



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## PUBLIC SERVICE OBLIGATION LEVY 2010/2011

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Commission for Energy Regulation

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## CER – Information Page

### 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 (CER) calculates and certifies the costs associated with the PSO and sets the associated levy for the required period. The PSO levy takes into account the estimated and actual costs incurred in undertaking generation activities which are covered in the relevant PSO legislation, including costs associated with the Renewable Energy Feed In Tariff (REFIT) scheme. This decision paper sets out a PSO levy of €156.63m for the period 1<sup>st</sup> October 2010 – 30<sup>th</sup> September 2011.

### Target Audience:

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

### Related Documents:

- Electricity Regulation Act 1999  
<http://www.irishstatutebook.ie/1999/en/act/pub/0023/index.html>
- S.I. No. 217 of 2002 - Electricity Regulation Act 1999 (Public Service Obligations) Order 2002 as amended  
<http://www.irishstatutebook.ie/2002/en/si/0217.html>
- S.I. No. 284 of 2008 – Amending S.I. No. 217 of 2002 for REFIT  
<http://www.attorneygeneral.ie/esi/2008/B26313.pdf>
- Proposed 2010/11 PSO levy Decision CER/10/086  
<http://www.cer.ie/en/renewables-current-consultations.aspx?article=d7a3e817-e64d-47e4-8f50-e0b6b187ad69>
- Proposed Approach to Setting the PSO benchmark Price in SEM AIPSEM- 07-240 PSO Consultation Paper: Published June 1st 2007
- PSO Benchmark Price Setting Methodology AIP-SEM-07-431 PSO Decision Paper : Published July 31<sup>st</sup> 2007  
<http://www.allislandproject.org/GetAttachment.aspx?id=d5e5c834-8551-4551-81df-f0cf94326045>

- 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 –(CER 08/153)  
<http://www.cer.ie/en/renewables-current-consultations.aspx?article=39ce537a-1620-486d-b93e-bc70ab5934ca>
- November 2000 Notification to the EU of PSO obligations to be imposed on ESB [Link](#)
- Relevant EU State Aid Clearance Decisions  
  
State Aid N 143/2004: Peaking Plant [Link](#)  
State Aid N 6/A/2001: Peat Stations PSO [Link](#)  
State Aid N 475/2003: Capacity and Differences Agreements (CADA) [Link](#)  
State Aid N 553/2001: AER [Link](#)  
State Aid N 571/2006: RES-E Support i.e. REFIT [Link](#)  
State Aid N 826/2001: AER I-V [Link](#)
- Previous PSO Decision Papers  
<http://www.cer.ie/en/renewables-decision-documents.aspx#PSODecisions>
- DCENR's Website with links  
<http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/>

## **Executive Summary**

This paper outlines the PSO levy to apply from 1<sup>st</sup> October 2010 to 30<sup>th</sup> September 2011.

The PSO levy is charged to all electricity customers. It is designed to support the national policy objectives of security of energy supply, the use of indigenous fuels (i.e. peat) and of the use renewable energy sources in electricity generation. Specifically, the proceeds of the levy are used to recoup the additional costs incurred by the ESB and other suppliers in having to source a proportion of their electricity supplies from such generators.

The policy and terms associated with PSO levy supported plant are mandated by Government and approved by the European Commission. The Commission for Energy Regulation does not set the policy and terms associated with PSO levy supported plant and, as such, has no real control over the level of the PSO levy that arises from the policy and terms associated with PSO levy supported plant. The levy is calculated by the Commission for Energy Regulation in accordance with the relevant legislation and particular terms of the various PSO schemes.

For the 2010/2011 electricity tariff year the PSO levy is forecast to amount to €156.63m. This is a reduction of approximately €38m on the proposed PSO levy outlined for 2010/11, which has been brought about primarily by rising fossil fuel prices and resultant higher forecast SEM market price. This is a very substantive increase on recent PSO periods when the levy was running at, or close to, zero. The reasons for this increase – including the once off factor which arose in 2009 – are set out in the paper.

The CER has been advised that the Department of Communications, Energy & Natural Resources intends to review the operation of the peat PSO over the coming months.

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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 1<sup>st</sup> of October 2010 to the 30<sup>th</sup> of September 2011.

