



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## Gas Networks Ireland Allowed Revenues and Transmission Tariffs 2015/16

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**Abstract:** This paper sets out the decision of the Commission for Energy Regulation (CER) in relation to the Gas Networks Ireland (GNI) Allowed Revenues and Transmission Tariffs to apply from 1<sup>st</sup> October 2015- 30<sup>th</sup> September 2016.

Overall, the cost of UK gas has decreased by 0.4% in nominal terms.

**Related Documents:**

[Decision on October 2012 to September 2017 transmission revenue for Bord Gáis Networks](#)

[Decision on BGBN Allowed Revenues and Gas Transmission Tariffs for 2014/15](#)

## 1.0 Introduction

### 1.1. The Commission for Energy Regulation

The Commission for Energy Regulation (CER) is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sectors. The CER was established and granted regulatory powers over the electricity market under the *Electricity Regulation Act 1999*. The *Gas (Interim) (Regulation) Act 2002* expanded the CER's jurisdiction to include regulation of the natural gas market. The CER is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sector.

### 1.2. Purpose of this Decision Paper

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.

The purpose of this paper is to outline the CER's decision in relation to Gas Network Ireland's (GNI) Allowed Revenues and gas Transmission tariffs for 2015/16. The calculation of Transmission tariffs is based on the GNI Price Control (CER/12/194) which established the allowed revenues that GNI may recover for the Transmission system over the five year period from October 2012 to September 2017.

## 2.0 Background

In November 2012 the CER published its Decision Paper (CER/12/196) on the Allowed Revenue that GNI may recover over the Price Control period from October 2012-September 2017. This paper allowed €998.5 million to be recovered for Transmission over the 5 year period, €313 million of this was allocated to Opex.

In addition, in July 2015 the CER published its Decision Paper on the “*Entry/Exit Tariff Methodology*” to apply from 1<sup>st</sup> October 2015<sup>1</sup>. This Decision Paper outlined directions to GNI to develop a new methodology for the calculation of Entry and Exit tariffs which allocates the recovery of the Allowed Revenues of GNI between transmission network users.

The chosen methodology is known as the forward-looking Matrix methodology. The key principles of this reform include a decision to base the new methodology on a forward looking cost concept (the cost of expansion of the system) rather than the current methodology which allocates the historical revenues of GNI based on forecast bookings on certain assets namely, Interconnectors, Inch and Onshore. As this new methodology is significantly different from the currently prevailing mechanism that sets transmission tariffs the main changes are set out below.

Current methodology	Forward-looking Matrix methodology
<b>Revenues associated with Entry Points and with Exit (Onshore)</b>	Revenues associated with a single system and a predetermined Entry/Exit split
<b>2 Entry Points ( Moffat, Inch)</b>	3 Entry Points ( Moffat, Inch and Bellanaboy)
<b>1 Postalised Exit tariff for domestic users</b>	1 Postalised Exit Tariff for domestic users
<b>Gormanston Exit tariff calculated separately</b>	Gormanston Exit tariff calculated as part of the methodology
<b>3 Commodity charges calculated (Moffat, Inch and Onshore)</b>	2 Commodity Charges calculated (one at all Entry Points and one at Exit)
<b>Under/over recoveries corrected at individual Entry Points and Exit</b>	A single under/over recovery across the system.
<b>One Entry Point tariff at Inch</b>	Two Entry Point tariffs applicable at Inch; Storage tariff and Production tariff
<b>Tariffs calculated as part of Price Control Model</b>	Revenues calculated as part of Price Control model plus tariffs calculated on Matrix model

<sup>1</sup> [Gas Entry Exit Tariff Methodology- Decision Paper](#)

Readers should note that the updated Price Control model that is published alongside this paper is to illustrate the updated Allowed Revenues for GNI continues to be published alongside this paper. However, a separate model is now used to calculate the transmission tariff. The model was developed by GNI in accordance with the directions given by CER in CER/15/140. The use of this model requires a licence agreement. Stakeholders who wish to obtain a copy of this model should contact [barry.lehane@gasnetworks.ie](mailto:barry.lehane@gasnetworks.ie) . Alternatively, stakeholders may contact the GNI Code modification forum representative who will be able to assist.

