



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## PUBLIC SERVICE OBLIGATION LEVY 2014/2015

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Commission for Energy Regulation

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## CER – Information Page

### Abstract:

This proposed decision paper explains the proposed Public Service Obligation (PSO) levy to apply to electricity customers from 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015.

A final decision on the PSO levy for the 2014/15 period will issue by 1<sup>st</sup> August 2014. The level of the PSO levy is likely to change somewhat between this proposed PSO decision and the final decision. This is due to the potential change in a number of inputs, in particular the predicted wholesale market price which can change in line with changing fuel/carbon prices.

### Target Audience:

Electricity generators and suppliers participating in PSO-related schemes, and electricity customers.

### Related Documents:

- Electricity Regulation Act, 1999  
<http://www.irishstatutebook.ie/1999/en/act/pub/0023/index.html>
- S.I. No. 217 of 2002 - Electricity Regulation Act, 1999 (Public Service Obligations) Order 2002 as amended  
<http://www.irishstatutebook.ie/2002/en/si/0217.html>
- S.I. No. 284 of 2008 – Amending S.I. No. 217 of 2002 for REFIT  
<http://www.attorneygeneral.ie/esi/2008/B26313.pdf>
- S.I. No. 444 of 2009 – Amending S.I. No. 217 of 2002 for REFIT  
<http://www.attorneygeneral.ie/esi/2009/B27208.pdf>
- S.I. No. 532 of 2010 – Amending S.I. No. 217 of 2002 for REFIT  
<http://www.irishstatutebook.ie/pdf/2010/en.si.2010.0532.pdf>
- S.I. No. 513 of 2011 – Amending S.I. No. 217 of 2002 for REFIT  
<http://www.irishstatutebook.ie/pdf/2011/en.si.2011.0513.pdf>

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- S.I. No. 438 of 2012 – Amending S.I. No. 217 of 2002 for REFIT  
<http://www.irishstatutebook.ie/pdf/2012/en.si.2012.0438.pdf>
- S.I. No. 421 of 2013 – Amending S.I. No. 217 of 2002 for REFIT  
<http://www.irishstatutebook.ie/pdf/2013/en.si.2013.0421.pdf>
- PSO Benchmark Price Setting Methodology AIP-SEM-07-431 PSO Decision Paper : Published July 31<sup>st</sup> 2007  
<http://www.allislandproject.org/en/generation.aspx?page=2&article=ab6bf37c-9803-4167-8528-05d20e034477>
- Calculation of the R-factor in determining the PSO levy (CER 08/234)  
<http://www.cer.ie/en/renewables-decision-documents.aspx?article=39ce537a-1620-486d-b93e-bc70ab5934ca>
- Arrangements for the Public Service Obligation Levy – A Decision by the Commission for Energy Regulation (CER 08/093)  
<http://www.cer.ie/en/renewables-current-consultations.aspx?article=39ce537a-1620-486d-b93e-bc70ab5934ca>
- Relevant EU State Aid Notifications and Clearance Decisions  
  
State Aid N 475/2003: Capacity and Differences Agreements (CADA) [Link](#)  
State Aid N 553/2001: AER [Link](#)  
State Aid N 571/2006: REFIT 1 [Link](#)  
State Aid N 826/2001: AER I-V [Link](#)  
State Aid SA.31236 (2011/N): REFIT 2 [Link](#)  
State Aid SA.31861 (2011/N): REFIT 3 [Link](#)
- Previous PSO Decision Papers  
<https://www.cer.ie/document-detail/Public-Service-Obligation-Levy-2013-14/791/4844,4845,4846,4847,4848,4849,4850,5536>
- Relevant part of website of Department of Communications, Energy and Natural Resources  
<http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/>

For further information on this proposed decision paper, please contact John Lynch ([jlynch@cer.ie](mailto:jlynch@cer.ie)).

## Executive Summary

This proposed decision paper explains the proposed Public Service Obligation (PSO) levy to apply to electricity customers from 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015.

