

**Submission by the Society of St. Vincent de Paul (SVP)
to the Commission for Energy Regulation (CER)
Consultation
on
Proposed Update from ESB Networks to the PSO Levy
Cost Allocation Methodology**

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Introduction

The Society of St. Vincent de Paul (SVP) welcomes the opportunity to respond to the CER consultation on the Proposed Update from ESB Networks to the PSO Levy Cost Allocation Methodology. We are pleased that the overall amount of energy related assistance SVP is providing to people in need is decreasing from a high in 2012 and this is in part due to greater use of Pay As You Go / Pre-Payment meters among people we visit and assist (those meters incurring no extra charges), giving them greater control over their energy use. We continue to work with households and the industry to find ways for households to gain greater control over their energy costs, through enhanced budgeting, advocating for better housing standards and the prevention of unnecessary energy costs.

In this context, we reiterate our concerns about the regressive nature of the PSO levy. In particular, we emphasise our concerns about the continued upward direction that PSO charges are taking for vulnerable customers, driven by market forces, government policy and now an update to the calculation methodology.

Lack of Public Awareness of the Public Service Obligation Levy

The proposed calculation methodology, if accepted, will result in the recalculation of a little-known tax which will affect every household in the country over the coming years. The Public Service Obligation (PSO) levy which appears on a domestic electricity bill is estimated to increase by 10%. When VAT is added every household including low income households will pay just under €90 per annum. There are various purposes of the PSO and, while a long-standing instrument of Government energy policy, remains largely beyond the knowledge of the consumer. Nonetheless, at a time of continued financial pressure on many households, it is surprising that a flat-rate levy on every household to subsidise the energy industry continues to go unnoticed by media, civil society and policy makers outside the energy sector.

Government Policy Objectives of the Levy

The PSO levy is a subsidy charged to all electricity customers in Ireland. It was designed by the Irish Government to support its national policy objectives related to security of energy supply, renewable energy and indigenous fuels (peat). The PSO levy, when first launched, provided support to a number of new generating plants (Tynagh and Aughinish), peat plants and renewable energy due to supply concerns at that juncture. These contracts have a lifespan of some 10 years. Some of the required funding (subsidies) terminate in 2016. However new (renewable) schemes continue to be added subject to government and EU approval. At this stage, as security of supply and indigenous fuels recede in importance, some 75% of the proposed levy is funding renewables.

The Increasing Charge of the Levy

The biggest drivers of the increasing **annual charge** are more renewable generation and lower wholesale electricity prices. Herein lies the irony for SVP: higher wholesale electricity prices can mean higher unit prices for customers as these are passed on; yet when wholesale electricity prices drop, customers pay anyway because the PSO plants need to be compensated for the lower money they are predicted to get from the market.

In addition, the current proposal will further increase the charge by some 10%. While we note that ESB Networks' proposed revised methodology provides for a more accurate derivation of the allocation of costs between the three categories of electricity customers, (domestic, small commercial, medium-large commercial), we still await some proposal for the more accurate and fairer allocation of this regressive tax across various categories of domestic customers.

Increased Burden on Low Income Customers

We also note the CER's request that respondents should bear in mind that any revised PSO cost allocation methodology must remain compliant with the governing legislation. Nonetheless, we seek to raise the

awareness of the regressive nature of this little-known tax. The current policy dictates that end customers, including vulnerable end customers have to pay more to subsidise the energy market players and support renewable generation. The unintended consequence of this policy is that a levy (tax) to subsidise the operation of renewable generation sources (to compete with generation dependent on imported fuels and improve security of supply) is imposed on all domestic customers at a flat rate. This creates an increased burden on low income customers and those with a history of arrears and indeed multiple debts. To this extent, the PSO can be viewed as a regressive tax. Furthermore, SVP notes that despite the levy already representing an additional tax on consumers they are also required to pay VAT on the levy, or, as such, a tax on a tax.

A Social Impact Assessment of the PSO Levy

Given the long run nature of the levy and the ending of contracts for security of supply and indeed peat plants (by 2019), the PSO levy is now becoming a renewables subsidy paid by all electricity customers regardless of their ability to pay. With pressure to deliver on renewables targets, the portfolio of approved schemes subsidised by the PSO is continuing to change, driving the overall magnitude of the levy. While the proposed revision to the cost allocation methodology provides for a more accurate derivation of the allocation of costs between the three categories of electricity customers, yet again the vulnerable customer will have to pay more than they can afford.

SVP is committed to principles of sustainable development but we must continue to ask:

- (a) how low income energy consumers should pay for a regressive, and increasingly costly measure and
- (b) is there a fairer mechanism for allocation of this regressive tax across various categories of domestic customers.

In the interests of social justice and fairness, we urge a review of the application of the PSO to low income and struggling energy customers – effectively a Social Impact Assessment of the levy. This must be seen in the context of people and families we work with, many of whom are dealing daily with the management of their household budgets amid extreme pressure such as increased rent levels which threaten the security of their tenancies.