PORTS OF JERSEY
YOUR ISLAND GATEWAY

Ports of Jersey's Response to CICRA's Draft Decision on the Long-Term Pricing Framework Assumptions

January 2019

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1 Introduction

This is Ports of Jersey's response to CICRA's Draft Decision[1] on the assumptions that will underpin the long-term pricing framework for POJL. We believe that it is important for Jersey that PoJL have a stable robust pricing framework that ensures the long term financial sustainability of the company and allows us to keep the gateways to the island open, safe and secure. We believe that agreeing the assumptions is an important step in developing such a framework.

2 The approach to the development of the pricing framework

We welcome the ambition to take a pragmatic approach with a resulting light touch regulatory oversight. In the Call for Evidence, CICRA justifies their "*pragmatic approach*" due to the small size of Jersey compared to other economies where regulation occurs. While it is true that Jersey is small compared to other economies in which economic regulation occurs, we do not believe that this is the correct test for the level of resources and detail that should be applied to the development of the regulatory framework.

The question is not the size of Jersey compared to other economies in which economic regulation occurs (or even the size of PoJL compared to the size of other regulated companies), but rather the potential risk of harm to passengers and the wider island economy if the regulatory framework is not fit for purpose compared to the resources necessary to avoid such an adverse outcome. As the guardian of the gateways to Jersey, the consequences of not being able to keep the ports open, safe and secure over the long term would be very significant not just for PoJL, but for the entire States of Jersey and would massively outweigh the comparatively small costs of developing a robust regulatory framework. We therefore believe that it is very important that CICRA appropriately considers the issues and weighs up the evidence to ensure the development and implementation of a fit for purpose regulatory framework. A long term financial framework that does not allow PoJL to set prices at an appropriate level increases a danger that the financial risks associated with maintaining the ports will return to the State – undermining the entire objective of Incorporation. We believe that where CICRA are taking a different stance the contra evidence should be proportionate to the evidence submitted.

We do not believe that applying greater consideration in developing the regulatory regime necessarily leads to a more intrusive regulatory approach as CICRA suggest in the Call for

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

Evidence - indeed, it is quite possible that more careful consideration of the evidence leads to a less intrusive and more 'light touch' approach.

The decision about the design of the regulatory framework should be driven by what is most appropriate for PoJL as a business owned 100% by the States of Jersey, balancing the complexity of the regime with the costs and benefits that such complexity generates, rather than avoiding complexity as a matter of policy.

3 Summary of the response to the Draft Decision on Assumption

This section provides a summary of PoJL's response to the CICRA Draft Decision, further detail and explanation is provided in Section 4.

Assumption	Draft Decision	PoJL Response
Starting Point	• The Air and Sea Ports Incorporation (Transfer) (Jersey) Regulations 2015; • The report and proposition 'Incorporation of Ports of Jersey' (P.70/2012); and for the reasons set out above, to a lesser extent, • Evidence and assurances provided to Scrutiny Committees • CICRA's Proposed Regulatory Framework • The Case for Incorporation	PoJL agree with the Draft Decision.
General Inflation	3.0% per annum for modelling purposes, with the exception of existing property leases which should reflect the terms of the agreements in place	PoJL agree with the Draft Decision.
Business Volumes	• 2.7% for air passengers; • 1.25% for sea passengers; and • 0.53% for freight & fuel.	• PoJL's forecast of 0.8% for air passengers. See also: o DfT's domestic traffic forecast of 1.2% for 2016-20 and 1.5% for 2020-30, o York Aviation's updated forecast of 0.7% for 25 years and 0.5% for the next 5 years (see Annex A), with greater weight to be placed on PoJL's and York Aviation's forecasts because they are more specific and

