



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Transmission Use of System  
Allowable Revenue and Tariffs**

**Decision**

**1 October 2006 – 30 September 2007**

**8<sup>th</sup> September 2006**

**CER/06/170**

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## **1 Introduction**

Under the Gas (Interim) (Regulation) Act, 2002, the Commission for Energy Regulation ('the Commission') is responsible for regulating charges in the natural gas market. Under Section 14 of that Act the Commission may set the basis for charges for transporting gas through the transmission system.

Pursuant to this the Commission published a proposed decision regarding the 2006/7 transmission tariffs on 21 July 2006 (see [CER/06/130](#)). In response to the proposed decision the Commission received comments from one party who requested that its response not be published.

This document presents the Commission's final decision regarding transmission tariffs for the 2006/7 gas year and should be read along with the updated Bord Gáis transmission tariff submission paper (CER/06/131).

## **2 Background**

In 2003 the Commission conducted a full review of the charging regime for gas transmission services, including the underlying revenue requirements for the transmission activities of Bord Gáis Networks ('BGN'). This review culminated in the publication, on 24 July 2003, of the Commission's determination of allowable revenues for BGN and of transmission tariff structures for a four-year control period from 1 October 2003 to 30 September 2007 (see [CER/03/144](#)). This document also set out the form of revenue control to apply to gas transmission during the period and detailed a revenue control formula to apply in each year of the four-year control period.

The revenue control formula is used to calculate the maximum allowed revenues for BGN's transmission business for a given year of the control period. These allowed revenues are set against a revised forecast of 'peak day' and 'throughput' demand values (for the same year) to produce the capacity and commodity transmission tariffs.

On 3 September 2004 the Commission published the first update of the transmission tariffs using the revenue control formula (see [CER/04/282](#)), followed by the next update on 9<sup>th</sup> September 2005 (see [CER/05/177](#)).

## **3 Decision**

The Commission hereby directs BGN to apply transmission tariffs from 1<sup>st</sup> October 2006 to 30<sup>th</sup> September 2007, as set out in the table below. The table shows that the 2006/7 tariffs result in a decrease for typical Moffat and Inch shippers respectively of 10.3% and 1.7% in real terms compared to the 2005/6 tariffs, the equivalent of a nominal decrease of 7.9% and a nominal increase of 0.9% for Moffat and Inch shippers respectively. A worked example is also shown (which is explained further below).

## BGE Transmission Tariffs for Gas Year 2006/2007

	€	(06/07 Monies)
<b>Onshore Network</b>		
capacity	470.254	per peak day MWh
commodity	0.240	per MWh
<b>Interconnectors</b>		
capacity	273.604	per peak day MWh
commodity	0.126	per MWh
<b>Inch</b>		
capacity	74.409	per peak day MWh
commodity	0.064	per MWh

Illustrative Transmission Transportation Costs		
	€	
<b>Transmission Transportation Cost of UK Gas</b>		
capacity	743.858	per peak day MWh
commodity	0.3662	per MWh
<b>Transmission Transportation Cost of Inch Gas</b>		
capacity	544.663	per peak day MWh
commodity	0.3034	per MWh

Published Tariffs		Proposed Tariffs	% Change Nominal 2006/07 V 2005/06
2004/5 €	2005/6 €	2006/07 €	
403.558	481.879	470.254	-2.4%
0.1850	0.220	0.240	9.0%
272.456	336.727	273.604	-18.7%
0.1140	0.139	0.126	-9.4%
59.296	65.482	74.409	13.6%
0.0370	0.054	0.064	18.5%
676.014	818.606	743.858	-9.1%
0.2988	0.360	0.366	1.9%
462.854	547.361	544.663	-0.5%
0.2212	0.274	0.303	10.9%

### Cost/Therm Comparisons

Annual Consumption	365
Load Factors	1.3

### Gas Year 06/07 (06/07 Monies)

<b>Moffat Shipper</b>		<b>Inch Shipper</b>	
	€		€
Capacity	967.02	Capacity	708.06
Commodity	133.67	Commodity	110.74
Total	<u>1,100.68</u>	Total	<u>818.81</u>
Cost/MWh	3.016	Cost/MWh	2.24
<b>Cent/Therm</b>	<b>8.84</b>	<b>Cent/Therm</b>	<b>6.57</b>

### Gas Year 05/06

Cent/Therm - (05/06 Monies)	9.60	6.52
Cent/Therm - (06/07 Monies)	9.86	6.69

% Increase - Real	-10.3%	-1.7%
% Increase - Nominal	-7.9%	0.9%

The above includes a worked example of the effect of the proposed new tariffs on both a Moffat and an Inch Shipper that each have a customer with an annual consumption of 365 MWh and a load factor of 1.3 (~77%). In order to ascertain the correct capacity payment for the Moffat shipper, the relevant tariff is calculated by adding the Onshore and Interconnector capacity tariffs. This figure is then multiplied by the applicable capacity (the annual consumption divided by 365 and multiplied by the load factor). The commodity payment for the Moffat Shipper is calculated by adding the Onshore and Interconnector commodity tariffs and multiplying this figure by the annual consumption. The total capacity and commodity payment figure for the Moffat Shipper is divided by the annual consumption to give the cost per MWh. A similar calculation is carried out for the Inch Shipper except the capacity tariff is made up of Onshore and Inch capacity tariffs added together and the commodity tariff is made up of the Onshore and Inch commodity tariffs added together.

