CSNA Submission to CER – PSO Levy

Ref: CER/17/115

As noted previously when CSNA made observations to the proposed 2015/16 and 2016/17 Decision, we are very frustrated that a process considered to be consultative is nothing more than a box-ticking exercise.

When the Final Decisions are published, well-reasoned and considered responses, observations and criticisms are dealt with by CER in a manner that approaches arrogance.

If CER **really** wanted to have stakeholder engagement they would 1) agree to hold stakeholder meetings (they have refused) 2) ensure that interested parties that have previously taken the time to respond to the proposed decisions are notified about the new "round" of consultation – instead we are reliant on noting press release issued to the media on a Public Holiday weekend despite CER having all of our email and business addresses – and 3) impress upon the Department and Minister that the system they are obliged to use to calculate the PSO Levy is illogical, unfair and discriminatory.

Our last comment includes the treatment of PSO Levy for domestic consumers. We are surprised that CER continues to publish the proposed (and determined) levy as a VAT exclusive price, contrary to Regulations that require the price of a service to (non-commercial) customers to be expressed as the final cost, i.e. the VAT inclusive figure. Therefore the proposed levy for the 2017/18 for domestic customers would be €13.39 **greater** than published.

VAT Exclusive		**VAT Inclusive (13.5%)**	
Monthly	Annual	Monthly	Annual
€8.27	€99.20	€9.39	€112.59

This requirement to express prices for services as a single amount inclusive of taxes is a Statutory requirement (S.I No. 9/1973 – Prices and Charges (Tax – inclusive Statements) Order, 1973)

The existing methodology is unfair and discriminatory.

CSNA has repeatedly pointed out to CER that he legislation under which the PSO Levy is calculated is unfair and unjust.

1 – Using Maximum Import Capacity (MIC)

It makes no sense to use the capacity (or capability) of potential consumption to ascertain the obligation to contribute to the levy. MIC is **not** directly linked to consumption, is very frequently an "inherited" figure allocated at a time of very different energy requirements and frequently allotted to a very different business to the present incumbent of the premises/business account.

Domestic accounts are not required to pay on the basis of their MIC, and the way that small business users are considered for the purpose of the levy, having an MIC lower than 30 KVA is a very real benefit. If their consumption is greater than a competing business with an MIC of 30KVA, that business will pay more than €1,000 extra next year in PSO levies due to the "dual" system utilised for calculation.

MIC is unfair because it creates a very significant step "between two very similar customers, one considered to be a "small" business, the other considered to be "medium/large". We will express the prices on a VAT exclusive basis for commercial customers.

Annual			
Small		Medium/Large	
20 -29 KVA	€345.50	30 KVA	€1,346.70
		32 KVA	€1,436.16
		35 KVA	€1,570.80

As seen from the above example, a business with an MIC of 29 KVA will have a levy of €345.50, but their competitors will be billed between €1,000 and €1,200 more if their MIC is as little as 6 KVA greater. This is absurd and despite our protestation about this anomaly, it has continued to be a costly outcome of using a methodology that was, from the outset, ill-considered and ill-conceived.

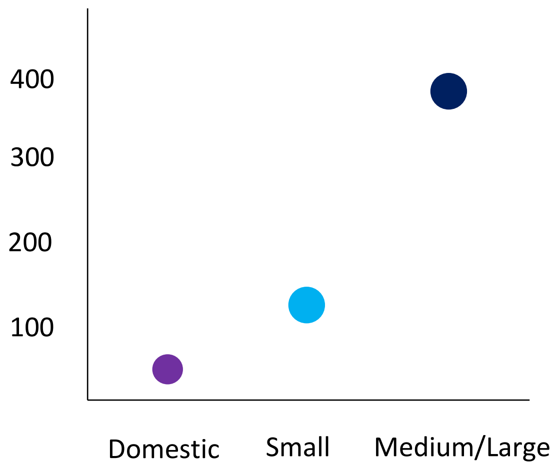
The purpose of the levy is to provide funding for sustainable energy but it should not require such significant variation in contribution from the 3 different customer bases, domestic, small and medium/large.

Using the proposed prices for 17/18, we have calculated that the Domestic customer pays between 29 and 69cent per KVA,

The small customer pays between 99cent and €1.44 per KVA but the medium/large customer is being expected to pay €3.74 per KVA.

Monthly Charge per KVA			
Domestic €8.27 Ex VAT	12 MIC	68.9c	Standard Domestic Rating
	16 MIC	51.7c	Standard Domestic Rating with heat pump
	20 MIC	41.4c	Additional Mic requirement
	29 MIC	28.5c	Maximum MIC for Domestic
Small €28.79	20 MIC	€1.44	
	25 MIC	€1.15	
	29 MIC	0.99c	
Medium/Large	30 MIC	€3.74	

PSO Levy per KVA for 3 Sectors



2 – “New” Cost Allocation Methodology - The case for re-allocation of previous incorrectly – applied PSO Levies.

