

James Mc Sherry
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Date: 23 June 2011

Re: Public Service Obligation (PSO) Levy 2010/2011 – Proposed Decision Paper
(CER/11/097)

Dear James

The IBEC Large Energy Users Working Group (LEUWG) welcomes the opportunity to comment on the above proposal issued on the 3 June 2011. The LEUWG provide a collective voice for the main industrial energy consumers for whom competitive energy is essential. Business consumers account for over 60% of the total consumption in the Irish electricity retail market and Large Energy Users account for over 25% of the total consumption in the Irish electricity retail market.

Following consideration, the LEUWG would like to make the following comments about the proposal and requests that the CER consider this response before making its final decision on the matter.

In the current regulatory and economic context, the LEUWG are very concerned about the timing, level and competitive impact of the proposed charge for medium/large sites from the 1 October 2011.

It is acknowledged that medium and large business consumers benefited from electricity prices that fell below the EU average in the 1st semester of 2010¹. This was due to commodity prices movements and consumer rebates.

While this relative improvement is welcome it is by no means guaranteed to be sustained, with some market commentators indicating higher gas and electricity prices in Q4, 2011². Energy remains a challenging issue in restoring our international competitiveness, securing inward investment and protecting existing jobs. The real impact on the Irish electricity market will come if customers cannot be retained in the market and suppliers are then faced with a reduced industrial customer base.

In our analysis of the PSO elements, the proposal indicates a 19% year on year increase in the benchmark price³. The increase is reflected in a lowering of the PSO levy (Table 1).

¹ Sustainable Energy Ireland (SEAI) (December, 2010) –Electricity & Gas Prices in Ireland, 1st Semester (January-June) 2010. The latest Eurostat data remains positive for the 2nd Semester, 2010 but indicates a slight deterioration on the first half of 2010.

² Recent buoyancy in energy commodities: <http://www.bordgaisenergy.ie/energyindex/>

³ Forecast SEM market price in the forthcoming PSO period

Table 1: PSO Elements 2005-2012 (Ignoring R-factors)

Year	2005	2006	2007	2008	2009	2010	2011	2012?
Benchmark Price (€ per MWh)	€53.60	€66.10	€86.40	€66.52	€112.25	€52.00	€60.84	€72.46
AER & Refit (€ Million)	€12.36	€0.21	-€29.85	-€0.43	-€33.98	€64.07	€43.20	€35.70
Carbon Price (€ per tonne)		€13.37	€17.02	€19.48	€26.07	€13.71		
REFIT only (€ Million)					€24.24	€39.78	€29.70	€35.20
Levy for Med./Large site (€/kVA)	€13.42	€5.26	€0.00	€0.00	€0.00	€0.00	€13.82	€7.73

For clarity, we would welcome clarification of why REFIT should not decrease further, given a significant move in the benchmark price back up to 2007 levels.

The absence of any outcome from a promised DCENR review is noted in the consultation paper. REFIT costs face a proposed 18% increase. Given the expected increase in renewable penetration, including premium rate renewables, towards 2020, what does the Regulator expect for future PSO levels and retail prices? In the interests of equity, the LEUWG would welcome the opportunity to discuss the level and allocation of these costs. For example, carbon tax revenue could be used to offset the costs of the PSO levy for consumers.

Business need certainty and welcomes regulation and policy that reflect this aim. Our members are struggling to understand the implications of this proposed decision on their overall retail price.

A rebate comprising of: '0.8687 cent/kWh and 55.43 cent/kVA per annum for the period 1st October 2010 to 30th September 2011 was provided in 2010 for Large Energy Users⁴. It is intended that this rebate scheme will be gradually phased out⁵. In short, LEUs have a temporary rebate that will be progressively reduced. However it is unclear at the time of writing as to what the level of the rebate is for LEUs in 2011/12 or the extent to which it may offset the proposed PSO charge for 2010/11. In a wider context of: demand destruction, the significant deployment of renewable energy and the proposed €4 billion expenditure on network development towards 2020, the LEUWG would welcome some certainty on the implications of all these proposals for retail prices in 2011/12. Our fear is that Irish industrial electricity prices may return to an unsustainable, uncompetitive level in the international league table with adverse consequences for employment.

Notwithstanding the significant competitiveness issue, from a business perspective the somewhat disjointed nature of CER's various cost consultations creates uncertainty for businesses in trying to understand the evolution of their retail costs. The LEUWG would welcome the opportunity to engage both the CER and DCENR directly on these points to explain the implications of cost on LEUs and gain an earlier understanding of the evolving retail price for our members in 2011/12.

We hope that these comments prove constructive in reaching your decision and would welcome the opportunity to meet you. If you have any queries, please do not hesitate to contact my colleague, Erik O'Donovan, secretariat of the group, email: erik.odonovan@ibec.ie

Kind regards

Tadg Farrell
Chairman, IBEC Large Energy Users WG
(By email)

⁴ CER/10/155

⁵ CER/09/117