



Submission to Commission for Energy Regulation from the Irish Hotels Federation on the Proposed Public Service Obligation Levy on Electricity Users for 2010/11

Proposal from Commission for Energy Regulation (CER)

CER proposes a public service obligation levy of €194.58M on all electricity consumers including hotels for the period October 2010 to September 2011. As the CER notes, “this is a very substantive increase on recent years when the levy was running at, or close to, zero.” The levy is intended to support or subsidise the use of indigenous fuels such as peat and the use of renewable energy sources in electricity generation. The levy is comprised of €82.92M on domestic users, €24.84M on small and medium business users including hotels and €86.82M on large industrial users of electricity.

The Irish Hotels Federation is Completely Opposed to the 2010/11 PSO Levy

The Irish Hotels Federation (IHF) is completely opposed to the implementation of this levy on the hotel sector and the enterprise sector in general. This submission follows the same approach as the 2009 IHF submission on the proposed 2009 PSO levy. The hotel sector and the economy in general are in a crisis situation in 2010. Hotels cannot absorb additional public sector generated costs. The requirement is to reduce the cost burden, including electricity, and enhance competitiveness. The CER proposal does the opposite to what is required for economic recovery. The economy will recover slightly in 2011 but the hotel sector will remain vulnerable. Public policy should introduce measures which support the 2011 economic recovery but the proposed 2010/11 levy undermines this.

The 2009 IHF submission proposed that the 2009 levy of €57.7M should be deferred and the CER found it possible to do this. In line with the approach taken in the 2009 submission the IHF proposes that the 2010/11 proposed levy should be deferred. The proposed levy is totally counter to the widely recognised need for the Irish economy to substantially improve cost competitiveness. In addition there should be an immediate review of the PSO principle, the basis for its absolute cost and the distribution of its burden between the exchequer, domestic users of electricity and business users in light of the fundamental deterioration in the

economy and the hotel sector since the PSO idea was first introduced. The IHF recognises that the levy is statutorily based and that Government must be involved in the review process. Government should initiate the review.

Economic Situation in the Economy and in the Hotel Sector

It is well known that the economy and the tourism sector have experienced a very large decline in recent years and the current and future economic positions are very different to when the PSO concept was introduced. To facilitate CER deliberations it is useful to identify the scale of the decline. Table 1 summarises the large decline in the monetary value of GNP.

Table 1- GNP in current prices 2007-09

	€M
2007	161.2
2008	154.6
2009	131.4
% decrease 07-09	18.5

Source: CSO

The value of GNP will decline further in 2010 by about 1%. The growth in the volume of GNP will be about 2.5% in 2011 but higher growth rates are needed to reduce employment and reverse the decline of the previous three years. Cost competitiveness and energy competitiveness can assist the achievement of higher growth rates.

The tourism sector has also declined greatly as shown in Table 2. There was a decline of 29.65% in the number of overseas visitors between the first quarter of 2008 and the first quarter of 2010.

Table 2 - Overseas visitors to Ireland 2008-2010 (Jan-Mar)

	M persons
Jan-Mar 2008	1.542
Jan-Mar 2009	1.402
Jan-Mar 2010	1.085
% decrease 2008-10	29.6%

Source: CSO

Several national and international reports on the Irish economy, including reports from OECD, IMF and the National Competitiveness Council (NCC), has identified the critical need to significantly improve cost competitiveness if Ireland is to have any hope of dealing

with its severe economic difficulties. It is also recognised that reduction of energy costs must be a substantial element of the overall cost competitiveness improvement.

The National Competitiveness Council stated “Without immediate and continuing action to restore our international competitiveness we run the ongoing risk that the Irish economy will enter a prolonged period of depressed economic activity” (Page 1 Press Release June 2009.) The NCC has identified four priority areas for improving cost competitiveness, one of which is lowering the cost of energy. It notes “Recent energy price reductions are necessary but not sufficient. Further actions are required to bring down energy costs.” The current PSO proposal is counter to the needs of the economy. The IMF has referred to an Irish cost competitiveness gap of up to 20% with other countries which must be corrected.

The hotel sector is particularly vulnerable to increases in energy costs. The recession has greatly reduced the national and international tourism markets as noted above. Hotels are directly exposed to the high cost of business in Ireland and the worst effects of the credit squeeze. The sector is experiencing lower prices, reduced margins and low capacity utilisation rates. There is very substantial surplus capacity in the hotel industry. The majority of hotels are operating at a loss and the viability of many is threatened. As identified in previous IHF submissions to the CER the hotel sector needs substantial reductions in electricity costs, not increases. The sector is undergoing severe cost adjustment and competitiveness enhancement which is essential for the survival of the industry as a large economic sector. The hotel sector must provide the energy needs of its customers who expect comfort.

Hotels are substantial users of electricity. Among larger hotels usage would be over 500 kVAs per month. At the middle range the usage would be about 5 to 6 thousand kVAs annually. The proposed PSO levy will have a cost increasing impact of about 3% to 4% of existing electricity costs on average at a time when all efforts should be directed at cost reduction. The PSO levy has been zero in 2007, 2008 and 2008/09 which makes the current proposal all the more damaging to competitiveness. It is coming at the worst possible time. The IHF is also very concerned about future levels of the PSO levy as the energy market changes. The danger is that there will be continuous increases in the future.

Conclusion and Recommendations

The IHF recognises that the PSO levy is legislatively based and that Government must permit and be involved in a fundamental review of its scale and effect. In the context of the current 2010/11 proposal the IHF recommends;

- The proposed levy should be deferred as was done in 2009 pending a fundamental review of the scope and burden of the PSO including the projected burden in the coming years.
- This review should examine the general principle of the PSO levy, the basis for the calculation of the levy, the distribution of the cost burden between the exchequer and the users of electricity and the distribution of the burden between business users and domestic customers. (The IHF argues that the current burden is excessively based on the business sector.)
- This review of the PSO could be undertaken in the context of a comprehensive and transparent assessment of the determinants of the cost of electricity in Ireland and the scope for reductions through adjustments in the domestic cost element of electricity provision.

As was the case in 2009, the principal urgent requirement is for the proposed 2010/11 PSO levy to be deferred pending the recommended review and in light of current economic difficulties facing the hotel sector and the economy generally. While the IHF recommendation is the same as in 2009, the justification for it is stronger and more urgent because of the very weak performance of the economy in 2009, continuing decline in 2010 and the prospect of a resumption of moderate growth in 2011.