



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

PUBLIC SERVICE OBLIGATION LEVY 2016/17

DOCUMENT TYPE:	Decision Paper
DATE PUBLISHED:	31 st August 2016
REFERENCE:	CER/16251



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

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

www.cer.ie

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Abstract:

This PSO decision paper (CER/16251) is an amended decision of the CER which supersedes and annuls the previous decision (CER/16/183) published on 29th July 2016.

This 2016/17 Public Service Obligation Decision Paper sets out the Public Service Obligation (PSO) levy to apply to electricity customers from 1st October 2016 to 30th September 2017.

This amended decision of the CER corrects for a declared overstatement by ESB – amounting to €8.5 million - of their 2014/15 R-factor. This, in turn, is accounted for in the 2016/17 PSO levy calculations resulting in a 2.1% reduction in the levy.

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 is to calculate the PSO levy in accordance with Government policy and to help ensure that the scheme is administered appropriately and efficiently.

Target Audience:

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

Related Documents:

- Public Service Obligation Levy 2015/2016-Decision Paper ([CER/15/142](#));
- Public Service Obligation Levy 2016/2017-Proposed Decision Paper ([CER/16/152](#));
- PSO Benchmark Price Setting Methodology ([AIP-SEM-07-431](#));
- Calculation of the R-factor in determining the PSO levy ([CER/08/236](#));
- Arrangements for the Public Service Obligation Levy – A Decision by the Commission for Energy Regulation ([CER/08/153](#));

- Relevant EU State Aid Notifications and Clearance Decisions, including:
 - 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](#)

- Sections of the website of the [Department of Communications, Climate Action and Environment](#) relating to PSO, REFIT and AER.

Relevant Legislation Pertaining to the PSO:

- [Electricity Regulation Act, 1999](#);
- [S.I. No. 217 of 2002](#) - Electricity Regulation Act, 1999 (Public Service Obligations) Order 2002, as amended; and
- Statutory Instruments amending S.I. No. 217 of 2002 for REFIT, including:
 - [S.I. No. 284 of 2008](#);
 - [S.I. No. 444 of 2009](#);
 - [S.I. No. 532 of 2010](#);
 - [S.I. No. 513 of 2011](#);
 - [S.I. No. 438 of 2012](#);
 - [S.I. No. 421 of 2013](#);
 - [S.I. No. 603 of 2014](#);
 - [S.I. No. 556 of 2015](#).

Executive Summary

This PSO levy decision paper (CER/16251) is an amended decision of the CER which supersedes and annuls the previous 2016/17 PSO levy decision (CER/16/183) published on 29th July 2016.

This 2016/17 Public Service Obligation Decision Paper sets out the Public Service Obligation (PSO) levy to apply to electricity customers from 1st October 2016 to 30th September 2017.

This amended decision of the CER corrects for a declared overstatement – amounting to €8.5 million - of the 2014/15 R-factor. This, in turn, is accounted for in the 2016/17 PSO levy calculations and decision.

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 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 is to calculate the PSO levy in accordance with Government policy and to help ensure that the scheme is administered appropriately and efficiently.

In May 2016, in accordance with its statutory obligations, the CER issued a proposed decision paper (CER/16/152) regarding the 2016/17 PSO levy. Based on data available at that time (e.g. forecasted fuel prices and suppliers' PSO estimates) the CER indicated that the PSO levy for 2016/17 would be €440.9 million.

Subsequent to the issuance of the proposed decision paper, the CER undertook a further review of suppliers' PSO submissions and carried out updated modelling of the PSO benchmark price. A review of the data inputs within the proposed decision paper, together with an additional correction for an €8.5 million overstatement of costs from ESB, results in a reduction of approximately €48.4 million (11%) in the 2016/17 PSO, with the finalised 2016/17 PSO totaling €392.4 million. A key driver of this reduction since the proposed decision paper is an 8.9% increase in the forecasted market price of electricity for the 2016/17 PSO period.

The final PSO levy cost of €392.4 million, is 21% higher than the 2015/16 PSO. The increase in the PSO for 2016/17, relative to 2015/16, is primarily driven by:

- i. expected decreases in wholesale electricity prices (i.e. the estimated wholesale electricity price is 17% lower than the price used to calculate the 2015/16 PSO);
- ii. an expected 33% increase in the number of renewable generation plants qualifying for PSO payments, and
- iii. an under recovery of monies by renewable generators and ESB's peat plants within the 2014/15 PSO period, which is captured by an R-Factor adjustment.

From a customer impact perspective, the 2016/17 PSO levy will result in a monthly charge of €5.90 and €20.73 for domestic and small commercial customers respectively. In comparison to the 2015/16 PSO, this equates to a monthly increase of €0.89 and €2.85 for domestic and small commercial customers respectively. Additionally, customers with a medium and large profile use will be subject to a monthly charge of €3.33/kVA, which represents a 21% increase relative to the 2015/16 PSO.

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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 2016/17 Public Service Obligation (PSO) levy decision paper ("Decision Paper") explains the PSO levy to apply to electricity customers in Ireland from 1st October 2016 to 30th September 2017.

This Decision Paper is structured as follows:

- Section 1: provides a general background to the PSO;
- Section 2: discusses the key cost considerations for the 2016/17 PSO;
- Section 3: summarises the key comments received in relation to the CER's PSO 2016/17 proposed decision paper ("Proposed Decision Paper"), CER/16/152, whilst outlining the CER's responses;

- Section 4: summarises the 2016/17 PSO levy and explains the key drivers for the year-on-year levy change. Additionally, this section outlines the allocation of the 2016/17 PSO levy to customers;
- Section 5: affirms the CER's intention to review the PSO's administrative arrangements; and
- Section 6: outlines next steps regarding the PSO.

1.3 Background to the PSO

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

The policy and terms associated with the plants supported by the PSO levy are mandated by Government in relevant legislation (See Section 1.4) and approved by the European Commission. The CER has no discretion over the terms of PSO schemes. The CER's only role 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 allowed costs incurred under the relevant PSO contracts/schemes.

In terms of the payment process, ESB Networks collects the allowed PSO levy from electricity suppliers (which is paid for by electricity customers to suppliers) and transfers the collected PSO monies to EirGrid. These PSO monies are then distributed by EirGrid, as instructed by the CER, to relevant generators/suppliers supported by the PSO.

