PORTS OF JERSEY
YOUR ISLAND GATEWAY

Ports of Jersey’s Pricing Submission

2020-2024

March 2019

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1 Introduction/Summary

This is Ports of Jersey's ("PoJL") pricing submission for the regulatory period 1 January 2020 to 31 December 2024, provided also in the context of the need to finance major investment over the longer term. Our customers, the States and other stakeholders recognise the importance for Jersey that PoJL has a stable 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.

PoJL's customers expect regulated prices to be reviewed and adjusted on an annual basis. The next opportunity is with effect from 01 January 2020 and we seek CICRA approval for regulated prices to be increased annually throughout the 5 year control period by up to the JRPI +1% per annum. Should PoJL intend to restructure its prices within that allowance in a way that would increase any group of prices above the prevailing JRPI +1% per annum, we will undertake an appropriate consultation process approximately 3 months prior to implementation.

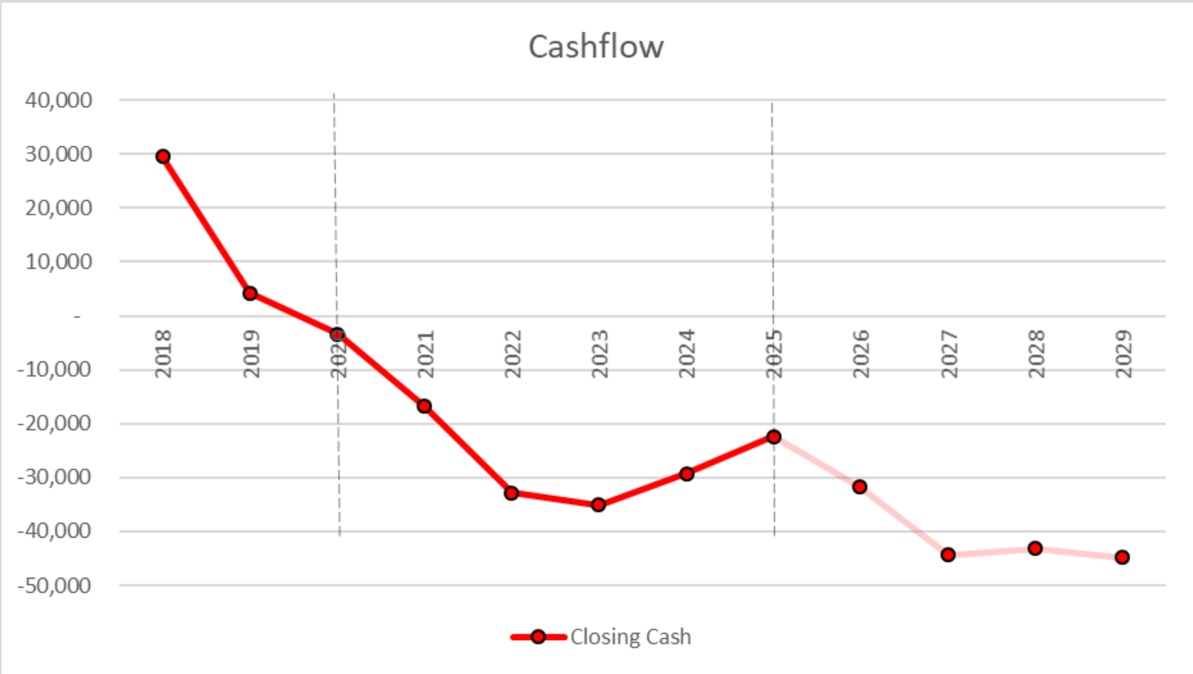
The price control mechanism proposed is in the form of a progressive Revenue Cap which will be applied over the full regulatory period. PoJL will aim to manage cumulative revenues, both regulated and unregulated, in line with that cumulative cap but within 'tramlines' recognising a 5% tolerance (both positive and negative). Should PoJL's outturn revenues fall outside these tramlines (either positively or negatively) then, in the absence of circumstances agreed to be exceptional, PoJL will agree a corrective course of action with CICRA.

A Revenue Cap is a transparent and simple to understand control mechanism designed to provide comfort to PoJL's customers that if the assumed volumes are exceeded, prices will be constrained.

