,613	£40,945	£56,273	£46,286	£29,605	£1,837	£1,884	£14,985	£68,405	£62,530	**£324,363**
NETWORK £'000 [2]	£4,775	£4,824	£8,200	£8,427	£9,819	£10,124	£11,607	£11,935	£17,610	£14,000	**£101,321**
OTHER £'000 [3]	£4,983	£5,043	£4,620	£3,207	£3,297	£3,399	£3,485	£3,584	£3,685	£3,800	**£39,103**
TOTAL £'000	**£11,371**	**£50,812**	**£69,093**	**£57,920**	**£42,721**	**£15,360**	**£16,976**	**£30,504**	**£89,700**	**£80,330**	**£464,787**

Notes:

1. Includes all local thermal generation assets and GJ2 subsea and land-based CAPEX, French transmission upgrades to increase CIEG import capacity to 300MW, and GEL contributions to the CIEG N2 replacement. This scenario reflects a security of supply-led investment strategy for thermal generation.
2. Network CAPEX comprises both BAU (base spend) and energy transition expenditure.
3. Other capital expenditure, including investment in property and buildings, fleet, metering infrastructure, and other business-as-usual capital projects not captured within the previous categories.

Table 5 - GUERNSEY ELECTRICITY – MEDIUM TERM CAPITAL EXPENDITURE FORECAST – Guernsey-France 1 Routing Option

10-YEAR CAPITAL EXPENDITURE PROGRAMME (GF1 - FRANCE)											
	2027	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**TOTAL**
GENERATION £'000 [1]	£12,222	£18,956	£1,686	£78,945	£98,701	£49,048	£49,095	£14,985	£54,966	£35,652	**£414,256**
NETWORK £'000 [2]	£4,775	£4,823	£8,200	£8,427	£9,819	£10,124	£11,607	£11,935	£17,610	£14,000	**£101,320**
OTHER £'000 [3]	£4,983	£5,043	£4,621	£3,207	£3,297	£3,399	£3,485	£3,584	£3,685	£3,800	**£39,104**
TOTAL £'000	**£21,980**	**£28,822**	**£14,507**	**£90,579**	**£111,817**	**£62,571**	**£64,187**	**£30,504**	**£76,261**	**£53,452**	**£554,680**

Notes:

1. Includes all local thermal generation assets and GF1 subsea and land-based CAPEX, as well as French transmission network CAPEX to increase CIEG importation capacity to Channel Islands to 300MW and GEL contributions to the CIEG Normandie 2 replacement. This scenario reflects a security of supply-led investment strategy for thermal generation.
2. Network CAPEX comprises both BAU (base spend) and energy transition expenditure.
3. Other capital expenditure, including investment in property and buildings, fleet, metering infrastructure, and other business-as-usual capital projects not captured within the previous categories.

7.5 There are two assumptions underpinning the Financial Model that warrant specific consideration at this stage. Firstly, it assumes that the States provides loan finance to GEL for the capital expenditure required. This is consistent with the Electricity Strategy, which acknowledged that the States are likely able to access long-term debt finance at a lower cost, thereby minimising electricity system costs and the impact on tariffs.

7.6 Any States lending to GEL would be fully repayable. The company would be required to service and repay both the principal sum and interest from its future revenues, in exactly the same way as it would if the money were borrowed from a commercial lender. Subject to assumptions about tariff increases set out in Section 8, the Financial Model demonstrates that GEL will generate sufficient earnings to service that debt.

7.7 Secondly, the Financial Model assumes that the States will refinance GEL's existing private sector borrowings of up to £51m[15] which, in any event, are due to be refinanced in 2028/29. Under the terms of those loans, GEL is the subject of financial covenants relating to leverage and debt servicing with its commercial lenders and it currently operates well within those. However, whilst those covenants remain in place, GEL is limited in the amount of debt it can take on either without more rapid introduction of tariff increases than otherwise would be required, or alternatively, an equity injection or a deferral of planned investments. The refinancing of that existing commercial borrowing by the States would release GEL from those loan covenants.