1.4 Legislation

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

Statutory Instrument (S.I.) No. 217 of 2002 was made by the relevant Minister under Section 39 of the 1999 Act and provides more detail in relation to the above matters. S.I. No. 217 of 2002 provides, *inter alia*, for the calculation of the PSO levy by the CER to provide for the recovery of costs by all relevant parties in

accordance with Notifications to the European Commission regarding the various mechanisms supported by the PSO.

The original Notification¹ of November 2000 sets out the broad areas that may be covered by the PSO as listed in Section 39 of the 1999 Act, namely:

- security of supply;
- use of indigenous fuel sources; and,
- environmental protection.

The original Notification refers specifically to the schemes envisaged to be covered by the PSO at that juncture (i.e. the imposition on ESB of a requirement to have available to it the output of electricity generating stations using peat and stations using renewable, sustainable or alternative forms of energy).

Subsequent to the Notification, new schemes have been notified to the European Commission and have received state aid clearance. Consequently, 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. Such amendments have enabled the recovery of costs associated with peat plants and plants that entered the market in 2005 under a competition, referred to as “Capacity 2005”, held by the CER due to security of supply concerns. PSO support for the “Capacity 2005” plants terminated in March 2016.

Additionally, in 2012 REFIT 2 and REFIT 3² were notified to the EU and received state aid clearance to provide support for the generation of electricity from renewable technologies.

¹ The purpose of the Notification was to inform the European Commission of the Irish Government’s intention to impose public service obligations and of the proposed mechanism to recover the additional costs of fulfilling the obligations.

² <http://www.dccae.gov.ie/energy/en-ie/Renewable-Energy/Pages/Renewable-Electricity-Supports.aspx>

2.0 PSO Levy 2016/17 – Key Cost Considerations

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

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 forthcoming PSO levy period. It 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 generating plant supported by the PSO 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 plants to cover their allowed costs, thus generally resulting in a lower PSO levy.

For the purposes of the calculation of the PSO levy for this Decision Paper, the CER has forecasted a benchmark price (SMP) for the upcoming 2016/17 PSO period of €43.26/MWh. This figure is an annual, average time weighted price calculated using a PLEXOS³ model.

In calculating this price, the PLEXOS model was run with ten different outage patterns, using up-to-date exchange-rates, fuel and carbon prices. For clarity, it should be noted that due to Brexit, the CER decided to use fuel and currency prices (including the GBP Vs EURO exchange rate) after the referendum to better reflect the post-Brexit market conditions.

The (SMP) benchmark price of €43.26/MWh for 2016/17 is significantly lower than the €52.25/MWh used in the current 2015/16 period and is being driven by lower forward gas prices. This 17% reduction puts significant upward pressure on the PSO levy.

2.2 Capacity Payment

Regarding the capacity payment used in the PSO calculations, revenues associated with the capacity payment in the SEM have been estimated for the 2016/17 PSO period. These have been calculated on the basis of the current

³ For more information on PLEXOS please see the relevant documents on the All Island Project website, www.allislandproject.org.

Annual Capacity Payment Sum for 2016⁴ and the proposed Annual Capacity Payment Sum for 2017⁵ as this is the most up-to-date information available.

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

2.3 PSO Plants/Schemes & Forecast Costs

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

The PSO levy is determined ex-ante each year based on estimates of relevant costs to be recovered by all relevant PSO parties that are not recovered from the market, relative to the forecasted benchmark price and their forecast output.

In addition, an “R-factor” (see Section 2.4) is added to this ex-ante estimate for the previous PSO outturn period, reflecting actual, audited relevant PSO plant costs, outturn SMP, outturn capacity payments received and outturn generation levels for the PSO plant.

Table 1 below provides a summary of the schemes and generating plants covered by the PSO for the forthcoming 2016/17 period. For clarity, it should be noted that the REFIT prices shown in Table 1 are indicative. They illustrate relative costs of supporting the various technologies. The full listings of REFIT Reference Prices are available on the Department of Communications, Climate Action and Environment’s (DCCA) REFIT webpages.

⁴ Annual Capacity Payment Sum for the Trading Year 2016, Decision Paper, September 2015, [SEM-15-059](#)

⁵ Annual Capacity Payment Sum for the Trading Year 2017, Consultation Paper, May 2016, [SEM-16-026](#).

PSO Levy 2016/17 Decision Paper – CER/16251

Support Scheme	Technology Supported	Indicative Support Prices ⁶ (€/MWh)	Capacity of plants eligible ⁷ (MW)	Capacity in 2016/17 PSO (MW)	% of total RES capacity	Number of projects
AER	<ul style="list-style-type: none"> Onshore and offshore wind 	€46 ⁸	718	31	1	4
REFIT 1	<ul style="list-style-type: none"> Onshore wind Hydro Biomass landfill gas Other biomass 	€70 to €73 €89 €89 €90	1,450	1,378	49	108
REFIT 2	<ul style="list-style-type: none"> Onshore wind Hydro Biomass Landfill Gas 	€70 to €73 €88 €86	4,000	1266	45	86
REFIT 3	<ul style="list-style-type: none"> Biomass Combustion (including co-firing) Biomass CHP Anaerobic Digestion 	€88 to €101 €127 to €147 €106 to €159	310	138 ⁹	5	14
Lough Ree	<ul style="list-style-type: none"> Peat 	Not applicable	100	100	n.a.	1
West Offaly	<ul style="list-style-type: none"> Peat 	Not applicable	150	150	n.a.	1

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

⁶ Precise and complete listing of REFIT rates available on [DCCAE website](#).

⁷ The column headed “Capacity of plants eligible” is the capacity of renewable generation which the scheme targets to support by the time the scheme closes for acceptance and approval of applications. This may not always be achieved. There may also be a significant difference compared with the capacity of plant supported as, for instance, some previously supported contracts may have terminated.

⁸ Most AER contracts have terminated. The remaining technologies supported comprise four windfarms. The indicative figure is the average bid price in 2003 for “Large Wind” (prices are 2003 prices) in the AER 6 competition.

The schemes in Table 1 above are discussed in more detail below, including details of their ex-ante forecast cost – excluding the R-Factor (discussed in Section 2.4) - for the 2016/17 PSO period.

