



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Gas Tariff Review 2011 - 2012 Quarterly Review 2 Bord Gáis Energy's Residential Customers

DOCUMENT TYPE:	Information Note
REFERENCE:	CER/12/026
DATE PUBLISHED:	6 th March 2012

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

www.cer.ie

Executive Summary

Following on from the CER decision CER/11/208 to approve no change in the tariff for BG Energy's residential customers, BG Energy has submitted its second quarterly review of the 11/12 gas tariffs.

BG Energy's most recent submission¹ 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.

Factors contributing to this forecasted over recovery include; an increase in Interruptible Capacity Sales (ICS) and higher than previously forecast customer numbers and volumes. There has been no significant change to the overall cost of gas. Gas prices have remained relatively stable over the first few months of winter; however the first half of February was below average temperature in GB and across Europe which has caused the prompt and summer months to rise slightly, which may impact the tariff for 2012/13. The deterioration of the Euro against the sterling also puts further pressure on benchmark gas costs for 12/13.

BG Energy's forecasts are 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 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 €8.373m – will of course be passed to back to their residential customers.

The next quarterly review of the BG Energy residential tariffs will take place in late May 2012 with any changes being effective from 1st July 2012.

¹ Includes actual outturn data up to and including January 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 1st October, 1st January, 1st April and 1st 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 1st 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.

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

CER Review

As part of the second 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 **30th January 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 30th January 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 30th January 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 since November 2011 and has taken into account the decline in customer switching² 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 and volumes. It also reflects

² General switching trends over all sectors (monthly losses/gains) over the past six months for BG Energy show they are averaging a net loss of approx 5,300 customers a month. Over a 12 month period they are averaging a net loss of approximately 6,300 customers a month.

discounts redistributed to customers as a result of both the interruptible capacity sales and usage of the South West Kinsale Storage facility.

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 €4.731m³ to €5.767m. This is due to an increase in sales in the secondary capacity product. The forecast figure of €5.767m 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 €5.767m to be included in the tariff formula.

Supply Costs

In CER/11/172 BG Energy were allowed a supply cost figure €22.874m⁴. 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 €23.758m as part of the first 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 decreased slightly to €23.667m⁵. The CER has examined the supply cost and considers the figure of €23.667m 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.

³ €4.731m included as part of Q1 11/12 Review

⁴ €0.514m included as the estimated Z factor supply cost for 2010/11.

⁵ €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 €8.373m. This equates to a decrease of 2.9% 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 May 2012 with any changes being effective from 1st July 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 May 2012 with any changes being effective from 1st July 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.