The PSO levy is a subsidy charged to all electricity customers in Ireland. It is designed by the Irish Government and consists of various subsidy schemes to support its national policy objectives related to renewable energy, indigenous fuels (peat) and security of energy supply. The proceeds of the levy are used to contribute to the additional relevant costs incurred by PSO-supported electricity generators which are not recovered in the electricity market.

The policy associated with the PSO is mandated by Government in legislation and approved by the European Commission. The CER has no discretion over the terms of the PSO schemes. The CER's role here is only to calculate the PSO levy in accordance with Government policy and to help ensure that the scheme is administered appropriately and efficiently.

The proposed PSO levy for the 2014/15 period is approximately **€327.7 million**. The table below summarises the key PSO cost categories, which are shown in more detail in the paper.

Cost Category	Proposed PSO 2014/15 € Million
Renewables	87.8
Peat	114.7
Security of Supply	107.9
Other Costs	17.2
<b>Total</b>	<b>327.7</b>

The proposed levy of €327.7 million for 2014/15 compares with €210.9 million allowed for the current 2013/14 PSO period. The biggest drivers for the year-on-year increase are as follows (further information is available in the paper):

- Lower wholesale electricity prices. The estimated wholesale electricity price in the all-island Single Electricity Market (SEM) for the 2014/15 period is €58.41/MWh. This is down circa 9% on the €64.28/MWh used to determine the levy for the current PSO period. A lower wholesale price for next year

results in the PSO plants needing more PSO money to cover their allowed costs, to offset the lower money they are predicted to receive from the market. This applies across-the-board for renewables, peat and security of supply plants supported by the PSO. It is the biggest single driver of the rise in the proposed levy. The lower estimated wholesale price for next year is reflective of a trend in recent months in the SEM of lower spot and forward contracting prices, related to lower gas prices;

- Lower running of Tynagh, a 400 MW gas plant provided with a PSO for security of supply reasons. In recent years the Tynagh plant has been running less in the SEM due to a variety of factors, including more wind generation being available to run instead. As a result, the plant receives lower revenues from the SEM. Under the terms of its PSO, most of its allowed costs are fixed, and so lower SEM running and revenue is largely being compensated for by a higher PSO payment; and,
- More renewable generation. Overall the amount of renewable generation, mostly wind, estimated to receive the PSO levy next year is 234 MW more than the current year, hence increasing the levy<sup>1</sup>.

Responses to this proposed decision paper should be forwarded to John Lynch ([jlynch@cer.ie](mailto:jlynch@cer.ie)) by close of business on Friday 4<sup>th</sup> July 2014.

A final decision on the PSO levy for the 2014/15 period will then issue by 1<sup>st</sup> August 2014. The level of the PSO levy for the period is likely to change somewhat between this proposed PSO decision and the final decision. This is due to the potential change in a number of inputs, in particular the predicted wholesale market price which can change in line with changing fuel/carbon prices.

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<sup>1</sup> While more wind generation tends to increase the PSO levy, it also tends to reduce the wholesale price of electricity in the SEM.

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## **1.0 Introduction**

### **1.1 *The Commission for Energy Regulation***

The Commission for Energy Regulation (CER) is Ireland's independent energy and water regulator. The CER was established in 1999 and now has a wide range of economic, customer protection and safety responsibilities in energy. The CER is also the regulator of Ireland's public water and wastewater system.

The CER's primary economic responsibilities in energy cover electricity generation, electricity and gas networks, and electricity and gas supply activities. As part of its role, the CER jointly regulates the all-island wholesale Single Electricity Market (SEM) with the Utility Regulator in Belfast. The SEM is governed by a decision-making body known as the SEM Committee, consisting of the CER, the Utility Regulator and an independent member. The overall aim of the CER's economic role is to protect the interests of energy customers. The CER has an important related function in customer protection by resolving complaints that customers have with energy companies.

The CER's core focus in safety is to protect lives and property across a range of areas in the energy sector. This includes safety regulation of electrical contractors, gas installers and gas pipelines. In addition the CER is the safety regulator of upstream petroleum safety extraction and exploration activities, including on-shore and off-shore gas and oil.

