



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

PUBLIC SERVICE OBLIGATION LEVY 2016/17

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Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

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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 1st October 2016 to 30th September 2017.

A final decision on the PSO levy for the 2016/17 PSO period will be issued by the CER by 1st August 2016. The level of the PSO levy is likely to change somewhat from this proposed PSO decision to the final decision. This is due to potential changes in a number of inputs, in particular the predicted wholesale market price which can change in line with changing fuel/carbon prices. It may also change due to clarifications in relation to the estimates for the 2016/17 PSO period from suppliers contracted with PSO supported generators.

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Target Audience:

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

Related Documents:

- [Electricity Regulation Act, 1999](#)
- [S.I. No. 217 of 2002](#) - Electricity Regulation Act, 1999 (Public Service Obligations) Order 2002 as amended
- [S.I. No. 284 of 2008](#) – Amending S.I. No. 217 of 2002 for REFIT
- [S.I. No. 444 of 2009](#) – Amending S.I. No. 217 of 2002 for REFIT
- [S.I. No. 532 of 2010](#) – Amending S.I. No. 217 of 2002 for REFIT
- [S.I. No. 513 of 2011](#) – Amending S.I. No. 217 of 2002 for REFIT
- [S.I. No. 438 of 2012](#) – Amending S.I. No. 217 of 2002 for REFIT
- [S.I. No. 421 of 2013](#) – Amending S.I. No. 217 of 2002 for REFIT

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- [S.I. No. 603 of 2014](#) – Amending S.I. No. 217 of 2002 for REFIT
- [S.I. No. 556 of 2015](#) – Amending S.I. No. 217 of 2002 for REFIT
- PSO Benchmark Price Setting Methodology [AIP-SEM-07-431](#) PSO Decision Paper
- Calculation of the R-factor in determining the PSO levy ([CER/08/236](#))
- Arrangements for the Public Service Obligation Levy – A Decision by the Commission for Energy Regulation ([CER/08/153](#))
- 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](#)

- [2015/16 PSO Decision Paper](#)
- Relevant part of website of [Department of Communications, Energy and Natural Resources](#)

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

Executive Summary

Background

This proposed decision paper explains the proposed Public Service Obligation (PSO) levy to apply to electricity customers from 1st October 2016 to 30th September 2017.

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.

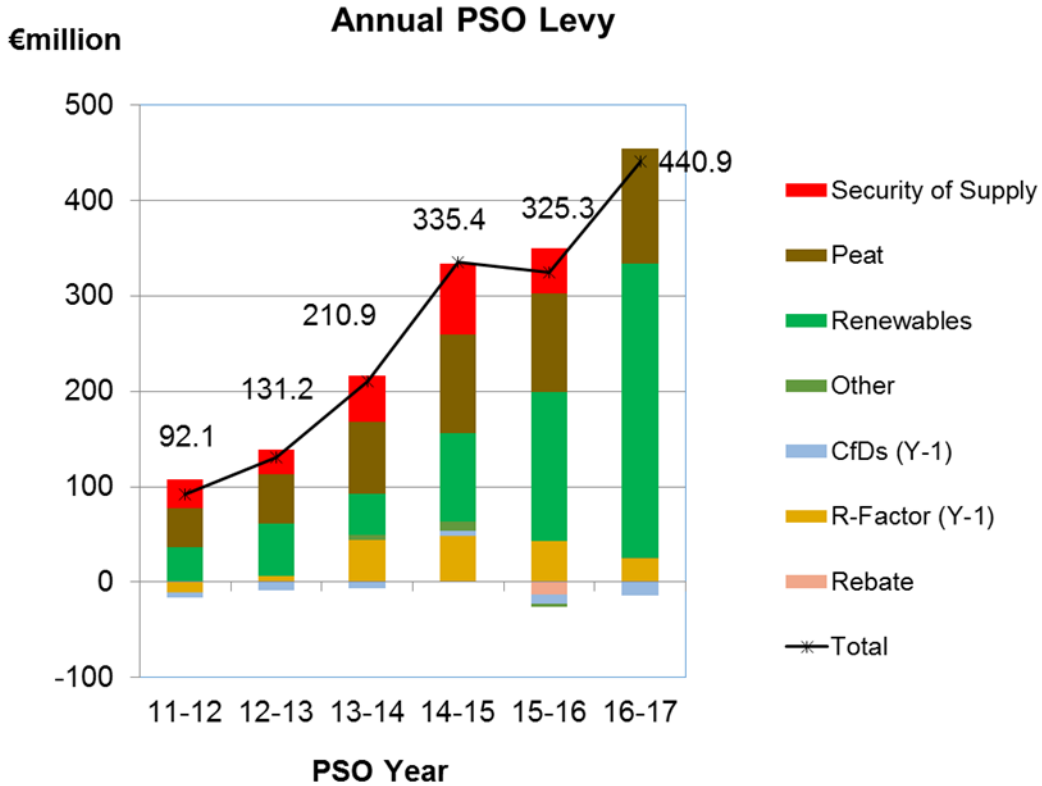
The policy associated with the PSO is mandated by Government in legislation and approved by the European Commission. The CER has no discretion over the terms of the PSO schemes. The CER's role here is only to calculate the PSO levy in accordance with Government policy and to help ensure that the scheme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