Renewables

The two main PSO schemes related to renewable generation are known as Alternative Energy Requirement (AER) and Renewable Energy Feed-in Tariff (REFIT), of which there are various types explained below. Overall, the total ex-ante PSO amount for the 2016/17 PSO period for these schemes is €277.6 million.

- **AER:** The technologies supported under the 15-year AER schemes, which started from 1995, include wind energy, small-scale hydropower, combined heat and power (CHP), biomass (landfill gas), biomass-CHP, biomass-anaerobic digestion and offshore wind. The plants involved, most of which are on-shore wind, contract with Electric Ireland (ESB's supply entity), which is then entitled to compensation from the PSO levy if the revenue it receives for selling the electricity is less than what it paid the renewable generators. Similarly Electric Ireland returns money to the PSO in the event of over-compensation. Since the AER was launched in 1995, six AER competitions have been held. The AER scheme is closed to new entrants. Only 4 AER contracts – with a total capacity of 31 MW - are supported at this stage.

The ex-ante PSO amount for the 2016/17 PSO period for the AER schemes is €7.9 million. This represents a 26% increase on the support for these contracts included in the current PSO levy period.

- **REFIT:** Since the introduction of REFIT in 2006 (REFIT 1) relevant costs associated with the scheme have been included in the PSO levy. The REFIT 1 Terms and Conditions¹⁰ as published in 2006 cover five categories of plant. These are Large Wind, Small Wind, Hydro, Biomass Landfill Gas and Biomass. The REFIT 2 scheme for onshore wind, small hydro and landfill gas was opened in March 2012. Most of REFIT 1 and 2 plants are on-shore wind.

In February 2012 the REFIT 3 scheme for biomass technologies opened. Since December 2015 the Edenderry plant is included under REFIT 3 for co-firing of biomass with peat up to a maximum of 30% of the installed capacity of 128 MW. In addition, Dublin Waste to Energy (Poolbeg) and Mayo Renewable

⁹ For co-firing and waste-to-energy plants the MW capacity as indicated represents the renewable fraction only. Included in the total is support for the co-firing of biomass-with-peat at Edenderry commencing 22nd December 2015, calculated as 30% of installed capacity of 128 MW.

¹⁰ REFIT Terms and Conditions: <http://www.dccae.gov.ie/energy/en-ie/Renewable-Energy/Pages/Refit-Schemes-Landing-Page.aspx>

Power¹¹ (CHP) are scheduled to commence operations in 2017. They are both supported by the REFIT 3 scheme in the 2016/17 PSO.

Under REFIT, generators contract with suppliers in a similar fashion to the AER scheme. Unlike AER however, the scheme is open to all licensed electricity suppliers (not just Electric Ireland) to contract with renewable generation. The compensation streams under the REFIT scheme are paid to electricity suppliers in exchange for entering 15-year Power Purchase Agreements (PPAs) with renewable electricity generators.

There is 2,814 MW of renewable generation capacity included in this PSO decision, which is an increase of 694 MW or 33% compared with the current 2,120 MW included in the 2015/16 PSO period. REFIT supported renewable generation makes up 2,783 MW of the total renewable capacity of 2,814 MW supported.

The ex-ante PSO amount for the 2016/17 PSO period for the REFIT schemes is €269.7 million. This represents a circa 80% increase on the €150 million inclusion in the current 2015/16 PSO period. This increase is due to lower expected wholesale electricity costs and an increased amount of capacity receiving support through the scheme.

Peat Plants

There are currently two peat plants associated with the PSO (i.e. ESB's Lough Ree Plant and West Offaly Plant).¹² The ex-ante PSO amounts for the 2016/17 PSO period for Lough Ree and West Offaly are €57.2 million and €58.3 million respectively. Overall, the total ex-ante PSO amount for the 2016/17 PSO period for the peat plants is €115.4 million.

Large Plants No Longer Supported

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

- The Edenderry Peat plant is no longer supported for the generation of electricity from peat. The plant now co-fires peat with biomass at a rate of circa 30% biomass. Electricity generated from biomass combustion is supported under REFIT 3.

¹¹ Based on the latest information available to the CER from Mayo Renewable Power.

¹² 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.

- Aughinish Alumina (160 MW) and Tynagh (400 MW) have been supported by the PSO since they were built for security of supply reasons in 2005/06. These plants no longer receive PSO support¹³ for electricity produced after March 2016.

The Aughinish and Tynagh plants continue to require R-factor monies from the PSO levy until the 2017/18 PSO. This would be where the support from the levy, as paid to a supply company in 2015/16, turned out to be insufficient to cover the support allowed to them under their contracts. The converse also applies, in which case the supply company pays back into the PSO fund. This adjustment applies through the R-Factor until the 2017/18 PSO. There is more detail on this in the following section.

2.4 Forecast Costs & R-Factor

Added to the ex-ante estimate (in Section 2.3 above) of the PSO is what is known as an “R-factor”. This can be positive or negative and relates mainly to the actual outturn for the PSO period two years before the ex-ante estimate period: i.e for the period 2014/15 in the case of the 2016/17 PSO. It accounts for the difference between the support from the PSO levy that was set ex-ante - based on forecasts of electricity production - and the actual PSO support due (in retrospect) given audited relevant PSO plant costs, outturn SMP, outturn capacity payments received and outturn generation levels for the PSO plant (i.e. market-related revenues)¹⁴.

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

An R-factor of €14.6 million (excluding PSO-related CfDs discussed in Section 2.5) is included in the PSO levy for 2016/17, relating to the 2014/15 PSO period.

Table 2 below sets out how the ex-ante forecasted 2015/16 PSO payments and the 2014/15 R-factor monies are allocated between the primary categories of plant supported under the PSO mechanism as referred to above (renewables, peat and security of supply).

¹³ Except for R-factor corrections for ex-ante under- or over-payments.