## 4 Transmission Revenue and Tariffs

The annual update of BGN's transmission tariffs consists of two parts. The first is to establish, using the revenue control formulae, BGN's allowed transmission revenue. The second is to set the transmission tariffs.

#### **4.1 Allowed Revenue**

BGN's submission outlined how the allowed revenues are to be adjusted for, among other things:

- Savings on local authority rates;
- Reduced under-recovery for 2005/6 (€5m against €15m forecast);
- Predicted revenues from inventory product.

It had been anticipated that BGN would under-recover its allowed revenue in 2005/6 (as determined by the revenue control formula) by €15.3m in total. This was due to tariffs deliberately being set lower than required for a full revenue recovery. This anticipated under-recovery of €15m was to be recovered in subsequent years. The forecast under-recovery for 2005/06 is however only around €5m, meaning that only this lower amount needs to be recovered in 2006/07. This means the revenue requirement for 2006/07 is less than had been expected.

Applying the revenue formula, which includes the adjustments outlined above, results in a revenue requirement for 2006/7 (in nominal terms) of €125.82m for the Onshore system, €60.92m for the Interconnectors (Moffat entry point), and €3.41m for Inch. For details of the calculations involved see BGN's submission (CER/06/131).

#### **4.2 Tariffs**

The standard manner by which this revenue requirement is translated into transmission tariffs is to divide the allowed revenue by the expected demand on each part of the transmission system for 2006/7 (further details of this calculation are contained in BGN's submission).

Overall system demand in 2006/07 is anticipated to be around 4% lower than originally forecast in the four-year revenue determination. However, the anticipated demand is expected to be around 7% higher than the latest forecast out-turn demand in 2005/06.

BGN has forecast 2006/7 demand as follows (compared to that originally forecast):

- Onshore demand to decrease by 4% compared to that originally forecast (7% increase on 2005/06),
- Moffat demand to increase by 34% compared to that originally forecast (10% increase on 2005/06),
- Inch demand to decrease by 39% compared to that originally forecast (15% decrease on 2005/06).\*

The reasons for the forecast decreases in demand bookings include:

- Moffat (Interconnector) bookings are significantly higher than originally forecast due to the ongoing delays with the Corrib project – gas flows had been forecast from Corrib for this period, but these will continue to come from the Interconnectors.

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\* Note, Inch demand is largely driven by the physical requirements of the upstream operators.

- Inch bookings significantly reduced (39%) compared to original forecast due to problems with production at the Seven Heads gas field.

Calculating the transmission tariffs in the standard manner using the demands outlined above results in real tariff decreases of 10.3% and 1.7% for typical Moffat and Inch shippers respectively<sup>†</sup> (that is, by combining the relevant entry tariff with the Onshore exit tariff). This is compared to the increases last year of 18.6% and 16.6% for Moffat and Inch shippers respectively, which had offset the previous year's (03/04) reduction of 14% and 1% for Moffat and Inch respectively (all figures in real terms). This year's reductions go further and reduce the tariff below that originally set at the outset of the control period. For example, for a large user over the last 3 gas years, the typical Moffat tariff has decreased by 1% in nominal terms (roughly equivalent to a fall of 9% in real terms)<sup>‡</sup>. The tariff was originally set to increase at CPI +2%.

## **5 Comments and CER Responses**

The Commission received comments from one party in response to the proposed decision. The respondent requested that its response be kept confidential and not be published. Below are summarised the key points in the submission, to which the Commission's response is given.

### *Respondent's Comment*

The respondent commented upon the volatility that has been experienced in transmission tariffs in the past number of years.

### *Commission Response*

The Commission accepts that transmission tariffs have been volatile over the past number of years. This issue will be addressed by setting a new revenue control in the forthcoming revenue review for BGN for the 2007/8 to 2011/12 period.

### *Respondent's Comment*

The respondent asked for an assurance from the Commission that the introduction of short term capacity products (under EU Regulation 1775) will not 'negatively impact' on the current tariffs once set, and that there would not be a clawback of revenue foregone in any future revenue controls.

### *Commission Response*

The Commission will not give such an assurance. The revenues BGN is allowed to collect are determined by the revenue control. Assuming the new

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<sup>†</sup> Equivalent to a nominal decrease of 7.9% and a nominal increase of 0.9% for typical Moffat and Inch shippers, with a load factor of 1.3 – see worked example later in paper.

<sup>‡</sup> With inflation of 8.1% over this period, this means that in real terms the tariff has fallen by roughly 9% over the period.

products are introduced and operated efficiently, the Commission believes it would be unreasonable, at least in the short term, not to allow BGN to recover any resulting under-recoveries. To 'disallow' revenues would create a significant level of uncertainty for the regulated business.

*Respondent's Comment*

The respondent requested sight of the details of the K factor adjustments to the transmission allowed revenues.

*Commission Response*

The BGN document issued alongside the proposed decision ([CER/06/131](#)) did show most of the detail of the calculation of the K factors. For clarity however, BGN has revised the document to make the calculation more clear (in particular BGN has shown the change in pass-through costs used in calculation of the K factors). Please see CER/06/131, in particular pages 8 and 10, for this further detail.