		relevant for air passengers; • PoJL's forecast of 0% for sea passengers. • 0.53% for freight & fuel. See also response from Visit Jersey (Annex B)
Master Plans contaied within the Long Term Capital Plan	Airport - £34.05m (based on a total investment of £40m), Harbour – decision deferred PoJL will be required to demonstrate delivery of the project at, or below, the cost allowed. In the event of a cost overrun, PoJL will be required to demonstrate how it intends to 'make good' the overrun.	Airport - £42.6m. CICRA's proposal would not allow PoJL to undertake the work proposed in the Master Plan. Harbour – decision deferred. PoJL should report on project delivery. CICRA to explain what '*making good*' means in the context of PoJL's ownership
Long Term Capital Plan	£73.562m over the period of the pricing framework with the requirement that PoJL • demonstrates that it has engaged fully and meaningfully with stakeholders, reflecting the views expressed by stakeholders during that engagement process, or state why particular feedback has not been reflected; • demonstrates how its capital expenditure has / will meet the current and future needs of its customers; and • demonstrates that it has delivered those projects at a cost of no more than the minimum amount of money needed. In the event of a cost overrun, PoJL will be required to demonstrate how it intends to 'make good' the overrun.	PoJL agree with the £73.562m allowance for the period 2018-2022. CICRA to explain what '*making good*' means in the context of PoJL's ownership The expected cost includes both the minimum cost of the project and also the potential extra costs if things do not go according to plan.

Commercial Projects	£17.998m over the period of the price control framework. PoJL must separate commercial from non-commercial projects. Commercial projects should be included on the basis of an appropriate contribution, and non-commercial projects should distinguish between revenues, costs and capital required.	PoJL agree with CICRA's approach to commercial projects and the allowance of £17.998m.
Net Debt on Core Activities	No limit set.	2.5-3.0x EBITDA or £40m until a regulatory long-term price mechanism is established and proven.
Net Debt on Commercial Projects	Debt on specific projects should be assessed on a project by project basis.	PoJL agree with CICRA's approach.
Cost of Debt	3% pre-tax nominal cost in the medium term 5% pre-tax nominal cost in the long term.	PoJL agree with CICRA's approach.
Operating Cost Efficiency	1.0% in real terms per annum	0.2% in real terms per annum excluding Public Service Obligations – see below.
Depreciation of Fixed Assets	PSO assets - the expected cost of purchasing PSO assets should be allowed in the calculation of revenue, if necessary, but depreciation should not be taken into account. For all Business Assets (those which generate revenue directly or indirectly, including substantial infrastructure such as runways and harbour ramps) depreciation should be allowed over the full anticipated useful life of the asset, based on its actual cost or FRS102 value.	The proposed methodology would not recover the historic or replacement cost of the relevant assets. Requires further explanation and should be finalised in Phase II once the implications are fully understood.
Public Service Obligations	The cost of the PSOs should be assumed at the current (2018) level in real terms less the efficiency assumption set	The costs of the PSOs should be funded at the actual cost incurred with no efficiency adjustment.

	elsewhere in this decision.	
Community Support	The cost of community support should be assumed to continue at the current (2018) level in real terms less the efficiency assumption set elsewhere in this decision.	The cost of community support should be assumed to continue at the current (2018) level in real terms with no efficiency adjustment.
Dividend to Shareholder	Nil	PoJL agree with CICRA's approach.
Funding Philosophy	Funding for investments will be from a combination of retained capital and debt raised without SoJ guarantees and from retained capital. CICRA has considered the proposal put forward by PoJL and the consultation responses received. For the reasons set out above, for the purpose of determining assumptions to be used in establishing a pricing framework for PoJL, the decision of CICRA is that PoJL should assume the use of a single till based on CICRA's definition that 'all activities (both regulated and nonregulated 'commercial' activities) are taken into consideration when determining the level of charges'. PoJL should not explicitly separate harbour operations from airport operations or make any other possible divisions such as separating public service obligations for the purposes of determining this pricing framework. In the longer term PoJL should generate revenues from investments and operations which cover the actual cost of those investments and those revenues should be linked closely to costs.	PoJL agree with CICRA's approach that funding for investments should be from a combination of retained capital and debt raised without SoJ guarantees and from retained capital.

Period of Pricing Mechanism	5 years	5 years with the possibility of extension following a detailed review.
Other matters	In its next submission, PoJL will be expected to explain how it proposes to utilise its existing cash reserves.	PoJL's submission will include utilisation of our existing cash reserves.

4 Response to the Draft Decisions on Assumptions

4.1 Business Volumes- Airport

CICRA have based their Draft Decision on UK Aviation forecasts prepared by the Department for Transport (DfT). There are many reasons why these forecasts are not relevant to Jersey airport that CICRA have not considered.

