



Commission for Energy Regulation  
An Coimisiún um Rialáil Fuinnimh

# CER's Decision on ESB Networks' Updated PSO Levy Cost Allocation Methodology

## Decision Paper

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*Regulating Water, Energy and Energy Safety in the Public Interest*

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# Executive Summary

This paper presents the CER's decision following consultation on a proposed change to the PSO cost allocation methodology from ESB Networks.

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. The CER's consultation paper (CER/16/374) was then published on 16 December 2016, accompanied by a paper from ESB Networks, which outlined their proposed methodology. The consultation period closed on 27 January 2017.

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 updated methodology has been identified by ESB Networks as a more accurate method and an improvement to the existing PSO Levy allocation methodology.

Most respondents to this consultation welcomed the proposed change, although many raised concerns in relation to other aspects of the PSO cost allocation methodology.

Given that the change to the methodology proposed by ESB Networks consists of a more accurate means of determining the proportion of the cost to be allocated to Medium-Large Accounts and that this change would align the methodology used for Medium-Large Accounts with that already in place for both Domestic and Small Accounts, the CER has decided to adopt the methodology proposed by ESB Networks.

ESB Networks' updated methodology will be implemented for the 2017/18 PSO cycle and for subsequent PSO cycles.

# Public/Customer Impact Statement

The impact of this change in the cost allocation methodology across the three customer categories 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 the existing and updated methodologies is shown in Figure 1.

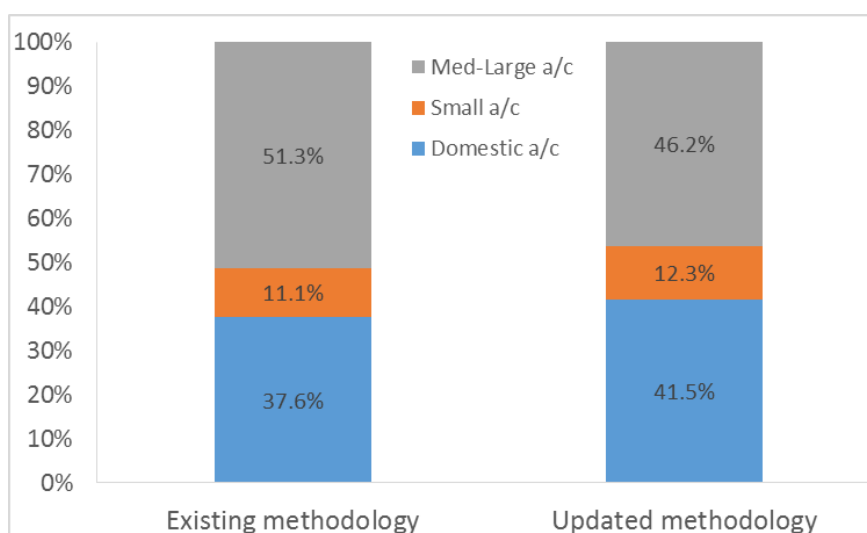


Figure 1: Impact of change in methodology on the PSO Levy cost breakdown by customer category.

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

Monthly PSO Levy Charge (by Customer Category)	Existing Method	Updated Method	% Change
<b>Domestic</b> (€ per customer)	4.69	5.18	10%
<b>Small Commercial (&lt;30kVA)</b> (€ per customer)	16.75	18.50	10%
<b>Medium-Large Commercial (≥30 kVA)</b> (€ per kVA)	2.59	2.33	-10%

Table 1: Indicative 2015/16 PSO Levy charges by category using the existing cost allocation methodology versus the updated cost allocation methodology.

For clarity, it should be noted that this specific 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 expected that the updated methodology will typically decrease costs of the PSO for Medium-Large Commercial users, whilst increasing PSO costs for Domestic and Small Commercial users.

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# Glossary of Terms and Abbreviations

Abbreviation	Definition or Meaning
<b>CER</b>	Commission for Energy Regulation
<b>CHP</b>	Combined Heat and Power
<b>DCCA</b>	Department of Communications, Climate Action and Environment
<b>DSO</b>	Distribution System Operator
<b>GWh</b>	Gigawatt Hour
<b>kVA</b>	Kilovolt-Ampere
<b>MIC</b>	Maximum Import Capacity
<b>PSO</b>	Public Service Obligation

# 1 Introduction

## 1.1 Background

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. At a high-level, the CER's overall mission is to act in the interests of consumers and to ensure that:

- energy and gas are supplied safely,
- the lights stay on,
- the gas continues to flow,
- there is a reliable supply of clean water and efficient treatment of wastewater,
- the prices charged are fair and reasonable,
- the environment is protected, and,
- regulation is best international practice.

Further information on the CER's role and relevant legislation can be found on the CER's website at [www.cer.ie](http://www.cer.ie).

The objective of this paper is to present the CER's decision on a proposed update from ESB Networks to the PSO Levy cost allocation methodology.

For clarity, 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 indigenous fuels (peat)<sup>1</sup>.

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.

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<sup>1</sup> Up to 2016 it also supported Security of Supply policy objectives through the "Capacity 2005" contracts.

## 1.2 Related Documents

- “Proposed Update from ESB Networks’ to the PSO Levy Cost Allocation Methodology”: ([CER/16/374](#))
- “Proposed Update to the PSO Levy Allocation Methodology”: ([CER/16/375](#)) Proposal from ESB Networks published in conjunction with the CER’s 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
- “New Update to the PSO Levy Allocation Methodology”: (CER/17/074) ESB Networks’ updated PSO Levy cost allocation methodology is published alongside this decision paper.

