PUBLIC SERVICE OBLIGATION LEVY 2014/2015

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CER – Information Page

Abstract:

This decision paper sets the Public Service Obligation (PSO) levy to apply to electricity customers from 1st October 2014 to 30th September 2015.

Target Audience:

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

Related Documents:

- Public Service Obligation Levy 2014/15 Proposed Decision Paper CER/14/125: https://www.cer.ie/docs/000967/CER14125%20%20PSO%20Levy%202014-15%20Proposed%20Decision%20Paper.pdf
- 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
- 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 31st 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 08/236)
  https://www.cer.ie/docs/000229/cer08236.pdf

  Arrangements for the Public Service Obligation Levy – A Decision by the Commission for Energy Regulation (CER 08/153)
  https://www.cer.ie/docs/000229/cer08153.pdf

- 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/

Executive Summary

This decision paper sets the Public Service Obligation (PSO) levy to apply to electricity customers from 1st October 2014 to 30th September 2015. It follows from a "proposed decision" paper, CER/14/125, issued by the CER for public consultation on 6th June 2014.

A summary of public responses received as part of the PSO proposed decision is provided in this paper along with CER responses. Among other matters, this includes information from the CER on overall Irish electricity price trends and a guide as to the possible future direction of the PSO levy to 2016/17, further to some stakeholder comments.

For background, 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 PSO levy for the 2014/15 period is **€335.4 million**. The table below summarises the key PSO cost categories, which are shown in more detail in the paper.

Cost Category	PSO 2014/15 € Million
Renewables	94.3
Peat	119.0
Security of Supply	104.7
Other Costs	17.2
Total	**335.4**

The PSO levy of €335.4 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 average wholesale electricity price in the all-island Single Electricity Market (SEM) for the 2014/15 period is €57.17/MWh. This is down circa 11% 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 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 being 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 138 MW more than the current year, hence increasing the levy[1].

The PSO levy set in this decision paper for 2014/15 has increased from the €327.7 million consulted on in the June proposed decision paper. This is primarily due to a (further) reduction in the estimated average wholesale SEM price for 2014/15, falling from €58.41/MWh in the June paper to €57.17/MWh used for this decision. This is based on updated estimates of the wholesale SEM price for 2014/15 and is related to reduced international gas prices. It has the effect of increasing the PSO as a greater subsidy is needed in compensation for lower market revenues to the relevant plants. It was noted in the proposed decision that the final levy figure for 2014/15 could change for this reason.

[1] 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.

1.2 Purpose of this Paper

This decision paper sets the Public Service Obligation (PSO) levy to apply to electricity customers in Ireland from 1st October 2014 to 30th September 2015. It follows from the "proposed decision" paper CER/14/125[2] issued by the CER for public consultation on 6th June 2014. This paper has the following sections:

- Section 1 gives a general background to the PSO;

[2] Please see http://www.cer.ie/docs/000967/CER14125%20%20PSO%20Levy%202014-15%20Proposed%20Decision%20Paper.pdf

- Section 2 discusses the PSO's key cost components and considerations for the 2014/15 period;
- Section 3 provides a summary of public responses received to the proposed decision CER/14/125, along with CER responses. Among other matters, this includes information from the CER on overall Irish electricity price trends and a guide as to the possible future direction of the PSO levy to 2016/17, further to some stakeholder comments; and,
- Section 4 summarises the PSO levy, explains the key drivers for the year-on-year levy change and the change between the proposed decision paper (CER/14/125) paper and this decision paper, and shows the allocation of the levy to customers.

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

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 S.I. 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[3] 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 of November 2000, 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[4] were notified to the EU and received state aid clearance to provide support for the generation of electricity from renewable technologies.

[3] 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.

[4] http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/REFIT.htm

2.0 PSO Levy 2014/15 – Key Cost Considerations

This section shows the key cost considerations feeding into the PSO levy for the period 1st October 2014 to 30th September 2015.

