PORTS OF JERSEY
YOUR ISLAND GATEWAY

Ports of Jersey's Response to CICRA's Draft Decision on the Pricing Framework

May 2019

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1 Introduction

This is Ports of Jersey's response to CICRA's Draft Decision[1] on the pricing framework for POJL. We welcome CICRA's draft decision to introduce a price cap on our regulated services of Jersey RPI+1%. In this response we set out a number of proposals to ensure that the price cap will work effectively and to clarify points about the operation of the pricing framework.

2 Clarification of period of price framework and Jersey RPI

We propose that the new pricing framework operates from 1 January 2020 until 31 December 2024 and that the annual price cap operates on a calendar year basis.

The Jersey RPI is published on a quarterly basis approximately 3 weeks after the end of the quarter to which it relates. The most recent figure that is published before the end of the calendar year is for the third quarter (July to September), which is published in mid-late October. We therefore propose using the annual increase in the third quarter JRPI as the basis for the RPI+1% price cap.

3 Clarification of the operation of the price cap

We propose that the price cap operates on a pro-rata and cumulative basis.

- A pro-rata basis means that a price increase later in the year (for which customers only have to pay the higher prices for part of the year) are calculated on an average basis across the year (based on the number of days at the lower and higher prices) to confirm their compliance with the price cap. This would also apply to the average price in the previous year that the price rise is being compared to.
- A cumulative increase means that if POJL does not use some or all of their allowed price increase in one year, they can carry the allowance over to subsequent years. This is important because unlike many other regulated utilities where customers have little choice about whether to use the regulated services, if there is a downturn in its market, POJL may not be able to increase prices without losing volume. If they are unable to recover the revenue loss when demand picks up in subsequent years, they may not be able to generate sufficient cash to finance their activities. This will also make the operation of the price cap consistent with the operation of the revenue tramlines which are on a cumulative basis.

[1] Ports of Jersey Pricing Framework, CICRA, April 2019, PoJ1395J https://www.cicra.gg/cases/2018/poj1395j-ports-of-jersey-long-term-pricing-framework/poj1395j-ports-of-jersey-long-term-pricing-framework-draft-decision/

4 Requirement for separate price control for restructuring prices

We understand CICRA's reasoning for not wanting to allow POJL to restructure its prices without any regulatory oversight, however we believe that it would be proportionate and pragmatic to avoid the need for a separate price control in certain specific circumstances and to take into account any customer consultation that POJL has carried out (we would still commit to undertake a 3 month customer consultation process in advance). Examples might include:

- Price rises for products with a de minimis annual revenue of below £20,000 per year, where the extra cost of a separate price control would outweigh the benefits of extra regulatory oversight;
- Products that are part of a suite of services that are typically purchased together and where the average price increase is less than the RPI+1% cap, but where rebalancing of prices within that suite of services means that the price of one service exceeds the cap.
- Price changes (increases or decreases) that are a result of changes to GST or similar factors that are outside of POJL's control should be excluded;
- Items where prices are rounded to make charging more convenient for customers. For example marina electricity charges are currently charged at £2.50 / £3.50 per day depending on the length of boat, might be increased to £3.00 / £4.00 with an offsetting reduction in other charges, rather than increasing them to say £2.67 and £3.74 which might be the maximum allowed by an RPI+1% cap but would be awkward to work with.
- Products where the cost of provision exceeds the price and therefore to charge at below cost might be considered in breach of Licence Condition 22.3, or other prices that might otherwise be considered in breach of Licence Condition 22.3.

5 Requirement for POJL to aim to manage cumulative revenues

POJL agrees to aim to manage its cumulative revenues in line with the cumulative forecast with a +/- 5% tolerance. Should cumulative revenue be below the tramlines due to a decline in volumes or adverse change in the mix of products, then it might not be possible to raise prices to enable revenues to revert to the cumulative forecasts as further price rises could lead to a declining spiral of volume and revenue reductions. In this circumstance, we would anticipate discussing with CICRA the appropriate balance of price changes and expenditure reductions in order to ensure that we remain financially sustainable.

6 Conclusion

We look forward to agreeing to the pricing framework set out in the draft decision with the few minor modifications and clarifications set out above to help it operate effectively.