In 2014 the CER was appointed as Ireland's economic regulator of the Irish public water and wastewater sector.

Further information on the CER's role and relevant legislation can be found on the CER's website at [www.cer.ie](http://www.cer.ie).

### **1.2 *Purpose of this Paper***

This proposed decision paper explains the proposed Public Service Obligation (PSO) levy to apply to electricity customers in Ireland from 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015.

Section 1 of this paper gives a general background to the PSO. Section 2 then discusses the PSO's key cost components and considerations for the 2014/15 period, while section 3 summarises the proposed levy, explains the key drivers for the year-on-year change and shows the allocation of the proposed levy to customers.

Appendix A provides detail on the allocation of PSO costs to customers.

A final decision on the PSO levy will issue by 1<sup>st</sup> August 2014 in line with statutory requirements.

### **1.3 Background to the PSO**

The PSO levy is charged to all electricity customers in Ireland. It covers various subsidy schemes designed by the Irish Government to support its national policy objectives related to renewable energy, indigenous fuels (peat) and security of energy supply. The proceeds of the levy are used to contribute to the additional relevant costs incurred by PSO-supported electricity generation which are not recovered in the electricity market, in many cases via contracts that suppliers have in place with electricity generators.

The policy and terms associated with PSO levy supported plant are mandated by Government in the relevant legislation and approved by the European Commission. The CER has no discretion over the terms of PSO schemes. The CER's only role here is to calculate the PSO levy in accordance with Government policy and to help ensure that the scheme is administered appropriately and efficiently. As part of this role, the CER calculates the costs properly incurred under the relevant PSO contracts/schemes to be recovered.

ESB Networks collects the allowed PSO levy from electricity suppliers (paid for by customers) and passes it to EirGrid. EirGrid sends these PSO monies to relevant generators/suppliers.

### **1.4 Legislation**

Under Section 39 of the Electricity Regulation Act, 1999, the CER is responsible for the imposition of the PSO on ESB, licence holders and holders of permits under the Electricity (Supply) Act, 1927.

Statutory Instrument (S.I.) No. 217 of 2002 was made by the relevant Minister under Section 39 of the 1999 Act and this sets out more detail in relation to the above matters. S.I. No. 217 of 2002 provides, *inter alia*, for the calculation of the PSO levy by the CER to provide for the recovery of costs by all relevant parties in accordance with the notifications to the European Commission regarding the various mechanisms supported by the PSO.



The original Notification<sup>2</sup> of November 2000 sets out the broad areas that may be covered by the PSO as listed in Section 39 of the 1999 Act: namely security of supply, use of indigenous fuel sources and environmental protection. It refers specifically to the schemes envisaged to be covered by the PSO at that juncture, i.e. the imposition on ESB of a requirement to have available to it the output of electricity generating stations using peat and stations using renewable, sustainable or alternative forms of energy.

Subsequent to the Notification, new schemes have been notified to the European Commission in accordance with Article 88(3) of the Treaty and Directive 2003/54/EC and have received state aid clearance. S.I. No. 217 has been amended by subsequent S.I.'s to provide for the recovery of costs under the PSO for such schemes. These included the recovery of costs associated with peat plants and plants that entered the market under a competition, referred to as "Capacity 2005", held by the CER due to security of supply concerns. In 2012 REFIT 2 and REFIT 3<sup>3</sup> were notified to the EU and received state aid clearance to provide support for the generation of electricity from renewable technologies.

## **1.5 Responding to this Paper**

Responses to this proposed decision paper should be forwarded to John Lynch by close of business on Friday 4<sup>th</sup> July 2014, preferably in electronic format to:

[jlynch@cer.ie](mailto:jlynch@cer.ie)

or alternatively by post to:

John Lynch  
Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24

We plan to publish all responses received to this paper on our website unless any objection to this is indicated by a respondent.

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<sup>2</sup> The purpose of the Notification was to inform the European Commission of the Irish Government's intention to impose public service obligations and of the proposed mechanism to recover the additional costs of fulfilling the obligations.