7.8 This must be considered within the context of the States' own capital portfolio and their overall capacity for borrowing. The Electricity Strategy acknowledged that there were trade-offs between alternative public and private approaches and that further work would be required to identify the most appropriate ownership and funding options for the electricity assets required.

7.9 Against the above background, the STSB has asked GEL to investigate alternative funding options to support its medium-term capital expenditure plans, noting that the Electricity Strategy set out that these should be considered alongside States' provided options. These include commercial borrowing, with or without a States' guarantee and acknowledging the potential impact of financial covenants that might be applied; sustainable financing (access to ESG-labelled financing, such as green bonds or loans); third-party asset ownership; a partial floatation of the company; and a private placement.

7.10 However, these are longer-term funding options and, given the potential timelines for making a final investment decision on a second interconnector, a blended approach might be required. This policy letter anticipates the States providing loan

[15] The quantum of debt is dependent on the chosen interconnector option. GEL estimates the range as being between £34.8m and £50.7m

funding (or guarantees) for the second interconnector project and the refinancing of GEL's existing private sector debts. However, that does not preclude substituting that funding, either partially or in full, for one of the alternative funding options at a later date should that prove to be necessary or desirable.

8 Affordability

8.1 The Electricity Strategy was predicated on a user-pays principle and the Financial Model enables an assessment to be made on the likely impact of the investment programme on electricity tariffs.

8.2 Electricity tariffs will need to rise to support the investment required, irrespective of the Pathway or interconnector route that is chosen. GEL's current assessment is that, under either the GF1, GJ2 or Status Quo options, the **long-term average** annual increases in tariffs that would be required over the 30-year lifetime of the Financial Model are less than the assumed average annual rate of inflation of 3% from 2028 onwards[16], albeit the Status Quo would entail the highest cumulative increase over that period.

8.3 However, the impact in the earlier years is likely to be more challenging, with above-RPI increases required to ensure GEL can generate sufficient returns to service the debt that is required to fund the higher levels of capital expenditure necessary in the early stages of implementing the Strategy, as follows:

- In the case of the GJ2 option, increases of the assumed average RPI figure plus 2% would be required between 2027 and 2036;
- The GF1 option would require increases of the assumed average RPI figure plus 5% in 2027 and 2028 and then RPI+2% between 2029 and 2038; and,
- The Status Quo would require increases of the assumed average RPI figure plus 2% between 2027 and 2038.

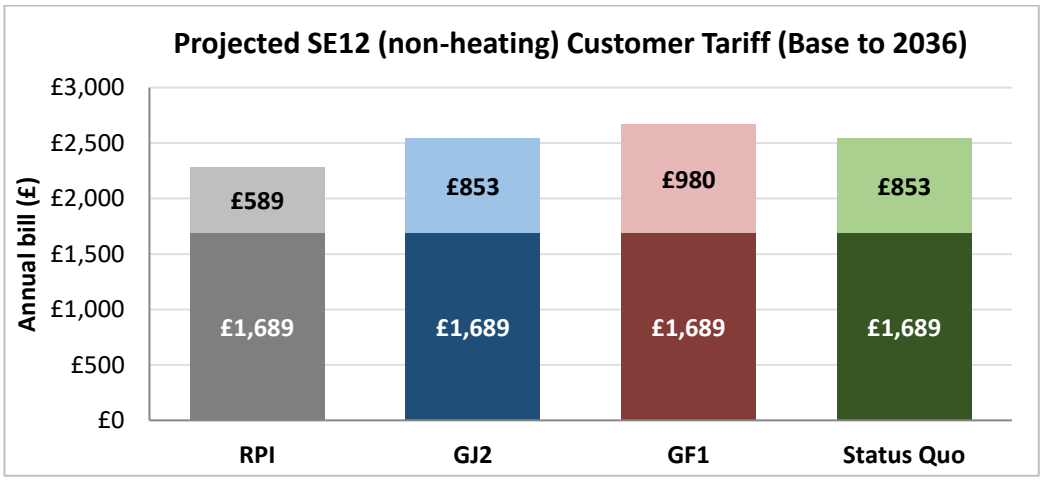
In summary, the GJ2 option offers the lowest requirement for tariff increases over the shortest timeframe.