### 1.2 *The Levy Background*

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

The PSO levy determined for 2010/11 is sizeable, at €150.63m, compared to recent years. This is due to a number of factors, principally;

- the cost of the various PSO contracts/schemes given the forecasted market revenues earned by those plant; and
- an offsetting PSO credit of (€128m) that was due to come through in the 2010/11 PSO levy was 'brought forward' and included in the 2009/10 PSO levy. This was a once off measure designed to enable setting the 2009/10 PSO levy to zero. This once-off measure would not be sustainable going forward, as repeating this measure would only result in higher electricity costs for consumers in the future.

#### 1.2.1 *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<sup>1</sup> to enhance Ireland's security of supply.

<sup>1</sup> Notification of 2000 <http://www.dcenr.gov.ie/NR/rdonlyres/7DFE9454-5D02-4DFA-92FF-AA8C279BEBE2/0/PSONotificationtoBx1201100publishedonwebMarch2002.doc>

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, Lough Ree and West Offaly recover monies from the PSO. Similarly, if either plant over-recover from the SEM, monies are returned to the PSO fund.

Edenderry Power (commissioned December 2000) sells its electricity to ESB CS under a Power Purchase Agreement (PPA), whereby ESB CS then sells that electricity on to the SEM pool. ESB CS 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 ESB CS over-recover from the SEM, monies are returned to the PSO fund.

- **Capacity 2005:** Aughinish Alumina (160MW) and Tynagh (400MW) receive support under the PSO levy. These plant were 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<sup>2</sup>.

Aughinish and Tynagh entered a CfD agreement with ESB CS, whereby ESB CS recovers or returns additional monies paid under the agreement from/to the PSO levy.

- **Alternative Energy Requirement (AER):** The technologies supported under the AER scheme include wind energy, small-scale hydropower, combined heat and power (CHP) biomass (landfill gas), biomass-CHP; biomass-anaerobic digestion and offshore wind. The plant involved contract with ESB CS, which is then entitled to compensation from the PSO levy if the revenue it receives for selling the electricity is less than what it paid the renewable generators. Similarly ESB CS returns money to the PSO in the event of over-compensation. Since the Programme was launched in 1995, six AER competitions have been held.
- **Renewable Energy Feed-In Tariff (REFIT):** The REFIT Terms and Conditions<sup>3</sup> as published in 2006 cover five categories of plant. These are Large Wind, Small Wind, Hydro, Landfill and Biomass. Generators contract with suppliers in a similar fashion to the AER scheme. Unlike AER however, the scheme is open to all suppliers (not just ESB CS) to

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<sup>2</sup> See N/475/03 [http://ec.europa.eu/community\\_law/state\\_aids/comp-2003/n475-03.pdf](http://ec.europa.eu/community_law/state_aids/comp-2003/n475-03.pdf)

<sup>3</sup> REFIT Terms and Conditions  
<http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division>

contract with renewable generation. There is 1075MW of REFIT renewable generation capacity included in this PSO decision.

- **PSO-related Contracts for Differences (PSO CfDs):** In addition to ESB's Directed Contract (DC) and Non-Directed Contract (NDC) rounds<sup>4</sup>, additional contracts for differences (CfDs) have been offered out by ESB PG to facilitate greater liquidity in the SEM for electricity suppliers<sup>5</sup>. These contracts have been offered out since 2007 and the negative value arising from their offering was included for the first time in the 2009/10 PSO levy, therefore reducing the PSO levy for the 2009/10 period. The inclusion of these CfDs in the PSO levy is to be reviewed post the 2010/11 auctions.

## 1.2.2 **Legislation**

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

S.I. No. 217 of 2002 was made by the Minister under Section 39 which sets out more detail in relation to the above matters. S.I. No. 217 of 2002 provides, *inter alia*, for the calculation of the PSO levy by the CER to provide for the recovery of costs by all relevant parties in accordance with the notifications to the EU Commission regarding the various mechanisms supported by the PSO.

The original Notification (November 2000) ('the Notification') sets out the broad areas that may be covered by the PSO (as listed in Section 39 of the Electricity Regulation Act 1999), namely security of supply, use of indigenous fuel sources and environmental protection. It refers specifically to the schemes envisaged to be covered by the PSO at that juncture, i.e. the imposition on 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

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<sup>4</sup> Information Paper on CfDs in the SEM  
[http://www.allislandproject.org/en/market\\_decision\\_documents.aspx?article=1324200e-97d3-412e-99a2-94b64c804e1e&mode=author](http://www.allislandproject.org/en/market_decision_documents.aspx?article=1324200e-97d3-412e-99a2-94b64c804e1e&mode=author)

<sup>5</sup> ESB PG carries out this role in the context of the SEM arrangements with the agreement of the SEM Committee. This allows for all suppliers to partake in such auctions and promotes liquidity in the SEM.

amended by subsequent SIs to provide for the recovery of costs under the PSO for such schemes. These included the recovery of costs associated with peaking plant and plant that entered the market under a competition held by the CER due to security of supply concerns. Most recently, REFIT I<sup>6</sup> has been notified to the EU and received state aid clearance. S.I. No. 217 of 2002 (as amended by S.I. No. 284 of 2008 and S.I. No. 444 of 2009) also takes account of suppliers receiving support under the PSO.

