



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Gas Tariff Review 2013 - 2014
Bord Gáis Energy's Residential Customers

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Abstract:

This paper outlines the Commission for Energy Regulation's (CER) decision with respect to the Bord Gáis Energy (BG Energy) Non Daily Metered (NDM) tariffs for its residential gas customers for the gas year 2013/14.

On the 9th August 2013 BG Energy made a submission to CER which requested an increase of 7.22% in their residential gas tariffs. This submission together with a consultation paper was published on that date.

Network Tariffs for 2012/13 were published after the BG Energy submission and as a result a revised submission was made on 23rd August. This revised submission considered the impact that the actual 2013/14 Network Tariffs would have on Retail Tariffs. Taking these finalised network tariffs into account the BG Energy re-submission requested an increase of 5.43% in their residential gas tariffs.

Having examined the relevant BG Energy submissions and responses to the above consultation, the CER has decided to allow an overall increase of 2.04% in the BG Energy tariffs for its NDM residential customers from 1st October 2013. This increase in tariffs is split between the standing charge and the unit rate.

Target Audience:

Gas Customers, Suppliers, Shippers and Producers.

Related Documents:

[CER/13/181-Consultation on Bord Gáis Energy Residential Gas Tariffs for 2013/14](#)

[CER/13/123-Review of the Regulatory Framework for the Domestic NDM Retail Gas Markets-Next Steps](#)

[CER/11/071 Proposals for a Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market](#)

[CER/12/146- Gas Tariff Review 2012-13 BG Energy's Residential Customers](#)

[CER/13/193- BGN Allowed Revenues and Gas Transmission Tariffs for 2013/14](#)

[CER/13/192-BGN Allowed Revenues and Gas Distribution Tariffs for 2013/14](#)

Executive Summary

This paper outlines the Commission for Energy Regulation's decision with respect to the BG Energy NDM tariffs for its residential customers for the period 1st October 2013 to 30th September 2014.

As part of the 2013/14 tariff review, on 09th August 2013, BG Energy submitted allowed revenue figures with a forecast gas cost taken on the close of business on 26th June 2013. BG Energy's submission requested c€260m in allowed revenues for the 2013/14 gas year. This would have equated to a 7.22% increase in the current tariffs for BG Energy gas residential customers¹. This submission together with a Consultation paper was published on that date. The BG Energy submission of 09th August 2013 was based on Network transportation costs using figures published on the CER website on 6th August.

On 21st August 2013 the CER published finalised Network Tariffs for 2013/14.

On 23rd August 2013 BG Energy submitted a revised allowed revenue figure using these updated network tariffs. This revised submission requested c€256m in allowed revenues for the 2013/14 gas year. This would equate to a 5.43% increase in the current tariffs for BG Energy gas residential customers.

The CER has reviewed the BG Energy submissions and taken into consideration the comments from interested parties. The CER has carefully examined BG Energy's request for a change to its supply cost, and has made further adjustments which will reduce the extent of any price increase. . Following this, the CER has decided to approve a **2.04%** increase in the BG Energy tariffs for its residential customers² from the 1st October 2013. This increase in tariffs is split between the standing charge and the unit rate.

The key factors providing upward pressure on the residential gas tariffs are increases in network tariffs since last year. These increases are, in turn, due to decreases in capacity bookings on the network, as well as a decline in the expected average consumption per customer. Given the fixed nature of a large number of the relevant costs, the decline in average expected consumption per customer is putting upward pressure on the tariff unit rate (fixed costs such as networks costs are divided by a smaller number of units of gas sold). Additionally there were structural

¹ The BG Energy submission of 09th August 2013 was based on Network transportation costs using figures published on the CER website on 6th August.

² Airtricity, Electric Ireland & Flogas also supply residential gas customers and are free to set their own tariffs.

changes in the market that reduced the expected volume of secondary capacity sales from previous years. While this benefit is lower than previous years, this change was part of a package of measures the CER undertook to mitigate further rises in network tariffs. This package of structural changes³ largely drove the drop of 1.8% in BG Energy's requested tariff rise (down from 7.22% to 5.43%).

While wholesale gas costs in Great Britain have increased by approximately 8% since last year⁴, this effect has largely been mitigated by changes in the Euro Sterling exchange rate. Overall, the cost of gas in Euro has increased by a small amount when compared to last year.