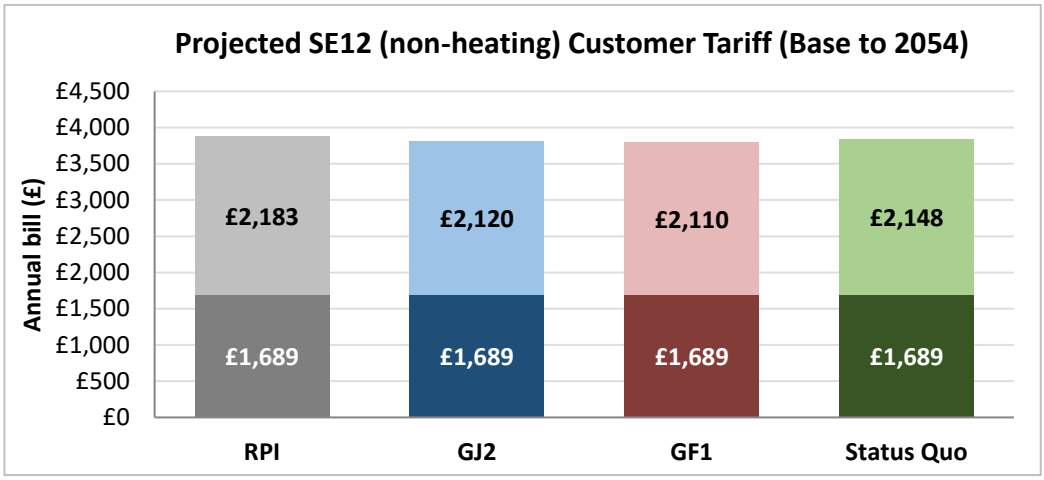
8.4 Diagram 3 sets out the projected cumulative impact on a typical customer's bills for the three options, based on the Super Economy 12 (non-heating) tariff[17] as an example, used by 86% of GEL's customers. It illustrates the impact over both the next 10 years (to 2036) and the remaining lifetime of the Financial Model (to 2054). In each case, it also includes as a benchmark the cumulative impact on customer bills if they were inflated solely by the assumed RPI level of 3% per annum. This is provided for illustrative purposes only.

[16] Assumed rate for 2027 is 3½%

[17] This tariff is available to customers with no electric heating connected to the circuit.

Diagram 3 - Customer Impact





8.5 The increases in tariffs represent a significant consideration, and it is recognised higher electricity bills in the short to medium term will place additional pressure on households and businesses. However, they should also be considered in the context of the long-term benefits and value being delivered in return. The Island will benefit from a modernised electricity system, improved security and resilience of supply, reduced exposure to ageing thermal generator infrastructure and a transition toward increased lower carbon electricity generation, without electricity costs increasing faster than inflation over the longer-term. The investment programme can therefore be considered not just as delivering a cost-effective and proportionate infrastructure pathway, but as a key enabler of the Electricity Strategy and the States' wider energy and climate change policy objectives.

8.6 The STSB stresses that actual tariff increases will remain subject to its scrutiny as the body currently responsible for approving GEL's tariffs. That process includes: the commissioning of an independent review of tariff applications; benchmarking analysis; the establishment of efficiency targets for GEL; and an up to date assessment of its capital expenditure programme.

8.7 As part of the above process, the STSB will continue to work with GEL to establish whether the increases envisaged in the earlier years can be smoothed out over a longer period of time. The joint committees and the P&RC recognise that tariff increases will be difficult for some households and businesses. So, following engagement with the P&RC, it has also been agreed that GEL should model alternative options to see if and how the near-term impact on tariffs could be mitigated. Options include: an equity injection from the States; and, adjusting the phasing or structure of debt repayments to the States.

