

SUBMISSION ON PUBLIC SERVICE OBLIGATION LEVY 2017/18

Decision Paper Reference: CER/17/115

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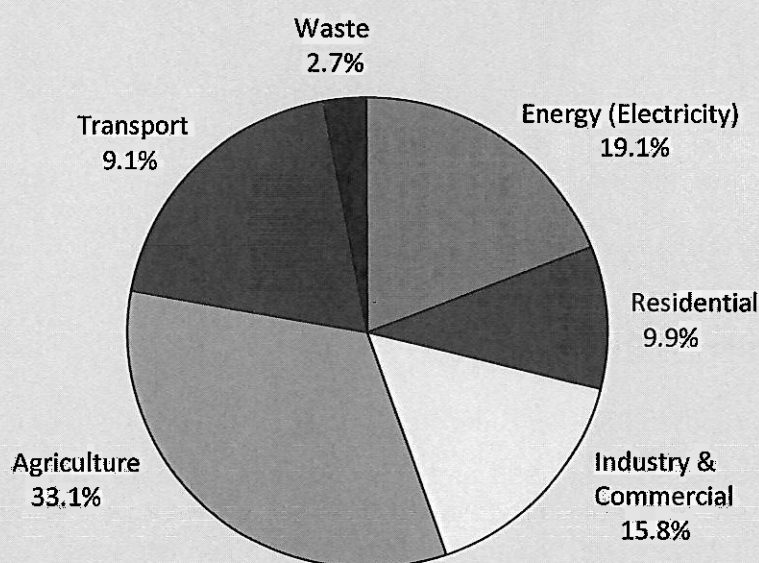
Submission Date: 25th June 2017

Closing Date: 30th June 2017

Context of this Submission

This submission is in the context of the commitment of the Government and the people of Ireland to implementing economically and socially sustainable greenhouse gas abatement measures that are commensurate with global initiatives. It recognises that the scope of the Public Service Obligation levy is limited to supports for electricity generation under the Emission Trading Scheme (ETS) which comprises 19.1% of Irish greenhouse gas emissions in 2014 (most recent data).

IRISH GREENHOUSE GAS EMISSIONS 2014



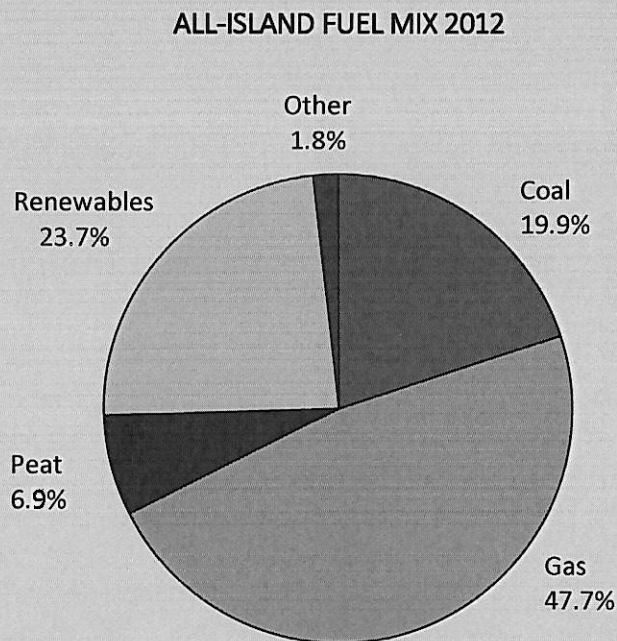
Source: EPA Report "Final Greenhouse Gas Emissions 2014" dated 21 June 2016.

It further recognises the stated intention of the Government to ensure secure supplies of competitive and affordable energy to its citizens and businesses as the country transitions to low carbon energy as expressed in the DCENR white paper 'Ireland's Transition to a Low Carbon Energy Future 2015-2030'.

