Chambers Ireland submission to the Commission for the Regulation of Utilities on the Electricity Network Tariffs 2022/23 – National Energy Security Framework Response Proposals

September 2022

Key points:

- The DG10 elements an affect a limited number of firms, typically data centres and large pharmaceutical plants. The broader business community is extremely concerned about the balance of the increases which are going to affect businesses across all sectors to a significant degree.

- It is likely that the expected increased cost of supply which is being charged to the commercial sector will be larger than has been projected.

- The effectiveness of the Extra-Large Energy User policies has an internal contradiction as it attempts to be both behavioural and revenue generating. There is the strong likelihood that should it be effective in reducing consumption by Extra-Large Energy Users during peak periods, it will also fail to increase the revenue which is generated, ergo a greater than projected share of the increased energy costs will be borne by the non-Extra-Large Energy User commercial base.

- Short timeline for this consultation is extremely unfortunate and will be detrimental to the policy achieving generalised support within the business community.

- The limited engagement by the Regulator with a wider group of business representatives has hurt the business community's awareness and understanding of the policy.

- The timing of the consultation has reduced potential engagement by stakeholders.

- The short lead time from opening of the consultation to the implementation is likely to provoke greater resistance within the commercial sector, and speaks to an unpreparedness – or a lack of contingency planning – on the part of the regulator, and undermines the commission's credibility.

- There is a widespread sense that businesses are paying significantly, and outsized, energy price increases and that this policy is, to an extent, a form of repeated taxation/punishment.

- There is a widespread believe that the systemic weakness of the all-island electricity network is a consequence of poor policies and planning by multiple agents within the system (including the regulator, government, officials, and semi-states) and that the current 'blame game' is not useful given that all players have made strategic errors – it is however the wider society, and the business community in particular, that is likely to bear the consequences of these errors.

- The most efficient and effective way of ensuring that peak energy needs are met is by minimising and mitigating the demands that are placed on the system during the hours in question. This policy suite is more heavily focused on the stick than the carrot. It is seen as being blunt and punitive. With the role out of the policy public awareness will become greater and with that sentiment will stiffen.

- For many businesses, peak energy hours are also peak trading hours. And in the immediate term they are unlikely to be able to alter and adjust business practices to avoid the increased costs.

- Greater resources should be put to 'carrot' policies such as the 'Beat the Peak' concept to educate, facilitate, and positively incentivise businesses to shift their energy usage away from peak periods. Such campaigns have a ready call to action, whereas blunt price increases will squeeze vulnerable sectors (such as hospitality) to the point on undermining the businesses.

- With such a widespread, externally induced, price shock hitting our economy it is likely that the impact on the business sector, particularly the domestic business sector, will be pronounced. However, the impact will not be flatly distributed, and many sectors – particularly those with a large labour component of production – are likely to be strongly affected. If the wider economy is to weather the storm and adjust to the new energy price climate, then the most vulnerable need to be protected while those best able to carry the burden will need to bear the brunt. To the extent that this policy suite is seen as being punitive, it undermines the solidarity that will be needed if we are to mitigate the worst effects on our society and our economy.

- More needs to be done to maximise the benefits associated with micro-generation. Our business members have discussed the bureaucratic challenges that they face supplying the network with their excess locally-generated electricity. The response to the 6Kw single-phase limitation is to either delay the installation of local photovoltaic systems (often definitely) or to sign up to the 6Kw limit and then spill-over excess electricity beyond the 6Kw limit. Where this excess electricity is being transferred to the local distribution network it is our understanding that this can lead to over-voltage and damage to the local grid. The repairs for these events are higher than the preparatory works that would have been done had the correct arrangements been followed and the costs of them are socialised as a result of the damaged network. Given the increasing energy costs and the low level of awareness outside of the electrical engineering community of the downsides of this such 'spill-over' it is likely that the frequency of such incidents will increase over the short to medium term.
    - **Could the regulator consider whether there is an efficiency to be gained in simplifying the existing system and socialising the costs of the preparatory works in these instances rather than socialising the costs of the unintended outcome of this policy constraint?**

      This would increase generative capacity, increase the resilience of the networks, and have a net lower cost for the consumer.