9 Next Steps

9.1 As set out in Section 2, when considering the Electricity Strategy, the States agreed updated objectives for its Energy Policy. They also agreed that their chosen electricity supply pathway (Pathway D), including dual interconnection and increased local renewable generation (an offshore wind array and more solar PV), provided the most optimal balance of its Energy Policy objectives. This establishes the policy basis under which the business case for a second interconnector and GEL's broader capital investment programme are now being determined. The central issue is therefore not whether the Island invests in its electricity system, but whether it does so through the Pathway that best balances security of supply, decarbonisation, affordability and long-term value.

9.2 In its role as shareholder for GEL, the STSB already undertakes detailed reviews and scrutiny of business cases submitted by GEL for capital investments that the Company is funding. That includes commercially sensitive information that would not be appropriate for wider disclosure. This arrangement enables robust challenge and assurance to be undertaken on behalf of the States and the public, whilst safeguarding information that could prejudice the company's commercial position if released more widely.

9.3 The public disclosure of detailed negotiating positions, commercial assumptions, pricing information, financing proposals and contractual arrangements could materially prejudice GEL's ability to secure the most advantageous outcome for its customers and the States of Guernsey. It could weaken negotiating leverage, influence market behaviour, impact the procurement processes and adversely affect discussions with counterparties whose engagement is required to deliver the project. Accordingly, elements of the final business case will necessarily need to remain commercially confidential.

9.4 Furthermore, if there was a need to seek States' approval of the business case following completion of these negotiations, there could be a risk of delay at a critical stage of the project. GEL's flexibility to respond to commercial opportunities, especially potential procurement savings, that may only be available for a limited period, would be reduced.

9.5 Before a final investment decision can be taken, GEL must complete a substantial programme of stakeholder engagement, technical investigation and commercial negotiation. This includes ongoing discussion with:

- cable suppliers and installers;
- high voltage substation equipment manufacturers;
- the French transmission network operator, Réseau de Transport d'Électricité and the supplier of electricity to the CIEG, Électricité de France;
- planning and environmental agencies and authorities in Guernsey, Jersey and France; and,
- Jersey Electricity, as GEL's partner in the CIEG.

9.6 It is therefore important that those stakeholders can be assured that the project has a credible route to approval and funding whilst they commit significant resources to the above activities. Likewise, GEL itself needs assurance that it should continue spending on route surveys, technical investigations, engineering design, environmental assessments, procurement activities and other stakeholder engagement, all of which will enable it to finalise development of its business case for the final investment decision. GEL estimates that it will have spent £1.5m on such activities by the end of 2026 and that it will need to spend up to £4.1m on these enabling activities before signing a contract for the manufacture and installation of the cable.

9.7 The work set out in paragraphs 9.5 and 9.6 will determine the import capacity, contractual entitlements, project costs, delivery timescales and risk allocation for each interconnector option. In turn, that determines the ability of either option to meet Guernsey's future electricity demand and the balance each will provide between security of supply, resilience, affordability and carbon reduction.

9.8 Importantly, if GJ2 emerges as the preferred option, then GEL has indicated it will need to commit to the project no later than Q2 of 2027 to maintain the opportunity for delivery by 2030. Delays in establishing a route to approval and funding could therefore have material implications for programme delivery and the benefits associated with an earlier commissioning date.

9.9 Therefore, the joint committees are proposing that the P&RC should have delegated authority to provide loans to GEL for a second interconnector. Such a request would only be made to the P&RC following the STSB's scrutiny and approval of the associated business cases.

9.10 It should be noted that the project cost of the second interconnector will not necessarily equate to the level of debt that GEL will be required to hold at any

one time. GEL's net debt position will depend not just on the cable route, but also on the financing arrangements ultimately adopted, including the phasing of project expenditure, the repayment profile of any facilities and the financing structures that are adopted. These may include one or a blend of the following: a short-term revolving credit facility (allowing funds to be drawn only as required); a term-loan for circa 10 years; and/or longer-term loan funding options. The authority sought from the States will enable the P&RC to identify the most appropriate funding structure(s) and should not be interpreted as an expectation that GEL will carry debt equal to the full estimated project cost.

