

Managing Volatility of the Public Service Obligation Levy

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CONSULTATION ON MANAGING VOLATILITY OF THE PUBLIC SERVICE OBLIGATION LEVY

Commission for Regulation of Utilities (CRU/21/17)

Irish Solar Energy Association response

INTRODUCTION

Founded in 2013, the Irish Solar Energy Association's (ISEA) vision is of a fully decarbonised electricity system. Representing our 127 members, we are working to achieve at least 5GW of solar PV on the Irish electricity system by 2030, through: engagement of stakeholders; education of society and industry; and setting best practice.

ISEA welcomes the opportunity to respond to the Commission for Regulation of Utilities (CRU) consultation paper 21/17 "Managing Volatility of the Public Service Obligation Levy".

BACKGROUND

In recent years, there has been significant year-on-year volatility in the PSO levy. Improvements need to be made to the current Benchmark forecasting methodology in order to reduce PSO Levy volatility. ISEA welcomes the review of the Public Service Obligation (PSO) volatility by the CRU.

The increased volatility in PSO levy cashflows has been a concern for renewable suppliers in recent years due to the inherent working capital cost of inaccurate Benchmark forecasting. While ISEA appreciate that it is not feasible to completely remove the risk of volatility occurring in the PSO levy, the potential to implement effective measures to dampen R-factor payment volatility would be welcomed.

DISCUSSION

The options proposed in the CRU 21/17 consultation contain positive suggestions to help lessen the volatility of PSO Levy payments. However, several of the options outlined in the consultation are complex and potentially costly to implement. ISEA would advocate that low-cost options that can be quickly implemented should be made first. While more complex options may need further consultation before being deployed.

ISEA recognises that Option 1 should be simplest option to implement because it is a change to the existing PSO methodology, and no change would be required to the PSO 2002 Order and REFIT/ RESS T&Cs.

ISEA supports the proposal to adopt technology specific Benchmark Prices under Option 1. This proposal has the potential to improve the accuracy of the forecast Benchmark Price and therefore reduce both the level and volatility in the PSO levy. The development of large-scale solar PV as part of the RESS scheme adds an additional impetus to this proposal given the likely significant difference in

load profile and therefore captured market price of solar compared to other renewable sources of generation.

Options 2, 3 and 4 also provide some useful suggestions on how to reduce the PSO volatility. However, these proposed solutions are complex and may have significant costs associated with their implementation. They also potentially require changes to the PSO 2002 Order and REFIT/ RESS T&Cs.

The use of ex-post output and prices in option 2 and the mid-year reconciliation and updated Benchmark in option 4 would likely be the best means of reducing Benchmark forecast inaccuracy. However, additional clarity and further consultations would likely be required to facilitate effective implementation.

The smoothing arrangements in Option 3 would again reduce PSO Levy volatility but this option does not address the root of the forecasting issue and would be both complex and costly to implement.

ISEA would welcome further consultation on the methodologies that would be applied in the calculation of the Benchmark Prices and would also welcome the opportunity to engage around the content of our response to CRU 21/17.

CONSULTATION QUESTIONS

Option 1: Amendments to Forecasting Methodologies

Q1.1 Should the CRU adopt technology specific Benchmark Prices i.e. use wind weighted Benchmark Price for wind generation, solar-weighted Benchmark Price for solar generation and a time weighted Benchmark Price for other dispatchable generation?

Yes. This approach has the potential to improve Benchmark forecast accuracy. The development of large-scale solar PV as part of the RESS scheme adds an additional impetus to this proposal given the likely significant difference in load profile and therefore captured market price of solar compared to wind generation. This option should be the simplest to implement as it requires minimal changes.

Q1.2 Is there any instance where it would not be appropriate to use wind weighting for wind or solar-weighting for solar-generation?

No comment

Q1.3 Are there any improvements that could be made to price forecasting in addition to using wind-weighting for wind generation, solar-weighting for solar generation, time-weighting for other dispatchable generation?

To provide additional accuracy constraint & curtailment could be included in the weighted Benchmark price forecasting. This factor has a material impact on renewable output; in 2020 11.4% of renewable generation was subject to constraint or curtailment.¹

¹ <https://www.eirgridgroup.com/site-files/library/EirGrid/2020-Qtrly-Wind-Dispatch-Down-Report.pdf>
02/04/2021

Q1.4 Should suppliers provide their own Benchmark Price(s) to the CRU to facilitate a comparison of predicative accuracy among different modelling methodologies?

