

Woodley Lodge

Farrangalway

Kinsale

Co. Cork

27th June 2017

Re: Public Service Obligation Levy 2017/18 – Proposed Decision Paper

Dear Grainne,

I write to you on behalf of Jagoes Mills Action Group ("JMAG"). JMAG is a local community group in Kinsale which is urgently calling on the Government to implement solar-specific policy, legislation and planning guidelines. JMAG is fully supportive of the Paris Agreement and the achievement of the Government's subsequent 2020 renewable energy targets. We welcome the opportunity to respond to the CER Proposed Decision Paper on Public Service Obligation Levy 2017/18.

The Department's recent Draft Mitigation Plan highlighted the role of the citizen in the transition to a low carbon energy future. We do not believe that the voice of the citizen has been adequately reflected in the government's renewable energy policies. As a local community, we feel that it is important that we make this submission to the CER.

We recognize that the CER does not set government policy and that a number of our comments below may relate directly to government policy. However, these are areas which impact on the electricity market and we believe that the CER has an important role to play in ensuring that these issues are being raised at the appropriate governmental and departmental levels. In this regard, we would like to draw your attention to Section 9(e) of the Electricity Regulation Act, 1999 which states that the Commission shall "*advise the Minister on the development of the electricity industry and on the exercise of the functions of the Minister under this Act*".

We would like to make the following comments on the above mentioned paper:

1. Since 2011/2012, the PSO levy on residential households has increased from €19.33 pa. to a proposed rate of €99.24 p.a. for the 2017/2018 year (both excluding VAT). This represents an increase of 31.3% per annum compound over this period. In contrast the

rate of Consumer Price Inflation over this same 6-year period has been running at an annual rate of less than 0.5%. This significant gap between price inflation and the rate of increase in the PSO levy represents a significant stealth tax on residential households and it is not sustainable in the long term. The PSO levy is likely to increase significantly in future years as the pipeline of renewable energy projects secures REFIT subsidies. We contend that increases of this magnitude are no longer viable for households or for businesses and urgent reform is needed.

2. The proposed levy for 2017/2018 represents an amount of almost €500 million. We understand that over 40% of these funds are contributed by Irish households, representing over €200 million. As a group of citizens, it is unacceptable to us that such a stealth tax is operated without having to undergo a public debate or rigorous assessment regarding value for money. The REFIT subsidies which the PSO funds, is a formulaic approach and we contend that the funds involved now exceed all expectations of the size of the subsidies anticipated when the governing legislation was effected almost 20 years ago. It is now incumbent on the CER to raise this matter at the appropriate governmental and departmental levels.
3. The PSO is a regressive stealth tax. It takes no account of income level, or ability to pay. To make matters worse, there is very little public awareness of this "tax". We note that the CER decided to change the allocation of cost between domestic/small businesses and large medium/large businesses following a proposal from ESB Networks earlier this year. We estimate that the impact of this change has been to shift over €25 million of the proposed 2017/2018 PSO levy to domestic households. We respectfully submit that the governing legislation never intended for such broad taxing powers to be granted to the CER.
4. The structure of REFIT is not fit for purpose and we contend that the current design simply redistributes generator inefficiency and risk back to the consumer. Under REFIT, generators receive a minimum fixed price for the electricity exported to the grid. As the wholesale price per MWh reduces, the generator still receives the same fixed price once the impact of the subsidy is taken into account. The consumer ultimately pays the difference via the PSO levy. We contend that this transfer of risk to the consumer is inefficient and does not promote good business risk management by the generator. Generators are in the best position to hedge future electricity price movements via the commodities market. Managing risk is a fundamental activity which all businesses must manage and government policy should not be facilitating a culture which transfers this risk back to consumers.