9.11 As set out in paragraph 6.8, the existing project cost estimates are £113m for the GJ2 option and £209m for GF1. However, the joint committees are proposing that, for contingency purposes and cost indexation purposes, the authority to provide or guarantee loans for GEL should be set at £136m for the GJ2 option and at £253m for the GF1 option. These are the maximum authorisation limits, not project budgets or spending commitments.

9.12 This proposed maximum funding envelope reflects the present stage of the project's development and the associated level of cost uncertainty, rather than an expectation that the project will be delivered at the upper end of the cost range. It is consistent with HM Treasury's Green Book approach to business case development, which recognises that a cost range of this nature is not untypical at this stage of a project lifecycle, and follows consultation with the States' Treasury. It provides prudent borrowing headroom whilst the project progresses through the next stages of business case development and market engagement, during which cost estimates, risk and contingency allowances will be refined as further evidence becomes available and as the workstreams set out in paragraph 6.9 are completed. It also recognises that delivery timelines are not yet fixed and provides headroom if assumptions around future rates of inflation prove incorrect.

9.13 The joint committees are also proposing that the P&RC should have delegated authority to provide loans to enable GEL to refinance its existing private sector borrowings of up to £51m, as set out in Section 7.

9.14 Although the working assumption is that the States will be able to secure funding at a lower cost than GEL could obtain independently in the commercial lending market, this will be subject to ongoing verification. Financing options will be tested periodically against prevailing market conditions to ensure that the selected approach continues to represent value for money and the best outcome for the States and GEL. However, commercial lenders are likely to require a guarantee from the States of Guernsey. As such, the joint committees are proposing that the P&RC should also have the authority to guarantee such loans as an alternative to States' provided ones.

9.15 GEL's business case development process for the interconnector project is aligned with the Five Case Model adopted by the States, ensuring that proposals are subject to structured assessment and review as they progress through successive stages of development. This provides multiple opportunities for scrutiny by the STSB in its capacity as shareholder, including consideration of the underlying assumptions, risks, options appraisal and financial analysis. In doing so, the STSB would consult with the CftE&I to ensure that the project remains aligned with the objectives of the Electricity Strategy. In addition, the P&RC will be able to undertake its own assessment of the business case and the associated financing requirements before determining whether the necessary funding should be made available. Collectively, these arrangements will provide a robust framework of governance, challenge and assurance on behalf of the States and the wider public.

9.16 This approach is consistent with the Electricity Strategy, which recognised that decisions of this nature are commercial ones that should ordinarily be taken by the Board of GEL, subject to the approval of the STSB as shareholder. The P&RC will be able to consider what implications the preferred funding solutions have for the States, including their own borrowing capacity or wider capital investment programmes, and will be able to ensure that those wider fiscal considerations are properly assessed alongside the commercial matters being considered by GEL and the STSB.

9.17 The proposed delegation does not diminish political oversight. The States have already determined the strategic policy framework, which includes the objectives of the Energy Policy and the Electricity Strategy and the priorities for security of supply, energy resilience, affordability and decarbonisation. They are now being asked to establish the policy and financial framework within which a final decision can be taken, subject to scrutiny of the business case by the STSB and a funding assessment by the P&RC. Under the proposed delegations, the STSB would be responsible for selecting the option that best delivers those objectives and the P&RC for providing loan finance within the funding and affordability parameters approved by the States. It will enable a final investment decision on a second interconnector to be taken based on the most complete and up-to-date commercial, technical and financial information available (including information that is commercially sensitive and confidential) whilst remaining fully aligned with the strategic direction and policy objectives previously approved by the States.

9.18 Delegation will provide GEL, its counterparties and stakeholders with confidence that the project can continue to progress through development towards a timely final investment decision. It signals that the States are committed to implementation of the Electricity Strategy whilst recognising that the precise route, funding structure and commercial arrangements can only be determined once the ongoing technical, commercial and financial work has been completed. It will help preserve commercial momentum, support constructive negotiations

and maximise the prospects of securing an outcome that meets the States' objectives for security of supply, resilience, affordability and decarbonisation.

