



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Proposed Decision on BGN Allowed Revenues and Gas
Transmission Tariffs for 2010/11**

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Abstract:

This paper sets out the proposed decision of the Commission for Energy Regulation ('the CER') in relation to Bord Gáis Networks (BGN) Allowed Revenues and Gas Transmission Tariffs for the gas year 1st October 2010 to 30th September 2011.

Target Audience:

Gas Customers, Suppliers, Shippers and Producers.

Related Documents:

- [Bord Gáis Networks Revenue Review 2007/08 – 2011/12 Transmission Decision Paper \(CER/07/110\)](#) Published 2nd August 2007.
- [Decision on Gas Transmission Tariffs 09-10 \(CER/09/149\)](#) Published 3rd September 2009

Responses to this consultation should be returned to Jerry Mac Evilly at the CER, preferably by email.

The CER 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 Purpose of this paper

The purpose of this paper is to seek the views of interested parties with regard to the “**Proposed Decision on BGN Allowed Revenues and Gas Transmission Tariffs for 2010/11**”. This paper should be read in conjunction with the BGN Transmission Tariff submission (CER/10/112), published with this paper.

1.2 Background Information

Under the Gas (Interim) (Regulation) Act, 2002, the CER is responsible for regulating charges in the natural gas market. Under Section 14 of that Act the CER may set the basis for charges for transporting gas through transmission systems.

In 2007 the CER carried out a comprehensive review of the price control regime for Bord Gáis Networks Transmission System for the five years from 2007/08 to 2011/12¹. This five year period, called PR2 is the second price control period set by the CER. 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 Revenue Control Formula, which is set out in the CER decision (CER/07/110), is used to calculate the maximum allowed revenues for BGN’s transmission 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 transmission capacity and commodity tariffs.

¹ [CER/07/110](#)

² [CER/03/188](#)

1.3 Responding to this paper

The CER welcomes comments on this paper. Comments should be sent, preferably in electronic format to

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The CER 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.

2.0 Transmission Revenue Tariffs

2.1 BGN Submission

The 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 in 2007. As part of the price control BGN made their annual submission entitled “Transmission Tariffs for the Gas Year 2010/11” in July 2010. The annual update of the transmission tariffs consists of two parts. The first is to establish, using the revenue control formulae, BGN’s allowed transmission revenue. The second is to set the transmission tariffs.

2.1.1 Allowed Revenue

BGN’s submission outlines how the allowed revenues are adjusted for amongst other things:

- Over-recovery for 2008/09
- Third Energy Package Implementation costs
- Lower than forecast pass-through costs for 2010/11

The actual revenue earned in 2008/09 was higher than what was originally forecast, this was primarily due to actual inflation being lower than predicted inflation. This over recovery sees BGN giving back €5.60m for 2010/11.

The European Union Third Energy Package on market liberalisation in the energy sector came into force in September 2009 and contains a Directive concerning common rules for the market in gas. BGE are obliged to implement this package by March 2012. The CER has allowed additional pass-through costs to cover the cost of implementing the networks driven aspects of the Third Package. For the 2010/11 Gas Year, €11m has been allowed and this will be split across Transmission and Distribution on an 80:20 basis. This results in an additional pass-through cost of €8.8m.

As per the Revenue Review Decision CER/07/110, the CER has agreed that a number of costs will be treated as pass through costs and an estimate was made for these 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 €0.52m lower than originally allowed for. This is due to a reduction in rates costs accompanied by an increase in the CER Levy, CO2 costs and Gaslink costs.

Applying the revenue control formula, which includes the adjustments outlined above, results in a revenue requirement for 2010/11 of the following:

€49.56m for the Interconnectors (Moffat entry point),
€2.55m for Inch, and
€119.90m for the Onshore system.

In cumulative terms this is €2.68m more than was allowed taking account of the Interconnector revenue re-profiling. Full details of the calculations are included in the BGN submission (CER/10/112).