- Finally, the regulator must review our broader energy system policy and ensure that our plans to upgrade our transmission, distribution and generation networks are both rapidly accelerated and that greater ambition is demanded of the service providers throughout. The businesses community demands both efficiency and effectiveness from our energy system, but resilience is prioritised over price, the commission's regulation of the market has overweighted the price element (given rational concerns about stranded assets and the cost of 'gold-plated' infrastructure) but an overly-'efficient' system is also a fragile one, there is a trade off between capacity to deliver at the lowest price and the capacity to ensure there is a rich and resilient energy system that can guarantee reasonably priced electricity even when the distribution of systemic risks are fat-tailed.

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Transmission Revenue Allocation

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?

The CRU has acknowledged in this proposal that there has been limited time to fully determine an appropriate revenue amount. Chambers Ireland would caution that recouping an arbitrary figure such as €100m, based on limited research and uncertainties surrounding its potential efficacy, is problematic.

It is proposed that these new tariffs will focus the recovery of a portion of security of supply related costs to peak times, times of low wind and system stress, and to the customers driving the largest growth in energy demand. In the past 12 months, businesses of all levels are facing mounting costs as a result of inflation, global supply-chain disruption, Covid-19 recovery, the impact of Brexit, and energy security issues in the wake of Russia's invasion of Ukraine.

The effectiveness of this suite of measures has an internal contradiction as it attempts to be both behavioural and revenue generating. There is the strong likelihood that should it be effective in reducing consumption during peak periods, it will also fail to increase the revenue that is generated. Changing customer behaviours in relation to energy consumption is an intended consequence of these new measures and will reduce demand during peak or constrained periods of consumption. However, this may mean that the defined revenue target of €100m may not be reached. This could have a detrimental knock-on effect in future that would require additional measures to be implemented and would put customers under more pressure. It is quite possible that the anticipated increased cost of supply that is projected and charged to the commercial sector will end up being much larger than originally forecast.

With such a widespread, externally induced, price shock hitting our economy it is likely that the impact on the business sector, particularly the domestic business sector, will be pronounced. However, the impact will not be flatly distributed, and many sectors – particularly those with a large labour component of production – are likely to be strongly affected. If the wider economy is to weather the storm and adjust to the new energy price climate, then the most vulnerable need to be protected while those best able to carry the burden will need to bear the brunt. To the extent that this policy suite is seen as being punitive, it undermines the solidarity that will be needed if we are to mitigate the worst effects on our society and our economy.

Tariff Review Proposals

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

Chambers Ireland reached out to its network of Chambers across the country for feedback on these proposals. These Chambers reached out to their Member companies in turn to gather a response. Unfortunately, the period of time allocated for this consultation was insufficient to gather as rich a range of thoughts and opinions from across the network as we might otherwise have been able to do.

The short timeframe for this consultation will be detrimental to the policy achieving generalised support within the business community. It is disappointing that there has been limited engagement by the Regulator with a wider group of business representatives and the short lead time from opening of the consultation to the implementation of the new tariff structure is likely to provoke greater resistance within the commercial sector and undermines the Commission's credibility.

Chambers Ireland would like to emphasise that concerns over the cost of energy for businesses has been a predominant concern for members for the last six months. The impact of the Covid-19 pandemic has been detrimental to the business community and many businesses were forced to close their doors in the face of rising costs and diminished revenue as a result of the public health measures that were put in place. For the businesses that struggled to survive and continued trading, energy prices represent an increasing obstacle to returning to normal levels of activity.

Our members have recorded severe increases in their energy bills. Increases that are making their businesses unsustainable. These new tariffs, particularly the new peak tariff, will disproportionately impact certain businesses, including factories, hotels, cafes, restaurants and pubs, as peak energy hours represent peak trading hours and, in the immediate term, they are unlikely to be able to alter and adjust business practices to avoid the increased costs. These businesses have also been some of the hardest hit by the Covid-19 restrictions.

