



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## Decision on BGN Allowed Revenues and Gas Transmission Tariffs for 2014/15

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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 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015.

The average Transmission Tariff for UK gas will fall by 5.5%.

### **Target Audience:**

Gas Customers, Suppliers, Shippers and Producers.

### **Related Documents:**

Decision on October 2012 to September 2017 Transmission revenue for Bord Gáis Networks

<http://www.cer.ie/docs/000448/cer12196.pdf>

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

<http://www.cer.ie/docs/000051/cer13193-bgn-allowed-revenues-and-transmission-tariffs.pdf>

## 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 2014/15. 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. This is the 3<sup>rd</sup> review of Transmission tariffs as part of the current Price Control.

### 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 2014/15,
- Items not finalised in the PC3 Decision,
- Finalised pass through costs for 2012/13,
- A WACC of 5.2%. This is the floor of the WACC range allowed in the PC3 Decision.

The Transmission revenues that apply for both Capex and Opex are outlined in the PC3 model that accompanies that Decision. As part of the setting of annual tariffs additional costs are submitted to the CER for approval. These include pass-through items where the final costs were not known for certain in the PC3 Decision, as well as additional items that were not finalised in the PC3 Decision.

## 2.0 Transmission Revenues and Tariffs for 2013/14

### 2.1 PC3 Decision Paper CER/12/196

In November 2012 the CER published its decision on the Transmission revenue for Bord Gáis Networks (BGN) for the period covering October 2012 to September 2017. 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.

As part of the setting of transmission tariffs in 2013/14 the WACC floor of 5.2% applied due to improved market conditions for Ireland. This WACC floor will continue to apply for 2014/15.

### 3.0 Adjustments for Calculation of 2013/14 Tariffs

In order to finalise the 2014/15 Transmission tariffs BGN have submitted further information including adjustments to the required revenues. These items include those considered pass-through and items that were not finalised in the PC3 Decision.

#### 3.1. Revised Pass-Through Costs for 2014/15

The items below are reflected in the PC3 Decision. However, at the time of that Decision, the exact costs for each year were not known. Therefore, BGN submit updated costs associated with these items on an annual basis.

Pass-through costs for the coming year have been updated to reflect the following;

- Higher Local Authority Rates in Ireland, but lower Local Authority Rates in Scotland
- Higher than anticipated Gaslink costs, driven by EU Network Code work.
- Lower than anticipated CO2 costs. This is due to a significant reduction in the price of carbon since the allowance was set in PC3.

A positive number indicates a greater than expected cost under this heading i.e. it will apply upward pressure on the required revenues for BGN over the Price Control period. A negative number will reduce the required revenues.

<b>2014/2015 Forecasts</b>	
<b>Pass through Cost (Variance)</b>	<b>€m</b>
Onshore Rates*	+0.30
UK Rates	-0.33
Inch Rates	-0.01
CER Levy	No variance
Gaslink	+1.05
UK CO2	-0.20
Inch CO2	-0.06
<b>Total Variance</b>	<b>+0.75</b>

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

### 3.1.2 Gaslink

As Gaslink remains a separate legal entity (at least for part of 2014/15) its allowances continue to be set separately from Bord Gáis Networks.

For 2014/15 an additional allowance has been made for Gaslink. This includes a membership allowance for the PRISMA capacity booking platform<sup>1</sup> which will facilitate compliance with the requirements of the Capacity Allocation Mechanism (CAM) Network Code. In total the costs associated with the PRISMA capacity platform are €505,000.

In addition, an allowance has been made for Network Code implementation work that Gaslink, as the Transmission System Operator (TSO) will carry out. This will include reviews of the Code of Operation, Connected Systems Agreements, Financial Security Policy reviews etc. An allowance of €484,000 has been approved for this work stream.

Network Codes relate to the transmission system and therefore the additional Gaslink costs have been included as part of the calculation of Transmission tariffs.