ISEA believes that it should not be compulsory but welcomes the potential for suppliers to provide their own Benchmark Price forecasts.

Q1.5 Should estimates of generation output use the P50 (i.e. median) value or the mean?

Using P50 figures to estimate generation does not consider factors such as constraint and curtailment or outages, which should be factored into the forecast of actual output. ISEA recommends maintaining a degree of flexibility in generation forecast methodologies.

Q1.6 Are there any other improvements that could be made to generation output forecasting?

No comment

Option 2: Support Payments on Ex-post Output and Prices

Q2.1 Do you agree that support payments on outturn output and prices leads to lower risk to suppliers?

Potential for R-factor corrections due to pricing differences at resettlement is still likely but using outturn generation should dramatically reduce forecast related corrections. However, while the potential to reduce forecasting errors is significant through this option, the related cost and time implications for the PSO cannot be overlooked and may outweigh the benefit.

Q2.2 Do you have views on how the portfolio-wide generation output should be forecasted?

This should be the sum of unit forecasts within a portfolio

Q2.3 Should support payments and Levy charges be settled monthly or every TSC Billing Cycle?

Billing cycle if practical

Q2.4 Should support payments be calculated approximately, taking into account only metered quantities and SEM prices, with a full reconciliation of all market revenues, as now, after the end of the PSO Year with audited supplier submissions? Or should support payments be calculated precisely using all relevant TSC settlements data?

Support payments could be recalculated in-year, but this would be complex and potentially costly exercise and ultimately lead to a final reconciliation at the end of the PSO year. ISEA recommends

maintaining current methodology and potentially providing further consultation on how this would operate in practice.

Option 3: Smoothing

Q3.1 Is it appropriate to withhold funds owed to customers purely in order to release them at a later date so as smooth PSO Levy rates and revenues?

ISEA would prefer to not withhold funds owed to customers

Q3.2 Is it appropriate to smooth total PSO Levy cashflows? Or is it appropriate that customers be exposed, through the PSO Levy, to the variations due to the underlying costs of supporting renewable generation, and that only volatility caused by the estimation and reconciliation process be mitigated? If the latter, should only reconciliation cashflows be smoothed, and to what degree?

Smoothing reduces volatility but does not address the root of the forecasting inaccuracies. ISEA would prefer that only volatility caused by the estimation and reconciliation process be mitigated because it is possible that a smoothing mechanism could result in the PSO Levy payments becoming detached from the underlying renewable generation.

Q3.3 Would it be appropriate for the TSO or a 'PSO funds clearing company' to establish and use a line of credit, recognising that there would be a cost involved, or should suppliers fund the working capital through scaling down support payments?

This could pose a significant cost to the consumer and further consultation would be required.

Q3.4 What criteria should apply to the choice of any smoothing algorithm?

ISEA believes that any smoothing algorithm be an equitable solution for customers and suppliers.

Option 4: Transparency Measures

Q4.1 Is a mid-year review an appropriate mechanism for managing volatility of the PSO?

ISEA welcomes the potential for a mid-year review to reduce the degree of volatility in the PSO process by offering a potential adjustment to the Benchmark Price to an updated forecast which recognises over or under payments to the PSO Levy earlier in the process. However, this potential benefit may come at the cost of increasing the complexity of the overall PSO Levy process.

Q4.2 How much value would there be in publishing and continually updating a dashboard, given that the amount of the PSO Levy and PSO Levy rates need not be determined until July of the following PSO Year.

ISEA is supportive of any initiative that provides further transparency in the market but a continually updating dashboard would only be valuable where a recalculation is implemented.

General

QG.1 How soon would it be practicable to implement arrangements based on the options described in this consultation paper?

ISEA believes the implementation should take a graduated approach whereby low-cost options that can be quickly implemented are done first, and that their efficacy in managing volatility is assessed before more complex and more costly options are deployed. To this end, ISEA recommends that the proposal of technology-weighted Benchmark prices under Option 1 be further developed with a view to being in place for the 2022 PSO setting process.

QG.2 Are there other options/ mechanisms that should be considered to reduce PSO volatility?

No comment

QG.3 In this consultation paper, the CRU considers various assessment criteria for assessing impacts of the various options (e.g. impact of PSO volatility on the customer, impact on the generator/supplier cashflows, and administrative and operational impacts on relevant stakeholders) are there other criteria that should be considered?

No comment