2 Price Proposal

A Decision in relation to the Ports of Jersey Long-Term Pricing Framework Assumptions was published by CICRA in February 2019 (the Decision). Applying these assumptions to our long-term business model (with no price increases) generates the following cash flow forecast.

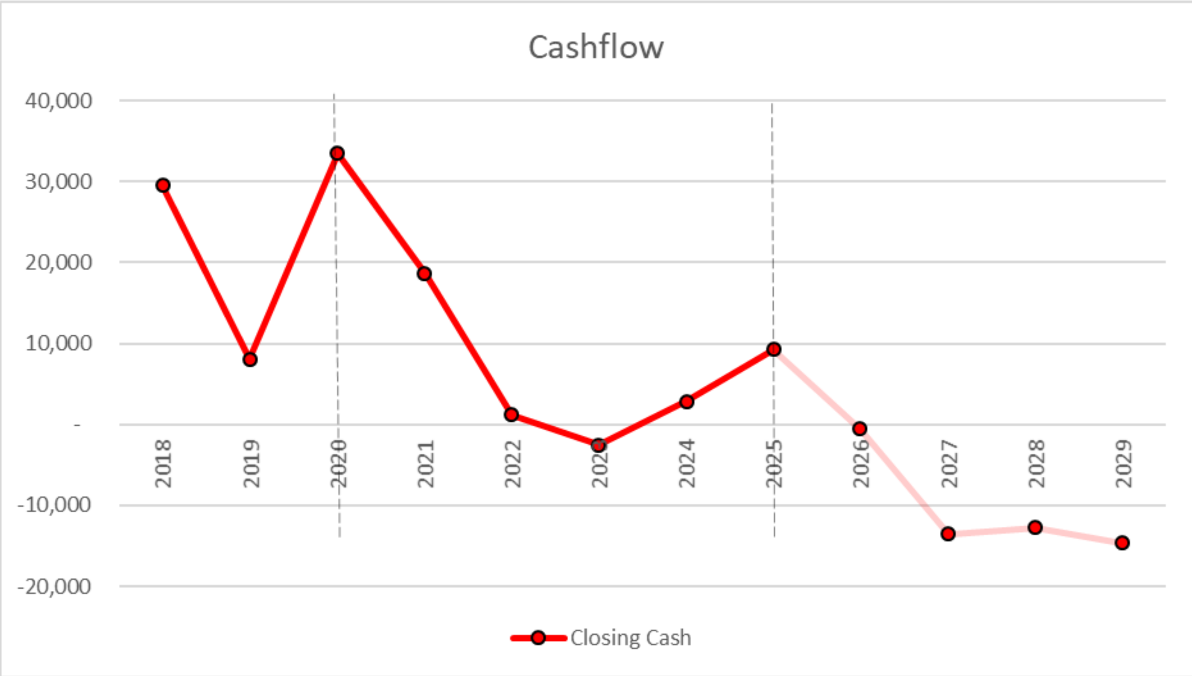
Diagram 1: PoJL Cashflow assuming no debt and no price rises (£000s)



In the absence of price increases, the position is not sustainable as PoJL will be cash negative by 2020 and remains so for at least the rest of the modelled period up to 2029.

PoJL recognises that, as an infrastructure intensive business with long term assets, financing arrangements through raising debt can be an effective tool to achieve efficient financial management. This needs to be considered in the context of the danger of over-leveraging the business, with its attendant risks, and being able to meet the interest and capital repayment obligations. Any material borrowing by PoJL requires the consent of the Minister for Treasury & Resources ('the Minister') pursuant to the Memorandum of Understanding between the Minister and PoJL dated October 2015. The Minister is currently considering an approval for PoJL to enter into debt facilities of up to £40m within this initial regulatory price control period.

Diagram 2: PoJL Cashflow assuming £40m debt facility and no price rises (£000s)



The introduction of this debt alone would defer the point at which PoJL becomes cash negative, however the overall position remains unsustainable.