<sup>3</sup> <http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/REFIT.htm>

## **2.0 Proposed PSO Levy 2014/15 – Key Considerations**

This section shows the key considerations and cost categories feeding into the proposed PSO levy for the period 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015.

Building on this section, section 3 then summarises the proposed levy, focuses on the key drivers for the year-on-year change and shows the allocation of the proposed levy to customers.

### **2.1 Benchmark Price**

The benchmark price is a forecast of the wholesale market price in the SEM, i.e. the System Marginal Price (SMP), for the PSO levy period and is determined before the PSO levy period commences. It is determined, *inter alia*, using forecasts of fuel and carbon prices. A lower forecast benchmark price predicts that less revenue will be earned from the wholesale market by the PSO generating plant to cover their allowed costs, thus generally resulting in a higher PSO levy. A higher benchmark price predicts that greater revenue will be earned from the market by PSO plant to cover their allowed costs, thus generally resulting in a lower PSO levy.

Paragraphs 5.10 to 5.12 of the Notification refer to the method for setting the “market value”. Paragraph 5.11 states:

*From 2005 the market will be fully open and a time-weighted market price will be determined by the CER in an open consultative process, and posted by the CER in its annual review.*

For the purposes of this proposed decision paper, the CER has forecasted that the benchmark price for the upcoming 2014/15 PSO period is €58.41/MWh. This figure is an annual, average time weighted price calculated using a PLEXOS model. In calculating this price, the model was run with ten different outage patterns, using fuel, carbon and exchange rates from the 16<sup>th</sup> May 2014. For more information on PLEXOS please see the relevant documents on the All Island Project website, [www.allislandproject.org](http://www.allislandproject.org).

The benchmark price for 2014/15 is significantly lower than the €64.28/MWh for that used in the current 2013/14 period and is being driven by lower forward gas prices. This will put significant upward year-on-year pressure on the PSO levy (as discussed in section 3).

This forecast benchmark price for 2014/15 will be re-calculated for the final PSO decision due by 1<sup>st</sup> August, and hence the total PSO payment allowed is likely to change as a result.

## **2.2 Capacity Payment**

Regarding the capacity payment used in the PSO calculations, revenues associated with the capacity payment in the SEM have been estimated for the relevant period for each PSO plant. These have been calculated on the basis of the Annual Capacity Payment Sum for 2013 as this is the most up-to-date information available. The Annual Capacity Payment Sum for 2014 will be used if available by the time of the PSO decision paper (this is not expected to result in a significant change to the proposed levy). The share of capacity for each unit was estimated based on installed capacity and availability, adjusted to account for special treatment and shares for interconnectors, wind units and hydro.

## **2.3 PSO Plants/Schemes & Forecast Costs**

The PSO covers various subsidy schemes designed by the Irish Government to support its national policy objectives related to renewable energy, indigenous fuels (peat) and security of energy supply.

The PSO levy is determined ex-ante each year based on estimates of relevant costs to be recovered by all relevant PSO parties that are not recovered from the market, relative to the forecasted benchmark price (see section 2.1) and their forecast output. In addition, as discussed in section 2.4, an “R-factor” is added to this ex-ante estimate for the previous PSO out-turn period, reflecting actual, audited relevant PSO plant costs, out-turn SMP, out-turn capacity payments received and out-turn generation levels for the PSO plant.

The following table provides a summary of the schemes and generating plants covered by the PSO for the forthcoming 2014/15 period.

