



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Fuel Variation Tariff (FVT) A Background Note and Consultation Paper

DOCUMENT TYPE:	Consultation Paper
REFERENCE:	CER/09/055
DATE PUBLISHED:	9 th April 2009
CLOSING DATE:	15 th May 2009
RESPONSES TO:	Stuart Coleman scoleman@cer.ie

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

www.cer.ie

Abstract:

The purpose of this paper is to consult with industry on the structural elements of the Fuel Variation Tariff (FVT) as established in the Commission's decision paper CER/07/097.

Target Audience:

Gas Customers, Suppliers, Shippers and Producers.

Related Documents:

- CER/09/034 – CER decision on BGES FVT charges: 1 March 2009 – 30 September 2009
http://www.cer.ie/en/gas-retail-market-current-consultations_.aspx?article=0b9546c9-e18d-4831-9c18-21ebd2d378e7
- CER/07/097 – Decision on BGES Tariff structure for larger NDM Industrial and Commercial customers (The 'Fuel Variation Tariff')
<http://www.cer.ie/en/documents-by-year.aspx?year=2007>

Responses to this consultation should be returned by email, post or fax and marked for the attention of Stuart Coleman (scoleman@cer.ie) 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 Legal Background

Under the Gas (Interim) (Regulation) Act, 2002, the Commission for Energy Regulation (“the Commission”) is responsible for regulating charges in the natural gas market, including supply tariffs to final customers in both the eligible and non-eligible market sectors.

1.2 Purpose of this paper

The purpose of this paper is to seek the view of the public and the CER’s stakeholders with regard to ***the structural elements of the Fuel Variation Tariff offered by Bord Gáis Energy (BGEnergy)***. In order to make an informed and impartial decision on this topic, the Commission wishes to obtain comments from members of the public, the energy industry, customers and 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

On the 16th July 2007 the Commission published a decision (CER/07/097) with respect to the implementation of a price regulation regime (a Fuel Variation Tariff) for Non-Daily Metered (NDM) gas consumers of BGEnergy with a Supply Point Capacity above 3,750kWh and consumption level > 73,000kWh gas annually. The resulting regime came into effect on the 1st October 2007. The aim of the FVT regime is to provide a transparent tariff which reflects the underlying cost of procurement and delivery of Gas to BGEnergy’s larger NDM customers. It was also hoped to provide the opportunity for customers to choose a tariff that is suited to their individual preference.

In the Commission’s decision paper CER/09/034 the Commission stated it would conduct a full review of the structural elements of the FVT and its effects on wider competition in the FVT customer sector in the second quarter of 2009. It is with this intention that the Commission sets out in this paper to review the FVT.

2.0 FVT Structure

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 an SPC greater than 3750kWh.

Each customer's monthly invoice consists of four components:

- The **Gas Commodity Charge** (c/kWh) reflects the monthly unit cost of wholesale gas at the UK NBP. The level of commodity charge faced by any particular customer for a given month will depend on which pricing option the customer has chosen. Customers may elect to contract for a 'monthly' floating price' or 'fixed price'. The 'monthly floating price' is calculated as an arithmetic average of the last five ICE daily settlement prices for month M-1 as published on the European Spot Gas Markets. The 'fixed price' is calculated as the published ICE settlement price for the day immediately prior to the booking window.
- The **Shrinkage Gas Charge** (c/kWh) reflects the monthly unit cost of transmission shrinkage gas costs incurred by BGES in respect of the FVT volumes. The rate varies each month but it is charged equally to all customers regardless of which Gas Commodity option the customer has chosen.
- The **Fixed Rate Charge** (c/kWh) incorporates those costs which depend on the volume of gas supplied where the appropriate rate of cost recovery (per kWh consumed) remains constant through the gas year and does not vary between customers. This charge consists of transmission commodity tariffs, distribution commodity tariffs, UK transportation costs, swing flexibility and an approved margin on total costs.
- The **Transport Capacity and Own Supply-Cost Charge** (€/month) incorporates those costs which are largely independent of the gas volume consumed by a customer. These consist of transmission and distribution capacity tariffs and the administrative cost of running BGES' supply business. The transportation capacity costs are site-specific, being based on the individual capacity booking requirement for each customer.

3.0 Request for Feedback

The purpose of this paper is to prompt informed discussion, rather than present a position of the Commission. The Commission invites comments regarding the FVT structure and its components. To stimulate comments we set out six specific questions for consideration below.

Q1: Fixed Charge

Do you agree with the components of the Fixed Charge? Is this charge transparent?

Q2: Capacity Discount

Do you agree with the current level of the Capacity Discount? What do you feel the appropriate level should be? Give reason why.

Q3: 2 Day booking Window

Do you agree with the 2 day booking window? Do you feel it should be longer/shorter? Give reasons why.

Q4: Understanding of End Goal of FVT

What is your understanding of the goal of the FVT? When do you think it would be appropriate for the Commission to step back from regulating this sector?

Does the FVT deliver the intended degree of value to customers in the FVT Sector?

Q5: Supply Margin

Should the supply margin be removed from the fixed Charge (the other components of which are primarily transport- related) and should it be grouped instead with other charges? If so give reason why?

Should the supply margin be grouped with the Gas Commodity Charge?

Q6: CHP Opt Out

Should CHP customers be given the option to opt out of the FVT in favour of choosing an unregulated contract? If so give reasons why?

Should minimum criteria be developed to determine a CHP site's ability to opt out of the FVT regime include a minimum level of efficiency for the CHP plant and/ or a ratio of CHP to site energy requirements?

4.0 Responding to this paper

The Commission invites comments on this paper from interested parties to be submitted no later than 5.00pm on Friday 15th May 2009. Comments should be sent, preferably in electronic format to;

Stuart Coleman
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24
Tel: +353 1 4000800
Fax: +353 1 4000850
scoleman@cer.ie

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.