

Treasury and Exchequer Ministerial Decision Report

JERSEY ELECTRICITY PLC - 2020 ANNUAL GENERAL MEETING VOTING INSTRUCTIONS

1. Purpose of Report

To consider the resolutions put forward for the Jersey Electricity PLC (JEC) Annual General Meeting (AGM) on Thursday 5th March 2020.

2. Background

The States of Jersey is holder of all of the Ordinary 5p shares which amounts to 62% of the ordinary share capital of the JEC. This represents 86.4% of the total voting rights. The Directors of the company have proposed 12 Ordinary resolutions to be considered at the AGM. These are outlined below and in the Notice of Annual General Meeting and Form of Proxy (Appendix A).

3. Resolutions

The following resolutions have been put forward for consideration at the AGM.

3.1 Ordinary Resolution 1 -To receive the accounts and the reports of the Directors and the Auditors thereon for the year ended 30 September 2019

The company's Annual Report and Accounts contains the full Directors' Report, Accounts and Auditors Report. A copy of the Report and Accounts 2019 is attached as Appendix B. The following paragraphs summarise the key financial matters.

Group Revenue for the year 30th September 2019 was £110.3m which is an increase of 3% on the previous financial year. Energy revenues were at £86.6m an increase of 5% from 2018 (£82.3m). The sale of heavy fuel oil to Guernsey Electricity (amounting to £2.7m) and a 3.5% rise in tariffs from 1 April 2019 were offset by a 1% decrease in the unit sales volumes of electricity due to milder weather.

Revenue in the Powerhouse retail business increased by 6% from £14.3m to £15.2m. Revenue in the Property business remained consistent at £2.3m. Revenue from JEBs, the contracting and building services business reported a decrease in revenue of £1.6m influenced by an exceptionally large contract in the previous year affecting comparative results.

Cost of Sales at £69.3 was £3.4m higher than last year with an increase in imported cost of electricity, costs associated with the sale of heavy fuel oil to Guernsey Electricity and higher sales activity in the Powerhouse retail business being the main reasons.

Operating Expenses at £26.4m were £2.0m higher than 2018 primarily due to a £1.1m increase in the IAS 19 pensions costs and an increase of £0.6m in depreciation charges.

Profits before tax for the year to 30th September 2019, at £14.8m, decreased by 3% from £15.3m in 2018 largely due to lower profits in JEC's energy business. A £0.7m upward revaluation of the in group revenue investment property portfolio (against £0.3m in 2018) was another material year-on-year movement.

Profits in the JEC's Energy business fell from £13.4m in 2018 to £12.3m in 2019. Unit sales volumes decreased from 634m to 627m kilowatt hours with a milder winter period being the main reason. Customer tariffs rose by 3.5% in April 2019.

During the year JEC sold the remaining stock of heavy fuel oil to Guernsey Electricity which produced a profit of around £1.0m. The oil was no longer required post the decommissioning of our legacy on-island steam plant.

In the 2014 financial year, a repair was performed to the subsea cable between Jersey and Guernsey and JEC made a contribution of £1.8m towards the total costs. In March 2019 a cash payment of £0.8m was received which in effect was a rebate towards the repair costs.

The £1.7m profit in the Property division, excluding the impact of investment property revaluation was £0.1m lower than last year due to higher maintenance and depreciation costs.

The Powerhouse retail business saw continued strong growth in sales with profits also improving by 10% to £0.9m in 2019.

JEBS, the JEC's contracting and business services unit had a challenging year with a £0.1m loss, against a loss of £0.2m in 2018, and a plan underway to re-focus, and improve performance, in this business unit.

Jersey Energy, Jendev, Jersey Deep Freeze and fibre optic lease rentals produced profits of £0.6m, this remained in line with the previous year.

Net interest paid in 2019 was £0.1m lower than last year at £1.3, due to interest received on higher cash balances. The taxation charge at £3.0m was £0.2m lower than 2018 due to the decrease in taxable profit.

Group basic and diluted earning per share fell to 38.42p compared to 39.54p in 2018 due mainly to reduced profitability.

Dividends paid in the year, net of tax, rose by 5% from 14.50p in 2018 to 15.25p in 2019. The proposed final dividend for this year is 9.25p, a 5% rise on the previous year. Dividend cover, at 2.5 times, was lower than the comparable 2.7 in 2018.

Net Cash inflow from operating activities at £27.7m was £0.7m higher than in 2018 with the impact on working capital from the sale of heavy fuel oil stock being a primary driver.

