PUBLIC SERVICE OBLIGATION LEVY 2011/2012

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The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

www.cer.ie

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Abstract:

Section 39 of the Electricity Regulation Act 1999 ('the Act') sets out the legal basis for the Public Service Obligation (PSO) levy in Ireland. Statutory Instrument No. 217 of 2002 made under Section 39 requires that the Commission for Energy Regulation ('the CER') calculates and certifies the costs associated with the PSO and sets the associated levy for the required period. The PSO levy takes into account the estimated and actual costs incurred in undertaking generation activities which are covered in the relevant PSO legislation, including costs associated with the Renewable Energy Feed In Tariff (REFIT) scheme. This decision paper sets out a PSO levy of €92.12m for the period 1st October 2011 – 30th September 2012.

Target Audience:

Electricity generators and suppliers, including those participating in the REFIT scheme, and electricity customers.

Related Documents:

- Electricity Regulation Act 1999
  http://www.irishstatutebook.ie/1999/en/act/pub/0023/index.html
- S.I. No. 217 of 2002 - Electricity Regulation Act 1999 (Public Service Obligations) Order 2002 as amended
  http://www.irishstatutebook.ie/2002/en/si/0217.html
- S.I. No. 284 of 2008 – Amending S.I. No. 217 of 2002 for REFIT
  http://www.attorneygeneral.ie/esi/2008/B26313.pdf
- S.I. No. 444 of 2009 – Amending S.I. No. 217 of 2002 for REFIT
  http://www.attorneygeneral.ie/esi/2009/B27208.pdf
- S.I. No. 532 of 2010 – Amending S.I. No. 217 of 2002 for REFIT
  http://www.attorneygeneral.ie/esi/2009/B27208.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 08/234) http://www.cer.ie/en/renewables-decision-documents.aspx?article=39ce537a-1620-486d-b93e-bc70ab5934ca

- Arrangements for the Public Service Obligation Levy – A Decision by the Commission for Energy Regulation (CER 08/093) http://www.cer.ie/en/renewables-current-consultations.aspx?article=39ce537a-1620-486d-b93e-bc70ab5934ca

- November 2000 Notification to the EU of PSO obligations to be imposed on ESB Link

- Relevant EU State Aid 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: RES-E Support i.e. REFIT Link
  State Aid N 826/2001: AER I-V Link

- Previous PSO Decision Papers http://www.cer.ie/en/renewables-decision-documents.aspx#PSODecisions

- DCENR's Website with links http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/

Executive Summary

This paper outlines the PSO levy to apply from 1st October 2011 to 30th September 2012. For the 2011/2012 PSO levy period the PSO levy amounts to €92.12m. This is a reduction of approximately €64.51m on the PSO levy determined for 2010/11, which has been brought about primarily by rising fossil fuel prices and resultant higher forecast wholesale market price.

The PSO levy is charged to all electricity customers. It is designed to support the national policy objectives of security of energy supply, the use of indigenous fuels (i.e. peat) and of the use renewable energy sources in electricity generation, as set out in legislation. The proceeds of the levy are used to recoup, *inter alia* the additional costs incurred by the ESB Electric Ireland and other suppliers in sourcing, and ESB Power Generation producing, a proportion of their electricity from such generators.

The policy and terms and conditions associated with PSO levy supported generation are mandated by Government and approved by the European Commission. The CER does not set the policy and terms associated with PSO levy supported plant and, as such, has no control over the level of the PSO levy that arises from the policy and terms associated with PSO levy supported plant. The levy is calculated by the CER in accordance with the relevant legislation Electricity Regulation Act 1999 (Public Service Obligations) Order 2002 (SI No. 217 of 2002) and particular terms of the various PSO schemes. As part of its calculation and certification of the PSO levy, the CER only allows costs to ensure that the scheme is administered efficiently.

The CER has been advised that the Department of Communications, Energy and Natural Resources (DCENR), as the body responsible for the policy of the PSO schemes, is reviewing the operation of the peat PSO.

