

Mr. John Lynch
Commission for Energy Regulation
The Exchange,
Belgard Square North,
Dublin 24.

July 3rd, 2014.

Dear Mr. Lynch,

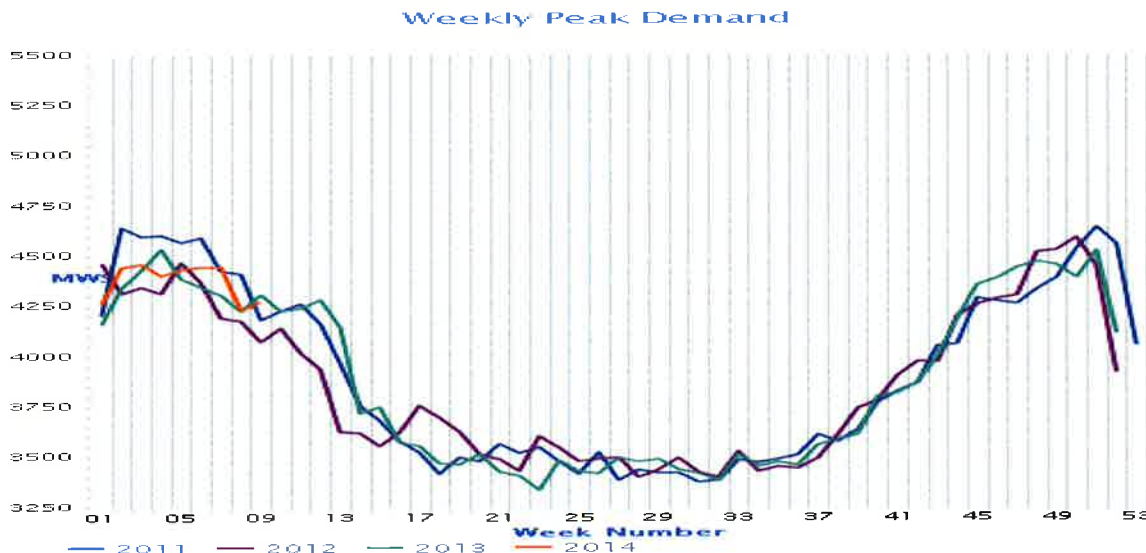
Re: Public Service Obligation Levy (PSO) 2014/2015

With reference to the PSO Levy consultation document published Friday evening June 6th last, but not accessible on the CER / Regulators website until the following Monday morning.

While it is recognised that the Regulator is required to calculate the annual PSO levy, the calculation provides the only annual opportunity, other than to engage with the Government directly, to challenge the Government on its intent in the use of this levy.

The calculation of the PSO should not be accepted as a formulaic annual exercise (plus mistakes) to arrive at a PSO figure for the coming year that meets the Governments wider energy policy needs but must be challenged.

Total electricity generation capacity is currently in excess of 8,500 mega watts. The following graph indicates our maximum peak demand in the order of 4,650 mega watts (record peak demand of 5,090 mega watts – December 21, 2010).



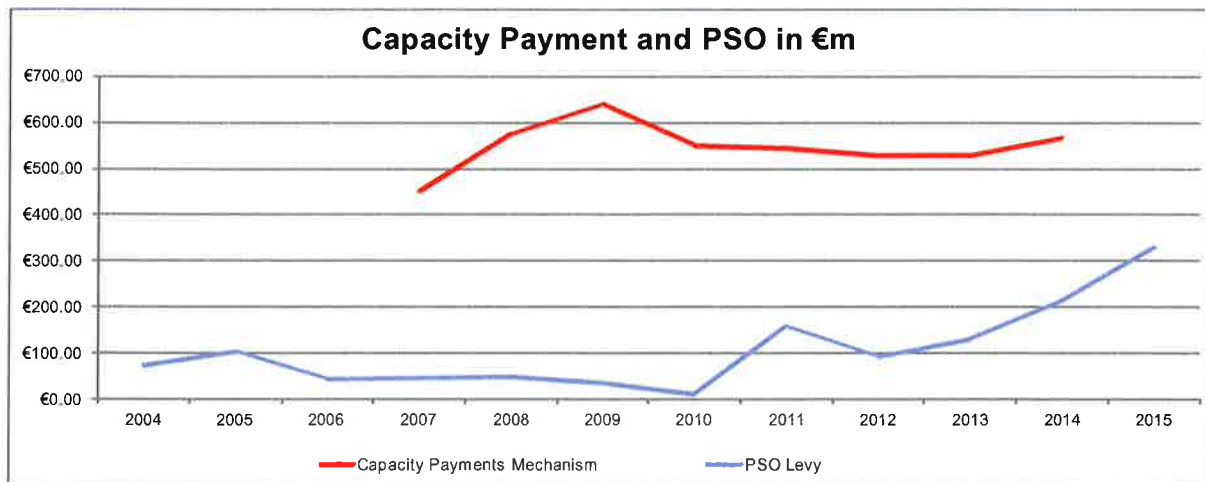
As a customer we would like to know why the Government and bound to this decision the Regulator, see it necessary to support this surplus supply made up of old plant (unreliable) wind generation (weather dependent) and costly low running time plant which is not needed in the current electricity market.

