

Introduction of the Carbon Revenue Levy

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Overview

Minister for Energy, Eamonn Ryan, has introduced a Carbon Windfall Levy on electricity generators.

The new levy, which is outlined in the Electricity Regulation (Amendment) (Carbon Revenue Levy) Act 2010 seeks to recover any windfall profits earned as a result of the inclusion of a notional cost of carbon in the price of electricity to consumers. This levy will be in place up to 31 December 2012, when the current phase of the EU Emissions Trading Scheme ends.

Background

Under the Kyoto Carbon Trading provisions, electricity generators have been provided free carbon credits in preparation for full carbon-trading post 2012. If their actual

emissions in a given year are in excess of this credit they must purchase additional allowances, or if their emissions are below this credit, they may sell any excess allowances.

Due to a decision made by the Single Electricity Market (SEM), and in order to incentivise investment in renewable energy sources, a notional cost of carbon was passed by electricity generators on to their customers. This gave these generators a profit without any significant commensurate cost as the generators receive the vast majority of their carbon allowances for free. It is these windfall profits that the levy will recover.

Calculation of the carbon revenue levy

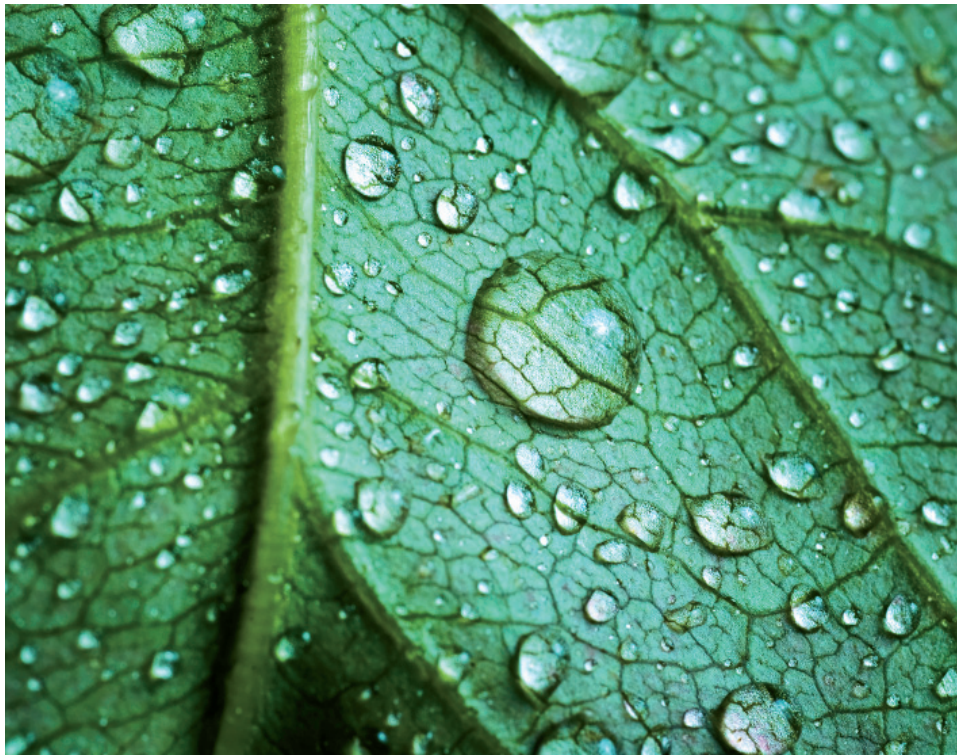
The amount of the carbon revenue levy to be paid by an electricity generator for each levy period will be calculated by multiplying the amount of revenues by a percentage rate. The amount of revenues is calculated based on the formula E multiplied by P , where E is the total emissions from the generators and P is the average daily price over the levy period. This price will be determined by the Commission for Energy Regulation. A percentage rate is then applied to this amount - this rate will initially be set at 65%.

Organisations liable under the carbon revenue levy

The new levy will apply to electricity generators who receive allowances from the Environmental Protection Agency, and which participate in the Single Electricity Market.

The Act specifically excludes generators which are the subject of a Public Service Obligation under section 39 of the Electricity Regulation Act 1999. However, any output which is sold by these companies directly into the wholesale market and is outside the scope of the capacity and differences agreements, or CADA, will be subject to the levy.

Electricity generators who do not create any emissions, for example, electricity generators utilising renewable sources, will not be subject to this new levy. Operators of combined heat and power plants will only be liable to this new levy if they sell an amount of electricity of 10 megawatts or more to the SEM (very few, if any, operators of combined heat and power plants will meet this criteria).



Administration and payment requirements

The first levy period will commence on 1 July 2010 and each period will last a period of 3 months, or in the case of the final levy period, that period.

Within 10 days of the end of a levy period the electricity generators are required to file a return with the Commission specifying their total emissions within the levy period. The exact details of these returns are to be set out in Regulations which are to be issued by the Commission.

Following the receipt of a return, the Commission will provide, within 10 working days, each electricity generator with a notice of the amount it must pay in respect of that levy period. On receipt of this notice the electricity generators have 15 days to make the levy payment to the Commission.

Other Considerations

New entrants to the electricity generation market who purchase existing electricity generating plants between now and 31 December 2012 may incur a double penalty under this new legislation. They may be required to pay for the carbon credits which had previously been granted to the seller as well as being subject to this levy on the basis of their emission levels.

In contrast, current generators of electricity through conventional means may benefit by switching to an alternative basis of electricity generation which does not create any emissions. They electricity will not be subject to the levy and the generator may be able to sell their free carbon credits. However any such change in the nature of a generators plant will have to be discussed with the EPA. Also this opportunity only exists until the end of 2012, when the current phase of the EU Emissions Trading Scheme ends.