¹⁴ See CER/08/236 “Calculation of the R-Factor in Determining the PSO Levy”
<https://www.cer.ie/docs/000229/cer08236.pdf>

Cost Category	Scheme	2016/17 ex-ante Forecast € million	2014/15 R-factor € million	Total PSO for Plants € million
Renewables	REFIT & AER	277.6	24.3	301.9
Peat	Edenderry, West Offaly and Lough Ree	115.4	8.3	123.7
Security of Supply	Aughinish & Tynagh	0.0	-17.5	-17.5

Table 2 - Allocation of 2014/15 R-factors

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

2.5 PSO-related CfDs

PSO-related Contracts for Difference (CfDs) have been offered out by ESB Power Generation for some years now; - see SEM-11-020¹⁵ for more details. For 2016/17 the PSO CfDs are reducing the levy by €14.0 million. This reflects a lower average outturn SMP than the average CfD strike price for the PSO-related CfDs for 2014/15.

2.6 West Offaly Power Rebate

In 2005, an indicative efficiency rate of 36.4% was assigned provisionally to the West Offaly Power plant pending a final report from the equipment manufacturer on the final rate to be used for the PSO. All of West Offaly Power PSO fuel cost calculations since 2005 have used the 36.4% rate. ESB discovered in 2016 that the correct rate to apply should have been 36.6% and have notified the CER. This results in a rebate to the PSO levy fund of €2.49 million – in full settlement - from ESB. This includes the addition of Euribor annual interest payments to account for the present value of monies due since 2005.

¹⁵ http://www.allislandproject.org/en/market_decision_documents.aspx?article=151a9561-cef9-47f2-9f48-21f6c62cef34

2.7 Other

The category entitled “*Other*” in table 4, with total costs of €1.2 million includes the administrative costs associated with schemes in the PSO.

2.8 2016/17 PSO Cut-Off Date

The statutory¹⁶ deadline of 1st May annually applies for the submission, by supply companies, to the CER of:

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

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

The above cut-off date was applied by the CER as set out above. Some PSO submissions had been tentatively included in the Proposed Decision by the CER subject to receiving all necessary valid documentation by the stipulated cut-off date. As a result of incomplete documentation, a number of projects were excluded from the 2016-17 PSO. Due to these exclusions - and amendments to submissions resulting from ongoing CER reviews - the aggregate renewable capacity supported is reduced from 2,943 MW to 2,814 MW.

Projects which are not included in the 2016/17 PSO, and subsequently produce electricity eligible for support within the 2016/17 period, may seek to be included¹⁷ for support in subsequent PSO levies via the appropriate R-Factor pertaining to the year of production of eligible electricity.

¹⁶ Referred to under Articles 9 and 10 of the Electricity Regulation Act 1999 (Public Service Obligations) Order 2002 (“PSO Order”) (S.I. No. 217 of 2002) (as amended).

¹⁷ Subject to eligibility, meeting the terms and conditions of REFIT and complying with the governing legislation, etc.

3.0 Key Comments Received to the 2016/17 Proposed Decision

This section provides a summary of public responses received to the proposed decision on the PSO levy for 2016/17 (CER/16/152), along with the CER responses to the key points made.

3.1 List of Respondents

Table 3 provides a list of the parties who responded to the CER's consultation on the proposed PSO for 2016/17.

1. Ardfert Quarry Products	22. Kilcarrig Quarries
2. Aughinish Alumina	23. Killeshal
3. Banagher Precast Concrete	24. Kore Energy
4. Boliden Tara Mines	25. Lagan Cement
5. Concrete Manufacturing	26. Lennon Quarries
6. CSNA	27. Listal
7. Dairygold	28. Loughnane Concrete
8. Dept. of Jobs, Enterprise and Innovation	29. Major Energy Users Council
9. Electric Ireland	30. Michael Cronin Group
10. Finbarr O Neill Ltd	31. Micro-Bio
11. Fingleton White	32. Microsoft
12. Glanbia	33. Molloy Concrete
13. Gleeson Precast	34. Musgrave Group
14. Gleeson Concrete	35. Patrick McCaffrey & Sons
15. Harrington Concrete & Quarries	36. Pat Moroney (Broadford)
16. Ibec	37. Roadstone
17. Intel	38. St. Vincent de Paul
18. Irish Concrete Federation	39. Techrete
19. IWEA	40. Tullamore & District Chamber
20. Kerrigan Quarries	41. Wright Quarry Products
21. Kerry Group	42. Gleeson Quarries
	43. McGraths Cong

Table 3 – List of Respondents

3.2 Key Comments and CER Responses

3.2.1 Economic & Social Impact

The majority of respondents highlighted the potential negative impact that an increased PSO levy will have on the Irish economy, at both a regional and national level. Specifically, these responses indicated that the proposed 2016/17 PSO levy

will have an adverse effect on the Irish economy in terms of enterprise development, job creation, job security and cost competitiveness, and stated that Irish electricity prices are amongst the highest in Europe.

Additionally, a share of respondents requested that the CER avoid increasing the 2016/17 PSO charge, with other respondents recommending that the CER reduce or suspend the PSO levy for a variety of factors including negative economic impact and the uncertainty associated with Brexit. Furthermore, some respondents expressed concerns over large increases in the PSO and recommended that efforts be undertaken to avoid a “rate shock”, such as a reduction in the PSO costs for companies who buy “green power”.

From a social impact perspective, respondents noted the PSO is imposed on all domestic customers at a flat rate and is a regressive tax, as it creates an increased burden on low income customers and those in arrears. Furthermore, some respondents requested that 2016/17 PSO be subject to rigorous analysis and appraisal (e.g. Cost Benefit Analysis, Regulatory Impact Analysis or Social Impact Assessment) to capture the economic and social impacts associated with the PSO levy.

CER’s Response

The PSO has been designed by Government to achieve overall national policy objectives relating to increasing renewable energy, promoting indigenous fuels and supporting energy security of supply. From a regulatory perspective, the CER’s role regarding the PSO is to comply with legislation, to calculate the PSO levy and to help ensure the PSO levy is administered appropriately and efficiently.

For clarity, the CER is not in a position to abolish or phase-out the PSO levy. Furthermore, the CER does not have discretion regarding the magnitude of the PSO levy, as the CER calculates the PSO levy in accordance with the governing legislation. Consequently, any issues pertaining to PSO legislation, PSO policy and its associated terms and conditions are a matter for Government policy, and outside the remit of the CER.