Section 3 then summarises the public comments received to the proposed decision, CER/14/125, regarding the 2014/15 PSO levy and provides CER responses. Section 4 summarises the levy for 2014/15, focuses on the key drivers for the year-on-year change and any change between the proposed decision (CER/14/125) and this decision paper, and shows the allocation of the levy to electricity 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.

In July 2007 the Regulatory Authorities published a decision paper, *PSO Benchmark Price Setting Methodology (*AIP/SEM/07/431). The Regulatory Authorities decided that the benchmark price will be based on a series of forecast modelled pool prices using the same model as that adopted in determining directed contract prices.

For the purposes of this decision paper, the CER has forecasted that the benchmark price for the upcoming 2014/15 PSO period is €57.17/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 30th June 2014. For more information on PLEXOS please see the relevant documents on the All Island Project website, www.allislandproject.org. More detail on the PLEXOS inputs related to the benchmark price are provided through the below links:

Round 5 PLEXOS Forecast Model 2013-14
http://www.allislandproject.org/en/market_decision_documents.aspx?page=2&article=862948e4-e60f-40e6-b876-d1a34d1c496c

Updates to PLEXOS as part of Round 8
http://www.allislandproject.org/en/market_decision_documents.aspx?article=2e0dc05e-0429-48a9-9a47-2b0b2eafa714

The benchmark price for 2014/15 is circa 11% 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 is putting significant upward year-on-year pressure on the PSO levy (as discussed in later sections).

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. 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	• 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	718	128
REFIT 1	• Onshore wind (constitutes most of REFIT 1) • Hydro • Biomass landfill gas • Other biomass	1,450	1,370
REFIT 2	• Onshore wind (constitutes most of REFIT 2) • Hydro • Biomass Landfill Gas	4,000	499
REFIT 3	• Biomass Combustion • Biomass CHP • Anaerobic Digestion	310	5
Edenderry	• Peat, biomass (co-firing)	120	120
Lough Ree	• Peat	100	100
West Offaly	• Peat	150	150
Aughinish Alumina	• Gas - CHP	160	160
Tynagh	• Gas - CCGT	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 section 2.4) - 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 set for the 2014/15 PSO period for these schemes is €94.3 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 128 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 allowed for the 2014/15 PSO period for the AER schemes is €2.6 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[5] 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

[5] 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 1,874 MW of REFIT renewable generation capacity included in this PSO decision, which is an increase of 229 MW compared with 2013/14 PSO.

The ex-ante PSO amount allowed for the 2014/15 PSO period for the REFIT schemes is €90.5 million.

Peat Plants

There are three peat plants associated with the PSO as shown below. Overall, the total ex-ante PSO amount set for the 2014/15 PSO period for the peat plants is €103.6 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 allowed for the 2014/15 PSO period for Lough Ree, West Offaly and Edenderry are €39.6 million, €42.1 million and €21.9 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[6]. Hence these are sometimes referred to as "Capacity 2005" plants.

[6] See N/475/03 http://ec.europa.eu/community_law/state_aids/comp-2003/n475-03.pdf

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 allowed for the 2014/15 PSO period for Aughinish Alumina and Tynagh are €8.0 million and €66.4 million respectively, a total of €74.4 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)[7].

Hence this decision paper includes monies pertaining to the R-factor for the 1st October 2012 to 30th September 2013 PSO period. An R-factor of €47.7 million (excluding PSO-related CfDs discussed in section 2.5) is included in the 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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[7] 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	93.1	1.2	94.3
Peat	Edenderry, West Offaly and Lough Ree	103.6	15.5	119.0
Security of Supply	Aughinish & Tynagh	74.4	30.3	104.7

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[8] for more details. They have contributed to reducing the PSO levy in recent years but for next year they are adding €5.6 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 plus €0.7 million associated with a R-

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

factor. 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 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 in total 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 Key Comments to Proposed Decision

This section provides a summary of public responses received to the proposed decision on the PSO levy 2014/15, CER/14/125, along with CER responses to the key points made.