PSO Scheme	Technology Supported	MW of Plant Eligible	MW of Plant supported in 2014/15 PSO Period
AER	<ul style="list-style-type: none"> <li>• Onshore and offshore wind (onshore wind constitutes most of AER)</li> <li>• Small-scale hydropower</li> <li>• Combined heat and power (CHP)</li> <li>• Biomass (landfill gas)</li> <li>• Biomass-CHP</li> <li>• Biomass-anaerobic digestion</li> </ul>	718	190
REFIT 1	<ul style="list-style-type: none"> <li>• Onshore wind (constitutes most of REFIT 1)</li> <li>• Hydro</li> <li>• Biomass landfill gas</li> <li>• Other biomass</li> </ul>	1,450	1,404
REFIT 2	<ul style="list-style-type: none"> <li>• Onshore wind (constitutes most of REFIT 2)</li> <li>• Hydro</li> <li>• Biomass Landfill Gas</li> </ul>	4,000	499
REFIT 3	<ul style="list-style-type: none"> <li>• Biomass Combustion</li> <li>• Biomass CHP</li> <li>• Anaerobic Digestion</li> </ul>	310	5
Edenderry	<ul style="list-style-type: none"> <li>• Peat, biomass (co-firing)</li> </ul>	120	120
Lough Ree	<ul style="list-style-type: none"> <li>• Peat</li> </ul>	100	100
West Offaly	<ul style="list-style-type: none"> <li>• Peat</li> </ul>	150	150
Aughinish Alumina	<ul style="list-style-type: none"> <li>• Gas - CHP</li> </ul>	160	160
Tynagh	<ul style="list-style-type: none"> <li>• Gas - CCGT</li> </ul>	400	400

The schemes in the above table are discussed in more detail next, showing their ex-ante forecast cost - excluding the R-factor (discussed in the next section) - for the 2014/15 PSO period.

## **Renewables**

The two main PSO schemes related to renewable generation are known as Alternative Energy Requirement (AER) and Renewable Energy Feed-in Tariff (REFIT), of which there are various types explained below. Overall, the total ex-ante PSO amount proposed for the 2014/15 PSO period for these schemes is €86.6 million.

- **AER:** The technologies supported under the 15-year AER schemes, which started from 1995, include wind energy, small-scale hydropower, combined heat and power (CHP) biomass (landfill gas), biomass-CHP, biomass-anaerobic digestion and offshore wind. The plants involved, most of which are on-shore wind, contract with Electric Ireland (ESB's supply entity), which is then entitled to compensation from the PSO levy if the revenue it receives for selling the electricity is less than what it paid the renewable generators. Similarly Electric Ireland returns money to the PSO in the event of over-compensation. It is noted that for some AER contracts a reduction of 35% to payments applies for the second half of the term of the contracts. Since the AER was launched in 1995, six AER competitions have been held. The AER scheme is closed to new entrants.

There is 190 MW of AER generation capacity supported in this PSO proposed decision, down from 219 MW in the current PSO period.

The ex-ante PSO amount proposed for the 2014/15 PSO period for the AER schemes is €2.3 million.

- **REFIT:** Since the introduction of REFIT in 2006 (REFIT 1) relevant costs associated with the scheme have been included in the PSO levy. The REFIT 1 Terms and Conditions<sup>4</sup> as published in 2006 cover five categories of plant. These are Large Wind, Small Wind, Hydro, Biomass Landfill Gas and Biomass. The REFIT 2 scheme for onshore wind, small hydro and landfill gas was opened in March 2012.

Most of REFIT 1 and 2 plants are on-shore wind.

In February 2012 the REFIT 3 scheme for biomass technologies opened.

Under REFIT, generators contract with suppliers in a similar fashion to the AER scheme. Unlike AER however, the scheme is open to all suppliers (not just Electric Ireland) to contract with renewable generation. The compensation streams under the REFIT scheme are paid to electricity suppliers in exchange

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<sup>4</sup> REFIT Terms and Conditions:  
<http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division>

for entering 15-year Power Purchase Agreements (PPAs) with renewable electricity generators.

There is 1,908 MW of REFIT renewable generation capacity included in this PSO proposed decision, which is an increase of 263 MW compared with 2012-13 PSO.

The ex-ante PSO amount proposed for the 2014/15 PSO period for the REFIT schemes is €84.3 million.

### **Peat Plants**

There are three peat plants associated with the PSO as shown below. Overall, the total ex-ante PSO amount proposed for the 2014/15 PSO period for the peat plants is €99.2 million.