Table of Contents

1.0 Introduction

1.1 Purpose of this Paper

The purpose of this paper is to outline the CER's decision with regard to the PSO benchmark price and resulting PSO levy for the upcoming PSO period of the 1st of October 2011 to the 30th of September 2012*.*

1.2 PSO Levy Background

The PSO levy is designed to support certain peat, gas and renewable generation plant as mandated by Government and approved by the European Commission. The underlying policy objectives are security of energy supply – including the use of indigenous fuels - and the promotion of renewable energy generation.

The PSO levy determined for 2011/12 is €92.12m. This is an increase of circa €6.6m over the proposed PSO decision, even though the value of the forecast Single Electricity Market (SEM) price plus capacity payment (revenues for PSO plant) for the 2011/12 PSO period has changed very little. The forecast SEM price for the proposed 2011/12 PSO decision was derived from the 2010/11 PLEXOS modelling software[1] as the 2011/12 PLEXOS software was not validated at the time of publication of the proposed PSO decision. For the final 2011/12 PSO decision, the validated 2011/12 PLEXOS software was used. The 2010/11 and 2011/12 PLEXOS software returned different SEM prices for a given set of fuel inputs.

The forecast price of gas has risen between the proposed 2011/12 PSO decision and this final 2011/12 PSO decision. The rise in the price of gas since the proposed PSO decision and the proportionately smaller increase in the forecast SEM price (due to using the 2010/11 PLEXOS model, not the 2011/12 one) affects the forecast cost of the Tynagh and Auginish (CADA) PSO contracts as these contracts include a 'strike' price derived primarily from the price of gas. The relatively higher rise in the strike price compared to the forecasted SEM price for this 2011/12 PSO decision results in increased forecast PSO costs for the CADA contracts, relative to those forecasted in the proposed 2011/12 PSO decision. The higher forecasted PSO costs for the CADA contracts is the primary reason for the increase in the PSO levy.

The 2011/12 PSO levy has significantly reduced compared to the 2010/11 PSO period. This is due to a number of factors, principally;

[1] See section 2.1 CER/11/097 http://www.cer.ie/en/documents-by-year.aspx?year=2011

- The cost of the various PSO contracts/schemes given the higher forecasted market revenues earned by those plant/schemes (principally a higher Single Electricity Market (SEM) price forecast of €72.72/MWh for 2011/12 compared to €60.84 for 2010/11);
- No scheduled outage at the ESB's peat generation stations. In the 2010/11 PSO levy an estimated amount was included to cover the forecasted cost of the mid-life overhaul of the West Offaly Power generating station, as provided for under the PSO Notification. The actual costs of that work will be subject to audit and verification for the 2012/13 PSO levy.
- An R-factor was included in the 2010/11 PSO levy decision with a value of €21.45m. The R-factor included in the 2011/12 PSO levy decision, relating to the 2009/10 PSO levy period has a value of (€15.82m), thus reducing the PSO levy for 2011/12.

1.3 PSO Items

The PSO levy currently covers a number of different plant and schemes. These are as follows:

- **Peat Stations:** Lough Ree (100MW), Edenderry (120MW) and West Offaly (150MW) power stations all receive support under the PSO levy. These were notified to the EU in November 2000[2] to enhance Ireland's security of supply through production of electricity from an indigenous fuel source.

  Lough Ree (commissioned December 2004) and West Offaly (commissioned January 2005) sell their electrical output into the SEM pool and receive revenues from the SEM for that output. At a high level, if the market revenues they receive are less than entitled, notified costs incurred, Lough Ree and West Offaly recover monies from the PSO. Similarly, if either plant over-recover from the market monies are returned to the PSO fund.

  For Edenderry Power Limited (EPL), the former (pre-SEM) Power Purchase Agreement (PPA) with ESB Electric Ireland has been transposed in effect to work as a CfD arrangement under SEM. ESB Electric Ireland receives revenues on behalf of EPL from the SEM acting as its data processing agent. EPL is then paid the market revenues plus

[2] Notification of 2000 http://www.dcenr.gov.ie/NR/rdonlyres/7DFE9454-5D02-4DFA-92FF-AA8C279BEBE2/0/PSONotifcationtoBxl201100publishedonwebMarch2002.doc

any extra owed to EPL under the PSO. Similarly, if ESB Electric Ireland over-recovers from the market monies are returned to the PSO fund.