9.19 The joint committees recognise the financial pressures facing the States, households and businesses. Their recommendations are therefore not based on an assumption that unlimited funding is available. They are based on targeting investment where it is required to maintain a secure electricity supply, avoiding expenditure on assets that could soon become surplus to requirements, and selecting the option that provides the best overall value on the evidence available.

10 Consultation

10.1 The P&RC has confirmed that, in principle, it supports being provided with delegated authority to provide loans or loan guarantees for the project cost of the second interconnector and the refinancing of GEL's existing private sector commercial debts. It has noted that such authority would need to allow it to raise additional debt for it to lend on to GEL and would be subject to the following:

- It should be limited to the funding required for the preferred interconnector option, including appropriate contingency provision, and the refinancing of GEL's existing commercial borrowings; and,

- It should allow the P&RC to determine the source, timing and terms of the additional States' debt and associated lending to GEL.

10.2 The P&RC has set out the assurance process that it would anticipate adopting when considering any request for loans or guarantees. This includes:

- Confirmation of the STSB's approval of GEL's business case, following engagement with the CftE&I;

- Confirmation that GEL can service and repay the lending from its revenues without recourse to General Revenue or additional taxpayer funding;

- An independent assessment of the States' borrowing capacity and debt headroom;

- The adoption of appropriate and proportionate legal, financial, governance and security arrangements that reflect the States' ownership and shareholder oversight of GEL;

- Agreement of a drawdown schedule for the loan funding linked to approved purposes and agreed project milestones; and,

- The establishment of agreed monitoring and reporting arrangements between the P&RC, the STSB and GEL.

The delegated authority would not oblige the P&RC to borrow or lend, and it would retain the discretion to defer, limit or decline funding where the above requirements have not been met.

10.3 Whilst the focus of this policy letter is on the immediate requirement to fund a second interconnector and the refinancing of GEL's existing debts, in due course, the States will be asked to consider options for funding subsequent elements of GEL's capital investment programme. The STSB and P&RC will work together to determine whether the forthcoming Medium Term Financial Plan (MTFP) would provide the most appropriate route through which funding requirements for remaining elements of GEL's investment programme can be considered alongside the wider financial position and borrowing requirements of the States. That would include an update on the work to evaluate alternatives to States' loans set out in paragraph 7.9 of this policy letter.

10.4 As set out in paragraph 8.7, the P&RC has suggested that modelling be undertaken of options to mitigate the near-term impact on tariffs required to support GEL's investment programme. The STSB anticipates that the results of that modelling would also be included in the MTFP.

11 Extant Resolutions

11.1 The CftE&I has identified that if the States approves proposition 1 of this policy letter the following extant resolution will no longer be required and therefore, the joint committees propose should be rescinded as follows:

Extant States' Resolutions for Rescission	
Resolution Date	6th September 2023
Billet and Article	Billet d'État XIII of 2023, Article I
Original Sponsor	The Committee *for the* Environment & Infrastructure
Title	Electricity Strategy for Guernsey
Resolution	2(d) Agree that, in the event that a direct 100MW interconnector with France is established, the security of supply criteria will be N when it becomes operable, which would require the retention of sufficient generating capacity to meet peak demand.
Update	Proposition 1 of this policy letter sets out to clarify the policy intent of the reduction of the on-island security of supply provision in the event additional interconnection is established. Therefore, if the proposition is adopted, this extant States Resolution would be superseded.

12 Compliance with Rule 4

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

12.2 In accordance with Rule 4(1)(a), the joint committees confirm that the propositions contribute to the delivery of the Electricity Strategy for Guernsey adopted by the States and, specifically, by securing electricity supplies in accordance with the Strategy's selected supply pathway. The Government Work Plan 2026-2029 established three areas of focus: Foundations for our Future; Island Resilience; and Sustainable Wellbeing. Implementation of the Electricity Strategy is identified as a key workstream to support Island Resilience. The Electricity Strategy is a key enabler for the Pathway to Net Zero, which is identified as a key workstream that supports Foundations for our Future.

