



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Proposed Decision on BGN Allowed Revenues and Gas
Distribution Tariffs for 2008/09**

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Abstract:

This paper sets out the Commission's Proposed Decision in relation to BGN Allowed Distribution Revenues and Gas Distribution Tariffs for the gas year 1st October 2008 to 30th September 2009.

Target Audience:

Existing and potential Gas Customers, Suppliers, Shippers and Producers.

Related Documents:

- [Bord Gáis Networks Revenue Review 2007/08 – 2011/12 Distribution Decision Paper \(CER/07/111\)](#) Published 2nd August 2007.

Responses to this consultation should be returned by email, post or fax and marked for the attention of Clive Bowers at the Commission.

The Commission intends to publish all submissions received.

Respondents who do not wish part of their submission to be published should mark this area clearly and separately or enclose it in an Appendix, stating the rationale for not publishing this part of their comments.

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1.0 Introduction

1.1 *The Commission for Energy Regulation*

The Commission for Energy Regulation ('the Commission') is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sector's. The Commission was initially established and granted regulatory powers over the electricity market under the Electricity Regulation Act, 1999. The enactment of the Gas (Interim) (Regulation) Act, 2002 expanded the Commission's jurisdiction to include regulation of the natural gas market, while the Energy (Miscellaneous Provisions) Act 2006 granted the Commission additional powers in relation to gas and electricity safety. The Commission is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sector.

1.2 *Purpose of this paper*

The purpose of this paper is to seek the view of interested parties with regard to the ***“Proposed Decision on BGN Allowed Revenues and Gas Distribution Tariffs for 2008/09”***. This paper should be read in conjunction with the BGN distribution tariff submission (CER/08/115), published with this paper. In order to make an informed and balanced final decision on this topic, the Commission wishes to obtain comments from all interested parties. The Commission commits to considering all views equally and affording each respondent the opportunity to clarify any issue raised in this paper.

1.3 *Background Information*

Under the Gas (Interim) (Regulation) Act, 2002, 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 distribution systems.

In 2007 the Commission carried out a comprehensive review of the price control regime for BGN's Distribution System for the five years from 2007/08 to 2012/13¹. This five year period, called PR2 is the second price control period set

¹ CER/07/111

by the Commission. The first Price Control Period (PR1) ran from 2003/04 to September 2007². The Price Control sets out the revenues which BGN will be allowed to recover over the period. The allowed revenues are calculated using the revenue control formula which is used to calculate the maximum allowed revenues for BGN's distribution 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 distribution tariffs.

The Distribution Tariffs for 2007/08 were set as part of the Revenue Review. This year represents the first annual tariff review within PR2.

1.4 Responding to this paper

All comments on this paper should be directed to;

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The Commission intends to publish all comments received – those respondents wishing for certain sections of their submission to remain confidential should submit the relevant sections in an appendix marked confidential.

² [CER/03/188](#)

2.0 Distribution and Tariffs

2.1 BGN Submission

The distribution revenues that BGN are allowed to earn each year between 2007/08 and 2011/12 were consulted upon and agreed in the five year revenue review published last year. As part of the price control BGN made their annual submission entitled “Distribution Tariffs for the Gas Year 2008/09” on 16th June 2008. The annual update of BGN’s distribution tariffs consists of two parts. The first is to establish, using the revenue control formulae, BGN’s allowed distribution revenue. The second is to set the distribution tariffs.

2.1.1 Allowed Revenue

The BGN submission outlines how the allowed revenues are to be adjusted for, amongst other things:

- Lower than forecast pass-through costs for 2008/09
- Under-recovery for 2006/07

As per the last revenue review decision, the Commission has agreed that a number of costs will be treated as pass through costs and an estimate was made for them in the 5 year review. BGN has revised its forecast of pass through costs for the coming year. The revised forecast indicated that pass through costs will be €1.26m lower than originally allowed for. This is primarily due to a reduction in rates costs and a lower number of new connection costs though this is partly offset by an expected increase in Shrinkage costs.

The actual revenue earned in 2006/07 was €3.8m less than what was forecast. This was counterbalanced by a reduction in pass through costs namely gas shrinkage, rates and safety costs. There is a remaining under recovery from 2006/07 of €1.52m.

Applying the revenue control formula, which includes the adjustments outlined above, results in a revenue requirement for 2008/09 of €193.27 for the Distribution system.

In cumulative terms this is 0.26m more than was originally allowed and can be primarily attributed to the under recovery from 2006/07. Full details of the calculations are included the BGN submission (CER/08/115).

2.1.2 System Demand for 2008/09

BGN has reforecast 2008/09 distribution demand as follows (compared to that originally forecast):

- Capacity bookings (GWh/pk day) to decrease by 1.8%
- Commodity flows (GWh) to decrease by 2.2%
- Weighted average decrease of 1.9%

2.1.3 BGE Distribution Tariffs for Gas Year 2008/2009

The revenue requirement and system demand is translated into a distribution tariff by dividing the allowed revenue by the expected demand on the distribution system for 2008/09 (further details of this calculation are contained in BGN's submission, CER/08/115).

Table 2.1 Proposed Distribution Tariffs for 2008/09

Volume Range (MWh)		Capacity Charge (c/pk day kWh)		
>	< or =	<i>A</i>	<i>B</i>	<i>Total</i>
0	73	148.6649		148.6649
73	14,653	131.6044	3.8259	A - B *Ln(PDV[MWh])
14,653	57,500	328.7952	47.1824	A - B *Ln(PDV[MWh])
57,500		40.5463		40.5463
Volume Range (MWh)		Commodity Charge (c/kWh)		
>	< or =	<i>A</i>	<i>B</i>	<i>Total</i>
0	73	0.3049		0.3049
73	14,653	0.2434	0.0237	A - B *Ln(PDV[MWh])
14,653	57,500	0.2837	0.0374	A - B *Ln(PDV[MWh])
57,500		0.0555		0.0555

This results in the following overall changes from the 2007/08 Distribution Tariff

- capacity tariff increase of 7.4% (2.7% increase in real terms)
- commodity tariff increase of 6.0% (1.3% increase in real terms)
- Overall tariff increase of 7.1% (2.4% increase in real terms)

The overall increase can be largely explained by inflation adjustments and the decline in forecast demand when compared to that originally forecast for 08/09.

2.1.4 Proposed Decision

The Commission proposes to direct BGN to apply distribution tariffs set out in Table 2.1 above from 1st October 2008 to 30th September 2009.

3.0 Summary

3.1 Summary

The Commission proposes to direct BGN to apply distribution tariffs set out in Table 2.1 from 1st October 2008 to 30th September 2009. The table shows the following:

- capacity tariff increase of 7.4% (2.7% increase in real terms)
- commodity tariff increase of 6.0% (1.3% increase in real terms)
- Overall tariff increase of 7.1% (2.4% increase in real terms)

It should be noted that the allowed BGN distribution revenues have been agreed between the Commission and BGN as part of the five year revenue review which was consulted upon in 2007. The annual review process mainly corrects for any under or over recovery in previous years and any changes to projected demands.

The Commission invites comments on the proposals in this paper by close of business on 25th July.