Joint Response by Forfás/IDA Ireland/ Enterprise Ireland on the Public Service Obligation Levy 2010/2011

June 2010

Forfás is Ireland's national policy advisory body for enterprise and science. The development agencies, Forfás, IDA Ireland and Enterprise Ireland, represent the interests of the internationally trading business sector in Ireland. The reported exports of all agency-assisted firms accounted for 79 percent of total Irish exports in 2008. Total employment in agency-assisted companies operating in the manufacturing or internationally traded services sectors amounted to 285,474 in 2009.

The enterprise development agencies, Forfás, IDA Ireland and Enterprise Ireland, welcome the opportunity to input to the consultation on the Public Service Obligation levy to apply to all electricity customers from 1st October 2010 to 30th September 2011.

A reliable and competitively priced supply of energy is vital for business and its ability to compete successfully in international markets. From a national competitiveness perspective, the challenge facing Ireland is to reduce energy costs while delivering on our security of supply and environmental sustainability objectives.

For the 2010/2011 electricity tariff year the PSO levy is forecast to amount to €194.6million. As highlighted by the CER, this is a very substantive increase on recent years when the levy was running at, or close to, zero (in 2009 this was largely due to a once off offsetting measure). The proposed PSO levy is likely to result in a relatively small increase in electricity bills (around three to five per cent). However, the CER will be reviewing other components of the price of electricity over the coming months. The development agencies are concerned that the cumulative effect of these reviews will lead to a significant reduction in the improvements made in 2009, thus making Ireland less competitive.

The cost of industrial electricity in Ireland decreased by 24 per cent for large users in 2009 and by 17 per cent for SMEs. While this was the largest decline in the euro area for both categories, Ireland remains more expensive than the euro area average and is the ninth most expensive in the EU-27 in terms of electricity costs for large users and the sixth most expensive for SMEs. The recent decline in Irish industrial electricity prices is largely due to the steep fall in global fuel prices (gas, oil and coal) and temporary reductions in electricity prices for large energy users[1]. While these improvements in cost competitiveness are very welcome, continuing progress on longer term structural changes are essential if improvements in energy cost competitiveness are to be sustained.

The development agencies agree that it is critical that the appropriate supports are in place to promote and develop emerging energy technologies. However, energy is an important input to the entire enterprise base; therefore, we need to find a way to support the development of the renewable energy sector without adversely affecting the competitiveness of the wider enterprise base and Ireland's attractiveness as a location to do business.

Electricity generated from renewable sources receives a guaranteed price over a 15 year period. REFIT helps to reduce Ireland's dependency on imported fuel and help Ireland to meet its renewables and climate change targets. However, as the guaranteed price (€66-€69 per megawatt hour for onshore wind) is greater than the wholesale price of electricity (€54.88) forecast by the CER for 2010-2011, all electricity customers are required to pay a subsidy through the Public Service Obligation (PSO). This increases the cost of electricity for all users in the 2010-2011 period.

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1 In 2008, the CER announced a rebate of €315 million (funded by ESB from its carbon windfall gain) to mitigate the impact of the very high global fossil fuels prices at that time for all users. Further temporary reductions for large users were put in place in 2009 – these are to be phased out by the end of 2012.

The development agencies are concerned about the long term implications for energy cost competitiveness of fixed price supports, particularly for more mature technologies like onshore wind, which already accounts for more than one tenth of our electricity generation. While the estimated cost of the onshore wind price supports in 2010/2011 is €60.6 million, as the deployment of onshore wind and other renewable technologies is increased to meet the 2020 target of 40 per cent, the cost of these price support schemes is likely to rise substantially in future.

The development agencies are strongly of the view that price support mechanisms for renewable energy should be transitional (i.e. phased out over time) and should be changed from a guaranteed price per megawatt hour to a premium on the wholesale price, subject to a cap on the level of the premium. While price supports are a matter for the Department of Communications, Energy and Natural Resources, the development agencies believe that the CER has scope to improve the transparency of the PSO process by providing guidance on how much the components of the levy add to the average cost of electricity for different categories of consumers.

The development agencies contend that scope exists to enhance the effectiveness of Ireland's support mechanisms to facilitate the development of a competitive renewables market and improve Ireland's cost competitiveness by periodically reviewing the level of support and allowing for progressive reduction of supports as technologies mature.

Ireland also subsidises energy generation from sources peat which has a high carbon intensity – thus offsetting positive environmental benefits from renewable sources. The cost of subsidising the three peat plants (€89.5 million in 2010/2011) is substantial. The development agencies do not believe that these subsidies represent good value for electricity consumers. There is merit in phasing out the subsidies due to the implications for electricity prices and carbon emissions, especially now that the amount of spare electricity capacity has increased significantly.

In conclusion, the development agencies believe that while price supports play an important role in incentivising investment in renewable generation to meet the 2020 target and creating green jobs, the implications for our energy cost competitiveness and the knock on effect on employment in the wider economy must also be considered.