The decarbonisation of energy envisaged in this white paper includes greatly increased electrification of the non-ETS sector from renewable electricity generation; ETS generation which is the subject of the current decision paper on the Public Service Obligation for 2017/18.

Proportion of Renewables

The Customer Care page of the Commission for Energy Regulation (CER) web site shows the breakdown of the all-island fuel mix for electricity generation in 2012 (it is regrettable that the data displayed by the CER is 5 years old, but the public can only work with the information provided by the responsible authorities).



Source: <http://www.cer.ie/customer-care/electricity>

Role of the Commission for Energy Regulation

Section 1.1 of the Proposed Decision Paper states that:

"The CER was established in 1999 and now has a wide range of economic, customer protection and safety responsibilities in energy. The CER is also the regulator of Ireland's public water and wastewater system. Our mission is to regulate water, energy and energy safety in the public interest".

It is notable that the responsibilities include economic, customer protection and safety. The Customer Care section of the CER web site states:

"The CER encourages customers to shop around to ensure that they are getting the best value for their money and service deal. There are a variety of options available in terms of suppliers, types of tariffs and payment methods so choose the option which suits your needs best. There is no cost to change supplier and the process is quick and easy. Just follow the steps below to see whether it suits you to change your supplier".

Contrast this with the section on "Your Bill" on the CER web site listing "Any levies applied to your bill" which totally fails to explain the basis on which this (PSO) levy is applied to the consumer.

Furthermore, there is no readily visible reference on the Commission for Energy Regulation web site to alert the very energy customers that the CER purports to protect to (a) the proposed PSO increase of 27%, and, (b) that they have just 28 days from 2nd June 2017 to make any submission they wish on this decision.

This point has already been made by more than one respondent in the past; the lack of remedial action by the CER in the intervening period leads one to believe that little regard is paid to the concerns of the public, as is evidence by the submission of Mr Dave Fingleton to the CER on the 2nd July 2015 where he stated:

1. Timescale for PSO Levy consultation

I note that the Current PSO Levy consultation is recorded as being published on 12th June 2015 and the closing date for submissions is 3rd July 2015. This 3 week timescale allowed for public consultation is entirely inadequate and unreasonable and does not allow sufficient time for the vast majority of the public to even become aware that the draft document has been put forward let alone time for adequate analysis and response. Please extend the closing date for responses by a minimum of 3-4 weeks.

2. Visibility of PSO Levy Consultation

The existence of the consultation is not apparent on the CER's homepage and the short space afforded to "Latest Documents" and "most viewed" documents means that the consultation quickly falls from view and is no longer visible as other documents appear. Therefore, visitors to the CER's website will quite likely not realise that there is any consultation taking place at all. What form of public advertisement was used to highlight this consultation to the public and to ensure effective public participation?

In a similar vein, in his submission dated 3rd July 2015, architect Mr David Hughes stated:

"First off I feel the notification of this was not very widespread and also the time given is very short. I have had less than 24 hours to prepare this submission and I would like to give a more detailed submission to allow me to elaborate on what will only be a very brief outline now of what I would like to say. Therefore I would ask that the submission deadline would be extended at least until September given that we are in the full holiday season and many people will not have the time to deal with this in summer.

In addition in terms of notifying people, given that every electricity consumer pays the PSO levy I would think that this information should be printed on a bill or as an ad in a newspaper or on radio and television at least".

