



IBEC LIMITED

8<sup>th</sup> July 2013

John Lynch  
Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24

**Public Service Obligation Levy 2013/14**

Dear John,

Thank you for this opportunity to respond to Proposed Decision Paper CER/13/130 on behalf of IBEC's Large Energy Users, for whom electricity costs continue to be a major competitiveness issue.

As previously explained to Dermot Nolan, there has been a sharp rise in industrial electricity costs over the past 18 months. Recently published Eurostat data confirms what our members already know from experience, namely that Ireland has one of the highest unit costs for industrial electricity in the EU28. It is therefore of great concern for them to learn of a proposed €74.4 million increase in the PSO Levy next year. We appreciate that the CER has very little discretion in how it calculates the Levy. However for the reasons that are set out below, we believe that it may be proposing a somewhat larger increase than is strictly necessary.

Firstly, we would question CER's projection that the SEM market price will be €62.50/MWh in 2013/14. Being about 5% lower than the corresponding figure in last year's PSO decision (CER/12/121), it is clearly a major driver for the proposed Levy increase. We understand that it is based on a PLEXOS model run that used the UK forward price of natural gas prevailing in May 2013. However, the level of UK forward gas prices has since risen by about 3% over the past few weeks, and EUA prices are now starting to increase following the recent European Parliament vote on 'back-loading' of Allowance auctions. Secondly, we would question whether the most recent generator data has been incorporated into the CER's model. Over recent weeks, a number of gas-fired generators have signalled the prospect of substantially increased operational costs (and hence uplift charges) arising from their obligation to provide balancing in the wholesale market. We are also aware of recent regulatory developments that are explicitly designed to increase the financial contribution of gas-fired generators towards gas transmission network costs. Moreover, we understand that a portion of these costs may henceforth be passed through into Pool bids.

**IBEC LIMITED**

Confederation House 84/86 Lower Baggot Street Dublin 2  
PHONE + 353 (0)1 605 1500 FAX + 353 (0)1 638 1500 EMAIL [info@ibec.ie](mailto:info@ibec.ie) [www.ibec.ie](http://www.ibec.ie)  
IBEC LIMITED REGISTERED IN IRELAND REGISTRATION NO. 8706  
REGISTERED DIRECTORS PAUL RELLIS JOHN KENNEDY (USA) JULIE O'NEILL LEO CRAWFORD DANNY MCCOY FERGUS MURPHY  
LIONEL ALEXANDER DAMIEN CLANCY PARAIC CURTIS MYLES LEE BRIAN MCCRAITH GARY MCGANN REGINA MORAN LARRY MURRIN  
COMPANY SECRETARY LIAM O'DONOGHUE



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Taking these new factors into account, we would expect the final PSO decision for 2013/14 decision to be based on a somewhat higher SMP price than €62.50. If so, the level of PSO support should be correspondingly reduced.

Whatever the outcome of the SMP forecast, we would also ask the CER to consider a temporary adjustment to the procedure for calculating the R-Factor calculation. Based on the last nine months of Pool prices, we expect a large variance between the forecast and out-turn average SEM price for 2012/13. It ought to be possible to arrange for a portion of the resulting over-recovery of PSO revenues during 2012/13 to be rebated during 2013/14 rather than in the following year. It would help to alleviate the level of cost increase this October.

Finally, we would encourage the CER to seek other options to mitigate the adverse jobs impact of Ireland's increasingly uncompetitive electricity prices. In particular, we would invite CER to express its support in principle for the outline proposal on industrial electricity costs set out in the pre-budget submission that IBEC published today. I attach a copy for your consideration.

Yours sincerely,

Neil Walker  
Head of Energy and Environment Policy

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