In coming to a decision, the CER has ensured that only efficiently incurred costs are allowed to be recovered. Specifically it has disallowed €3.906m of the €25.431m requested by BG Energy to cover its supply business costs.

In determining the appropriate volumes with which to calculate the gas tariffs for the forthcoming year, the CER has used volumes that are consistent with the network charges submitted by BG Energy (BG Energy had anticipated continuing higher declines in consumption over the year). This matter will be kept under review in the forthcoming year.

This change in expected volumes together with the reduction applied to the supply cost has driven the decline in the tariff rise (from 5.43% to 2.04%).

The CER would like to stress that there are a number of competing gas suppliers and encourages consumers to "shop-around" for the best value. If consumers are having difficulties in paying their gas bill, they should contact their supplier at an early stage and work with them to manage the difficulty.

³ [CER/13/191- Access Tariffs and Financing the Gas Transmission System and CER 13/193.](#)

⁴ 4 June 13 Vs 4 June 13 NBP

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1.0 Introduction

1.1 Legal Framework

Under section 23 of the Gas (Interim) (Regulation) Act of 2002, the Commission for Energy Regulation ('the CER') is responsible for regulating charges in the natural gas market, including supply tariffs to final customers. As such, the CER examines the costs underlying these tariffs and approves revenues for Bord Gáis Energy (BG Energy).

This paper refers to the regulation of BG Energy revenues and tariffs for its residential gas customers only.

1.2 Purpose of this paper

This paper details the CER decision in relation to allowable revenues for BG Energy's Residential non-daily metered customers. The allowed revenues and resulting tariffs relate to the period from 1st October 2013 – 30th September 2014.

1.3 Comments Received

The CER received seven responses to the consultation paper (CER/13/181). Responses were received from the following organisations/individuals:

- Airtricity
- Bridget Beirne
- Catherine Dolan
- John Fagan
- John Healy
- Pat Linehan
- Vayu

These responses are available to view on the CER website. The CER would like to thank those parties for contributing to its consultation process and assure them that their comments were given due consideration in the CER's decision.

1.4 Background Information

In September 2012 the CER published its decision on the BG Energy residential gas tariffs for 2012/13 (CER 12/146). Following examination of the submission from BG Energy and considering industry responses, the CER decided to approve an 8.50% increase in retail tariffs.

In the last year the CER has conducted quarterly reviews of BG Energy's residential gas tariffs. This is to ensure that tariffs remain reasonably aligned with underlying costs during the year.

The CER conducted the first quarter review of the 12/13 tariffs in November 2012. BG Energy's first quarter review (CER/12/203) suggested that if the tariff was to be left unchanged for the remainder of the gas year there could be an under-recovery of €1.013m. This equated to an increase of 0.34% on their average residential tariff. The CER considered that a within year change in tariff was not warranted and that it was 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/13/081) 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 €3.538m. This equated to a decrease of 1.19% on their average residential tariff. The CER considered that a within year tariff change was not warranted at that time.

BG Energy's third quarter review (CER/13/126) 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 €4.152m. This equated to a decrease of 1.34% on their average residential tariff. The CER considered that a within year tariff change was not warranted at that time.

As part of the 2013/14 tariff review, on 09th August 2013, BG Energy submitted allowed revenue figures with a forecast of gas costs taken on the close of business on 26th June 2013. BG Energy's submission requested c€260m in allowed revenues for the 2013/14 gas year. This would have equated to a 7.22% increase in the current tariffs for BG Energy gas residential customers⁵. This submission together with a consultation paper (CER 13/181) was published on that date. The CER requested feedback on this proposal. Responses received and the CER's view is detailed in section 2 of this paper.

⁵ The BG Energy submission of 09th August 2013 was based on Network transportation costs using figures published on the CER website on 6th August.

On 21st August 2013 the CER published finalised Network Tariffs for 2013/14.

On 23rd August 2013 BG Energy submitted a revised allowed revenue figure using these updated network tariffs. This revised submission requested c€256m in allowed revenues for the 2013/14 gas year. This would equate to a 5.43% increase in the current tariffs for BG Energy gas residential customers (down from 7.22% in the earlier submission). This reduction in the requested tariff rise was largely driven by a package of structural changes⁶ that CER implemented on 21st August at the time the networks tariffs were set for the forthcoming year.