3.1 List of Respondents

The CER received 44 responses, including two confidential responses, to the proposed decision paper CER/14/125. Submissions were received from the parties listed below and have been published with this decision paper where they were not indicated as confidential.

Allaye O'Connor
ALONE
Athlone Extrusions
Aughinish Alumina
Billy McInnes
Boliden Tara Mines Limited
Brid McCahill
Claudine Duffy
David & Merlyn Gepp
Declan Brennan
Deputy Lord Mayor Cllr. Kenneth N. O'Flynn
Dr. Fiona Hardy
Dunnes Stores
Eileen McCole
Elaine Boyle
Electric Ireland
Energia
Fianna Fáil
Fingleton White & Co. Ltd.
Helen McNelis
Ibec
Irish Fish processors and Exporters Association
Kerry Group
Kore Energy
Lagan Cement
Largo Foods
Louis & Joan Hanlon
Margaret McNelis
Masonite

McDonald's Restaurants of Ireland
Michael Boyle
Michael Moynihan T.D.
Michael Quinn
Musgrave Group
National Sports Complex
Glanbia Ingredients Ireland Ltd
Peter Crossan
Rahima Sayer
Sean Ward (Fish Exports) Ltd
Senator Brian O' Domhnaill
Smartply Europe Ltd and Medite Europe Limited
Society of St. Vincent de Paul
Thomas Byrne
Wellman International

3.2 Key Comments and CER Responses

The primary issues raised in the responses to the proposed decision CER/14/125 are summarised by topic, followed by the CER's response, as follows. Among other matters, this includes information from the CER on overall Irish electricity price trends and a guide as to the possible future direction of the PSO levy, further to some stakeholder comments

General Comments on Levy Increase

Many respondents to the proposed decision criticised the level of the PSO levy, in particular the increase from last year to this year and that proposed for 2014/15, requesting that the CER not impose the proposed increase. Some respondents called for a review of the entire PSO. One respondent felt that the levy increase would disproportionately affect the most vulnerable of older people.

Similarly many large electricity users pointed to the damage that would be done to their international cost competiveness and businesses by the proposed levy, calling for the increase to be eliminated or alleviated. The negative effects on internal budgeting for 2014/15 were also referred to. Some large users called for the CER to review the PSO and other regulated costs – the capacity charge and imperfections charge in the SEM - in order to improve electricity cost competiveness, and for the CER to feed into policy/legislative changes if needed. There were also some other particular comments from large users which are referred to in the next topic section.

Many respondents stated that Irish electricity prices are already high compared to the EU average, referring to the profits ESB made in 2013. One respondent believes that ESB or general Government revenue should pay towards the PSO levy costs.

It was also queried why lower wholesale prices have not led to lower energy prices for customers to date. One respondent believes it irrational that the CER is not seeking suppliers to pass on the reduction in wholesale costs to consumers and the local economy, but rather is seeking to increase the PSO levy so that prices and returns "remain artificially high".

CER Response

The PSO is Government policy, with the various PSO subsidy schemes controlled by Government, not the CER. The CER's role here is only to calculate the PSO levy in accordance with Government policy and legislation and to oversee the PSO schemes. The CER has no discretion in relation the terms of these schemes and it may only follow what is set in legislation. Hence the CER is not in a position to defer the levy increase or to seek alternative methods of payment such as from ESB or the general taxpayer. Any review of PSO policy would be a matter for Government, and the CER would be happy to feed into one.

The other regulated costs referred to, i.e. the capacity charges and the imperfections charge, are matters for the SEM Committee. As a member of the SEM Committee the CER is satisfied that these cost areas, which have been publicly consulted on, are efficient and appropriate for the current SEM.