Capital expenditure at £13.9m was £1.0 m lower than £14.9m last year with the spend on the St Helier West primary sub-station being the most material project in 2019.

Net Debt for the year end was £5.1m, being £30.0m of borrowing less £24.9m of cash and cash equivalents, which was £9.2m lower than last year.

Defined benefit pension scheme arrangements - as at 30th September 2019 the scheme surplus, under IAS 19 "Employee Benefits", was £8.3m, net of deferred tax, compared with a surplus of £3.8m at 30 September 2018. Assets rose 14% from £136.2 to £154.7m in the same period. However liabilities increased 10% from £131.4m to £144.2m since the last year end with the discount rate assumption, which heavily influences the calculation of liabilities, falling from 2.9% in 2018 to 1.9% in 2019 to reflect sentiments in prevailing financial markets.

The most recent triennial actuarial valuation, as at 31 December 2018, was finalised during this financial year and showed a surplus of £3.7m.

Appendix C provides a summary of the Key Performance Indicators.

3.2 Ordinary Resolution 2 - To declare a dividend.

The Directors are recommending a final dividend on the Ordinary and "A" Ordinary shares of 9.25 pence per share for the year ended 30th September 2019 (31 September 2018: 8.80 pence).

The dividend will be paid (net of tax) by the Company on 26th March 2020 to all shareholders on the register of members as at close of business on 21st February 2020.

A participating dividend of 1.5% per annum less Income Tax on the Cumulative Participating Preference Share Capital for the period ended 30th September 2019 will also become payable, 1st July 2020, to Shareholders on the Register on 5th June 2020.

Note on Resolutions 3 - 6

The effectiveness of the Board is vital to the success of JEC. An external evaluation took place in 2018 using the Trusted Advisors Partnership Ltd, an external recruitment consultancy firm which has no direct connection with the Company, the findings of which were reviewed and actions implemented. During 2019 an internal evaluation was performed by the Chairman.

The Board has made a decision that all Directors will seek re-election annually at each AGM.

Resolution 3 – To re-elect P J Austin as a Director of the Company

Joined the Board in May 2016 and took over as Chairman in February 2019. Sits on Remuneration Committee and Nomination Committee. CV as per Report and Accounts (page 42).

Resolution 4 – To re-elect A D Le Cornu as a Director of the Company

Joined the Board in January 2011. Sits on the Audit and Risk and Remuneration Committees. CV as per Report and Accounts (page 42). He is also the Senior Independent Director and is due to retire from the Board as part of its succession planning process. Recruitment is currently underway to find a suitable replacement.

Resolution 5 – To re-elect Mr A A Bryce as a Director of the Company.

Joined the board in December 2015. Sits on the Audit and Risk Committee and Nominations Committee. CV as per Report and Accounts (page 42).

Resolution 6 – To re-elect W J Dorman as a Director of the Company

Joined the Board in July 2016. Sits on the Audit and Risk Committee and the Nominations Committee. CV as per Report and Accounts (page 42).

Resolution 7 – To re-elect T Taylor as a Director of the Company

Joined the Board in September 2017. Sits on the Remuneration Committee and Nominations Committee. CV as per Report and Accounts (page 42).

Resolution 8 – To re-elect P M Simon as a Director of the Company

Joined the Board as a Non-Executive Director in February 2019. Sits on the Audit and Risk Committee and Remuneration Committee. CV as per Report and Accounts (page 43).

Resolution 9 – To re-elect C J Ambler as a Director of the Company

Appointed to the Board as Chief Executive in October 2008. CV as per Report and Accounts (page 42).

Resolution 10 – To re-elect MP Magee as a Director of the Company

Appointed to the Board as Finance Director in May 2002. CV as per Report and Accounts (page 42).

Resolution 11 – To transact special business, namely; consider and, if thought fit, approve an increase in the aggregate Director’s fees to £250,000 per annum

The resolution notes that the aggregate was last increased in 2016. The aggregate is effectively a cap on Non-Executive Director’s fees which is approved by shareholders.

JEC have advised that the catalyst for the increase in the aggregate fee level is that they are currently tight against the existing limit of £175,000 which prohibits their ability to appoint an additional NED. The company are currently advertising for a new NED, with the aim to appoint in the second quarter of 2020. This is part of the Board’s succession planning process that will see Aaron le Cornu step down from the Board. As a result of this there is likely to be an overlap of a NED for a short period of time and if the aggregate is not increased the JEC say that this will hamper their succession planning.