### **1.2.3 The Benchmark Price**

The benchmark price is a forecast of the SEM market price for the PSO levy period and is determined before the PSO levy period commences. It is determined, *inter alia*, using forecasts of fuel and carbon prices. A lower forecast benchmark price therefore predicts that less revenue will be earned from the market by PSO plant, thus resulting in a higher PSO levy. A higher benchmark price predicts that greater revenue will be earned from the market by PSO plant, thus resulting in a lower PSO levy.

Paragraphs 5.10 to 5.12 of the Notification refer to the method for setting the 'market value'. Paragraph 5.11 states:

*From 2005 the market will be fully open and a time-weighted market price will be determined by the CER in an open consultative process, and posted by the CER in its annual review.*

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

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

In July 2007 the RAs published the follow-up decision paper, *Proposed Approach to Setting the PSO Benchmark Price in SEM: A Decision Paper* AIP/SEM/07/431 the RAs decided that the benchmark price will be based on a series of forecast modelled pool prices using the same model as that adopted in determining directed contract prices. Both the software & inputs used to develop the modeling results are available to all market participants<sup>7</sup>.

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<sup>6</sup> <http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/>

<sup>7</sup> Visit [www.allislandproject.org](http://www.allislandproject.org)

### **1.2.4 R-Factor**

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

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

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

The CER received forty three submissions to the proposed PSO levy paper CER/010/086. A number of respondents requested that their submissions not be published. The following submissions have been published with this decision paper:

- Airtricity
- Baxter Healthcare Ltd
- Bord na Mona
- CRE
- EirGrid
- EMC Electronics
- Fingleton White & Co
- Food & Drinks Industry Ireland
- ForFas, IDA, Enterprise Ireland
- Helsinn Pharmaceuticals
- IBEC LEUs
- IHF
- Industrial Products and Services Group
- Intel
- Irish Cement
- JH Roche Ltd
- Kore Energy
- Lufthansa
- North Cork Co Op
- Pat Denn Agri
- Pharma Chemical Ireland
- Roche Ireland Ltd
- Shannon Aerospace
- SK Retting
- Deepak Fasteners

### 2.1 *Submissions on Proposed Levy and CER's Responses*

In the following section, an outline of the primary issues raised in the responses to the proposed 2010/11 PSO levy paper is given. Each issue raised is then followed by the CER's *italicised* response.

- i) Many respondents their outlined strong objections to the re-introduction of the PSO levy at this time. Some respondents also requested that the CER provide justification for the policy for the inclusion of plant and/or schemes covered in the PSO levy.

*The PSO levy is not being re-introduced for the period 1<sup>st</sup> October 2010 – 30<sup>th</sup> September 2011. The CER, as certifier and calculator of the levy under S.I. 217 of 2002, calculates the levy ex-ante for each PSO period. The CER cannot, of its own volition introduce or re-introduce a PSO levy.*

*The CER only sets the levy to zero where there is a clear basis for doing so. The PSO levy for each of the four PSO periods preceding this one was set to zero given the specific circumstances in each of those four periods.*

*For the PSO periods of 1<sup>st</sup> January 2007 to 30<sup>th</sup> December 2007 and 1<sup>st</sup> January 2008 to 30<sup>th</sup> September 2008<sup>9</sup>, the PSO levy was set to zero to be recovered in subsequent years because the amount to be collected each year was relatively small. It was considered that the administrative burden of collecting these levies would have been excessive. For the 1<sup>st</sup> October 2008 to 30<sup>th</sup> September 2009 PSO levy period, a negative PSO levy of €13.9m was determined based on a high forecasted benchmark price of €112.25/MWh. The PSO levy was set to zero because PSO legislation<sup>10</sup> does not provide for a negative PSO levy amount. For the 1<sup>st</sup> October 2009 to 30<sup>th</sup> September 2010 PSO levy period, a small positive PSO levy was determined, which facilitated the PSO levy being set to zero.*

*It does not lie within the remit of the CER to determine the policy, aims or terms and conditions of schemes that are supported by the PSO. The policy, aims and terms and conditions of PSO supported schemes are a matter for government.*

- ii) A number of respondents requested clarity in respect of how the PSO levy is distributed between the different categories of customer.