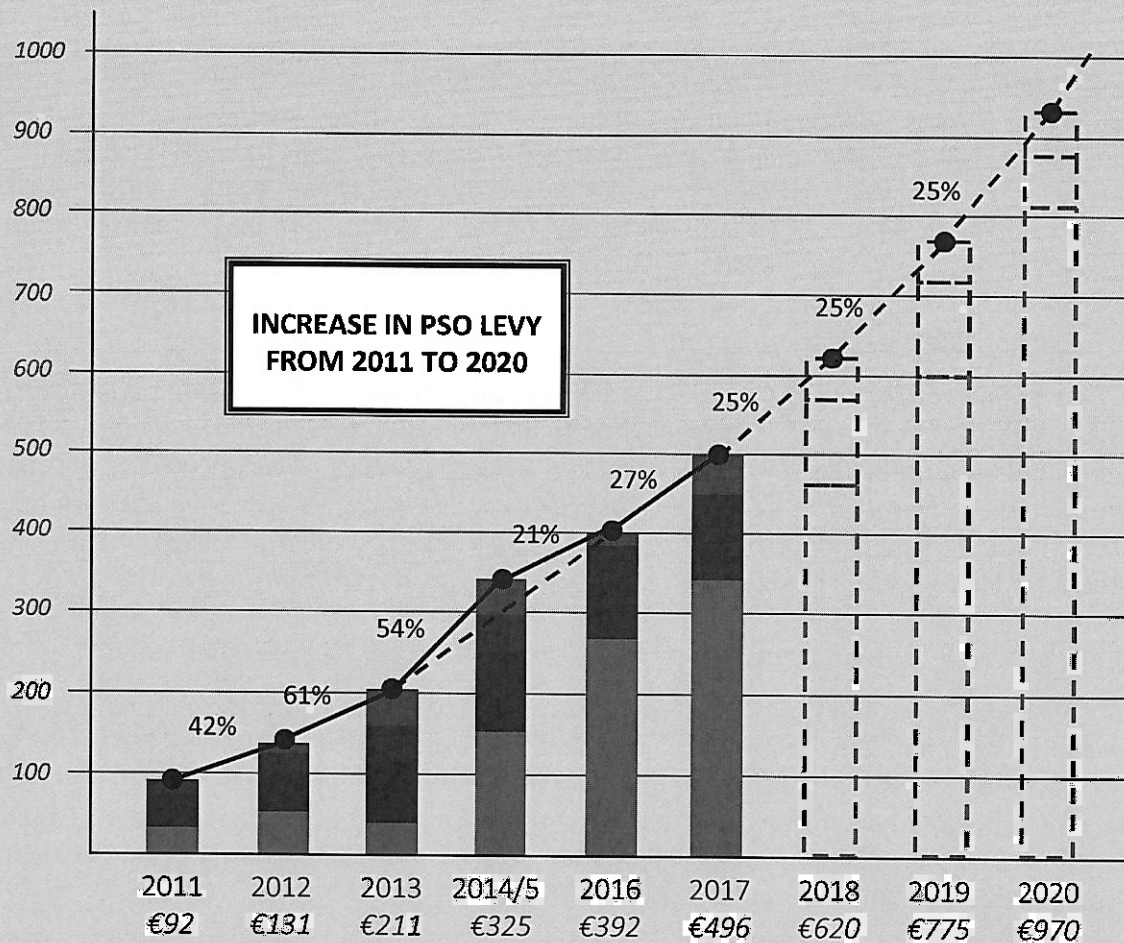
The fatuous encouragement on one hand to switch suppliers, whilst on the other hand a major increase in the PSO levy is buried behind "Latest CER Documents → More" is truly a case of moving the deck chairs whilst the ship is sinking, and provides the public with scant reassurance that the Commission for Energy Regulation has the protection of the consumer at heart as mandated in law.

This is particularly the case since this very opacity was the subject of submissions to the CER two years ago.

Extrapolated Trend of Public Service Obligation Levy

The Public/Customer Impact Statement section of the Executive Summary states that:

"For the year starting 1st October 2017, the CER has calculated that the PSO Levy will increase by 27% in total. This increase is mainly due to a significant growth in the level of renewable generation expected to materialise in the next year. In 2016, around 25% of Ireland's electricity was generated from renewable sources. This is increasing as Ireland moves towards its target of 40% renewables in electricity by 2020".



The trend provided in Figure 1 of the Proposed Decision Paper is extrapolated above to 2020, by which time renewables (almost entirely onshore wind) will constitute 40% of electricity generation, and the PSO subsidy paid to the wind farms will amount to €1 billion per annum. (I have combined the years 2014 and 2015 because there was no increase in PSO between the years as the subsidy periods for Aughinish, Edenderry and Tynagh expired at that time.)

