

Response to CER/14/125
Public Service Obligation Levy 2014/15
Proposed Decision Paper

For the attention of:

Mr John Lynch

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Introduction

Kore Energy provides energy procurement and energy price risk management services to a significant number of large energy users in Ireland and currently manages circa 2,400 GWh of electricity on behalf of large electricity users. Our clients include 5 of the country's top ten energy users and global leaders in the pharmaceutical, IT and Food sectors.

We note the contents of the Commission's proposed decision on the PSO levy and, in particular, the adverse impact on large energy users and their competitiveness arising from the proposed increase of 80.5% in the PSO levy to take effect from 2014. We are acutely concerned about the impact of this increase along with potential increases in other elements of regulated costs in the Irish electricity market, some of which may also be subject to increase with effect from the 1st of October 2014. We have the following specific comments to make in relation to the level of the PSO increase and the absence of any reasonable advance notice of the increase.

1. Proposed PSO levy increase of 80.5% brings cumulative increase for the past four years to 142%: An unanticipated and unacceptable price shock.

Table 1 below, illustrates the increase of 109% in the total amount payable by Ireland's electricity users through the PSO levy over the past four years and the increase of 142% in the amount payable by large energy users. For large energy users, the proposed increase of 80.5%, on top of last year's increase of 55.3% is a major concern, not least for short term competitiveness but also in terms of the potential for future price shocks via the PSO levy and possibly other regulated charges. In July 2013, a number of our clients met with the Commission for Energy Regulation and they expressed their concern at the lack of any short to medium term guide for large energy users on likely changes in the PSO levy and other regulated charges. This concern remains today and we would urge the CER to develop a medium term cost projection for the PSO levy and other key regulatory costs, over a rolling five year horizon. Aside from providing an appropriate methodology for cost planning for large energy users, a rolling cost projection of this nature may also flag potential future problems with various regulatory costs and their inter-relationships.

Some specific outputs from such a review and forecast, in relation to the PSO levy specifically, should include the following:

- 1.1** A forecast for future changes in the amount of the PSO levy arising from increased volumes of Renewable Energy Feed In Tariff (REFIT) contracts.
- 1.2** A short to medium term forecast for the value of the PSO levy payable to the Tynagh plant, given the sharp increase in the amount payable over the past two years.
- 1.3** A forecast for any R factor charge to be levied next year based on information currently available to the CER: For instance, the out-turn System Marginal Price for 2014 to date is circa €58.79/MWh and the annual out-turn price is likely to be lower still based on

current gas futures prices for the remainder of this year. On that basis, are we likely to see a further strong increase in the PSO levy for the year 2015/16 due to a shortfall in revenue recovery on the part of PSO supported plant this year?

Table 1: /changes in PSO levy costs and cost drivers 2010/11 to 2014/15

Source / driver of annual PSO levy charges 2010-11 to 2014-15										
	2010/11	2011/12		2012/13		2013/14		2014/15		4 year
	€ million	€ million	Percentage increase	increase						
Renewables	29.73	35.78	20.37%	47.46	32.62%	51.07	7.62%	87.80	71.92%	195%
AERs	13.50	0.67	-95.07%	7.13		-7.98				
Peat	78.20	40.61	-48.07%	51.94	27.91%	74.86	44.13%	114.70	53.22%	47%
Tynagh / Aughinish	14.00	30.75	119.64%	25.45	-17.22%	48.17	89.26%	107.90	123.99%	671%
PSO CfDs	-0.52			0.00		0.00		5.60		
Other costs	21.73	-15.68	-172.17%	-0.74	-95.29%	44.81		11.60	-74.11%	-47%
Annual levy & year on year change	156.63	92.12	-41.18%	131.24	42.46%	210.93	60.72%	327.60	55.31%	109%

Monthly charges (Monthly standing charge for domestic and small commercial users. Charge per kVA of MIC per month for medium and large users)										
	2010/11	2011/12		2012/13		2013/14		2014/15		4 year
	Monthly rate	Monthly rate	Percentage increase	increase						
Domestic Customers	€ 2.73	€ 1.61	-41.03%	€ 2.32	44.10%	€ 3.57	53.88%	€ 5.25	47.06%	92%
Small commercial (MIC < 30 kVA)	€ 8.25	€ 4.77	-42.18%	€ 7.14	49.69%	€ 10.82	51.54%	€ 18.00	66.36%	118%
Medium and large energy users	€ 1.15	€ 0.71	-38.26%	€ 0.99	39.44%	€ 1.54	55.56%	€ 2.78	80.52%	142%

2. Total cost of support mechanisms in the Irish electricity market places a heavy burden on Irish energy users, at circa €1.08 billion per annum:

We recognise that electricity markets must include various support mechanisms to ensure their efficient operation and to ensure security and sustainability of supply. However, we believe that the total cost of these support elements within the Irish Single Electricity Market (SEM) is particularly onerous on electricity users. We further believe that this is impacting adversely on the competitiveness of Irish business and we are concerned that this adverse impact will increase further still over the coming years.

Currently, the total cost of the three main support elements within the SEM is circa €1.08 billion per annum with the capacity payment mechanism at €570 million, the PSO levy at €328 million (proposed) and the imperfections charge at €182 million (proposed). Based on the CER's projected demand of 33,220 GWh for 2014, these elements account for an average of 3.25 c/kWh of the electricity price paid by customers, excluding distribution losses.

Against the backdrop of this latest proposed increase in the PSO levy, we urge the CER to undertake a fundamental review of those support mechanisms with a focus on improving the competitiveness of the Irish electricity market. Where a change in legislation is required to enact any appropriate changes, we also urge the CER to feed into that process and to liaise with Government on required changes.

END