The key reasons for the recent and forthcoming annual increase in the PSO levy are as follows:

- *Lower wholesale electricity prices. The estimated SEM wholesale electricity price used to set the current 2013/14 PSO levy was €64.28/MWh, and this is falling significantly to €57.17/MWh for the next 2014/15 year (it was €58.41 in the proposed decision paper, and this figure has since been updated for more up-to-date fuel and carbon prices). A lower wholesale price results in the PSO supported plants needing more PSO money to cover their allowed costs, to offset the lower money they are predicted to receive from the electricity market. This is a key driver in the levy rise between this and the next PSO year – the related and overall impacts of lower wholesale prices on customer electricity prices are discussed below.*

- *Lower running hours of Tynagh. Tynagh is a 400 MW gas plant provided with a PSO for security of supply reasons. The lower running hours arise 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 and so,* *under the terms of its PSO, its lower SEM running and revenue is largely being compensated for by a higher PSO payment. This has been a factor in the PSO levy increase from last year to this year and again from this year to next year; and,*

- *More renewable generation. Overall the amount of renewable generation receiving the PSO, mostly wind, increased by 256 MW from the 2012/13 PSO year to the current PSO year and is anticipated to increase by another 138 MW for the 2014/15 year, thereby requiring a higher levy. Hence this has been a factor in the PSO levy increase from last year to this year and again from this year to next year.*

Looking to overall customer electricity prices, Ireland's prices have in general become more competitive with other EU countries since 2007/08. This has been assisted by the wholesale SEM which is working efficiently and by a competitive electricity supply market, overseen by the CER, in which customers can switch between suppliers simply and for free in order to avail of price discounts on offer.

The CER acknowledges that, even with these competitive gains, there are upward electricity cost drivers in Ireland. This is due to a variety of structural reasons, particularly our reliance on gas-fired electricity generation (with less cheaper alternative generation available than in other countries) and our low population density which drives a higher network ("wires") cost per unit of electricity than in more densely-populated countries. Allowing for these structural considerations, there is no strong evidence to date to suggest that Ireland's electricity prices are too high. We will continue to work with stakeholders and to monitor electricity suppliers to help ensure that our electricity prices are efficient and reflective of the underlying costs, given our duty to protect customers. Cost-reflective prices in turn contribute to maintaining the security and quality of electricity supply, which is vital to homes and businesses across Ireland and which is also central to our objectives.

We note that spot and forward wholesale electricity prices in the SEM are in the order of 10% lower in the year-to-date compared with the same period last year, driven by lower international gas prices, with the bulk of the price falls occurring since mid-February. While this has put upward pressure on the PSO (which is outside of our control, as outlined above), if maintained it should lead to a reduction in electricity tariffs charged by suppliers to customers, assuming no increase in network or supply costs. This is because wholesale prices in SEM comprise circa 40% of the cost of electricity for small/medium customers and more for large customers.

Indeed some large electricity customers have access to "pool-price pass through" tariff plans that are directly linked to the SEM spot price and so should have seen reductions in their electricity prices already. Most residential and small business customers are on fixed tariff plans and should benefit from a reduction in *wholesale prices when suppliers update their tariff plans, which has historically happened around October. This also reflects the fact that suppliers rely on forward contracts for much of their purchases of wholesale electricity, and it will therefore take some months for the older and more expensive forward contracts to be replaced by new cheaper ones offered lately.*

Hence, assuming no significant changes in network or supply costs, the decreases in the wholesale price should lead to an overall reduction in electricity tariffs charged to customers in Ireland in the coming months, if lower wholesale prices are maintained. This should assist the different customers or representative groups that responded to the proposed decision, from residential customers (including older people) and small/medium businesses through to large electricity users who should benefit from an international cost competiveness perspective. The CER will closely monitor the market to ascertain whether or not this is happening and will take appropriate steps to ensure that it is, if necessary.

Specific Increase in Levy for Commercial / Large Customers

In addition to the general comments referred to above, some large electricity users noted and criticised the higher levy increase that they would be facing compared with other customers, with one saying that as a minimum the increase for large users should be no greater than the average. Another respondent said the higher rise for large users seems to be driven by questionable forecasts about the average peak capacity with, compared to the allocation of 2013/2014 PSO costs, a reduction in peak capacity of 6.6% in the domestic profile (despite there being virtually no change in customer numbers) but a 3.8% *increase* in peak capacity for the small and medium business profile despite a 2% reduction in customer numbers.