The PSO levy was increased by 21% in 2016 and the proposed increase of 27% in 2017 will bring the compounded increase over two years to 53.6%! This is not only an exponential increase, but also 67 times greater than the annual average inflation rate which is projected to be 0.8 per cent in 2017. Application of some common sense would show that this is unsustainable.

Source: *Quarterly Economic Commentary, Summer 2017* by the Economic and Social Research Institute.

Imbalance in Strategic Development of Renewables

Table 3 shows the breakdown of ex-ante PSO payment and capacity supported for 2017/18 by support scheme and technology type.

Support Scheme & Technology		Indicative support rates (€ / MWh)	Total Ex-ante PSO payment for 2017/18 (€ million)	Capacity supported in 2017/18 (MW)
Peat				
	Lough Ree		48.8	100.0
	West Offaly		61.4	150.0
	Sub-total		110.2	250.0
REFIT 1				
	Biomass	88.6	3.2	18.2
	Hydro	88.6	0.3	1.6
	Landfill	86.1	4.5	17.6
	Large Wind	70.1	113.9	1222.5
	Small Wind	72.6	14.4	145.2
	Sub-total		136.3	1405.1
REFIT 2				
	Hydro	88.6	1.0	5.5
	Landfill	86.1	4.7	11.8
	Large Wind	70.1	150.0	1669.2
	Small Wind	72.6	10.3	105.4
	Sub-total		165.9	1792.0
REFIT 3				
	AD CHP > 500kWe	137.4	5.0	6.0
	AD CHP < 500kWe	158.6	5.3	6.2
	Biomass CHP < 1500kWe	148.0	1.5	2.3
	Other Biomass Combustion	89.9	28.9	89.9
	Biomass Energy Crops	100.4	0.7	1.4
	Sub-total		41.4	105.7
Total			461.1	3583.9

The ex-ante PSO amount proposed for the 2017/18 PSO period for the REFIT schemes is €343.6 million. Of the proposed payment for 2017/18 under REFIT 1, 94% is to wind generators. Under REFIT 2, 97% is to wind generators.

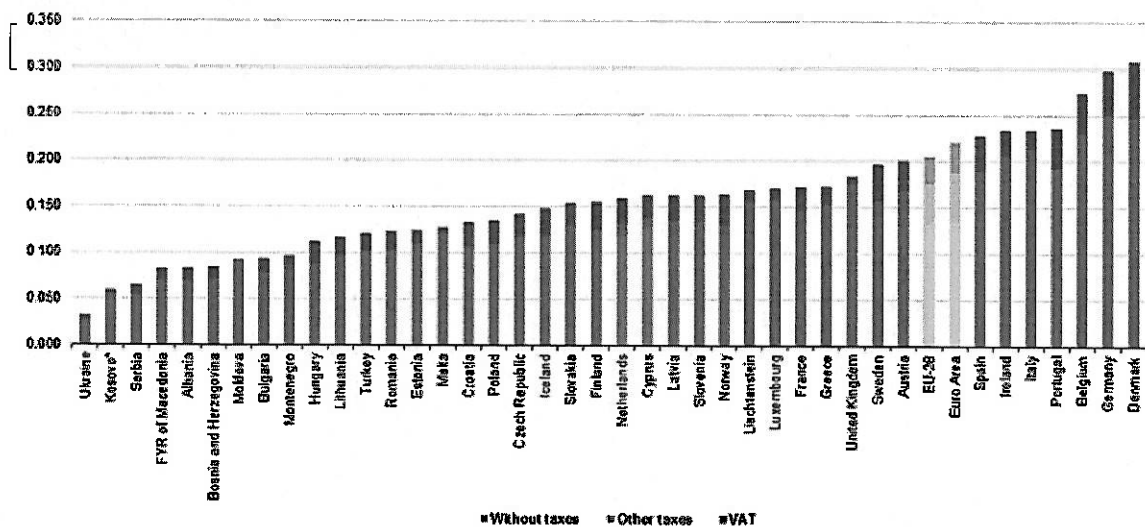
The CER has presided over the evolution of an imbalanced Irish national renewable strategy that averages out at over 94% in just one technology - wind generation. Unlike the rest of Europe, Hydro, biomass and CHP constitute less than 5% of the renewable energy mix. Where is solar PV and where is pumped storage?

