



# STATES OF GUERNSEY

Commerce and Employment Department  
Raymond Falla House  
P.O.Box 459, Longue Rue  
St Martin's  
Guernsey, GY1 6AF

AND

CONSULTANCY SOLUTIONS | OIL&GAS

Advisors in Logistics, Supply chain and Marketing for the Oil and Gas Industries

## ENERGY MARKET INVESTIGATION



**May 2007**

## EXECUTIVE SUMMARY

### **Petroleum Products Market**

- Guernsey has a slowly declining market demand for petroleum products, worth less than 0.15 % of the total UK market
- States intervention to force introduction of a fourth supplier would destroy fragile critical mass and would drive consumer prices upwards
- Additional costs of getting fuel to, and distributed to end users, on Guernsey calculated to be in order of 3.7 pence per litre
- Two separate fuel terminals dramatically increase cost of petroleum products on Guernsey through lack of concentration of infrastructure assets
- Retail service station contracts with oil companies should be legislated to last no longer than 3 years to increase competition at wholesale level
- Competition in the retail market on Guernsey lagging behind the evolution seen in Jersey over the past 2 years
- Increase in Excise Duty on petrol and diesel in danger of being inflated by dealer margins added to such increases at the pumps
- Retailer margins calculated to be in order of 30% at pump prices
- Prescriptive legislation needed to ensure roadside displays of fuel prices
- Motoring fuel expenditure lower in percentage terms on Guernsey than UK mainland
- Marine Fuels market should be more regulated to promote effective competition and ensure better environmental protection
- Domestic Heating Oil prices “drifting out” over past 2 years relative to both Jersey and UK
- Merger or acquisition of any one of the current oil distributors must be unequivocally referred to Competition Law review

### **Liquefied Petroleum Gas Market**

- No evidence of differing retail prices for gas cylinders. Strongly suggested that recommended retail prices are prohibited to encourage competition
- Investigation centred on prepared data and Key Performance Indicators only, as scope and time frame of this high-level study precluded detail financial analysis
- Concern of allocation of central overheads from International Energy Group to Guernsey Gas business and the effect on potential profitability
- No evidence to suggest significant abuse of monopoly power, such that gas sector should be placed under Regulation
- Four significant areas within gas sector identified for formal investigation under Competition Law, including delay in passing on decreases in wholesale gas prices in a timely manner to Guernsey consumers

## TERMS OF REFERENCE

1. To undertake a high level review of the size, structure and operation of the energy market in Guernsey as it relates to the supply of:
  - Fuel for motor transport (including marine)
  - Fuel used for heating or other purposes
  - Gas
2. To consider, in particular, the pricing of these fuels to the consumer/end-user and how this is determined, including:
  - The role of the different elements of the supply chain, both wholesale and retail, and competition between these elements in determining the consumer price
  - The way in which changes in duties charged on fuels are passed on to customers
  - Comparisons with other jurisdictions, principally Jersey and the UK
3. To present conclusions as to the justification for the prices charged for the above fuels in Guernsey, including consideration of whether there is any *prima facie* case for referring the fuel market in general, or any sector of that market, for a formal investigation under the competition legislation currently being developed in Guernsey, or for control under the Regulation of Utilities legislation.
4. To make any other recommendations that, it is felt, would be in the interest of the consumer, in assisting the promotion of an efficient energy market in Guernsey