1. The Channel Islands are not included in the UK forecasts

The forecasts that CICRA quotes from the National Air Passenger Allocation Model (NAPAM) specifically exclude the Channel Islands – which are included in the Western Europe sector in the model rather than the UK sector.

2. CICRA have misunderstood what constrained capacity means

The capacity of an air network is not simply dependent on the available capacity at an individual airport, but dependent on capacity available across the network. Jersey Airport's ability to grow our most important route to Gatwick (c43% of Jersey passengers) is constrained by runway capacity at Gatwick. Even where other airports may have some spare capacity, it is often not at the right time, so for example Luton airport may have spare off-peak runway capacity, but not in the morning or early evening peaks when there may be demand to operate extra flights to and from Jersey. In addition, some short haul routes that operate through Jersey fly onto other airports before returning to their base airport (on an A-B-C-A schedule or even A-B-C-D-A schedule). This means that runway and terminal capacity constraints even from airports that Jersey does not operate direct flights to may be binding on flight growth plans. The NAPAM model recognises the network nature of air traffic capacity and therefore constrains growth forecasts at airports which do not themselves have capacity constraints to reflect the available capacity across the network.

3. The forecasts fail to reflect the mix of flights at Jersey airport

Since it covers all UK passenger flights, the DfT forecasts do not reflect the mix of flights from Jersey airport. In particular they include long haul and international transfers which are not operated from Jersey airport. The vast majority of flights from Jersey airport are domestic flights to other airports in the UK. If one excludes international and international transfers from the DfT forecasts and only includes their forecasts for domestic traffic, the growth projections are significantly reduced, as shown in Table 1 below.

Table 1: DfT passenger demand forecasts: unconstrained capacity

Average annual growth rates[2]		Low	Central	High
2016-2020	All traffic	1.5%	2.8%	4.3%
	Domestic traffic	-0.1%	1.2%	2.2%
2020-2030	All traffic	1.6%	1.8%	1.8%
	Domestic traffic	1.0%	1.5%	1.6%

4. CICRA fails to take account of specific factors that affect Jersey airport

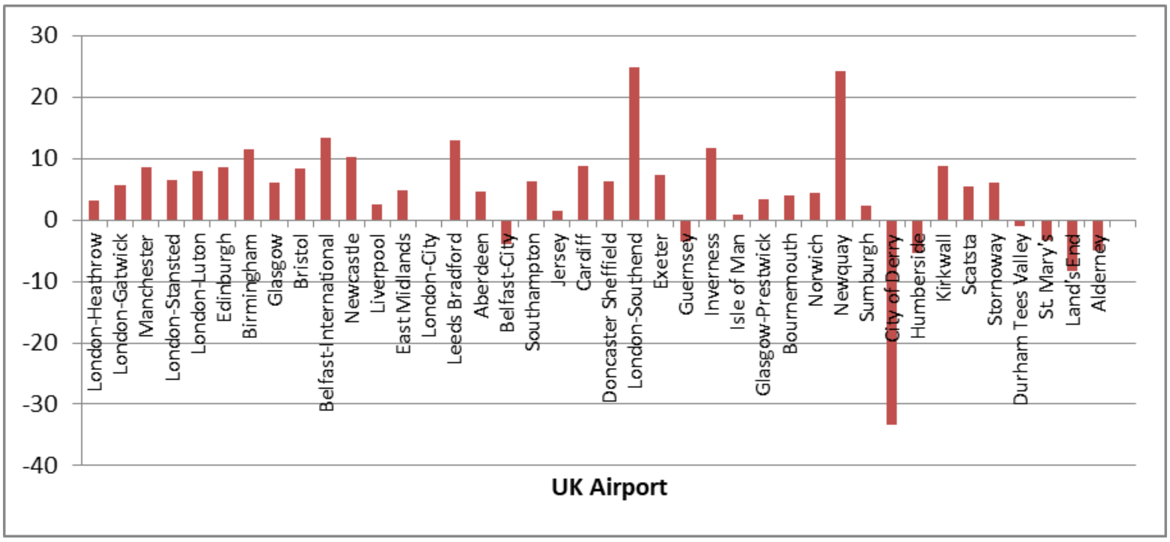
Passenger volumes at Jersey airport make up around 0.5% of total UK air passenger traffic (and as noted above are not included in the DfT UK forecasts). Many factors that significantly affect Jersey airport will not be taken into account in the DfT forecasts, while many factors that affect UK traffic forecast will have no effect on Jersey passenger traffic. CICRA's growth rate of 2.7% would imply Jersey reaching 1,947,360 passengers in 2024 (compared to the 80 year high water mark of 1,901,579 in 1990).

