Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Decision on BGN Allowed Revenues and Gas Transmission Tariffs for 2013/14

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Abstract:

This paper sets out the 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 2013 to 30th September 2014.
The average Transmission Tariff for UK gas will rise by 4%.

Target Audience:

Gas Customers, Suppliers, Shippers and Producers.

Related Documents:

Decision Paper on October 2012 to September 2017 Transmission Revenues for Bord Gáis Networks (CER/12/196)

Updated PC3 Transmission Model

Table of Contents

1.0 Introduction

1.1 Purpose of this paper

The purpose of this paper is to outline the CER's decision in relation to BGN allowed revenues and gas Transmission tariffs for 2013/14. The calculation of Transmission tariffs is based on the BGN Price Control (PC3) (CER/12/196) which established revenues for Transmission over the 5 year period from October 2012 to September 2017.

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.

Bord Gáis Networks (BGN) submitted estimates of tariffs for the forthcoming year. These included;

- Revised expected pass through costs for 2013/14,
- Finalised pass through costs for 2011/12
- Revised required revenue using a WACC of 5.2% (down from 6.39%)
- Revised required revenue adjusted for capex based on the extension of the gas network
- Expected revenues from 2012/13 (further to the Interim tariff change in April 2013, CER/13/080)

The Transmission revenues over the 5 year Price Control period are set out in the PC3 Decision which was published in November 2012. The model accompanying this Decision has been updated and is published along with this decision[1].

[1] Due to rounding differences there may be differences between the BGN Tariff submission and the Model published with this Decision Paper. The Tariffs that will apply will be the BGN Tariff submission.

2.0 Transmission Revenues and Tariffs for 2013/14

2.1 PC3 Decision Paper CER/12/196

In May 2012 the CER produced a Consultation Paper (CER/12/058) on Transmission revenue for Bord Gáis Networks (BGN) for the period covering October 2012 to September 2017. This was followed by the Decision Paper on Transmission revenue in November 2012. This paper allowed €998.5m to be recovered for Transmission over the 5 year period. Of this €301.5m was allocated to Opex.

This Decision Paper outlined that the Weighted Average Cost of Capital (WACC) would be set at 6.39%. The 5 year PC3 Decision was taken at a time of significant economic uncertainty within both Ireland and the Eurozone. As such the WACC set in the PC3 Decision reflected the higher cost of debt and equity for many Eurozone countries and companies prevailing at that time.

However, a trigger mechanism was included in the PC3 Decision which allowed the WACC to be indexed to sovereign debt costs on a yearly basis. This aims to ensure that where market rates change, the effect will be passed onto consumers. A floor and ceiling of 5.2% and 8.2% respectively have been set for the WACC during this period.

During the last year, market conditions have become more favourable for Ireland with lower bond yields on government debt. This improvement has resulted in a review of the applicable WACC for 2013/14. The CER and BGN have reviewed the applicable WACC in light of these changing market conditions and the WACC floor of 5.2% now applies. This WACC adjustment has affected the expected total revenues over the remainder of the PC3 period. Details of this can be seen in the updated Transmission model published with this Decision paper.

2.2 Adjustments for Calculation of 2013/14 Tariffs

In April 2013 the CER published an Interim Tariff rise that would apply for the remainder of the 2012/13 gas year (CER/13/080)[2]
This increased UK gas transportation costs by 10.2% for Capacity and 9.9% for Commodity.

As set out in the Interim Review the CER committed to publishing a Consultation on changes to the secondary market (CER/13/122). This consultation process has now resulted in the CER decision CER 13/191. This decision takes account of the demand expected to arise in 2013/14 following the above decision.

Similarly, in CER 13/034, the CER stated that it would "over the next number of months, consider the appropriate long term profile of revenues on the ICs". This re-profiling has now taken place.

In order to finalise the 2013/14 Transmission tariffs, in addition to the additional Capex and pass through cost adjustments BGN have submitted expected demand scenarios for the forthcoming year. In light of CER/13/122 a number of demand scenarios were modelled. These scenarios anticipated differing restrictions at exit and the expected bookings.

2.2.1 Revised Pass-Through Costs for 2013/14

Pass-through costs have been updated to reflect:

- Higher Local Authority Rate in both Ireland and the UK.
- A slight increase in Gaslink's costs (ISO) due to preparatory work for impending Network Codes.
- The CER Levy is projected to remain the same.
- The cost of CO_2 has decreased for the UK and Inch compressor stations. This is primarily due to lower than expected gas throughput.

