Lagan Cement
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Response to Proposed PSO Levy Increase 2014/2015.

For the attention of:

Mr John Lynch

The public service obligation levy is a subsidy charged to all electrical consumers in Ireland. It was designed by the Irish government to support its national policy objectives related to renewable energy (Mainly wind), indigenous fuels (peat) and security of energy supply.

This policy has now become a mill stone around the necks of Irish industry. It is threating many jobs across the economy and becoming a barrier to entry of new industries, data centres and the knowledge economy. Table 1 shows the year on year increase in the Levy.

Table 1.

Source / driver of annual PSO levy charges 2010-11 to 2014-15										
	2010/11 € million	2011/12 € million	Percentage increase	2012/13 € million	Percentage increase	2013/14 € million	Percentage increase	2014/15 € million	Percentage increase	4 year increase
Renewables	29.73	35.78	20.37%	47.46	32.62%	51.07	7.62%	87.80	71.92%	**295%**
AERs	13.50	0.67	-95.07%	7.13		-7.98				
Peat	78.20	40.61	-48.07%	51.94	27.91%	74.86	44.13%	114.70	53.22%	**147%**
Tynagh / Aughinish	14.00	30.75	119.64%	25.45	-17.22%	48.17	89.26%	107.90	123.99%	**771%**
PSO CfDs	-0.52			0.00		0.00		5.60		
Other costs	21.73	-15.68	-172.17%	-0.74	-95.29%	44.81		11.60	-74.11%	**53%**
Total annual levy & year on year change	**156.63**	**92.12**	**-41.18%**	**131.24**	**42.46%**	**210.93**	**60.72%**	**327.60**	**55.31%**	**209%**

The levy has increase 209% over the last four years. Table 2 is the contribution to the fund by category.

Monthly charges (Monthly standing charge for domestic and small commercial users. Charge per kVA of MIC per month for medium and large users)										
	2010/11 Monthly rate	2011/12 Monthly rate	Percentage increase	2012/13 Monthly rate	Percentage increase	2013/14 Monthly rate	Percentage increase	2014/15 Monthly rate	Percentage increase	**4 year increase**
Domestic Customers	€ 2.73	€ 1.61	-41.03%	€ 2.32	44.10%	€ 3.57	53.88%	€ 5.25	47.06%	**192%**
Small commercial (MIC less than 30 kVA)	€ 8.25	€ 4.77	-42.18%	€ 7.14	49.69%	€ 10.82	51.54%	€ 18.00	66.36%	**218%**
Medium and large energy users	€ 1.15	€ 0.71	-38.26%	€ 0.99	39.44%	€ 1.54	55.56%	€ 2.78	**80.52%**	**242%**

Large energy users are bearing the brunt of the costs of the levy. In 2014/2015 large energy users contribution to the fund will rise by no less than 80.52%. On a four year look back when the country was in its greatest recession ever large energy users contribution to the fund rose by no less than 242%. In the same period domestic and industrial contribution to the fund rose by 192% and 218% respectively. In 2010/2011 the fund stood at €156 million. It is now a staggering €327 million. In just four short years the fund has risen by 209%, an astronomical rise by any standards.

Where is the fund used?

Wind energy section has had its subsidies increased from €29.73 million to €87.8 million in the four years to 2014/2015. This represents an increase of 295%. Yet we are still bent on increasing wind farms for which we will no doubt have to further increase the PSO subsidy to. Is this value for money? Are these giant farms cost competitive? This question must be answered by the CER.

Tynagh power plant and to a lesser extent Aughinish are set to receive €107.9 million in 2014/2015. (In 2010/2011 they received €14 million) This represents an increase of 771% over the last four years. The CER indicate that subsidised wind is displacing the output from Tynagh. In simple terms the plant cannot operate economically in the open market. The question the CER must answer is should these plants be closed?

Our peat stations are set to receive a subsidy of €114.7 million in 2014/2015. This represents an increase of 147% over the four year period. The figure suggests that they too cannot generate economically. We need to take a radical look at the PSO and who benefits from it. The market is radically different from the one that existed when the PSO levy was set up.

In Specific the CER states:

Lower wholesale electricity prices. The estimated wholesale electricity price in the all-island Single Electricity Market (SEM) for the 2014/15 period is €58.41/MWh. This is down circa 9% on the €64.28/MWh used to determine the levy for the current PSO period. A lower wholesale price for next year results in the PSO plants needing more PSO money to cover their allowed costs, to offset the lower money they are predicted to receive from the market. This applies across-the-board for renewables, peat and security of supply plants supported by the PSO. It is the biggest single driver of the rise in the proposed levy. The lower estimated wholesale price for next year is reflective of a trend in recent months in the SEM of lower spot and forward contracting prices, related to lower gas prices;

Our Response to this is; In a normal market when your revenue declines you seek to offset the revenue loss by lowering your input costs and engage in cost reduction strategies. Have the CER carried out investigations to ensure that this has occurred in the renewables, peat and supply plants? Can the CER provide proof that they have carried out this exercise? Who has an oversight into value for money?

