



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## Gas Tariff Review 2011 - 2012 Quarterly Review 3 Bord Gáis Energy's Residential Customers

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## Executive Summary

Following on from the CER decision CER/12/026<sup>1</sup> to approve no change in the tariff for BG Energy's residential customers, BG Energy has submitted its third quarterly review of the 11/12 gas tariffs.

BG Energy's most recent submission<sup>2</sup> suggested that if the tariff was to be left unchanged for the remainder of the gas year there could be an over-recovery of up to €0.318m. This equates to a decrease of 0.12% on their average residential tariff.

This forecasted over recovery of €0.318m is significantly down on the €8.373m forecast as part of the Q2 submission. Factors contributing to this drop in the forecasted over recovery include the cost of gas per unit increasing by 2.1%, along with a mild winter which caused customer consumption to drop by 13%.

BG Energy's Q3 forecasts are considered reasonable given the current gas futures prices and switching rates. Considering 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 would like to highlight that current forecasts for the 12/13 gas year indicate a potential double digit increase in domestic tariffs from October 2012. This potential increase relates to increases in wholesale gas prices, the deterioration of the euro against sterling and potential increases in transmission and distribution costs.

The CER has decided to make no change to the BG Energy residential tariffs at this time. Any final over recovery by BG Energy – currently forecast at €0.318m – will of course be passed to back to their residential customers.

The next review of the BG Energy residential tariffs will take place in July 2012. This review will be open to public consultation and will examine the RCF for the gas year 2012/13.

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<sup>1</sup> BG Energy's Q2 submission forecasted an expected over recovery of €8.373m which could have results in a 2.9% decrease in tariffs.

<sup>2</sup> Includes actual outturn data up to and including March 2012.

## 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. 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.

BG Energy’s first quarter review (CER/11/208) 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 equated to a decrease of 0.42% on their average residential tariff. Following examination of the submission, the CER considered it in the best interest of consumers to make no change to the BG Energy residential tariffs at that time.

BG Energy’s second quarter review (CER/12/026) suggested that if the tariff was to be left unchanged for the remainder of the gas year there could be an over-recovery of up to €8.373m. This equates to a decrease of 2.9% on their average residential tariff. Following examination of the submission, the CER considered it in the best interest of consumers to make no change to the BG Energy residential tariffs at that time.

This review is the third quarter review of the 2011/12 gas year.

## CER Review

As part of the third 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 **12<sup>th</sup> April 2012**. 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 12<sup>th</sup> April 2012. The CER has examined and verified these figures.

The CER is satisfied that the submission reflects the weighted average cost of gas purchases since October 2010 up to the close of business 12<sup>th</sup> April 2012 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 and has taken into account the decline in customer switching<sup>3</sup> over the past 6 months. Volume projections have been updated to reflect the higher than previously forecast customer numbers. The CER considers the updated forecast of customer numbers 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. Overall volume consumption per

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<sup>3</sup> Looking at general switching trends over all sectors (monthly losses/gains) over the past six months for BG Energy, they are averaging a net loss of approx 4,200 customers a month. Over a 12 month period they are averaging a net loss of approximately 5,400 customers a month.

customer is down 13% on forecasts at the start of the gas year; this is likely due to the recent mild winter season.

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 €5.767m<sup>4</sup> to €6.946m. This is due to an increase in sales in the secondary capacity product, largely owing to the mild winter of 11/12. The forecast figure of €6.946m 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 €6.946m to be included in the tariff formula.

## **Supply Costs**

In CER/11/172 BG Energy were allowed a supply cost figure €22.874m<sup>5</sup>. This figure was based on the forecast customer numbers and volumes at the time and applying them to the supply cost formula. This figure was revised upwards to €23.667m as part of the second quarterly review.

Using the RCF customer supply formula and updating it with the current forecast of customer number and volumes BG Energy supply cost has increased slightly to €24.442m<sup>6</sup>. The CER has examined the supply cost and considers the figure of €24.442m to be reasonable.

## **Other RCF Components**

BG Energy's Margin and Capex allowances will remain as set in the CER decision CER/11/172. The 2010/11 K-Factor will remain as approved in CER/11/208.

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<sup>4</sup> €4.731m included as part of Q1 11/12 Review

<sup>5</sup> €0.514m included as the estimated Z factor supply cost for 2010/11.

<sup>6</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, and customer numbers for the remainder of 11/12 gas year. These updated forecasts suggest that if the tariff was to be left unchanged for the remainder of the gas year there could be an over-recovery of €0.318m. This equates to a decrease of 0.12% 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 size of the forecasted over recovery 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 would like to highlight that current forecasts for the 12/13 gas year indicate a potential double digit increase in domestic tariffs from October 2012. This potential increase relates to increases in wholesale gas prices, the deterioration of the euro against sterling and potential increases in transmission and distribution costs.

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 July 2012 with any changes being effective from 1<sup>st</sup> October 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 July 2012. This review will be open to public consultation and will examine the RCF for the gas/year 2012/13.