Secondly, the current REFIT program provides the same level of subsidies to all generators regardless of how efficient the generator has been at deploying capital or regardless of the generator's level of operational efficiency. The CER's decision paper "*Connection Policy: Transitional Arrangements*", dated 12/10/2016, notes that "the system operators have indicated that the volume of wind and solar applications is not manageable" and that "the scale of applications received to date from wind and solar projects far exceeds what can be practically and effectively delivered. Given this significant pipeline volume, we strongly contend that the REFIT subsidies should be

targeted at the most efficient generators rather than the current blanket approach. To achieve this objective, we believe that a competitive auction approach should be established whereby generators are required to bid their best prices in order to win subsidy contracts. This is a model which has been deployed successfully in many other countries (e.g., Solar PV in South Africa)

5. According to the Irish Farmers Association, over 26,000 acres of agricultural land was committed to solar developers by July 2016. No doubt, this figure has grown significantly over the last 12 months. Based on the level of subsidy support needed (as suggested by the Irish Solar Energy Association in its Response to Renewable Energy Support Scheme, Technology Review, DCENR¹), we estimate that this could translate into an additional €360 million of PSO subsidy, bringing the total subsidy to €860 million. This is in addition to the pipeline of wind and other renewable projects currently making its way through the REFIT program, the subsidy costs for which have yet to materialise. It is not realistic to shift these costs onto the electricity consumer and we strongly contend that the CER needs to be highlighting this issue at the appropriate governmental level now.

Section 39(11) of the Electricity Regulation Act, 1999 defines Public Service Obligation as “an obligation placed on electricity undertakings which takes account of **general social, economic and environmental factors**”. We contend that the current PSO framework and proposal:

- a) **Is counter to social policy:** It is a regressive stealth tax which has become more significant than was ever anticipated and it is no longer appropriate for decisions around this levy to be made outside of the Exchequer process
- b) **Is not grounded in economics:** The main driver of the PSO levy are the subsidies under the REFIT program. The REFIT program promotes an inefficient capital allocation model whereby generator inefficiency and risk is transferred to the consumer rather than being managed at source. The result of this system is a tax on businesses and consumers which is detrimental to the creation of jobs, and detrimental to consumer spending –key drivers of economic growth
- c) **Could be much more effective in helping Ireland achieve its 2020 targets:** JMAG believes that renewables, including Solar PV, has an important part to play in Ireland’s future energy mix and in helping achieve our 2020 emissions reduction targets. However, we need to develop a vibrant and sustainable Solar PV industry which has a realistic long-term chance of standing on its own two-feet. We need our government to develop a strategic plan for Solar PV. This plan must include a sensible financial support plan which provides subsidies only to those projects which are viable over the longer term in helping us achieve our carbon emissions goals.

¹ ¹ Irish Solar Energy Association (“ISEA”) – *Response to the Renewable Electricity Support Scheme, Technology Review, DCENR* (report is not dated). The report suggests a subsidy support level of €0.07 - €0.09 / kwh. We have applied the mid-point of this range to the estimated kw output of the 5MW example farm in Section 3.13 of the report. This equates to an annual subsidy amount of €350k for a typical 5MW, 25 acre farm. Extrapolating for 26,000 acres implies a total subsidy of €300 million.

We respectfully submit that the CER has an obligation to bring the above matters, which we believe have a significant bearing on the operation of the Irish electricity market as well as the operation of the PSO levy, to the attention of the Minister Naughten at the Department of Communications, Climate Action & Environment.

Should it be beneficial, we would be happy to meet with you to discuss these concerns in more detail.

Yours faithfully,



Oliver Coakley

Jagoes Mills Action Group

About JMAG: Jagoes Mills Action Group (JMAG) is a local community group formed when a solar developer sought planning for a poorly proposed, 32-acre, 5 MW solar power-generating plant in Farrangalway, Kinsale in February 2016. Despite the lodgement of 33 objections with Cork County Council and a further 14 appeals with An Bord Pleanála, and rejecting the recommendation of the An Bord Pleanála inspector assigned to the case, the development was granted planning permission in April 2017. JMAG is fully supportive of the Paris Agreement and the achievement of the Government's subsequent 2020 renewable energy targets. However, the group strongly contends that the Government needs to ensure that solar-specific policy, legislation and planning guidelines be enacted to ensure best practice and a strategic, plan-led approach to this new industry in Ireland.