



Limerick Chamber Submission on
Electricity Network Tariffs 2022/23
(National Energy Security Framework)

August 2022

Introduction

Limerick Chamber is the largest business representative body in the Mid-West, with c. 400 member organisations supporting 50,000 jobs across the region.

Limerick Chamber would like to thank the Commission for Regulation of Utilities (CRU) for the opportunity to submit our large member base views on the proposal for electricity network tariffs 2022/23 and we acknowledge, and commend, the hard and diligent work undertaken by the CRU.

However, we do note that a 2-week turnaround time, while acknowledging the scale and time implications of the issue, is inappropriate. Especially for businesses trying to crowd in resources, in an already constrained labour market, to allocate time to the consultation process to ensure they have their voice heard. After all, the core accompanying documents number 116 pages, therefore we recommend that this consultation period be extended to ensure that all business and stakeholders have time to have their voice heard and accurately read / analyse the accompanying documents and put their views forward.

Furthermore, considering the financial constraints this will implement on businesses, a lead in time of six weeks from opening of consultation to implementation of new tariffs does not allow businesses sufficient time to appropriately adjust their financial and operational model to account for the new costs – this will not happen in isolation, businesses are dealing with several issues currently, not solely energy issues. We also note that the CRU outlines that “The CRU acknowledges that there has not been the time necessary to carry out detailed analysis on the proposals developed, however it is considered prudent that action is taken now”. We consider it inappropriate that a detailed analysis has not been undertaken. Again, we acknowledge the time constraints and severity of the issue, but if the CRU has not had enough time to undertake a detailed analysis, we question how businesses are expected to do the same, in order to protect and ensure continuing business operations, in response to this public consultation.

We welcome the addition of “For a domestic customer, the additional network charges will add c. €26 to a typical annual bill. However, this is €17 lower than would be the case without these proposed new measures.” but note the same has not been outlined for business customers, including this would help businesses to plan for the proposed increases. However, we do note the inclusion of €311.51 increased annual cost for small commercial customers, due to the decrease in the public service obligation (PSO) Levy and the inclusion of the additional €89.10 for domestic customers.

Some of our members are currently facing extreme financial distress due to the increased cost in energy supply. It has some businesses wondering if they will make it through the winter. This will have significant implications on the economy and local communities unless steps are taken to significantly reduce energy costs for businesses.

Threatened Sustainability of Businesses

Businesses are dealing with a seemingly endless chain of crises. First Brexit, then Covid-19, then the resultant supply chain issues, followed by inflation and the increased cost of doing business all set against the backdrop of a constrained labour market. Now further sharp increases in energy prices may fatally impact on previously viable operations.

Every effort must be made to protect these businesses who have survived the last 30 months and who with adequate supports can continue to provide jobs and investment in the Mid-West. Businesses must be supported through this latest related crisis, to recover and ultimately to prosper.

As outlined in the primary consultation document (National Energy Security Framework Response Proposals) “...the CRU considers it important to take necessary actions to ensure a fair allocation of costs and also to incentivise customers, particularly the largest energy users, to reduce their demand.” With a reduction in demand, will likely come a reduction in output, a reduction in output will likely result in a reduction in staff. At a time where the European Economy, and indeed Global, are grappling with various issues (including a potential recession) we would question is now an appropriate time to decrease business output. We do note the seriousness of the situation and the implications this energy crisis is having and will continue to have. However, businesses will close unless there is intervention to ease the cost of energy.

Many of the proposals outlined in the public consultation document appear to be reacting to the energy supply at a point in time (which is likely difficult to assess with a large lead in time), or in the evening, Limerick Chamber represents several companies that operate on an almost 24-hour timeframe. These seemingly rapid changes depending on system demand and focus on 17:00 – 19:00 have the potential to negatively impact their business. Furthermore, customer focused businesses also do not have this flexibility.

We note that as part of the consultation process for these tariff changes that the CRU undertook consultation with EirGrid, The SEAI's Large Industry Energy Network (LIEN), ESBN Network, IBEC and Suppliers. We appreciate the inclusion of LIEN, given that some of our larger members are part of this group. However, the consultation process should have been expanded to include regional chambers (such as Limerick Chamber) and Chamber's Ireland. This would have ensured that smaller businesses that do not fall within LIEN would also have been consulted. However, we acknowledge that the changes will impact large energy users more. However, smaller businesses often operate on tighter margins. We note that as part of this consultation process that letters were issued to both Industry Governance Group (IGG) (made up of electricity suppliers) and IBEC at the end of June and beginning of July and question why this was not expanded to include other groups given the time and financial implications.