- **Capacity 2005:** Aughinish Alumina (160MW) and Tynagh (400MW) receive support under the PSO levy. 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[3].

  Aughinish and Tynagh entered respective CfD agreements with ESB Electric Ireland, whereby ESB Electric Ireland recovers or returns additional monies paid under the PSO agreements from/to the PSO levy.

- **Alternative Energy Requirement (AER):** The technologies supported under the AER scheme include wind energy, small-scale hydropower, combined heat and power (CHP) biomass (landfill gas), biomass-CHP; biomass-anaerobic digestion and offshore wind. The plant involved contract with ESB Electric Ireland, 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 ESB Electric Ireland returns money to the PSO in the event of over-compensation. Since the Programme was launched in 1995, six AER competitions have been held. A number of early AER contracts terminated in 2010 and this is reflected in the estimates for the 2011/12 PSO whereby the volume of AERs is reduced compared to the 2010/11 PSO levy. There is 322MW of AER generation capacity supported in this PSO decision.

- **Renewable Energy Feed-In Tariff (REFIT):** The REFIT Terms and Conditions[4] as published in 2006 cover five categories of plant. These are Large Wind, Small Wind, Hydro, Biomass Landfill and Biomass. Generators contract with suppliers in a similar fashion to the AER scheme. Unlike AER however, the scheme is open to all suppliers (not just ESB 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 PPAs with renewable electricity generators. There is 1242MW of REFIT renewable generation capacity supported in this PSO decision.

- **PSO-related Contracts for Differences (PSO CfDs):** In addition to the ESB's Directed Contract (DC) and Non-Directed Contract (NDC) rounds[5],

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

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

additional contracts for differences (CfDs) have been offered out by the ESB on a voluntary basis. These contracts have been offered out to all suppliers in the SEM since 2007 and the overall negative value arising from their offering up to the 2008/09 levy period was included for the first time in the 2009/10 PSO levy, therefore reducing the PSO levy for the 2009/10 period. The R-factor amount relating to the 2009/10 PSO CfDs is negative and reduces the 2011/12 PSO (see section 2.3). It is noted that the PPB in Northern Ireland also offers out CfDs which are supported by the PSO in Northern Ireland, such CfDs being related to underlying GUAs. The continuation of the offering of PSO supported hedge contracts in the SEM was confirmed by the SEM Committee earlier this year.

1.4 Legislation

Under Section 39 of the Electricity Regulation Act 1999 the CER is responsible for the imposition of public service obligations on the Board, licence holders and holders of permits under Section 37 of the Principal Act.

S.I. No. 217 of 2002 was made by the Minister under Section 39 which 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 EU Commission regarding the various mechanisms supported by the PSO.

The original Notification (November 2000) ('the Notification') sets out the broad areas that may be covered by the PSO (as listed in Section 39 of the Electricity Regulation Act 1999), 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 the 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 EU 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 SIs to provide for the recovery of costs under the PSO for such schemes. These included the recovery of costs associated with peaking plant and plant that entered the market under a competition held by the CER due to security of supply concerns. Most recently, REFIT I[6] has been notified to the

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[5]See *2011/12 Contracting Process, including PSO-related CfDs*, SEM-11-020 http://www.allislandproject.org/en/project_office_sem_publications.aspx?year=2011&section=2

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

EU and received state aid clearance. S.I. No. 217 of 2002 (as amended by S.I. No. 284 of 2008, S.I. No. 444 of 2009 and S.I. No. 532 of 2010) also takes account of suppliers receiving support under the PSO.

1.5 The Benchmark Price

The benchmark price is a forecast of the SEM market price 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 therefore predicts that less revenue will be earned from the market by PSO plant, thus resulting in a higher PSO levy. A higher benchmark price predicts that greater revenue will be earned from the market by PSO plant, thus 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.

Replacement of the Best New Entrant price ('the BNE') is therefore envisaged in the Notification.

In June 2007 the Regulatory Authorities ('the RAs') published a consultation paper, *Proposed Approach to Setting the PSO Benchmark Price in SEM: A Consultation Paper* (AIP/SEM/07/240). This was driven by the desire to align the processes for setting the benchmark prices for the PSOs in Ireland and Northern Ireland.

