FOOD AND DRINK INDUSTRY IRELAND

The voice of the Irish food and drink industry

Confederation House
84/86 Lr Baggot St
Dublin 2
Phone + 353 1 6051500
Fax + 353 1 6381500
Website www.ibec.ie

Francis O'Toole (Electricity Tariff Consultation)
Jill Murray (Gas Tariff Consultation)
Commission for Energy Regulation
Plaza House, Belgard Road
Tallaght
Dublin 24

24 November 2008

RE: Proposed Energy Tariffs, 2009 - CER/08/221 and CER/08/223

Dear Francis/Jill,

I am writing to you on behalf of Food and Drink Industry Ireland (FDII), which represents the interests of 150 food and drink companies. With exports of €8.6 billion, competitive energy pricing is essential for our sector. Business consumers account for 62.5% of the total consumption in the Irish electricity retail market, with large energy users (LEU) accounting for 27% of total electricity consumption at a cost of approximately €1 billion.

Industrial electricity costs have risen by 70% between 2000 and 2007, nearly twice the EU-15 average rate. In 2007, Irish prices were 19% above the EU-15 average and the second highest after Italy (Appendix 1, Fig. 1). A large energy users' survey across several enterprise sectors, including Food & Drink, Pharmachem & Medical Devices, ICT and industrial products indicates that unacceptably high electricity and gas costs are now a significant business concern in attracting Foreign Direct Investment and maintaining a competitive export environment. There was an average increase in electricity costs of 23% experienced across all sectors in 2008. The rise experienced in the Food & Drink sector was 28%. The huge differential that now exists with UK prices in particular is unsustainable for our sector as it accounts for 42% of food and drink exports and as our members are already facing a massively weakened sterling in that market. The increases for LEUs are above the rise experienced in PES to date in 2008.

We estimate that if the increase were weighted against usage that the increase is around 30%. The value of exports from the companies surveyed amounted to € 15.7 billion.

The recent proposal to increase the cost of electricity by around 6% from the 1st January 2009 will cost business consumers an estimated €125 Million. The CER announcement of a further electricity price rise is on top of a 17.5% rise implemented in September 2008, which cost business an estimated €375 M. Consumers are facing a cumulative increase of 23.5% for electricity and 25% for gas since September 2008.

During which time UK day ahead gas prices have fallen from 69.8 p/therm (average for September) to ca. 55p/therm, i.e. a 22% decrease. The CER announcement is part of a two-phased approach to energy tariffs, however most consumers find it difficult to understand a second increase against the background of rapidly falling international fuel prices today. In addition, the timing and splitting of this year's tariff process introduces uncertainty to business budgetary cycles that are based upon a price previously agreed on an annual basis. The changing of the process at short notice, undermines confidence in the Regulator. Consumers in the wholesale electricity market have seen cost increases of around 30%. All of this is simply affecting both the ability to do business in this country and our competitiveness. FDII urge the CER to fully reflect the recent softening of international fuel costs in its decision.

FDII acknowledge that volatile international fuel prices and structural issues play a role, however our analysis indicates a discrepancy in spark spreads[1] between Ireland and the UK (Appendix 2, Fig. 2). FDII requires clarity on this discrepancy, transparency on system marginal price (SMP) setting and the process of validating this transparency.

We call on both the Government and the Regulator to work with FDII to intensify efforts to mitigate the negative impact of rising energy costs on our relative competitiveness internationally, by implementing measures to promote energy efficiency, increase market competition and address Ireland's fuel mix and energy infrastructure deficit. Business is playing its part, with energy efficient measures accounting for savings of at least 1,753 GWh under the large industry energy network (LIEN) scheme in 2007. FDII welcomes both the public forum of the 10/11/08 and the introduction of a rebate for consumers this year. We require clarity on the distribution of the rebate to consumers. FDII suggests that the rebate be extended as a mechanism to support policy initiatives that will help business consumers, protect competitiveness and assist in realising shared policy ambitions.

Should you wish to discuss any of the points mentioned in this submission, please contact the undersigned