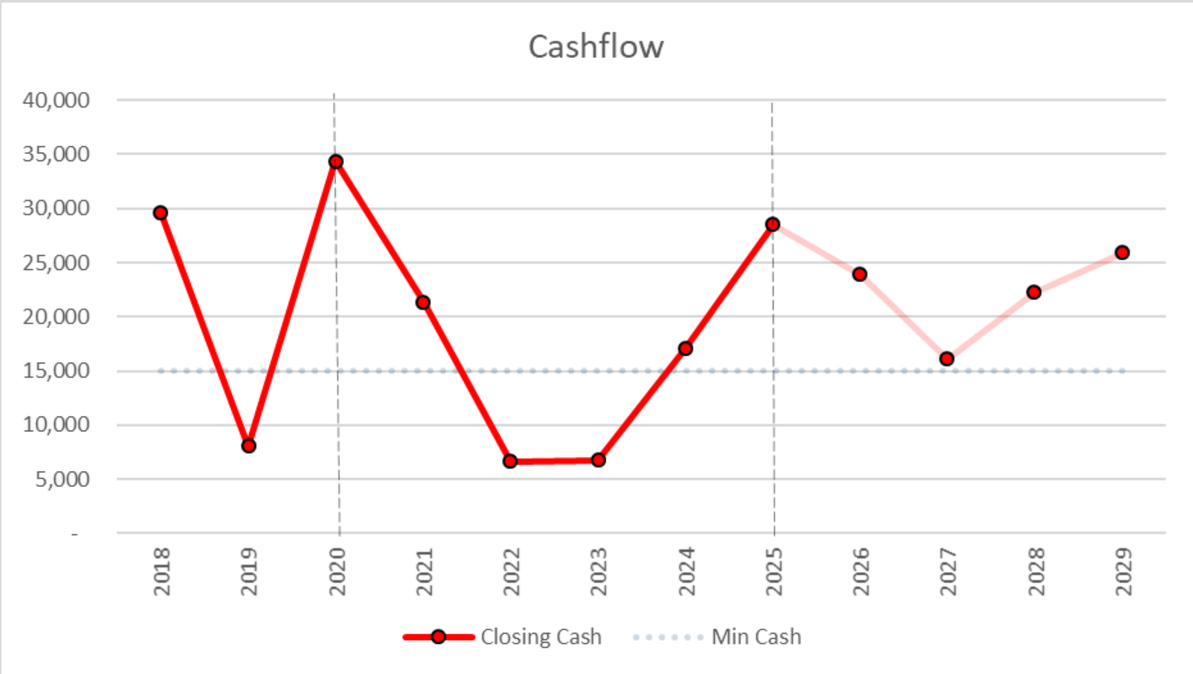
In addition, PoJL needs to maintain reasonable cash reserves (or undrawn facilities) in order to protect against the implications of adverse events, such as an unexpected trading downturn, the failure of a critical asset or other business shocks. The PoJL Board considers that, despite operating an extensive risk management programme, it is prudent to retain a cash balance of 4-6 months operating costs as a cash reserve. PoJL's operating costs amount to c.£35m (2017 Annual Report & Accounts) and therefore maintaining average cash reserves of c.£15m has been adopted in consultation with the shareholder as the target cash holding for the initial price control period.

To ensure that PoJL remains sustainable, a JRPI +1% annual price increase is proposed for the control period 2020-24, where JRPI is the increase over 12 months in the Jersey RPI (all items) index to the preceding September.

It has been PoJL's stated ambition to contain price increases at or below RPI, however, due to the absence of price increases in 2017, 2018 or 2019, an element of 'catch-up' is required. For comparison, JRPI has increased by 9.1% over the same 3 year period. For 2020, the price rise would be directly applied to the existing tariff structure. We will however seek to maintain flexibility to facilitate restructuring of tariffs by allowing different variations within baskets of goods and/or services. The initial proposal will be to maintain the Airport, Harbours and Marinas as three separate baskets.

The chart below shows that given these proposals, we expect PoJL's resultant cash position in 2022 and 2023 to drop below the cash reserve target, leaving an additional challenge. Extrapolating beyond this regulatory period demonstrates that the future cashflow position remains challenging but does provide a reasonable expectation that PoJL would be able to repay the proposed underlying debt in the absence of any further major requirements.

