



PROPOSED DECISION ON THE PUBLIC SERVICE  
OBLIGATION LEVY 2010/2011 (CER/10/086)

AIRTRICITY RESPONSE TO  
COMMISSION FOR ENERGY REGULATION

JUNE 2010

## GENERAL COMMENTS

We welcome the opportunity to comment on the Proposed Decision on the Public Service Obligation Levy for 2010/2011 (CER/10/086), and would ask that the Commission take the following comments/response into account before making its final decision on the proposed PSO Levy for 2010/2011.

At the outset we would like to highlight that increases in the pass through components of retail tariffs affect the competitiveness of independent supply companies, and also increase the total end cost of electricity for customers.

Customers, in general, prefer to be able to clearly see what discount they will receive by switching to an alternative supplier.

The higher the percentage of pass through costs the harder it is for independent suppliers to differentiate their product offering from that of other suppliers, it makes it harder for these suppliers to 'sell' a meaningful discount to potential customers.

A high level of pass through charges also limits the ability of customers to fully assess the affect a change in their consumption will have on their final bill. This essentially means that the discount offered to customers is diluted by the fixed costs which are pass-through payments. This dilution can cause 'hassle factor' for customers and result in a reluctance to change supplier.

The large PSO increase proposed for the 2010/11 tariff year, will result in a significant increase in the level of pass-through costs for customers, in essence customers will see an increase in the cost of electricity from their supplier. From our estimates the proposed PSO levy is likely to result in domestic customers seeing an increase in the range of 5% - 6% on their electricity bill. Furthermore it should be noted that for larger commercial customers this increase could cost between tens of thousands and hundreds of thousands of Euro.

Given the level of PSO charges proposed and the impact this will have on end prices for customers we believe that it is essential that the CER provide a greater breakdown of the costs included in calculating the 2010/11 PSO levy.

While we understand that the PSO levy is of a statutory nature, we do not believe that this should preclude the CER from providing the consumer with the necessary level of detail to justify the proposed charges.

Fluctuations in energy prices over the past number of years are a key concern to all energy consumers in Ireland, as they impact on the rate of inflation and competitiveness. Understanding the key contributing factors and the precise impacts of energy price changes are key ingredients to developing appropriate, sensible and measured responses from businesses, householders and policy makers.

The information and level of detail that is provided in the current consultation is inadequate. If customers are being asked to pay ~€195m we believe that they should be given a clear and unambiguous understanding of what is driving this cost.

## PSO COMPONENTS

We would ask for more explicit clarification from the CER in relation to the costs included in the 2010/11 PSO calculation, in particular:

- 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 Power Gen plants are much larger than those of the Edenderry plant. The difference in generation capacity associated with the ESB PG peat plants does not account for the sizable gap between the costs for the plants. Given the sizeable level of costs associated with these plants the CER need to provide further detail and justification for these costs.

In particular we would ask the CER to explain why the ESB peat plants are not receiving adequate revenue from the SEM market.

- Do these plants have higher running costs than the Edenderry one?
  - Have they not run as regularly? Our understanding is that these plants are all priority dispatch and as such should be run unless out on maintenance.
  - Are they scheduled for large periods of outage? And if so are they recouping monies from the PSO during this time?
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- PSO-related Contracts for Differences (PSO CfDs): This seems to be a new addition to the PSO levy for 2010/11 and we believe that more detail needs to be provided. From the level of detail that is currently provided it is difficult to ascertain where this PSO component comes from.

We believe the CER should provide additional justification on this PSO component and should highlight in the consultation the relevant documentation to enable respondents understand the basis for this PSO component.

- In relation to the r-factor, while the total value of the r-factor is only ~10% of the final PSO charge we would ask that the CER give a more detailed breakdown of these costs. For example:

- Why did the peat plants referenced have a lower than expected income? Were running costs higher than expected? Did they not run as forecasted?
- What is the capital costs associated with the peaking plants?

The way in which the r-factor is currently presented does not enable commentators to provide any useful comments to the consultation.

- In section 3.0 of the consultation paper the CER give the costs that are proposed to be included in the 2010/11 PSO. There is however no explanation given to as how these costs have being calculated, or for example why they have changed relative to those proposed last year.

It is impossible for respondents to the consultation to provide any constructive comment on these costs until this detail is provided. At a minimum the CER should provide:

- The relative change in these costs.
- The reasoning & justification for any change.

As it currently stands the information and level of detail that is provided is inadequate. As stated previously if customers are being asked to pay ~€195m they should be given a clear and unambiguous understanding of what is driving this cost.

## CONCLUSION

Large increases in pass-through charges, that are not adequately explained, do not lend themselves to a transparent, open and fair market.

Energy prices are a key concern to all energy consumers in Ireland. Understanding the key contributing factors and the precise impacts of energy price changes are key ingredients to developing appropriate, sensible and measured responses from businesses, householders and policy makers.

We believe that the CER need to explain all of the PSO components in greater detail before making a final decision on the PSO charges for 2010/11.

We would be happy to meet with the CER at any stage should they wish to discuss any of the above comments further.