With reference to a suggestion that companies should pay a reduced PSO in the event of purchasing green power, the CER notes that this is a matter for Government policy. Similarly, requests that the PSO be subject to a Cost Benefit Analysis/Social Impact Assessment is an issue for Government policy and the relevant Government Department. Additionally, it should be noted that the CER’s 2016/17 PSO Decision is solely the implementation of existing Government policy, which would have been subject to an impact assessment prior to implementation.

Regarding the issue of significant increases in the proposed 2016/17 PSO levy, the CER notes that the rise in the PSO needs to be considered partly in the context of reduced wholesale electricity prices. Specifically, the increase – when

compared with the current 2015/16 PSO - has been driven to a large extent by reduced wholesale electricity prices in the SEM, with the PSO Benchmark Price (i.e. forecasted SMP) approximately 17% lower relative to the 2015/16 PSO Benchmark Price.

A corollary of lower wholesale electricity prices is that it will contribute to an increase in the PSO, as PSO supported plants require additional PSO money to offset the lower money they are predicted to receive from the electricity market. Notwithstanding this, it should be noted that since the CER's Proposed Decision regarding the 2016/17 PSO, the forecasted PSO Benchmark Price has increased. This has resulted in a reduction in the PSO for 2016/17, relative to the 2016/17 Proposed Decision.

With reference to respondents' comments regarding Irish electricity prices being amongst the highest in Europe, the CER notes that while SEAI reports¹⁸ that the latest weighted average price of electricity (Q2 2015: ex-VAT) for business customers is above the Euro Area average, the latest electricity prices for Irish domestic customers are 5.2% below the Euro Area average.

While Ireland's electricity prices are broadly aligned with Euro Area average, it would be expected that Ireland's electricity prices be slightly higher than the Euro Area. This is in part due to structural reasons including our generation mix and the low and dispersed nature of our population, which leads to higher costs for distribution and transmission networks.

The CER notes that cost-reflective prices also contribute to maintaining the security and quality of electricity supply in Ireland, which is vital to homes and businesses, and also central to the CER's objectives. While the CER acknowledges respondents concerns regarding the cost of the PSO, the CER encourages all customers to "shop around" and seek better offers and discounts from energy suppliers in order to identify possible savings, including from their current supplier.

3.2.2 Consultation Process & Engagement with Government

Several respondents expressed dissatisfaction with the CER's PSO consultation process, and queried previous communications from the CER, which indicated that the CER has no discretion in relation to the PSO or its terms and conditions. Furthermore, respondents expressed concern over the lack of public awareness regarding the PSO, and highlighted the "irony" of an inverse relationship between wholesale electricity prices and the PSO (i.e. lower SMP may result in higher PSO). Other responses requested further interaction (e.g. workshops) with the CER on the PSO prior to issuing the 2016/17 PSO decision, while also requesting that the CER provide further clarity regarding:

¹⁸ SEAI: "Electricity and Gas Prices in Ireland – 2nd Semester (July-December) 2015". Published June 2016.

- the rationale for the low 2016/17 PSO Benchmark Price;
- the proportion of the forecast reduction that is attributable to a merit order benefit associated with additional wind being added to the Grid, and what proportion is attributable to weaker forward capacity prices; and,
- the total biomass generation capacity.

Additionally, a number of respondents requested that the CER engage with Government with a view to amending the PSO scheme, whilst also requesting that the CER advise Government of potential adverse economic impacts if the PSO is used to fund the rollout of costlier technologies, as it has the potential to increase PSO costs. Respondents also requested clarification regarding the interaction of the REFIT scheme with I-SEM, and recommended that the CER highlight this issue to Government.

CER's Response

While the CER acknowledges that some respondents have expressed dissatisfaction with the CER's Proposed PSO Decision for 2016/17, the CER can only re-iterate that it does not have discretion regarding the magnitude of the PSO levy. As indicated in Sections 1.3 and 1.4, the PSO policy, the terms and conditions of the schemes and legislation governing the PSO are matters for Government.

With reference to comments regarding public awareness of the PSO, it should be noted that the CER operates transparently and continues to be accessible to stakeholders. Evidence of this includes the CER's public consultation on the proposed 2016/17 PSO, and the CER's hosting of the Consumer Stakeholder Group for residential consumer representatives in June 2016, which discussed energy related topics, including the PSO.

The CER notes that some respondents requested that the CER host a workshop on the proposed 2016/17 PSO levy, prior to the issuance of a decision on the PSO. Whilst the CER remains committed to being accessible to stakeholders, the CER does not envisage any significant benefit from such a workshop, given that the CER's responsibility on the PSO pertains primarily to calculation of the PSO levy, and does not involve PSO policy issues. Additionally, the CER is of the view that any decision regarding the PSO levy is adequately addressed through a public consultation paper and a review of subsequent responses.

The CER acknowledges comments regarding the inverse relationship between the wholesale electricity price and the PSO (i.e. PSO increases when wholesale electricity prices decrease). However, the CER notes that design of the PSO and its underlying mechanisms/structures are Government policy matters, and outside the remit of the CER.

With reference to respondents' comments regarding the low PSO Benchmark Price with the 2016/17 Proposed PSO Decision Paper, it should be noted that the CER has carried out an updated forecast of the benchmark price using an updated PLEXOS model. This has resulted in an upward revision of the benchmark price for the upcoming PSO period of 1st October 2016 to 30th September 2017 due largely to changes in forecasted fuel prices. The CER also notes that any differences between forecasted SMP and actual SMP are accounted for in the R-Factor in subsequent years.

In relation to queries regarding the breakdown of the forecast reduction, the CER notes that its role in calculating the PSO is primarily to model and forecast the benchmark price for the forthcoming PSO period based on all of the input assumptions to the PLEXOS model.

Regarding respondents' queries pertaining to biomass generation capacity, the CER's clarification is as follows:

- The total capacities (for REFIT 3 plants) are included in Table 1 under the column heading "*Capacity in 2016/17 PSO*". It is more informative to list the renewable capacity fraction supported (i.e. the renewable "fraction"). The figure of 262 MW in the Proposed Decision (CER/16/152) represents the total aggregated installed capacities for the PSO-supported REFIT 3 biomass plant rather than the PSO-supported capacities. This has been amended for the Decision paper, resulting in a reduction to 138 MW in the REFIT 3 supported capacity. i.e. 124 MW less than that indicated in the Proposed Decision paper.

