PUBLIC SERVICE OBLIGATION LEVY 2013/2014

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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. This decision paper sets out a PSO levy of €210.9m for the period 1st October 2013 – 30th September 2014.

Target Audience:

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

Related Documents:

- Public Service Obligation Levy 2013/14 Proposed Decision Paper CER/13/130: Link
- 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

- 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

- 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
  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 Public Service Obligation (PSO) levy to apply from 1st October 2013 to 30th September 2014. For the 2013/2014 PSO levy period the PSO levy amounts to €210.9m. This is an increase of approximately €79.7m on the PSO levy determined for 2012/13 of €131.2m.

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 of renewable energy sources in electricity generation. The proceeds of the levy are used to recoup the additional costs incurred by suppliers in sourcing a proportion of their electricity supplies from such 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 what is allowed in the PSO levy, and acts only in an administrative function to calculate and certify it. As part of its calculation and certification of the PSO levy, the CER only allows costs properly incurred under the relevant PSO contracts/schemes and ensures that the scheme is administered efficiently.

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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 2013 to the 30th of September 2014***.***

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 Government sets the terms of any PSO scheme, and notifies this to the European Commission who decides whether to approve it or not. Similar arrangements apply in other EU countries. In Ireland, the main categories of PSO generation that receive support are (i) peat generators; (ii) renewable generators; (iii) generators providing electricity under the terms of a competition run in 2003 to ensure security of supply. The PSO levy is designed around providing a minimum level of revenue to generators, so that such generators are not wholly reliant on prevailing prices in the wholesale electricity market (the SEM or "benchmark" price). This generally means that a higher SEM price should lead to a lower PSO and vice versa.

1.3 Proposed Decision versus Decision 2013/14

The PSO levy determined for 2013/14 is €210.9m. This is an increase of circa €5.3m from the initial forecast of €205.6m that was set out in the proposed PSO decision for the 2013/14 levy (CER/13/130). The key reasons for the increase are (i) the inclusion of biomass co-firing costs for Edenderry power plant[1]; and, (ii) the recent termination of a large Alternative Energy Requirement (AER) contract.

Estimated costs of €7.3m are included for co-firing costs for the 2013/14 PSO levy period at the generation station in Edenderry for recovery under the peat PSO arrangement. This cost is partially offset by a reduction of €1.1m in emissions costs (from €3.7m without co-firing to €2.6m with co-firing) resulting in a forecast net cost of €6.2m relating to co-firing.

[1] The inclusion of such costs was noted as a possibility in the consultation paper, but since then the Department of Communications, Energy and Natural Resources has decided they should be included.

Regarding the termination of an AER contract, it is noted that the AER scheme[2] provides for a mechanism (referred to as "uplift") where support payments are increased for the first half of the 15 year period of support. Under this methodology the payment ("x" eurocent/kWh) is adjusted upwards by 35% in years 1 to 7.5 and adjusted downwards by 35% in years 7.5 to 15. Since the calculation of the Proposed PSO for 2013/14 an AER party terminated their contract. This party would otherwise have been expected to pay €6.3m to the PSO following the completion of the uplift payment period. The inclusion of biomass co-firing costs and the termination of the AER contract have added approximately €12.5 million to the PSO levy.

Aside from the above, the consultation paper used a slightly lower benchmark price of €62.50/MWh than the updated priced of €64.28/MWh used in this paper.

The forecast SEM price for this 2013/14 PSO decision was derived from the Round 5 PLEXOS model (used for Round 5 of Quarterly Directed Contract auctions), while the Round 4 PLEXOS model was used for the proposed PSO decision. Changes in key inputs used when modelling the forecast of the SEM Price (the System Marginal Price or 'SMP') for this decision from those used in the model for the proposed decision paper published earlier this year have resulted in a rise in the SMP used in the benchmark price for calculating the PSO levy from €62.50/MWh to €64.28/MWh.

The rise in the forward CO2 price since the proposed PSO decision and the use of the Round 5 PLEXOS model are the key drivers of the increase in the SMP used in the benchmark price in this paper from that used in the proposed decision paper.

