CSNA Submission to CER – PSO Levy 2016/2017

Ref: CER/16/152

From the outset, may we once again make our views known about this "consultation process". It is a box-ticking exercise, designed to appease but not engage.

Last year, the process revolved around a proposal to fix new rates based upon a €304.8m shortfall. When the decision paper was produced, this shortfall was set at €325.3m, or 6.73% **higher** than indicated. The rates determined were also higher than those proposed a few months previously.

	Proposed	Actual	
Domestic	€4.71	€5.01	+6.37%
Small	€16.75	€17.88	+6.75%
Medium/Large	€2.58	€2.76	+7.00%

The original proposal would have seen reductions from the 2014/15 levy.

	2014/15 Actual	2015/16 Proposed	2015/16 Decision
Domestic	€5.36	€4.71 (12.11%)	€5.01 (6.53%)
Small	€18.47	€16.75 (9.31%)	€17.88 (3.19%)
Medium/Large	€2.85	€2.58 (9.47%)	€2.76(3.16%)

What this meant was that CER were suggesting savings of PSO levies for businesses (small, medium/large) in the order of 9.3% - 9.5% in June but when the decision was made, these savings had been reduced by 2/3rds down to 3.2%.

It's possible that a number of electricity purchasers, on learning that the PSO levy was being reduced by 9% may have formed an opinion that such a reduction was welcome and not subject to negative commentary whereas were the **real** reduction to have been known, they may have been less sanguine.

In our submission last year, we complained that domestic customers were continuously treated differently and deferentially in comparison to business customers, even though the principle of paying into a levy fund should be based on shared obligation.

Last year, both the proposed and actual savings for the domestic user was substantially higher than those of the business customers.

The original proposed savings were in excess of 12% (business 9%), and the actual (decision) savings were 6.5% (business 3.2%).

If the required "extra" €20.5m shortfall is seen as a 6.73% increase on the original proposed shortfall, then why was this 6.73% not approved evenly across the 3 customer models?

Instead, domestic had 6.37% extra and medium/large had 7.00% with only the Small Business maintaining the average 6.7%?

Once again we need to return to the central and core complaint that CSNA has with the PSO Levy, it is the methodology by which it is calculated is patently wrong and unfair, especially to small and medium sized businesses who find themselves paying for a notional **capacity** to use electricity rather than by way of consumption. This is due to the calculations being done on the basis of Maximum Input Capacity (MIC), not **consumption** of actual energy.

Viewing CER responses to previous criticism and observations on their (CER) role in setting the PSO levy, it is clear that they have the ideal bureaucratic answer as can be seen in the following 2014 responses "the CER has no discretion in relation to the PSO's schemes or their terms and conditions".

"The PSO is Government policy, with the various PSO subsidy schemes controlled by Government, not the CER".

"The CER has no discretion in relation to the terms of these schemes and it may only follow what is set in legislation".

Whilst CSNA will go through the motions of providing to CER our observations on the 2016/2017 PSO Levy, we are fully aware that we are wasting our time, given the ample time that CER have had to seek amendments to the legislation that they are very aware off as being contentious, unfair and discriminating.

CSNA does not believe that the separation of the 3 different customer bases is fair.

We cannot accept that Domestic, Small and Medium/Large customers should have different methodologies applied for what is essentially the same process – the funding of sustainable energy.

We further believe that using the <30 KVA, >30 KVA MIC is manifestly unfair to customers currently levied as being within the Medium/Large category. How anybody can believe that a small rural grocery outlet with an MIC of 31 should have PSO Levy applied at the same rate as a large customer with an MIC of 500?

We would demand that CER request a body such as the National Standards Authority of Ireland to ascertain the extent of inequality that is being visited upon the real SME sector, as clearly the "electrical" assignation of small, medium and large is substantially at odds with both Irish Government and European Commission designation of such terms.