Proposed Levy

The total proposed PSO levy for 2016/17 of €440.9 million compares with €325.3 million for the current 2015/16 period, an increase of circa 36%. The table below summarises the key PSO cost categories for 2016/17, which are shown in more detail within this proposed decision paper.

Category	Total Proposed PSO 2016/17 € Million
Renewables	334.1
Peat	137.7
Security of Supply	-17.5
PSO CfDs	-14.0
Other	0.6
Total	440.9

The chart below illustrates the trend in the PSO levy and how the PSO monies are distributed among the supported generators.



Drivers of Change

The proposed PSO levy represents an increase of circa 36% overall for 2016/17 compared with the current period. There are factors which are putting both upward and downward pressure on the PSO levy costs, as follows:

Upward Levy Pressure

- ***Lower wholesale prices:*** The estimated wholesale market price is 28% lower than the price used to calculate the current 2015/16 PSO levy. A lower wholesale price means that the payment to companies engaged in the PSO increases.
- ***More renewables.*** An estimated 2,943 MW of renewable generation, mostly wind, will be supported by the PSO next year. This is 863 MW, or 41%, more than the 2,080 MW supported in the current PSO period.

- There is an additional €25.7 million relating to the 2014/15 period. This is the result of an under recovery of monies by renewable generators compared to what was expected when the PSO levy was set for the 2014/15 PSO period; and,
- There is an additional amount of €16.8 million relating to ESB peat plants in the 2014/15 period. This is the result of an under recovery of monies compared to what was expected when the PSO levy was set.

Downward Levy Pressure

- Termination of contracts. The termination of PSO contracts for Tynagh, Aughinish and Edenderry will result in these plants receiving no support from the PSO for the 2016/17 PSO period. This is reducing the levy by the order of €55 million compared to the current period; and,
- Contracts for Difference (CfDs): Wholesale market contracts related to the PSO are reducing the levy by €14 million. This reflects a wholesale market price for 2014/15 which on average was lower than the contract price for the period overall.

Next Steps

Responses to this proposed decision paper should be submitted to John Lynch (jlynch@cer.ie) by close of business on Monday 27th June 2016. Further details are provided in Section 1.5.

The level of the final PSO levy for the 2016/17 period is likely to change somewhat from this proposed PSO decision due to potential changes in a number of inputs, such as:

- a change in the predicted wholesale market price which can change in line with changing fuel/carbon prices
- any changes resulting from the ongoing analysis, review and acceptance by the CER of suppliers' returns which are used in the calculation of the levy

A final decision on the PSO levy for the 2016/17 period will be issued by the CER by 1st August 2016.

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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.

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 1st October 2016 to 30th September 2017.

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 2016/17 period.

Section 3 summarises the proposed PSO levy, explains the key drivers for the year-on-year levy change and shows the allocation of the proposed levy to customers.

Appendix A presents a table which allocates the cost of the PSO to customers.

A final decision on the PSO levy will be issued by 1st August 2015 in compliance 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, typically via contracts that suppliers have in place with electricity generators.

The policy and terms associated with the plant supported by the PSO levy 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.

In terms of the payment process, ESB Networks collects the allowed PSO levy from electricity suppliers (which is paid for by electricity customers to suppliers) and passes it to EirGrid. EirGrid pays out the appropriate PSO monies to PSO-supported generators/suppliers.