While CICRA may place greater weight on more recent information than older information, they should also place more weight on more specific and relevant evidence compared to information which is at best tangentially linked to the likely growth of air traffic to and from Jersey. To illustrate this with an example, in 2017, the average annual growth rate in passenger numbers across all UK airports was 7%, however this masked a range of growth rates from -33% (City of Derry airport) to +25% (London, Southend airport). Using a 7% forecast for 2017 UK air traffic (even if it were exactly accurate), would not have been a good way of forecasting 2017 traffic growth for a particular UK airport compared with considering airport specific factors. The graph below shows the range of growth rates in this one year alone (a year in which at 1.43%, Jersey was well below the UK average). Analysis by York Aviation shows that there are a number of 'Jersey specific' factors that should be taken into account when considering Jersey air passenger growth. These include:

- Structural issues in the Jersey economy which has led to weak traffic growth demand;
- Weak economic prospects moving forward with productivity declining in the finance and non-finance sectors which will be exacerbated by Brexit; and
- Easyjet's expansion has lowered the cost of travel in the market, it is unlikely that this type of fare-led growth will continue. Easyjet's seat capacity growth has slowed dramatically.

[2] SLG Economics analysis based on Table 55 of DfT UK Aviation Forecasts, October 2017

Annual growth rate in air passenger numbers 2017[3] (%)



York Aviation's updated report

The growth volumes projected by PoJL were based on specific analysis of the demand for air travel to and from Jersey Airport by RDC Aviation. They were validated through a Scrutiny Panel review process, where independent transportation experts York Aviation confirmed the business growth assumptions, they are therefore specific and relevant to Jersey airport and based on robust research. We have asked York Aviation to revisit and update their analysis and to comment on CICRA's draft decision; their updated report is included as an annex to this submission. York Aviation concluded that forecast growth rates should be 0.7% per annum for air passengers over the next 25 years and growth rates of 0.5% per annum over the next 5 years and that: "*the traffic forecast assumptions put forward by CICRA are wholly inappropriate. They simply do not reflect the position in the Jersey market and its performance over recent times. They rely on a flawed assessment of the UK DfT's 2017 aviation forecasts and have not adequately considered the drivers of recent trends at the airport*[4]".

The CICRA Draft Decision also mentions Visit Jersey's ambition to reach one million visitors by 2030. While we support this as an ambition, it is not a forecast based on analysis of underlying trends in passenger growth and factors that may impact on those trends. It is also substantially behind target and there seems little prospect that this target will be met. As such we believe that no weight should be placed on it in undertaking an evidence-based analysis such as the development of a regulatory framework.

Therefore, we believe that the evidence does not support a proposed growth rate of 2.7%. A more reasonable review of the evidence presented suggests that the number should be based on:

[3] SLG Economics analysis based on CAA statistics
[4] York Aviation: Ports of Jersey Traffic Forecast Review, Jan 2019, Page 26

- PoJL's forecast of 0.8%;
- DfT's domestic traffic growth forecast of 1.2% for 2016-2020 and 1.5% for 2020-2030; and
- York Aviation's updated forecast of 0.7% over the next 25 years and 0.5% per annum over the next 5 years;

with greater weight being placed on PoJL's and York Aviation's forecasts because they are more specific and relevant to Jersey as well as York Aviation's being more recent.

4.2 Business volumes - Harbour

The CICRA projections for sea passenger growth are partly based on Visit Jersey's ambition to reach one million visitors by 2030. While we support this as an ambition, it is not a forecast based on analysis of underlying trends in passenger growth and factors that may impact on those trends. It is also substantially behind target and there seems little prospect that this target will be met. As such we believe that no weight should be placed on it in undertaking an evidence-based analysis such as the development of a regulatory framework.