Therefore, it is disappointing that the suite of measures proposed by CRU have not been given the appropriate time needed to have a comprehensive consultation process. The National Energy Security Framework (NESF) was published by Government in April 2022 and there were three actions directed at CRU that have been addressed in this suite of proposals. Why are we now at the stage where it is September and these actions have only just been raised? This is unfair on customers that are already struggling to meet rising costs.

The document lists the closure of large electricity generation units, the failure of contracted generation capacity to deliver, accelerated degradation of the existing fleet as it responds to intermittent wind generation, and significant demand growth across some sectors of the economy as reasons for our current position where Irish energy security is in doubt as we head into Winter. Increased demand is only one factor and it's also a factor that has been predictable, as steady planning approval has been granted over the years for data centres across the country.

There is a widespread believe that the systemic weakness of the all-island electricity network is a consequence of poor policies and planning by multiple agents within the system (including the regulator, government, officials, and semi-states) and that the current 'blame game' is not useful given that all players have made strategic errors – it is however the wider society, and the business community in particular, that is likely to bear the consequences of these errors.

We urgently need a re-enforced energy grid that can take on board more renewable energy, transport power from where it's made to where it's needed, and is much more resilient.

The failure to accelerate the development of the offshore wind energy industry is a key failing in creating a robust and resilient energy system on the island.

As a result of inaction and a slow rate of progress, customers are now being hit with energy bills that have doubled and tripled in a very short period of time. This is unsustainable and the penalisation of customers through increased Tariffs is unfair.

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?

The measures that have been proposed are being introduced with minimal notice and it has been acknowledged that certain elements, including the calculation of the security of supply revenue calculation, have been adopted without due time for an appropriate impact assessment.

The importance of energy security is not a new conversation, but it has been brought into sharp focus in the wake of Russia's invasion of Ukraine. The other contributors that have led us to this point of supply and demand friction includes the closure of large electricity generation units, the failure of contracted generation capacity to deliver, accelerated degradation of the existing fleet, and significant demand growth. As mentioned above, increased demand is the only factor that is attributable to customers, however, the customers in question, primarily data centres, have received Government backing and are seen as positive contributors to Ireland's national economy.

Customers should only be required to bear these security of supply costs temporarily, as a last resort, to supplement the efforts that are underway to develop the necessary infrastructure for a full green transition. For this reason, the Decarbonisation Tariff may have a justification that can be extended beyond 2024. However, the new tariffs should be closely monitored to ensure they are only having the intended effect and should be removed at the earliest possible opportunity. This is important for customer confidence and certainty.

Peak ('ToU') Network Tariffs

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

Chambers Ireland has supported the introduction of Smart Meters in the past as a means for customers to make more informed decisions on how and when they consume energy. As a concept that promotes cost-saving opportunities and a more even distribution of network capacity throughout the day, smart meters and different tariff rates could be effective in promoting behavioural change.
However, the current proposal on the introduction of a Peak (ToU) Network Tariff raises the following issues:

i. The application of the proposed Peak (ToU) Tariff is being unfairly applied. Customers in DG6 have been excluded due to the complexity of configuring meters to calculate usage at different points in the day. This represents an inequitable burden on other customers and negates the proposed benefits of changing behaviours and shifting consumption to non-peak times in the day. #

ii. The application of Peak Tariffs will also negatively impact certain customers that are unable to adapt their energy consumption to non-peak times. As mentioned above, the hospitality sector is one such example of a category of customers where opportunities to minimise consumption of energy during peak times will be particularly limited. This means that certain sectors will have to bear the higher peak tariffs if they want to continue running their business. This will create an additional burden at a time when the cost of doing business has already risen exponentially through inflation, supply-chain disruption and the impact of Covid and Brexit on trade.