It is important to note that these proposed tariff increases are not happening in isolation, they are happening in tandem with supplier increases, other grid increases, other general inflation etc. There is the potential, with Ireland's soaring energy costs, that it will undermine the competitiveness of both the Irish economy and Irish businesses, especially those businesses that are deemed energy intensive. It is essential to maintain competitive pricing for energy at all times to continue to encourage inward investment.

However, while we acknowledge and commend the proposals to make the system as fair and flexible as possible, there are many concerns for businesses given the current climate.

Enterprise Competitiveness

Contracting Issues For Businesses:

Many businesses, particularly large businesses, contract their business-to-business operations on a long-term basis (several years). That is to say, they are obligated to meet the terms and conditions of the contract. Much of the focus of the tariffs introduced will be to shift electricity demand to outside peak hours. For businesses like the above this is almost impossible since their factories, for the most part, do not shut down. Therefore, it is almost impossible to decrease output to coincide with a reduction in energy demand or else they run the risk of breaching the terms and conditions of their contracts which will result in reputational damage.

Investing in Irish Stability:

Ireland is an attractive economy to invest in for multiple reasons, one of those reasons is stability. These potential price increases, implemented in a very short time frame, have the potential to damage Ireland's sustainability reputation abroad. They set a precedent for price increases to be implemented over a very short period with little time to plan from an organisational perspective.

Financial and Operational Planning:

Many businesses tend to carry out financial and operational planning months, and mostly, a year in advance. Implementing tariff increases at a time when they will be aiming to hit their quarter 4 and final yearly targets could be damaging to operational considerations given that there will be a price increase that they have not been able to plan for.

Upward Pressure on Wages:

Businesses are currently dealing with upward wage pressure from employees due to rising cost of living. This is largely driven by the cost of housing and the cost of running a home. Further rises in the cost of energy will likely increase this upward pressure on wage demands for businesses which can further influence their viability.

There is a danger that if costs continue to rise that decreasing the workforce may be seen as the only avenue to decrease overall costs.

Transmission Costs:

Kadri Simson, The European Commissioner for Energy, has previously outlined that transmission costs in Ireland are one of the highest in the European Union. She further outlined that system costs in Ireland are significantly higher than the rest of Europe.

Data Centres

Data centres are an essential part of modern-day life and an essential part of modern-day business activity. Ireland, reportedly, has an ideal climate for the construction and operation which is excellent value add to have when trying to attract and grow business. However, we note the additional strain that data centres put on energy demand. It appears to be a downfall with the data centre system that while several countries benefit, one country bears the cost. This is inappropriate, especially given the interconnectedness of the EU. While somewhat outside this public consultation, we ask that

mechanisms be analysed whereby countries that predominantly benefit from data centres are expected to contribute to the cost of resourcing them from an energy perspective. However, this will have to be weighted by population or some other metric considering Ireland is still small scale in terms of data centre activity.

Energy Strategy

Limerick Chamber has long been an advocate and driving force for investment in renewable energy, particularly offshore renewable energy (ORE) leveraging the natural resources of the Shannon Estuary. The energy issues we are seeing today should act as a warning that we are not moving towards indigenous renewable energy generation quick enough to protect business and residents of Ireland. Therefore, we would hope, and recommend, that the sense of urgency to transition to renewables is increased in order to protect our economic prosperity, businesses, our people and our climate. Furthermore, storage of wind energy must be improved to ensure a stable supply of energy going forward. Again, this must be advanced as a matter of urgency given the fluctuation of wind energy generation. Under REPowerEU, to promote the development of electricity storage capacities, the European Commission proposed to consider storage assets as being in the overriding public interest and allows for the facilitation of permitting for their deployment. Furthermore, REPowerEU operationalises the principle of renewable energy as an overriding public interest.

Following on from Kadri Simson's visit to Ireland in Summer 2022 she also outlined that Ireland should shorten the time it takes to get a permit for strategic renewable energy projects.

Currently, Ireland receives most of its energy from the United Kingdom through two pipelines in Scotland. If anything was to happen one of these pipelines it would have significant implications for Ireland – which means, not only does Ireland have to invest in indigenous renewable energy quickly, but we also need to diversify our supply.

As part of Ireland's sustainable energy future, it would be prudent to appoint a Minister (or Junior Minister) for energy with the sole responsibility of leading Ireland's energy strategy through supply, investment and security.

Funding Gap & Windfall Tax

If the proposals outlined in the consultation document are successful i.e. demand switching to outside peak hours, it is likely that less than the targeted €100 million will be raised. There needs to be more clarity provided around funding and what will plug the gap.

