



Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

CER's Consultation

on

Proposed Update from ESB Networks to the PSO Levy Cost Allocation Methodology

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Regulating Water, Energy and Energy Safety in the Public Interest

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Executive Summary

In the 2016/17 PSO Levy Decision paper (CER/16/251), the CER stated its intention to consult on a proposal from ESB Networks to modify the existing PSO cost allocation methodology. Consequently, the CER is publishing and consulting upon ESB Networks' proposed update to the PSO levy allocation methodology.

The primary change proposed by ESB Networks relates to the method of determining the proportion of the total PSO levy to be allocated to the Medium-Large Commercial customer account category. This proposed revised methodology has been identified by ESB Networks as a more accurate method and a proposed improvement to the existing PSO levy allocation methodology.

The CER notes that the proposed methodology provides for a more accurate derivation of the allocation of costs to all categories of electricity customers. However, from a customer impact perspective, it is envisaged that the proposed revised methodology, if implemented, will typically reduce costs of the PSO on Medium-Large Commercial users, whilst increasing PSO costs for Domestic and Small Commercial users.

The CER invites stakeholders to consider ESB Networks' proposed update to the PSO cost allocation methodology and submit responses to the CER. In the event that the CER decides to replace the current methodology with ESB Networks' proposed new PSO levy allocation methodology, it is intended that the new methodology will be employed by ESB Networks for future PSO levy cycles, including for the forthcoming 2017/18 PSO levy.

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Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
CER	Commission for Energy Regulation
DSO	Distribution System Operator
PSO	Public Service Obligation

1. Introduction

1.1 Background

The Public Service Obligation (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 and security of energy supply¹. The proceeds of the PSO levy are used to compensate for the additional relevant costs incurred by PSO-supported electricity generators, which are not recovered in the electricity market.

From a regulatory perspective, 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. Therefore, any issues pertaining to PSO policy, the terms and conditions of the relevant schemes or legislation governing the PSO are matters for Government.

The allocation of the PSO levy between the three customer categories (namely: Domestic, Small Commercial and Medium-Large Commercial accounts) is prescribed in legislation. Specifically, Section 39 (5A) (a)(i) of the Electricity Regulation Act, 1999 (as amended) states that:

“the levy is apportioned between each category of electricity accounts specified in paragraph 1 of Schedule 2 on the basis of the maximum demand attributable to that category of accounts as a proportion of the aggregate of the maximum demand attributable to each of the three categories of accounts”

In its role as the Distribution System Operator (DSO), ESB Networks is responsible for calculating the maximum demand attributable to each customer category on an annual basis and for submitting this to the CER for approval, as stated in Section 39 (5A) (b) of the Electricity Regulation Act, 1999 (as amended).

“The attribution of the maximum demand in respect of each category of electricity account shall be carried out by the distribution system operator with the approval of the Commission in respect of each levy period.”

¹ Up to 2015 it also supported the use of peat as a fuel for the generation of electricity.

Details of the current methodology used to allocate the PSO levy, within the relevant legislative framework, were published in the 2015/16 PSO Levy Decision Paper (CER/15/142). Additionally, in the 2016/17 PSO Levy Decision paper (CER/16/251), the CER stated its intention to consult on a proposal received from ESB Networks in relation to a modification to this cost allocation methodology.

Consequently, the CER is now publishing, for consultation, a paper from ESB Networks on their proposed update to the PSO levy allocation methodology. This consultation paper requests stakeholders to consider the update to the PSO cost allocation methodology proposed by ESB Networks, as is detailed in their accompanying proposal (CER/16/375).

In the event that the CER decides to replace the current methodology, it is intended that the new methodology will be employed henceforth by ESB Networks, including for the forthcoming 2017/18 PSO levy.

1.2 Related Documents

- “Proposed Update to the PSO Levy Allocation Methodology”: (CER/16/375) Proposal from ESB Networks which is published in conjunction with this consultation paper.
- PSO Levy 2016/2017 – Revised Decision Paper ([CER/16/251](#))
- PSO Levy 2015/2016 – Decision Paper ([CER/15/142](#))
- [Electricity Regulation Act, 1999](#)
- [S.I. No. 217 of 2002](#) - Electricity Regulation Act, 1999 (Public Service Obligations) Order 2002, as amended

1.3 Structure of Paper

This paper is set out as follows:

- **Section 1:** provides background information regarding consultation on ESB Networks' proposed update to the PSO levy allocation methodology;
- **Section 2:** provides an overview of the existing PSO cost allocation methodology and the customer impacts of a revised methodology, as proposed by ESB Networks;
- **Section 3:** outlines next steps.