The increase in the benchmark price from that used in the proposed decision paper resulted in a reduction of approximately €7.2 million in the PSO levy. However, the effect of this is outweighed by the addition of the co-firing costs and the termination of the AER contract, and the net overall effect is an increase of approximately €5.3 million in the PSO levy.

1.4 2012/13 Levy versus 2013/14 Levy

Comparing the levy set out in this decision paper to that determined for the levy period 2012/13 (CER/12/121), the 2013/14 PSO levy has increased by €79.7m compared to the 2012/13 PSO period. This is due to a number of factors, principally;

[2] Refer to Alternative Energy Requirement (AER VI - 2003) terms and conditions available at:: http://www.dcenr.gov.ie/NR/rdonlyres/F070739C-0716-41AF-8A4E-DEBC1F8A99F5/0/AERVIdraft9dcmnrPrintersFinalVersion.pdf

- An R-factor was included in the 2012/13 PSO levy decision with a value of (€1.8m)[3]. The R-factor included in this 2013/14 PSO levy decision, relating to the 2011/12 PSO levy period, has a value of €38m. Hence, the 2013/14 PSO is increased by a large R-factor in contrast to 2012/13 when the small R-factor reduced the net PSO.
- Compared with 2012/13 the contract cost for the Tynagh plant is forecast to increase in 2013/14 with significantly lower revenue due to lower forecast running in the market resulting in an estimated cost to PSO of €42.7m.
- An increase of 265MW in the volume of PSO renewable generation supported by REFIT in the 2013/14 levy (1645MW) compared to that supported under the 2012/13 levy (1380MW) combined with a lower benchmark price lead to a forecasted increase in REFIT costs to the PSO of €3.5m

The benchmark price of €64.28/MWh determined for the 2013/14 levy compares to a price of €65.72/MWh used for the PSO levy for 2012/13. Therefore, the change in the benchmark price is not a key factor in the increase in the PSO costs from 2012/13 to 2013/14.

1.5 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[4] to enhance Ireland's security of supply.

  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. If the 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-recovers from the SEM, monies are returned to the PSO fund.

  Edenderry Power (commissioned in December 2000) sells its electricity to Electric Ireland (EI) under a Power Purchase Agreement (PPA), whereby

[3] Brackets indicate a negative value for monetary amounts. Note that (€1.8m) is the R-factor before the addition of positive administration costs.

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

EI then sells that electricity on to the SEM pool. EI 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 EI over-recovers from the SEM, monies are returned to the PSO fund.[5]

- **Capacity 2005: (CAP05)** 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[6].

  Aughinish and Tynagh entered a contract for differences (CfD) agreement with Electric Ireland (EI), whereby EI 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 should no longer be part of forecasted PSO payments although R-factors will apply until two PSO periods later.

- **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 EI, 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 EI returns money to the PSO in the event of over-compensation. The AER scheme[7] provides for a mechanism (referred to as "uplift") where support payments are increased for the first half of the 15 year period of support. Under this methodology the payment ("x" eurocent/kWh) is adjusted upwards by 35% in years 1 to 7.5 and adjusted downwards by 35% in years 7.5 to 15. Accordingly, for some AER contracts a reduction of 35% to payments applies for the second half of the term of the contracts. Generators are legally entitled to exit their AER contracts at any stage but may not subsequently re-enter the scheme. Since the Programme was launched in 1995, six AER competitions have been held. The AER scheme is closed to new entrants. There is 219MW of AER generation capacity supported in this PSO decision. This is down from 306MW supported under the 2012/13 PSO levy.

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[5] Note that the PPA has been transposed in effect to work as a CfD arrangement in the context of the SEM.
[6] See N/475/03 http://ec.europa.eu/community_law/state_aids/comp-2003/n475-03.pdf

[7] Refer to Alternative Energy Requirement (AER VI - 2003) terms and conditions available at:: http://www.dcenr.gov.ie/NR/rdonlyres/F070739C-0716-41AF-8A4E-DEBC1F8A99F5/0/AERVIdraft9dcmnrPrintersFinalVersion.pdf

- **Renewable Energy Feed-In Tariff (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[8] 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 and the REFIT 3 scheme (for biomass technologies) opened in February 2012.