The CER notes that numerous respondents requested that the CER liaise with Government on the PSO, and advise Government of potential issues pertaining to the PSO. As a key stakeholder on the PSO, the CER notes that the relevant Government Department would be aware of issues raised by respondents to the CER's Proposed Decision Paper. Notwithstanding this, the CER will continue to liaise with the relevant Government Department on energy related issues including issues pertaining to the PSO, and offer advice as appropriate.

For clarity, it should be noted that the CER has previously provided advice to Government on the PSO through the issuance of a response ([CER/14/556](#)) to the Government's consultation on the Green Paper, and noted the following:

"The CER does not favour the use of the PSO as a mechanism for delivery of policy objectives except where there is clear evidence that these policy objectives cannot be met by market mechanisms. Where a PSO mechanism is necessary we suggest that the policy objective promotes the lowest cost technology to meet that objective – e.g. why use high costs

renewable generators if there are lower cost renewable technologies available to meet renewable targets.”

Finally, it should be noted that issues pertaining to PSO and its interaction with I-SEM is primarily an issue for Government policy. It is the CER’s understanding that DCCAIE will be considering the interactions between the REFIT schemes and I-SEM in the coming months.

3.2.3 Renewable Energy Policy & Price Supports

Several responses suggested that renewable generation capacity should be subject to market forces to the greatest extent possible, and that price supports for new onshore wind projects be discontinued when REFIT 2 ends in 2017. Such responses are of the view that the wind market is mature and does not warrant further subsidy, beyond current commitments.

In order to support emerging energy technologies, some respondents suggested that emerging energy technologies could be funded by the Exchequer, as opposed to the energy customer. However, one respondent noted that renewable energy supports will only encourage speculation in higher support technologies, and that energy supports will not contribute to making such technologies sustainable or economically viable.

Additionally, some responses noted increased renewables will result in higher electricity prices due to increased constraint payments. However, other respondents indicated that renewable generation has decreased the wholesale price of electricity, while acknowledging that increased renewable generation has increased the cost of the PSO.

CER’s Response

Within the context of the PSO, the provision of price supports for renewable energy projects (including wind) is an issue for Government policy. Additionally, taxation and the supporting of emerging energy technologies through the Exchequer (as opposed to the energy customer) is a matter that is outside the scope of setting the PSO levy and is an issue for Government policy. Notwithstanding the above, the CER notes that the Irish Government has binding EU energy renewable targets,¹⁹ and that the provision of supports through the PSO is likely to be an ongoing requirement in order to facilitate Ireland in meeting its renewable energy targets.

The CER acknowledges comments indicating that renewables are likely to result in increased constraint payments. However, it should be noted that renewable

¹⁹ Under the 2009 Renewable Energy Directive, Ireland is committed to produce from renewable sources at least 16% of all energy consumed by 2020. This will be met by 40% from renewable electricity, 12% from renewable heat and 10% from the renewable transport sector.

energy, such as wind, tends to reduce the wholesale price of electricity given that its marginal cost 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 renewables on the price of electricity.

3.2.4 PSO Methodology

Several respondents expressed dissatisfaction with the apportioning of PSO costs, and stated the PSO allocates a disproportionate amount of the costs on business customers relative to residential customers. One respondent stated that a revision to the PSO cost allocation methodology should have been completed for the 2016/17 PSO. Furthermore, the respondent stated that businesses should be entitled to a PSO rebate in 2016/17 due to delays in amending the 2016/17 PSO methodology.

A number of large energy users (LEUs) also stated that PSO acts as a barrier to energy efficiency projects including Combined Heat & Power (CHP) development, and noted that if the PSO levy was charged on units imported/actual-demand rather than the contracted MIC there would be an incentive for LEU to invest in CHP facilities. Such responses noted that S.I. No 217 2002 requires the CER to use the current cost allocation methodology for the PSO levy, but requested that the CER engage with the relevant Government Department to resolve this issue.

CER's Response

The CER is obliged to charge the PSO levy to final customers in accordance with S.I. No 217 of 2002, and the CER does not have the discretion to revise the basis for the calculation of the PSO. Consequently, the CER cannot change the prescribed method for the allocation of PSO costs to customer categories.

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...”

With reference to respondents' comments regarding a rebate and incentives for CHP, the CER notes that such matters are a matter for Government. Notwithstanding this, the CER will continue to liaise with the relevant Government Department on energy related issues, including issues pertaining to the PSO.

For clarity, the current PSO cost allocation methodology for the allocation of PSO costs – as is described in Appendix B of the 2015/16 PSO decision paper ([CER/15/142](#)) – has been designed by ESB Networks and approved by the CER, and is implemented, in full compliance with - and within the constraints of - the governing PSO legislation.

The CER has received a proposal from ESB Networks for a modification to the current cost allocation methodology. The CER plans to consult on this in advance of the PSO Levy decision paper for 2017/18, noting that the proposed amendments will be obliged to comply with the current legislation.

3.2.5 Future PSO Charges

A number of respondents expressed concern that continued growth in renewables will result in potentially higher PSO charges, and that such an approach is not sustainable. One respondent noted that there will be an estimated 2,942 MW of renewable generation supported by the PSO next year (compared to 2,080 MW in current PSO period), while another respondent indicated the Government's renewable energy targets could add another €250 million to the cost of the PSO after 2020. Furthermore, respondents requested that the CER provide a longer term price forecast for the PSO over the next five years, including R-Factor forecasts. Furthermore, some respondents expressed concern that a reduction in capacity payments, will result in further increases in the PSO.

CER's Response

The CER notes that the Irish Government has binding EU renewable energy targets, and that the provision of supports through the PSO is likely to be an ongoing requirement in order to facilitate Ireland in meeting its renewable energy targets. However, potential issues arising from an increase in the PSO are an issue for Government policy. The CER does not have discretion regarding the magnitude of the PSO levy, as the CER calculates the PSO levy in accordance with the mechanism set out in legislation. Notwithstanding this, the CER will continue to liaise with the relevant Government Department on energy related issues, including issues pertaining to the PSO.