One large energy respondent referred at a €9 million charge for an administration oversight in the charging mechanisms in the previous year. It was felt this cost, which relates to the previous and current operation of the PSO scheme, should not be handed to customers in the 2014/5 year.

CER Response

Further to our response above, the CER has no discretion in relation to the PSO's schemes or their terms and conditions. We therefore cannot change the prescribed method for the allocation PSO costs to customer categories, including large electricity users, and so we cannot defer or alleviate the levy increase for large electricity users.

The higher rise in the levy for larger users is explained as follows. The total PSO amount to be recovered from large customers is required, by law, to be based on *their % of overall system peak demand divided by their Maximum Import Capacity (MIC). Large commercial customers are seeing a higher PSO levy rise than the other customer categories mostly because next year their assumed MIC is 11% lower than this year. This is largely because the MIC previously used for this 2013/14 PSO year is too high due to EirGrid incorrectly including the East-West Interconnector (EWIC) in its MIC calculations. It should be noted that if the EWIC had not been included in this year's PSO levy calculation (thereby lowering the MIC), large users' PSO levy would have been higher this year, so this is an issue of payment timing rather than absolute payment levels. This is also what the €9.8 million under-recovery charge from 2013/14 (into 2014/15) relates to.*

In addition, in the proposed decision there was, as noted by one respondent, an increase in the peak demand for the small and medium business profile. This is also the case for large profile customers. This has the impact of increasing their contribution to the overall PSO costs. The CER has checked this issue with ESB Networks (who provide the figures) who have informed us that the modelling and methodology used to forecast the demand is consistent with previous years.

Method of PSO Charging

One large energy respondent has an on-site CHP plant and believes that the capacity-based charging for the PSO does not reflect actual imports from the grid or carbon emissions. It believes that efficient CHP users like are being penalised as they are charged on capacity that the vast majority of the time they do not require. Another respondent also referred to this issue and that, while it acknowledges relevant legislation, this does not absolve the CER's responsibilities. It believes that to revert back to the "original plan" as per the notification to the EC of a kWh charge is an easy solution to encourage CHP as per the Government's 2010 target. It believes that a consumption reduction should be encouraged.

More generally, one respondent stated that it was keen to understand the basis of the PSO cost allocations across the various customer segments and the detailed assumptions that have informed these allocations.

CER Response

The legislation which governs the PSO mandates that the CER allocates the PSO levy on the basis of kVA of the Maximum Import Capacity (MIC) for large customers. This applies irrespective of CHP use. Specifically, Article 9 (3) (e) (v) of the Electricity Regulation Act 1999 (Public Service Obligations) Order 2002, states that:

"….(e) The Commission shall make a final determination of-

(v) the PSO Levy amount per electricity account for Domestic

Accounts and Small Accounts and the PSO Levy charge per kVA of maximum import capacity for Medium-Large Accounts…”.

The CER does not have the discretion to revise this PSO charging methodology. Information on the PSO cost allocation has been provided in Appendix A and in an above response topic.

Specific PSO Subsidy Schemes

Some respondents queried the justification of subsidies to renewable/wind generation and the costs this is imposing on energy customers. Some believe the wind sector to be neither efficient nor effective in meeting our renewable energy targets. Some referred to environmental or local issues associated with wind turbines.

One large energy user specifically noted the contribution of Tynagh to the PSO, driven by its lower running, which in turn is related to more renewables for which the customer is also paying a subsidy, stating this is unfair and should be reviewed. Another asked if the CER can provide proof that most of Tynagh’s costs are fixed, queried the level of increase in PSO monies being paid to Tynagh, and asked if the CER should inform Government that the plant/(s) is no longer operational, do not represent security of supply and so should be taken out of the PSO. Another respondent believes that gas-fired plant generally should not be supported by the PSO.