It is not sufficient to say that because wholesale electricity prices are forecast to go lower, an assumption that we would take issue with (we could cynically say not least because increasing PSO and Capacity payments will not allow that to happen).

There is no demand side pressure in the immediate future. If the Government wishes to pursue a politically driven support, for whatever reason, for certain sections of the electricity supply market then this support money should be found from elsewhere in the Government coffers. It is not sufficient to encourage open competition in our electricity market only then to step back in and sub-vent or support the 'weaker' contributors to the supply side equation.

In your Executive summary the justifications offered with regard to increased subvention of Tynagh is that more wind generation reduces the plants revenue generating ability from the SEM while at the same time the PSO increases will be used to support more wind generation. Are we missing something here?

The following graph shows how much money has been collected from the customer since PSO and the Capacity payment mechanism were introduced.



In total €5.3b was collected to December 31, 2013 since the introduction of these two levies. This consultation document proposes to once again levy the hard-pressed customer with a further €328m for the coming year.

Can we say that market deregulation has been a success – limited when true competition is inhibited by Government backed support on the supply side.

Can we say that there is cohesive thought when it comes to Irish Energy policy – not when we keep pointing to gas as an excuse and wind as our saviour.

Can we say that the customer has received value for money over the last 8 years with their €5.3b of contributions (not to mention Tuos / Duos and imperfection charges) – one new interconnector (partly paid for by the EU) – increasing unreliable wind on the grid and not much else other than 'security of supply' when security of supply has not been an issue.

It is timely that the Government has just published its Green consultation Paper on Energy Policy in Ireland. It is most certainly time to formulate a believable vision for Irish Energy on the Island of Ireland but also in a regionalised European context. It is vital that electricity spend in Ireland is transparent, that the Customer can see what they are paying for and that the Regulatory arm of the State is giving the Customer comfort that spend is demand and cost justified.

It is also time for the various agencies or utilities involved in electricity/energy supply in Ireland are seen to pull together for the benefit of the customer. The market exists (and future markets will exist) only because of the customer.

This proposed increase in the PSO levy is surrounded by no comfort at all to the Customer that the increase is warranted, that the monies will be used wisely for the Customers benefit and that it will in time contribute to a more robust Irish electricity market that is neither gas or wind dependent but will deliver a mix of sources that are balanced and self balancing.

For commercial consumers it is particularly difficult to think that as your company works to remain competitive, retain jobs, contribute to the Irish economy and its recovery, not to mention aspirations to grow and create more employment opportunities, that a formula driven exercise, not looking at the reality on the ground, will levy the Irish electricity consumer with a 55% increase in PSO and in the case of certain large energy consumers up to 80% increase.

This is not right and it is certainly not justified.

For Boliden Tara Mines Limited the proposed increase in PSO for 2014/15 will, with the stroke of a pen, add €462,000 to our electricity bill, bringing our proposed total PSO levy for 2014/15 to €1,034,160.

Can we say that Irish electricity prices are competitive with the rest of Europe – a firm NO.

*"Electricity costs in Ireland are relatively high – Ireland is the 5th and 6th most expensive location in the euro area 17 for SMEs and large users respectively. Gas prices in the US are substantially lower than in the EU."
National Competitiveness Council.*

If it were said that the PSO levy increase would be used to rationalise the supply side giving value for money and security of supply that was understood and supported by the customer then the increase in part could be justified.

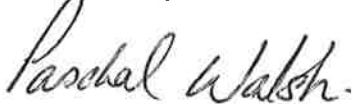
If it was shown with examples that every other option had been considered before it was felt necessary to once again turn to the customer when a hole appeared in the electricity market balance sheet then this again might, in part might also be understood.

But what is not accepted or understood is that because you can you should.

The application of the PSO levy in this manner is anti-competitive and does not allow the movement in electricity prices, mainly gas price driven, to naturally flow to and from the customer. This proposed increase in the PSO Levy is not understood or justified. It will maintain Irish electricity costs at some of the highest levels in Europe. It will damage our competitiveness and will rather than sustain and support the creation of jobs, will lead to job losses.

This increase, if it goes ahead, is yet another significant impediment in a weak Economy's attempt to get back on its feet.

Yours faithfully,



For and on behalf of
Boliden Tara Mines Limited