CICRA also seem to place weight on our comment in our submission that "*we would expect to see a recovery [in the sea passenger market]*", however this is quoted out of context, without recognising the clarifying statement made immediately afterwards in our submission that "*however our business judgement is that we should project a flat (or 0%) growth in sea passengers over the long term until we have confidence that growth may return*" i.e. that further evidence is needed before that expectation could be relied upon as evidence – for example it might also be possible that the sharp decline in passengers since 2015 could continue. We do not believe that this comment can be relied on as evidence.

We have asked York Aviation to provide forecasts of sea passenger growth, their report is provided as an annex to this submission. Their assessment based on segmental analysis is that the expected growth rate is around 0.1% for the period to 2043 and that the CICRA forecast is "*completely out of step with the long term trends that have been observed in the market*".

We do not support CICRA's Draft Decision of 1.25% sea passenger growth which is not supported by a proper consideration of the evidence available. We believe that in assessing the appropriate growth rate for sea passengers, CICRA should focus on the relevant evidence:

- PoJL's projections which were verified by Fisher Associates and validated through the government's scrutiny process using MDS Transmodal of 0% per annum; and
- the York Aviation projections of 0.1% per annum growth.

We agree with the use of 0.53% for freight and fuel forecasts.

4.3 Investment Assumptions

CICRA suggests that in a competitive environment a business would be incentivised to deliver Master Plans in a timely manner and at a competitive cost and interprets this as allowing no more than the minimum amount of money required to deliver the project. We do not support this interpretation.

In a competitive market a business would be incentivised to deliver Master Plans not at the minimum amount of money required to deliver the project, but at the expected cost of the project plus a return that reflects the capital employed in the Master Plan and riskiness of the Master Plan. The expected cost includes both the minimum cost of the project, and also the potential extra costs if things do not go according to plan (this might be estimated by for example using the P80 cost or including a contingency in the cost estimates).

This does not mean that a business in a competitive market should be inefficient, but simply that it should recognise in its planning (particularly on large or complex projects) that things happen which mean that outturn costs rarely turn out to be the minimum planned costs.

4.4 The Airport Master Plan

The States of Jersey (SOJ) response refers to figures of £40m and £20m for the airport and harbour Master Plans respectively. This is an error and the numbers referred to were for a KPI set in the initial (2016) Strategic Business Plan and are not (and never were intended to be) estimates of the costs of the Master Plans.

Given that the Cash Flow statement in the Strategic Business Plan 2018-22 (December 2017) includes purchases of tangible assets in excess of £86m in the next 5 years and the Airport Master Plan (Integrated Terminal) pre-tender estimate of costs is unchanged at £42.6m, CICRA's Draft Decision to include £34.05m in the proposed five year price control period would not fund the outputs proposed. CICRA's proposals would not enable PoJL to undertake the work proposed in the Master Plan (which have been consulted on and agreed with stakeholders). Our submission of £42.6m for the Airport Master Plan remains the correct assumption to use in the pricing framework.

We believe that CICRA should explain what it means by its proposal that we should '*make good*' any cost overrun. As a company without private shareholders and whose sole shareholder is the State of Jersey, the only sources of external finance to 'make good' a cost overrun is the State (through further deferred dividends or a cash injection). Other ways of dealing with an overrun (reducing outputs, higher prices to customers, lowering quality of service etc) simply transfer the costs to customers. Similarly if we were to outperform the regulatory expectations and deliver the outputs for less than expected, the benefits would be received by our customers rather than transferred to private shareholders. We do however agree that it is reasonable to report on delivery of the Master Plan.

4.5 Net Debt on Core Activities

CICRA has misunderstood the use of a limit to net debt in a regulatory price control. This is not PoJL "*suggesting imposing a constraint on itself*", nor is it a concern that the cost of debt increases with the volume of debt. Instead, it is a recognition (common to all UK regulatory regimes[5]) that there is a limit on the amount of debt that PoJL can fund from its earnings and that if it exceeds this level it will be at risk of breaching the covenants that are associated with that debt and being placed in default (whatever the size of the assets underpinning that debt). The level of debt that can be raised is dependent on a number of factors, one of the most important of which is the ability to pay back that debt which is estimated by the debt:EBITDA ratio after business risks have been taken into account. As explained in our submission, for an early stage infrastructure business like PoJL, we judge that a debt:EBITDA ratio of 2.5-3.0x is the maximum that we could raise prudently before hitting concerns over the financeability of that debt. If the regulatory regime does not include tests of financeabilty, then there is a risk that the financing assumptions underpinning the pricing framework will not be achievable in practice.