Limerick Chamber recommends a windfall tax on energy companies' large profits in Ireland, similar to so-called "Energy Profits Levy" that was implemented by the United Kingdom in May. This could be used to offset the increased cost of energy to commercial and domestic customers. However, care must be given to the windfall tax that it is not punitive and does not discourage future investment. Limerick Chamber is confident that a balance will be able to be reached between both a tax and not discouraging future investment.

Questionnaire Response

Transmission Revenue Allocation

1. Do you have any comments on the amount and distribution of the proposed transmission security of supply revenue allocation of €100m for the tariff year 2022/23?

Limerick Chamber recommends that the €100m be revised downwards to ease the already high cost of living and cost of doing business. There have been increased reports in the media in recent weeks of the scale of profits captured by large energy suppliers and we ask that some of these profits be offset to ensure easing of the financial burden on other businesses and domestic customers.

Tariff Review Proposals

2. Do Stakeholders have views on the collective suite of new proposals set out in this section?

Limerick Chamber and its members are of the view that increased cost of doing business will negatively impact business.

3. Should these arrangements be a temporary response to significant forecast security of supply costs for 2023 and 2024, or should a more enduring approach be considered?

If the measures are to be introduced, notwithstanding the potential negative impact they could have as outlined in this document, then they should be a temporary approach with any long-term or permanent change being part of a wider consultation process.

Peak ('ToU') Network Tariffs

4. Do Stakeholders have views on the appropriateness of the proposed TOU tariff, or the methodology used in the calculation of rates for 2022/2023?

The peak tariff proposal appears to be mainly designed to encourage businesses to switch demand to some points in the day outside peak hours. However, many of the businesses that we represent work on a 24-hour basis or else have customers to facilitate. Therefore, it is outside their control when they need electricity. Therefore, it is not appropriate for those businesses.

In relation to the proposed peak differential between 17:00 to 19:00 each day, this has the potential to significantly impact businesses, particularly those in hospitality i.e. Cafes, Pubs, Restaurants, Hotels and any other businesses, including factories, that operate outside standard working hours. Limerick Chamber members have already reported significant increases in the cost of running their businesses (primarily energy related) and these proposed increases will likely add to the financial pressure and affect the viability of doing business. The public consultation document outlines that "It is anticipated that this will lead to a reduction in demand at the critical peak period." Again, this can only work if a business decides to decrease their output, which some, or most, businesses are not in a position to do.

Increasing Block Tariffs

5. Do Stakeholders have views on the appropriateness, and level, of the proposed Increasing Block tariff, or the methodology used in the calculation of rates for 2022/2023?

As outlined in the primary public consultation document "The increasing block tariff will apply to large customers only (DG10/DTS-T). It is envisaged that this will encourage some XLEUs not to ramp up their demand as rapidly or as significantly in the critical short-term period." it is not clear in this regard what the "short-term period" references. The consultation outlines that it is a strategy for 2022/23 but mentions that energy issues will extend out to 2024. Clarity needs to be provided to stakeholders in order for them to accurately assess their position.

6. Do you have any comments on the treatment of new connections with regard to this proposed new tariff?

No.

System Alert

7. Do Stakeholders have any comments on the proposed introduction of a System Alert Tariff or the rates to apply for the tariff year 2022/23?

Similar to the Peak Network Tariffs, flexible businesses might be able to mitigate their costs. However, many businesses do not have this flexibility due to constraints outside their control. Furthermore, greater clarity needs to be provided around how much notice is provided to consumers when a system alert tariff is to come into effect.

In relation to the above and "The CRU proposes the introduction of system alert tariff aimed to incentivise a reduction in demand during system alerts. This would be achieved by levying charges at times when the system is in an Alert State due to insufficient margin. The system stress tariff would apply to large customers only (DG10/DTS-T)". Limerick Chamber asks for clarity on how much lead in time would be provided to businesses in terms of a system alert i.e. how far in advance do business learn of the issue.

Decarbonisation Tariff

8. Do Stakeholders have any comments on the proposed introduction of a Decarbonisation Network Tariff or the rates to apply for the tariff year 2022/23?

The businesses that Limerick Chamber represents would switch to 100% renewable energy if that was possible, however, unfortunately it is not due to existing energy provision in Ireland. Again, this tariff will allow flexible businesses to possibly switch to a time in which the System Non-Synchronous Penetration (SNSP) is below 25%. However, for businesses that do not have flexibility it will negatively impact their operations. We note that billing to network companies will have to be a manual process as there is not enough time to update the software to issue bills based on the tariff. However, Limerick Chamber seeks clarity as to whether this will carry down the line to commercial customers and increase their administration burden.

