Decision on Bord Gáis Energy Supply Fuel Variation Tariff Charges
1 March 2009 – 30 September 2009

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Abstract:

This paper details the Fuel Variation Tariff charges applicable to Bord Gáis Energy Supply customers for the period 1 March 2009 – 30 September 2009.

Related Documents:

- CER/07/097 – Decision on Bord Gáis Energy Supply Tariff Structure for Larger NDM Industrial and Commercial Customers (The 'Fuel Variation Tariff)
- CER/07/133 – Final Decision on Bord Gáis Energy Supply Fuel Variation Tariff Charges for Commercial and Industrial Customers (Non-Daily Metered) 1 October 2007 – 30 September 2008.
- CER/08/248 – Decision on Bord Gáis Energy Supply Fuel Variation Charges 1 January 2009 – 30 September 2009

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Executive Summary

This paper details the Fuel Variation Tariff (FVT) charges applicable to Bord Gáis Energy Supply customers for the period 1 March 2009 – 30 September 2009. It does not examine or review the structural elements of the FVT regime as established in the Commission's decision paper to establish the regime (CER/07/097). These elements will be reviewed as part of a wider consultation on the development of competition in the FVT customer sector in the second quarter of 2009[1].

In September 2008, the Commission published FVT charges reflecting changes in the regulatory approved transportation costs of the FVT tariff methodology. In December 2008, the Commission published further changes in the FVT charges to reflect changes in the other cost elements of the FVT tariff methodology.

The Commission has received responses from industry participants to its December publication. In light of these responses and to give due consideration to the issues raised by the respondents, the Commission postponed the application of the revised FVT charges until 1 March 2009.

Following further review of the cost inputs into the FVT tariff methodology and taking into account the oral and written responses of interested parties, the Commission approves the following;

- A fixed rate charge of 0.3810c/kWh
- A transport capacity and own supply cost charge of €603 per annum plus the appropriate transportation capacity costs
- A capacity discount of 10%

These changes will be applied by BGES to its FVT customer segment from the 1 March 2009.

[1] The Commission recognises that it previously committed to conduct a full review of the FVT regime in the fourth quarter of 2008, however, due to time and resource constraints, the Commission postponed this review until later in 2009.

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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.

1.2 Purpose of this paper

On 2 December 2008, the Commission published a paper outlining charges for the Fuel Variation Tariff (FVT) customer sector for the period 1 January 2009 – 30 September 2009. Following submissions from industry participants, the Commission issued a note revising this paper to a consultation paper and seeking comments on the proposals from interested parties.

Following consideration of these responses, this paper sets out the Bord Gáis Energy Supply (BGES) FVT charges to be applied for the period **1 March 2009 – 30 September 2009**.

1.3 Background Information

The FVT regime was implemented on 1 October 2007. It applies to BGES Non-Daily Metered (NDM) customers who have a Supply Point Capacity greater than 3,750 kWh.

The FVT is a price regulated formula consisting of four elements; a gas commodity charge, a fixed rate charge, a site charge and a shrinkage gas charge. The tariff is designed to provide a transparent tariff which reflects the underlying cost of procurement and delivery of gas to those customers with a SPC greater than 3,750kWh.

The FVT tariff consists of four components:

- Gas Commodity Charge
- Shrinkage Gas Charge

- Fixed Rate Charge
- Transport Capacity and Own Supply-Cost Charge.

The **Gas Commodity Charge** (c/kWh) reflects the monthly unit cost of wholesale gas. The Commodity Charge levied to an individual customer depends on the pricing option the customer has chosen.

The **Shrinkage Gas Charge** (c/kWh) reflects the monthly unit cost of transmission shrinkage gas costs charged by the Transporter to BGES in respect of its FVT volumes.

The **Fixed Rate Charge** (c/kWh) incorporates those costs which depend on the volume of gas supplied to a customer. This charge consists of transmission commodity tariffs, distribution commodity tariffs, swing flexibility and an approved margin on total costs.

The **Transport Capacity and Own Supply-Cost Charge** (€ per month) incorporates those costs which are largely independent of the gas volume consumed by a customer. It consists of transmission and distribution capacity tariffs and the administrative costs of supplying the customer.

The objective of the FVT regime is to provide a tariff mechanism that is more reflective of the underlying costs to serve individual I&C customers, and which also allows tariff levels to adjust more quickly in response to changes in wholesale gas costs. The Commission is of the view that the introduction of a FVT also enables other suppliers to compete more effectively for NDM customers, thereby delivering customer benefits.

1.4 Responses to Consultation

The Commission received 4 submissions to the consultation paper. One of these parties requested that their submission remain private and confidential. The remaining 3 submissions were received from the following participants;

- Flogas
- Energia
- Airtricity

These responses are available to view on the Commission’s website. The Commission would like to thank those parties for contributing to this consultative process and ensure all parties that their comments were given due consideration in the Commission’s final decision.

