



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## Gas Tariff Review 2011 - 2012 Quarterly Review Bord Gáis Energy's Residential Customers

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## Executive Summary

This information note sets out the Commission for Energy Regulation's (CER) decision with respect to the BG Energy Non-Daily Metered (NDM) tariffs for its Residential customers for the period 1<sup>st</sup> January 2012 to 30<sup>th</sup> September 2012. This is the first quarterly review of the 2011/12 gas year.

Following on from the CER decision CER/11/172 to approve a 21.72%<sup>1</sup> increase in the BG Energy tariffs for its residential customers from the 1<sup>st</sup> October 2011, BG Energy submitted its updated forecast along with the closeout K factor figure for 10/11 as part of the first quarterly review of the 11/12 gas tariffs.

BG Energy's most recent submission suggested that if the tariff was to be left unchanged for the remainder of the gas year there could be an over-recovery of €1.284m. This equates to a decrease of 0.42% on their average residential tariff.

There are many minor factors contributing to this slight forecasted over recovery, with the main factor being an increase in Interruptible Capacity Sales (ICS). There has been no significant change to the overall cost of gas. Gas prices have remained relatively stable over the past few months.

The CER has examined the BG Energy submission to ensure the tariffs reflect the underlying costs inputs. The CER concludes that the forecasts are reasonable given the current gas futures prices and switching rates. Considering the costs involved in making any change to the tariffs and given that this forecast is simply a snapshot of current future gas prices, volumes and customer numbers, the CER considers it in the best interest of consumers to make no change to the BG Energy residential tariffs at this time.

The CER has decided to make no change to the BG Energy residential tariffs at this time. The final over recovery by BG Energy – currently forecast at €1.284m – will of course be passed back to their residential customers.

The next quarterly review of the BG Energy residential tariffs will take place in late February 2012 with any changes being effective from 1<sup>st</sup> April 2012.

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<sup>1</sup> Allowed Revenue for 2011/12 €273.258m

## Background

In June 2011 the CER published the decision paper CER/11/071 “*The Roadmap to Deregulation in the Non Daily Metered Gas Market*”. The paper stated that the RCF would be set initially at the start of the 2011/12 gas year. Following this BG Energy will submit revised updates every three months thereafter (December, March and June). These submissions will not be consulted upon given the timelines required. The CER will examine the submissions and either approve or disallow any tariff changes. Tariffs may change on 1<sup>st</sup> October, 1<sup>st</sup> January, 1<sup>st</sup> April and 1<sup>st</sup> July. If deregulation of the NDM residential sector has not occurred by July 2012, a full review of the RCF (with consultation) will take place.

In September 2011 the CER published its decision on the BG Energy residential gas tariffs for 2011/12. Following examination of the submission from BG Energy and considering industry responses the CER decided to approve a 21.72% increase in the BG Energy tariffs for its residential customers from 1<sup>st</sup> October 2011. This review is the first quarterly review of the 2011/12 gas year.

## **CER Review**

As part of the first quarterly review of the 11/12 Revenue Control Formula (RCF) the CER has examined the following areas;

### **Gas Commodity Purchases 2011/12**

In accordance with the laddered benchmark approach the allowed gas costs for the BG Energy NDM gas portfolio for the gas year '11/12 have been priced into the RCF model since October 2010. Gas requirements for the 2011/12 gas year have been priced on a gradual basis (using a laddered approach) since October 2010.

BG Energy submitted to the CER the latest market data as of close of business **24<sup>th</sup> October 2011**. The gas purchase prices are reflective of recent movements in energy markets. There is, outstanding, a proportion of gas left to be procured for gas year 2011/12. Prices of these future gas contracts are marked to market using the prevailing forward curve prices as of close of business on 24<sup>th</sup> October 2011. The CER has examined and verified these figures.

The CER is satisfied that it reflects the weighted average cost of gas purchases since October 2010 up to the close of business 24<sup>th</sup> October 2011 and, also the forecasted cost of gas requirements, yet to be procured.

