Response to CER/10/086

Proposed Decision Paper on Public Service Obligation Levy 2010/2011

For the attention of:

James McSherry

Date Issued:

28 June 2010

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Response to the Commission for Energy Regulation in relation to CER 10/086;
Proposed Decision Paper on Public Service Obligation Levy 2010/2011

Introduction

Kore Energy provides energy procurement and risk management services to a significant percentage of Irelands large energy users, including global leaders in I.T., Food and Drink and Pharmaceutical industries and a large number of Irelands leading indigenous companies. The contribution of energy costs to the relative competitiveness of Ireland as a business location is critical to Kore Energy's client base and indeed to the broader Irish economy in terms of optimising job retention and job creation in a difficult economic environment. For these reasons, we view the Proposed Decision Paper on the Public Service Obligation Levy for 2010/2011 as a critical issue for the Irish energy market and we are pleased to contribute to the review via this submission.

Kore Energy Position

Kore Energy is opposed to the application of this levy and the negative impact that it will have on large energy users operating in Ireland and those considering Ireland as a possible business location. Over the past two years, the ESB rebate of 1.5 cent/kWh and the PSO levy rebate have served to offset some of the impact of Ireland's high wholesale electricity prices and power generation margins. However, the reduction of the ESB rebate from October of this year and its proposed phasing out over the next and the replacement of the PSO levy rebate with an even higher charge will place Irish business under further competitive pressure in what are already difficult economic circumstances.

We estimate that, if the CER proceeds with its current proposals, the combined cost impact of these changes for Irish industry will be between 0.75 and 1.25 cent/kWh, adding a further 9 to 15% to Irish power prices and power generation margins which are already priced at a strong premium to other European markets [see Table 1].In a market which has already placed a premium of €545 million per annum on generation capacity, the merits of recovering a further €195 million for PSO supported plant must be questioned and we call on the CER to instigate a review of the arrangements supporting the power generation sector in Ireland.
In particular we would like to see the following issues reviewed.

1. The value of the Capacity pot made available to Ireland's power generators. Is a reward of €545 million per annum or circa 1.600 cent on capacity availability appropriate in the current economic climate when demand has fallen and demand growth projections have been reduced from previous forecasts?

2. The level of support provided to peat fired plant and the adverse environmental impact of such support, given higher carbon emissions and other environmental impacts. Is it appropriate that diversity of fuel supply is achieved by supporting peat fired generation at a cost of €90 million per annum? Will the commissioning of new natural gas supply sources (the Corrib gas field and the Shannon LNG terminal) and new electricity inter-connection between Ireland and the UK market negate this requirement?

3. With Renewable Energy Feed in Tariffs (REFIT) and Alternative Energy Resources (AER) accounting for €61 million of the 2010/11 PSO levy, has the CER costed the impact of Ireland's commitment to achieve 40% penetration of renewable generation by 2020 for 2011/2012 and subsequent years?

We urge the CER to reconsider the application of the PSO levy on the basis outlined, particularly given that Industry operating in Ireland is already suffering significant competitive disadvantage as the following comparison of European Spark Spreads clearly demonstrates.

Table 1: European Power Generation Margins/Clean Spark Spreads [€/MWh]