12.3 In accordance with Rule 4(1)(b), the propositions have been the subject of joint working between the joint committees and Guernsey Electricity and have been the subject of consultation with the Policy & Resources Committee.

12.4 In accordance with Rule 4(1)(c), the Propositions have been submitted to His Majesty's Procureur for advice on any legal or constitutional implications.

12.5 In accordance with Rule 4(1)(d), the financial implications of the propositions are set out in Sections 7 and 9 of the policy letter.

12.6 In accordance with Rule 4(1)(g):

- The Propositions are intended to support the long-term security, resilience and affordability of the Island's electricity supply through implementation of the Electricity Strategy. A secure and reliable electricity system is an important component of Guernsey's attractiveness as a place in which to live, work and conduct business. The proposals are expected to support investment and economic resilience by reducing exposure to infrastructure failure and enabling the future development of lower-carbon electricity supplies.

- The policy letter explains the significant levels of capital investment by GEL that are required under all scenarios, including the status quo, and the impact that those will have on tariffs. The analysis set out in this policy letter indicates that the GJ2 interconnector option represents the lowest-cost pathway available, with lower overall expenditure and lower required tariff increases than both the alternative GF1 interconnector or the continued status quo. This will continue to be tested as part of the business case development process that the Propositions are intended to enable.

- The Propositions do not commit the States to a specific level of borrowing for the delivery of a second interconnector. The quantum of any borrowing will depend on the final business case, the preferred interconnector option and the funding structure ultimately adopted. Under the proposals, the P&RC would be responsible for determining the most appropriate borrowing and funding arrangements and, before providing any loans or loan guarantees, would undertake an assessment of the States' borrowing capacity and available debt headroom. Any debt raised by the States would be lent on to GEL, which would be responsible for servicing and repaying the principal, interest and associated financing costs from its own revenues. Accordingly, no residual costs to the States are anticipated.

- Therefore, the joint committees consider that the propositions represent a proportionate approach which seeks to balance economic competitiveness, consumer value, security of supply, fiscal prudence and the long-term resilience of Guernsey's economy.

12.7 In accordance with Rule 4(2)(a), the Propositions relate to the duties of:

- The Committee *for the* Environment & Infrastructure to advise the States and to develop and implement policies on matters relating to energy; and,

- The States' Trading Supervisory Board to carry out the States' role as shareholder in Guernsey Electricity.

12.8 In accordance with Rule 4(2)(b), it is confirmed that the propositions have the unanimous support of the joint committees.

Yours faithfully

Committee *for the* Environment & Infrastructure:	**States' Trading Supervisory Board**
A Gabriel President	M A J Helyar President
S Rochester Vice-President	A J Niles Vice-President
B R Kay-Mouat Member	B R Kay-Mouat Member
A Cameron Member	M R Thompson Non-States Member
A Snowdon Member	S J Thornton Non-States Member

APPENDIX 1

Guernsey Electricity – Vale Power Station Fleet

Asset	Years in service	Operational Capacity, MW	Technology Variant	Fuel (for duty operation)	Station
1C	47	11	Slow speed diesel	HFO[1]	C[3]
2C	46	11	Slow speed diesel	HFO	C[3]
3C	44	11	Slow speed diesel	HFO	C[3]
4C	39	12	Slow speed diesel	HFO	C[3]
1D	33	12	Slow speed diesel	HFO	D
2D	13	16.5	Medium speed diesel	HFO / LLF[2]	D
3D	9	16.5	Medium speed diesel	HFO / LLF	D
GT2	30	18.5	Gas Turbine	LLF	B
GT3	29	18.5	Gas Turbine	LLF	B
GT4	23	10	Gas Turbine	LLF	D

Notes:

1. HFO – Heavy Fuel Oil
2. LLF – Light Liquid Fuel
3. C-Station total output is limited to 33MW due to cooling capacity limitations

Guernsey Electricity – Vale Power Station