CICRA suggests that because PoJL is an infrastructure-heavy business with a dominant position, it can be considered to carry lower risk to its future revenue streams than the average corporate entity. Whilst PoJL is a relatively newly incorporated entity, it is recognised that much of the inherited physical infrastructure is of significant age and subject to variable historic investment and maintenance regimes. The costs of maintaining and replacing older infrastructure will always exhibit more uncertainty than new build green field projects. It must also be understood that traffic revenues are subject to significant risk including for example the uncertainties relating to Brexit and the Flybe corporate restructure. A prudent board must always exercise caution on the assumed level of debt.

4.6 Operating Cost Efficiency

The level of operating cost efficiency is recognised as an important part of any price control setting process; however, we do not believe that the evidence provided is sufficient to justify the efficiency target proposed by CICRA.

The diagram below[6] shows that average operating costs per passenger at Jersey airport (excluding PSO costs) are almost exactly at the average for British airports and therefore there is no evidence for significant efficiency catch-up opportunity (and are significantly lower than at Dublin airport reflecting the catch-up opportunities at that airport).

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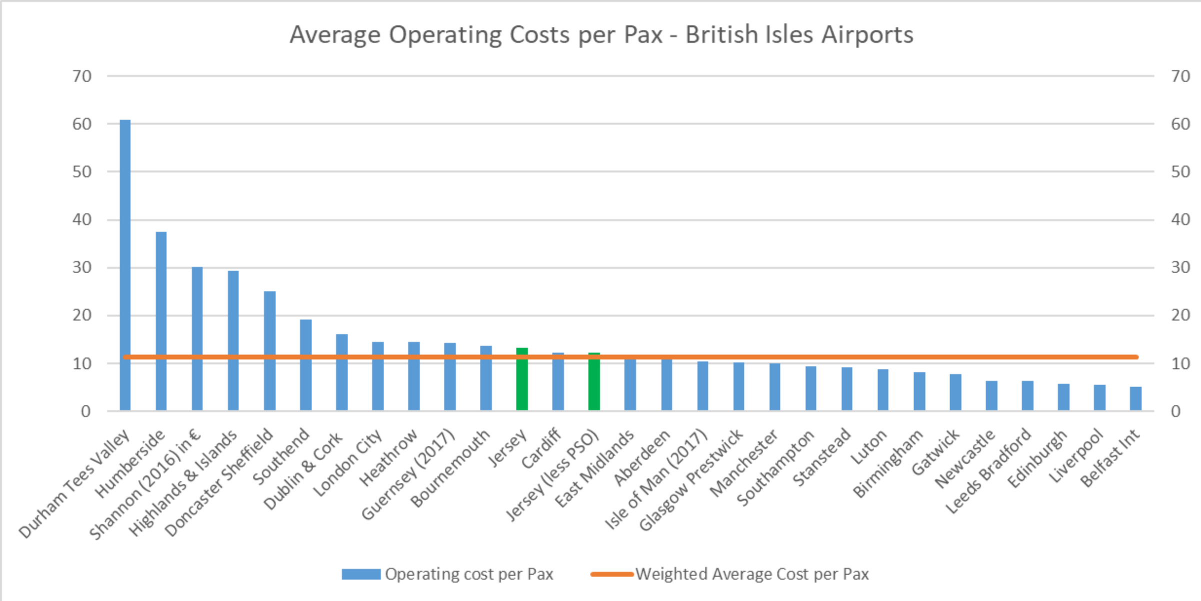
[5] See for example the CAA's proposals on financeabilty for Heathrow in Appendix E of their policy update on Economic Regulation of Capacity Expansion
https://publicapps.caa.co.uk/docs/33/CAP1610(120014-12-2017).pdf

[6] Source: PoJL airport cost benchmarking study, 2018



We are disappointed that CICRA has simply not engaged with the detailed analysis that we provided on the extent to which PoJL has control over different types of costs. This is specific and relevant evidence that should be taken into account in developing the regulatory framework.