It should be noted that the Network Code allowance for Gaslink is separate from the Network Code implementation work indicated below. The allowance below relates to operational work and Capex ( such as IT) that will be carried out by BGN.

### 3.2. Items not finalised in the PC3 Decision

As part of the tariff review BGN have submitted a number of items that were not identified in the PC3 Decision. For 2014/15 BGN have submitted costs for the following items.

Item	BGN submission	CER approved amount for Transmission tariffs
Technical Training & Competency 2014	€882,000	€441,000
Network Code Implementation 2014	€5,559,300 <sup>2</sup>	€5,559,300

<sup>1</sup> <https://www.prisma-capacity.eu/web/start/>

<sup>2</sup> In total BGN have requested €6,691,632 for Network Code implementation. Therefore, 6,691m has been included in the updated PC3 model. The c. €5.6m is the amount to be spent in 2014/15.

### **3.2.1 Technical Training & Competency**

Resulting from a review of BGN technical competency by the Safety Division in CER, a recommendation was made that competency development within BGN be improved in core network functions.

CER has approved an additional allowance for 2014/15 which includes investment in training facilities, field assessments and external assessments.

For the Gas Year 2014/15 the CER has approved €882,000 for technical training. 50% of this allowance will be collected via Distribution tariffs and the remainder via Transmission tariffs. This is because technical training relates to the entirety of the gas network, both Distribution and Transmission.

### **3.2.3 Network Code Implementation**

In June 2014 BGN submitted a Project Initiation Document (PID) to CER relating to the implementation of European Network Codes. In total the project will cover five Network Codes namely, Capacity Allocation Mechanisms (CAM), Congestion Management procedures (CMP), Balancing (BAL), Interoperability & Data Exchange (IO&DE), and Tariffs (TAR).

Ireland is legally obliged to implement these Codes which will be binding across the EC. As a result, a considerable volume of operational work will be required to ensure compliance with the requirements of the Codes. A significant portion of the projects costs relate to IT Capex. It is estimated that approximately 120 functions on GTMS will require amend and that a further 80 new functions will be required.

The CER has examined the costs associated with this project and concluded that they are necessary to ensure compliance with future Network Codes. The total budget over a four year period up to Gas Year 2016/17 is €6,961,632 of which €5,000,000 is IT Capex between 2014/15 and 2015/16.

## 4.0 2012/13 Correction Factor

The application of a correction factor adjusts for the difference between 2012/13 actual revenues and pass-through costs versus the ex-ante projections for these items, which were forecast at the time of setting tariffs.

In 2012/13 a revenue over-recovery of €2.23m arose. As with the over-recovery seen in Distribution tariffs this was driven in part due to a colder than usual spring 2013. This over-recovery will be given back as part of this tariff review.

In addition as the actual out-turn of pass-through items are known these are corrected. The inclusion of these adds an additional €0.120m. This is driven by lower than anticipated local authority rates and CO2 rates (driven by lower than forecast carbon costs), but is offset slightly by a higher CER levy.

As the over-recovery is in 2012/13 monies an interest rate multiplier has been applied. An interest rate multiplier of 1.05% has been applied which results in a nominal over-recovery of €2.22<sup>3</sup>.

The over-recovery giveback for 2014/15 and the pass-through adjustment for 2014/15 are set out below. A negative figure indicates downward pressure on tariffs and the resulting negative figure is given back to the market as an adjustment to the Transmission tariffs.

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<sup>3</sup> See Section 5 below



12/13 Actual Outturn	Over/Under recovery	€m	Cumulative additional revenue required €m
Revenue over Recovery	Over	-2.23	-2.23
Onshore Rates	Under	+0.03	-2.20
CER Levy	Under	+0.18	-2.02
Inch Rates	Over	-0.03	-2.05
UK Rates	Over	-0.11	-2.16
Gaslink	Under	+0.18	-1.98
CO2	Over	-0.13	-2.11
<b>Total over-recovery</b>			
Interest rate Multiplier			1.05
<b>Total Correction Factor</b>	Over		<b>-2.22</b>

## 5.0 Interest Rate & Euribor

The interest rate multiplier is used to uplift recoveries for the tariff year 2012/13.

