Submission by the Society of St. Vincent de Paul (SVP) to the Commission for Energy Regulation (CER) Proposed Decision Paper on the Public Service Obligation Levy (PSO) 2016/17

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Introduction

The Society of St. Vincent de Paul (SVP) welcomes the opportunity to respond to the CER consultation on the Proposed Decision Paper on the Public Service Obligation Levy (PSO) 2016/17. In 2014 we spent almost €9 million on assisting people and families with their fuel and energy costs; almost a quarter of the over €40 million assistance provided to households across Ireland that year. The overall amount of energy related assistance is decreasing from a high in 2012 and this is in part due to greater use of Pay As You Go / Pre-Payment meters among people we visit and assist (those meters incurring no extra charges), giving them greater control over their energy use. We work with households and the industry to find ways for households to gain greater control over their energy costs, through enhanced budgeting, advocating for better housing standards and the prevention of unnecessary energy costs. In this context, we have particular concerns about the regressive nature of the PSO levy and the direction that PSO charges are taking.

Lack of Public Awareness of the Public Service Obligation Levy

A little known tax will be recalculated in the coming months which will affect every household in the country over the coming year. The Public Service Obligation (PSO) levy which appears on a domestic electricity bill is estimated to increase by 32% to just under €80 per household. This is according to the latest consultation paper from CER, whose role is only to calculate the levy in accordance with Government policy. There are various purposes of the PSO and, while a long standing instrument of Government energy policy, remains to a great extent beyond the knowledge of the consumer. Nonetheless, at a time of continued financial pressure on many households, and given the social, media and political response to water charges and the impending waste charge increases, it is surprising that a flat-rate levy on every household that will raise €0.44bn to subsidise the energy industry continues to go unnoticed by media, civil society and policy makers outside the energy sector.

Government Policy Objectives of the Levy

The PSO levy is a subsidy charged to all electricity customers in Ireland. It was designed by the Irish Government to support its national policy objectives related to security of energy supply, renewable energy and indigenous fuels (peat). The PSO levy, when first launched, provided support to a number of new generating plants (Tynagh and Aughinish), peat plants and renewable energy due to supply concerns at that juncture. These contracts have a lifespan of some 10 years. Some of the required funding (subsidies) terminate in 2016. However new (renewable) schemes continue to be added subject to government and EU approval. At this stage, as security of supply and indigenous fuels recede in importance, some 75% of the proposed levy is funding renewables.

The Increasing Annual Charge of the Levy

The proposed levy of €440.9m for 2016/2017 represents an overall increase of ca. 36 % over the 2014/15 PSO period, when industrial and commercial customers are included. The biggest drivers for this are more renewable generation and lower wholesale electricity prices. Herein lies the irony for SVP: higher wholesale electricity prices can mean higher unit prices for customers as these are passed on; yet when wholesale electricity prices drop, customers pay anyway because the PSO plants need to be compensated for the lower money they are predicted to get from the market.

Increased Burden on Low Income Customers

In the context of lower wholesale prices, policy dictates that end customers including vulnerable end customers have to pay more to subsidise the energy market players and support renewable generation. The proposed PSO increases the levy for domestic customers by approximately 32% to just under €80 per customer. This is in the context of the fourfold increase from 2011-2012. The unintended consequence of this policy is that a levy (tax) to subsidise the operation of renewable generation sources (to compete with generation dependent on imported fuels and improve security of supply) is imposed on all domestic customers at a flat rate. This creates an increased burden on low income customers and those with a history of arrears and indeed multiple debts. To this extent, the PSO can be viewed as a regressive tax. While recent reductions in unit prices have been announced by the various utilities, with average household savings of ca. €50 p.a. quoted, these price drops seem modest given that that PSO will now increase by €23 p.a., including VAT if the draft CER recommendation is adopted. Furthermore, SVP notes that despite the levy already representing an additional tax on consumers they are also required to pay VAT on the levy, or, as such, a tax on a tax.

A Social Impact Assessment of the PSO Levy

Given the long run nature of the levy and the ending of contracts for security of supply and indeed peat plants (by 2019), the PSO levy is now becoming a renewables subsidy paid by all electricity customers regardless of their ability to pay. With pressure to deliver on renewables targets, the portfolio of approved schemes subsidised by the PSO is continuing to change, driving the overall magnitude of the levy. While the renewables agenda is a laudable aim - and SVP is committed to principles of sustainable development – the question is how low income energy consumers should pay for a regressive, and increasingly costly, measure. In the interests of social justice and fairness, we urge a review of the application of the PSO to low income and struggling energy customers – effectively a Social Impact Assessment of the levy. Some of the people and families we work with are also trying to deal with other issues such as increased rent levels which threaten the security of their tenancies and the management of their household budgets overall.