- ESB's Lough Ree (100 MW, commissioned December 2004) and West Offaly (150 MW, commissioned January 2005) plants sell their electrical output into the SEM pool and receive revenues from the SEM for that output. If the revenues they receive are less than entitled, notified costs incurred, Lough Ree and West Offaly recover monies from the PSO under 15-year PPAs. Similarly, if either plant over-recovers from the SEM, monies are returned to the PSO fund.
- Edenderry Power (120 MW, commissioned in December 2000) sells its electricity to Electric Ireland under a 15-year PPA whereby EI then sells that electricity on to the SEM pool. Electric Ireland is compensated for the shortfall between what it pays for the electricity it purchases from Edenderry Power and what it receives for selling the electricity to the SEM pool. If Electric Ireland over-recovers from the SEM, monies are returned to the PSO fund. Certain costs (mostly fuel) associated with part-running of this plant by biomass are included in the ex-ante PSO 2014/15 forecast.

The ex-ante PSO amounts proposed for the 2014/15 PSO period for Lough Ree, West Offaly and Edenderry are €38.4 million, €40.3 million and €20.6 million respectively.

### **Security of Supply**

There are two plants supported by the PSO under this category - Aughinish Alumina (160 MW) and Tynagh (400 MW). The PSO for these plants was notified to the EU Commission in October 2003 in order to secure additional capacity to meet an anticipated generation capacity shortfall in 2005 and were cleared by the

EU Commission at the end of 2003<sup>5</sup>. Hence these are sometimes referred to as “Capacity 2005” plants.

Aughinish and Tynagh entered a contract for differences (CfD) agreement with Electric Ireland, whereby Electric Ireland recovers or returns additional monies paid under the agreement from/to the PSO levy. These arrangements were put in place for a 10 year period, and are accordingly expected to end in 2016, at which point they will no longer receive ex-ante PSO payments.

The ex-ante PSO amounts proposed for the 2014/15 PSO period for Aughinish Alumina and Tynagh are €8.6 million and €69.0 million respectively, a total of €77.6 million.

## **2.4 Forecast Costs & R-Factor**

Added to the ex-ante estimate (in section 2.3 above) of the PSO is what is known as an “R-factor”. This can be positive or negative and relates mainly to the actual out-turn for two PSO periods before the ex-ante estimate period. It accounts for the difference between the PSO levy that was set ex-ante for a period to recover allowed costs and the actual PSO due (in retrospect) given audited relevant PSO plant costs, out-turn SMP, out-turn capacity payments received and out-turn generation levels for the PSO plant (i.e. market-related revenues)<sup>6</sup>.

Hence this proposed decision paper includes monies pertaining to the R-factor for the 1<sup>st</sup> October 2012 to 30<sup>th</sup> September 2013 PSO period.

An R-factor of €47.7 million (excluding PSO-related CfDs discussed in section 2.5) is included in the proposed PSO levy for 2014/15, relating to the 2012/13 PSO period.

The following table sets out how the ex-ante forecasted 2014/15 PSO payments and the 2012/13 R-factor monies are allocated between the primary categories of plant supported under the PSO mechanism as referred to above (renewables, peat and security of supply).

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<sup>5</sup> See N/475/03 [http://ec.europa.eu/community\\_law/state\\_aids/comp-2003/n475-03.pdf](http://ec.europa.eu/community_law/state_aids/comp-2003/n475-03.pdf)

<sup>6</sup> See CER/08/236 “Calculation of the R-Factor in Determining the PSO Levy” <https://www.cer.ie/docs/000229/cer08236.pdf>

Cost Category	Scheme	2014/15 Ex-ante Forecast € Million	2012/13 R-Factor € Million	Total PSO for Plants € Million
Renewables	REFIT & AER	€86.6	€1.2	€87.8
Peat	Edenderry, West Offaly and Lough Ree	€99.2	€15.5	€114.7
Security of Supply	Aughinish & Tynagh	€77.6	€30.3	€107.9

The R-factor for 2012/13 is due to a number of causes. For renewables, it is driven by the “opt-out” of plants from the PSO’s AER schemes that were previously expected to return PSO monies to the fund (i.e. the end customer). For the peat plants it is largely related to the extra allowed costs (mostly fuel) associated with biomass co-firing at Edenderry and certain fixed costs associated with Edenderry irrespective of its running.