1.4 Legislation

Under Section 39 of the Electricity Regulation Act, 1999, the CER is responsible for the imposition of the PSO levy 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 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 Notifications to the European Commission regarding the various mechanisms supported by the PSO.

The original Notification¹ 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. PSO support for the “Capacity 2005” plant terminated in March 2016. In 2012 REFIT 2 and REFIT 3² were notified to the EU and received state aid clearance to provide support for the generation of electricity from renewable technologies.

¹ 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.

² <http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/REFIT.htm>

1.5 Responding to this Paper

Responses to this proposed decision paper should be forwarded to John Lynch by close of business on Monday 27th June 2016, preferably in electronic format to:

jlynch@cer.ie

or, alternatively by post to:

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

The CER plans to publish all responses received to this consultation paper on the CER's website unless any objection to this is notified in the response to the CER by a respondent.

2.0 Proposed PSO Levy 2016/17 – Key Considerations

This section of the paper shows the key considerations and cost categories feeding into the proposed PSO levy for the period 1st October 2016 to 30th September 2017.

Building on this, the next section, Section 3, then summarises the proposed PSO levy, focuses on the key drivers for the year-on-year levy 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 a benchmark price for the upcoming 2016/17 PSO period of €39.73/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 6th May 2016. For more information on PLEXOS please see the relevant documents on the All Island Project website, www.allislandproject.org.

The benchmark price for 2016/17 is significantly lower than the €53.52/MWh used in the current 2015/16 period and is being driven by lower forward gas prices. This 26% reduction puts significant upward year-on-year pressure on the PSO levy (as discussed in Section 3).

The forecast benchmark price for 2016/17 will be re-calculated for the final PSO decision due in the CER's decision paper by 1st August, and hence the total PSO payment allowed is likely to change somewhat 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 2016/17 PSO period. These have been calculated on the basis of the current Annual Capacity Payment Sum for 2016³ and the proposed Annual Capacity Payment Sum for 2017⁴ as this is the most up-to-date information available.

The capacity payment of €5.08/MWh for 2016/17 is 12% lower than the €5.77/MWh used in the current 2015/16 period, putting upward pressure on the PSO levy. The reduction is a result of the reduction in the Annual Capacity Payment Sum for 2016 compared to 2015. The recently published SEM Committee Consultation Paper on the 2017 Annual Capacity Payment Sum has signaled a slight increase in the pot.

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.

Table 1 below provides a summary of the schemes and generating plants covered by the PSO for the forthcoming 2016/17 period. The REFIT prices shown in Table 1 are indicative. They illustrate relative costs of supporting the various technologies. The full listings of REFIT Reference Prices are available at DCENR's REFIT webpages.

Annual Capacity Payment Sum for the Trading Year 2016, Decision Paper, September 2015, [SEM-15-059](#):

⁴ Annual Capacity Payment Sum for the Trading Year 2017, Consultation Paper, May 2016, [SEM-16-026](#).

Support Scheme	Technology Supported	Indicative ⁵ Support Prices (€/MWh)	MW of Plant Eligible ⁶	MW supported in 2016/17
AER	<ul style="list-style-type: none"> Onshore and offshore wind (onshore wind constitutes most of AER) Small-scale hydropower Combined heat and power (CHP) Biomass (landfill gas) Biomass-CHP Biomass-anaerobic digestion 	46 ⁷	718	40
REFIT 1	<ul style="list-style-type: none"> Onshore wind (constitutes most of REFIT 1) Hydro Biomass landfill gas Other biomass 	70 to 72 88 86 88	1,450	1,376
REFIT 2	<ul style="list-style-type: none"> Onshore wind (constitutes most of REFIT 2) Hydro Biomass Landfill Gas 	70 88 86	4,000	1,265
REFIT 3	<ul style="list-style-type: none"> Biomass Combustion (including co-firing) Biomass CHP Anaerobic Digestion 	89 to 100 126to 147 105 to 158	310	262 ⁸
Lough Ree	<ul style="list-style-type: none"> Peat 	Not applicable	100	100
West Offaly	<ul style="list-style-type: none"> Peat 	Not applicable	150	150

Table 1 - Generation Capacity Supported for 2016/17 PSO Period

⁵ Precise and complete listing of REFIT rates available at [DCENR's REFIT webpages](#):

⁶ The column headed "MW of Plant Eligible" is the capacity of renewable generation which the scheme targets to support by the time the scheme closes for acceptance and approval of applications. This may not always be achieved. There may also be a significant difference compared with the capacity of plant supported as, for instance, some previously supported contracts may have terminated.

