



CER Press Release - 28th July 2011

CER Considers Request for Large Rise in Gas Prices

Bord Gáis Energy (BG Energy) has applied to the Commission for Energy Regulation (CER) for a 28% rise in its residential gas tariffs from this October. Following a rigorous review of BG Energy's submission, the CER proposes to disallow certain requested supply costs, in keeping with the current regulatory mechanism for BG Energy. As a result, the CER proposes to approve a gas price rise in the order of 22%. The exact level of increase will be decided by the CER in late August, following the public consultation launched today and a further review of BG Energy's costs. The CER will also closely monitor the wholesale gas markets during the consultation period.

The main reason for the requested rise is the higher wholesale cost of gas in the international markets. Nearly all of Ireland's gas is bought externally in these markets. This cost accounts for half the price of gas paid by Irish customers and is outside of Ireland's control. The drop in international wholesale gas prices from late 2008 fed through to a significant fall in gas prices for Irish customers in 2009 and 2010, with the CER reducing regulated prices by 25%. This reduction, combined with strong competition among gas suppliers for customers, has resulted in Irish gas prices being well below the EU average according to latest *Eurostat* data for end 2010.

Unfortunately, the wholesale gas price has risen dramatically again, more than doubling in price over the last two years. This means that a significant rise in regulated residential gas prices is now unavoidable. Major price rises have recently been announced in neighbouring jurisdictions for the same reason. For example, UK suppliers have increased their gas prices by approximately 25% over the last year.

The CER appreciates that gas price rises will add further to the pressure faced by many customers in the current economic climate. It very much regrets this, but notes that wholesale gas costs are not something that Ireland controls. In this context, the CER encourages electricity and gas customers to "shop around" among energy suppliers to get the best possible price and service deal. Customers are also encouraged to adopt energy efficiency measures where possible to keep energy costs down. Furthermore, any customer who has difficulty in meeting energy payments is advised to engage early with his/her supplier and to organise a payment plan.

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"Notes to Editors" follows.

Note to Editors:

- The CER is the independent body responsible for regulating the electricity and natural gas sectors in Ireland. The CER protects customers by working for a safe, secure and sustainable supply of electricity and natural gas, as well as a competitive market which delivers reasonable prices and a good quality service. For further details please see www.cer.ie and the CER's consumer website, www.energycustomers.ie.
 - Given the emergence of competition in all sectors of the gas supply market, the CER recently decided that price de-regulation of BG Energy business customers will take place from this October. As a result prices for business customers from October will not be set by the CER but by BG Energy itself. Today's announcement only relates to BGÉ residential customer prices, which continue to be regulated.
 - As referred to earlier, the cost of the gas commodity on international wholesale markets is approximately 50% of the Irish gas price. The CER approves the allowed gas commodity price for BG Energy residential customers in accordance with a "benchmark" mechanism. Under this mechanism a certain percentage of the total anticipated gas volume demand for each delivery month is procured by BG Energy in a gradual manner, according to a fixed pattern. It is a hedging-type strategy which ensures that gas costs are not heavily impacted by random market price spikes. The overall increase in international wholesale gas prices has been so dramatic over the last two years that a large rise in consumer gas prices is now unavoidable.
 - The remainder of the regulated BG Energy price is mostly made of the cost of transporting the gas through the monopoly gas transmission and distribution networks (i.e. the pipes). These costs are regulated by the CER with a view to ensuring "value for money". Finally, about 7% of the overall gas price is associated with BG Energy supply costs, such as billing and administration.
 - Significant gas price rises have also recently been announced in other EU jurisdictions due to the rise international wholesale prices. For example, British Gas has increased its gas prices in Britain by approximately 25% over the last year. Therefore the competitive position of Ireland's gas prices compared to other European prices may not be significantly eroded. Recent *Eurostat* data for the 2nd half of 2010 showed that Irish gas prices for customers are generally well below the EU average.
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