  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 EI) 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 1645 MW of REFIT renewable generation capacity included in this PSO decision, which is an increase of 265 MW compared with 2012-13 PSO.

- **PSO-related Contracts for Differences (PSO CfDs):** In addition to ESB's Directed Contract (DC) and Non-Directed Contract (NDC) rounds[9], additional contracts for differences (CfDs) have been offered out by the ESB. The R-factor amount relating to the 2011/12 PSO CfDs is negative and reduces the 2013/14 PSO (see section 3.4). 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 Generator Unit Agreements (GUAs).

1.6 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.

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

[9] 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

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 S.I.s 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, three REFIT schemes [10] have been notified to the EU and received state aid clearance. S.I. No. 217 of 2002 has been amended by a number of S.I.s to reflect new schemes and the parties entitled to payment under those schemes. Further information regarding the S.I.s amending S.I. No. 217 of 2002 can be found on the DCENR's website.

1.7 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.

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

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 and inputs used to develop the modeling results are available to all market participants[11].

1.8 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 reconciled retrospectively ('R-factor') two PSO periods later, once actual, audited costs are verified and the true market price and generation levels are known[12].

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 reconciliation relating to the PSO levy two PSO periods previous.

[11] Please refer to www.allislandproject.org

[12] 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/13/130)

The CER received five responses to the proposed PSO levy decision paper CER/13/130. Submissions were received from the parties listed below and have been published with this decision paper.

- IBEC Large Energy Users Working Group
- Airtricity
- Fingleton White
- Tipperary Co-operative
- Hi-Life Tools Shannon

2.1 Submissions on Proposed Levy and the CER's Responses

In the following section, an outline of the primary issues raised in the responses to the proposed 2013/14 PSO levy paper is given. Each issue raised is then followed by the CER's *italicised* response.

i) Several respondents requested that the CER consider changes to the mechanism for calculating the PSO levy. Two respondents advised that the increased PSO levy from that which applied in 2012/13 will impact on their cost base and requested that the CER reconsider the proposed increases in the PSO levy. Separately a respondent queried as to whether a temporary adjustment to the procedure for calculating the R-factor could be put in place to adjust for a potential over-recovery of PSO revenues relating to 2012/13.

The CER calculates the PSO levy in accordance with the relevant legislation and the terms and conditions of the various schemes covered by the levy. PSO policy, the terms and conditions of the schemes and legislation are a matter for Government. The CER, given its role in relation to the PSO as above, does not have the discretion regarding the magnitude of the PSO levy as the CER calculates the levy in accordance with the mechanism set out in legislation.

ii) IBEC Large Energy Users Working Group invited the CER to express its support for their outline proposal[13] to ring fence a portion of Ireland's carbon tax for dispersal amongst energy-intensive manufacturing firms.

The CER considers that taxation is a matter that sits outside of the PSO and is a policy matter for Government.

iii) One respondent requested that the PSO levy be allocated on the basis of consumption (KWh charge) rather than based on connection type (kVA charge) and that, if this cannot be implemented for the upcoming levy period, the PSO capacity charge be based on Maximum Import Capacity minus Maximum Export Capacity. This would benefit demand sites which have autonomous production of export electricity (e.g. as a result of installing a Combined Heat and Power (CHP) plant).

The legislation[14] which governs the PSO mandates that the CER allocates the PSO levy on the basis of kVA of maximum import capacity for Medium-Large accounts:

'….(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 the basis for the calculation of the PSO. Therefore the PSO charges continue to be allocated in accordance with the methodology used to date.

iv) A respondent questioned CER's projection of a proposed benchmark price of €62.50/MWh for 2013/14.

Since the consultation the CER has carried out an updated forecast of the benchmark price using an updated PLEXOS model (the Round 5 PLEXOS model used for Round 5 of Quarterly Directed Contract auctions). This has resulted in a revised benchmark price of €64.28/MWh for the upcoming PSO period of 1st October 2013 to 30th September 2014. This compares with a proposed benchmark price of €62.50/MWh as calculated for the consultation.