⁷ Most AER contacts have terminated and are no longer supported by the PSO. The indicative figure is the average bid price in 2003 for "Large Wind" (prices are 2003 prices) in the AER 6 competition.

⁸ Includes REFIT 3 support for co-firing of biomass with peat at Edenderry commencing 22nd December 2015, calculated as 30% of installed capacity of 128 MW.

The schemes in Table 1 above are discussed in more detail next, including details of their ex-ante forecast cost - excluding the R-factor (discussed in the next section) - for the 2016/17 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 2016/17 PSO period for these schemes is €308.4 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. Only a few AER contracts are supported at this stage.

The ex-ante PSO amount proposed for the 2016/17 PSO period for the AER schemes is €8.275 million. This represents a 31% increase on the support for these contracts included in the current PSO levy period.

- **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 Conditions⁹ 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. Since 22nd December 2015 the Edenderry plant is included under REFIT 3 for co-firing of biomass with peat up to a maximum of 30% of the installed capacity of 128 MW. There is also an allowance made for Dublin Waste to Energy and Mayo Renewable Power which are both expected to commence operations in 2017.

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

⁹ REFIT Terms and Conditions: <http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division>

Electric Ireland) to contract with renewable generation. The compensation streams under the REFIT scheme are paid to electricity suppliers in exchange for entering 15-year Power Purchase Agreements (PPAs) with renewable electricity generators.

There is 2,943 MW of renewable generation capacity included in this PSO proposed decision, which is an increase of 863 MW or 41% compared with the current 2,080 MW included in the 2015/16 PSO period. REFIT supported renewable generation makes up 2,903 MW of the total capacity of 2,943 MW supported.

The ex-ante PSO amount proposed for the 2016/17 PSO period for the REFIT schemes is €300.1 million. This represents a circa 100% increase on the €150 million inclusion in the current 2015/16 PSO period. This increase is due to lower expected wholesale electricity costs and an increased amount of capacity receiving support through the scheme.

Peat Plants

There are now two peat plants associated with the PSO as shown below. Overall, the total ex-ante PSO amount proposed for the 2016/17 PSO period for the peat plants is €120.89 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.

The ex-ante PSO amounts proposed for the 2016/17 PSO period for Lough Ree, West Offaly are €57.4 million and €63.5 million respectively.

Large Plants No Longer Supported

There are a number of plants that are no longer supported by the PSO level in future years:

- The Edenderry Peat plant is now out of contract and is no longer supported for the generation of electricity from peat. The plant now co-fires peat with biomass at a rate of circa 30% biomass. This biomass power generation is supported under REFIT 3.

- Aughinish Alumina (160 MW) and Tynagh (400 MW) have been supported by the PSO since they were built for security of supply reasons in 2005/06. These plants are now out of contract and no longer receive PSO support¹⁰.

There are reasons why the above plants continue to require monies from the PSO levy in future years. This would be where the support from the levy, as paid to a supply company in previous years, was not sufficient to cover the support allowed to them under their contracts. The converse also applies, in which case the supply company pays back into the PSO fund. This adjustment applies for two further years through the R-Factor. There is more detail on this in the following section.

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)¹¹.

Hence this proposed decision paper includes monies pertaining to the R-factor for the 1st October 2014 to 30th September 2015 PSO period.

An R-factor of €24.47 million (excluding PSO-related CfDs discussed in Section 2.5) is included in the proposed PSO levy for 2016/17, relating to the 2014/15 PSO period.

Table 2 below sets out how the ex-ante forecasted 2015/16 PSO payments and the 2014/15 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).

¹⁰ Except for R-factor corrections for ex-ante under- or over-payments.

¹¹ 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	2016/17 ex-ante Forecast € million	2014/15 R-factor € million	Total PSO for Plants € million
Renewables	REFIT & AER	308.39	25.66	334.10
Peat	Edenderry, West Offaly and Lough Ree	120.90	16.80	137.70
Security of Supply	Aughinish & Tynagh	0	-17.5	-17.5

Table 2 - Allocation of 2014/15 R-factors

The R-factor for 2014/15 is primarily driven by lower than expected outturn market revenue resulting from a lower average SMP outturn for 2014/15 of €53.65/MWh compared with the forecast market price (or benchmark price) of €57.17/MWh.

