



An Roinn Post, Fiontar agus Nuálaíochta
Department of Jobs, Enterprise and Innovation

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

June 24th 2016

Dear John,

I am writing to you in regard to your recently published PSO Levy 2016/17 Proposed Decision Paper (CER/16/152), providing a joint response on behalf of this Department, IDA Ireland, and Enterprise Ireland.

At the outset, can I record that the proposed PSO levy increase of 36 per cent for 2016/17 from €325.3mn to €440.9mn, is of great concern from an enterprise development perspective, and such an increase in a key input to business will damage competitiveness.

The Department of Jobs, Enterprise and Innovation's mission is to encourage the creation of high quality and sustainable full employment by, amongst other things, championing enterprise across government, supporting a competitive enterprise base, and promoting fair and competitive markets. IDA Ireland client companies are responsible for employing 175,000 people directly, supporting an estimated 122,000 indirect jobs, and exporting €124.5bn in goods and services. Enterprise Ireland work with over 5,000 indigenous companies in Ireland, support directly and indirectly, more than 300,000 jobs, and these companies saw their exports in 2015 exceed €20bn.

Energy competitiveness is of increasing importance for enterprise development and can directly affect the ability of enterprise to retain and grow output and employment, particularly in energy intensive sectors. A reliable and competitively priced supply of energy is vital for business and its ability to compete successfully in international markets. From an enterprise development perspective, the primary challenge facing Ireland is to reduce energy costs while delivering on our security of supply and environmental sustainability objectives.

The National Competitiveness Council has stated that the significant deterioration in Ireland's energy cost competitiveness (and specifically in relation to electricity) in recent years threatens Ireland's competitive position (see www.competitiveness.ie/Bulletins/Electricity-Costs-Bulletin.pdf).

Energy can comprise a large component of the direct non-wage costs for energy consumers of all sizes in key growth sectors such as food and drink, life sciences, ICT, construction materials and other manufacturing sectors. Many of these energy intensive companies are large and important regional employers, operating in low-margin markets where prices are determined globally.

As a result, increases in energy costs have to be absorbed, thereby putting them under serious pressure to continue to trade successfully in global markets.

While recognising that the Commission for Energy Regulation (CER) has no discretion over the terms of the PSO schemes, the context is important. According to the Sustainable Energy Authority of Ireland, renewable electricity generation, consisting of wind, hydro, landfill gas, biomass and biogas, accounted for 22.7 per cent of gross electricity consumption in 2014. Peat accounted for 8.8 per cent. Thus, almost one-third of Ireland's generation capacity is subsidised. This is not sustainable.

It is critically important for the effective functioning of the all-island electricity market that renewable generation capacity is subject to market forces to the greatest extent possible. As a mature technology, price supports for new onshore wind projects should be discontinued when REFIT 2 ends in 2017, and enterprise opportunities in emerging energy technologies should be funded by the exchequer through competitive funding mechanisms for R&D rather than by energy customers.

On your consultation paper specifically, we welcome such transparency on this driver of energy costs, particularly as it is one which can be influenced by national policy choices. However, the increase in the total proposed PSO levy for 2016/17 from €325.3mn to €440.9mn (an increase of 36 per cent) is of serious concern to enterprise and will impact negatively on competitiveness.

On a particular point, among the "upward levy pressures" cited in the consultation document is the under-recovery of monies by renewable generators compared to what was expected when the PSO levy was previously set (totalling €42.5mn or 13 per cent of the €325mn levy in 2015/16). Some further explanation of why this level of recovery is necessary and reassurance regarding future estimates and accuracy would be welcome.

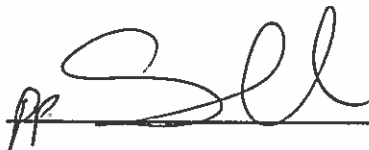
As part of its *Enterprise 2025* strategy the Government has agreed to “take the actions necessary to improve Ireland’s relative cost competitiveness in the areas that are within our control” (page 33), which would include the PSO levy, and we believe the regulatory regime / CER has an important role to play in this regard.

The Energy White Paper agreed and published by Government states that energy policy will “seek to achieve optimum benefits at least cost. Government will ensure that policy measures are evidence based and subject to rigorous analysis and appraisal prior to being implemented. This will include analysis of the distributional impact of policy measures... including use of cost-benefit analysis or regulatory impact analysis where appropriate with a focus on competitiveness, security and sustainability” (pages 8 and 91).

The proposed increased PSO levy is one such policy measure, and we look forward to seeing the analysis and appraisal prior to implementation to ensure that the proposal will achieve optimum benefits at least cost. We understand that, subsequently, a final decision on the PSO levy for the 2016/17 period will be issued by the CER by August 1st 2016.

In the interim, please do not hesitate to get back to me should any clarification be required.

Sincerely,

A handwritten signature in black ink, appearing to read 'M Ginnity', written over a horizontal line.

Maria Ginnity,

Principal Officer

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