For the security of supply plant, the R-factor is largely related to lower running of Tynagh. This is because most of Tynagh’s allowed PSO costs are fixed rather than related to its output, so the less the plant runs and receives correspondingly lower SEM revenue, the higher the PSO subsidy needed to cover its allowed fixed costs. Aughinish’s running has remained high as it has “priority dispatch” in the SEM, but Tynagh doesn’t have priority dispatch, while its running has fallen in recent years, related to increased levels of wind generation on the system.

## 2.5 *PSO-related CfDs*

PSO-related contracts for differences (CfDs) have been offered out by ESB for some years now - see SEM-11-020<sup>7</sup> for more details. They have contributed to reducing the PSO levy in recent years but for next year they are adding €5.5 million to the levy as this was their net loss for the 2012/13 period. This reflects the SMP out-turn which was slightly higher than the CfD strike prices for the period overall.

## 2.6 *Other*

The category entitled “other” covers administrative costs associated with schemes in the PSO of circa €1 million. For 2014/15 the category also includes

<sup>7</sup> [http://www.allislandproject.org/en/market\\_decision\\_documents.aspx?article=151a9561-cef9-47f2-9f48-21f6c62cef34](http://www.allislandproject.org/en/market_decision_documents.aspx?article=151a9561-cef9-47f2-9f48-21f6c62cef34)



€9.8 million which corrects for a previous EirGrid calculation which is resulting in €9.8 million less being collected for the PSO for the current 2013/14 period than is allowed to be paid out. In other words the PSO costs being paid this year from customers are lower than they should be by €9.8 million. This was due to EirGrid assuming that the East-West Interconnector pays the PSO levy when it does not.

### 3.0 Proposed PSO Levy 2014/15

Following the explanations in section 2, this section summarises the proposed levy for the 2014/15 period, explains the key drivers for the year-on-year change and shows the allocation of the proposed levy to customers

#### 3.1 Levy Amount

The tables below summarises the key PSO schemes and cost categories and resulting proposed levy for the 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015 period. The first table does so by the broad support categories (renewables, peat and security of supply) shown earlier, while the second table does so in more detail by scheme/cost category.

As can be seen, the total proposed PSO levy amounts to **€327.7 million** for the 2014/15 period.

Category	Forecast 14/15 Excluding R-factor € Million	R-Factor 12/13 € Million	Total Proposed PSO 14/15 € Million
Renewables	86.6	1.2	87.8
Peat	99.2	15.5	114.7
Security of Supply	77.6	30.3	107.9
PSO CfDs	0	5.6	5.6
Other Costs	10.9	0.7	11.6
<b>Total</b>	<b>274.3</b>	<b>53.2</b>	<b>327.7</b>

<b>PSO Item</b>	<b>Totals</b>
AERs	€2,269,000
REFITs	€84,346,555
Lough Ree	€38,387,000
West Offaly	€40,266,000
Edenderry	€20,572,000
Tynagh	€69,022,000
Aughinish Alumina	8,601,000
<b>Sub-Total</b>	<b>€263,463,555</b>
2012-13 R-Factor	€47,769,588
2012/13 PSO-related CfDs	€5,572,692
Other	€10,907,055
<b>Total 2014/15 PSO</b>	<b>€327,712,890</b>

A final decision on the PSO levy for the 2014/15 period will issue by 1<sup>st</sup> August 2014. The level of the PSO levy is likely to change somewhat between this proposed PSO decision and the final decision. This is due to the potential change in a number of inputs, in particular the predicted wholesale market price which can change in line with changing fuel/carbon prices.