This increase will also provide some capacity for any increase in NED fees that may be put forward. The Company employ an external consultant (Mercer) to benchmark both NED and Executive pay of a regular basis. JEC have advised that there is no proposal to increase NED fees as a result of the aggregate figure being increased.

The proposal represents an increase of 42.9% on the current limit. RPI over the period from 2016 was 12.4%.

Note – payments to NEDs as shown in the 2019 Accounts were £187,060 (including benefits in kind) and £175,800 (excluding benefits in kind).

Ordinary Resolution 12- To re-appoint Deloitte LLP as auditors of the Company at a fee to be agreed by the directors.

Deloitte LLP as the current auditors, have indicated that they are willing to be re-appointed as the auditors of the Company. Deloitte were re-appointed after a full tender process undertaken in 2015.

4. Recommendation

The Assistant Minister for Treasury and Resources is recommended to instruct the Treasurer of the States and the Greffier of the States to vote by proxy in favour of the resolutions to be put before the Annual General Meeting of Jersey Electricity plc on the 5th March 2020.

5. Reason for Decision

To fulfil the States’ role as shareholder of the Jersey Electricity plc by exercising voting rights at the Annual General Meeting.

The States of Jersey is holder of all of the Ordinary 5p shares which amounts to 62% of the ordinary share capital of Jersey Electricity plc. This represents 86.4% of the total voting rights. The Directors of the Company have proposed 12 Ordinary resolutions to be considered at the AGM. These are outlined in the report and in the Notice of Annual General Meeting and Form of Proxy (Appendix A).

6. Resource Implications

There are no additional resource implications as a result of this decision.

Report author : <i>Advisor - Shareholder Relations</i>	Document date : 18 February 2020
Quality Assurance / Review : Head of Shareholder Relations/ Head of Financial Governance	File name and path: L:\Treasury\Sections\Corporate Finance\Ministerial Decisions\DS, WR and SD\2020-00xx - JEC AGM voting instructions
MD sponsor : <i>Director of Treasury Operations and Investments</i>	

Notice of Annual General Meeting

JERSEY ELECTRICITY PLC

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of the Company will be held on Thursday 5 March 2020 at 12.30pm at the Company's offices at The Powerhouse, Queens Road, St Helier, Jersey to transact the following business. Resolutions 1 to 12 inclusive will be proposed as ordinary resolutions.

Ordinary Resolutions (see Explanatory Notes overleaf)

1. To receive the accounts and the reports of the Directors and the Auditors thereon for the year ended 30 September 2019
2. To declare a dividend
3. To re-elect P J Austin as a Director of the Company
4. To re-elect A D Le Cornu as a Director of the Company
5. To re-elect A A Bryce as a Director of the Company
6. To re-elect W J Dorman as a Director of the Company
7. To re-elect T Taylor as a Director of the Company
8. To re-elect P M Simon as a Director of the Company
9. To re-elect C J Ambler as a Director of the Company
10. To re-elect M P Magee as a Director of the Company
11. To transact special business, namely; consider and, if thought fit, approve an increase in the aggregate Directors' fees to £250,000 per annum.
12. To re-appoint the Auditors and authorise the Directors to agree their remuneration

Recommendation

The Board considers the Resolutions will promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings.

BY ORDER OF THE BOARD

P J Routier

Company Secretary

17 January 2020

Registered Office:

The Powerhouse, Queens Road, St Helier, Jersey, JE4 8NY

Registered in Jersey No. 67

APPENDIX

Explanatory Notes

Resolution 1 – To receive the Annual Report and Accounts

The Chairman will present the accounts and the reports of the Directors and the Auditors for the year ended 30 September 2019 to the meeting.

Resolution 2 – Final dividend

A final dividend of 9.25 pence on the Ordinary and 2^x Ordinary shares for the year ended 30 September 2019 is recommended by the Directors. If you approve the recommended final dividend, this will be paid on 26 March 2020 to shareholders who were on the register of members at the close of business on 21 February 2020. A participating dividend of 1.5% per annum less Income tax on the Cumulative Participating Preference Share Capital for the period ended 30 September 2019 will also become payable, on the 1 July 2020, to Shareholders on the Register on 5 June 2020.

Resolutions 3 to 10 – Re-election of Directors

Biographical information on all of the Company's Directors is available on pages 42 and 43 of the Annual Report and Accounts.