2.1.2 System Demand for 2010/11

BGN has reforecast 2010/11 capacity bookings as follows (compared to that originally forecast):

- Interconnector capacity bookings to decrease by 2.9% on 2009/10 levels. This represents a 29.9% increase compared to that originally forecast which is due to the impact of Corrib being delayed.
- Inch capacity bookings to decrease by 2.8% on 2009/10 estimates. This still represents a 12.0% increase on the figures originally forecast.
- Onshore capacity bookings to increase by 0.1% compared to the 2009/10 forecast which represents a 14.0% decrease on the original PC2 forecast.

As a general note, forecast gas demand has decreased significantly since original PC2 estimates were made in 2007.

When setting the tariffs last year BGN re-profiled the revenues on the Interconnectors in the expectation that Corrib would commence operational flows in late 2011. Based on the latest information available, Corrib is not now expected to be operational until PC3.

Therefore the revenues for 2010/11 and 2011/12, which were re-profiled in 2009/10, have been re-profiled again based on the latest forecast of IC demand for the last 2 years of PC2. This means that BGN will recover less revenue in 2010/11 and more revenue in 2011/12 compared with the re-profiled revenues from 2009/10. The total IC revenues for PC2 are the same in NPV terms in all 3 cases (original allowed revenue, re-profiling in 2009/10 and re-profiling again in 2010/11; see table below).

| PC 2 IC Revenues* | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Total | Total |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| <u>05/06 Monies</u> | €m | €m | €m | €m | €m | Nominal | NPV |
| Original | 63.6 | 64.7 | 40.6 | 45 | 49.3 | 263.2 | 434 |
| Re-profiling in 09/10 | 63.6 | 64.7 | 49.8 | 51.3 | 32.4 | 261.8 | 434 |
| Re-profiling in 10/11 | 63.6 | 64.7 | 49.8 | 42 | 42.2 | 262.3 | 434 |

*The numbers presented in this table have been rounded.

2.1.3 BGN Transmission Tariffs for Gas Year 2010/11

The revenue requirement and system demand is translated into transmission tariffs by dividing the allowed revenue by the expected demand on each part of the transmission system for 2010/11 (further details of this calculation are contained in BGN's submission).

These tariffs are set out in Table 2.1 below. The table shows that the 2010/11 tariffs result in an increase of 1.9% in nominal terms (2010/11 monies compared to 2009/10 monies) for typical Moffat shippers (Moffat entry tariff plus the onshore tariff) and an increase of 6.9% in nominal terms (2010/11 monies compared to 2009/10 monies) for Inch shippers (Inch entry tariff plus the onshore tariff).

In real terms (inflating the 2009/10 cost to 2010/11 monies) the table shows that the 2010/11 tariffs result in an increase of 1.4% for typical Moffat shippers and an increase of 6.4% for Inch shippers. A worked example accompanies the Table 2.1.

It is worth noting that the Inch tariff has increased in nominal terms by 28.6% for capacity and 22.3% for commodity over 2009/10 tariffs. However, when compared to the 2008/09 tariffs, this becomes a nominal increase of 6.7% for capacity and a nominal decrease of 5.8% for commodity. The drop in tariff between 2008/09 and 2009/10 was in the main due to an over-recovery being returned during the year 2009/10. Once that over-recovery was returned the tariff would in the normal course of events have risen.

Table 2.1 Proposed Transmission Tariffs for 2010/11

BGE Transmission Tariffs for Gas Year 2010/2011

| | € (10/11 Monies) | | Published Tariffs | | % Change Nominal from 09/10 |
|---|------------------|---------|-------------------|---------|-----------------------------------|
| | 2008/09 | 2009/10 | 2008/09 | 2009/10 | |
| Onshore Network | | | | | |
| capacity | 446.809 | | 396.360 | 432.614 | 3.3% |
| commodity | 0.214 | | 0.192 | 0.194 | 10.0% |
| Interconnectors | | | | | |
| capacity | 215.833 | | 301.521 | 221.618 | -2.6% |
| commodity | 0.090 | | 0.128 | 0.090 | -0.8% |
| Inch | | | | | |
| capacity | 68.297 | | 64.005 | 53.119 | 28.6% |
| commodity | 0.065 | | 0.069 | 0.053 | 22.3% |
| Illustrative Transmission Transportation Costs | | | | | |
| € | | | | | |
| Transmission Transportation Cost of UK Gas | | | | | |
| capacity | 662.642 | | 697.881 | 654.232 | 1.3% |
| commodity | 0.303 | | 0.319 | 0.285 | 6.5% |
| Transmission Transportation Cost of Inch Gas | | | | | |
| capacity | 515.106 | | 460.365 | 485.733 | 6.0% |
| commodity | 0.279 | | 0.261 | 0.248 | 12.6% |