With reference to respondents' request that the CER provide longer term forecasts of the PSO, the CER notes that the PSO is in part determined by the PSO benchmark price, which is a forecast of the wholesale electricity price (i.e. SMP). There is inherent uncertainty associated with forecasting wholesale electricity prices (particularly medium to long term) given that they are driven by volatile international fuel/carbon prices. Given such uncertainty, the CER does not consider that there is any significant benefit from forecasting medium/long term PSO benchmark prices in order to predict future PSO costs in the medium to long term.

4.0 PSO Levy 2016/17

This section summarises the PSO levy for the 2016/17 period and explains the key drivers for the year-on-year change as well as the change between the proposed decision (CER/16/152) and this Decision Paper. Additionally, this section shows the allocation of the 2016/17 PSO levy to electricity customers.

4.1 Levy Amount

Table 4 provides a breakdown of the 2016/17 PSO levy by the broad support categories (i.e. renewables, peat and security of supply), whilst providing a comparison to the 2015/16 PSO levy.

Category	Total PSO 2015/16 € million	Forecast 2016/17 € million	R Factor 2014/15 € million	PSO Levy DECISION 2016/17 € million
Renewables	180.9	277.6	24.3	301.9
Peat	121.9	115.4	8.3	123.7
Security of Supply	47.4	0.0	-17.5	-17.5
PSO CfDs	-9.3	0.0	-14.0	-14.0
Other	-15.5	1.2	-3.0	-1.7
Total	325.3	394.3	-1.9	392.4

Table 4 – 2016/17 PSO Levy Amounts

As can be seen, the total PSO levy for 2016/17 is **€392.4 million**, which equates to a 21% increase relative to 2015/16.

Table 5 below provides a further breakdown of the total 2016/17 PSO levy by scheme/cost category. For further information on trends in the PSO levy, see Appendix A, which provides a graph illustrating trends in the PSO levy since 2011/12, whilst providing a breakdown of how the PSO monies are distributed to the supported generator categories.

PSO Item	Total Cost (€ '000)	Detailed in
AERs	€7,930	Section 2.3
REFIT	€269,706	Section 2.3
Lough Ree	€57,152	Section 2.3
West Offaly	€58,282	Section 2.3
Sub-Total	€393,070	
2014/15 R-Factors	€14,608	Section 2.4
2014/15 PSO CfDs	(€13,994)	Section 2.5
Rebate	(2,489)	Section 2.6
Other	1,224	Section 2.7
Total PSO	€392,418	

Table 5 – Total 2016/17 PSO Levy by Scheme

4.2 Drivers for Changes to the PSO Levy

The total PSO levy for 2016/17 of €392.4 million compares with €325.3 million for the current 2015/16 period, an increase of circa 21%. While the PSO levy has increased for 2016/17, there are factors which are putting both upward and downward pressure on it, as explained below.

Upward Pressure on PSO Levy

- Lower wholesale prices:
The benchmark price, which is a PSO-specific CER-forecasted wholesale System Marginal Price (SMP) in SEM for the 2016/17 levy period, is €43.26/MWh, down approximately 17% on the €52.25/MWh used to determine the levy for the current 2015/16 PSO period.

A lower wholesale price for the 2016/17 PSO year results in the supply companies engaged in the PSO needing more PSO money to cover their allowed “additional” PSO costs, to offset the lower money they are predicted to receive from the market. This applies across-the-board for renewables and

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

- Lower capacity payments:
The capacity payment in SEM of €5.08/MWh for 2016/17 is slightly lower than the capacity payment of €5.77/MWh in the current 2015/16 period. As with the SMP, this reduces, albeit to a much lesser degree, the forecast revenues from the market and hence increases the PSO;
- More renewables:
An estimated 2,814 MW of renewable generation, mostly wind, will be supported by the PSO next year. This is 694 MW, or 33%, more than the 2,120 MW supported in the current PSO period, hence driving-up the levy²⁰;
- R-Factor:
For renewables there is an R-Factor of €24.3 million relating to the 2014/15 period. This is the result of an under recovery of monies compared to what was expected when the PSO levy was set for the 2014/15 PSO period. Additionally, there is an R-Factor relating to the ESB Peat Plants of €8.3 million relating to the 2014/15 period. This is the result of an under recovery of monies compared to what was expected when the PSO levy was set.

Downward Levy Pressure on PSO Levy

- Termination of contracts:
The termination of PSO contracts for Tynagh, Aughinish and Edenderry will result in these plants receiving no ex-ante support from the PSO for the 2016/17 PSO period. This is reducing the levy by circa €55 million compared to the current period;
- Contracts for Difference (CfDs):
For 2016/17, PSO-related CfDs are reducing the levy by €14.0 million. This reflects an SMP outturn for 2014/15 which on average was lower than the CfD strike price for the period overall. This relates to the PSO-supported generation contracted through Electric Ireland.

4.3 Changes from the Proposed Decision

²⁰ While more wind-powered generation tends to increase the PSO levy, it also tends to reduce the wholesale price of electricity in the SEM.

The PSO levy of €392.4 million for 2016/17, as set out in this Decision Paper, has decreased by approximately €48.4 million relative to the €440.9 million, as set out in the Proposed Decision Paper (CER/16/152).

The main factors contributing to the decrease from the Proposed Decision Paper are:

- An increase (since June) in the estimated average wholesale SEM price for 2016/17, rising from €39.73/MWh in the June paper to €43.26/MWh used for this decision. This is based on more up-to-date, post-Brexit referendum, estimates of the wholesale SEM price for the next PSO period, primarily related to increasing gas prices. It has the effect of decreasing the PSO for both REFIT-contracted and Electric Ireland-contracted generation, as a smaller subsidy is needed to compensate for higher market revenues for the PSO supported plants. It was noted within the Proposed Decision Paper that the final levy figure for 2016/17 could change for this reason;
- Changes to estimated 2016/17 REFIT costs as a result of the CER's review of submission. This includes a reduction in the support included in the PSO for the Mayo Renewable Power plant based on the latest information available to the CER;
- A correction for an €8.5 million overstatement of costs from ESB; and,
- A €2.5 million rebate to the PSO fund from the ESB as a result of a correction to the power efficiency used in the annual PSO cost calculations of the West Offaly Plant.