The purpose of the Commission for Energy Regulation is surely to regulate the energy market, and to coordinate correction of Government policy where existing policies begin to distort the strategic balance of energy provision. The CER has abjectly failed in this regard.

Highest Pre-Tax Electricity Prices in Europe

The most recent Eurostat electricity price statistics, based on data extracted in May 2017, show that Ireland current has the highest pre-tax electricity price in the European Union, and shares the distinction of the fourth highest price with Italy and Portugal after Denmark, Germany and Belgium.

File:Electricity prices for household consumers, 2016s2 (EUR kWh).png



*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.
Source: Eurostat (online data code: nrg_pc_204)

Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/Electricity_price_statistics

Denmark and Germany are of course the models that Ireland wishes to follow in its transition to a low carbon energy future up to 2030 under the direction of the Commission for Energy Regulation. It is clear that the 27% increase in the PSO levy proposed in the decision paper will push the price of Irish electricity yet further up the comparison table.

Impact of Excessive Electricity Prices

It is scarcely rocket science to realise that cost competitiveness is essential in a small economy on the periphery of Europe, and that the need for this will be even greater during, and after, the Brexit negotiations. This point was made in a letter from the Principal Officer at the Department of Jobs, Enterprise and Innovation to the CER on 24th June 2016:

"At the outset, can I record that the proposed PSO levy increase of 36 per cent for 2016/17 from €325.3mn to €440.9mn, is of great concern from an enterprise development perspective, and such an increase in a key input to business will damage competitiveness".

These sentiments were echoed by the Director of Kerrigan Quarries in County Leitrim in his letter dated 23rd June 2016 where he stated that:

"It is inconceivable that, at a time when there is little evidence of recovery and businesses face a constant challenge for survival that the CER should seek to impose such a major increase in the PSO levy. Irish electricity prices are already among the highest in Europe and this dramatic increase in the PSO levy only serves to maintain this imbalance. Job creation, job security and the competitiveness of Irish companies abroad are adversely affected by this levy".

Conclusion

As the Authority charged with protection of the Irish energy consumer, based on the information available to it and published by it, the Commission for Energy Regulation has an obligation to immediately advise the Government as follows:

1. The continuing exponential rise in the PSO levy is unsustainable, a barrier to employment and international cost competitiveness;
2. The target of 40% of electricity generation from renewables by 2020 will escalate the rate of increase of the PSO levy far beyond the current rate;
3. Decarbonising of non-ETS sectors such as residential (electric heating) and transport (electric cars) will dramatically increase national renewable (decarbonised) electricity demand with an equally dramatic impact on the PSO levy at present REFIT subsidy levels;
4. There is an untenable imbalance in the mix of renewable electricity generation technologies in Ireland, with over 90% concentrated on just one; onshore wind generation;
5. Furthermore, since wind generation has been widespread for 25 years or more, it is now surely a mature technology that no longer requires subsidised incentives;
6. A review of the renewable energy feed-in tariff and its associated PSO funding levy should be undertaken as a matter of urgency to correct the serious imbalances that have evolved under the current regime.

The consequences of a failure to rein in the current runaway rate of the PSO levy will be job losses, loss of competitiveness and business closures. This is neither desirable nor inevitable. But it can only be prevented by direct and positive action - now.

The people of Ireland are committed to implementing economically and socially sustainable greenhouse gas abatement measures that are commensurate with global initiatives. This commitment does not extend to national economic and social suicide.