[13] As outlined in IBEC's Budget 2014 Submission available at: http://www.ibec.ie/IBEC/Press/PressPublicationsdoclib3.nsf/vPages/Newsroom~ibec-launches-budget-2014-submission-08-07-2013/$file/IBEC+Budget+2014+Submission+-+Final+8+July.pdf

[14] *Specifically Article 9 (3) (e) (v) of Electricity Regulation Act 1999 (Public Service Obligations) Order 2002*

v) A respondent sought clarification on the rise in revenue referred to in the proposed decision required by certain generation plant "which are forecast to run less in the market, requiring extra revenues for support."

This refers primarily to Tynagh which is forecasted to run less in the market in 2013/14 resulting in an increase of €22.7m in forecasted PSO CAP05 costs. This protection given to these generators is part of the contractual arrangements governing the CAP 05 process.

vi) A respondent sought further detail on the two errors which have had an impact on the ESB Power Generation R-Factor and the administrative costs associated with participating in the PSO.

- *It was established by the CER's review of ESB's PSO submission for 2013/14 that the actual outturn from the 2010/11 PSO backed directed CfDs of €2.6m included in the 2012/13 PSO levy was paid out by ESB rather than received by ESB. This results in a correction of €5.2m to be added to ESB's costs. No interest has been allowed on this correction by the CER. The CER has requested that the ESB's auditing process is amended to ensure that incidents such as this do not occur in future PSO periods.*

- *The 2013/14 PSO also includes a charge of €5.7m to account for an inadvertent mismatch between the anticipated receipts and the payments due under the PSO mechanism for 2012/13 resulting from a calculation error by the CER. Steps have been taken to ensure that the possibility of an error is reduced in future.*

3.0 PSO Levy 2013/14 – Key Considerations

3.1 Benchmark Price

For the purposes of this decision paper the CER has forecasted a benchmark price of €64.28/MWh for the upcoming PSO period of 1st October 2013 to 30th September 2014. This compares with a benchmark price of €65.72/MWh for the 2012/13 PSO period. This figure is an annual, time weighted, average price calculated using the PLEXOS model that was used for round five of the quarterly directed contracts in the SEM (Q4 2013 –Q3 2014). In calculating this price, the model was run with ten different outage patterns, using forward fuel, carbon and exchange rates from the 5th of July 2013. For more information on the validation process see the relevant documents on the AIP website (ref: www.allislandproject.org).

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 2014, 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.

3.3 PSO Apportionment Model

The PSO apportionment model 2013/14 is calculated using data from the ESRI's Spring 2013 Economic Commentary[15].

3.4 Other

An R-factor of €38.0m is included in the PSO levy, relating to the 1st October 2011 to 30th September 2012 PSO period. A brief outline of the key elements of the R-factor is given below. The 2011/12 R-factor is broken down as follows:

- ESB Power Generation R-Factor (€6.2m)[16]: Lower market price than expected in the PSO period 2011/12 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. The amount to be returned by ESB is reduced to €6.2m on account of a correction of €5.2m where it was established by the CER's review that the actual outturn from the 2010/11 PSO backed directed CfDs of €2.6m included in the 2012/13 PSO levy was paid out by ESB rather than received by ESB. The CER has requested that the ESB's auditing process is amended to ensure that incidents such as this do not occur in future PSO periods.

- Electric Ireland R-Factor, €38.3m: This amount represents the monies that Electric Ireland is entitled to from the PSO levy for the 2011/13 PSO period in relation to contracts supporting renewables under the AER scheme, Edenderry Power, Aughinish Alumina and Tynagh. In general. lower income than expected was earned from the market in 2011/12, resulting in more support required under EI's contractual obligations under the PSO. A contributing factor is that the volume from certain generation

[15] http://www.esri.ie/publications/search_for_a_publication/search_results/view/index.xml?id=3739 and http://www.esri.ie/UserFiles/publications/QEC2013SPR_ES.pdf

[16] Note that numbers in brackets indicate a negative amount. In this instance it represents a reduction in the overall R-Factor.

plants was less in the market than anticipated, requiring extra revenues for support. In addition, other factors such as differences between estimated and outturn fuel prices, plant availabilities and costs impacted here. The figure of €38.3m includes €19.3m in support of AER contracts, €6.7m in support of Edenderry Power, €0.2m in support of Aughinish and €10.4m in support of Tynagh.