4.4 PSO Levy Charge by Customer

The cost apportionment model for the PSO uses economic data from the ESRI’s Spring 2016 Economic Commentary²¹. Using this model, and based on a PSO levy of €392.4 million the CER has calculated the payment for each of the customer categories for the levy period 1st of October 2016 to the 30th September 2017 to be as per Table 6 below.

PSO Customer Category	Current Annual (2015/16) Levy Amount	Annual Levy Amount 2016/17	Levy Amount 2016/17 Per Month	% increase 2015/16 to 2016/17
Domestic customers	€60.09 per customer	€70.75 per customer	€5.90 per customer	17.8%
Small commercial customers (maximum import capacity of less than 30kVA)	€214.5 per customer	€248.78 per customer	€20.73 per customer	16.0%
Medium and Large profile customers (maximum import capacity of equal to or greater than 30kVA)	€33.14/kVA	€40.01/kVA	€3.33/kVA	20.7%

Table 6 – PSO Levy 2016/17 by Customer Category

Further detail behind the 2016/17 figures above is contained in Appendix B of this Decision Paper.

4.5 Possible amendments to the Cost Allocation Methodology

ESB Network’s current methodology – as approved by the CER - for the allocation of PSO costs to the various customer categories was outlined in the 2015/16 PSO decision paper (CER/15/142). The CER received a proposal from ESB Networks in Q2 2016 for a modification to this cost allocation methodology and we plan to consult on this at a future date, in advance of the PSO Levy decision paper for 2017/18.

²¹ <https://www.esri.ie/publications/quarterly-economic-commentary-spring-2016/>

5.0 Review of PSO Administrative Arrangements

The CER notes that the oversight and administration of the PSO is an increasingly complex undertaking. This is in part influenced by the growing number of generators seeking support payments, and an increasing number of suppliers submitting PSO estimates and returns to the CER on an annual basis. An example of this increase is that the number of supply companies engaged in REFIT has increased from 28 in 2015/16 to 53 in 2016/17. Furthermore, some generators are now exiting their relevant support schemes as their contracts expire. This also requires additional oversight and administration for all relevant parties.

In the coming months, the CER plans to review the annual process for the administration and evaluation of submissions for PSO support. The CER intends to engage with relevant stakeholders in this regard.

6.0 Next Steps

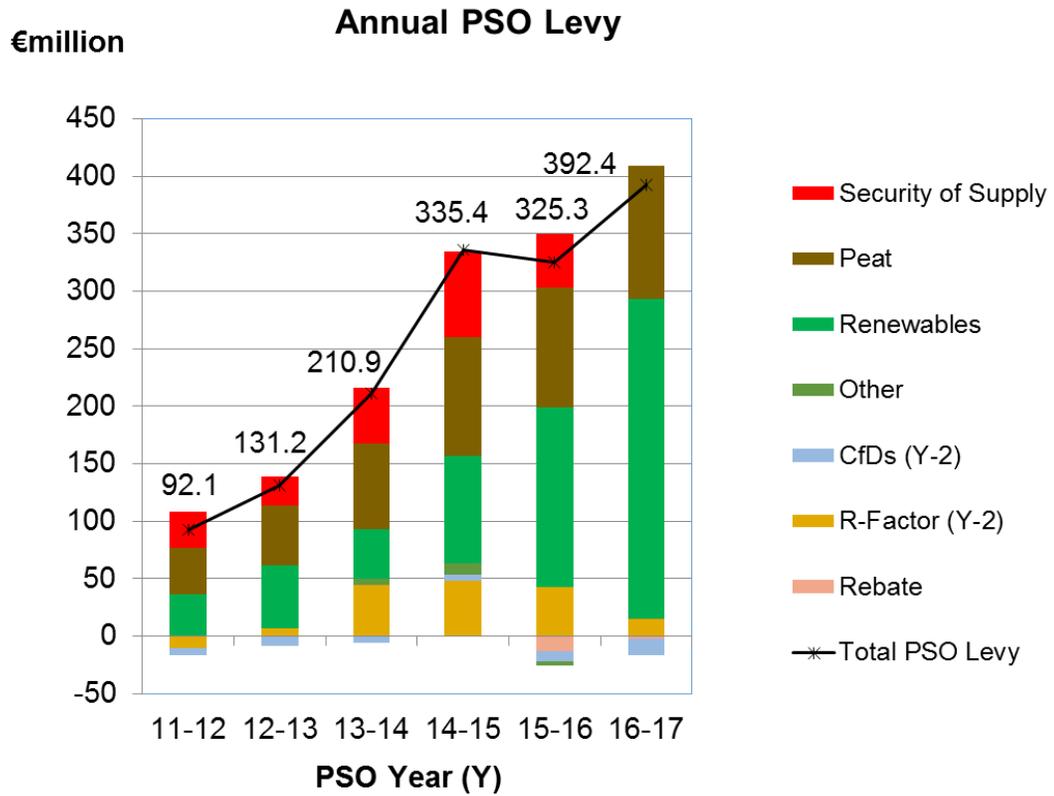
The PSO levies, as set out in Section 4.4 of this Decision Paper, are to be applied to electricity customers by licensed electricity supply companies in respect of the period 1st October 2016 to 30th September 2017.

The REFIT/PSO payments to each of the licensed suppliers engaged in the PSO will only be made in respect of contracted generation if the specific project costs have been included in this PSO Decision **and** provided the project is listed in the forthcoming S.I. amending the 2002 PSO Order.

In the interval, between now and the making of the PSO Order, the CER will continue to liaise with the DCCAE regarding potential changes in the eligibility status of new REFIT projects.

Appendix A – Trends in PSO Costs

Appendix:



Appendix A: Annual trend in PSO levy costs

Appendix B – Allocation of 2016/17 PSO Levy

Allocation of 2016/17 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		Monthly Charge	Monthly Charge
						€ per Cust	€/kVA	Monthly €	
Domestic Profile	2,137,289	36.8%	144.216	2,038,332		70.75		5.90	€ per Customer
Small Commercial Profile <small>ie. non-domestic (excl PL) <30kVA</small>	618,318	10.6%	41.722	167,706		248.78		20.73	€ per Customer
Medium & Large Profile	3,060,066	52.6%	206.481		5,161,249		40.01	3.33	€/kVA
TOTAL	5,815,673	100.00%	392.418						