### 3.0. Pass-through and Extra over items

In addition to the revenues allowed in the Price Control, each year GNI submits updates and requests for items that are either considered “pass-through” or “extra-over”. Pass through items are those for which at the time of the Price Control, the exact expenditure was not finalised. Extra over items are requests from GNI for items that were not anticipated in the Price Control.

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

1. Higher than anticipated local authority rates
2. An allowance for the Prisma capacity booking platform annual fee which was not anticipated in the Price Control ( see below under ISO activities)
3. A decrease in the forecast pass-through CO2 rates due to lower carbon prices

It should be noted that in previous years an allowance was made separately for Gaslink, as a separate legal entity from Gas Networks Ireland. As Gaslink has been integrated into the Gas Networks Ireland business a separate allowance is not required.

2015/16 Forecast	€m
Rates*	+0.55
CER Levy	0.00
ISO activities <sup>2</sup>	+0.55
CO2	-0.11
<b>Total Variance</b>	<b>+0.98</b>

Table 3.1 pass through items

\*For rates 50% of the variance between the allowed costs in the Price Control and the updated estimates are passed through. In previous years UK and Ireland rates would have been indicated separately as UK rates would have been collected via the Interconnector revenues.

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<sup>2</sup> ISO activities were previously carried out by Gaslink, and the allowance is indicated here as such activities were considered pass-through.

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

In addition to pass-through items GNI have also submitted a request for additional items that were not identified in the Price Control. These are set out below.

Item (2015/16)	GNI Request	CER allowance
<b>Network Code implementation</b>	€861,535	€861,535
<b>Midleton Compressor Station opex</b>	€200,000	€200,000
<b>Apprenticeship Programme</b>	€525,504	€300,364 <sup>3</sup>

Table 3.2 items not finalised in PC3

#### 3.2.1 Network Code Implementation and Market Assurance

As part of the 14/15 tariffs GNI submitted a request for an allowance for the implementation of the European Network Codes. In total an allowance of €6,951,632 was requested, with the majority of this being spent on IT Capex in 2014/15 (€5,000,000). As the Network Codes implementation project is over a number of years project costs for 2015/16 of €661,535 were also included in the implementation project request in 2014. It is included here for information.

In addition, for 2015/16 as a result of an increased workload related to market assurance an additional allowance of €200,000 was requested by GNI. This brings the total allowance for network code implementation during 2015/16 to €861,535. The costs associated with the Network Code implementation project will be subject to review as part of the next Price Control to ensure that these costs were efficiently incurred.

#### 3.2.2. Midleton Compressor Station

As part of the PC3 decision funding was provided to GNI for Midleton compressor station on the basis that operation would be ceasing in 2014. However, as the compressor station continues to be required for the Southern section of the network additional opex is required for a series of repairs to the station, pending a more finalised decision as to the future of the compressor station. Therefore, the CER has allowed an interim opex allowance of €200,000 in 15/16 for Midleton compressor station. This interim opex allowance will be subject to review as part of the next Price Control to ensure that these costs were efficiently incurred.

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<sup>3</sup>50% of this allowance will be recovered from Transmission Tariffs i.e. €150,182

### **3.2.3. Apprenticeship programme**

In 2014 GNI submitted proposals to CER for an apprenticeship programme, which began in January 2015 with an initial intake of 14 apprentices. GNI have requested an allowance of €2,102,016 for this programme of which 25% (€525,504) was requested in gas year 2015/16.

The CER has reviewed this programme and is supportive of the introduction of such a scheme to ensure the necessary technical skills to maintain the gas network are passed on. The CER has permitted an allowance of €300,364 for gas year 2015/16 which is reflective of the actual costs (including salary) in year one of the scheme.