Overall, pass through costs are expected to be slightly lower in the coming Gas Year.

In the table below a positive number indicates a higher than expected cost under this heading i.e. it will apply upward pressure on the 2013/14 tariffs.

[2] This interim review increased the Onshore Capacity & Commodity by 6% and the Interconnector Capacity & Commodity by 17%

2013/2014 Forecasts	
Pass through Cost (Variance)	**€m**
Onshore Rates*	0.28
UK Rates	0.11
Inch Rates	-0.03
CER Levy	No variance
Gaslink	0.14
UK CO2	-0.52
Inch CO2	-0.04
Total Variance	**-0.06**

*For rates, 50% of the variance between allowed and estimated costs is passed through.

2.2.2 Inflation

In setting the 2013/14 tariffs, 1.2% inflation was assumed for the time period from April ‘13 to March ‘14.

In closing out revenues for 2011/12, actual inflation of 2.2% was used as opposed to the forecast inflation of 1.10% (Source: CSO HICP data).

2.2.3 2011/12 Correction Factor

Correction factors adjust the difference between 2011/12 actual revenues and pass-through costs versus 2011/12 projected revenues and pass-through costs. These were forecast in August 2011 when 2011/12 Network Tariffs were set. Where an under recovery occurs then an interest rate multiplier is applied to uplift the required revenues.

An under or over-recovery can occur where Capacity/Commodity sales differ from what had been anticipated. Also, pass through costs can vary between projected and actual.

The table overleaf identifies these adjustments. The table below shows that lower than expected pass through costs occurred in 2011/12 while an under-recovery arose as actual revenues were lower than had been anticipated.

A positive number will apply upward pressure on the 2013/14 tariffs.

11/12 Actual Outturn	Over/Under recovery	€m	Cumulative Additional revenue required €m
Revenue Under Recovery	Under	+8.110	+8.110
Rates*	Over	-1.161	+6.949
CER Levy	Over	-0.050	+6.899
Gaslink	Over	-0.435	+6.464
CO2**	Over	-0.409	6.055
Total Under recovery	**Under**		**+6.055**
Interest rate Multiplier			1.06
Total Correction Factor	**Under**		**+6,418**

*For rates 50% of the cost variance between estimated and actual costs is passed through.

**For CO2 the incentive is based upon the variance between the estimated and actual emissions. Thus, if less CO2 is emitted than was expected BGN may keep 50% of the difference in cost. If more CO2 is emitted BGN must fund 50 % of the excess cost. As the price of CO2 will change throughout the year the monetary effect of this incentive will not be known until ex-post.

2.3.4. Interest Rate Multiplier/Euribor Rates

The interest rate multiplier is used to uplift revenue over/ under recoveries for the tariff year 2011/12. In 2011/12 Transmission had a revenue under-recovery. The Euribor rate +2 is applied where under/over recoveries are below 103% of allowed revenues. This is calculated from the Euribor Interest Rate. This information may be found on the Euribor website.

http://www.euribor-ebf.eu/euribor-org/euribor-rates.html

Euribor 11/12	**1.42%**
Euribor 12/13	**0.49%**
Euribor +2% 11/12	**3.42%**
Euribor +2% 12/13	**2.49%**
Interest Rate	*****1.06**

3.0. Other issues

3.1. Secondary Market

The CER has also published a decision on the Secondary Market, CER/13/191, Access Tariffs and Financing the Gas Transmission System. The Transmission Tariffs outlined in this Paper follow on from the booking assumptions expected to arise from the above Decision Paper.

3.2. Reprofiling the Interconnectors

In the PC3 decision a profile of required revenue was set for the Interconnector system. The CER has decided to re-profile Interconnector revenues to mitigate a significant short term tariff increase in 2013/14.
The CER reconfirms its PC3 allowed revenue decision and its commitment to ensuring that BGN fully recovers its allowed revenue within the PC3 period. Similar re-profiling was carried out during PC2 and the full NPV revenue was recovered by BGN.

The effect of this re-profiling means that Moffat entry tariffs for 2013/14 are lower than otherwise would arise.

