



Response to CER/16/152, Proposed Decision on Public Service Obligation Levy  
2016/17

For the attention of:

John Lynch, Commission for Energy Regulation, The Exchange, Belgard Square North,  
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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 2,800 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 welcome the opportunity to respond to the Commission's proposed decision in relation to the 2016/17 Public Service Obligation (PSO) levy.

Having reviewed the proposed decision paper we have the following comments and questions:

### 1 Latest proposed increase in PSO levy will bring cumulative 5 year increase to 424%.

The latest proposed increase in the PSO levy for large energy users will bring the cumulative increase in the PSO levy over the past 5 years to 424%, as detailed in Figure 1, below. The extent of that increase is a cause of great concern for large energy users, firstly because of the adverse cost impact on their operations and secondly as it is not something that could have been included in previous medium terms forecasts for energy costs. In its proposed decision paper, the CER states that it has no discretion over the terms of the PSO scheme. Given the CER's mandate to ensure that Irish energy markets are competitive, we urge the CER to engage with Government with a view to reviewing and, where necessary, amending the PSO scheme to ensure that it delivers on its objectives in a competitive manner.

**Figure 1: Annual and cumulative PSO levy change, 2011 to 2016**

	PSO levy, €/kVA of MIC/month	Yearly Increase	Cumulative increase
Oct-11	0.715		
Oct-12	0.989	38%	38%
Oct-13	1.539	56%	115%
Oct-14	2.850	85%	299%
Oct-15	2.762	-3%	286%
Oct-16	3.745	36%	424%

### 2 Based on out-turn and projected market prices for 2015/16, what will the R-Factor charge be in the 2017/18 PSO levy?

Given the reduction in wholesale electricity prices for 2015/16 since the PSO levy for this year was finalised in August 2015, we expect that there will be a charge via an "R-Factor" calculation in the PSO levy for 2017/18. Based on out-turn wholesale prices to date for 2015-16 and current market rates, can the CER please provide an estimate of the cost of that R factor charge on large energy users.

### **3 Requirement for longer term PSO levy cost projections**

In order to facilitate financial planning and investment on the part of large energy users, can the CER please provide a longer term price forecast for the PSO levy over the next five years. We appreciate that variations in wholesale energy rates will mean that the eventual PSO levy rate for each year will change relative to any projection completed now. However, based on targets for renewable generation over the next five years and any other PSO supported plant that may be commissioned, it should be possible for the CER to provide a reasonably accurate projection for PSO costs, preferably based on a number of different wholesale price scenarios.

### **4 Large energy users exposed to a greater percentage increase than other categories of end users.**

We note that Large Energy Users will experience a PSO levy price increase of 35.6% from October 2016, based on the CER proposed decision, while domestic and small commercial users will experience increases of 32.3% and 30.3% respectively. Can the CER please explain why this is the case. On a related note, the CER makes reference to a proposal from ESB Networks for a modification to the cost allocation methodology. Can you please confirm what this proposal entails and any potential impact on the various supply categories?

### **5 Charging based on Maximum Import Capacity rather than volume or demand adversely impacts large energy users, particularly those in a growth phase.**

The current methodology for allocating PSO costs to each customer category uses a calculation of peak demand for each category. However, the application of PSO charges is then completed on a different basis. In the case of large energy users, the charge is based on the Maximum Import Capacity (MIC) in kVA rather than the peak metered demand. This adversely impacts a substantial number of large energy users where their MIC is considerably higher than their actual demand. This “disconnect” between MIC or reserved capacity can often occur for good reasons, generally where end users are in a growth phase or where they are planning for future growth. While these end users will consider it reasonable that they pay towards network costs for future reserved capacity, it is entirely unreasonable that they are effectively penalised via a higher PSO levy (on a kWh basis) than other users. As part of the review that we have called for in point 1 of this submission and, perhaps as part of any discussions between the CER and ESB Networks regarding proposed changes to the cost allocation methodology, we request that the CER addresses this issue.

**End.**