



Society of St. Vincent de Paul

Proposed 2020/21 Public Service Obligation Levy

SVP Submission to the Commission for the Regulation of Utilities

JULY 1, 2020

SVP SOCIAL JUSTICE AND POLICY TEAM

The Society of St Vincent de Paul (SVP) welcomes the opportunity to respond to the CRU's consultation on the PSO Levy.

SVP supports people in poverty and facing hardship through a network of 1200 local conferences and over 11,000 members. We offer friendship, support and direct assistance, last year receiving over 160,000 calls for assistance from members of the public. One of the main areas we support people with is energy poverty: people who cannot afford to stay warm due to low income, poor housing and the cost of energy. This submission begins with a brief overview of energy poverty in Ireland and highlights the particular risk of energy poverty for lone parent families who are the group we support most often at SVP. The next section examines the proposed increases to the PSO levy and the fluctuations that result from the calculation methodology, before concluding with our recommendations.

Energy poverty in profile

A household is considered energy poor if it is unable to attain an acceptable standard of warmth and energy services in the home at an affordable cost. According to the Department of Communications, Climate Action and Environment households are defined as energy poor if they spend more than 10 per cent of their disposable income on energy costs in any one year, in severe energy poverty if spending more than 15 per cent, and in extreme poverty if spending 20 per cent or more.¹ Based on this approach, the ESRI estimated that in 2019, one in six households (17.4 per cent or approximately 302,000 households) in Ireland were spending more than 10 per cent of their income on energy, with older people living alone and lone parents significantly more likely to fall into this category.²

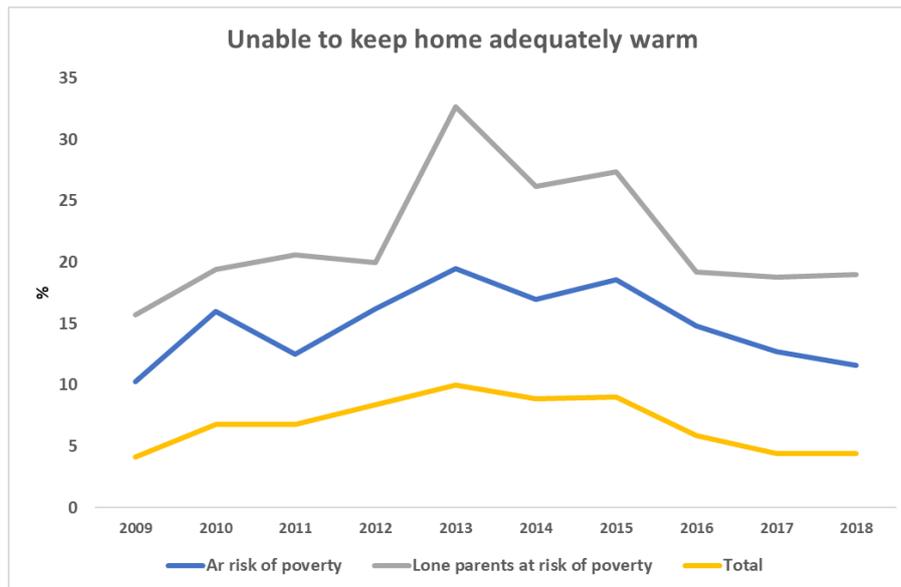
Subjective measures collected from the Survey of Income and Living Conditions, which captures the most severe and extreme forms of energy poverty, shows that 4 per cent of individuals are unable to keep their homes adequately warm in 2018³ and 7 per cent went without heating due to cost.⁴ For those experiencing poverty, that figure rises to 12 per cent of people. For certain groups the risk is much higher, and 19 per cent of lone parents in poverty are unable to keep their home adequately warm.