⁶ [CER/13/191- Access Tariffs and Financing the Gas Transmission System and CER 13/193- Transmission Tariffs 2013/14](#)

2.0 Responses to Consultation

The section below details the main areas of interest which were raised by respondents. These, and a summary of the main comments received on each, are set out below:

Wholesale Gas Costs

- The Consultation Paper lacks any substantive detail regarding gas energy trading.
- The true cost of gas supply costs should be passed to consumers rather than the benchmark approach in the Regulated Control Formula.

Supply Costs:

- The proposed supply costs for 2013 – 2014 are higher than last year on lower customer numbers.
- The requested supply costs have increased from €22.2m allowed in 2012/13 to BG Energy's request of €25.4m for 2013/14. This suggests that the tariff increase request should be higher than the 7.22% requested⁷.
- BG Energy is requesting recovery of supply costs that aim to deliver long term efficiencies and improvements to BG Energy's customer service. Clarity was sought on why such costs should be allowable.

Future Deregulation of BG Energy:

- As it is expected that BG Energy will reach the NDM market share deregulation threshold during 2013/14 the transition requires careful management.
- In particular, in the case of an over-recovery, competition may be damaged if the over-recovery is returned to BG Energy. It was suggested that any such over-recovery should be returned via Network Tariffs that would benefit all customers.
- Once the deregulation threshold has been reached it was noted that trigger mechanisms should be put in place that would allow re-regulation if the market share of BG Energy was to increase again post-deregulation.

Secondary Capacity Trading

- Due to regulatory curtailment, the benefit of secondary sales will be reduced. However, there is no mention of the benefits of Kinsale products which should be clarified to ensure consistency in presentation.

⁷ Note that consultation responses were based on the original BG energy Submission which requested a 7.22% in Tariffs. The later submission included adjustments primarily accounting for lower Network Costs.

- Additional costs associated with the consultation CER/13/122 were also referenced.

Other Comments

- Many respondents commented on the general inability of consumers to face further price increases.
- The sponsorship of the Bord Gáis Energy Theatre was raised as a marketing expense that was considered excessive.
- One respondent considered that BG Energy was moving away from the strict application of the Revenue Control Formula through a commercial arrangement.

CER View

The CER has taken account of all views and in making its decision. It has also aimed to balance its long term goals of promoting competition, while considering and protecting the interests of customers both in the short term and long term.

Gas commodity costs:

Regarding the comments on the BG Energy trading unit, the CER would like to point out that BG Energy is obliged (as per Condition 22 Supply licence) to purchase natural gas at the best effective price reasonably obtainable.

The arrangements in place allow BG Energy to retain 50% of the benefit if they “beat the benchmark gas costs”⁸. This incentivises BG Energy to beat this benchmark. BG Energy have in the past beaten the benchmark and returned 50% of the benefit to consumers. Under this incentive mechanism both BG Energy and consumers stand to benefit. In last year’s tariffs this mechanism resulted in an average cost to customers of approximately €1 per customer, this year however, this mechanism is resulting in a saving of approximately €8 per customer.. The CER takes the view that the incentive mechanism is appropriate.

Supply Costs:

Section 3.4 covers the BG Energy allowed supply costs.

BG Energy deregulation:

The CER considers that the BG Energy deregulation threshold is likely to be reached during 2013/14. As such, the CER notes respondents view that a transition to a

⁸ See section 3.2

deregulated tariff will require on-going monitoring There are enhanced market monitoring requirements in place as a result of the “Third Package” of EC energy legislation.

The CER is in the process of developing an enhanced market monitoring framework. An initial consultation was conducted and the CER will be further consulting on this enhanced market monitoring framework this year. The enhanced framework will monitor the behaviour of all suppliers in the market by looking at a broad range of indicators which consider market structures, retail market outcomes and customer satisfaction. Where market monitoring indicates that customers are not benefiting from competition or that a supplier is engaging in either predatory behaviour or excessive pricing, the CER will identify and implement appropriate remedies.

As outlined in section 1.4 the CER conducts regular reviews of the regulated revenues and tariffs. One of the aims of such reviews is to minimise the likelihood of significant over or under recoveries arising. The CER will continue to implement this policy of regular reviews and will consider what if any, actions are to be taken in the event of an under or over recovery arising at the time of deregulation.