Reviewing the introduction of the amendments to the Sustainable Energy Bill in 2002, we note that the Minister of State, Mr. Jacob stated "the indicative amount to be recouped by way of levy for the PSO up to 2019 is €617 million. The overall level of PSO is likely to average 3%. PSO levy amounts may be approximately as follows; domestic account holders, €2 per 2 months, small non-domestic accounts, €7 per 2 months and €1.47 per KVA for medium & large account holders. (Oireachtas.ie 06/02/2002).

It should be noted that despite the assurances by Mr. Jacob that the **<u>total</u>** requirement up to **<u>2019</u>** would be €617m, to date 2010-2016, CER has approved increases of €1,252m, a figure that will increase to €1,531m if the 2016/2017 proposal for €1,252m is approved.

This is two and a half times **<u>more</u>** than the promised amount with 3 years of the PSO levy left to run.

The PSO levy on medium businesses **has** increased the cost of their electricity bills contrary to the promises made by Mr. Jacob. It is time that the Department, urged by CER, amended the current methodology in a fashion similar to our proposal.

The Allocation of the Proposed PSO Levy suggests that both Small and Medium non-domestic customers are treated in the same fashion, and that they are different from “large” customers. If one views the detail in Appendix A which clearly states “Small & Medium Profile”, the actual wording within the PSO Customer Category in Table 6 (Proposed PSO Levy 2015/2016 by Customer Category) has joined the “medium” and “large” customers together, and has a separate Customer category for “small” commercial customers.

The definition used to include or exclude customers’ from being considered small (or even Medium as considered via the Proposed Allocation Appendix) is those that have a maximum import capacity (MIC) of less than 30KVA.

To all interests and purposes MIC is not in itself a reliable standard by which calculations on PSO Levies should be made, given that it is **not** a measurement of electricity consumed. There are many instances where businesses with lower MIC ratings are consuming a greater amount of electricity than those with higher ratings. Similarly, MIC ratings may have been agreed by a previous occupant with a significantly greater need for power than the current account holder, but unless the new customer makes alterations to their electricity requirements that necessitates an electrical contractor, it is not likely that they will even be aware that their MIC rating may be in excess of their needs.

We are not sure as to the historic rationale behind making a lesser/greater than 30 KVA threshold but are certain that it was not intended to be used as a mode of discrimination between similar businesses.

S.I. No 445/2000 - European Communities (Internal Market in Electricity) Regulation, 2000 should be read in respect of this observation.

Section 23 of this S.I.,

Under the heading ‘Duty of non-discrimination by distribution system operator’ and similarly Section 11 regarding transmission system operators clearly states “in carrying out its functions, the distributor system operator shall not discriminate unfairly between persons or classes of persons, or between systems users or classes of system users, particularly in favour of its subsidiaries, associates or affiliated undertakings, joint ventures or shareholders”.

Whilst the reference to “subsidiaries, etc.” makes these classes to be named potentially affected parties, they are not the sole protected groups in this duty from distribution operators. We would submit that in carrying out its functions, the ratings/categories that are based upon +/- 30 KVA, when used by CER for the purpose of calculating PSO levies have the effect of discriminating unfairly between **competing** person and competing classes of person.

There can be no justification for the enormous "step" or gap between a commercial consumer with an MIC of 29 KVA and their competitor with a 30 KVA MIC rating. At 2016 proposed levels, the differential in monetary terms is €1070.52 annually.

The 29 KVA customer is due to pay a PSO levy at an annual rate per KVA of €9.64, yet the 30 KVA customer is paying a PSO levy of €45.00, or 467% more.

With regard to this year's proposals (and we must suggest that once bitten, twice shy), we will have to take them as nothing other than an indicative rate rather than a real one; the CER are proposing an outlandish increase in excess of 30% in the levies.

The domestic is to rise by 32.27%, small business by 30.29%, and medium/large by 35.61%.