The Board has made the decision that all Directors will seek re-election annually at each AGM.

The Government of Jersey are considered to be a "controlling shareholder" by virtue of their voting rights in the Company. The FCA's Listing Rule 13.8.17 requires that companies with a controlling shareholder make additional disclosures about independent directors' relationships, independence, effectiveness and appointments, where they are being proposed for election or re-election. Accordingly the following information is provided in respect of the independent Directors who are proposed for re-election at this AGM.

Details of any existing or previous relationships, transactions or engagements:

Mr Phil Austin: Mr Austin was CEO at Jersey Finance Ltd for 5 years (2001-06), a body that is part-funded by the Government of Jersey. He was Chairman of the International Island Games Organising Committee for the 2015 Island Games in Jersey, an event funded mostly by the Government of Jersey. Currently, he is Chairman of Jersey Sport, an organisation which was established in 2016 at arm's length from the Government who, nonetheless, provide most of its funding.

Mrs Wendy Dorman: Mrs Dorman is a non-executive director of Jersey Finance Limited, a body that is part-funded by the Government of Jersey.

Mr Tony Taylor: Mr Taylor is a member of the Jersey Sport Board and the Jersey Milk Marketing Board, appointments made by the Government of Jersey.

Mr Martin Magee: Mr Magee was recently appointed the Audit Committee Chairman for Jersey Post International Limited, a strategic investment of the Government of Jersey.

The Company also makes the following statements:

- **Effectiveness:** The biographies of all Directors are on pages 42 and 43 of the Annual Report & Accounts. The Directors all bring diversity in skills and background to the Board and the effectiveness of individual Directors and the Board as a whole is reviewed annually by the Chairman.
- **Independence:** The Board considers that all of the Directors are independent in character and judgment, and that there are no relationships or circumstances that are likely to affect their judgment.
- **Selection:** Directors are selected through a process overseen by the Nominations Committee with the use of external recruitment consultants.

Resolution 11 refers to the approval of an aggregate maximum increase in non-executive Director's fees per annum. The aggregate was last increased in 2016.

Resolution 12 – Re-appointment of Auditors and Auditors' remuneration

Resolution 12 relates to the appointment of Deloitte LLP as the Company's auditors to hold office until the next AGM of the Company and authorises the Directors to set their remuneration. The Directors have delegated the responsibility of setting the auditors' remuneration to the Board's Audit and Risk Committee.

NOTES

1. A shareholder of the Company entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint one or more proxies to attend, speak and, on a poll, to vote in his place. A proxy may demand, or join in demanding, a poll. A proxy need not be a shareholder of the Company.
2. A proxy form, which may be used to make this appointment and give proxy instructions, accompanies this notice. In order to be valid, an appointment of proxy must be returned, together with any authority under which it is executed, to the Company's registered office at least 48 hours before the commencement of any meeting, or adjournment thereof, at which the person named in the instrument proposes to vote or, in the case of a poll, before the time appointed for taking the poll and, in default, the instrument shall not be treated as valid.
3. Your proxy will vote as you instruct and must attend the meeting for your vote to be counted. Details of how to appoint the Chairman or another person as your proxy using the proxy form are set out in the notes on the proxy form. Appointing a proxy does not preclude you from attending the meeting and voting in person in place of your proxy. If the proxy form is returned without any indication as to how the proxy shall vote on any particular matter, the proxy will exercise his discretion as to whether, and if so how, he votes.
4. An abstention option has been included on the Form of Proxy. The legal effect of choosing the abstention option on any resolution is that the shareholder concerned will be treated as not having voted on the relevant resolution. The number of votes in respect of which there are abstentions will however be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.
5. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority will be determined by the order in which the names stand in the register of members in respect of the joint holding.
6. In the case of a corporation, the proxy should be executed under its common seal, or signed on its behalf by an attorney, or officer, so authorised.
7. Entitlement to attend and vote at the meeting, and the number of votes which may be cast thereat shall be determined by reference to the register of members as open on the day which is two days before the day of the meeting or any adjournment thereof.



Form of Proxy for the Annual General Meeting

Notes

Every shareholder has the right to appoint some other person, who need not be a shareholder, as their proxy to exercise their rights to attend, speak and, on a poll, vote on their behalf at the meeting.

If you wish to appoint a person other than the Chairman of the meeting please insert in block capitals the full names of the person, delete "the Chairman of the meeting or" and initial the amendment.

