

John Lynch
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Date: 27 June 2012

Re: Public Service Obligation (PSO) Levy 2010/2011 – Proposed Decision Paper (CER/12/080)

Dear John

The IBEC Large Energy Users Working Group (LEUWG) welcomes the opportunity to comment on the above proposal issued on the 15 June 2012. 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 2012. Some members may face increases of €900,000 p.a. in PSO charges.

Ireland has generally improved its relative competitiveness ranking in terms of business electricity costs in EU27 and Norway between 2007 and the end of 2011. However 2011 saw rises for all business consumers, primarily due to commodity prices and currency movements. While relative improvements are welcome it is by no means guaranteed to be sustained (**see Appendix 1**). 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 an 11% year on year decrease in the benchmark price¹. The benchmark price decrease is reflected in a proposed increase of the total PSO levy, for the period October 2012 – September 2011, to €146.81 M i.e. a €54.7 M or 59% increase on the current tariff period (see Table 1 on changes to PSO elements).

¹ Forecast SEM market price in the forthcoming PSO period

Table 1: PSO Elements 2005-2013 (Ignoring R-factors)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013?	% Difference, 2012 and 2013
Benchmark Price (€ per MWh)	€53.60	€66.10	€86.40	€66.52	€112.25	€52.00	€60.84	€72.72	€64.41	-11%
AER & Refit (€ Million)	€12.36	€0.21	-€29.85	-€0.43	-€33.98	€64.07	€43.20	€36.45	€54.33	49%
Carbon Price (€ per tonne)		€13.37	€17.02	€19.48	€26.07	€13.71				
REFIT only (€ Million)					€24.24	€39.78	€29.70	€35.78	€46.33	29%
Lewy for Med./Large site (€/kVA)	€13.42	€5.26	€0.00	€0.00	€0.00	€0.00	€13.82	€8.58	€13.47	57%

We would welcome clarification from the Regulator on how this proposed increase to the PSO is modelled. We would welcome a breakdown of the components that make up the proposed increase, see **Appendix 2**.

It is noted that the outcome of the DCENR review mentioned in last year's PSO review (CER/11/130) is not mentioned in CER/12/080.

REFIT costs face a proposed 29% increase in 2013. 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. In a wider context of: demand destruction, the significant deployment of renewable energy and the proposed €3 billion expenditure on network development towards 2020, the LEUWG would welcome some certainty on the implications of all these proposals for retail prices in 2012/13. Our concern 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 2012/13.

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)

Appendix 1: Electricity Cost Movements for Business

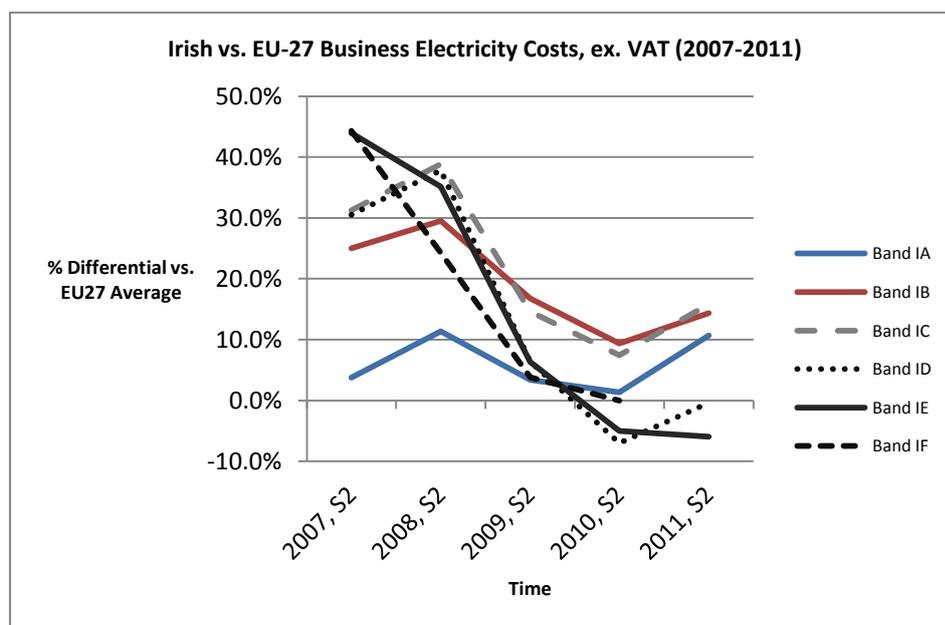
Irish business electricity costs in the period Semester 2 (S2), 2007 – S2, 2011