Other Comments:

In relation to the inability of consumers to face further price increases, the Revenue Control Formula only allows for efficiently incurred costs to be passed on. The BG Energy submission is reviewed by CER to ensure that each component: from gas wholesale costs through to supply costs are efficient and cost-reflective.

It should be noted that the sponsorship of the Bord Gáis Energy Theatre is not allowed as a cost in the regulated gas retail tariffs.

Finally, in relation to specific commercial arrangements entered into by parties these have been considered by the CER. However, they are not relevant to the gas tariff being charged by BG Energy.

3.0 Revenue Control Formula

3.1 Introduction

In October 2007, the CER approved a Revenue Control Formula (RCF) to calculate revenue regulated gas tariffs for the gas years 2008/09 – 2011/12¹⁰.

With the impending deregulation threshold nearing, a Deregulation Roadmap was published (CER/11/071) which outlined how BG Energy Gas Retail Tariffs would be addressed beyond the RCF period up to 2012. This allowed for quarterly reviews to take account of changes that may occur. In addition, the supply cost formula was revised to better reflect the actual cost to serve.

There are six main features of the RCF:

1. Gas Commodity Purchases
2. Network Charges
3. Supply Costs
4. Margin
5. Correction Factors
6. Capital Expenditure

These various features are described in detail in CER/12/115 section 2.1.

3.2 Gas Commodity Purchases 2013/14

In accordance with the ladder benchmark approach set out in the RCF, the allowed gas costs for the BG Energy NDM gas portfolio for the gas year 2013/14 have been priced into the RCF model. The RCF strategy is in keeping with general industry practices and is in itself a hedging type strategy, which ensures that gas purchase costs are not heavily influenced by random market spikes. The cost of gas purchases is spread across the year to better reflect changes that occur throughout the year.

In addition to the benchmark for the gas year 2013/14 there is the Z factor whereby if BG Energy beats the benchmark price they share the savings with the customer.

The intention of this factor is to give BG Energy an incentive not just to match but to beat the benchmark and to share any resulting gains with the customer. This is a mechanism to incentivise BG Energy to procure gas at the cheapest price available

¹⁰ CER/07/158: Final Decision on BGES NDM 5 Year Regulatory Review 2007/08 – 2011/12

at that time. BG Energy have submitted a Z factor of €2.98m. This Z factor will exert a downward pressure on gas tariffs by reducing the required revenue for the year.

BG Energy submitted to the CER the latest market data with reference to the prevailing prices for gas contracts already purchased on 26th June 2013. There is, outstanding, a proportion of gas left to be procured for gas year '13/14. Prices for these future gas contracts are marked to market using the prevailing forward curve prices on 26th June 2013.

As noted earlier, there is also a decline in the expected average consumption per customer. There has been a significant amount of consideration given to the volumes of gas expected to be consumed by BG Energy customers over the forthcoming year. In determining the appropriate volumes with which to calculate the gas tariffs for the forthcoming year, the CER has used volumes that are consistent with the network capacity charges submitted by BG Energy (BG Energy had anticipated continuing higher declines in consumption over the year). This matter will be kept under review in the forthcoming year.

In calculating the gas cost, these higher volumes have been taken into account¹². This change in expected volumes has led to a significant element of the decline in the tariff rise (from 5.43% to 2.04%) as fixed costs are divided by greater volumes.

Commodity prices are influenced by the wholesale price at National Balancing Point (NBP) in GB. This liquid wholesale market determines the wholesale price of gas in Ireland. In addition changes in the €/£ Exchange Rate will also influence the price of wholesale gas in Ireland in Euro.

The charts below¹³ show the GBP/€ Exchange Rate and the NBP price for gas sold at the National Balancing Point¹⁴. Both graphs show historical data at the cut-off date (showing the variations) and both graphs also show the values at the cut-off date projected out to the end of September 2014 (the straight lines). This mimics how the gas benchmark price is set as described above.

These demonstrate that both the Exchange Rate and the NBP price fluctuate over time both affecting the cost of gas in Euro cents per therm.