A respondent believes that the support for peat, which it refers to as inefficient, is a waste of public money and that describing it as delivering security of supply is incorrect. Another questioned what it considers an apparent contradiction between supporting peat-fired generation, as an indigenous fuel, on a security of supply basis and affording such generation priority dispatch.

CER Response

As stated above the PSO schemes are Government rather than CER policy. Hence the subsidies for different plant types are a matter for Government. For clarity, the supports for the peat plants are set by Government on the basis that they use indigenous fuels. Priority dispatch for peat is also set via legislation.

Regarding the renewable-related PSO supports, i.e. the AER and REFIT schemes, these assist in progressing towards the Government’s target of 40% of Ireland’s electricity consumption coming from renewable generation by 2020. Already circa 20% of our electricity consumption on average comes from renewable generation, most of it wind, putting Ireland ahead of many EU countries. While wind does tend to increase the PSO levy, it also tends to reduce the wholesale price of electricity in the SEM given that the marginal cost of wind *power is almost zero when the wind blows. This benefit in lowering wholesale SEM prices needs to be taken into account when considering the total impact of wind on the price of electricity. Overall, when fuel/carbon and wholesale prices are high, wind will tend to reduce the overall price of electricity to customers (and vice versa); thus wind can be seen as providing an electricity price "hedge" against possible high future fuel/carbon prices, which are outside of Ireland's control.*

Environmental or local planning issues associated with wind turbines are a matter for the planning authorities rather than the CER.

Regarding the subsidy for the gas-fired plants, to put the issue in context, in late 2002 it became clear that Ireland was facing the risk of a future shortage of electricity to meet customer demand. To help ensure that new power plants were built quickly, a public competition was held by the CER in 2003 to provide contracts to efficient new power projects that could be built at minimum cost. During this competition, a number of different power plant projects submitted cost bids. Two projects were selected, the proposed 160 MW gas CHP plant at Aughinish Alumina and the proposed 400 MW Tynagh gas plant, as they demonstrated that, overall, they were cheaper than other proposed plants considered. Accordingly they were provided with a 10-year contract from March 2006 under the Government's PSO regime, for the purpose of ensuring security of supply.

The Tynagh plant has been running less in recent years, partly related to more wind power being available to run instead, and therefore has been earning less in the electricity market. (This situation does not apply to Aughinish Alumina as, being a CHP plant, it has priority dispatch in the market). The structure of Tynagh's PSO contract is such that, currently, almost all its allowed costs are related to its availability rather than its actual running level – this is what we meant by its costs being "largely fixed". It should be noted that it is the plant's availability to run if needed, rather than its average running level, as provided for in the Tynagh contract, which is critical for security of electricity supply and "keeping the lights on".

Hence there is no justification for breaking the terms of the Tynagh contract, and the relevant Government Department is aware of the situation.

Benchmark Price

A respondent requested that the CER publish details of the assumptions underpinning the PLEXOS benchmark price outcomes (for 2014/15), preferably in advance of the final decision paper. It also suggested that the PLEXOS assumptions are published annually with future PSO levy proposed decision papers in order to allow informed comment.

Another respondent referred to how, as an intermittent form of generation, there will be periods over the year where there is negligible or no generation from onshore wind but the higher expected SMP price for such periods has been included in the benchmark price. The result of this approach is to overstate the benchmark price for such units, and underestimate the amount required to be collected in the current PSO year and transfer the “error” to the R-Factor to be collected two years hence. The respondent called for an annual, average wind-weighted price using PLEXOS, to calculate the benchmark price for capacity supported under AER, REFIT 1 and REFIT 2.

One respondent believes that long-range forecasts do not support the lower wholesale prices predicted by the CER for 2014/15.

CER Response

High-level information on the PLEXOS assumptions was provided in the proposed decision paper and updated information is provided in section 2 of this paper. As requested, we provide more detail on the PLEXOS inputs through the below links, which are already in the public domain:

Round 5 PLEXOS Forecast Model 2013-14:
http://www.allislandproject.org/en/market_decision_documents.aspx?page=2&article=862948e4-e60f-40e6-b876-d1a34d1c496c

Updates to PLEXOS as part of Round 8:
http://www.allislandproject.org/en/market_decision_documents.aspx?article=2e0dc05e-0429-48a9-9a47-2b0b2eafa714

The CER agrees that these assumptions would be helpful to publish or link to in future with the proposed decision on the PSO and will do so in future.