The required revenues, prior to re-profiling are shown below[3]:

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Annual Revenue	64.2	78.4	79.6	34.5	39.0

Source: PC3 Transmission Model updated 6th August 2013

As a result of reprofiling the annual revenues have been adjusted for 2013/14 onwards. The adjusted revenue profile is outlined below:

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Annual Revenue	64.2	58.3	59.2	59.2	59.2

[3] The required revenue profile, which is the original PC3 decision with adjustments for WACC changing to 5.2% from 13/14 onwards and the projected revenue variance for 12/13 reallocated in PC3.

3.3 Network Tariffs for flows to the SNP

Network Tariffs for flows into the SNP constitute both an Entry Tariff from the Gaslink System and an SNP Exit Tariff.

The standard IC Entry Tariff will apply where the Gaslink System is used to move gas to the SNP exit.

For the gas year 2013/14 there are no bookings expected on an Annual, Monthly or Daily basis on the SNP. As such, a default daily tariff will apply where flows may arise. The methodology for such default tariffs are set out in CER/12/116.

The methodology established in CER/12/116 sets out that the default tariff will comprise a 90:10 split between capacity and commodity. The default tariff is based on the required revenue of the SNP and the capacity of the pipeline.[4]

The required revenues for the SNP in 2013/14 are €6.13m. Therefore, the Exit Tariffs for Capacity and Commodity are as follows;

SNP Exit Tariff	**€**
Default Daily Commodity	1.089 MWh
Default Daily Capacity	9.800MWh/day

[4] 5 mscm

4.0 CER Decision on Transmission Tariffs for 2013/14

The CER hereby directs Gaslink to implement the tariffs set out below from 1st October 2013 – 30th September 2014.

4.1. South North Pipeline

		SNP exit
Default Daily Capacity	€/MWh/Per peak day MWh	9.800
Default Daily Commodity	€/MWh	1.089

4.2. Interconnectors, Inch and Onshore Tariff

		Interconnectors	Inch	Onshore Exit
Capacity	€/per peak day MWh	355.325	45.717	509.093
Commodity	€/MWh	0.132	0.047	0.268

The above table matches the BGN submission. Due to rounding, there may be differences between the BGN Tariff submission and the Model published with this Decision Paper. The Tariffs that will apply will be the BGN Tariff submission.

BGE Transmission Tariffs for 2013/14

	€ 2013/14 Tariff	(13/14 Monies)	Published Tariffs 2012/13 - Oct-Mar €	Published Tariffs 2012/13 - Apr-Sep €	% Change Nominal from 12/13
Onshore Network					
capacity	**509.093**	per peak day MWh	463.503	491.313	3.6%
commodity	**0.268**	per MWh	0.230	0.244	9.6%
Interconnectors					
capacity	**355.325**	per peak day MWh	291.301	340.822	4.3%
commodity	**0.132**	per MWh	0.127	0.148	-10.5%
Inch					
capacity	**45.717**	per peak day MWh	103.697	103.697	-55.9%
commodity	**0.047**	per MWh	0.091	0.091	-47.9%

Illustrative Transmission Transportation Costs

	€		€	€	
Transmission Transportation Cost of UK Gas					
capacity	**864.418**	per peak day MWh	754.804	832.135	3.9%
commodity	**0.400**	per MWh	0.357	0.392	2.0%
Transmission Transportation Cost of Inch Gas					
capacity	**554.810**	per peak day MWh	567.200	595.010	-6.8%
commodity	**0.315**	per MWh	0.321	0.335	-6.0%

Cost/Therm Comparisons

Annual Consumption	365
Load Factors	1.3

Gas Year 13/14 (13/14 Monies)

Moffat	€	**Inch**	€
Capacity	1,123.74	Capacity	721.25
Commodity	145.99	Commodity	114.91
Total	1,269.73	Total	836.16
Cost/MWh	3.48	Cost/MWh	2.29
Cent/Therm	**10.20**	**Cent/Therm**	**6.71**

	Moffat	Inch
Gas Year 12/13(12/13 Monies)		
Cent/Therm	**9.83**	**7.19**
% Increase - Nominal	**3.7%**	**-6.6%**
Gas Year 12/13 (13/14 Monies)		
Cent/Therm	**9.95**	**7.28**
% Increase - Real	**2.5%**	**-7.8%**