CSNA believes that CER must ensure that levies which were apportioned to medium/large electricity customers (and are now acknowledged by both ESB Networks and CER to have been calculated using an incomplete and less accurate methodology), should have that element that was, in effect, an overcharge, re-credited reapportioned in the 2017/18 Determination.

In the 7 periods 2010/11 – 2016/17, CER made decisions to fix PSO levies totalling €1,644.03 million. This years proposed levy is for €496.55m

	Domestic	**Small**	**Medium/Large**	**Total**
2010/11	€66.85m	€17.30m	€72.48m	€156.63m
2011/12	€39.25m	€10.14m	€42.73m	€92.12m
2012/13	€56.49m	€14.72m	€60.03m	€131.24m
2013/14	€86.92m	€22.92m	€101.09m	€210.93m
2014/15	€130.26m	€38.36m	€166.82m	€335.44m
2015/16	€122.32m	€36.12m	€166.81m	€325.25m
2016/17	€144.22m	€41.72m	€206.48m	€392.42m
	€646.31m	**€181.28m**	**€816.44m**	**€1,644.03m**
Proposed 17/18	**€203.94m**	**€58.41m**	**€234.20m**	**€496.55m**

As a result of implementing the updated (new) methodology, CER provided a comparator between the allocation of the proposed €496m Levy for 2017/18.

	Old	**New**		
Domestic	€177.2m	€203.9m	+€26.7m	+15.07%
Small Commercial	€51.4m	€58.4m	+€7.0m	+13.62%
Medium/Large Commercial	€267.9m	€234.2m	(€33.7m)	(12.58%)
	€496.5m	**€496.5m**	-	-

Were the new updated methodology not employed this year, medium and large commercial customers would have had allocations for their ‘portion’ of the total Levy set at a level that would have been 12.6% **higher** than the allocation proposed.

Given that this reduction is due to a re-assessment of the old less accurate, less reliable methodology, it is not unreasonable for those customers that have been, to all intents and purposes, overcharged, to expect a repayment of the overcharge.

The medium/large customers were charged €816.44 million in the 10/16 periods. If that recharge is similar to the example provided by CER (12.6%), then the Sector is due a credit of €103m.

The variations in individual peaks used by CER in furtherance of their explanation of the need to implement an updated methodology showed that these were over 540 thousand units **fewer** identified when the new, improved and more accurate metering reads were employed.

Individual peaks for medium/large commercial customers

	Old	New	
2015/16	2,938,273	2,397,488	(540,785)

This variation between the old methodology and using the updated style shows the very significant (18.40%) difference between the "guesswork" applied during the 7 year periods 2009-2015 and the figures evidenced using the new ESB Network metering.

It is most important that these variations are properly re-assessed and re-apportioned to enable a credit to be applied to the overcharge to the medium/large commercial sector. The newest (2017/18) paper suggests that the ration between the 3 sectors (Domestic, Small commercial and Medium/Large commercial) of the PSO allocations is as follows

Domestic	Small	Medium/Large	Total
€203.94m	€58.41m	€234.20m	€496.55m
41.07%	11.76%	47.17%	100%

Using these ratios for the 2009-16 (7 periods), the following would pertain

	Domestic	Small	Medium/Large	Total
Actual	€646.31m	€181.21m	€816.44m	€1,644.03m
New Allocation	€675.20m (41.07%)	€193.34m (11.76%)	€775.49m (47.17%)	
	+€28.89m	+€12.13m	(€41.02m)	

	Domestic	Small	Medium/Large	Total
Existing 2017/18 Proposed	€203.94m	€58.41m	€234.20m	€496.55m
Re-Allocations	€28.89m	€12.31m	(€41.02m)	-
	€232.83m	€70.54m	€193.18m	€496.55m

Re-calculation	Indiv Peak	% Ind Peak	PSO Alloc	Total MIC	Total Nordom	Annual	Monthly
Domestic	2,173,684	41.07%	€232.83m	2,055,883		€113.25	€9.44
Small	622,534	11.76%	€70.54m	169,048		€417.28	€34.77
Med/Large	2,496,209	47.17%	€193.18m		5,217,568	€37.02 KVA	€3.09KVA
	5,292,428	100.00%	€496.55m				

CSNA would suggest that if CER are to continue to seek PSO Levies for €496.55m for 2017/18, then the following should be set as the rates.

	Domestic		Small		Medium/Large	
	Annual	Monthly	Annual	Monthly	Annual	Monthly
	113.25	€9.44	€417.28	€34.77	€37.02 KVA	€3.09KVA

VAT 13.5%	€15.29	€1.27	
	€128.54	€10.71	

The above example is the result of applying the ratio as set out in the 2017/18 proposal. It should be noted that the actual ratios used in the 7 year periods 2009-16 were all different.