In July 2007 the RAs published the follow-up decision paper, *Proposed Approach to Setting the PSO Benchmark Price in SEM: A Decision Paper* AIP/SEM/07/431 the RAs 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. Both the software & inputs used to develop the modeling results are available to all market participants[7].

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[7] Visit www.allislandproject.org

1.6 R-Factor

The PSO levy is determined each year based on estimates of costs to be recovered by all relevant parties, relative to the PSO benchmark price. In line with the Notification, this amount is usually corrected retrospectively ('R-factor') two PSO periods later, once actual, audited costs are verified and the true market price and generation levels are known[8].

The PSO levy decision for a given PSO period is therefore generally composed of a forecast of the PSO levy required for the relevant period and a correction relating to the PSO levy two PSO periods previous.

[8] See CER 08/236 "Calculation of the R-Factor in Determining the PSO levy" http://www.cer.ie/en/renewables-decision-documents.aspx?article=39ce537a-1620-486d-b93e-bc70ab5934ca

2.0 Submissions to Proposed Decision (CER/10/086)

The CER received four submissions to the proposed PSO levy paper CER/010/086. The following submissions have been published with this decision paper:

- Airtricity
- IBEC Large Energy Users Working Group
- Fingleton White and Co. Ltd
- EirGrid

2.1 Submissions on Proposed Levy and CER's Responses

In the following section, an outline of the primary issues raised in the responses to the proposed 2011/12 PSO levy paper is given. Each issue raised is then followed by the CER's *italicised* response.

i) It was noted, as per previous PSO years that there is a relative difference in the PSO subsidy level attributable to ESB Power Generation's peat plants and that attributable to Edenderry Power Ltd given that all three are comparably sized peat fired stations. Given that all three plants are afforded priority dispatch in the SEM, it was requested that the difference in required PSO support be explained.

Under Section 9(2) and (3) of the Electricity Regulation Act 1999, (Public Service Obligations) Order (Amended) 2002, (SI 217 of 2002), the CER is obliged to approve ESB's estimated additional costs to be incurred in complying with the Public Service Obligation imposed on ESB and apportion those costs, recoverable from all final customers of electricity, across the relevant PSO categories. These additional costs incurred by the ESB are calculated annually in accordance with parameters specified in the November 2000 PSO Notification to the European Commission[9]. These parameters were agreed by the then Minister of Public Enterprise and approved by the EU Commission in the context of state aid requirement's in the relevant state aid decision[10]. Estimated PSO levy

[9] http://www.dcenr.gov.ie/NR/rdonlyres/7DFE9454-5D02-4DFA-92FF-AA8C279BEBE2/0/PSONotifcationtoBxl201100publishedonwebMarch2002.doc

[10] EU State Aid decision N 6a / 2001: http://ec.europa.eu/competition/state_aid/register/ii/by_case_nr_n2001_0000.html#6a

costs for the peat stations in a given PSO levy are corrected to actual costs in the relevant PSO R-factor.

As outlined in the November 2000 State Aid Notification to the EU, the PSO levy payable to the ESB in relation to its peat stations is the difference between the incurred allowable costs detailed in the Notification and the income earned by the ESB from the market for selling electricity produced from its peat stations. The ESB is allowed those costs incurred to be recovered under the PSO levy subject to not exceeding the cumulative allowable costs under the PSO Notification at that point in time. The ESB is allowed under the costs in the Notification to recover the costs of one scheduled mid life overhaul for each of the peat stations. The mid-life overhaul of the Lough Ree Power Station took place during the 2009/10 PSO levy period and the costs of this overhaul are included in the R-factor in the 2011/12 PSO levy. Further information on the overhaul is included in section 3.4.

The structure of the Edenderry PSO is not the same as that of the ESB's Peat Stations and the different PSO charges reflect this. The Edenderry plant is paid via a PPA with ESB Electric Ireland. The Edenderry plant was constructed after successful bidding by a Finnish company, Fortum, in the Europeat competition in 1998. The ESB went to open competitive tender in 2002 to build its plants.

