

Mr John Lynch
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght

2 July 2014

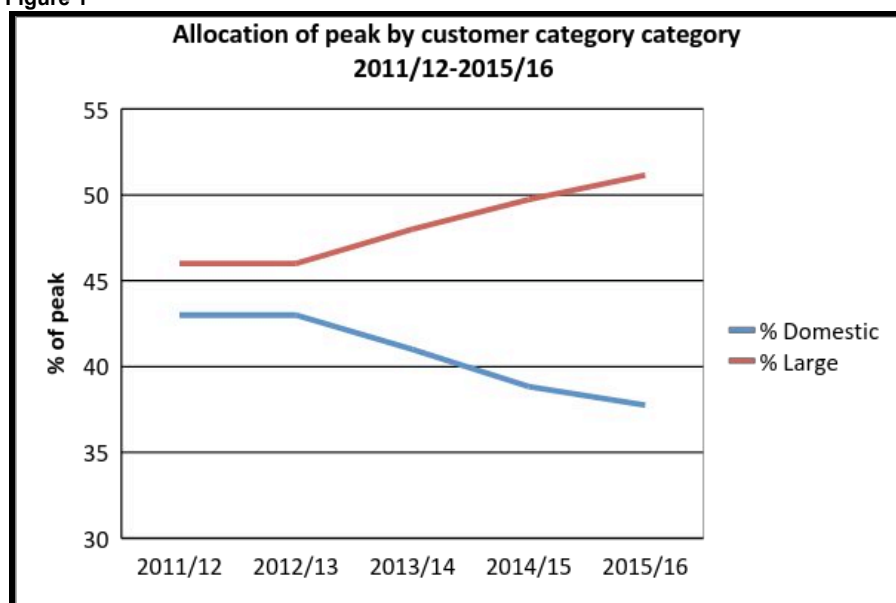
Public Service Obligation Levy 2015/16

Dear John,

Ibec thanks the CER for this opportunity to comment on the proposed PSO Levy 2015/16. We appreciate that the procedure for calculating the annual PSO amount is prescribed in legislation. However, we note that the procedure will need to be revised once the I-SEM is operational. We look forward to engaging with CER on this in due course.

Our main concern about the proposed decision for 2015/16 is that it places a substantially higher percentage share of the overall PSO cost burden on business and industry. As shown in Figure 1, this is the third consecutive year that an unfavourable reallocation of the cost burden has occurred. There will be adverse consequences for energy cost competitiveness, investment and jobs if this is not addressed in the final decision.

Figure 1



Ibec readily acknowledges that the *principle* by which PSO costs are allocated between domestic and non-domestic energy users, pro-rata to peak consumption, is enshrined in legislation. However, as we pointed out to CER last September, there seems to be a systematic bias in the *method* that is currently used to estimate the aggregate peak consumption of the three customer groups.

Briefly, we understand that domestic and SME peak day consumption is inferred from the associated annual consumption - essentially by assuming a standard seasonal and/or daily profile. However, we would need to have more detail of the profiles in order to make substantive comments. It appears that the aggregate peak consumption of (Daily Metered) large industry is estimated as a residual, after subtraction of the estimated peaks for domestic and SME users from the system peak. Can you confirm this?

If so, any reductions in consumption from energy efficiency improvements by Non Daily Metered (NDM) users will automatically result in the assumption of a smaller peak day consumption. This seems to be the main factor driving the trend for cost-reallocation over the past few years. The implicit assumption that historic NDM profiles remain valid over long periods is questionable, particularly given the trend towards electrification of domestic space and water heating.

As we outlined last year, there is potential for a **revised method, fully consistent with the legislation**, that would make better use of the available data, and that could result in a fairer and more transparent cost allocation. The introduction of such an approach in line with these principles would mitigate potential risks to Irish-based industry's ability to compete in international markets. There is no good reason why peak consumption for DM users could not be derived from aggregate meter data for the most recent system peak day. The NDM peak could then be calculated as a residual.

I look forward to your response.

Sincerely,

Neil Walker
Head of Infrastructure, Energy and Environment