Comparing the average price from October 11 to September 12 (the period that set the price for the current gas year 2012/13) with the average price from October 12 to September 14 (the period that sets the price for the next gas year 2013/14) it can be seen that the cost of gas in Euro cents/therm is broadly flat¹⁵.

¹² These higher volumes have been considered in the transmission and distribution commodity charges also.

¹³ Source: European Central Bank accessed 29th August 2013

¹⁴ Up to 26th June 2013. Source ICE database accessed 28th June 2013

¹⁵ The ladder benchmark does not "purchase" the same quantity of gas each period, so strictly a weighted average would apply, the result is slight upward pressure caused by gas price changes.

The graphs identify the peaks that can arise in gas costs; setting the price of gas in a ladder process helps to smooth out any such peaks.

Both these factors are outside of BG Energy's and the CER's control.

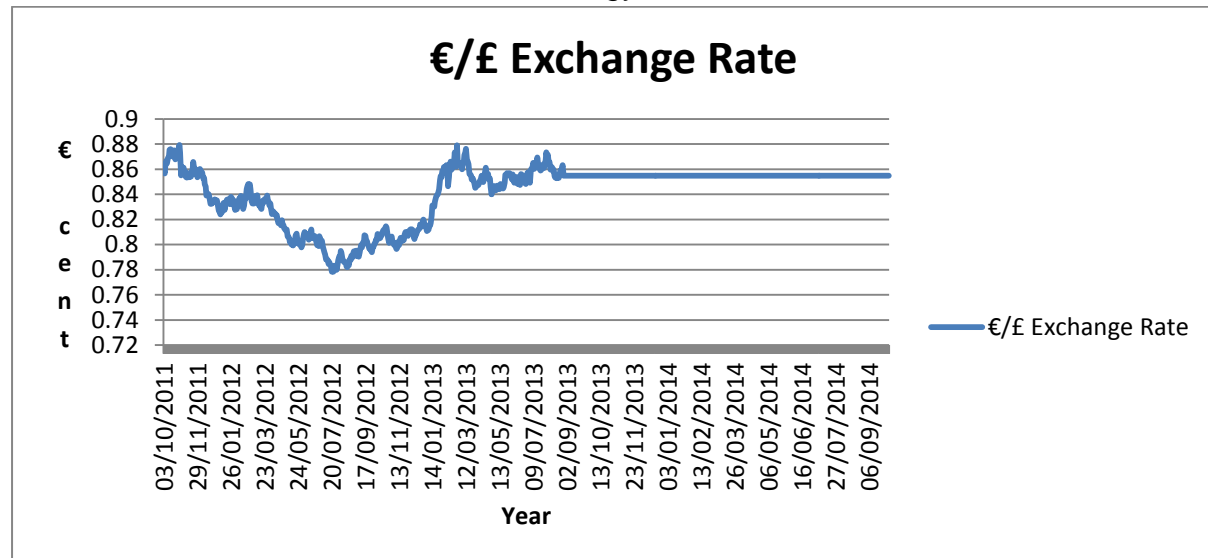


Table 3.1 Exchange Rate

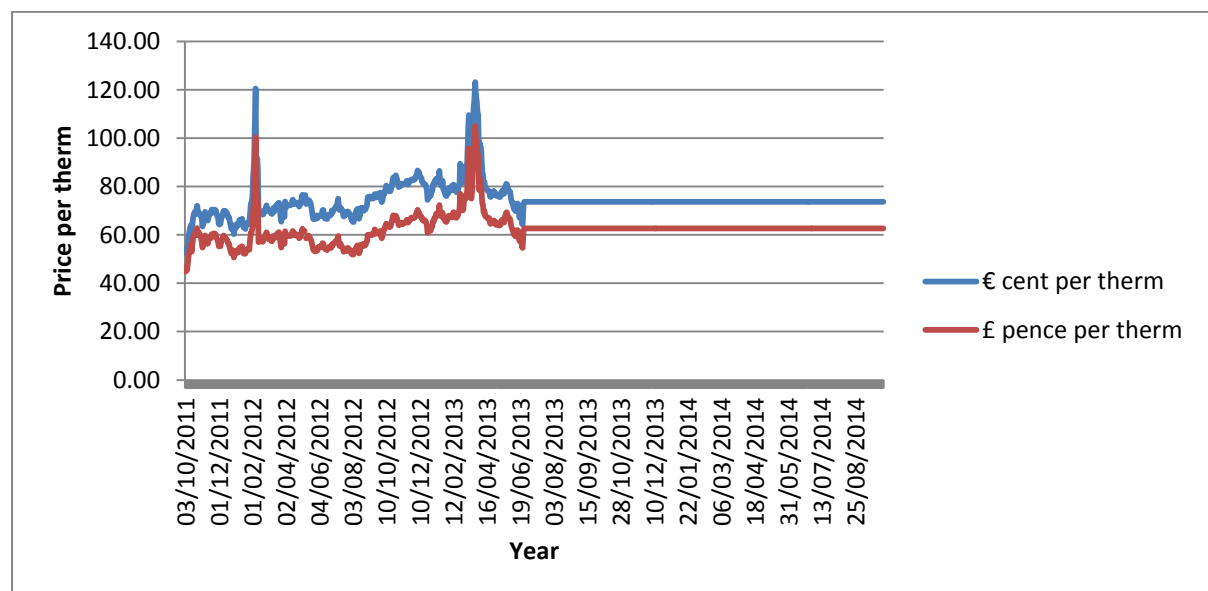


Table 3.2 NBP Price

CER Decision:

The CER has reviewed the gas benchmark costs and is currently satisfied that it reflects the weighted average cost of gas purchases since October 2012 up to the **26th June** and, also the forecasted cost of gas requirements, yet to be procured. The total cost of gas under this heading is €126.379m with a gas cost Z factor give back of €2.98m with a resulting net cost of gas of €123.401m. As before these figures will be updated in the regular reviews.

3.3 Network Charges

Network charges consist of the transmission and distribution capacity and commodity charges levied on BG Energy by the Transporter (Gaslink). The forecast percentage split is Moffat 57% and Inch 43% (this is the overall capacity costs for the NDM residential split between Moffat and Inch including ICS sales).

BG Energy is permitted to pass through to its customers all efficiently incurred Transmission and Distribution charges.

On 21st August 2013 the CER published finalised Network Tariffs for 2013/14.

