



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Direction to Bord Gáis Energy Supply
On Tariffs Charged to
Domestic and Small Commercial and Industrial Customers
(Non-Daily Metered Sector)**

1st February 2007 to 30th September 2007

4th December 2006

CER/06/251

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Executive Summary

1 Background

This document sets out a Direction by the Commission for Energy Regulation (“the Commission”), in accordance with the Gas (Interim) (Regulation) Act, 2002, to Bord Gáis Energy Supply’s (“BGS”) in relation to charges to be applied to the Non-Daily Metered Sector for the period 1st February 2007 to 30th September 2007¹.

Following discussions with BGS, the Commission has approved a reduction in BGS tariffs in the NDM sector by 10% compared to prices approved in September 2006.

On 1st September 2006 and based on a review of BGS’s price submission, the Commission directed BGS to increase NDM tariffs by 33.8%. This increase was driven by the level of gas costs being faced by BGS at the time of its submission. At that time BGS’s cost of buying gas for its NDM customers base had increased by some 50% compared to the previous year. BGS’s gas costs are largely determined by prices in the international gas market, which for a long period of time had been very high.

At the time of publishing its September Direction to BGS, the Commission was very aware of the effect of the unprecedented increase in the price of gas on all customers, especially vulnerable customers. The Commission therefore kept an open mind with regard to amending its Direction when it appeared that there was a sustained and significant reduction in the market price of gas, with the view to passing through savings to BGS customers in a timely manner.

Since the issuing of that Direction the Commission has continued to monitor trends in the market price of gas. This Direction follows on from discussions with BGS about the impact of the fall in the market price of gas on prices charged by BGS to its Non-Daily Metered Customers.

¹ Under Section 2(6) of the Gas (Amendment) Act, 1987, as amended by Section 23 (2) (b) (vii) of the Gas (Interim) (Regulation) Act, 2002.

2 Tariffs in the Non Daily Metered Sector

In recent months the Commission has been assessing the impact of the sharp fall in wholesale gas prices on the expected cost of supplying gas to Non Daily Metered (NDM) customers. BGS has provided the Commission with an updated assessment of its forecasted costs, particularly due to the decrease in prices in international gas markets.

BGS has advised the Commission that a proportion of its gas purchases for the current tariff period (1st October 2006 to 30th September 2007) were committed at prices prior to the decrease in international gas prices. Notwithstanding the cost of the purchases at relatively higher fixed prices, as wholesale gas prices have fallen significantly, BGS will now make significant cost savings compared to the gas costs it budgeted in this submission. These savings are largely due to gas purchases that are yet to be hedged and those that were hedged subsequent to the Commission's direction.

Taking these factors together, the Commission now, has the opportunity to reduce the currently approved level of gas tariffs for domestic and small commercial and industrial customers. As gas tariffs are approved on a yearly basis, any corrections are normally included in prices for the following year. However, acknowledging the unprecedented degree of difficulty being faced by NDM customers, the Commission has decided to pass through this saving within this gas year.

The objective of this Direction is to ensure that BGS's cost savings are passed back to customers during the current tariff year. In approving gas tariff changes, the Commission is mindful of the impact of such changes on competitors in the retail market.

The Commission has reviewed the impact of a price reduction on retail competition and has concluded that a reduction in tariffs at this time has a lesser effect on competition than deferring the tariff reduction in the face of a fully open retail market and at the start of the next gas year. At this time competition in the gas market is concentrated in the regulatory tariff formula sector (RTF); the main reason being that the domestic market will not open to competition until July 2007. Thus within year revisions to NDM tariffs do not significantly impact on the level of competition in the market.

The Commission recognises that, ideally, reductions in tariffs rates should apply to the commodity charges included in tariffs given that the reason for the reduction relates mostly to the fall in gas prices. However, mindful of the fact that both the standing charge and the commodity charges were increased by the same amount from 1st October, and the need to pass through savings to customers in a timely manner, the Commission has decided to apply the 10% reduction equally to BGS's standing and commodity tariff charges.

3 Commission Direction

After careful review of the trends in international wholesale gas markets, and the cost savings BGS make in 2007, mainly on the back of recent reductions in international fuel prices, the Commission has decided that a within year adjustment to NDM tariffs is merited and that these savings should be offered to all customers in the NDM market.

Accordingly, the Commission now issues a Direction to BGS to implement a 10% reduction in the level of its NDM tariffs with effect from 1st February 2007.

In reaching its conclusions, the Commission has balanced various factors. The Commission is conscious that of the need to act in a manner that is the best interest of customers while at the same time not undermining financial positions currently held by independent suppliers or BGS. In reaching its decision, the Commission took into consideration a number of factors including: full retail market opening expected no later than July 2007, the review of tariff structures in 2007 and ongoing review of BGS's allowable revenue to be implemented in October 2007. From a retail competition position, this Direction will mean that the savings will be passed on to customers within this gas year rather than be included in tariffs in future years.

Appendix 1 and 2 of this Direction set out the tariffs that BGS will charge its domestic and small commercial and industrial customers for the period 1st February 2007 to 30th September 2007. BGS has explained that it is not possible to implement this price change from January as it has purchased forward gas to cover January consumption at a significantly higher price.

Appendix 1: Tariff Rates for BGS Non-Daily Metered Customers

Residential Tariffs		Feb 07 - Sept 07 Rates
(Prices are inclusive of VAT at 13.5%)		
Standard tariff		
Standing Charge (Bimonthly)	€'s per bill	51.43
Unit charge	c/kwh	4.091
High Commitment Tariff (16,000Kwh)		
Standing charge	€'s/bill	0.00
Unit charge	c/kwh	5.385
Low Commitment Tariff (8,750 Kwh)		
Standing charge	€'s per bill	0.00
Unit Charge	c/kwh	7.089
Reducing Rate		
Standing charge (Bimonthly)	€'s per bill	9.55
<u>Bands</u>		
0-585 Kwh	c/kwh	10.771
586-1170 Kwh	c/kwh	8.074
>1171Kwh	c/kwh	5.709
Golden Age Tariff		
Standing Charge	€'s per bill	0.00
Unit charge	c/kwh	7.089
Gas Card Tariff		
Standing Charge	cent/day	23.67
Unit Charge	c/kwh	5.385

Appendix 2 Industrial and Commercial Tariffs

Industrial/Commercial Tariffs		Feb 07 - Sept 07 Rates
(I/C Prices are exclusive of VAT)		
Standard I/C Tariff		
Standing charge (Monthly)	€'s/bill	12.12
Unit charge		
0-3000kwh	c/kwh	5.376
3001-7500 Kwh	c/kwh	4.963
7501-15000 Kwh	c/kwh	4.548
15001+ Kwh	c/kwh	4.136
Demand & Commodity Tariff 1		
Standing Charge (annual)	€'s pa	2,909
(Plus Additional Meter Installed Charge)	€'s pa	145.47
Unit Charge	c/kwh	3.641
Demand & Commodity Tariff 2		
Standing Charge	€'s pa	8,726
(Plus Additional Meter Installed Charge)	€'s pa	145.47
Unit charge	c/kwh	3.389