As the apprenticeship programme will provide training across both the Transmission and Distribution systems the allowance will be recovered 50% from Transmission tariffs and 50% from Distribution tariffs.

## 4.0 2013/14 Correction Factor

The application of a correction factor adjusts for the difference between 2013/14 actual revenues and pass-through costs versus the ex-ante projections for these revenues, which were forecast at the time of setting tariffs in 2013. In 2013/14 there was a revenue over-recovery of €3.67m. This over-recovery was due to changes in booking patterns which resulted in more short-term bookings during the period.

In addition the pass-through items for 2013/14 were lower than anticipated resulting in a further correction factor of €0.32m. This is primarily driven by lower than anticipated local authority rates. In addition, Co2 costs were also lower than when initially set in the Price Control.

Therefore, the total over-recovery is €3.995m. The variance on the pass-through items are indicated below.

13/14 Actual outturn (Kt-1)	Over/under recovery	€m	Cumulative additional revenue required
Revenue over-recovery	Over	-3.67	-3.67
CER Levy	Under	+0.20	-3.47
Rates	Over	-0.44	-3.91
ISO	Over	-0.20	-4.11
CO2	Under	+0.11	-4.00
Total 13/14 over-recovery			-4.00
Interest Rate Multiplier			1.05%
Correction applied to 15/16 tariffs			-€4.20m

Table 4.1 13/14 Correction Factor

#### 4.1. Single Correction Factor

It should be noted that in previous years the under/over recoveries were reconciled separately to each Entry Point or the Exit (onshore). For example UK rate (Onshore Scotland) was corrected via the Moffat Entry tariff.

In the CER Decision Paper CER/15/140 the CER directed GNI to apply a single K-Factor across the system based on the explicit Entry/Exit split.<sup>4</sup> Therefore, the 13/14 K-Factor will be reconciled in accordance with the 33% Entry, 67% Exit revenue split as directed in that Decision Paper.

## 5.0 Euribor rates and Inflation

### 5.1. Euribor Rates

The Euribor rate plus 2% is applied where under/over recoveries are below 3% of the allowed revenues. Where under/over recoveries are above 3% then a Euribor plus 4% rates applies.

In the case of the 13/14 recovery the over-recovery is under 3% and therefore the Euribor plus 2% rate will apply.

<b>Euribor 13/14</b>	0.56%	Euribor +2%	2.56%
<b>Euribor 14/15</b>	0.35%	Euribor +2%	2.35%

### 5.2. Inflation

At the time of setting the 13/14 tariffs an inflation rate of 4.05% was assumed for the allowed revenues of the Price Control which were set in 10/11 monies. This has been corrected to actual realised inflation of 3.12%<sup>5</sup> which is applied to close out the revenues for that year.

In setting the 15/16 tariffs an inflation rate of 0.95% is assumed for the time period from April 2015 to March 2016.

<sup>4</sup> Decision 6 and Decision 7 respectively.

<sup>5</sup> Source: Central Bank HICP

## 6.0 Demand projections

As part of the PC3 Decision demand projections were estimated for each of the five years of the control period. As part of the setting of annual tariffs these demand figures are adjusted to consider the latest forecasts. It should be noted that in line with the CER Decision Paper CER/15/140 GNI is directed to maintain the 90:10 Capacity/Commodity revenue split. Therefore, forecasts for Capacity and Commodity continue to be required.

### 6.1. Capacity forecasts

The forecast capacity bookings for 2015/16 are based on the following assumptions.

