

Bord Gáis Energy Supply (BGES) welcomes the opportunity to comment on the Public Service Obligation Levy Proposed 2008/2009 Charges Proposed Decision (CER/08/092) issued by the Commission for Energy Regulation (CER) on June 16th, 2008. Following consideration, BGES would like to make the following comments with regard to the Proposed Decision and requests that the CER take this response into account before making its final decision on the Public Service Obligation Levy Charge 2008/2009.

Introduction

As a general overriding comment BGES would like to highlight that increases in the pass through elements of retail tariffs not only increase the total cost of electricity for customers' – it also can affect the competitiveness of independent supply companies. Generally, customers prefer to see what discount they will receive by switching to an alternative supplier. The higher the percentage of pass through costs the less potential there is for an independent supplier to pass through efficiency savings that it must make to compete in the retail market to 'sell' a meaningful discount to a new customer. Essentially the discount that can be offered is diluted by the fixed costs which are pass-through payments. With this reduced percentage discount, there is reluctance on the customer's part to change supplier (hassle factor). The large PSO increase proposed for 2008/09 compounds this problem for BGES as an independent supplier.

BGES also welcomes the Commission's decision to provide a greater level of detail on the costs included in the PSO levy; however we are of the opinion that a greater breakdown of costs is required, particularly when the PSO for 2008/09 is so large and is expected to increase further in future years (due to REFIT).

We accept that the PSO levy is of a statutory nature. However we call on the CER to advise the Department of Communications, Energy and Natural Resources (DCENR), of the adverse effects of direct market intervention in pursuit of a public objective, its detrimental effect on competitiveness and general alarm over the sizable - and increasing - levy being passed onto end customers.

2008/2009 PSO Levy

The draft decision on the PSO levy for 2008/2009 (CER/08/092) outlines the costs included in the 2008/2009 Levy, these costs include REFIT costs. BGES understands that the relevant S.I. will be enacted in time to allow these costs to be counted in the PSO calculation.

- From the draft decision it is apparent that the REFIT costs included in this paper consist of the balancing and technology difference payments and that there is no opportunity cost given the level of the benchmark price that is currently being used. As the proposed total cost is a substantial (€24m) new addition to the PSO, we would

suggest that additional information in relation to the breakdown of costs and the basis for the calculation of each component should be provided in the Proposed Decision paper.

- West Offaly, Lough Ree and Edenderry Power stations are all peat fired power stations of a similar age yet the proposed PSO costs associated with the ESB PG Peat plants are much larger than those of the Edenderry plant? The difference in generation capacity associated with the ESB PG peat plants does not appear to account for the sizable gap of €44.5m between one, a PSO credit, and the other a substantial PSO debit for the 2008/2009 period. It would be helpful if the CER provided reference to publicly available documentation which may help us understand the details of this cost discrepancy. We would ask that given the level of the amount in question that the Commission requests and provide further detail and/or justification for these costs.
- In relation to the Capacity 05 cost of -€13m, BGES would ask the Commission to again provide further detail on this cost. Given that this has been a negative payment for the previous two PSO levies and the current level of the market price in the SEM, BGES are unable to understand how this cost is a positive component of the 2008/2009 PSO.

Given the size of the R – Factor proposed for the 2008/2009 PSO levy BGES believes that more detail on the individual components be provided:

- BGES would request a detailed explanation of the cost of €18.74m attributed to the ESB PG Peat plants. From the level of information provided it is difficult to ascertain where these r-factor costs occurred. As before, we believe the CER should request and provide additional justification that is currently provided for the basis of these costs i.e. why did these plants have a lower than expected income? It would again be helpful if the CER could reference any relevant documentation that would help in understanding how this cost accrued.
- BGES understands that the PSO levy is of a statutory nature. However we would ask the CER to advise DCENR large costs associated with PSO projects should be justified. This would help ensure a transparent process whereby participants, including customers, were relatively sure that the levy provides a balanced benefit, versus its costs.
- In relation to the take – or – pay claim by Edenderry Power Ltd, BGES would again ask that the CER provide more detail as to how this claim has arisen and provide reference to any documentation that would enable us to understand this cost.
- In relation to the final component of the R – Factor, the AER/Edenderry Power Ltd/Capacity 2005 cost of €27.2m, BGES would ask that the CER give a more detailed breakdown of these costs. The way in which this cost is currently presented does not

enable commentators to provide any useful comments to the consultation. It is unclear what amount each of these three components contributes to the €27.2m total.

- We would also ask that the Commission clarify exactly what time period the R – Factor covers. We understand that it usually covers the period from two years previous, however given the change in the PSO period since the advent of the SEM BGES is unclear as to what period this R – Factor covers?

BGES welcomes the further detail given on the R – Factor costs as they constitute such a large proportion of the overall PSO levy, however as they do constitute such a large proportion of the PSO levy, BGES would ask that the Commission provide even further detail as to these costs. This will enable parties to provide more constructive feedback to the consultation process.

Conclusion

In conclusion BGES would like to highlight that large PSO increases, that are not adequately justified do not lend themselves to a transparent, open and fair market and certainly not to a competitive and efficient market. We request that these increases be explained in greater detail in any subsequent papers put forward by the CER. A supplementary paper providing a more detailed breakdown of the figures is required from the CER would be very beneficial.