

Submission to the Department of Communications, Marine and
Natural Resources.
Energy Green Paper 2006.

The Consumers' Association of Ireland (CAI)



Sustainable Development: A Strategy for Ireland

This was published in April, 1997 and has as its overall aim "*to ensure that the economy and society in Ireland can develop to their full potential within a well protected environment, without compromising the quality of that environment, and with responsibility towards present and future generations and the wider international community*".

The Strategy's priorities for action included the setting of sustainability objectives for the strategic sectors of the economy so as to encourage long-term growth and competitiveness within a quality environment. For the energy sector, the Strategy indicated that a sustainable energy policy should:-

- ensure security of energy supply in order to support economic and social development while protecting the environment;
- maximise efficiency of generation and emphasise the use of renewable resources;
- promote energy conservation by users;
- minimise emissions of greenhouse gases and other pollutants, both by clean generation and by sustainable consumption levels in all sectors and
- maintain local air quality and limit and reduce the Irish contribution to regional and global environmental problems.

The majority of Irish consumers find themselves in quite an unpleasant situation when it comes to energy awareness. Some will argue that this is their own fault and that they should take account of and interest in their surroundings and their environment. A not unfair reply would be that they *have* done that. They have paid all of their environmental taxes, cut down, cut back and cut out where they could and elected and supported their Ministers upon whom they must rely to be especially informed and exceptionally active on their behalf.

But the situation can become all the more unpleasant when they are either uninformed, or worse, ill-informed and as a result, are bewildered as to how to act effectively or support the introduction of true efficiencies that will go beyond the short term.

Of critical importance is that a similar document to this one was presented to Members of the Oireachtas Joint Committee on Communications, Marine, and Natural Resources in what was the only forum which provided the means for the consumer to voice their opinion and question decisions made that affected their lives, health and that of their families.

What – one has to wonder – is the legitimate expectation from advising a consumer that there is sufficient coal to last for about 300 years – but that the world’s gas and oil supplies will run out somewhere around the middle of the 21st century?

If it is to elicit the reaction that something had better be done - then success is guaranteed. But taking it further – again – it is just not enough to tell that consumer that new sources of energy, preferably renewable ones, and energy conservation are needed immediately without telling them how to do it, showing them how to do it and providing them with incentives – both real and monetary – to actually do it!

Incentives are required. We agree that there are some in place and that there is a high demand to avail of them. However, if, as the CAI had proposed in our December 2006 pre-budget submission, a full tax-free, once-only allowance had been granted toward the full cost of changing to more environmentally positive methods of heat and power generation, then it is likely that those figures would be very considerably higher.

The starting point for future progress must be from the understanding that there is too much complex data, far too much discussion but all too little real advice or action.

It has to be recognised that, for example, the loss of the ESB retail outlets meant the immediate abolition of a local point of information provision and learning, in real and understandable terms, for the consumers of energy. As a result there is also a problem of the lack of awareness of schemes, incentives and alternatives.

Consumers know that the cost of providing energy is increasingly expensive - because they are paying for it every day. They also know that, certainly when it comes to oil and petrol, there is little or nothing that they can do to influence the prices. However, the majority also believe that this is the root cause of all of their problems when it comes to the rapidly increasing costs of electricity and gas. They believe that nothing can be done.

This is equally unsurprising when statistics are issued through, for example, the recent ESRI study indicating a cause for concern due to ageing and unreliable power generating stations.

EU Competition Commissioner Neelie Kroes has stated that : *“We will act decisively to remedy the serious malfunctions identified on the energy market in order to uphold the interests of European consumers.....”*

She made this commitment upon receipt of a report which confirmed the five main areas of electricity and gas market malfunctioning:

- Wholesale markets generally maintain the **high level of concentration** of the pre-liberalisation period, creating scope for incumbent operators to raise prices.
- **Consumers are denied choice** due to the difficulties for new suppliers to enter the markets. Insufficient separation of infrastructure and supply functions prevents new entrants from reaching the final consumer.
- There is **no significant cross-border competition**. New entrants in gas are unable to secure transit capacity on key routes and integration in electricity is hampered by insufficient inter-connector capacity and long-term capacity reservations.
- New entrants cannot get the information they need to compete effectively. This **lack of transparency** benefits incumbents and undermines new entrants.
- **Prices are often not determined on the basis of effective competition** and many electricity users distrust the way prices are set and this requires careful attention.