2.0 Responses to Consultation

2.1 Issues Raised by Respondents

A number of issues were raised in the responses to the Commission's consultation paper. First and foremost, respondents highlighted their concerns with respect to the manner in which the consultation was conducted and requested that the Commission commits to consult widely on any issues that may affect the competitive environment in which they operate. Industry participants request that they be given the opportunity to comment on any issue that may affect their ability to do business. Also with respect to the consultation, respondents were uncertain as to whether the Commission still intended to conduct a full review of the FVT as indicated in its September information note.

Other comments submitted by respondents were as follows;

- Fail to understand why the Fixed Rate Charge has changed since the interim change in September 2008
- Supply Charge of €603 is exceptionally low – enquire what provision there is for bad debt and the cost of providing credit security
- BGES' sizeable NDM customer portfolio enables it to take full advantage of the inter-book secondary capacity trading approach, which smaller, new suppliers struggle to match. Propose that the capacity commitment required to meet the 1 in 50 peak winter should not have changed, therefore question why the discount level should be adjusted?
- The capacity discount should only apply to Entry Capacity as the exit capacity has to be the same as the allocated SPC figure
- Believe that BGES should pass on the efficiencies of its larger customer base to the entire market to reduce the total cost for everyone
- Spreading cost over smaller customer base should increase costs – not reduce them.

One respondent in general suggested that the proposed decision would be damaging to competition, increase regulatory risk, deter investment and expose supply companies to exaggerated risk caused by the historic monopoly legacy of Bord Gáis. This respondent asked the Commission to postpone a decision pending a full review of the FVT in Q1 of 2009

2.2 Commission's Comments

The Commission acknowledges the concerns raised by respondents with respect to this consultation and accepts that all interested parties should be given the opportunity to comment on matters which affect their businesses and the environment in which they compete in. The Commission would also like to confirm that this consultation only related to the applicable charges in the FVT regime. Although the Commission intimated in its September information note that it would conduct a full review of the FVT sector in quarter four of 2008, the Commission postponed this review and consultation until quarter one of 2009. The Commission expects to begin this review following this decision and expects to issue a paper for consultation in March of this year.

The issues raised with respect to the actual components of the FVT tariff are addressed in the following section, which detail the changes that have occurred since the Commission last approved the applicable charges.

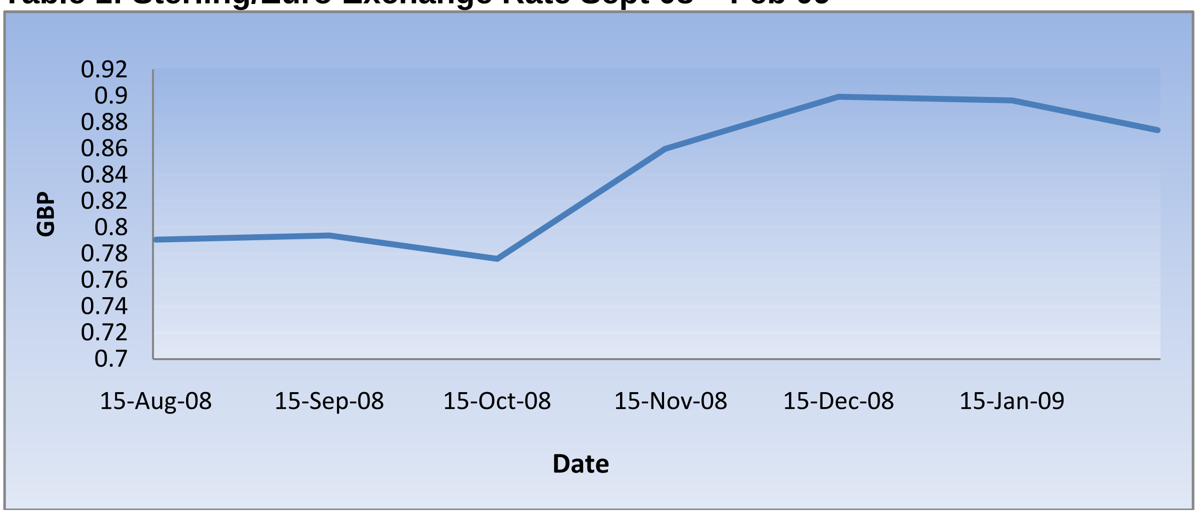
3.0 Commission Decision

Fixed Rate Charge

The Commission approves a fixed rate charge of 0.3810c/kWh for the period 1 March 2009 – 30 September 2009. This charge is a further decrease on the charge consulted on in the December consultation paper. It reflects changes that have since occurred in the Sterling/Euro exchange rate and changes in wholesale gas prices. Changes in these variables impact on a number of cost components in the fixed rate charge, namely; the nominal allowable margin, the cost of swing and the UK commodity transportation costs.

Table 1 below demonstrates how the Sterling/Euro exchange rate has moved since the Commission's initial announcement to review charges in the FVT sector. Given the proportion of Ireland's gas which is sourced from the UK, this trend has had a significant impact in reducing both the commodity costs and UK transportation costs of the gas used to supply customers in Ireland.

