Non-Confidential Response to CER/17/115

Dear Grainne,

Impact of the Public Service Obligation (PSO) Levy on the International Competitiveness of Industry

Aughinish Alumina Limited (Aughinish) since 1983 has operated a large alumina refinery based in West Limerick. The alumina plant is one of the most energy efficient in the world and produces 20% of EU alumina requirements. In 2003, Aughinish invested over US $130M in a 160MW High Efficiency Combined Heat and Power (HE CHP) plant to meet the power and heat needs of the refinery, thus becoming an exporter of power and no longer only a consumer. Since commercial operation in 2006, the HE CHP plant has played a major role in Ireland reaching its energy efficiency targets and reducing emissions, accounting for an average saving of approximately 330,000 tonnes of CO2 per annum.

The current PSO Levy is calculated by applying a levy to the Maximum Import Capacity (MIC). In the case of Aughinish, this means the calculation does not reflect actual consumption and is not a fair and justifiable methodology. Almost all of the electricity Aughinish consumes is HE CHP electricity, produced within the Aughinish site. The MIC is only of use for the very rare outage/maintenance requirements of the HE CHP generators when electricity is imported.

Aughinish, over the last six years has paid a staggering €7.2m in PSO Levies based on its MIC of 45MW. During this period, Aughinish has only utilised 0.5% of its MIC. Applying the proposed tariff for 2017/2018 year, Aughinish is expected to pay a PSO Levy of €2.2m/year, which is a 12% increase from the current year.

The allocation of the PSO levy is enshrined in legislation1, which reflects badly on government. The CER have stated categorically that they cannot amend the methodology. This invites the question, why consult on the PSO, when the methodology is fundamentally flawed in the first instance?

This unfair levy does not recognise the benefits of HE CHP, and therefore is a barrier to further HE CHP installations in Ireland. By imposing this levy on Aughinish, the Government is eroding the ability of the alumina industry in Ireland to compete on a world stage. It is our firm view that this unfair levy is a penal tax imposed on the alumina manufacturing industry in Ireland and has to be reformed.

For Attention of
Ms. Grainne Black (PSO@CER.ie)
Commission of Energy Regulation
The Exchange
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1 Specifically, Section 39 (5A) (a)(ii) of the Electricity Regulation Act, 1999 (as amended)
Alumina and aluminium are acknowledged by the EU as strategic commodities subject to ‘Investment Leakage’. In other words, if the production facilities within the EU for these commodities become uncompetitive and close down due to hidden taxes, or indirect costs of support packages for renewables, then replacement capacity will be built in other jurisdictions. Some Member States expressing concerns about investment leakage have provided support to Energy Intensive Industry (EII) through the Commission's “2014 Guidelines on State Aid for Environmental Protection and Energy”. In particular, this concerns energy-intensive users in sectors that are particularly energy-intensive and/or exposed to international competition.

Examples of Member States applying for such State Aid support to EII and HE CHP include:

- **United Kingdom (SA.43657 – 17 December 2015):** The UK intends to provide aid to the affected energy intensive industries through a reduction from the Contract for Difference for Renewables scheme (CfD) charges and payment of an annual compensation amount for the indirect costs of the Renewables Obligation (RO) and Feed-in-Tariffs (FiT) schemes.
- **Denmark (SA.44863 – 12 December 2016):** Energy intensive users will be compensated up to 85% of their contribution to the financing of renewable energy via levies on electricity consumption.
- **Germany (German 2016 HE CHP Act):** HE CHP plants receive a premium for power sales above the market price. Some district heating HE CHP plants will receive additional premiums of €15/MWh - €34/MWh above the market price.
- **Latvia (SA.43140 – April 2017):** Approval from the European Commission of their support scheme for certified HE CHP plant built during 2007 – 2012 in order to achieve its 2020 energy and climate objectives.

The PSO levy is a support scheme to promote renewable energy but it should not be at such a cost to the competitiveness of Irish EII.

Aughinish seeks parity with the other EU Member States by urging the Irish Government and CER to consider exemption for EII from the PSO levy and other renewable support scheme indirect costs.

The ability of the Aughinish facility to compete in the international market is continually being eroded and a reduction of indirect costs is a critical step in maintaining competitiveness in the market. This is an urgent matter and we ask the Government/CER to consider this issue as a priority.

**Proposal for PSO levy collection based on net capacity**

Aughinish proposes that the calculation be adjusted to reflect the electricity exported from the HE CHP i.e. based on the net capacity. This was originally proposed by a Sustainable Energy Ireland HE CHP working Group as a method of recognising the contribution of HE CHP to the security of supply and energy efficiency.
According to the working group, “this proposed system is considered fairer and more cost reflective since it takes into account that a proportion of the electricity consumed by a HE CHP producer is generated on-site. The subsequent reduction in the allocation of the PSO levy to the HE CHP producer will reduce the operational costs for a HE CHP user, and so encourage more sites to install HE CHP. This would in turn, increase the efficiency in the electricity system and through doing so reduce CO2 emissions”.

It was calculated that this proposal would have no impact on small and medium consumer’s costs and would result in an average increase of large energy user’s electricity bill of approximately 0.07%.

The above methodology was originally calculated to accommodate HE CHP sites where the MIC is greater than the Maximum Export Capacity (MEC). For sites that have an MIC less than MEC such as Aughinish, the calculation should reflect periods when the site is importing to ensure that they contribute to the PSO.

It is our opinion that a modified levy based on the net capacity would remove a barrier to entry for HE CHP, remove the disincentive from further energy efficiency investments by industry and it would satisfy one of the founding objectives of the CER to encourage the efficient use and production of energy.

Yours sincerely,

John Ryan
Energy Manager