

The 2014/15 PSO Levy and Irish Wind Energy

The Commission for Energy Regulation (CER) has published the Public Service Obligation (PSO) Levy 2014/2015 today 28 July 2014¹. The levy is a charge on all electricity customers' bills to support certain peat, gas and renewable generation as mandated by Government and approved by the European Commission.

What's the overall reason for having a PSO?

The basic policy behind the levy is one of promoting energy security of supply for the country through the use of indigenous fuels and promoting renewable energies. The levy came into being in November 2000 and is set on an annual basis by the CER.

How is the PSO calculated?

This amount is an estimation of the difference between the average market price of electricity for 2014/2015 and the minimum agreed revenue for those specific peat, gas and renewable generators. The PSO levy is designed around providing a minimum level of revenue to generators, this generally means that a higher market price will lead to a lower PSO and vice versa. The biggest driver for the proposed levy rise for 2014-2015 is the lower predicted wholesale market electricity price being driven by the lower international gas prices in evidence since Spring 2014. Also a factor is the lower running of Tynagh due to a variety of factors. While overall the amount of renewable generation, mostly wind, estimated to receive the PSO levy next year is 138 MW more than the current year (due to REFIT 2 primarily), hence increasing the levy, the CER in their decision have recognised that while more wind generation tends to increase the PSO levy, it also has the benefit of reducing the wholesale price of electricity in the SEM.

What has the 2014/15 PSO been set at?

The 2014/2015 sum has been determined to be **€335,440,176**, this is an increase from €210,928,519 for the 2013/2014 period. In terms of support, the **€335.4m** is divided as follows: For **peat €119.0m** (up 48.4% from €80.2m), for **security of supply €104.7** (up 91% from €54.8m) and for **renewables €94.3m** (up 24.2% from €75.9m). There is also payment for PSO CfDs and Other Costs of €5.6m and €11.6m respectively.

In relation to wind and the PSO you need to know that:

- **Wind does not cost the Irish consumer:** Wind energy lowers the cost of wholesale electricity because the operating cost of wind power is close to zero. Renewable generation therefore displaces more expensive fossil fuel generation, and so for the consumer the cost of wind energy within the PSO is actually offset by having lower electricity prices than if we depended solely on other sources.

¹ <http://www.cer.ie/docs/000967/CER14361%20PSO%20Levy%20Decision%20Paper%202014-15.pdf>

- **Wind makes up only a small part of the PSO with the proportion of total PSO going to renewables in 2014-2015 has actually fallen by 8% from last year.** The proportion of the PSO going to renewables has fallen to 28%, from 36% last year. The most enduring function of the PSO is actually to support the peat sector in the midlands including Edenderry (PSO €21.89m), Lough Ree (PSO €39.59m) and West Offaly (PSO €42.09m). A further legacy issue is the contract entered into in 2006 to ensure Irish security of supply with the Tynagh gas plant (PSO €66.37) and the Aughinish Alumina gas plant (PSO €8.01m).

Why is there a PSO for Wind Energy?

After peat and gas, renewables (mainly wind) is one of the sources which is promoted under this levy.

The aim of the PSO for renewable energy is to help us develop a cleaner electricity system and reach our target of 40% of electricity generation to be derived from renewable sources by 2020, and at the same time to wean ourselves off expensive and emission heavy imported fossil fuels. Research carried out by Pöyry Energy Consulting and Cambridge Econometrics has shown that if no new wind capacity is deployed post 2014, energy imports of coal, oil and gas will rise from €900m in 2013 to €1100m in 2020 and €1500m in 2030.²

The most recent EU statistics from Eurostat³ confirm that Ireland is the fourth most energy dependent Member State trailing only behind Malta, Luxembourg and Cyprus. A massive foreign energy dependence rate of 85% sees Ireland lagging 32% off the EU average of 53%.

The level of support covered by the PSO depends on the average electricity price in the year. When electricity prices are high there is little or no payment from the PSO to wind generation. There are also times when generating wind plant contributed a surplus to the PSO. When the reduction in wholesale electricity prices is also taken into consideration wind energy will actually deliver savings to the consumer.

The positive impact from wind energy on lowering Irish electricity prices has been clearly shown by a number of independent studies:

- The SEAI Study on the *Impact of Wind Generation on Wholesale Electricity Costs in 2011*⁴ showed that Wind generation in 2011 reduced Ireland's wholesale market cost of electricity by around €74 million. This saving offset the other costs associated with the generation of wind energy and so was Cost Neutral to the Irish Consumer.
- The *Value of Wind Energy to Ireland*⁵ study published in March 2014 by Pöyry, a leading international consulting and engineering consultancy, and Cambridge Econometrics. The analysis shows that if Ireland deploys wind capacity to meet 2020 targets the wholesale price will fall by €2.10/MWh by 2020 and that wind energy does not place a burden on the Irish consumer due to the net economic benefits of wind energy development.

² <http://www.iwea.com/index.cfm/page/industryreports?twfId=1467&download=true>

³ http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/8-17022014-AP/EN/8-17022014-AP-EN.PDF

⁴ http://www.seai.ie/Publications/Energy_Modelling_Group/_Energy_Modelling_Group_Publications/Impact_of_Wind_Generation_on_Wholesale_Electricity_Costs_in_2011.pdf

⁵ <http://www.iwea.com/index.cfm/page/industryreports?twfId=1467&download=true>

- The European Commission confirmed in its *Working Document on Energy Prices and Costs*⁶ published 17 March 2014 that “for wind electricity in Spain and Ireland the benefits for electricity consumers in terms of **reduction in whole-sale prices outweigh the costs of subsidies.**”

For further information about the impact of wind energy on the PSO please don't hesitate to contact IWEA on office@iwea.com

⁶ http://ec.europa.eu/energy/doc/2030/20140122_swd_prices.pdf (Page 236)