*The PSO levy is allocated among three different categories, domestic profile, small and medium profile (<30kVA), and large profile (=>30kVA). The PSO levy is distributed to each category according to each category's percentage of the overall aggregated maximum demand of each of the categories. This is carried out in accordance with section 9 (3)(c)(iii) of S.I. 217 of 2002. The manner in which the maximum demand for each category is determined is outlined in CER/03/013<sup>11</sup>*

*The PSO levy is divided within each category according to Section 9 (3)(c)(v) of S.I. No. 217 of 2002. The total PSO levy associated with the domestic category is divided by total customer numbers to get a charge per customer. The same process is applied for the small and medium*

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<sup>9</sup> See <http://www.cer.ie/en/renewables-decision-documents.aspx#PSODecisions>

<sup>10</sup> The Electricity Regulation Act 1999, (Public Service Obligations) Order (Amended) 2002, (SI No. 217 of 2002) consistently refers to 'charge' and 'levy' and does not appear to provide for a refund to customers in the event the PSO levy is negative.

<sup>11</sup> See CER 'Documents by Year', *PSO Collection and Distribution Procedures CER/03/013*  
<http://www.cer.ie/en/documents-by-year.aspx?year=2003>

*(<30kVA) category to get a charge per customer. The PSO levy for the large profile category (=>30kVA) is divided by the sum of the network connection capacities for such account holders, to give a standard charge per kVA to be applied to each individual account holder's registered Maximum Import Capacity (MIC). The TSO and the DSO provide this information to the CER, as outlined in section 1 of CER/03/013.*

*All demand customers pay the PSO levy on the above categorisation and distribution methodology. The CER notes manner in which the PSO levy is calculated for distribution this year is consistent with the approach taken in previous years and the relevant PSO legislation.*

- iii) From the responses received, it appears there is a need to clarify the distinction between the 'Large Profile' PSO levy apportionment category and those generators classified as Large Energy Users (LEUs) for the purposes of tariffs (and otherwise).

*Those customers referred to as LEUs for tariff purposes (and otherwise) are those customers in DG7 – DG10.*

*Under the PSO apportionment mechanism, the 'Large Profile' category specifically refers to those customers connected to the system at an MIC of equal to or over 30kVA. This includes some unmetered customers in Distribution Groups (DG) 3 and 4, some customers in DG 5, and those customers in DG6 – DG10.*

*The level of the PSO levy attributable to LEUs therefore forms part of the levy apportioned to 'Large Profile' customers. It is estimated LEUs will be charged approximately €35.5m of the PSO levy.*

- iv) It was noted by some respondents that there is a relative difference in the PSO subsidy level attributable to ESB Power Generation's peat plants and that attributable to Edenderry Power Ltd given that all three are comparably sized peat fired stations.

*Under Section 9(2) and (3) of the Electricity Regulation Act 1999, (Public Service Obligations) Order (Amended) 2002, (SI 217 of 2002), the CER is obliged to approve ESB's estimated additional costs to be incurred in complying with the Public Service Obligation imposed on ESB and apportion those costs, recoverable from all final customers of electricity, across the relevant PSO categories. These additional costs incurred by the ESB are calculated annually in accordance with parameters specified in the November 2000 PSO Notification to the European Commission<sup>12</sup>.*

<sup>12</sup> <http://www.dcenr.gov.ie/NR/rdonlyres/7DFE9454-5D02-4DFA-92FF-AA8C279BEBE2/0/PSONotificationtoBx1201100publishedonwebMarch2002.doc>

*These parameters were agreed by the then Minister of Public Enterprise and approved by the EU Commission in the context of state aid requirements in the relevant state aid decision<sup>13</sup>.*

*As outlined in the November 2000 State Aid Notification to the EU, the PSO levy payable to the ESB in relation to its peat stations is the difference between the allowable costs detailed in the Notification and the income earned by the ESB from the market for selling electricity produced from its peat stations. The Edenderry plant was constructed after successful bidding by a Finnish company, Fortum, in the Europeat competition in 1998. The ESB went to open competitive tender in 2002 to build its plants.*

*The CER has been advised that the Department of Communications, Energy & Natural Resources intends to review the operation of the peat PSO over the coming months.*

- v) A number of respondents requested that a more detailed breakdown be provided in relation to the PSO levy R-factor from 2008/09.

