



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

PRESS RELEASE

CER announces significant 11% drop in gas prices for consumers

Friday 20 July 2007

“This is the second price reduction of 2007, following a 10% decrease in prices in February.”

The Commission for Energy Regulation (CER) has today proposed a reduction in gas prices of on average almost 11%. The price decrease would come into effect on 1 October of this year. This follows a price reduction of 10% which was approved by the CER on 1 February 2007.

The CER has published a proposed decision paper on Bord Gáis Energy Supply's (BGS) allowed revenues for the period 1 October 2007 to 30 September 2007, and the resulting tariffs for residential and small and medium sized business customers. In its formal submission to the CER, Bord Gáis had requested a revenue allowance equivalent to a 9.7% reduction in tariffs. Following analysis, the CER has decided to propose an allowed revenue equivalent to a reduction in prices of almost 11%.

The average price decrease for the typical domestic customers will be 10.88%. Some customers with small consumption will see a greater reduction in their bills while the impact on a small number of domestic customers with very large consumption will be less. This variation arises largely because of a proposal to introduce a new range of tariffs which better reflect the full cost of supplying customers. In particular, it is proposed to reduce the level of the fixed standing charge and, in the case of one tariff, to have the charge based solely on consumption with no standing charge. This change in tariff structures is the subject of public consultation at present.

There have been a number of drivers behind this price decrease. These are as follows:

- Wholesale gas prices have fallen throughout 2007 so far. BGS purchase almost 90% of their gas from the UK wholesale gas market. The forward curve for gas for the coming winter shows a downward trend. In November 2006 the gas price was 74.65 c/ therm, while in June 2007, the forward gas price for the coming winter was 64.65 c/ therm;
- There has been a significant reduction in gas network costs as a result of CER's five year review of Bord Gáis Networks revenues (details published on 8 June 2007). Transmission and distribution tariffs are down by 11% and over 1% respectively for 2007/08, as a result of cost savings imposed by the CER. Network costs for 2007/08 will make up around 42% of the final end user price;

The Commission has ensured that these cost savings are passed directly back to consumers by Bord Gáis.

Full details of the Commission's proposed decision can be found in the "Latest updates" section of the CER's website, www.cer.ie.

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Note to Editors

This price announcement refers to Bord Gáis Energy Supply's non daily metered customers (NDM). These are residential and small commercial and industrial customers (570,000). Larger industrial customers are generally supplied by a tariff formula known as the RTF (Regulated Tariff Formula). This tariff moves in line with wholesale gas prices. This means that these customers receive the benefit of lower wholesale gas prices.

The 10.88% price reduction refers to the reduction in annual gas costs (annual bill) that will be seen by customers at the average level of consumption (15,000 – 16,000 Kwh per annum). This is equivalent to a reduction of about €100 in annual bills.

The majority of gas supplied in Ireland is purchased in the UK wholesale gas market and imported directly from the UK. A number of developments within the UK and Europe have led to the significant decrease in the price of wholesale gas since the summer of 2006. These are as follows:

- the re-opening of the Rough Storage facility in October 2006 following a major fire,
- the recent commissioning of the LNG terminal at Teeside; and
- the anticipated commissioning of the Langeled and Bacton interconnector pipelines, the LNG terminal at Milford Haven and the Aldbrough Storage unit in the coming winter.

The CER has also recently announced proposed changes to the structure of BGS tariffs (http://www.cer.ie/en/gas-retail-market-current-consultations_.aspx). These new tariffs will lead to more cost reflective prices for consumers and real choice in the type of tariff they wish to use.

The CER's proposals in relation to the five year review of Bord Gáis Networks were published on 8 June 2007 (<http://www.cer.ie/en/gas-distribution-network-current-consultations.aspx>). The proposals ensure that the correct level of investment takes place in the gas networks over the next 5 years, while also ensuring value for money for gas customers.

The Commission's proposed decision paper on gas tariffs for 2007/08 is available to view on the CER website, www.cer.ie. Comments on these proposals should be submitted by 10 August 2007.