¹Department of Communications, Energy and Natural Resources (2016): A Strategy to Combat Energy Poverty 2016-2019, Dublin

² Bercholz and Roantree (2019) Carbon Taxes and Compensation Options
<https://www.esri.ie/system/files/publications/BP202001.pdf>

³ EU-SILC survey [ilc_mdcs01]

⁴ CSO (2019) Table 3.5a Percentage of the population experiencing each type of deprivation by poverty status and year – SILC 2018
<https://www.cso.ie/en/releasesandpublications/ep/psilc/surveyonincomeandlivingconditionssilc2018/povertyanddeprivation/>



Over the last ten years we have witnessed dramatic changes in the numbers of people who are unable to keep their homes warm, an initial significant increase following the recession, and since 2013 a very welcome decline. The graph above shows that across the total population, rates have dropped from a high of 11 per cent in 2013 and have now stood steady for two years at 4 per cent⁵. For those in poverty 2013 also saw a high of 20 per cent of people unable to stay warm, and the most recent data has that figure at 12 per cent – still a significant amount.

For the household type at highest risk, lone parents, in 2013 a third of families in poverty couldn't keep their homes warm. This rate too has declined by over ten percentage points but is holding steady at 19 per cent for three consecutive years. For every year out of the last ten lone parent families in poverty have had a higher risk of being unable to keep their homes warm than other families in poverty, signalling the particular hardship faced by lone parents.

Energy Costs and Utility Arrears

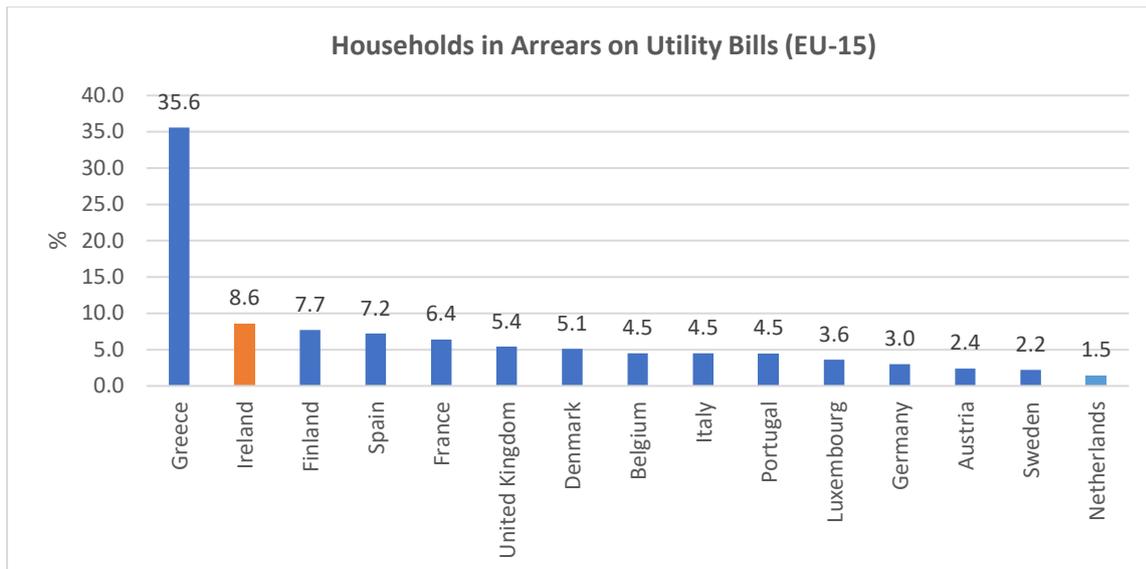
It is widely accepted that energy poverty is a function of three factors: household income, the cost of energy and the energy efficiency of a home. The ability of households to pay their utility bills on time is largely determined by the adequacy of their income and the cost of energy. In terms of price per kWh, since 2010 average electricity prices for household customers including taxes and levies have increased by 41 per cent.⁶

In 2018, to 8.6 per cent of the total population were in arrears on their utility bills, compared with 3.3 per cent of households with one adult over the age of 65 and 11 per cent of households with children were in arrears.⁷ This is the second highest rate among EU 15 peer countries.