On 23rd August 2013 BG Energy submitted a revised allowed revenue figure using these updated network tariffs.

The CER has undertaken structural changes recently¹⁶ which have exerted a downward pressure on the network charge component of BG Energy's retail tariffs (when compared to the original submission). In particular, downward pressure has been applied on the Transmission Tariffs due to;

1. The removal of Secondary capacity transfers at the Exit
2. The reprofiling of revenues on the Interconnectors¹⁷

The Transmission and Distribution charges for 2013/14 are detailed in CER/13/192 and CER/13/193^{18,19}. These charges form the basis of network charges for all gas suppliers in the market.

Interruptible External Capacity Sales, Inter-Book Transfers and Inch Capacity Benefit

¹⁶ [CER/13/191- Access Tariffs and Financing the Gas Transmission System](#)

¹⁷ IC1 & IC2 are subsea high pressure pipelines that deliver the majority of gas to Ireland. These are subject to Entry network tariffs.

¹⁸ [CER/13/192- BGN Allowed Revenues and Gas Distribution Tariffs 2013/14](#)

¹⁹ [CER/13/193- BGN Allowed Revenues & Gas Transmission Tariffs 2013/14](#)

The revised BG Energy submission includes an ICS forecast of €3.038m. The figure is net of a 5.1% margin allowed for BG Energy to cover costs involved in the management of Interruptible Capacity Sales.

As a result of the removal of Secondary Capacity transfers at the exit, the benefit of Interruptible Capacity sales has decreased from previous years, as it no longer includes sales at the Exit. While this benefit is lower than previous years, the downward pressure on network charges overall that was brought about by CER 13/191, has mitigated the lower secondary sales benefit.

CER Decision:

The approved Transmission and Distribution charges in CER/13/192 and CER/13/193 are charges for all suppliers to the Irish Gas Market.

The CER has examined the transportation costs and is satisfied that these are appropriate. The CER has also allowed the BG Energy estimates of €3.038m to the residential sector in respect of ICS sales and Inch benefit.