Regarding the suggestion to use an annual, average wind-weighted price using PLEXOS to calculate the benchmark price for AER, REFIT 1 and REFIT 2, under the current approach, in aggregate, money for REFIT was returned to the PSO by suppliers in two out of the last four years as part of the R-Factor. This indicates that it is not always clearly the case that the benchmark price is currently overstated for wind. The CER also notes that paragraphs 5.10 to 5.12 of the Notification[9] refer to the method for setting the market price. Paragraph 5.11 states:

[9] “Notification to the European Commission of Public Service Obligations to be imposed on ESB” available at:
http://www.dcenr.gov.ie/NR/rdonlyres/7DFE9454-5D02-4DFA-92FF-AA8C279BEBE2/0/PSONotifcationtoBxl201100publishedonwebMarch2002.doc

> *"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."*

Therefore the Notification envisaged using a time-weighted market price. Any change to the methodology would require consultation and a decision by the SEM Committee so a change for the forthcoming 2014/15 PSO period is not possible. However we will consider this issue again in advance of the next PSO year.

We are not aware what long-range forecasts one respondent was referring to in its comment, but in any event what is relevant is the forecast of the wholesale price for 2014/15 and this is based on robust assumptions as outlined above.

Levy Forecasting

Some large energy respondents called for more short to medium-term guidance on likely changes to the PSO and other regulated electricity charges, say over a rolling 5-year horizon. The PSO level for 2015/16 was also queried.

CER Response

There is inherent uncertainty in many future electricity costs given that they are driven by volatile international fuel/carbon prices which are outside of the CER's (and Ireland's) control. This especially applies to the gas price which impacts directly on wholesale prices in the SEM and therefore the PSO levy amount (as explained earlier).

However, the CER appreciates the desire among some market participants for some guide as to the level of the PSO levy into the future. As a guide, we recently did modelling of the potential levy for the 2016/17 PSO year, given that it would be the first PSO levy year when certain support schemes no longer apply directly. For this modelling we made the following assumptions:

- *An average SMP of €58.41 as per the recent proposed decision paper (CER/14/125);*
- *PSO contracts for Aughinish Alumina and Tynagh plants directly cease in March 2016;*
- *The PSO contract for the Edenderry plant directly ceases in late 2015, replaced by 30% biomass co-firing under REFIT 3;*
- *An increase in PSO wind energy of 234 MW per annum between 2014/15 and 2016/17, i.e. a 468 MW increase in total; and,*
- *No R-factor feeding through to 2016/17.*

Based on the above, the total PSO levy for 2016/17 would be in the order of €203 million, considerably less than the €335.4 million levy set in this decision paper for 2014/15. It would be reasonable to assume that on this basis, the levy amount for 2015/16 would be between the two figures.

Please note that any material change in the assumptions above (especially but not limited to the SMP) or other factors would of course impact on the levy amount for 2016/17, so this is only a guide based on these assumptions - it is in no way definitive or binding. The final levy figure for 2016/17 will almost definitely be different as assumptions change, and could be different by a very wide margin. However, based on these assumptions, it provides a guide as to the potential direction of the PSO levy, as requested by certain respondents to the proposed decision paper. We hope this is of assistance.

4.0 PSO Levy 2014/15

This section summarises the PSO levy for the 2014/15 period, explains the key drivers for the year-on-year change as well as the change between the proposed decision CER/14/125 and this paper, and shows the allocation of the levy to electricity customers.

4.1 Levy Amount

The tables below summarises the key PSO schemes and cost categories and resulting levy for the 1st October 2014 to 30th 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 PSO levy amounts to circa **€335.4 million** for the 2014/15 period.

