

Grainne Black,
Commission for Energy Regulation
The Exchange,
Belgard Square North,
Cookstown,
Dublin 24

Date: 12/06/17

Reference: PSO Levy Increase

Dear Grainne,

I am quite concerned at the proposed increases in the PSO levy that are now being considered by the CER. Since it was introduced in 2012, the levy has been increased massively from €0.71 / kVA Month in 2012 to the new proposed rate of €3.74/ kVA Month (due to kick in in Oct this year). This is a 427% increase in a few years!

We understand the need for a levy but believe there is a better approach to achieve the same outcome and we explain the reasons why below.

In its current form, the Levy distorts the market and does not incentivise energy efficiency. The PSO levy is calculated using the Maximum Import Capacity Level on each bill, regardless of how much power the site uses. We have listed out 4 key areas where the levy in its current format is having a particularly negative effect.

1. The levy format represents an indirect tax on electric car charging infrastructure. We have some customers who would like to pursue rolling out charging infrastructure but the ever increasing PSO levy charge is ruling this out.
2. Under directive 2004/8/EC, the EU has asked member states to support Combined Heat and Power (CHP) Plants. In Ireland this directive is being met by the ability of CHP operators to reclaim the carbon tax on the portion of natural gas used by CHP units. As a site needs to be able to operate in periods when the CHP is down for maintenance, this levy is counterproductive to the stated ambition of the directive.
3. The levy is very unfair on customers such as quarries and metal recyclers which use power in bursts rather than the more normal steady state operations. While these sites have associated challenges for the grid, the costs associated with these challenges are more fairly met with network charges. In our opinion, some sectors of industry are unfairly cross subsidising others and

encouraging the use of local diesel generation. (We know of one site that has installed diesel generation on metal shredding machinery).

4. Finally, the PSO levy is distorting the declared connection levels of sites. It can be cheaper to under-declare the site connection level and pay any associated extra Network unauthorised usage charges, than paying the full PSO levy. This obviously has network security of supply issues.

Given the above, we believe that the PSO levy in its current format is counter-productive to the safe and efficient operation of the grid and the roll out of site connected (renewable) generation. Renewables are currently driving down the kWh (variable) cost of electricity but these increasing fixed charges are clawing back much of the saving.

A much better methodology than the current method would be changing the PSO to a kWh based charge.

- This method would reward energy efficiency measures which the current PSO level does not.
- As energy efficiency & renewables help drive down the cost of electricity it becomes easier for the market to bear the cost.

Our recommendation:

Change the current method of charging for the PSO levy from a fixed kVA method to a kWh method. Given the current electric load of the country is 28,000,000,000 kWh and the budgeted PSO levy amount is €496.5 million, this will require a kWh surcharge of 1.77 c/kWh, but will result in the largest fixed charge being removed from the electricity bill. To further put the 1.77 c/kWh surcharge in perspective, the average (load weighted) wholesale electricity price in 2012 was 6.68 c/kWh falling to 4.36 c/kWh in 2016.

We look forward to hearing your views on this.

Yours Sincerely



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