Consumption Band	% Market Share of Consumption Bands (SEAI, 2011)	Irish Business Electricity Costs S2, 2011 (ex. VAT, €/kWh. S2 = period July-Dec)	% Change in Business Costs in S2, 2011 relative to the:			Ranking in EU-27 & Norway (where 1 = most expensive):				Ireland's position relative to EU-27 (%)			
			Prev. Yr. (2011S2 vs 2010S2)	Prev. 2Yr. (2011S2 vs 2009S2)	Prev. 4Yr. (2011S2 vs 2007S2)	Latest data, 2011, S2	Prev. Yr. 2010, S2	Prev. 2Yr. 2009, S2	Prev. 4Yr. 2007, S2	Latest data, 2011, S2	Prev. Yr. 2010, S2	Prev. 2Yr. 2009, S2	Prev. 4Yr. 2007, S2
Band IA	5.3%	0.1983	13.2%	17.5%	28.5%	8	10	9	6	110.7%	101.3%	103.4%	103.8%
Band IB	31.3%	0.1506	11.1%	7.1%	8.7%	5	9	6	2	114.4%	109.4%	116.8%	125.0%
Band IC	15.5%	0.1294	14.4%	10.1%	4.8%	4	6	6	2	115.8%	107.4%	114.6%	131.2%
Band ID	30.0%	0.0977	12.8%	0.6%	-10.0%	9	15	9	2	99.6%	93.0%	106.4%	130.5%
Band IE	11.5%	0.0856	7.1%	-3.6%	-21.8%	11	13	9	2	94.1%	95.0%	106.3%	143.9%
Band IF	6.6%	:						11	2			103.8%	144.3%

Where:

Band IA : Consumption < 20 MWh
 Band IB : 20 MWh < Consumption < 500 MWh
 Band IC : 500 MWh < Consumption < 2 000 MWh
 Band ID : 2 000 MWh < Consumption < 20 000 MWh
 Band IE : 20 000 MWh < Consumption < 70 000 MWh
 Band IF : 70 000 MWh < Consumption < 150 000 MWh

[Source: LEUWG Analysis of Eurostat Data, May 2012]



[Source: LEUWG Analysis of Eurostat Data, May 2012]

Electricity costs, excluding VAT, for all business consumers fell between 2008 and 2010. Prices were close to or below the EU27 and Euro area average for medium to large consumers (above 2,000 MWh/annum i.e. Bands ID, IE and IF) at the end of 2011. This trend may be attributable to fuel prices movements, a necessary rebalancing of network costs, increased competition, and consumer rebates over the period. Prices for all business consumers rose between S2, 2010 and S2, 2011. This is reflective of recent gas price movements, currency movements and certain regulatory decisions.

Appendix 2 Apportioning the proposed increase in PSO in October 2012-September 2013

See Diagram 1 below. LEUs would welcome clarification on how the proposed extra €54.7 M in the period October 2012 – September 2013 is apportioned by the CER i.e. how much of the proposed increase is due to:

- Extra capacity requiring support, assuming no expected change in merit order effect and no expected change in gas price?
- An expected change in gas price, assuming no change in merit order effect and no expected change in capacity requiring support?
- A combination of an expected change in gas price and capacity?
- Extra capacity requiring support that results in a different marginal plant setting the price in the SEM, increasing efficiency and decreasing the benchmark price further than it would?

Where:

BM = Benchmark price in a particular year;

Q = PSO in the period October 2011 - September 2012 = €92 M and

Proposed PSO October 2012 - September 2013 = €146 M = Q+A+B+C+D

Diagram 1: What are the elements in the PSO increase, Oct. 2012 - Sept. 2013?