Kind regards

Paul Kelly

PAUL KELLY
DIRECTOR
Paul.kelly@ibec.ie

CC: Michael Tutty, Chairperson, CER

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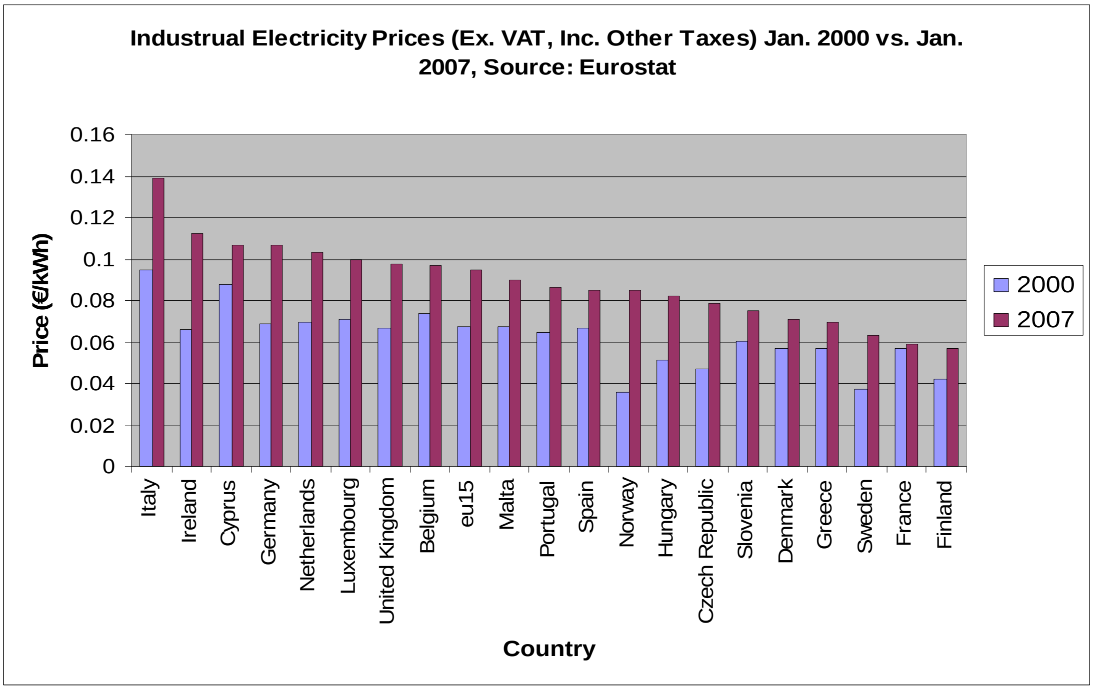
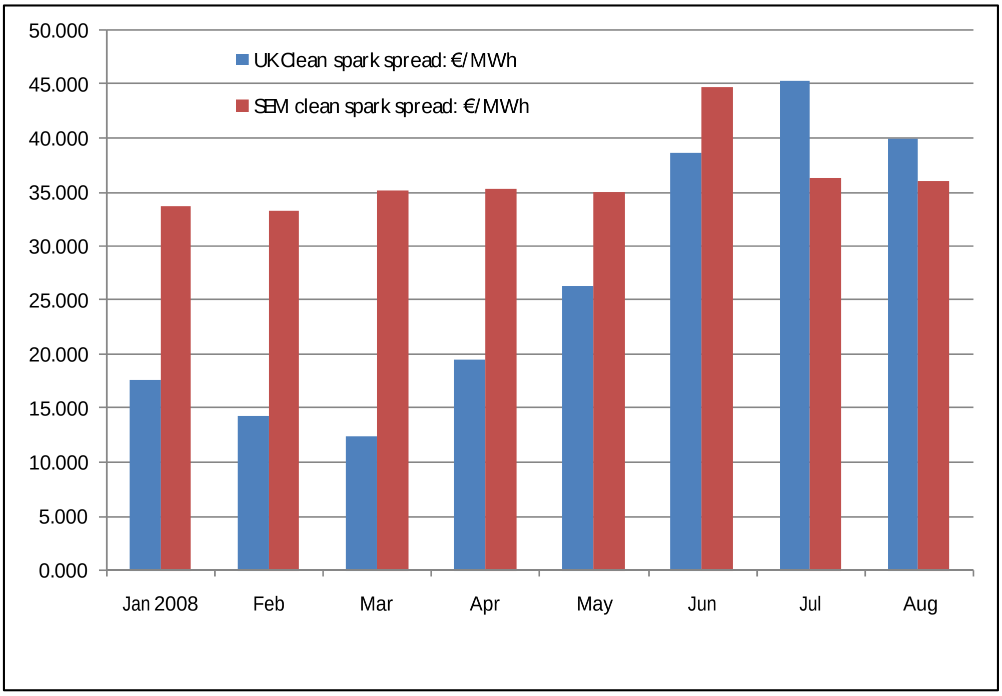
[1] Revenue available to an energy supplier after purchasing gas at a prevailing market price, converting it to electricity and selling it a prevailing market price.

Appendix 1: Figure 1, Trends in Industrial Electricity Prices 2000-2007



Appendix 1: Figure 2, UK V SEM Clean Spark Spreads (€/MWh)



(Source: Kore Energy, 2008)