



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

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

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RESPONSES TO:	Clive Bowers, cbowers@cer.ie



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*The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.*

www.cer.ie

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Abstract:

This paper sets out the Commission's decision in relation to BGN Allowed 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:

- [Proposed Decision on BGN Allowed revenues and Gas Distribution Tariffs for 2008/09](#) published 4th July 2008.
- [Bord Gáis Networks Revenue Review 2007/08 – 2011/12 Distribution Decision Paper \(CER/07/111\)](#) published 2nd August 2007.

For further information on the Decision Paper, please contact Clive Bowers cbowers@cer.ie at the Commission.

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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 outline the Commission's decision in relation to the "**BGN Allowed Revenues and Gas Distribution Tariffs for 2008/09**". The proposed tariffs were consulted upon on 4th July (CER/08/114).

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 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.

¹ CER/07/111

² [CER/03/188 \(http://www.cer.ie/cerdocs/cer03188.pdf\)](http://www.cer.ie/cerdocs/cer03188.pdf)

2.0 Commission Decision

2.1 Distribution Tariffs for 2008/09

The Commission hereby directs BGN to implement the tariffs set out in the table below from 1st October 2008 – 30th September 2009.

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.

Note: The implementation of the new distribution tariffs is without prejudice to the recently announced rise in supply tariffs for NDM and business customers (CER/08/137). These new distribution tariffs will be taken into account for those customers when the supply tariffs for the full year are determined to apply from 1st January 2009.

3.0 Distribution Revenues and Tariffs

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 original 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

Calculating the distribution tariffs using the revenues and demands outlined above 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.

4.0 Comments Received and Response

The Commission received one response to the Consultation. The respondent has requested that their submission remain confidential and not be published.

The main comments made by the respondent are set out below and are accompanied by the Commission response. The respondent's comments made a number of points, some specific to the paper and some on the broader regulatory environment under which BGN operate.

The respondent feels that BGN is making supernormal profits from their ownership of this state asset and feels that the WACC afforded to BGN for its regulated assets is high compared to other jurisdictions. They say that the WACC afforded in GB is a lower rate of 4.5%.

The allowed revenues for BGN were consulted upon in 2007 as part of the revenue review. A decision was made on this in August 2007. As a comment though, the Commission do not agree with the points raised by the respondent in relation to WACC's. Some indicative analysis carried out by the Commission would suggest that the WACC that we afford to BGN is at the lower end of the spectrum when compared to other countries.

The respondent had a query on the BGN submission in relation to the "approved procedures" for assessing DM and NDM demand and also for assessing new NDM connections.

The procedures for assessing DM and NDM demand are actually ancillary documents to the Unified Code of Operations to which all shippers are signed up to. Details of these procedures are available on the Gaslink website (www.gaslink.ie) under shipper/supplier services. The estimation of new NDM connections is carried out by BGN using their own methodology and calculations.

Finally the respondent has requested that the Commission publish with this decision paper a table setting out the likely Distribution Tariffs for the rest of the price control period.

In the Distribution Revenue Review Decision Paper (CER/07/111) the Commission published distribution allowed revenues (in 2005/06 monies) for BGN for the price control period. The projected capacity bookings and commodity flows were published also. The level of distribution tariffs varies depending on the customer load. The calculation of the tariffs is complex as in some cases it uses A and B coefficients. On page 53 of that Decision Paper base tariffs are published which give an indication of the tariff over the period (in 2005/06 monies). The tariffs were designed to remain relatively stable over the period but are subject to capacity bookings and other assumptions remaining in line with the projections made in 2007.