1. As with 2014/15 it is anticipated that shippers will continue to optimise their bookings via a mixture of annual and short term capacity products. This applies to the Large Daily Metered (LDM) and Daily Metered (DM) sectors. Where short-term capacity is forecast then the value of these capacity products is converted into an annual value which is dependent on the month when the booking is expected to arise. In this way the forecast bookings are “annualised”<sup>6</sup>.
2. Capacity bookings at Moffat are 10.1% lower than the forecasts in 14/15 due to the coming on stream of gas from Corrib. Those shippers booking capacity at Moffat are expected to optimise their bookings and also to rely on secondary trading.
3. Capacity bookings for Inch are based on data provided by Kinsale Energy. As the CER Decision Paper directed GNI to apply two separate tariffs at the Inch Entry Point; one for Storage and one for Production separate capacity bookings for each have been provided.
4. Flows from Bellanaboy are anticipated to commence before the end of 2015 with an initial phased period before full flows commence.

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<sup>6</sup> An example of how capacity forecasts were annualised is shown in the 2014/25 Transmission Tariffs Decision Paper [CER/14/140](#)

- Exit capacity bookings are broadly flat. This is because of the obligation on the NDM sector to book a 1-in-50 peak day demand and the comparative lack of flexibility at the Exit versus Entry e.g. absence of exit capacity transfers.

The forecast Capacity bookings are illustrated below. It should be noted that in previous years (including the PC3 Decision) Inch production and Storage were not shown separately as one tariff applied at the Inch Entry Point.

	<b>PC3 Forecast for 15/16</b>	<b>14/15 Forecast</b>	<b>15/16 Forecast</b>	<b>15/16 versus PC3 forecast</b>	<b>15/16 versus 14/15</b>
<b>Exit</b>	223.77 GWh	267.77 GWh	267.09 GWh	+19.4%	-0.3%
<b>Inch Production</b>			3.99 GWh		
<b>Inch Storage</b>			26.26 GWh		
<b>Inch</b>	31.70 GWh	31.91 GWh	Total 30.25 GWh	-4.6%	- 5.2%
<b>Moffat</b>	164.78 GWh	138.41 GWh	124.37 GWh	-24.5%	-10.1%
<b>Bellanaboy</b>	NA	NA	50.26 GWh	NA	NA

Table 6.1 Capacity forecasts

For **Commodity** forecasts, in line with the CER Decision Paper 15/140 a single Commodity tariff is calculated across all Entry Points and a single Commodity forecast is calculated across all Exit Points. The Exit Commodity total is lower than the Entry Commodity total primarily due to the Isle of Man offtake which is not included in the Exit.

Commodity forecasts are down (4%) due to the decreased demand for gas from power generation, which is being driven by increased wind and interconnection. However, DM sector demand is projected to increase by 7% due to a number of large new connections occurring during the year and reflecting the strong growth seen in 2014/15 in this sector. In addition, NDM sector demand forecasts are up 3% on 2014/15

<b>Commodity</b>	<b>PC3 forecast for 15/16</b>	<b>14/15 Forecast</b>	<b>15/16 Forecast</b>	<b>15/16 versus PC3 forecast</b>	<b>15/16 versus 14/15</b>
<b>Entry</b>	58,710GWh <sup>7</sup>	55,303 <sup>8</sup> GWh	53,484GWh	-8.9%	-0.5%
<b>Exit</b>	51,743 GWh	47,870 GWh	47,825 GWh	-7.5%	-0.1%

Table 6.2 Commodity forecasts

<sup>7</sup> The PC3 model included Commodity forecasts for Inch and Moffat, but did not include commodity forecasts for gas from Bellanaboy

<sup>8</sup> Including flows from Bellanaboy

## 7.0 CER Decision on Transmission Tariffs for 2015/16

Previous sections outline the elements affecting the Transmission tariffs to apply from October 2015. The five year revenue review profiles the revenues over the five years and sets a revenue for each year (€943m over the 5 years, on average €189m per year, all in 10/11 monies). In this case the 15/16 revenues (€187m) are broadly the same as 14/15 revenues.

These revenues are then adjusted for inflation and for any additional revenues required for 15/16 and corrections in previous years. Of these factors, the over-recovery in 13/14 has had a significant impact on this years allowed revenues (a decrease of just over €4m in the allowed revenues).