⁵ EU-SILC survey [ilc_mdcs01]

⁶ Source Eurostat [nrg_pc_204] – based on Band DC : 2 500 kWh < Consumption < 5 000 kWh

⁷ Source: Eurostat EU-SILC Survey [ilc_mdcs07]



One factor that may explain Ireland’s comparatively poor performance on this indicator is that the demand for energy increases with household size and on average Ireland has a higher number of people per household compared to other European countries.⁸ However, Ireland also stands out from other EU countries in terms of the cost of energy and electricity. Last year Ireland had the fourth most expensive electricity among EU 27 countries⁹. Some of the main driving factors in Ireland’s high cost of electricity is the over reliance on imported fossil fuels, in particular oil, the continued need for investment in the grid due to increased demand and the amount of taxes applied to customer bills.¹⁰

While the income inadequacy is a factor, the high cost of energy in Ireland should be considered a key contributor to the comparatively high rate of utility arrears. It is clear there is a need to future proof energy prices through enhanced regulation to protect those on the lowest incomes from the impact of future price hikes and to mitigate the regressive application of Public Service Obligation (PSO levy).

SVP are concerned that as we emerge from COVID-19 a significant proportion of households will be in energy debt. Energy usage during the restriction has increased as people are at home more, and many households will experience bill shocks at a time when they are on a reduced income. This must be factored into decisions regarding the application of the PSO levy in 2020/2021, as the proposed 184 per cent increase in the PSO levy will add additional pressure to already struggling households.

Proposed increase to the PSO levy

SVP welcomed the consecutive decreases in the PSO levy between 2018/19 and 2019/20 due to the negative R Factor from previous years.

SVP recognises the PSO levy as now primarily supporting the transition to renewable energy systems. The current Department of Communications, Climate Action and Environment (DCCA/E)

⁸ Sustainable Energy Authority of Ireland (2018) Energy in the Residential Sector <https://www.seai.ie/publications/Energy-in-theResidential-Sector-2018-Final.pdf>

⁹ Eurostat (May 2020) Electricity Price Statistics https://ec.europa.eu/eurostat/statistics-explained/index.php/Electricity_price_statistics#Electricity_prices_for_household_consumers

¹⁰ RTE Brainstorm Article, 1st February 2018, “Why are Irish Electricity Prices so High”, <https://www.rte.ie/brainstorm/2018/0201/937575-why-are-irish-electricity-prices-so-high/>

states that this levy is vital to enable Ireland to meet its 40 per cent target for electricity generated from renewable sources by 2020. In 2018, SEAI reported that 33.3 per cent of electricity came from renewable sources and Ireland had the 12th largest share of RES-E of the 28 EU member states in 2018¹¹.

This transition to renewable energy is hugely important and is a significant step towards halting climate breakdown and rectifying our over reliance on fossil fuels. Importantly, this target must not come at an increasing cost to the energy poor customer. The transition must be socially just, protecting the poorest in society as we make the necessary changes in technologies and policies. Therefore, the regressive nature of significant increases in a flat amount Domestic user’s PSO Levy must be mitigated. We believe as we near our 2020 target, we need to re-examine a mechanism put in place 15 years ago in terms of its efficacy and impact on the vulnerable members of our society.

The following section examines the impact of increasing the Levy from €2.84 to €8.06 for households on different income and shows that flat rate amount leads to a heavier burden for low income households. This has been examined in depth by the ESRI who have shown that applying the Levy as a flat rate falls heaviest on low income customers, who also tend to use less energy¹². They suggest making the Levy rate proportional to usage, with social transfers protecting low-income high-energy users.

Impact of changes

Applying the PSO Levy as a flat amount across all bills leads to low energy users paying a comparatively higher proportion of their bills and a higher proportion of their overall income. This is exacerbated as the levy increases. The below table illustrates this with the example of two households.

	<i>Current rate scenario</i>				<i>Proposed rate scenario</i>	
	Family A	Family B		Family A	Family B	
Usage X Unit Price	€100	€200	Usage X Unit Price	€100	€200	
Standing charge @ 50c/day	€15	€15	Standing charge @ 50c/day	€15	€15	
PSO Levy	€2.84	€2.84	PSO Levy	€8.06	€8.06	
VAT @ 13.5%	€15.91	€29.41	VAT @ 13.5%	€16.61	€30.11	
Total bill	€133.75	€247.25	Total bill	€139.67	€253.17	
PSO Levy as % of bill	2%	1%	PSO Levy as % of bill	6%	3%	
Controllable costs %	87%	93%	Controllable costs %	83%	91%	
Monthly income	€1500	€4000	Monthly income	€1500	€4000	
Bill as % of income	9%	6%	Bill as % of income	9%	6%	
PSO % of income	0.2%	0.1%	PSO % of income	0.5%	0.2%	
			Increase in bill	4%	2%	