2.5 PSO-related CfDs

PSO-related Contracts for Difference (CfDs) have been offered out by ESB Power Generation for some years now; - see SEM-11-020¹² for more details. For 2016/17 the PSO CfDs are reducing the levy by €14 million. This reflects a lower average outturn SMP than the average CfD strike price for the PSO-related CfDs for 2014/15.

2.6 Other

With reference to Tables 3 & 4 the cost category entitled “Other” covers administrative costs of €0.6 million associated with schemes in the PSO.

2.7 2016/17 PSO Cut-Off Date

The statutory¹³ deadline of 1st May annually applies for the submission, by supply companies, to the CER of:

- a) PSO related ex-ante estimated forecasts of eligible electricity production for the forthcoming PSO period; and,
- b) Ex-post actual “additional costs” for the previous PSO period.

¹² http://www.allislandproject.org/en/market_decision_documents.aspx?article=151a9561-cef9-47f2-9f48-21f6c62cef34

¹³ Refer to under Articles 9 and 10 of the Electricity Regulation Act 1999 (Public Service Obligations) Order 2002 (“PSO Order”) (S.I. No. 217 of 2002) (as amended).

For the 2016/17 PSO levy only, a cut-off date of **close-of-business on Friday 10th June 2016 will apply** for the submission by suppliers of all necessary documents and supporting evidence in order to be deemed eligible for support under REFIT via the 2016/17 PSO levy. This is the final date for submission - by supply companies to the CER - of evidence of “pre-requisite” information required for inclusion in the PSO.

The key pre-requisites are:

- a) For new 2016/17 projects: Executed PPA (evidence from supply company to the CER);
- b) For new 2016/17 projects: Supply Licence issued by the CER (evidence from the Supply Company to the CER and/or checked internally by the CER);
- c) For new 2016/17 projects: Final “Letter of Offer” issued by the Department to generators accepted into REFIT and evidence of same submitted by the Supply Company to the CER);
- d) For new and pre-existing supported projects: a valid, complete submission by the licensed contracting supply company, of 2016/17 estimates submitted to the CER as per CER notification letter (D/16/4296) of 2nd March 2016;
- e) For particular projects other additional prerequisite information as identified and specifically requested by the CER; and,
- f) For pre-existing supported projects – as appropriate - certified/audited actual “additional” PSO costs for 2014/15 submitted to the CER as per CER notification letter (D/16/4296) of 2nd March 2016.

Projects which are not included in the 2016/17 PSO, and subsequently produce electricity eligible for support within the 2016/17 period, may seek to be included for support in subsequent PSO levies via the appropriate R-Factor pertaining to the year of production of eligible electricity.

3.0 Proposed PSO Levy 2016/17

Following the explanations in Section 2, this section summarises the proposed PSO levy for the 2015/16 period, explains the key drivers for the year-on-year levy change and shows the allocation of the proposed levy to customers.

3.1 Levy Amount

Table 3 below and Table 4 overleaf summarise the key PSO schemes and cost categories and resulting PSO levy figures by the broad support categories (renewables, peat and security of supply) for the 2013/14 and 2014/15 PSO periods as well as for what is proposed for 2015/16. Table 5 details the proposed PSO figures for 2015/16 in more detail by scheme/cost category.

As can be seen, the total proposed PSO levy amounts to **€440.9 million** for the 2016/17 period.

Category	Total PSO 2015/16 € Million	Forecast 2016/17 excluding R-factor € Million	R-Factor 2014/15 € Million	Total Proposed PSO 2016/17 € Million
Renewables	180.9	308.4	25.7	334.1
Peat	121.9	120.9	16.8	137.7
Security of Supply	47.4	0	-17.5	-17.5
PSO CfDs	-9.3	0	-14.0	-14.0
Other	-15.5	1.1	-0.5	0.6
Total	325.3	430.4	10.5	440.9

Table 3 – Recent and Proposed PSO Levy Amounts

PSO Levy 2016/17 Proposed Decision Paper – CER/16/152

PSO Item	Totals
AERs	€8,275,000
REFIT	€300,117,469
Lough Ree	€57,406,000
West Offaly	€63,479,000
Sub-Total	€429,277,469
2014/15 R-Factors	€24,947,705
2014/15 PSO CfDs	(€14,011,794)
Other	€637,536
Total PSO	€440,850,916

Table 4 – Total Proposed 2016/17 PSO Levy

A final decision on the PSO levy for the 2016/17 period will be issued by the CER by 1st August 2016. 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; the predicted wholesale market price which can change in line with changing fuel/carbon prices; also, there may be changes required arising from further review of the data submissions from suppliers.