In addition to the above like many large energy users we do not buy energy on a day to day bases but buy forward. We are contracted up until end of 2015. Therefore any short term energy reduction is of no benefit to us.

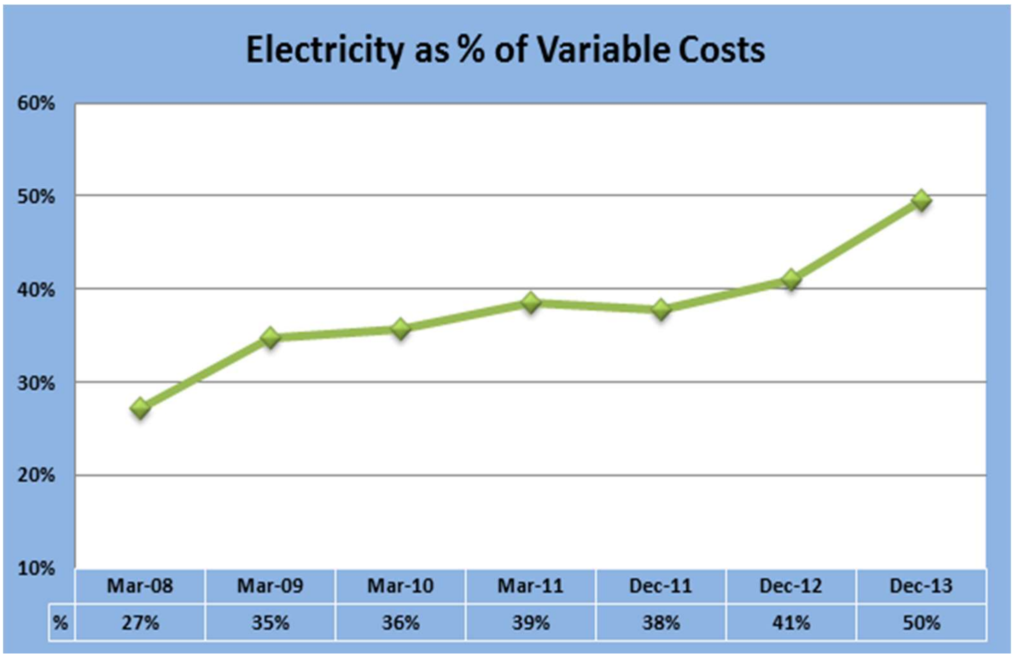
Extract CER Document reads
Lower running of Tynagh, a 400 MW gas plant provided with a PSO for security of supply reasons. In recent years the Tynagh plant has being running less in the SEM due to a variety of factors, including more wind generation being available to run instead. As a result, the plant receives lower revenues from the SEM. Under the terms of its PSO, most of its allowed costs are fixed, and so lower SEM running and revenue is largely being compensated for by a higher PSO payment;

Lagan Cement Response; If most of the Tynagh plant costs are fixed, why has there been a 771% increase in support for the plant over the last 4 years. Inflation has not run like this. The plants had €14 million of support in 2010/2011 and has now reached €107 million for 2013/2014. Is it not the function of the CER to inform government that these plants are no longer operational and do not represent security of supply? Have the CER informed government of this anomaly. If this is the case then they should be stripped out of the PSO system now?

What are the effects of these large energy price hikes on the Irish economy and Irish businesses?

Lagan Cement is one such large energy user who will experience an annual increase in their PSO contributions of 82.52%. For Lagan Cement which employs over 250 people between direct and indirect employment, this increase is life threatening. They operate in an extremely competitive export environment which includes Spain, Germany, England and the Benelux countries. These countries have lower energy costs with some providing reliefs against high energy costs. For Lagan Cement the PSO Levy means that their overall electrical bill will increase by 4%. This increase alone will put an estimated**, extra quarter of a million euro** on to Lagan Cement annual energy bill. Electricity costs at Lagan Cement now accounts for over 50% of all variable costs up from 30% in 2008. Because we compete in export markets with Spain and Germany who are given support by Central government we have no room to pass the price increase on to our customers.

Lagan Cement Electricity as % of Variable Costs



If the economy is to grow and survive then business must be competitive. If we continue with the PSO the inefficient generators may survive but energy users will not and Ireland will not be able to attract Data centres for the knowledge economy, get pharmaceutical plants to continue to operate here etc.

Is the energy sector another sector which suffers from light touch regulation? It appears to benefit the conventional generator and wind generators to the detriment of the consumer. The CER play the part of the accountant in the PSO levy. They calculate out the levy based on the legislation and advise who will pay what. The Department of communications, energy and Natural Resources lists their involvement as "Assessment of PSO proposals relevant to Division and implementation of legislation with relevant EU approvals". Lagan Cement is questioning the equity of the scheme and what is it delivering for the Irish economy as a whole.

In September Lagan Cement are expecting further increases in energy prices. This will be due to increases in TUOS, (transmission use of system charges) DUOS (distribution use of system charges) and capacity charges. This is the usual round of drip, drip price increases that energy users suffer every year. There appears to be no long term projections available for business to plan to.