



Stephen Powell
Commission for Energy Regulation
The Exchange
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Tadhg O'Briain
Northern Ireland Authority for Utility Regulation
Queens House
14 Queen Street
Belfast
BT1 6ER

14 March 2008

RE: Bidding the Opportunity Cost of Carbon Allowances

Dear Mr. Powell/Mr. O'Briain,

The IBEC Large Energy Consumers Group (LECG) welcome the opportunity to submit comments regarding the Regulatory Authorities consultation paper *Bidding the Opportunity Cost of Carbon Allowances*. The LECG represents the interests of Ireland's largest energy consumers.

Secure, competitive and environmentally sustainable energy supply is crucial to Ireland's economic prosperity and is experiencing a period of great change driven by concerns over climate change and fuel supply security - the business community is fully supportive and committed to the environmental objectives of EU and National policy. However, retaining international competitiveness, while achieving targets, requires the implementation of the most cost effective and equitable solutions.

Sustaining the competitiveness of our export driven economy is dependent on the relativity of our cost base with that of our competitors. As highlighted in the 2007 National Competitiveness Council report Ireland has experienced a significant loss in international price competitiveness, particularly in energy:

"Energy costs in Ireland have increased dramatically in recent years, and are a key concern of the enterprise sector. The price of electricity in Ireland has gone from 3.9 percent below the EU-15 average in 1997 to 18.7 percent above in 2007. Inflation in electricity costs in Ireland averaged 5.2 percent per year over the decade to 2007, significantly higher than the EU-15 average (2.95 percent)".

NCC, 2007

This disconnect between Irish energy prices and those of our competitors is of great concern for Irish business particularly as we enter a period of significant and costly investment in much needed energy infrastructure and reshape our fuel portfolio to less carbon intensive more costly technologies, primarily wind.

In order to regain competitiveness it is of the utmost importance that the most economic and equitable policies are implemented. In terms of the treatment of carbon in the SEM the LECG do not believe that the Regulatory Authorities or the Governments are acting in the interests of consumers. While the LECG recognise the Regulatory Authorities commitment to the delivery of a cost reflective wholesale market, the LECG do not believe it equitable that generators charge the full opportunity cost of carbon while, as



stated in Ireland's National Allocation Plan 2008-2012, the power sector receive up to 68 percent of carbon credits free under the EU-ETS.

It is the understanding of the LECG, that the RA's had expected electricity suppliers to compete away the cost of carbon, however, due to the lack of competitive forces in the Irish market this has not occurred with the unwarranted full cost of carbon being passed on.

The LECG does not accept the view that it is not the RA's responsibility but that of the Governments to intervene through the implementation of a windfall gains tax. It is the role of the RA's to act in the interests of the consumer – in the absence of action by the Governments the RA's must meet their obligation.

The LECG, therefore, contend that the RA's and the Governments must agree the responsible body for this issue - If it is the Governments, windfall tax revenues must be recycled to alleviate the significant investments costs in grid infrastructure; if the RA's, a mechanism must be implemented to remove carbon costs from retail prices that does not undermine the cost reflectivity of the wholesale market.

At its core this is a question of competitiveness and the fair and equitable recovery of costs. Given the current lack of competition in the Irish electricity market the RA's must ensure the fairness of charges incurred by consumers. The IBEC LECG call on the RA's to urgently agree a strategy with the Governments North and South with a view to recouping the excessive carbon costs to the benefit of consumer electricity prices.

Yours sincerely,

Barry Leonard
Chairman, IBEC Large Energy Consumers Group