### **Customer Numbers and Demand**

The CER has reviewed the customer numbers and forecast demand used by BG Energy as part of the quarterly submission. The submission has been updated since July and has taken into account the recent fall off in customer switching<sup>2</sup>. Volumes projections have been updated to reflect the higher than previously forecast customer numbers. The CER considers the update forecast of customer number and volumes for the remainder of the 11/12 gas year to be reasonable.

### **Network Charges**

The BG Energy submission has been updated for Network charges as a result of the higher than expected customer numbers and volumes. It also reflects discounts redistributed to customers as a result of both the interruptible capacity sales and usage of the South West Kinsale Storage facility.

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<sup>2</sup> Average switching rates in last two months was approx 7,000. The previous six months had an average switching rate of 10,000 customers per month.

In CER/11/172 Interruptible Capacity sales allowed the BG Energy estimate of €2.358m to the residential sector in respect of ICS sales and Inch benefit. At that time the CER stated that any saving brought about by an increase in revenue from ICS sales would be passed back to the BG Energy customers through its tariffs in future reviews. BG Energy's quarterly update has included an increase in ICS sales from €2.358m to €4.731m. This is due to an increase in sales in the secondary capacity product. The forecast figure of €4.731m is net of a 5.1% margin allowed for BG Energy to cover costs involved in the management of Interruptible Capacity Sales.

CER has allowed the updated ICS figure of €4.731m to be included.

### **Supply Costs**

In CER/11/172 BG Energy were allowed a supply cost figure €22.874m<sup>3</sup>. This figure was based on the forecast customer numbers and volumes at the time and applying them to the supply cost formula.

Using the RCF customer supply formula and updating it with the current forecast of customer number and volumes BG Energy supply cost has increased to €23.758m<sup>4</sup>. The CER has examined the supply cost and considers the figure of €23.758m to be reasonable.

### **Outturn Adjustment (Correction K-Factor) 2010/11**

BG Energy submitted a projected final K factor for the gas year 2010/11 of €3.139m for their residential customers as part of the July submission for the 11/12 tariffs. Following year end and having accounted for all actuals this figure has since been revised downwards to €2.482m.

The CER has examined the closeout data for the 10/11 gas year and will allow a final K factor figure of €2.482m.

### **Other RCF Components**

BG Energy's Margin and Capex allowances will remain as set in the CER decision CER/11/172.

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<sup>3</sup> €0.514m included as the estimated Z factor supply cost for 2010/11.

<sup>4</sup> €0.510m included as the final Z factor supply cost for 2010/11.

## Decision

BG Energy has submitted to the CER updated gas commodity costs, volumes, customer numbers for the 11/12 gas year along with the final closeout K factor for the 10/11 gas year. These updated forecasts and closeout K factor figure suggest that if the tariff was to be left unchanged for the remainder of the gas year there could be an over-recovery of €1.284m. This equates to a decrease of 0.42% on the average domestic tariff.

The CER has examined these forecasts and they appear to be reasonable given the current gas futures price and switching rates. Considering the costs involved in making any change to the tariffs and given that the forecast is simply a snapshot of current future gas prices, volumes and customer numbers the CER considers it in the best interest of consumers to make no change to the BG Energy residential tariffs at this point.

The CER has decided to make no change to the BG Energy residential tariffs at this point. The next review of the BG Energy residential tariffs will take place in late February 2012 with any changes being effective from 1<sup>st</sup> April 2012.

## Next Steps

As set out in CER/11/071 the RCF will be reviewed quarterly. The next review of the BG Energy residential tariffs will take place in late February 2012 with any changes being effective from 1<sup>st</sup> April 2012.

The CER will require BG Energy to justify any change to the proposed tariffs – upwards or downwards based on reasonable estimates of demand and forecast costs. A change to the tariff will only result if the total tariff change –upwards or downwards is of sufficient magnitude to warrant change. Tariffs will continue to be priced in an efficient, fair and cost reflective way and BG Energy will be required to provide the CER with evidence to justify any change within the tariff year.

The next competition review due for publication in the coming weeks will give an updated forecast on the possible deregulation timeline for the BG Energy NDM residential customers.