The CER does not set the policy and terms associated with PSO levy supported plant and, as such, has no control over the level of the PSO levy that arises from the policy and terms associated with those PSO levy supported plant.

The CER has been advised that the Department of Communications, Energy and Natural Resources is reviewing the operation of the peat PSO.

ii) An explanation was requested for why the ESB Power Generation peat plants had a lower than expected income, as referred to in section 2.4 of the proposed PSO levy decision paper, CER/11/097.

The ESB's peat stations had a lower than expected income because revenues earned from the SEM for the sale of peat generated electricity were lower than originally forecast in the CER's 2009/10 PSO levy decision paper. The primary cause of the lower income was the difference between the forecast SEM price and the actual outturn SEM price for the 2009/10 PSO period.

iii) An explanation was requested for why ESB Electric Ireland received a lower than expected income in the 2009/10 PSO levy period. The respondent requested to know was this due to competition developing in the electricity market and why were these costs not recovered through the K-factor in the regulated price control formula.

An amount was owed ESB Electric Ireland from the 2009/10 PSO levy, which was set to zero despite a levy being determined as required. Lower PSO costs than expected by ESB Electric Ireland resulted under its PSO obligations for the 2009/10 PSO period. Overall this resulted in PSO support required to recover its additional costs under the PSO for the 2009/10 PSO period.

Only those additional costs relating to ESB Electric Ireland's PSO obligations which are appropriately incurred by ESB Electric Ireland are allowed to be recovered under the PSO levy. The K-factor is the mechanism in place for the recovery of monies in respect of ESB Electric Ireland's formerly regulated tariffs and therefore includes costs submitted and appropriate for recovery under that mechanism.

iv) It was requested that the capital cost associated with the peaking plants be explained.

The peaking plants were referred to in the 'Legislation' section (section 1.2) of the proposed PSO decision paper for information purposes only. The costs relating to the peaking plants were last included in the 2010/11 PSO levy, as part of the 2008/09 R-factor.

The purpose of the relevant, scheme[11] *was to procure temporary stand-by peaking capacity to meet short-term generation requirements, i.e. to ensure the security of electricity in Ireland. The short-term measures served to increase the reserve capacity to meet the peak demand and were required before the more permanent CADA (Tynagh and Aughinish) security of supply PSO arrangements were put in place.*

v) It was requested that clarification be provided on why the forecasted REFIT costs in the 2011/12 proposed PSO decision paper have not decreased further, given the relative increase in the forecast 2011/12 benchmark price compared to recent PSO periods.

[11] State Aid N143/2004 http://ec.europa.eu/eu_law/state_aids/comp-2004/n143-04.pdf

There are three elements to the compensation paid to suppliers under the current REFIT scheme Terms and Conditions as published[12]*. One element is determined relative to SEM market revenues, of which the market price is the primary component. This element of REFIT compensation reduces to zero when market revenues rise above a certain reference level.*

The other two elements of the REFIT compensation are fixed payments that are paid independently of market revenues. The first of these is paid to suppliers for every kWh purchased under a PPA with a REFIT electricity generator. The second is paid to a supplier for every kWh purchased under a PPA if the plant is a renewable technology other than large wind. Further information on the REFIT scheme, included the Terms and Conditions can be found on the DCENR's website www.dcenr.gov.ie

vi) A further explanation and justification of the PSO-related CfDs was requested

In addition to ESB's Directed Contract (DC) and Non-Directed Contract (NDC) rounds[13]*, additional contracts for differences (CfDs) have been offered out by ESB on a voluntary basis to manage the risks for ESB arising from the operation of PSO arrangements to which they are a party.*

The Market Modelling Group (MMG) within the CER seeks to ensure that, when undertaking this offering of CfDs, this does not negatively impact on the Irish PSO customer, i.e. the risk to the Irish PSO customer arising from the actions of the ESB in this context is reduced where risk is defined as encompassing both cost and year-on-year PSO levy volatility. These contracts have been offered out to all suppliers in the SEM since 2007 and the negative value arising from their offering was included for the first time in the 2009/10 PSO levy, therefore reducing the PSO levy for the 2009/10 period.

Further information on these PSO-related CfDs is available here[14].