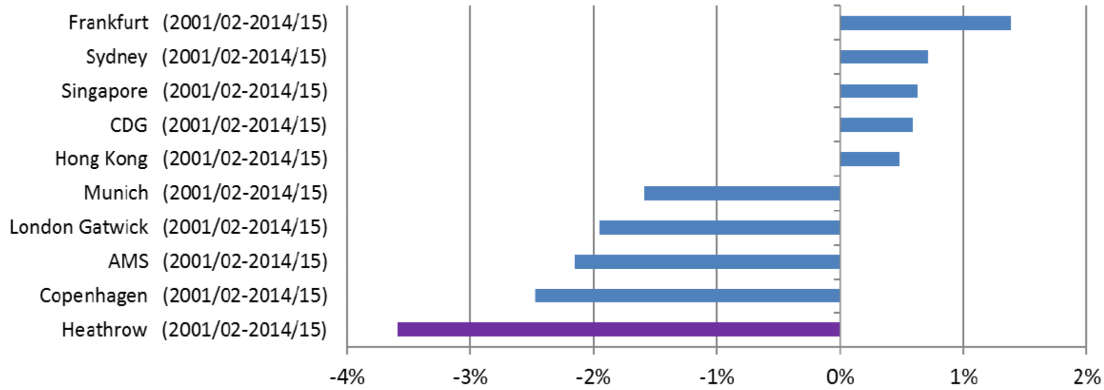
The extremely limited information that CICRA has relied on is very dated (the Dublin study was published in September 2014 and the CAA licences for Heathrow and Gatwick were published in February 2014). In line with CICRA's own policy that more recent information is likely to provide a more accurate forecast than older information, they should have accorded this information little weight.

A more recent (March 2017) report by CEPA for the CAA[7] shows that Heathrow failed to achieve the operating cost targets set by the CAA and referred to in the CICRA report – total cost overruns at Heathrow were 1% for 2014 (9 months) and 4% in 2015, and the area of Heathrow's largest outperformance (utilities) being partly due to "*windfall benefit from lower than anticipated energy prices and milder weather*". This suggests that the CAA's 1% efficiency target was overoptimistic and that an appropriate target for PoJL should be lower than 1%.

The CEPA report for the CAA also compares average annual efficiency gains in real unit operating costs (RUOE) for a number of airports between 2001/2 and 2014/15:

[7] Review of Efficiency of Operating Expenditure of Heathrow Airport, CEPA, Final report March 2017
https://publicapps.caa.co.uk/docs/33/1563c_H7_Opex_efficiency_report_by_CEPA.pdf

Figure E.7: Average annual percentage reduction in RUOE for selected airports, across all years of available data (positive number = efficiency gain)



The chart shows that the majority of airports experienced a reduction (a negative number) in unit operating productivity ie real unit operating costs actually increased over the 14 years (by an average of -0.5% excluding Heathrow which reduced by -3.5% per annum) and only one (Frankfurt) out of the ten airports had an annual reduction in RUOE of above the 1% target proposed by CICRA.

This is strong evidence that rather than being conservative as CICRA claim, PoJL's target of 0.2% pa is actually stretching compared to the efficiencies achieved by other airports and that the CICRA proposal of 1% is unrealistic.

CICRA also quotes an estimate by Steer Davies Gleave (SDG) of the efficiency savings available at Dublin airport, however the savings identified by SDG in their report were highly specific to Dublin and could not be replicated by PoJL.

By far the largest cost saving identified was for Dublin's Central Function staff costs where SDG identified that legacy staff had an average salary 60% higher than staff on new contracts and local benchmarks. SDG proposed outsourcing of the activities that these staff undertake in order to reduce the cost for these staff groups by €8.9m to €18.4m (38% and 31% respectively of the total cost savings identified by SDG). There is no suggestion that PoJL staff costs are above local benchmarks or that there is any opportunity to cut PoJL staff costs by outsourcing and recruiting other staff at much lower salaries to provide retail, cleaning and car park services as SDG proposed for Dublin.