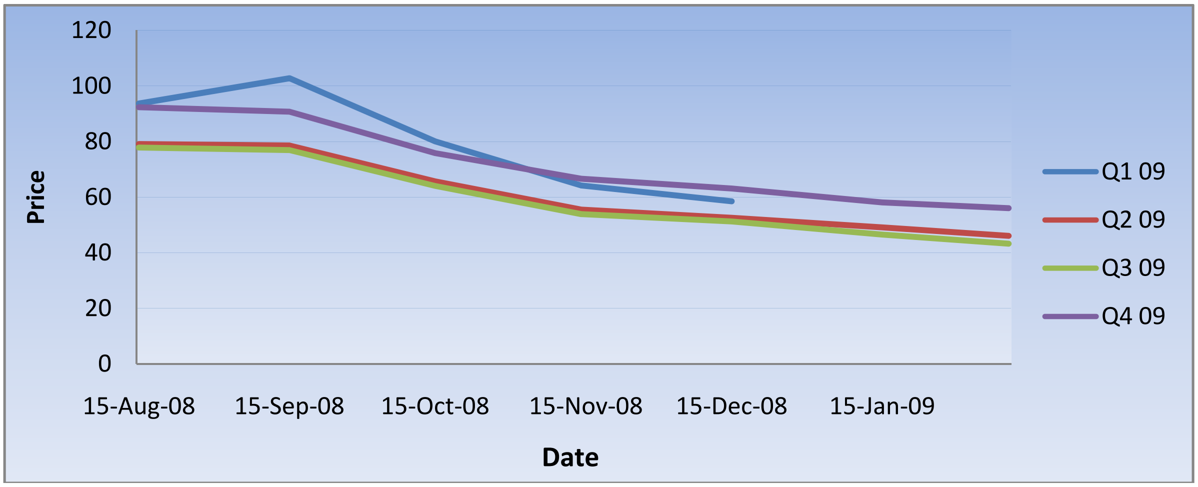
Table 1: Sterling/Euro Exchange Rate Sept 08 – Feb 09



Changes in the Sterling/Euro exchange rate also influence the margins earned from each customer. The approved margin of 2.75% is a factor of; wholesale gas cost, UK and Irish transportation capacity and commodity costs, swing charges, overheads and shrinkage. The recent changes in the exchange rate have had a favourable impact in reducing the wholesale cost of gas, the UK transportation costs, the swing and shrinkage costs and subsequently the total margin earned by BGES.

Table 2 below presents the changes that have occurred in the wholesale price of gas since the Commission published its initial consultation. These changes will be reflected in the gas commodity cost of all FVT customers but also the margin earned from these customers by BGES.

Table 2: Wholesale Price of Gas Aug 08 – Feb 09



The charge of 0.3810c/kWh is reflective of ICE futures prices and the Sterling/Euro exchange rates as of 2 February 2009.

Transport Capacity and Own Supply Cost Charge

The Commission approves a transport capacity and own supply cost charge of €603 per annum plus the appropriate transportation capacity costs for each customer. The Commission is content that this charge reflects the required changes in accordance with the methodology approved for the distribution of supply costs between NDM customers. This relative increase reflects both a correction in the apportionment of supply costs from the revenue regulated NDM sector to the FVT price regulated NDM sector and a decrease in the number of customers held by BGES in the FVT customer sector.

Responses received to the Commission's consultation enquired whether this charge accounted for a bad debt provision and a cost for providing security of supply. This charge does not explicitly account for these costs of supplying the FVT market. When designing the tariff, the Commission accounted for these costs in the margin approved for the sector.

Capacity Discount

In its initial decision paper establishing the FVT regime, the Commission approved a 10% capacity discount to be applied to all BGES FVT customers. This discount reflected the added revenues earned by BGES from secondary sales of capacity purchased to service its NDM customer segment. In the latest consultation, the Commission proposed to increase this capacity discount to 14% to reflect more accurate information suggesting that the FVT sector accounts for a larger proportion of secondary capacity sales than previously calculated.

However, having considered the responses of competing suppliers in the FVT sector, the Commission recognises that changes in the capacity discount could have significant implications for the development of competition and the competitive position of independent suppliers in the customer segment. Therefore, the Commission has decided to retain the capacity discount at 10%. This will be reviewed in detail as part of the Commission's later review of the FVT regime.

4.0 Summary and Next Steps

4.1 Summary

Following further review of the cost inputs into the FVT tariff methodology and taking into account the oral and written responses of interested parties, and recent changes in the Sterling/Euro exchange rate and wholesale cost of gas, the Commission approves the following;

- A fixed rate charge of 0.3810c/kWh
- A transport capacity and own supply cost charge of €603 per annum plus the appropriate transportation capacity costs
- A capacity discount of 10%

These changes will be applied by BGES to its FVT customer segment from the 1 March 2009.

4.2 Next Steps

The Commission will conduct a full review of the FVT regime in quarter one of this year. This review will be akin to the review that was conducted of the Regulated Tariff Formula (RTF) regime in 2008 and will aim to assess the merits of the current FVT regime and whether improvements can be made in the interest of both customers and competition.