[12] REFIT Terms and Conditions
http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/Electricity+from+Renewables+inc+REFIT+and+AER.htm

[13] See *2011/12 Contracting Process, including PSO-related CfDs*, SEM-11-020
http://www.allislandproject.org/en/project_office_sem_publications.aspx?year=2011&section=2

[14] *See 2011/12 Contracting Process, including PSO-related CfDs*, SEM-11-020
http://www.allislandproject.org/en/project_office_sem_publications.aspx?year=2011&section=2

vii) A respondent noted that it is unclear what the level of rebate for Large Energy Users (LEUs) in 2011/12 will be and how this will interact with PSO levy charges in terms of the end cost for such LEUs for the upcoming 2011/12 period.

The purpose of this paper is to inform Irish electricity customers of the PSO levy charges to apply from the 1st October 2011 to 30th September 2012. In accordance with S.I. No. 217 of 2002, the CER is required to publish the PSO levy decision two months in advance of when the PSO levy is due to come into effect and is bound by this. Effectively, this means a decision on the PSO levy for the 2011/12 period must be published by 1st August 2011.

The CER has always tried to ensure that all customers, including LEUs, are able to assess any proposed changes to electricity prices (including PSO charges) through consultation and information papers. In 2008, the PSO levy was changed to run from a calendar period to an October year X to September year X+1 period, to align with ESB Electric Ireland (at the time ESB Customer Supply)'s regulated electricity tariff period which ran from October of a given year to September of the following year.

Regarding the level of the LEU rebate for 2011/12, the CER can confirm that any rebate will be applicable from 1st October 2011, in line with when the new PSO charges will take effect. The CER is in ongoing discussions with the DCENR with regards to the level of the rebate to apply from 1st October 2011.

The PSO levy for 2011/12 and any LEU rebate for 2011/12 are not related and do not interact with each other. The levy is completely separate legally and there is no link between it and any rebates sanctioned by the CER to any customer grouping.

viii) A respondent questioned the basis for charging the PSO levy, noting the basis of the levy being charged based on installed MIC.

The CER notes manner in which the PSO levy is calculated for distribution this year is consistent with the approach taken in previous years and the relevant PSO legislation. It has also been approved by the European Commission. All demand customers pay the PSO levy on the above categorisation outlined in S.I. No. 217 of 2002 (as amended). The CER is obliged to charge the PSO levy to final customers in accordance with S.I. No. 217 of 2002. The policy and aims of the schemes included in the PSO levy are a matter for Government, including how the levy is charged to final customers.

3.0 PSO Levy 2011/12 – Key Considerations

3.1 Benchmark Price

For the purposes of this decision paper, the Commission has forecasted that the benchmark price for the upcoming PSO period of 1st October 2011 to 30th September 2012 is €72.72/MWh. This figure is an annual, average time weighted price calculated using the 2011/12 validated PLEXOS model. In calculating this price, the model was run with thirty different outage patterns, using fuel, carbon and exchange rates from the 9th - 22nd June 2011. For more information on the validation process see the relevant documents on the AIP website, www.allislandproject.org.

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3.2 Capacity

Regarding the capacity payment used in the calculations, revenues associated with the capacity payment have been estimated for the relevant period for each plant supported under the levy. These have been calculated in advance of the finalisation of the Annual Capacity Payment Sum for 2012 and are therefore based on the most up to date information available prior to a decision on the above matter. 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. The capacity revenues included in this decision paper are based upon updated information used as inputs to the determination of the Annual Capacity Payment Sum for 2011.

3.3 PSO Levy Apportionment Model

The PSO apportionment model 2011/12 (see page 10) is calculated *inter alia* using indices from the ESRI's Spring 2011 Economic Commentary[15].