### **3.2 Drivers for Increase**

The total proposed PSO levy for 2014/15 of €327.7 million compares with €210.9 million for the current 2013/14 period. The key drivers for the proposed year-on-year increase are:

- Lower wholesale prices. As referred to in section 2, the benchmark price - estimated wholesale SMP - for 2014/15, is €58.41/MWh. This is down circa 9% on the €64.28/MWh used to determine the levy for the current PSO period. A lower wholesale price for next year results in the PSO plant needing more PSO money to cover their allowed costs, to offset the lower money they are predicted to receive from the market. This applies across-the-board for renewables, peat and security of supply plants supported by the PSO. It is the biggest single driver of the rise in the proposed levy. The lower estimated wholesale price for next year is reflective of a trend in recent months in the SEM of lower spot and forward contracting prices, related to lower gas prices;
- Lower running of Tynagh. As explained in section 2, in recent years the Tynagh plant has been running less in the SEM due to a variety of factors. Hence the plant receives lower revenues from the SEM. Under the terms of

its PSO, most of its allowed costs are fixed, and so lower SEM running and revenue is largely being compensated for by a higher PSO payment; and,

- More renewables. Overall the amount of renewable generation, mostly wind, estimated to receive the PSO levy next year is 234 MW more than the current year (due to REFIT 2 primarily), hence increasing the levy<sup>8</sup>.

The above factors are the biggest drivers of the proposed annual levy rise. The following are also increasing the levy (see section 2 also):

- PSO-related CfDs. These have contributed to reducing the PSO levy in recent years but they are adding €5.5 million to the PSO levy for 2014/15 to reflect their net loss for the 2012/13 period; and,
- Other costs. This category includes PSO administration costs of circa €1 million per year. For 2014/15 the category also includes €9.8 million which corrects for a previous EirGrid calculation which is resulting in €9.8 million less being collected from suppliers for the PSO for the current 2013/14 period than is allowed to be paid out.

### **3.3 PSO Cost Per Customer**

The PSO apportionment model 2014/15 is calculated using data from the ESRI's Winter 2013 Economic Commentary<sup>9</sup>. For the final PSO levy decision the model will incorporate the relevant indices for economic growth from the most up to date ESRI Quarterly Economic Commentary available.

Using this model, and based on a proposed PSO levy of €327.7 million (which may change in the decision on the matter by 1<sup>st</sup> August), the CER has calculated the proposed payment by customer category for the levy period 1<sup>st</sup> of October 2014 to the 30<sup>th</sup> September 2015 to be as per the following table.

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<sup>8</sup> While more wind generation tends to increase the PSO levy, it also tends to reduce the wholesale price of electricity in the SEM.

<sup>9</sup> <http://www.esri.ie/UserFiles/publications/QEC2013WIN.pdf>

<b>PSO Customer Category</b>	<b>Current Annual Levy Amount 2013/14</b>	<b>Proposed Annual Levy Amount 2014/15</b>	<b>Proposed Levy Amount 2014/15 Per Month</b>
Domestic customers	€42.87/customer	€63.01/customer	€5.25/customer
Small commercial customers (maximum import capacity of less than 30kVA)	€129.83/customer	€215.94/customer	€18.00/customer
Medium and large customers (maximum import capacity of equal to or greater than 30kVA)	€18.47/kVA	€33.38/kVA	€2.78/kVA

Detail behind the 2014/15 figures above is contained in Appendix A.

## Appendix A – Allocation of Proposed PSO

Allocating Proposed 2014/15 PSO									
PSO Customer Category	Individual Peak	% of Total Peak	PSO Allocation €m	Total Mkt Cust Nos Mid Year	Total Non-domestic mkt MICs kVA	Annual Charge		Monthly Charge	
						€ per Cust	€/kVA	Monthly €	Monthly Charge
Domestic Profile	2,219,108	38.9%	127.52	2,023,774		63.01		5.25	€ per Customer
Small & Medium Profile	650,286	11.4%	37.37	173,052		215.94		18.00	€ per Customer
Large Profile	2,833,319	49.7%	162.82		4,877,237		33.38	2.78	€/kVA
<b>TOTAL</b>	5,702,714	1.00	327.7						