Diagram 3: PoJL cashflow assuming £40m debt facility, an average £15m required cash reserve and JRPI+1% revenue increases (£000s)

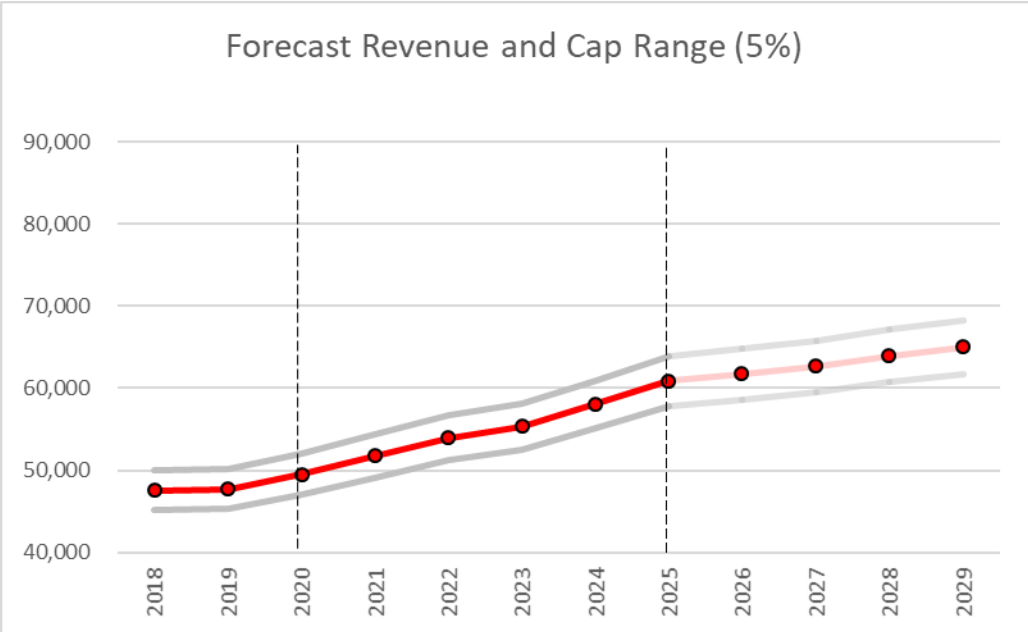


3 Control Framework

It is proposed that the price control mechanism will be in the form of a progressive Revenue Cap covering the aggregate of both its regulated and unregulated activities. Given the uncertainties over volumes when setting prices, it is proposed that the revenue cap will be subject to a 5% variance (both positive and negative) to create 'tramlines' within which PoJL will be required to operate. Should PoJL's results exceed the set parameters established by these tramlines then, in the absence of circumstances agreed to be exceptional, PoJL would agree with CICRA prior to the next price change a course of actions designed to return them within the tolerances.

Where additional revenue, beyond the tramlines, has been generated, the expectation would be that future price increases would be lowered. However this would be subject to CICRA understanding the drivers for the disparity so that CICRA can conclude whether this is a structural shift or a one-off event. A similar principle would apply in the event of a less favourable out-turn.

Diagram 4: PoJL forecast revenue assuming JRPI+1% revenue increases, showing 5% tramlines (£000)



A Revenue Cap is a simple to understand control mechanism, which provides comfort to PoJL's customers that revenues will not rise faster than the maximum allowed by the cap.

4 Reporting

A Revenue Cap can be easily monitored by reference to the published audited PoJL Annual Report and Accounts. Revenue for the year ended 31 December 2017 was £46.247m. We will provide to CICRA and publish an annual certificate monitoring the annual and cumulative revenue outturn against the annual and cumulative revenue allowance by reference to the audited PoJL Annual Report and Accounts which we publish by June in each year

5 Customer Consultation

PoJL proposes to consult with its relevant customer groups (Airport, Harbours and Marinas) on at least an annual basis with regard to any extraneous changes to the amount or structure of regulated prices and/or tariffs groups. PoJL will adopt industry best-practice, applying established principles of relevance, objectivity and transparency and discuss with customers how they would prefer to be consulted.

Following a published timetable of the process, PoJL will circulate supporting relevant information to customers in advance of any consultation session, that would be held approximately three months prior to any proposed implementation of a price change. Due consideration would be given to the results of consultation and PoJL will show how it has taken account of users' comments in its final decision or give reasons where comments have not been adopted.

6 Submission

Having adopted CICRA's February 2019 Decision in relation to the Ports of Jersey Long-Term Pricing Framework Assumptions, PoJL proposes that, with effect from 01 January 2020 and throughout this regulatory period, regulated prices be reviewed and adjusted on an annual basis and that regulated price increases be capped at the September JRPI +1%.