3.4 Supply Costs

As part of its submission BG Energy requested an increase in the cost to supply. BG Energy submitted a supply cost for 2013/14 with the following headings:

- Management & Support
- Customer Communications
- Serve Customers
- Depreciation

Some of the principle requests under each heading are outlined below:

- *Management & Support* –Changes to previous years include; increased licence spend on IT, increases in operational requirements due to REMIT and EMIR²⁰, EC market monitoring requirements. In addition a request was made to invest in SEPA requirements²¹.
- *Customer Communications* –BG Energy submitted a request for additional costs associated with Supplier Handbook.
- *Serve Customers*–Increases in prepayment meters vending costs due to an increase in overall vends per customer. Billing costs increasing due to An Post increases.
- *Depreciation* – Increases in this area include Capex for SEPA systems.

²⁰ Regulation on Energy Market Integrity & Transparency (Regulation No EC. 1227/2011) & European Market Infrastructure Regulation (Regulation No. 648 EU 648/2012)
These Regulations relate to market monitoring and financial reporting.

²¹ SEPA (Single European Payment Area) is an EU Regulation that will require a single payment mechanism across the European Union from 2014. This will require companies to provide new processes in areas such as Direct Debits and banking reconciliation

Below illustrates the 2012/13 Operating Expenditure submission by category.

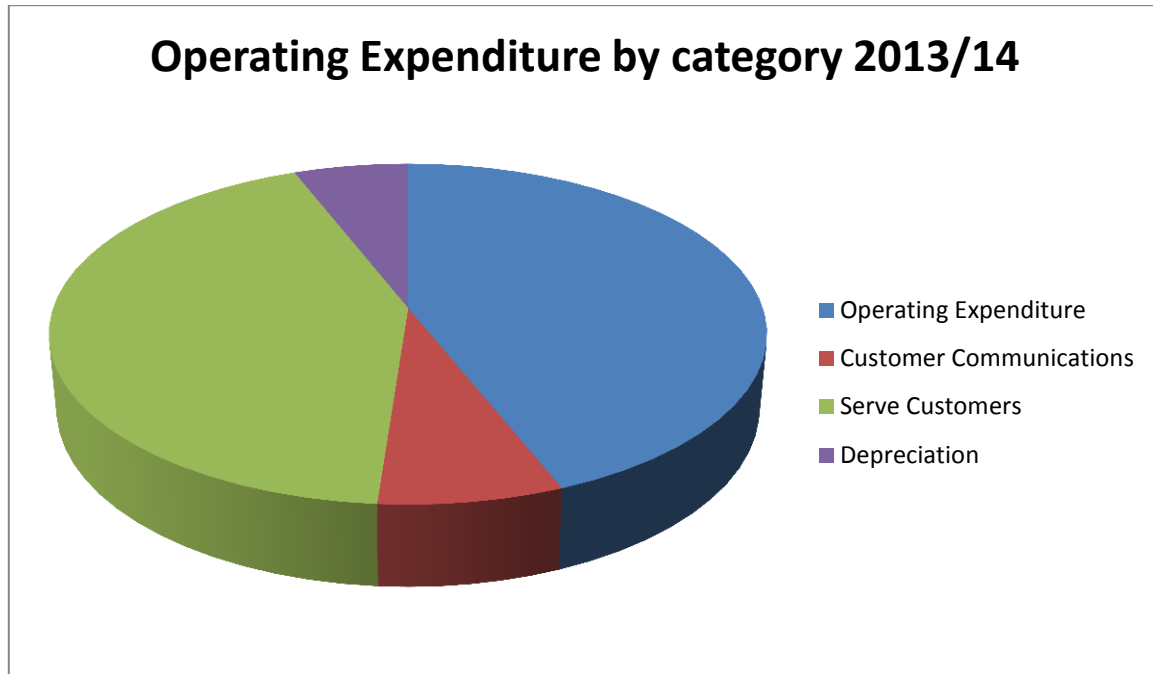


Figure 3.5 Supply Cost 2013/14

Under these headings BG Energy requested a total supply cost recovery of €25.431m. In addition as per the RCF an allowance of 1% for bad of total allowed revenues is allowed. Therefore the Supply Cost submission, when this is taken into consideration rises to €27.964m.

The CER considers it appropriate that Bad Debt remains at 1% for the forthcoming year.

In determining the appropriate Supply costs for 2013/14 the CER has started from the 2012/13 allowed Supply Costs of €22.193m.