Category	Forecast 14/15 Excluding R-factor € Million	R-Factor 12/13 € Million	Total PSO 14/15 € Million
Renewables	93.1	1.2	94.3
Peat	103.6	15.5	119.0
Security of Supply	74.4	30.3	104.7
PSO CfDs	0.0	5.6	5.6
Other Costs	10.8	0.7	11.6
Total	**281.9**	**53.3**	**335.4**

PSO Item	Totals
AERs	€2,617,000
REFITs	€90,500,500
Lough Ree	€39,590,000
West Offaly	€42,085,000
Edenderry	€21,891,000
Tynagh	€66,367,000
Aughinish Alumina	€8,013,000
Sub-Total	€271,063,500
2012-13 R-Factor	€47,821,380
2012/13 PSO-related CfDs	€5,572,692
Other	€10,982,604
Total 2014/15 PSO Levy	**€335,440,176**

4.2 Drivers for Increase

The total PSO levy for 2014/15 of €335.4 million compares with €210.9 million for the current 2013/14 period. The key drivers for the year-on-year increase are:

- Lower wholesale prices. As referred to in section 2, the benchmark price - estimated wholesale SMP - for 2014/15, is €57.17/MWh. This is down circa 11% 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 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 being 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 138 MW more than the current year (due to REFIT 2 primarily), hence increasing the levy[10].

The above factors are the biggest drivers of the 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 €5.6 million to the PSO levy for 2014/15 to reflect their net loss for the 2012/13 period; and,

- Other costs. For 2014/15 the category 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.

The PSO levy set in this decision paper for 2014/15 has increased from the €327.7 million consulted on in the June proposed decision paper (CER/14/125). This is primarily due to a (further) reduction in the estimated average wholesale SEM price for 2014/15, falling from €58.41/MWh in the June paper to €57.17/MWh used for this decision. This is based on updated estimates of the wholesale SEM price for 2014/15 and is related to reduced international gas prices. It has the effect of increasing the PSO as a greater subsidy is needed in compensation for lower market revenues to the relevant plants. It was noted in the proposed decision that the final levy figure for 2014/15 could change for this reason.

4.3 PSO Cost Per Customer

The PSO apportionment model 2014/15 is calculated using data from the ESRI's Spring 2014 Economic Commentary[11]. It incorporates the relevant indices for economic growth from the most up-to-date ESRI Quarterly Economic Commentary available.

Using this model, and based on a PSO levy of €335.4 million, the CER has calculated the payment by customer category for the levy period 1st of October 2014 to the 30th September 2015 to be as per the following table.

[10] While more wind generation tends to increase the PSO levy, it also tends to reduce the wholesale price of electricity in the SEM.
[11] http://www.esri.ie/UserFiles/publications/QEC2014SPR.pdf

PSO Customer Category	Current Annual Levy Amount 2013/14	Annual Levy Amount 2014/15	Levy Amount 2014/15 Per Month
Domestic customers	€42.87/customer	€64.37/customer	€5.36/customer
Small commercial customers (maximum import capacity of less than 30kVA)	€129.83/customer	€221.66/customer	€18.47/customer
Medium and large customers (maximum import capacity of equal to or greater than 30kVA)	€18.47/kVA	€34.20/kVA	€2.85/kVA

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

Appendix A – Allocation of 2014/15 PSO

Allocating 2014/15 PSO									
	Individual Peak	% of Total 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 € per Cust	Annual Charge €/kVA	Monthly Charge Monthly €	Monthly Charge
Domestic Profile	**2,214,191**	38.83%	130.26	**2,023,774**		64.37		**5.36**	**€ per Customer**
Small & Medium Profile ie. non-domestic (excl PL) <30kVA	**652,022**	11.44%	38.36	**173,052**		221.66		**18.47**	**€ per Customer**
Large Profile	**2,835,631**	49.73%	166.82		**4,877,237**		34.20	**2.85**	**€/kVA**
TOTAL	5,701,844	100.00%	335.44						