	2015/16	2016/17	
Domestic	€5.01	€6.62	+32.27%
Small	€17.88	€23.29	+30.29%
Medium/Large	€2.76	€3.75	+35.61%

	Domestic	Small (<30 KVA)	Medium/Large (>30 KVA)
Oct 2007	-	-	-
Oct 2008	-	-	-
Oct 2009	-	-	-
Oct 2010	€2.73/€32.56	€8.25/€99.03	€1.15 KVA /€13.82 KVA
Oct 2011	€1.61/€19.33	€4.77/€57.22	€0.71 KVA /€8.58 KVA
Oct 2012	€2.32/€27.82	€7.14/€85.73	€0.99 KVA /€11.87 KVA
Oct 2013	€3.57/€42.82	€10.82/€129.83	€1.54 KVA /€18.47 KVA
Oct 2014	€5.36/€64.37	€18.47/€221.66	€2.85 KVA /€34.20 KVA
Oct 2015	€5.01/€60.09	€17.88/€214.50	€2.76KVA /€33.14 KVA
Oct 2016 (Proposed)	€6.62/€79.44	€23.29/€279.48	€3.75KVA /€34.20 KVA

		Domestic	29 KVA	30 KVA	Variation		
Annual Cost	2008	No Charge	No Charge	No Charge	-		
	2009	No Charge	No Charge	No Charge	-		
	2010	€32.56	€99.03	€414.60	€315.57		
	2011	€19.33	€57.22	€257.40	€200.18		
	2012	€27.82	€85.73	€356.10	€270.37		
	2013	€42.82	€129.83	€554.10	€424.27		
	2014	€64.37	€221.66	€1,026.00	€804.34		
	2015	€60.09	€214.50	€993.60	€779.10		
	2016(Proposed)	€79.44	€279.48	€1,350.00	€1,070.52	+€291.42	+37.40%

We would propose that **all** customers should have the same methodology (be that a fixed fee or per MIC KVA) applied when determining PSE levy obligation.

An alternative method (and possibly more easy to achieve) would be to acknowledge the distinction between Domestic and Small Accounts with MIC less than 30 KVA, as is the existing practice, but to also allow the Medium/Large Accounts be levied at the same fixed fee rate up to 29 KVA, and only per KVA on the balance of 30 KVA and over.

In such a situation, the following charge would apply.

Existing 2015/16 PSO Levy Small/Medium/Large Accounts				
KVA	**Monthly €17.88**	**Annual**	**Monthly KVA €2.76 Per KVA**	**Annual KVA**
25	€17.88	€214.50	-	-
27	€17.88	€214.50	-	-
28	€17.88	€214.50	-	-
29	€17.88	€214.50	-	-
30	-		€82.80	€993.60
32	-		€88.32	€1,059.84
35	-		€96.60	€1,159.20
38	-		€104.88	€1,258.56
45	-		€124.20	€1,490.40

CSNA Proposal					
			Excess (above 29KVA @ €2.85 per month)		
KVA	**Monthly KVA**	**Annual**	**Month**	**Annual**	**Total**
25	€17.88	€214.50	-	-	€221.66
27	€17.88	€214.50	-	-	€221.66
28	€17.88	€214.50	-	-	€221.66
29	€17.88	€214.50	-	-	€221.66
30	€17.88	€214.50	€2.76	€33.12	€247.62
32	€17.88	€214.50	€8.28	€99.36	€313.86
35	€17.88	€214.50	€16.56	€198.72	€413.22
38	€17.88	€214.50	€24.84	€298.08	€512.58

45	€17.88	€214.50	€44.16	€529.92	€744.42

We are very aware that the proposal would necessitate an increase in the contribution from all sectors (Domestic, Small and Medium/Large) but must suggest that in the existing structure, the real “pain” is being carried by those Medium customers with an MIC that is more than 30 KVA who are paying significantly more for their “share” of a PSO levy than either Domestic or Small, and are considered to have an equal “burden” as electricity customers that are “Large” and most certainly are able to negotiate better “per unit” costs form their chose supplier of electricity.

This most recent proposal by CER to increase the PSO levy to small and medium/large businesses by up to 35% over the 2015/2016 levy merits a very serious analysis given the very significant additional increase that such an increase will have on individual companies and the business sector as a whole. There is merit in requesting a full regulatory impact assessment to be completed by the Department as acknowledged costs to business are well above the “trigger” of €50m in a 10-year period that should require an R.I.A.