## 1.3 Structure of Paper

This paper is structured as follows:

- **Section 1 – Introduction:** Describes the role of the CER in general and in particular with respect to the PSO Levy, along with a list of relevant documents that may be of interest to readers.
- **Section 2 – Overview of PSO Levy Cost Allocation Methodology:** Provides detail on the legislative framework for the cost allocation methodology and of the difference between the existing and the updated methodologies.
- **Section 3 – Consultation Responses:** Lists the respondents to the consultation paper (CER/16/374) and summarises the key comments received, as well as CER responses to these comments.
- **Section 4 – CER Decision and Next Steps:** Gives the CER Decision and lays out the rationale for this decision, as well as the planned next steps.

# 2 Overview of PSO Levy Cost Allocation Methodology

## 2.1 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.*

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.”*

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.



## 2.2 Existing Methodology

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 GWh value from the residual data.

## 2.3 Updated Methodology

For PSO Levy periods prior to 2016/17, suitable load profile data - based on metered data - was not available for use 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 have therefore proposed this update to the methodology.

Note that ESB Networks' updated PSO Levy cost allocation methodology (CER/17/074) is published alongside this decision paper.

# 3 Comments Received and CER's Response

## 3.1 Respondents

The CER received seven responses to the consultation paper CER/16/374 from the following parties:

- Aughinish Alumina Ltd
- Fingleton White
- IBEC
- IWEA
- Kore Energy
- Private Response
- St. Vincent de Paul

## 3.2 Summary of Comments Received

The majority of respondents stated that they welcomed the proposed revision to the PSO cost allocation methodology and a number of respondents also stated that this proposed change would improve the accuracy of the methodology. Two respondents requested that the proposed change be implemented immediately for the 2017/18 PSO cycle.

However, a number of respondents raised other aspects of the PSO cost allocation methodology, which they consider need to be revised. These are:

### **Charging on the basis of MIC for Medium-Large Account customers**

Two respondents raised the question of charging based on MIC for high efficiency CHP installations. One stated that the principle of charging based on MIC for a CHP plant that produces its own electricity most of the time does not reflect the intent of the original legislation. Another considered that this basis for the calculation discriminates against sites with high efficiency CHP, solar and other demand side generation. This respondent suggested that the PSO Levy should be allocated to Medium-Large account customers based on kWh consumption instead of kVA of MIC.

One respondent stated that a substantial number of Large Energy Users have a considerably higher MIC than their actual demand, often due to planned future growth. They considered that the PSO cost allocation methodology adversely impacts such users and that the methodology should be based on peak metered demand instead of MIC.

Some respondents acknowledged that a change of this kind to the methodology would require changes to the governing PSO legislation and most requested that the CER engage with the DCCA on this matter.

### **Charging all domestic customers at the same rate**

Two respondents raised concerns in relation to the social impact of the PSO Levy, especially in the context of a potential increase in the proportion allocated to domestic customers as a result of the proposed change to the methodology. Both of these parties highlighted the regressive nature of the PSO cost allocation methodology and one called for a Social Impact Assessment of the levy.

One respondent suggested that an alternative and fairer method of allocating the PSO Levy should be considered, which would differentiate between different categories of domestic customer, based on their ability to pay. This respondent also expressed concerns over the lack of public awareness of the PSO Levy and over the fact that VAT is paid on the levy.

## **3.3 CER's Response**

The CER notes that the updated cost allocation methodology is more accurate in its determination of the demand peak associated with Medium-Large Account customers and that as stated in the consultation paper (CER/16/374):

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

The CER notes that, unlike the change to the methodology dealt with in this consultation, the other aspects of the cost allocation methodology referred to by respondents are prescribed in legislation. The legislation that governs the PSO mandates that the CER allocate the PSO levy per electricity account for Domestic and Small accounts and on the basis of MIC for Medium-Large accounts. This MIC basis for Medium-Large accounts 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...”.*

These issues of charging based on MIC for Medium-Large accounts and of charging all domestic customers at the same rate are therefore outside the remit of the CER and are a matter for the DCCAE. However, the CER undertakes to inform the DCCAE that these specific issues have been raised in response to Consultation Paper CER/16/374.

With regard to the social impact of the PSO Levy and to the lack of public awareness in relation to it, the CER's only 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. Consequently, any issues pertaining to PSO legislation or to PSO policy are matters for Government. However, the CER undertakes to inform the DCCAE that these issues have been raised in response to Consultation Paper CER/16/374.

## 4 CER Decision and Next Steps

### 4.1 CER Decision

The CER notes that the change proposed by ESB Networks to the PSO cost allocation methodology consists of a more accurate determination of the proportion of the PSO Levy to be allocated to Medium-Large Accounts. This greater accuracy is due to the use of actual metered data to determine the peak demand associated with this account category, rather than the residual of the total system demand once the Domestic and Small Account demand profiles have been subtracted.

The CER further notes that actual metered data is already used in determining the peak demand associated with the Domestic and Small Account categories and that the proposed methodology therefore brings the calculation for Medium-Large Accounts into line with that of the Domestic and Small Accounts.

ESB Networks did not previously collect or aggregate this metered data for Medium-Large accounts. The mechanism for the collection and aggregation of this data by ESB Networks is now in place for Medium-Large accounts, which allows for the updated PSO cost allocation methodology to be used for the 2017/18 PSO and henceforth.

The CER has therefore decided to implement the updated methodology for PSO cost allocation from ESB Networks (CER/17/074).

### 4.2 Next Steps

ESB Networks' updated methodology will be implemented for the 2017/18 PSO cycle and for subsequent PSO cycles.