1.4 Responding to this paper

Responses to this consultation paper should be sent, preferably in electronic format, to Grainne Black (gblack@cer.ie) **by close of business on Friday 27th January 2017**.

Or alternatively, by post to:

Grainne Black
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

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

2. Overview of PSO Levy Cost Allocation

2.1 Cost Allocation Legislation

The Electricity Regulation Act, 1999 (as amended) directs that the PSO levy be allocated annually across three categories of electricity customer based on the maximum demand in respect of each category, as a proportion of the sum of the three maximum demand figures.

Schedule 2 of the Electricity Regulation Act 1999 (as amended) specifies the three categories of electricity customers as follows:

- (a) Domestic Accounts, meaning electricity accounts held by final customers and which are identified by the distribution system operator as liable for distribution use of system charges at the rate for urban domestic customers or the rate for rural domestic customers;*
- (b) Small Accounts, meaning electricity accounts held by final customers which are not Domestic Accounts or Medium-Large Accounts; and*
- (c) Medium-Large Accounts, meaning electricity accounts held by final customers which, in respect of each such account, the distribution system operator certifies as having a maximum import capacity of not less than 30kVA.*

For Domestic and Small Commercial accounts, the amount of the levy for a given period that is to be imposed on each individual electricity account is calculated as the total levy allocated to that category divided by the total number of accounts in that category.

For Medium-Large Commercial accounts the amount of the levy for a given period that is to be imposed on each individual electricity account is calculated as the total levy allocated to that category divided by the total Maximum Import Capacity of that category, and multiplied by the Maximum Import Capacity of the individual account.

The current allocation methodology calculates the peak demand in the case of both Domestic and Small Commercial accounts by applying forecast demand data to the most up to date load profiles and taking the maximum value in GWh. In the case of Medium-Large Commercial accounts, the demand is currently determined indirectly, by subtracting the load profile data for Domestic and Small Commercial accounts from

the Total System Demand profile data and taking the maximum value from the residual data.

For all previous PSO levy periods up to 2016/17, load profile data - based on metered data - was not available for Medium-Large Commercial accounts. However, this data can now be collected by ESB Networks. Consequently, the proposed methodology, from ESB Networks, uses load profile data – aggregated from Quarter Hour and Non Quarter Hour meter readings of all Medium-Large accounts – to directly calculate the demand peak for this category. ESB Networks have identified this as a more accurate method of determining the peak demand associated with the Medium-Large account category and are therefore proposing this update to the methodology.

2.2 Impact of ESB Networks' proposed methodology on PSO Levy Charges

The CER notes that ESB Networks' proposed revised methodology provides for a more accurate derivation of the allocation of costs between the three categories of electricity customers, as the derivation of the share of the costs to the Medium-Large Customer category would be based entirely on actual metered data rather than an indirect residual calculation.

Additionally, the impact of this proposed change in the cost allocation methodology has been assessed by ESB Networks based on the figures for the 2015/16 PSO Levy consultation. The distribution of the total cost of the Levy across the three customer categories using both the current and the proposed methodology is shown in Figure 1 below.