iii. We acknowledge that the most efficient and effective way of ensuring that peak energy needs are met is by minimising and mitigating the demands that are placed on the system during the hours in question. However, this policy proposal is more heavily focused on the stick than the carrot and will be seen as blunt and punitive. Greater resources could be put to 'carrot' policies, such as the 'Beat the Peak' concept to educate, facilitate, and positively incentivise businesses to shift their energy usage away from peak periods. Such campaigns have a ready call to action, whereas blunt price increases will only squeeze vulnerable sectors.

iv. It is disappointing that an in-depth review of cost allocation/cost drivers has not been possible in the timeframe and that such a review will only be possible as part of the Network Tariff Review Project that will take place for the 2023/2024 tariff year. This is once again indicative of the short timeframe for establishing this National Energy Security Framework Response.

v. Finally, as mentioned above, there is uncertainty around the revenue generation potential of Peak (ToU) Network Tariffs. If the new Tariff results in the desired effect of a material shift in demand, Network Companies may under-recover and may not reach the desired security of supply revenue of €100m. This could lead to more uncertainty for customers and the need to introduce more restrictive tariffs in the 2023/2024 tariff year. This could be very detrimental for businesses facing narrow margins and the threat of closure.

Increasing Block Tariffs

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?

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

The proposal for increasing Block Tariffs seems to be proportionate and appropriate in light of the burgeoning energy crisis and the security of supply risk.

Each customer is assessed individually and assigned a pre-determined threshold that they will be measured against. This means that customers will only be charged additional Block Tariffs where they exceed their projected usage, which is based on last year's figures.
The purpose of these National Energy Security Framework Response Proposals is to encourage customers to reduce their usage. Domestic and small commercial customers will be making changes to their energy consumption in order to reduce their energy costs, so it is appropriate that larger users should also be adapting. Extra Large Energy Users should be able to carry out their operations in line with last year's usage and, where this is not possible or where they have grown their operations, Extra Large Energy Users should be adopting new flexible demand technology.

We would caution that it is unclear whether the impact of Covid-19 in 2021 may have reduced certain users' energy consumption. This may mean the starting threshold is not indicative of full capacity and will represent a lower baseline than may be expected. Similarly, certain customers may also have experienced technical issues or significant unscheduled downtime in the last year that would also negatively restrict their base threshold and leave them at a disadvantage under these proposals.

New connections will be charged a higher rate of Block Tariff. As this will only apply to new Extra Large Energy Users, it is proportionate given the increased demand they will exert on the system.

System Alert

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?

System Alerts indicate that the margin between supply and demand is tight, and the loss of generation could result in an Emergency State being declared. The possibility of blackouts is a concern as we move into Winter 2023/2024. Therefore, extra measures need to be put in place to help mitigate this risk, however, it is recognised that System Alert Tariffs will only impact large, inflexible customers who cannot easily minimise or change their energy usage during a system alert.

In the past, System Alerts were a rare occurrence with four in total being issued in the four years between 2017 and 2020. However, there were six System Alerts in 2021 and, already to date, there have been eight in 2022. As mentioned above, increased demand is only one factor in the rise of these Alerts. Failure to progress at pace with required maintenance and development of new and necessary grid infrastructure is largely at fault for demand outstripping supply and for the narrow margins in the system. Therefore, penalising large energy users with a significant new tariff and the potential application of this tariff over the next few years, as we face the potential of more System Alerts, is unfair.

Chambers Ireland agrees with the concept that all customers should be conscious of System Alerts and should work to mitigate their energy usage during these times. Large energy users should also be actively encouraged to install or implement flexible demand technology and a collaborative approach should be adopted. After all, these energy users have invested in

Ireland as a country to do business and have been supported and encouraged to set-up their operations here. They are often high-tech businesses that could offer solutions and support to solving Ireland's energy crisis. A purely punitive approach is not fair and may not have the desired effect.

Decarbonisation

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?

