

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

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Public Service Obligation Levy 2014/15

Dear John,

On behalf of Ibec's Energy Policy Committee, I would like to thank you for this opportunity to respond to Proposed Decision Paper CER/14/125. Our submission focuses on the fairness of the methodology and on the economic impact of this proposed decision for Irish businesses, particularly large energy users. Although the Paper contains a detailed explanation of the amount of money that needs to be collected through the PSO next year, it sheds very little light on how and why the burden is to be shared out amongst different user profiles. We appreciate that the CER has limited discretion in how it calculates the levy amount, but we would like to draw attention to a growing inequity in the allocation of the levy across the three profiles of end-users. Our own analysis indicates a **66%** increase for small businesses and **81%** for large industry, compared to just **47%** for domestic users.

Eurostat data for the second semester of 2013 confirms that large energy users in Ireland are already subject to some of the highest retail electricity prices in the European Union. The proposed allocation of next year's PSO costs seems unduly weighted against these businesses, and it will further hinder their ability to compete effectively in international markets. As a consequence, Irish manufacturing jobs may be put at risk. Although the huge size of the proposed levy increase is partly due to a forecasted fall in the wholesale price of electricity, competing firms in other EU markets are likely to enjoy similar reductions in wholesale costs without facing any corresponding increase in PSO burden.

We understand that PSO costs are supposed to be allocated pro-rata to peak capacity. However, as Table 1 overleaf shows, business users can expect to bear a substantially higher share of the total cost burden in 2014/15 than at present. This seems to be driven by questionable forecasts about the average peak capacity within each user profile.

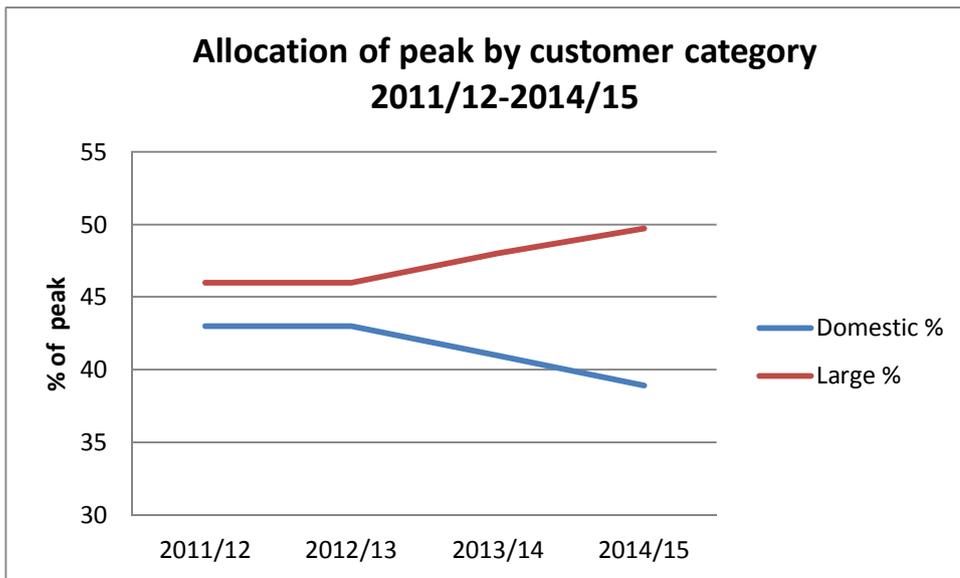
- Compared to the allocation of 2013/2014 PSO costs, there is a reduction in peak capacity of 6.6% in the domestic profile, despite there being virtually no change in customer numbers.
- Conversely, there is a 3.8% *increase* in peak capacity for the small and medium business profile, despite a 2% *reduction* in customer numbers.

Apparently, the average domestic user is forecasted to use rather less power than at present, while the average small business user is expected to use rather more. If this is true, it signals a fundamental shift in Ireland's electricity demand. In the absence of the relevant information in the paper, we must question whether the two forecasts are based on consistent assumptions and methodology.

Table 1. Year-on-year change in expected peak capacity

	2013/14	2014/15	% change in peak capacity	% change in customer numbers
Domestic kVA	2,376,069	2,219,108	-6.6%	-0.2%
SME kVA	626,537	650,286	3.8%	-2.0%
Large Profile kVA	2,763,314	2,833,319	2.5%	na
TOTAL	5,765,920	5,702,713	-1.1%	

Moreover, as shown in the following chart, this is the second year running that the CER's proposed decision has assumed a substantial change in the percentage shares of peak capacity across customer groups. It has the unfortunate effect of shifting an ever-greater proportion of PSO costs from domestic users onto large business users. We would question whether it is a true and fair reflection of what is happening in the energy market.



As a precaution, the CER should now re-adjust the deemed percentage shares of peak capacity, bringing them closer into line with those pertaining in 2012. This would bring a welcome mitigation of the sharp levy increase faced by hard-pressed businesses next year.

Yours sincerely,

Neil Walker

Neil Walker
 Head of Infrastructure, Energy and Environment