[15] http://www.esri.ie/publications/latest_publications/view/index.xml?id=3246

3.4 2009/10 R-factor

An R-factor of (€15.82) is included in the PSO levy, relating to the 1st October 2009 to 30th September 2010 PSO period. A brief outline of the key elements of the R-factor is given below. The 2009/10 R-factor is broken down as follows:

- ESB Power Generation (€0.55m): West Offaly and Lough Ree Power. There were some changes in outturn costs versus those initially forecasted for the purposes of the 2009/10 PSO levy decision. This includes some costs relating to the mid-life overhaul of Lough Ree Power station allowed for under the PSO Notification. Lower income than expected was earned by the ESB's plant as a result of lower SEM revenues than forecast for the purposes of the 2009/10 PSO levy decision. The lower than forecast income was the primary reason a charge resulted in respect of ESB's peat stations of €4.05m. This amount was largely offset by an amount owed to the PSO levy by ESB PG from the 2009/10 period, resulting in a net payment to the PSO levy of (€0.55m).

- ESB Electric Ireland, €5.94m. An amount was owed ESB Electric Ireland from the 2009/10 PSO levy, which was set to zero for the purposes of the 2009/10 PSO levy despite a levy being determined as required. Lower PSO costs than expected by ESB Electric Ireland resulted under its PSO obligations for the 2009/10 PSO period. Overall this resulted in more support required to recover its additional costs under the PSO. This amount is less than the amount included in the 2011/12 proposed PSO decision as a result of a clarification received by the CER in respect of costs submitted for recovery under the PSO and a subsequent change in costs approved by the CER for recovery under the PSO in that context.

- REFIT, (€5.24m): In some cases, lower REFIT payments were due than that forecast and paid to certain REFIT recipients in the 2009/10 PSO levy. This resulted in, on balance, monies being returned to the PSO fund. This figure also contains a small correction of the 2008/09 R-factor relating to estimated Euribor rates.

- PSO CfDs, (€15.97m). Lower market price than expected resulted in ESB returning money to the PSO under the SEM CfD contracts voluntarily entered into by the ESB and supported by the Irish PSO levy.

4.0 PSO Levy 2011/12

This section sets out the PSO levy for 2011/12. The PSO levy is composed as follows:

PSO Item	Totals
Ex-Ante Estimated PSO items for 2011/12	
Lough Ree	€23,091,000
West Offaly	€19,165,000
Edenderry	-€1,647,536
AERs	€665,464
CAP 05 (Aughinish and Tynagh)	€30,749,464
REFIT	€35,781,980
Estimated 2011/12 PSO CfDs	€0
Ex-Ante Sub-Total	€107,805,372
Other[16]	-€15,681,695
Total PSO	**€92,123,677**

Therefore, the CER has calculated the payment by customer category for the levy period 1st of October 2011 to the 30th of September 2012 to be as follows:

Customer Category	Levy Amount	Levy Amount/month
Domestic customers	€19.33/customer	€1.61/customer
Small commercial customers (maximum import capacity of less than 30kVA)	€57.22/customer	€4.77/customer
Medium and large customers (maximum import capacity of equal to or greater than 30kVA)	€8.58/kVA	€0.71/kVA

[16] These costs include the administration costs for all PSO parties, the associated 2009/10 R-Factor for all PSO parties, and a small correction for interest relating to the 2008/09 PSO levy period.

Appendix A – Glossary of Terms

AER	**Alternative Energy Requirement**
Board	**Electricity Supply Board**
Commission	**Commission for Energy Regulation**
DCENR	**Department for Communications, Energy and Natural Resources**
NIAUR	**Northern Ireland Authority for Utility Regulation**
PSO	**Public Service Obligation**
RAs	**Regulatory Authorities, being the Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation**
REFIT	**Renewable Energy Feed in Tariff**
SEM	**Single Electricity Market**
SI	**Statutory Instrument**

Appendix B - Demand Allocation & Components of PSO Levy

Allocating 2011/12 PSO									
	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 € per Cust	Annual Charge €/kVA	Monthly Charge Monthly €	Monthly Charge
Domestic Profile	**2,512,104**	0.43	39.25	**2,030,154**		19.33		**1.61**	**€ per Customer**
Small & Medium Profile ie. non-domestic (excl PL) <30kVA	**649,356**	0.11	10.14	**177,297**		57.22		**4.77**	**€ per Customer**
Large Profile	**2,735,360**	0.46	42.73		**4,983,369**		8.58	**0.71**	**€/kVA**
TOTAL	5,896,821	1.00	**92.12**						

Number of months to recover charge	**12**