9. Do Stakeholders have a view on the SNSP level proposed for the setting of this tariff?

The System Non-Synchronous Penetration (SNSP) should be revised downwards. EirGrid, has two months of data available on their website for SNSP, the data outlines that the average and median SNSP for July 2022 was 23.0% and 21.8% respectively, for August it is 20.9% and 15.8%. For July, based on half hourly data, SNSP was below 25% in 59.4% of observations. For August, it was below for 67.8% of observations. This suggests the target SNSP figure is likely overstated and should be revised downwards to a more attainable level. However, we acknowledge that the above data is for summer months, when wind energy generation is likely lower than it is in Autumn or Winter.

Supplier Led

10. Do you have any comments on the proposed Supplier-led approach for the tariff year 2022/23?

Limerick Chamber asks that energy suppliers proactively engage with businesses and business representative organisations as part of the development of products and initiatives.

11. Do you have any comments on the proposed plan to accelerate ESNB's NNLC Demand Reduction Schemes for the tariff year 2022/23?

We welcome the national campaign to decrease demand, this should act as an information campaign for stakeholders to fully understand the changes and take the appropriate actions. We note that another strand is "Targeting the LEU market to provide significant demand response capability through financial incentive" greater clarity will have to be provided as to what this financial incentive will entail and how much of the new costs it will offset. More information to this question is contained in the answer to question 12 below.

12. Do you have any comments on the recommendations contained within ESNB's recommendation paper?

Limerick Chamber welcomes both Beat the Peak Domestic and Commercial (BTP-D and BTP-C) campaigns. Furthermore, we welcome the pilot and evidence-based aspect of both campaigns. We advise that both the CRU and ESB advise and inform customers ahead of time of any scheduled changes and how to mitigate these changes. The two initiatives mention financial rewards and other incentives, more clarity needs to be provided as to what this would entail outside of the high-level points included in the document i.e. euro value of reward and how it will be calculated and how much of the increase in costs can be offset by incentives.

Domestic (BTP-D)

Pillar two of BTP-D outlines that customers will need to sign up to receive the content, while we acknowledge the attempt to monitor engagement for the pilot, this information should be freely acceptable for everyone and then perhaps include a sign up for those that are willing to engage. We also note that this will be predominantly a digital campaign, we would recommend that this be an all-encompassing campaign where older cohorts, less likely to be digitally focused, can also obtain the information. The interventions and behavioral change mentioned in under BTP-D are also welcome and should help to reduce domestic usage, where appropriate

Commercial (BTP-C)

While acknowledging the reputational benefits to the "pledged scheme" we would also recommend that this includes financial compensation to both increase take-up and allow for offsetting of increased energy supply prices.

Limerick Chamber welcomes the inclusion of financial compensation for businesses under the active scheme, however, this should not be solely targeted at customers with large loads and there should be a more equitable aspect to the active scheme. Furthermore, more detailed information on the exact € per kWh should be provided in advance.

The Business as Usual (BAU) baseline load data is outlined to be calculated from Winter 2021 and Winter 2019. Many businesses were still feeling the operation effects of Covid-19 in Winter 2021 and may have not been back up and running fully. This creates an artificial BAU figure for businesses that were operating under what they would be normally which will likely increase the distance between their BAU figure for 2022. Therefore, we ask that the ESB and CRU are mindful of this and factor it into any future analysis.

Outside of the pledged and active scheme we would encourage the ESB and CRU to directly liaise with businesses so they might understand the new tariff costing mechanisms and how they might mitigate these increased costs.

Conclusion

Limerick Chamber would like to thank the CRU for the opportunity to submit our members' views on the proposed electricity network tariffs 2022/23. We acknowledge the severity of the issue and the time sensitive nature of the issue. However, we recommend that a longer and wider consultation process be undertaken as part of this proposed change including an economic impact assessment. As outlined earlier in this document the lead in time for businesses to submit a response is incredibly short, so too is the lead in time from the opening of the consultation to the implementation of tariff changes (6 weeks).

Limerick Chamber members have already seen their energy bills rise by a substantial amount; further increases are likely to affect the viability of doing business. For Ireland to remain competitive, and attractive to investment, price stability and affordability in the energy market must be ensured so businesses can accurately plan for the future.

Furthermore, many of the measures allow businesses to mitigate (somewhat) the increases in cost if they can be flexible. However, many businesses do not have this flexibility due to circumstances outside their control. Analysis needs to be carried out on the scale of impact that these changes will have on businesses and their operations going forward with a financial support mechanism also put in place.



Limerick
Chamber
Advancing business together