	Domestic	**Small**	**Medium/Large**
2010/11	42.68%	11.05%	46.27%
2011/12	42.61%	11.00%	46.39%
2012/13	43.04%	11.22%	45.74%
2013/14	41.21%	10.86%	47.93%
2014/15	38.83%	11.44%	49.73%
2015/16	37.61%	11.10%	51.29%
2016/17	36.75%	10.63%	52.62%
Average	39.31%	11.03%	49.66%
New 17/18	41.07%	11.76%	47.17%

There are no circumstances that CSNA could accept being reasonable for CER to refuse to reapportion the incorrectly attributed charges for the periods 2009/10 – 2015/16. We have sought from CER further evidence of the effect of re-assignation based on meter reads for individual peak for the year 2016/17 but were advised that such an exercise was not carried out. We find this approach less than helpful given the statutory responsibility that CER has to oversee the accuracy and authenticity of the calculations leading up to approval of the PSO levies for each year. As it is accepted by both CER and ESB Networks that the old system was less than perfect, an acknowledgement evidenced by the substantial (540,000 units, 18% variation) difference in the 2017/18 projections, and although the working papers used by CER to explain the changes were incorrect (they used 2015/16 proposed figures allied to 2015/16 decision figures), it is still very obvious that each of the previous 7 years were based on inaccurate data.

3 – The Need for A Properly Costed Regulator Impact Assessment (RIA) Of Each Statutory Instrument (SI) Containing Lists of Renewable Energy Recipients of PSO Levies.

From what we can deduce, there is a very substantial amount of PSO Levies being paid to renewable energy companies. This amount is growing each year and when the Levy payable to peat generations expires shortly (2019) they will be the majority recipient of levies – currently projected to be €496m for 2017/18. Of the 3,584 mw due to be supported in 17/18, 93% is renewable and 7% is peat. CER has stated that our (national) target of 40% energy generated from renewable sources is due to be met by 2020 and currently (2016) around 25% of Irelands electricity was generated from renewable sources. Although peat only generates 250 mw (7% of total supported capacity), the total PSO supported in monetary terms was €124.7m, or 25% of the proposed PSO support of €496m.

If as a nation we are currently supporting renewable and peat energy generator and this stands at 25% of total renewable generations, what will the cost of PSO support be when we reach the target of 40%?

PSO support 2017/18 for renewable is €394m 25%

PSO support (Target 40%) €630m 40%

As there will be no “peat support”, PSO Levy will primarily be renewable-related (both specific support and R-factor support). It is most important that a properly costed analysis of the effects of continuing support to renewable entities is carried out on each occasion that they are being considered for inclusion for support. The best place for this is by way of an RIA (Regulatory Impact Analysis) which should accompany the Statutory Instrument enabling the inclusion of these renewable – generating companies. As a society, we are currently providing half a billion euro per annum in support, due to rise exponentially each year. There must be transparency and good accounting procedures engaged in the overseeing of such a substantial amount of money.

4 – Public Policy Cost Serving/Energy Efficiency Versus PSO Levy Cost to Business

Actions taken by businesses to reduce the cost of their electricity bill are diluted by the scale of the PSO Levy.

Implementing savings through capital outlay on energy-efficient fixtures and fittings, greater awareness of energy conservation and acquiring next – generation plant will all provide a welcome outcome yet increases in the order of 39% (this year proposes small business) or previous increases of 70% in PSO Levies for medium/large businesses have the potential to significantly dilute the benefits enjoyed from the actions of the business customer. It is very difficult to budget for additional costs such as the PSO Levy with such very significant percentage increases imposed at short notice. Telling businesses in July that costs will increase by double digit figures from October is unfair, a longer notification time is suggested – at least 6 months.

<u>Summary</u>

CSNA once again reiterates our opposition to the methodology of calculating the PSO Levy and calls on CER to notify the Department that there are significant and substantial unfair outcomes to small and medium sized businesses when the flat fee/MIC dual system is used to determine the Levy.

Given that both ESB Networks and CER have accepted that there is now a better system for identifying individual peak consumption, and that the old methodology had led to incorrect apportioning of sectoral share of the PSO Levies in years 2009-2016, CSNA calls upon CER to reassess the extent of ‘overcharge’ that the medium/large business community were subjected to from €861m total levies apportioned to them during the period.

Once the extent of overcharge has been identified, CSNA would seek and undertaking from CER that it will factor in a credit for this amount into the 2017/18 final Determination.

CSNA calls for a Regulatory Impact Analysis (RIA) to be carried out on each list of renewable applicants in advance if such a list being subjected to inclusion in and enabling SI, and that the RIA would accompany the SI on publication.

This would seem to be a proper and transparent response to overseeing over half a billion euro of private sector monies (consumer and business). CER is currently responsible for ordering the collection of PSO levies and should be in a position to justify the inclusion as a growing number of applicants for State largesse (but our money).

Finally, it should be noted that the PSO levies have a potential negative effect on businesses both in terms of dilution of savings made from enabling on energy efficiency but also in trying to accommodate, at short notice, significant increases in costs via increased Levy fees. It would be better if these were a longer (6 month) advice periods rather than the existing 2 month period.