Statistics from Sustainable Energy Ireland indicate that electricity usage in Ireland increased by over 60% between 1992 and 2002 while total residential energy consumption rose by 22.5% in that same 10 year period.

In energy terms, Ireland consumed the equivalent of 15 million tonnes of oil in 2003 which cost consumers over €7 billion and emitted over 45 million tonnes of carbon dioxide (CO₂).

The Transport sector is the biggest energy consumer in Ireland with 39% of total consumption – followed by residential at 24%, industry 20%, commercial and public 14% and agriculture 3%.

But what can the consumer do and what do they know of the entire area?

Well – for the most part – the consumer understanding is limited to:

- Being told to choose the best possible energy rating for their electrical or gas appliance;
- Being told that the ESB offers great value in that one unit of electricity will give them 10 hours use of a 100watt bulb, 1 day's cooking for one person or 6-9 hours TV viewing – and for only 14.45cent inc. VAT.
- Being told that another increase is on the way.

The information that they receive on efficiency is limited to basic advisory cautions such as:

- Walk or cycle to work instead of driving;
- Do not leave appliances on standby;
- Insulate the attic;
- Take a shower instead of a bath;
- Do not overfill the kettle;
- Turn the heating down by 1 degree;
- Fit a lagging jacket.

What they need to know is that €170 billion worth of permits to release CO2 emissions were distributed free by the Emissions Trading System to just under 11,500 of the EU's largest energy users.

The logic behind this mechanism was that allowances given – if bettered through lower emissions – would allow the holders to pass on their unused permits to others – thus benefiting all and keeping emissions and costs low.

What has happened in reality is that these permits are trading at approximately €25 per tonne and those largest energy customers are charging their customers the market price for the permits.

Thus we have now a distorted market which urgently requires a root and branch reform.

What they also need explained is:

- why are there Standing Charges on their increasing bills;
- what benefits do they provide for that particular consumer;
- why does Government collect VAT at the rate of 13.5% on these charges;
- why does Government collect 13.5% VAT at all;
- as their bills increase and the VAT revenue does too – to what use is that revenue being put.

There are more questions all pointing to three main areas of concern:

- **A lack of transparency in Pricing combining with**
- **A lack of support for consumers concerns resulting in the belief of the existence of**
- **A lack of concern for the affordability of many consumers who struggle to meet the increasing costs.**

Electricity

What consumers are not told is how to understand the system that locks them into provision of supply by dominant providers.

Their dominant electricity provider:

- Increased the purchase price of their product by 13.25% in 2003;
- By 5% in January 2004 and a further 9% on October of that year and then;
- Increased those prices by 4% in January 2005

All this despite returning profits in 2004 of €267 million which was €18 million more than the profit returned in 2003.

But worse was to come – an ‘average’ increase of 3.1% effective from January 2006 proved to be anything but that for the Irish consumers of electricity in a market without choice or competition.

What had not been highlighted or brought to the attention of those already overburdened consumers was that the cost of Standard Domestic unit charges would increase by 4.4% including VAT and that Night Storage Heating was to increase by a massive 13.6%.

Worse – the Standing Charge for Urban services increased by 18.7% whilst the rural 24 hour rate increased by only 9.3%. Now, if you take this in the context of the many consumers in Ireland who consider themselves to be living and having purchased new homes in Rural areas but who find themselves paying Urban rates – you begin to see why they are so frustrated at the lack of consideration and control for them. This comes across as nothing more than an accountancy exercise to guarantee profit from an already overburdened customer base.

Now, as we enter 2007 they face another unrealistic, unaffordable and problematic increase.