*A breakdown is provided in section 3.3. The CER has attempted to provide as detailed a breakdown of the R-factor as possible, whilst bearing in mind the need to ensure that all commercially sensitive information of any party involved in the PSO is kept confidential.*

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

*In addition to ESB's Directed Contract (DC) and Non-Directed Contract (NDC) rounds<sup>14</sup>, additional contracts for differences (CfDs) have been offered out by ESB PG to facilitate greater liquidity in the SEM for electricity suppliers<sup>15</sup> on the island. These contracts were first offered out by ESB PG in 2007 and were then offered out by ESB PG to suppliers in the SEM for the 2008, 2008/09 and 2009/10 PSO periods. The volume of these CfDs offered was equivalent to the combined MW of Edenderry,*

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<sup>13</sup>EU State Aid decision N 6a / 2001:

[http://ec.europa.eu/competition/state\\_aid/register/ii/by\\_case\\_nr\\_n2001\\_0000.html#6a](http://ec.europa.eu/competition/state_aid/register/ii/by_case_nr_n2001_0000.html#6a)

<sup>14</sup> Information Paper on CfDs in the SEM

[http://www.allislandproject.org/en/market\\_decision\\_documents.aspx?article=1324200e-97d3-412e-99a2-94b64c804e1e&mode=author](http://www.allislandproject.org/en/market_decision_documents.aspx?article=1324200e-97d3-412e-99a2-94b64c804e1e&mode=author)

<sup>15</sup> ESB PG carries out this role in the context of the SEM arrangements with the agreement of the SEM Committee. This allows for all suppliers to partake in such auctions and promotes liquidity in the SEM.

*Lough Ree, West Offaly, Tynagh and Aughinish<sup>16</sup>. The net credit to the PSO arising from their offering was included in the PSO levy for the first time in the 2009/10 PSO levy.*

*The 2010/11 PSO estimated PSO-related CfD line item included in the table at the end of this PSO decision paper is a forecast of the cost of the annual PSO-related CfDs offered for the 2010/11 PSO period. Note that this forecast only relates to an estimate of the cost of the annual PSO-related CfDs, offered out on the 15<sup>th</sup>, 22<sup>nd</sup> and 30<sup>th</sup> of June 2010. The annual PSO-related CfDs only form a part of the PSO-related CfDs that will be offered out for the 2010/11 PSO period. Further information on these PSO-related CfDs is available [here](#).*

- vii) One respondent noted that the forecasted market price in the 2010/11 proposed PSO decision (€54.88/MWh) seemed to be a little low given prevailing prices at the time of the RAs' directed contract process over the month of May and early June 2010.

*The CER welcomes this observation but notes that the forecasted market price in the proposed decision does not include the value of capacity, which was added on to the forecasted market price. In "PSO Benchmark Price Setting Methodology" (AIP-SEM-07-431)<sup>17</sup>, it is stated that a capacity value would be added to the value of the forecasted market price. A capacity value is added to the value of the forecasted price because if it wasn't, market revenues received by PSO plant in the SEM would be undervalued.*

*The forecasted market price and capacity payment methodologies for this PSO decision are outlined in section 3.0*

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<sup>16</sup> In the case of Tynagh and Aughinish, the output of the stations covered by the CADA was offered.

<sup>17</sup> <http://www.allislandproject.org/GetAttachment.aspx?id=d5e5c834-8551-4551-81df-f0cf94326045>

## **3.0 PSO Levy 2010/11 – Key Considerations**

### **3.1 Benchmark Price**

For the purposes of this decision paper, the CER has forecasted that the benchmark price for the upcoming PSO period of 1<sup>st</sup> October 2010 to 30<sup>th</sup> September 2011 is €60.84/MWh. This figure is an annual, average time weighted price calculated using the validated PLEXOS model. The forecasted benchmark price does not include capacity. In calculating this price, the model was run with thirty different outage patterns, using fuel, carbon and exchange rates from the period 5<sup>th</sup> July to 16<sup>th</sup> July 2010 based on indices as referred to in the Directed Contracts process<sup>[1]</sup>. In the proposed 2010/11 PSO decision paper fuel, carbon and exchange rates from a single day (19<sup>th</sup> May 2010) were used to derive the benchmark price. Given the fluctuations in fuel prices since the 19<sup>th</sup> May 2010, the longer period for fuel, carbon and exchange rates was used to derive the benchmark price for this PSO decision, to better capture such fluctuations.