- REFIT R-Factor €5.9m: When compared with the REFIT estimates for 2011/12 and the corresponding ex-ante payments, higher ex-post REFIT payments were due to certain REFIT recipients in the 2011/12 PSO levy as a result of lower than forecasted market prices. This figure also contains a small correction of the 2010/11 R-factor relating to the correction of estimated Euribor rates.

In addition to the R-factor monies as above, the Other category includes administrative costs associated with participating in the PSO that parties are allowed to recover. For the 2013/14 PSO it also includes a charge of €5.7m to account for an inadvertent mismatch between the anticipated receipts and the payments due under the PSO mechanism for 2012/13 resulting from a calculation error. Steps have been taken to ensure that the possibility of an error is reduced in future.

3.5 PSO Support Categories

The primary categories supported under the PSO mechanism are (i) indigenous fuel (i.e. peat), (ii) renewables (AER and REFIT) and (iii) security of supply (CAP05). The table in Section 4 below shows the breakdown of the ex-ante estimated PSO costs for 2013/14. The category 'Other' includes the 2011/12 R-factor monies and the administration costs for all PSO parties.

Whilst it is difficult to precisely allocate some of these costs, a broad high level apportionment of the estimates, the reconciled R-factor amounts and the administration costs into the three categories leads to approximate 2013/14 PSO share of payments of 38% for peat, 36% for renewables and 26% for security of supply (CAP05).

4.0 PSO Levy 2013/14

This section sets out the PSO levy for 2013/14. The PSO levy is composed as follows:

	Totals
Lough Ree	€32,270,000
West Offaly	€30,499,000
Edenderry Power Limited	€12,093,000
AERs	-€7,981,000
CAP 05	€48,172,000
REFIT	€51,068,883
Estimated 2013/14 PSO CfDs	€0
Sub-Total	€166,121,883
Other[17]	€44,806,636
Total PSO	**€210,928,519**

Therefore, the CER has calculated the payment by customer category for the levy period 1st of October 2013 to the 30th of September 2014 to be as follows:

Customer Category	**Annual Levy Amount**	**Levy Amount/Month**
Domestic customers	€42.87/customer	€3.57/customer
Small commercial customers (maximum import capacity of less than 30kVA)	€129.83/customer	€10.82/customer
Medium and large customers (maximum import capacity of equal to or greater than 30kVA)	€18.47/kVA	€1.54/kVA

[17] These costs include the administration costs for all PSO parties and the associated 2011/12 R-Factor for all PSO parties.

Appendix A – Glossary of Terms

AER	**Alternative Energy Requirement**
Board	**Electricity Supply Board**
CfD	**Contract for Differences**
CER	**Commission for Energy Regulation**
DCENR	**Department for Communications, Energy and Natural Resources**
EI	**Electric Ireland**
GUA	**Generator Unit Agreement**
PPA	**Power Purchase Agreement**
PSO	**Public Service Obligation**
RAs	**Regulatory Authorities, being the Commission for Energy Regulation and the Northern Ireland Utility Regulator**
REFIT	**Renewable Energy Feed in Tariff**
SEM	**Single Electricity Market**
SI	**Statutory Instrument**

Allocating 2013-2014 PSO									
	Individual Peak	% of Individual Peak	PSO Allocation	Total Mkt Cust Nos Mid Year (excl PL a/cs i.e. DG3)	Total Non-domestic mkt MICs	Annual Charge		Monthly Charge	Monthly Charge
			€m		kVA	€ per Cust	€/kVA	Monthly €	
Domestic Profile	**2,376,069**	0.41	86.92	**2,027,601**		42.87		**3.57**	**€ per Customer**
Small & Medium Profile ie. non-domestic (excl PL) <30kVA	**626,537**	0.11	22.92	**176,542**		129.83		**10.82**	**€ per Customer**
Large Profile	**2,763,314**	0.48	101.09		**5,472,279**		18.47	**1.54**	**€/kVA**
TOTAL	5,765,920	1.00	210.93						

Number of months to recover charge | **12**