¹¹ SEAI (2020) Renewable Energy in Ireland. <https://www.seai.ie/publications/2020-Renewable-Energy-in-Ireland-Report.pdf>

¹² Farrell and Lyons (2015) ‘Who should pay for renewable energy? Comparing the households impacts of different policy mechanisms in Ireland.’ <https://www.esri.ie/system/files/media/file-uploads/2015-07/RB20150301.pdf>

Family A is living on a very low income (€1500 a month) and are trying to cut down their energy bills to as low as possible – spending €100 on usage. Family B are on a higher income (€4000 a month) and use as much electricity as they need as they can comfortably afford their bills – in this instance €200. From these cases we can observe:

- The proportion of the total bill amount that the customer can directly control is higher for Family B than Family A. Due to the standing charge and the PSO levy, during the ‘Current rate scenario’ Family A can control the cost of 87% of their final bill; Family B can control 93%. Under the ‘Proposed rate scenario’ where the PSO levy rises to over €8 Family A’s ability to control their bill decreases further (by four percentage points) to 83% of their bill. Likewise, Family B’s ability to control their bill decreases, but only by two percentage points, to 91% of their final bill amount. For households experiencing energy poverty the ability to control their final bill amount is vitally important due to budgeting constraints of a very low income.
- Focussing directly on the PSO Levy’s contribution to the bill under the ‘Current rate scenario’ of €2.84 a month, the PSO Levy makes up 2% of Family A’s bill. For the higher income Family B who spend more on energy, the Levy makes up 1%. Under the ‘Proposed rate scenario’ 6% of Family A’s bill is now made up from the Levy whereas only 3% of Family B’s amount is made up from the Levy. While both families feel the effect of the increase, it is proportionally more significant for Family A who were already struggling financially.
- Looking more widely at the Levy as a proportion of total monthly income, we can see that despite being a very small part of each family’s expenditure, increases in the Levy make a larger dent in the income of Family A. For Family A, the current rate of Levy uses 0.2% of monthly income; the proposed increase means the PSO levy will use 0.5% of their income. For Family B the increase is from 0.1% to 0.2%.
- Finally, we will look at the respective increases in bills for both families. Family A’s bills, which make up 9% of their overall monthly income, are set to increase by 4% due to the proposed Levy increases. This is a significant figure for families in poverty, especially as it is a cost entirely outside of their control. Family B’s bills will increase by 2% as the PSO Levy is a comparatively smaller part of their final bill amount. Family B are better prepared to absorb this fluctuation.

Considering the diversity of means of Domestic energy customers, SVP call for the CRU to review to the application of the PSO as a flat amount across all Domestic customers and to consider options for mitigating the PSO levy impact on the bills of energy poor customers. Potential options for identifying the relevant customers could be through receipt of the Fuel Allowance or households using hardship payment meters.

Switching

The CRU Proposed Decision Paper suggests that customers can mitigate the impact of the Levy increase through reducing the variable aspects of their bill through switching supplier or energy efficiency.¹³ In the experience of SVP and the people we support, these strategies are not always suitable or possible. Switching suppliers doesn’t always lead to significant savings, especially if a customer has a poor credit history; prefers not to use direct debits; or are wary of beginning a relationship with a new supplier when they have knowledge and confidence built up with their

¹³ CRU (2020) ‘Proposed Decision Paper: Public Service Obligation Levy 2020/21’ Available at: Page V <https://www.cru.ie/wp-content/uploads/2020/06/2020-21-PSO-Proposed-Decision.pdf>

current supplier. In the UK, in depth research done with low income households who were reluctant to switch suppliers concluded:

‘Although such attitudes might seem conservative, they were rational. [The households’] resistance to changing supplier reflected...reasonable anxieties about the risks to them. They... would rather hold tight with a contract they knew they could manage than expose themselves to the risks of losing control.’¹⁴