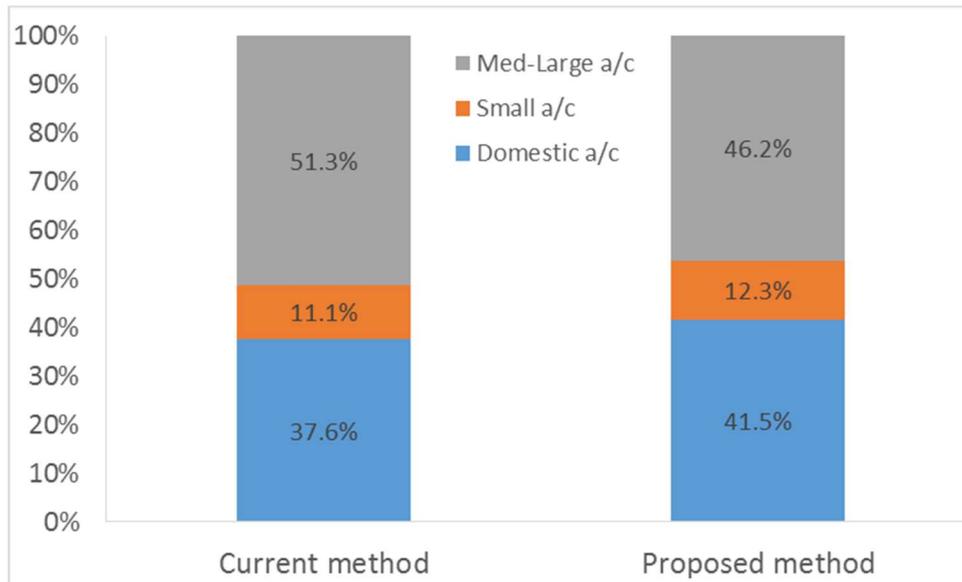


Figure 1: Impact of proposed change in methodology on the breakdown of total cost of PSO levy by customer category.

The impact on the charge per customer, or per kVA for Medium-Large accounts, based on the 2015/16 Levy, is outlined in Table 1 and provided in detail in Table 2.

Monthly PSO Levy Charge (by Customer Category)	Current Method	Proposed Method	% Change
Domestic (€ per customer)	4.69	5.18	10%
Small Commercial (<30kVA) (€ per customer)	16.75	18.5	10%
Medium-Large Commercial (≥30 kVA) (€ per kVA)	2.59	2.33	-10%

Table 1: Indicative 2015/16 PSO levy charges by category using: a) current cost allocation methodology, versus b) the proposed cost allocation methodology.

Note that this data pertains only to the particular scenario considered here i.e. the scenario modelled for the proposed decision for the 2015/16 PSO Levy. From a customer impact perspective however, it is envisaged that the proposed revised methodology, if implemented, will typically decrease costs of the PSO for Medium-Large Commercial users, whilst increasing PSO costs for domestic and small energy users.

Current Model - Allocating the 2015/16 PSO Levy (as consulted on)									
	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 €	Monthly Charge
						€ per Cust	€/kVA		
Domestic Profile	2,154,635	37.61%	114.64	2,035,732		56.31		4.69	€ per Customer
Small Profile <small>ie. no non-domestic (excl PL) <30kVA</small>	636,317	11.11%	33.86	168,410		201.03		16.75	€ per Customer
Medium-Large Profile	2,938,273	51.29%	156.33		5,033,379		31.06	2.59	€/kVA
TOTAL	5,729,225	100.00%	304.83						

Proposed Updated Model - Allocation of the 2015/2016 PSO Levy									
Account Type	Individual Peak	% of Individual Peak	PSO Allocation €m	Total Market Customer Number Mid Year (excl. public lighting and unmetered connections) per Cust	Total Non-domestic mkt MICs kVA	Annual Charge		Monthly Charge € Monthly	Monthly Charge
						€ per Cust	€/kVA		
Domestic Accounts	2,154,635	41.53%	126.59	2,035,732		62.18		5.18	€ per Customer
Small Accounts <small>(i.e. non-domestic <30kVA)</small>	636,317	12.26%	37.38	168,410		221.99		18.50	€ per Customer
Medium-Large Accounts	2,397,488	46.21%	140.86		5,033,379		27.98	2.33	€/kVA
TOTAL	5,188,440	100.00%	304.83						

Table 2: Detailed calculation of 2015/16 PSO levy (proposed) using the current cost allocation methodology (top) and the proposed cost allocation methodology (bottom).

3. Next Steps

The CER invites responses to this consultation on ESB Networks' proposed update to the PSO levy allocation methodology. The deadline for responses is **Friday 27th January 2017**. The CER, in conjunction with ESB Networks as appropriate, will then consider the responses received to the consultation. The CER plans to issue a decision by April 2017, so that an amended methodology, if so decided by the CER, can be applied in a timely manner to the allocation of costs for the forthcoming 2017/18 PSO levy.

When responding to ESB Networks' proposed update to the PSO levy allocation Methodology, respondents should bear in mind that any revised PSO cost allocation methodology must remain compliant with the governing legislation.