Cost/Therm Comparisons

| | |
|--------------------|-----|
| Annual Consumption | 365 |
| Load Factors | 1.3 |

Gas Year 10/11 (10/11 Monies)

| | € | Inch | € |
|-------------------|-------------|-------------------|-------------|
| Capacity | 861.43 | Capacity | 669.64 |
| Commodity | 110.77 | Commodity | 101.80 |
| Total | 972.20 | Total | 771.43 |
| Cost/MWh | 2.66 | Cost/MWh | 2.11 |
| Cent/Therm | 7.81 | Cent/Therm | 6.19 |

Gas Year 09/10 (09/10 Monies)

| | | |
|------------|------|------|
| Cent/Therm | 7.66 | 5.80 |
|------------|------|------|

| | | |
|-----------------------------|-------------|-------------|
| % Increase - Nominal | 1.9% | 6.9% |
|-----------------------------|-------------|-------------|

Gas Year 09/10 (10/11 Monies)

| | | |
|------------|------|------|
| Cent/Therm | 7.70 | 5.82 |
|------------|------|------|

| | | |
|--------------------------|-------------|-------------|
| % Increase - Real | 1.4% | 6.4% |
|--------------------------|-------------|-------------|

| | | |
|--|------|------|
| | 0.5% | 0.5% |
|--|------|------|

It should be noted that the numbers presented both in the tariff and in the worked example have been rounded.

The above is a worked example of the effect of the proposed new tariffs on both a Moffat and an Inch Shipper that each have a customer with an annual consumption of 365 MWh and a load factor of 1.3 (~77%). In order to ascertain the correct capacity payment for the Moffat shipper, the relevant tariff is calculated by adding the Onshore and Interconnector capacity tariffs. This figure is then multiplied by the applicable capacity (the annual consumption divided by 365 and multiplied by the load factor).

The commodity payment for the Moffat Shipper is calculated by adding the Onshore and Interconnector commodity tariffs and multiplying this figure by the annual consumption. The total capacity and commodity payment figure for the Moffat Shipper is divided by the annual consumption to give the cost per MWh. A similar calculation is carried out for the Inch Shipper except the capacity tariff is made up of Onshore and Inch capacity tariffs added together and the commodity tariff is made up of the Onshore and Inch commodity tariffs added together.

2.1.4 Proposed Decision

The CER proposes to direct Gaslink to apply transmission tariffs set out in Table 2.1 above from 1st October 2010 to 30th September 2011.

3.0 Summary

3.1 Summary

The CER proposes to direct Gaslink to apply transmission tariffs set out in Table 2.1 from 1st October 2010 to 30th September 2011.

The table shows that the 2010/11 tariffs result in an increase of 1.9% in nominal terms (2010/11 monies compared to 2009/10 monies) for typical Moffat shippers (Moffat entry tariff plus the onshore tariff) and an increase of 6.9% in nominal terms (2010/11 monies compared to 2009/10 monies) for Inch shippers (Inch entry tariff plus the onshore tariff).

In real terms (inflating the 2009/10 cost to 2010/11 monies) the table shows that the 2010/11 tariffs result in an increase of 1.4% for typical Moffat shippers and an increase of 6.4% for Inch shippers.

It is worth noting that the Inch tariff has increased in nominal terms by 28.6% for capacity and 22.3% for commodity over 2009/10 tariffs. However, when compared to the 2008/09 tariffs, this becomes a nominal increase of 6.7% for capacity and a nominal decrease of 5.8% for commodity. The drop in tariff between 2008/09 and 2009/10 was in the main due to an over-recovery being returned during the year 2009/10. Once that over-recovery was returned the tariff would in the normal course of events have risen.

The CER invites comments on the proposals in this paper by close of business on 13th August 2010.