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

The Decarbonisation Network Tariff has the potential to be an effective mechanism in the development of a high renewables, low carbon electricity system. In the Government Statement on the Role of Data Centres in Ireland's Enterprise Strategy, a set of national principles was established to inform and guide decisions on future data centre development. These principles include:

- A preference for data centre developments that can demonstrate the additionality of their renewable energy use in Ireland.
- A preference for data centre developments in locations where there is the potential to co-locate a renewable generation facility or advanced storage with the data centre.
- A preference for data centres developments that can demonstrate a clear pathway to decarbonise and ultimately provide net zero data services.

These principles were only established in July 2022. In the preceding years, planning decisions in relation to data centre development in Ireland may have been more heavily focused on the positive economic impact that they have had on the Irish economy. They have created new employment opportunities and improved our national competitiveness as a country open to foreign direct investment for digital services.

As acknowledged in the proposal, many Extra-Large Energy Users are already active in seeking to decarbonise the carbon intensity of their energy consumption, and have adapted their operations to use more electricity when renewable generation is higher.

The introduction of a Decarbonisation Network Tariff has a clear objective of reducing the strain on the network during times of limited renewable power. This is pertinent as we face into an energy crisis that is expected to last into 2023/2024 and beyond. However, on average over the last five years, 36 percent of each year would be subject to SNSP of 25 percent or lower and would fall within the threshold of this tariff.

Although this level should reduce over time as we scale up our renewable energy infrastructure with the new Marine Area Planning Act (MAPA) framework coming into operation, we must monitor the impact of the Tariff on Extra-Large Energy Users and their broader operations in Ireland.

Our slow rate of pace in implementing MAPA and establishing the corresponding regulatory authority (MARA) is an issue stemming from Government inaction. Private companies that are large employers, contribute to our GDP and help establish Ireland as a competitive and attractive hub for digital services should not bear the brunt of slow public investment in renewable infrastructure.

Supplier Led

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

Chambers Ireland is supportive of this approach and section 5.5.1 is a comprehensive risk assessment that recognises the key issue of incentivising suppliers to come up with new, innovative ideas.

It is also important that the quarterly reporting obligation is formally established, monitored and adhered to, as it will keep supplier-led innovation on the agenda.

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

Do you have any comments on the recommendations contained within ESBN's recommendation paper?

Chambers Ireland is supportive of the ESBN's plan to accelerate the NNLC Demand Reduction Schemes. The schemes include Beat the Peak - Domestic and Beat the Peak – Commercial, both of which represent an important, educational and non-punitive response to the energy crisis.

At a time when individuals and businesses are facing mounting costs, with energy being a key contributor, the NNLC Demand Reduction Schemes focus on developing creative, impactful and cost-effective mitigations that will benefit all customers, both domestic and commercial. Beat the Peak- Domestic will focus on raising awareness among consumers about ways in which they can reduce their energy bills by making simple changes to the ways in which they consume energy on a daily basis. The proposals are ambitious, wide-reaching and informed by comprehensive research. It is also positive that incentive schemes are being implemented and tested to assess their effectiveness in changing behaviours and reducing the strain on the energy system.

Beat the Peak – Commercial will be of particular interest to Chambers Ireland's members. The initiative consists of both a Pledged Scheme and an Active Scheme. Businesses will be receptive to the information-sharing campaign, as we know from engagement with our members that energy costs are a key issue and any advice or cost-saving scheme will be very useful at a time when the cost of doing business is higher than ever before.

BTP-C has the potential to educate, facilitate and positively incentivise behavioural changes in businesses' consumption of energy without being punitive or restrictive.

The financial compensation that is also promised as part of the Active Scheme will encourage positive engagement across the businesses that meet the qualifying criteria.

We also welcome the methodology for establishing the BAU demand baseline that proposes to use customer load data from Winter '21 and Winter '19 in recognition that Covid-19 may have caused atypical usage in Winter 2020.

Overall, the proposals seem to be measured, fair, wide-reaching, comprehensively researched and grounded in evidence. They should be a very welcome response to the energy crisis.