The overall effect of the above factors is to reduce the allowed revenues for 15/16. However owing to the change in tariff calculation methodology, it is difficult to directly compare tariffs year-on-year. As an example the cost of transporting UK gas (Moffat entry plus exit) has reduced slightly compared to 14/15.

The CER hereby directs Gas Networks Ireland to implement the capacity and commodity tariffs from 1<sup>st</sup> October 2015 -30<sup>th</sup> September 2016. These tariffs are calculated by the GNI forward-looking Matrix model.

		Bellanaboy	Inch Production	Inch Storage	Moffat	Exit
<b>Capacity</b>	<b>€ per peak day MWh</b>	<b>€617.996<sup>9</sup></b>	<b>164.186</b>	<b>53.058</b>	<b>367.786</b>	<b>430.882</b>
<b>Commodity</b>	<b>€ per MWh</b>	<b>0.118</b>				<b>0.267</b>

Table 7.1 Transmission Tariffs 15/16

<sup>9</sup> This is composed of two elements; one to remunerate the Allowed Revenue of GNI (€176.926) plus a Corrib Linkline Element (€441.07), which will remunerate those that underwrite the Corrib Linkline ( Corrib Partners).

In addition, as per Decision 10 in CER/15/140 the Postalised Exit tariff (as indicated above) does not apply to Interconnection Points from the GNI system, such the Gormanston Exit Point. The GNI Matrix model produces the Exit tariff for Gormanston which is indicated below. For clarity the Exit Commodity charge will apply where flows arise at the Interconnection Point.

<b>Gormanston Exit Capacity</b>	<b>€ per peak day/MWh</b>	<b>€415.21</b>
<b>Gormanston Exit Commodity</b>	<b>€ per MWh</b>	<b>0.267</b>

Table 7.2 Gormanston Tariffs

## GNI Transmission Tariffs for 2015/16

<u>Exit</u>	€ (15/16 Monies)		Published Tariffs		% Change Nominal from 14/15
	2015/16 Tariff		2013/14 Tariff	2014/15 Tariff	
capacity	<b>430.882</b>	per peak day MWh	509.093	443.036	-2.7%
commodity	<b>0.267</b>	per MWh	0.268	0.275	-2.9%
<u>Moffat Entry</u>					
capacity	<b>367.786</b>	per peak day MWh	355.325	358.577	2.6%
commodity	<b>0.118</b>	per MWh	0.132	0.157	-25.2%
<u>Bellnaboy Entry</u>					
capacity	<b>617.996</b>	per peak day MWh	NA	NA	
commodity	<b>0.118</b>	per MWh	NA	NA	
<u>Inch Storage Entry</u>					
capacity	<b>53.058</b>	per peak day MWh	45.717	53.604	-1.0%
commodity	<b>0.118</b>	per MWh	0.047	0.034	247.7%
<u>Inch Production Entry</u>					
capacity	<b>164.186</b>	per peak day MWh	45.717	53.604	206.3%
commodity	<b>0.118</b>	per MWh	0.047	0.034	247.7%
<b>Illustrative Transmission Transportation Costs</b>					
	€		€	€	
<u>Transmission Transportation Cost of UK Gas</u>					
capacity	<b>798.668</b>	per peak day MWh	864.418	801.612	-0.4%
commodity	<b>0.385</b>	per MWh	0.400	0.433	-11.0%
<u>Transmission Transportation Cost of Inch Storage Gas</u>					
capacity	<b>483.940</b>	per peak day MWh	554.810	496.639	-2.6%
commodity	<b>0.385</b>	per MWh	0.315	0.309	24.5%
<u>Transmission Transportation Cost of Inch Production Gas</u>					
capacity	<b>595.068</b>	per peak day MWh	554.810	496.639	20%
commodity	<b>0.385</b>	per MWh	0.315	0.309	25%