The Euribor rate +2% is applied where under/over recoveries are below 103% of allowed revenues. Where an over/under recovery is above 103% a Euribor +4% rate applies. Euribor rate, including historical data is available on the Euribor website.

The interest rate indicated below brings the 12/13 monies to 14/15 monies.

<b>Euribor 12/13</b>	0.49%
<b>Euribor 13/14</b>	0.56%
<b>Euribor +2% 12/13</b>	2.49%
<b>Euribor +2% 13/14</b>	2.56%
<b>Interest Rate</b>	1.05%

### 5.1. Inflation

In setting the 2014/15 tariffs, 0.60% inflation was assumed for the time period from April '14 to March '15.

In closing out revenues for 2012/13, actual inflation of 0.60% was used as opposed to the forecast inflation of 1.30% (Source: CSO HICP data).

## 6.0 Demand projections

As part of the PC3 Decision demand projections were estimated for each of the five years of the Price Control. As part of the annual review process these demand figures are adjusted to consider the latest forecasts.

In Gas Year 2014/15 it is assumed that capacity bookings will utilise a mixture of both annual and short term. BGN forecast that c. 11% of the Allowed Revenue at IC Entry will be recovered via short-term bookings and c. 22% of Allowed Revenues for the Onshore Exit system. The NDM sector will continue to book for a 1-in-50 peak day.

In gas year 2014/15 it is expected that commercial flows from Corrib will commence. As this new entry point comes on stream it is projected that shippers will optimise their bookings and continue to rely on trades at Entry, which therefore reduces the expected Moffat annual capacity bookings.

The projections as set out in the PC3 Decision for both Commodity and Capacity are set out below. Transmission allowed revenues are recovered via a 90:10 Capacity/Commodity split.

It should be noted that in calculating the forecast monthly and daily bookings the value of these expected bookings has been converted into an annual equivalent value dependent on when these bookings are expected to arise. The value of these bookings will alter depending on the multipliers that apply in that particular month. These multipliers can be found in CER/12/143.

Onshore	2013/14 Forecast	2014/15		% Change from PC3	% Change from 2013/14
		PC3	Forecast		
Annual Capacity GWh	235.52	225	209.41		
Monthly Capacity GWh	-	-	5.83		
Daily Capacity GWh	-	-	52.53		
Total GWh	235.52	225	267.77	13.7%	19.0%

Onshore	2013/14 Forecast	2014/15		% Change from PC3	% Change from 2013/14
		PC3	Forecast		
Commodity GWh	49,800	50,681	47,870	-3.9%	-5.5%

Inch	2013/14 Forecast	2014/15		% Change from PC3	% Change from 2013/14
		PC3	Forecast		
Annual Capacity GWh	36.34	32.32	31.91		
Monthly Capacity GWh	-	-	-		
Daily Capacity GWh	-	-	-		
Total GWh	36.34	32.32	31.91	-12.2%	-1.3%

Inch	2013/14 Forecast	2014/15		% Change from PC3	% Change from 2013/14
		PC3	Forecast		
Commodity	3,903	6,704	5,611	43.8%	-16.3%

IC	2013/14 Forecast	2014/15		% Change from PC3	% Change from 2013/14
		PC3	Forecast		
Annual Capacity GWh	158.42	164.78	122.73		
Monthly Capacity GWh	-	-	4.06		
Daily Capacity GWh	-	-	11.63		
Total GWh	158.42	164.78	138.41	-12.6%	-16.0%

IC	2013/14 Forecast	2014/15		% Change from PC3	% Change from 2013/14
		PC3	Forecast		
Commodity	47,219	50,770	35,034	-25.8%	-31.0%

It should be noted that as part of the reform of the gas entry tariff regime, from 2015/16 onwards it is expected that tariffs will be set using a choice of methodology as outlined in Information Note CER/14/127. Therefore, this is expected to be the final year whereby transmission tariffs are set using the current methodology based on the expected capacity bookings at each Entry/Exit.