The second largest cost saving (13% to 20% of cost savings) was for security staff where SDG identified €3.1m to €12m savings based on reducing security staff costs through contracting out (average legacy staff salaries were 64% higher than new staff salaries) and improving staff rostering. Again there is no suggestion that PoJL security staff are paid above local benchmarks or that there is any opportunity to cut PoJL security staff costs by outsourcing provision and recruiting other staff at much lower salaries to provide security services as SDG proposed for Dublin. Neither is there any suggestion that there is an opportunity for PoJL to cut its security staff costs by changing their rostering.

The third large area of cost saving suggested by SDG was in Dublin's marketing costs which had rapidly increased dramatically from €3.5m in 2008 to €6.5m in 2012 and which SDG suggested could be reduced to the 2011 level of €5m pa by 2016. Since PoJL has not experienced a dramatic rise in marketing costs, there is no suggestion that we would be able to reduce such costs in line with the proposal for Dublin.

Adjusting the SDG analysis to remove the cost cutting opportunities above which are specific to Dublin airport and which are not available to PoJL reduces the estimated savings from between 2.8% and 7.1% to between 0.7% and 2.8%[8]. There are many other aspects of the SDG study which are specific to Dublin airport and there is no reason to think that the same cost saving opportunities would be available to PoJL in areas such as IT and technology or facilities and cleaning.

In conclusion, the evidence that CICRA has relied on to increase PoJL's efficiency target five-fold is dated and not relevant to the efficiency opportunities available at Jersey airport. We suggest that rather than impose an unrealistic efficiency assumption in the pricing framework assumptions, CICRA should consider the quality and relevance of the evidence available including the evidence we have produced in our submission to reach an appropriate conclusion. We believe that our estimate of 0.2% per annum remains a challenging efficiency target given the constraints set out in our submission.

4.7 Public Service Obligations (PSOs)

PoJL accepts and recognises the responsibility of providing important PSO services on behalf of the Islands. As CICRA notes, PSO services are excluded from being licence by Article 5(3) of the Law, however by their approach, CICRA are effectively regulating PSO services by setting a fixed amount to fund the services with an ever increasing efficiency offset.

There is no reason to suppose that PSO efficiency (if achievable at all) should be identical to that for the rest of the business. It seems to PoJL that rather than setting a fixed sum for PSO services, it would be more appropriate to treat PSO costs (and revenues where appropriate) as a pass-through with the actual PSO costs being added to the allowed revenue for other parts of the business without any efficiency adjustment[9]. This is consistent with a single till approach and would ensure that PoJL did not face financial incentives to reduce the provision of PSO services and potentially put lives at risk because of financial pressures.

4.8 Community Support

[8] SLG Economics analysis based on the detailed tables in the SDG report

[9] This would work as follows: each year's allowed revenue would include an element for PoJL's estimate of PSO costs plus an adjustment factor for the difference between the actual and estimated PSO costs in the previous year (there would be no adjustment in the first year of the price control and the final year adjustment would be incorporated in to the subsequent price control).

PoJL believes that the expectation for it to continue to provide community activities is rather greater than suggested by CICRA's description of it as discretionary 'Corporate Social Responsibility'. There is no reason to suppose that efficiency gains on Corporate Social Responsibility (if achievable at all) should be identical to that for the rest of the business, however we agree that a fixed amount equal to 2018 levels in real terms should be incorporated into the pricing decision.

4.9 Separation of Harbour and Airport operations in the pricing framework

PoJL does not agree with CICRA that if it is not possible to fund new investments from the revenues derived from them, then it suggests that the project is inappropriate. Our 2017 price submission highlighted a number of investments including the new finance system and the ports operational database which were not revenue generating, however were critical to the continued future of our business.

PoJL agrees with CICRA's proposal that it should not explicitly separate harbour from airport operations, but that in the longer term PoJL should generate revenues from investments and operations which cover the cost of those investments and those revenues should be linked closely to costs.

Ports of Jersey
January 2019

Annex A: Confidential

York Aviation, Ports of Jersey Traffic Forecast Review, January 2019

Annex B: Confidential

Visit Jersey, Email from Keith Beecham, 18 January 2019