Gas

Thousands of consumers installed or re-installed a gas supply into their homes. They were sold the product with the message of value for money and a price frozen that was impossible to beat.

It was until 2005 when users took on an increase of just over 25% and a promise of more to come.

The point of it all

Ireland of course is not unique here. Only this week we have seen UK provider Powergen increase gas prices by 24.4% and electricity by 18.4%. This has prompted British Gas to announce an increase in its electricity charge of 22% to the consumer. In Germany the government's Cartel Office is concerned that, like Ireland, big electricity suppliers there are putting up bills on the one hand and taking very large profits with the other.

The point here is exactly that which we have made at the beginning – consumers cannot envisage increases of this nature nor can they accommodate them comfortably within a budget that simply cannot keep pace. This leaves them in urgent need of assistance, guidance and realistic alternatives provided by their Government in what is a real time of crisis.

Therefore, the answer lies in providing a source of trusted explanation, debate and honesty which the consumer would respect. A Consumer Panel would go a significant way towards providing such a step forward in the provision of involvement and change.

Alternatives – Security - Labelling

Although the Irish consumer is accountable for over 25% of energy consumption each year, there is no determined Government incentive to encourage that consumer to be progressively more energy efficient.

A programme of advice and education, again from an informed source, is urgently required to blend with the progressive system of energy labelling already in place. Interestingly, it is the retail outlets that are now providing the majority of advice at the point of sale. This is admirable but, realistically, short-sighted and subject to abuse.

The EU's Emissions Trading System is not without its flaws and is to be reviewed by Ministerial policy-makers before the 2008-2012 phase. This is too late. The reality is that this mechanism provided free rights to producers who have now placed a value upon them to the benefit and profit of some of the largest providers on the planet and to the unsustainable cost of the bewildered consumer that I referred to earlier. By what right was this done?

Well established in mainland Europe, *microgeneration* is unknown to the majority of Irish consumers yet it is an affordable and an effective alternative. This is power supply on the smallest of scales, allowing consumers to produce their own renewable energy.

The natural progression of this system would provide for community minigeneration in a limited capacity.

Incentives on fuel and hybrid vehicles through waiver of Vehicle Registration Tax, Fuel Excise and Road tax are significant by their absence and reflect poorly upon our government's commitment.

Amidst all of these suggested solutions lies the requirement that consumer be informed regarding the sustainability of their supply. The ESRI concerns referred to earlier do nothing to give solace to the paying customer with absolutely no competitive alternative for provision of their domestic supply requirements in Ireland 2007.

A proposed system of Carbon Rationing has not received the consideration that it merits. Worse, consumers are not aware of its provisions and therefore have no say in its considerations and capabilities. Considering the crisis that looms, the lack of awareness of this proposal alone all too clearly indicates how little has been done to create awareness over a very long period.

This brings us to the question of why the Irish consumer is so ignored. This matter was raised by the Consumer Strategy Group (CSG) established by Tánaiste Mary Harney T.D.

The CSG researched the area of utilities and highlighted through a key recommendation in its Report the need to:

Provide a strong consumer voice in the regulated sector to complement the regulators, especially in energy and telecommunications, in order to ensure full consideration of consumer issues in the regulatory process.

As indicated above this will not nor could not be provided by another organ of the State. The source must be unequalled in independence and must, of necessity, be for the consumer and by the consumer.

Ireland is far behind its European neighbours when it comes to innovation and incentive in renewable energy. There is much to be done and we must look critically and determinedly as to how we should proceed to firmly protect our consumers and for their future affordable needs. However, this will only be attained when all future decisions include the full and remunerated contribution of the independent representative organisations for consumers.

European public opinion is being alerted to the very serious inadequacies of the scheme that currently prevails and how competition is being distorted and complicated to the disadvantage of every consumer. Ireland must now look inwardly for realistic change – but with a special urgency.

We reiterate, we need urgent reform, it must be thorough, it must be immediately set in motion but it must be fully inclusive and participative.

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Chief Executive December 21st, 2006.

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