### 6.1 Network Tariffs for flows to the SNP

The CER and UR have jointly requested legal advice on the calculation of the SNP Exit tariff. At the time of writing we are awaiting finalisation of this advice.

Upon receipt of finalised legal advice the CER will publish an update on the Exit tariff and the calculations of this charge. This is expected to occur in early October. In the interim, the CER directs Gaslink to continue to apply the 2013/14 Exit tariffs for flows to the SNP.

These tariffs are indicated below.

	€
<b>Default Daily Commodity</b>	1.089 per MWh
<b>Default Daily Capacity</b>	9.800 per MWh

## 5.0 CER Decision on Transmission Tariffs for 2014/15

The CER hereby directs Gaslink to implement the tariffs set out below from 1<sup>st</sup> October 2014 – 30<sup>th</sup> September 2015.

### 5.1 Interconnectors, Inch and Onshore Tariff (14/15 monies)

		<b>Interconnectors</b>	<b>Inch</b>	<b>Onshore Exit</b>
<b>Capacity</b>	€/per peak day MWh	358.577	53.604	443.036
<b>Commodity</b>	€/MWh	0.157	0.034	0.275

**BGE Transmission Tariffs for 2014/15**

<b>€ (14/15 Monies)</b>	
<u>Onshore Network</u>	<b>2014/15 Tariff</b>
capacity	<b>443.036</b> per peak day MWh
commodity	<b>0.275</b> per MWh
<u>Interconnectors</u>	
capacity	<b>358.577</b> per peak day MWh
commodity	<b>0.157</b> per MWh
<u>Inch</u>	
capacity	<b>53.604</b> per peak day MWh
commodity	<b>0.034</b> per MWh

**Illustrative Transmission Transportation Costs**

<b>€</b>	
<u>Transmission Transportation Cost of UK Gas</u>	
capacity	<b>801.612</b> per peak day MWh
commodity	<b>0.433</b> per MWh
<u>Transmission Transportation Cost of Inch Gas</u>	
capacity	<b>496.639</b> per peak day MWh
commodity	<b>0.309</b> per MWh

<b>Published Tariffs</b>		<b>% Change Nominal from 13/14</b>
<b>2012/13 - Apr-Sep</b>	<b>2013/14 Tariff</b>	
<b>€</b>	<b>€</b>	
491.313	509.093	-13.0%
0.244	0.268	2.9%
340.822	355.325	0.9%
0.148	0.132	18.8%
103.697	45.717	17.3%
0.091	0.047	-28.4%
<b>€</b>	<b>€</b>	
832.135	864.418	-7.3%
0.392	0.400	8.2%
595.010	554.810	-10.5%
0.335	0.315	-1.8%

**Cost/Therm Comparisons**

Annual Cc	365
Load Fact	1.3

**Gas Year 14/15 (14/15 Monies)**

<b>Moffat</b>	<b>€</b>	<b>Inch</b>	<b>€</b>
Capacity	1,042.10	Capacity	645.63
Commodity	157.96	Commodity	112.87
Total	<u>1,200.05</u>	Total	<u>758.50</u>
Cost/MWh	3.287821	Cost/MWh	2.078081
<b>Cent/Therm</b>	<b>9.64</b>	<b>Cent/Therm</b>	<b>6.09</b>

**Gas Year 13/14(13/14 Monies)**

Cent/Therm	<b>10.20</b>	<b>6.71</b>
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<b>% Decrease - Non</b>	<b>-5.5%</b>	<b>-9.3%</b>
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**Gas Year 13/14 (14/15 Monies)**

Cent/Therm	<b>10.26</b>	<b>6.75</b>
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<b>% Decrease - Rea</b>	<b>-6.1%</b>	<b>-9.9%</b>
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