### **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 2010 and are therefore based on the most up to date information available prior to a decision on the above matter. The share of capacity for each unit was estimated based on installed capacity and availability, adjusted to account for special treatment and shares for interconnectors, wind units and hydro.

### **3.3 2008/09 R-factor**

An R-factor of €21.45m is included in the PSO levy, relating to the 1<sup>st</sup> October 2008 to 30<sup>th</sup> September 2009 PSO period. A credit relating to the ESB's 2008/09 R-factor for the period 1<sup>st</sup> October 2008 to 30<sup>th</sup> September 2009 was estimated and included in last year's PSO levy in July 2009. The net value of this credit was (€128m) and included amounts relating to ESB CS's PSO contracts, ESB PG's Peat contracts and PSO-related Contracts for Differences (CfDs). The €21.45m is the correction of that R-factor, once known actual information from July 2009 – September 2009 was available.

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<sup>[1]</sup> Please find the relevant information at the following link:

[http://www.allislandproject.org/en/market\\_decision\\_documents.aspx?article=466c4ba0-ec12-47ca-887b-adbb6b68f785](http://www.allislandproject.org/en/market_decision_documents.aspx?article=466c4ba0-ec12-47ca-887b-adbb6b68f785)

An outline of the key elements of the 2008/09 R-factor included in this year's PSO levy is given below. The €21.45m is broken down as follows:

- West Offaly and Lough Ree Power, €12.69m. Lower income than expected was earned by ESB's plant. This lower income was as a result of lower than forecasted market prices over the July 2009 – September 2009 period. This also includes an amount for capital cost recovery of peaking plant (Rhode and Aghada) that was not submitted as part of the 2008/09 R-factor credit last year. This amount relates to the correction of the estimated CPI rate applied to the capital cost recovery of these peaking plant in the 2008/09 PSO levy.
- ESB CS, €10.05m. Lower net income than expected was earned by ESB CS from the market under its PSO arrangements, resulting in more support required under its contractual obligations under the PSO. This lower income was as a result of lower than forecasted market prices over the July 2009 – September 2009 period.
- REFIT (570MW), €8.98m, Lower income than expected was earned by the plant. The lower income was primarily driven by lower than expected market revenues for the October 2008 to September 2009 PSO period.
- PSO-related CfDs, (€10.28m). Lower market price than expected resulted in ESB PG returning money to the PSO.

## 4.0 PSO Levy 2010/11

This section sets out the PSO levy for 2010/11. The PSO levy is composed as follows:

PSO Item	Totals
Lough Ree	€29,946,533
West Offaly	€42,134,897
EPL	€6,116,780
AERs	€13,500,000
Capacity 2005	€14,000,000
REFIT	€29,726,233
Sub-Total	€135,424,443
Other <sup>18</sup>	€21,727,810
Estimated 2010/11 PSO-related CfDs	-€ 523,869
<b>Total PSO</b>	<b>€156,628,384</b>

The proposed PSO levy paper outlined a proposed PSO levy of €194.6m. Using the updated benchmark price of €60.84/MWh and relevant capacity payment price, a PSO levy of €156.63m has been determined.

<sup>18</sup> These costs include the administration costs for all PSO parties, and the associated 2008/09 R-Factor for all PSO parties. The R-factor is a correction for over/under recoveries in PSO income in 2008/09.

The CER has determined payment by customer category for the levy period 1<sup>st</sup> of October 2010 to the 30<sup>th</sup> of September 2011 to be as follows:

<b>Customer Category</b>	<b>Levy Amount/PSO period</b>	<b>Levy Amount/month</b>
Domestic customers	€32.76/customer	€2.73/customer
Small commercial customers (maximum import capacity of less than 30kVA)	€99.03/customer	€8.25/customer
Medium and large customers (maximum import capacity of equal to or greater than 30kVA)	€13.82/kVA	€1.15/kVA

## Appendix A - Demand Allocation & Components of PSO Levy

Allocating 2010/11 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 €	Monthly Charge
						€ per Cust	€/kVA		
<b>Domestic Profile</b>	2,542,238	0.43	66.85	2,040,558		32.76		2.73	€ per Customer
<b>Small &amp; Medium Profile</b> <small>ie. non-domestic (excl PL) &lt;30kVA</small>	657,914	0.11	17.30	174,705		99.03		8.25	€ per Customer
<b>Large Profile</b>	2,756,316	0.46	72.48		5,246,083		13.82	1.15	€/kVA
<b>TOTAL</b>	5,956,468	1.00	156.63						

Number of months to recover charge

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