Figure 1 below illustrates the trend in the PSO levy and a breakdown of how the PSO monies are distributed to the supported generator categories.

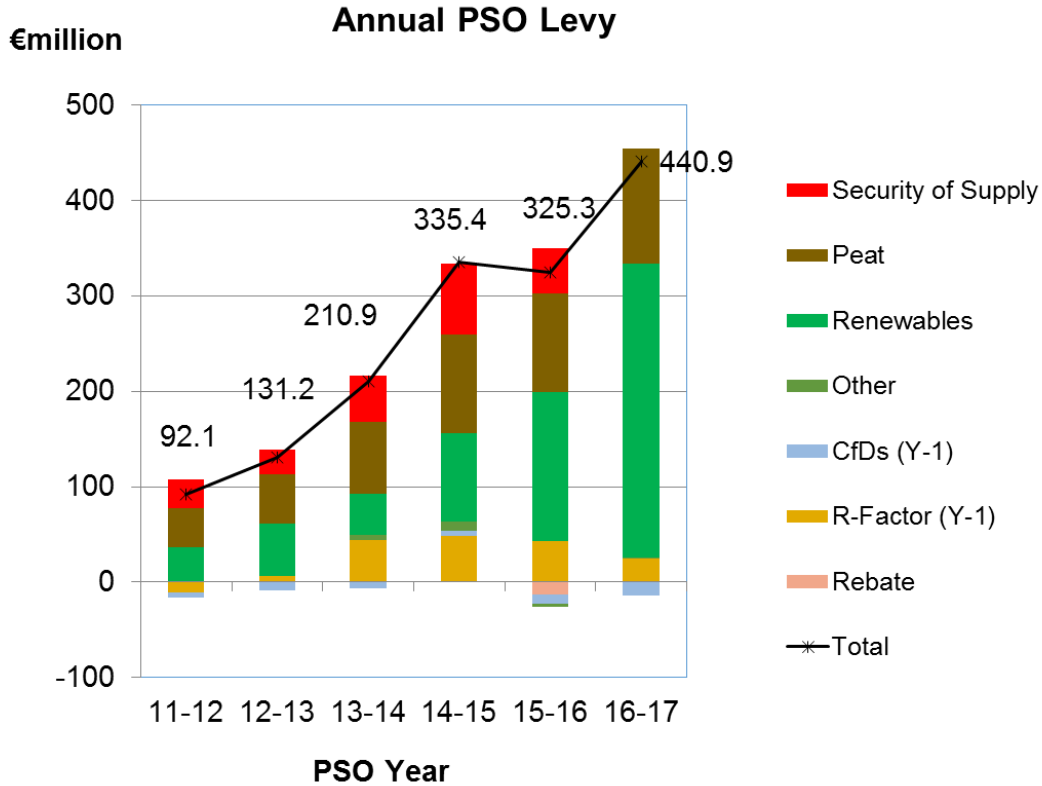


Figure 1: Trend in PSO costs and proposed 2016/17 levy

3.2 Drivers for Changes to the PSO Levy

The total proposed PSO levy for 2016/17 of €440.9 million compares with €325.3 million for the current 2015/16 period, an increase of circa 36%.

The key factors which have put the significant upward pressure on the level as well as those factors which have mitigated further increases are explained below.

Upward Pressure on PSO Levy

- Lower wholesale prices:** The benchmark price, which is a PSO-specific CER-forecasted wholesale System Marginal Price (SMP) in SEM for the 2016/17 levy period, is €39.73/MWh, down approximately 28% on the €52.25/MWh used to determine the levy for the current PSO period. A lower wholesale price for the 2016/17 PSO year results in the supply companies engaged in the PSO needing more PSO money to cover their allowed “additional” PSO costs, to offset the lower money they are predicted to receive from the market. This

applies across-the-board for renewables and peat plants supported by the PSO. The lower estimated wholesale price for next year is reflective of a trend in the SEM since the first half of 2014 of lower spot prices, related to lower gas prices;