Similarly, there are barriers to energy poor or low-income customers reducing their bills through energy efficiency. For customers such as Family A in the illustrative cases above, many households have already cut their energy to the bare minimum (or below); we also know that renters in the private and social sectors are over-represented in energy poor households, and that renters are severely restricted in their ability to improve the efficiency of their dwelling and thus reduce energy requirements¹⁵. For low-income homeowners, many routes to invest in their home are blocked by lacking the required access to credit, or who do not fulfil the stringent requirements for the ‘Warmer Homes Scheme’ and yet cannot access the more general ‘Better Energy Homes’ scheme which requires upfront payment which is then reimbursed.¹⁶

The ongoing public health crisis also impacts a household’s ability to reduce their usage if people are asked to stay home more to limit the spread of the virus in line with HSE advice. While Ireland is now beginning to reopen under Phase 3, it is very likely that schools, creches, workplaces, day centres and community facilities will continue to operate at reduced capacity to comply with socially distancing measures. This will have a significant knock on effect on the domestic demand for energy and energy bills for low income customers.

Calculation methodology

The proposed levy increase reflects the return to a positive R factor after two years of the R factor exerting downward pressure on the Levy amount. This displays the inherent volatility of the formula used to calculate the levy as it responds on a two-yearly cycle to past market conditions.

The translation of these market conditions into a final price for the customer is a point at which the CRU can intervene to protect the market’s most vulnerable customers, either through a review of the calculation methodology or a specific intervention to protect energy poor customers. As the methodology stands it is not equitable that the calculation of the levy leaves vulnerable customers with significant bill fluctuations that they cannot control or predict.

Distribution and mitigation of cost increases

SVP would like to note the distribution of the increase across customer types, and the distribution of risk between electricity customers and renewable energy producers. Domestic customers face a 184% increase in their Levy bill for 2020/21, the largest increase by five percentage points (with Medium/Large Commercial customers rising by 179% per kVA and Small Commercial by 140% each month). While this is due to projected changes in energy demand between customer types, not all customers within the Domestic Category are equally able to afford this increase. In terms of mitigating the effects of this increase, we have recently demonstrated in our presentations to CRU

¹⁴ Anderson, W., White, V. and Finney, A. (2010) ‘“You just have to get by”: Coping with low income and cold homes’. *Centre for Sustainable Energy*. Bristol, UK. Research on page 40 https://beatcold.org.uk/wp-content/uploads/2011/08/you_just_have_to_get_by.pdf

¹⁵ SVP (2019) ‘Growing up in the Cold: A research paper on the relationship between energy poverty and children’s health’. https://issuu.com/svp15/docs/full_report_energy_poverty_and_child_health_dec_9/1?e=25010855/74604965

¹⁶ *ibid.*

how little choice and leverage energy poor customers have to reduce their energy bills through switching suppliers. Thus, we believe other mitigation measures, at a policy level, must be considered for such customers to alleviate such cost increases.

SVP would also like to reiterate our call that policymakers look at spreading the burden of risk more evenly between electricity customers and renewable energy producers.

Conclusion

Supporting the transition to renewables and protecting those in energy poverty do not have to be at odds with one another, and in actuality – with sensitively designed policies and pricing – can be used to complement each other on the way to social and environmental sustainability. In the case of the PSO Levy, which provides vital funding to the renewable sector, putting in place a mechanism to protect energy poor customers would not have to decrease overall funding levels, whilst lightening the burden of energy costs for those who need it.

Our recommendations are as follows:

- Review the methodology used to calculate the PSO levy as the R Factor is causing price fluctuations that create uncertainty for customers.
- Consider options for mitigating the PSO levy impact on the bills of energy poor customers. Options for identifying households include receipt of Fuel Allowance or use of hardship payment meters.
- As we near our 2020 target of 40% of our electricity energy generation from renewables, we need to re-examine the PSO levy mechanism put in place 15 years ago in terms of its efficacy and impact on the vulnerable members of our society.
- Policymakers should look at spreading the burden of risk more evenly between electricity customers and renewable energy producers