Please indicate how you wish your proxy to vote by placing a tick in the appropriate box. Unless otherwise indicated the proxy will exercise his discretion both as to how to vote and as to whether he abstains from voting.

In the case of joint holders, the signature of any one holder will be sufficient.

In the case of a corporation, the proxy should be executed under its common seal, or signed on its behalf by an attorney or officer, so authorised.

To be valid this proxy must be lodged at the Registered Office of the company not later than 48 hours before the time of the meeting.

The lodging of a form of proxy does not prevent a member from attending and voting if he so wishes.

Date _____ 2020

I/We _____ (BLOCK CAPITALS)
of _____

_____ (ADDRESS IN BLOCK CAPITALS)
being a member/members of the Company, hereby appoint the Chairman of the meeting or

to act as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 12.30pm on Thursday 5 March 2020 and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions as follows:

Ordinary Resolution	For	Against	Abstain
1. To receive the accounts and the reports of the Directors and the Auditors thereon for the year ended 30 September 2019			
2. To declare a dividend			
3. To re-elect P J Austin as a Director of the Company			
4. To re-elect A D Le Comu as a Director of the Company			
5. To re-elect A A Bryce as a Director of the Company			
6. To re-elect W J Dorman as a Director of the Company			
7. To re-elect T Taylor as a Director of the Company			
8. To re-elect P M Simon as a Director of the Company			
9. To re-elect C J Ambler as a Director of the Company			
10. To re-elect M P Mudge as a Director of the Company			
11. To transact special business, namely: consider and, if thought fit, approve an increase in the aggregate Directors' fees to £250,000 per annum.			
12. To re-appoint the Auditors and authorise the Directors to agree their remuneration			

Signature _____



Appendix B

<https://www.jec.co.uk/media/574771/je2019raweb.pdf>



je2019raweb.pdf

Five Year Group Summary (unaudited)

Financial Statements	2019	2018	2017	2016	2015
Income Statement (£m)					
Revenue	110.3	105.9	102.1	103.4	100.5
Operating profit	16.1	16.7	14.7	15.9	14.7
Profit before tax	14.8	15.3	13.5	14.8	13.2
Profit before tax (pre-exceptional items)	14.8	15.3	13.5	13.1	12.4
Profit after tax	11.9	12.2	10.6	11.6	10.8
Dividends paid (£m)	4.7	4.4	4.2	4.0	3.8
Balance Sheets (£m)					
Property, plant and equipment	217.0	215.2	211.9	209.2	187.8
Net current assets	28.8	22.7	18.2	9.8	10.4
Non-current liabilities	(79.2)	(76.4)	(78.5)	(81.8)	(71.9)
Net assets	199.5	188.7	176.3	164.1	147.7
Financial Ratios and Statistics					
Earnings per ordinary share (pence)	38.4	39.5	34.6	37.7	35.0
Earnings per ordinary share (pre-exceptional costs) (pence)	38.4	39.5	34.6	33.3	32.9
Gross dividend paid per ordinary share (pence)	19.1	18.1	17.3	16.4	15.6
Net dividend paid per ordinary share (pence)	15.3	14.5	13.8	13.1	12.5
Dividend cover (times)	2.5	2.7	2.5	2.9	2.8
Dividend cover (pre-exceptional costs) (times)	2.5	2.7	2.5	2.5	2.6
Net debt (£m)	(5.1)	(14.3)	(21.9)	(29.0)	(17.5)
Capital expenditure (£m)	13.3	14.3	14.4	31.6	13.2
Electricity Statistics					
Units sold (m)	627	634	621	625	627
% movement	-1.1%	2.1%	-0.6%	-0.3%	0.9%
% of units imported	94.1%	94.9%	92.6%	91.6%	94.0%
% of units generated	0.3%	0.2%	1.5%	2.9%	1.4%
% of units from Energy from Waste plant	5.6%	4.9%	5.8%	5.5%	4.6%
Maximum demand (megawatts)	150	178	154	149	148
Number of customers	51,103	50,561	49,894	49,532	49,320
Customer minutes lost	6	6	8	24	7
Average price per kilowatt hour sold (pence)	13.3p	12.9p	12.9p	12.8p	12.8p
Manpower Statistics (full time equivalents)					
Energy	188	186	201	203	201
Other	94	102	116	114	106
Trainees	11	14	9	10	12
Total	293	302	326	327	319
Units sold per energy employee (000's)	3,336	3,411	3,091	3,079	3,118
Number of customers per energy employee	272	272	248	244	245