- Lower capacity payments. The capacity payment in SEM of €5.08/MWh for 2016/17 is slightly lower than the capacity payment of €5.77/MWh in the current 2015/16 period. As with the SMP, this reduces, albeit to a much lesser degree, the forecast revenues from the market and hence increases the PSO;
- More renewables. An estimated 2,943 MW of renewable generation, mostly wind, will be supported by the PSO next year. This is 863 MW, or 41%, more than the 2,080 MW supported in the current PSO period, hence driving-up the levy¹⁴.
- For renewables there is an R-Factor of €25.7 million relating to the 2014/15 period. This is the result of an under recovery of monies compared to what was expected when the PSO levy was set for the 2014/15 PSO period; and,
- There is an R-Factor relating to the ESB Peat Plants of €16.8 million relating to the 2014/15 period. This is the result of an under recovery of monies compared to what was expected when the PSO levy was set.

Downward Levy Pressure on PSO Levy

- Termination of contracts. The termination of PSO contracts for Tynagh, Aughinish and Edenderry will result in these plants receiving no support from the PSO for the 2016/17 PSO period. This is reducing the levy by circa €55 million compared to the current period;
- Contracts for Difference (CfDs): For 2016/17, PSO-related CfDs are reducing the levy by €14 million. This reflects an SMP out-turn for 2014/15 which on average was lower than the CfD strike price for the period overall. This relates to the PSO supported generation contacted through Electric Ireland.

3.3 PSO Cost per Customer

The PSO apportionment model 2016/17 is calculated using data from the ESRI's Spring 2016 Economic Commentary¹⁵. 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.

¹⁴ While more wind-powered generation tends to increase the PSO levy, it also tends to reduce the wholesale price of electricity in the SEM.

¹⁵ <https://www.esri.ie/publications/quarterly-economic-commentary-spring-2016/>

Using this model, and based on a proposed PSO levy of €440.9 million (which may change in the PSO decision, due by 1st August), the CER has calculated the proposed payment by customer category for the levy period 1st of October 2016 to the 30th September 2017 to be as per Table 6 below.

PSO Customer Category	Current Annual Levy Amount 2015/16	Proposed Annual Levy Amount 2016/17	Proposed Levy Amount 2016/17 Per Month
Domestic customers	€60.09/customer	€79.48/customer	€6.62/customer
Small commercial customers (maximum import capacity of less than 30kVA)	€214.5/customer	€279.48/customer	€23.29/customer
Medium and large customers (maximum import capacity of equal to or greater than 30kVA)	€33.14/kVA	€44.94/kVA	€3.75/kVA

Table 5 – Proposed PSO Levy 2016/17 by Customer Category

Detail behind the 2016/17 figures above is contained in Appendix A.

3.4 Possible amendments to the Cost Allocation Methodology

ESB Network’s current methodology – as approved by the CER - for the allocation of PSO costs to the various customer categories was outlined in the 2015/16 PSO decision paper (CER/15/142). The CER has recently received a proposal from ESB Networks for a modification to this cost allocation methodology and we plan to consult on this at a future date, in advance of the PSO Levy decision paper for 2017/18.

3.5 Next Steps

The level of the final PSO levy for the 2016/17 period is likely to change somewhat from this proposed PSO decision due to potential changes in a number of inputs, such as:

- a change in the predicted wholesale market price which can change in line with changing fuel/carbon prices
- any changes resulting from the ongoing analysis, review and acceptance by the CER of suppliers' returns which are used in the calculation of the levy

A final decision on the PSO levy for the 2016/17 period will be issued by the CER by 1st August 2016.

Appendix A – Allocation of Proposed 2016/17 PSO Levy

Allocation of 2016/17 PSO (Proposed)									
	Individual Peak	% of Individual Peak	PSO Allocation €m	Total Mkt Cust Nos Mid Year (excl PL a/cs i.e. DG3)	Total Non-domestic mkt MICs kVA	Annual Charge		Monthly Charge	Monthly Charge
						€ per Cust	€/kVA	Monthly €	
Domestic Profile	2,137,289	36.75%	162.01	2,038,332		79.48		6.62	€ per Customer
Small Commercial Profile <small>ie. non-domestic (excl PL) <30kVA</small>	618,318	10.63%	46.87	167,706		279.48		23.29	€ per Customer
Medium & Large Profile	3,060,066	52.62%	231.97		5,161,249		44.94	3.75	€/kVA
TOTAL	5,815,673	100.00%	440.85						