A 3% efficiency gains factor was applied to this²² reducing the figure to €21.527m.

In line CER 07/158, the supply costs were divided into costs that are deemed to be fixed i.e. they do not vary with customer numbers and those that are variable i.e. may change with customer numbers. The CER considers the appropriate split to be 65:35, this is broadly in line with the split used in CER/07/128²³

²² In line with the efficiency gains factor applied under CER 07/158

²³ CER 07/158 used fixed 63%, varying with customer numbers 35% and varying with volume 2% as established in CER/07/128

Using the above split the base allowance for 2013/14 is reduced to €20.813m. Adjusted for inflation of 1.39%²⁴ from July 2012 to July 2013 this is €21.102m.

As outlined above BG Energy requested allowances for additional items that were not considered in the Supply costs in 2012/13. The CER has decided to allow the a proportion of the amounts requested by BG Energy under the headings of SEPA, REMIT and PPM vend cost increases. The final approved figure for Supply Cost for 2013/14 is €21.525m.

CER Decision:

The CER has decided to allow BG Energy a total supply cost of €21.525m for 2012/13. Added to this is a bad debt provision of 1% of turnover giving a total under this heading of €24.085m

3.5 Margin

The allowed margin in the RCF is 2%. This margin was determined in CER decision paper CER/08/247. BG Energy did not request an increase in its margin as part of the submission.

The CER considers that a 2% margin accurately reflects the risk exposure of all suppliers to the revenue regulated market as a result of the volume risk being removed. Only one respondent commented on the margin and agreed that 2% is an acceptable margin for a standalone energy supply business.

CER Decision:

The BG Energy allowable supply margin will remain at 2% for the gas year 2013/14.

3.6 Outturn Adjustment (Correction K-Factor) 2012/13

The K factor is calculated by adjusting the RCF to account for actual annual outturn data, for instance the actual gas procurement costs, customer numbers and demand for a specific year. This is then compared with the actual revenues recovered over

²⁴ HICP figure from www.cso.ie

the year through the approved tariffs. Any under/over recovery is then passed though into the tariff for the following year. BG Energy submitted a projected final K factor for the gas year 2012/13 of €-2.316m for its residential customers. This over-recovery puts downward pressure on the allowed revenues for 2013/14.

The CER has examined the K factor and is satisfied with the details of the suggested over recovery.

CER Decision:

The CER has fully reviewed BG Energy's calculations of its suggested over-recovery. The CER has taken into consideration the reasons provided by BG Energy for this over recovery. The CER has allowed a correction factor of €-2.316 m in the tariffs for 2013/14.

3.7 Capital Expenditure

The costs for each Capex project are recovered from the entire BG Energy customer base. The portion of capital expenditure allocated to the NDM residential customer sector is calculated based on factors including customer numbers and volume demand. This disaggregated capital expenditure is then depreciated over a fixed period following project completion. Capex projects require approval from CER prior to their inclusion in an annual revenue review.

In line with previous decisions, the Customers Information and Billing System (CIBS) remains in the CAPEX allowance. BG Energy requested recovery of a capex spend of €1.754m from its residential gas customers for the gas year 2013/14.

CER Decision:

The CER has allowed a capital expenditure total of €1.754m for the 2013/14 gas year.

4.0 Conclusions and Next Steps

4.1 CER's Decision

The CER has reviewed the BG Energy submission and taken into consideration the comments from interested parties. Following this the CER has decided to approve an **2.04%**²⁵ increase in the BG Energy tariffs for its residential customers from 1st October 2013²⁶.

In taking this decision the CER is mindful of the need to ensure tariffs remain cost reflective and ensure that it has not caused market distortion and does not negatively affect competition or potential new entrants into the residential market.

In the normal course of events, reviews are carried out quarterly. The first review of the BG Energy residential tariffs is expected take place in late November 2013 with any changes being effective from 1st January 2014. The date of the following (second) review will be clarified at that time. The date of the second review may be altered in light of the (then) expected date of de-regulation.

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.

²⁵ Allowed revenue for 2013/14 €259.302m

²⁶ 30 days' notice is normally required for tariff changes, however there were a number of issues that required time to work out before a final decision could be made , therefore CER is allowing for a 29 day time period at this time in order to facilitate the tariff change from 01st October 2013.