Decision on GNI Allowed Revenues and Gas Distribution Tariffs for 2015/16

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Abstract:

This paper sets out the decision of the Commission for Energy Regulation (CER) in relation to Gas Networks Ireland (GNI) Allowed Revenues and Gas Distribution Tariffs for the Gas Year 1st October 2015 to 30th September 2016.

Overall, weighted Distribution tariffs have increased in nominal terms by 3.3%.

Related Documents:

[Decision on October 2012 to September 2017 Distribution revenue for Bord Gáis Networks]

[Decision on BGN Allowed Revenues and Gas Distribution 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 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 Distribution systems.

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

2.0 Background

In November 2012 the CER published its Decision Paper on Distribution revenue (CER/12/194). This paper allowed €996 million to be recovered for Distribution over the 5 year period, €392 million of this was allocated to Opex. The Allowed Revenues are subject to annual review when the tariffs are set. In August 2015 GNI submitted estimates of distribution tariffs for the forthcoming year. This included:

- Revised expected pass through costs for 2015/16,
- Allowance requests for items not included in the PC3 Decision
- Finalised pass through costs for 2013/14
- A WACC of 5.2%. This is the floor of the WACC range allowed in the PC3 Decision.

3.0 Adjustments for Calculation of 2015/16 Tariffs

3.1. Revised pass-through items

In addition to the revenues allowed in the Price Control each year GNI submits requests for items that are either considered "pass-through" or "extra-over". Pass though 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 increased allowance for Safety initiatives and an increase in the CER Levy.
3. A decrease in the forecast Shrinkage gas which is due to lower than forecast wholesale prices.

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

The table below shows the variance in the pass-through items for GNI against the forecast allowance in the Price Control.

2015/2016 Forecasts	
Pass through Cost (Variance)	**€m (+indicates a higher allowance than PC3)**
Rates*	0.35
Safety**	1.79
CER Levy	0.40
Shrinkage	-0.57
Total Variance	**+1.97**

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.

** For Safety, 100% of the variance between the original allowance and the estimated cost is passed through. In year of close out, 50% of the variance between the estimated and actual price is passed through when the actual price is known.

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.

	GNI Request	CER allowance
Apprenticeship Scheme	€525,504	€300,364[1]
Customer Capture trial	€170,000	€170,000

Table 3.2 Extra-over items

3.2.1. Apprenticeship Scheme

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.

3.2.4 Customer capture trial

When a new town is connected to the gas network a certain opex allowance is included for marketing. As part of the approval of the connection of Nenagh an allowance of €70,000 was allowed. Decreasing gas demand across the network puts upward pressure on tariffs, the effect of which can be dampened by maximising the number of homes and businesses connecting to the network.

GNI have conducted analysis which indicates that with an increased marketing spend of €170,000 the number of residential and business connections in Nenagh can be increased above the target level. The CER has approved this expenditure on the basis that an ex-post quantitative analysis will be conducted to assess whether this expenditure resulted in increased connections. If the CER views that the expenditure did not result in increased connections it may direct GNI to return, some or all of the increase in the allowance.

[1] 50% of this allowance will be recovered from Distribution Tariffs i.e. €150,182

4.0 2013/14 Correction Factor

The application of a correction factor adjusts for the difference between actual revenues and pass-through costs versus the ex-ante projections for these items, which were forecast at the time of setting tariffs in August 2013.

For 2013/14 there was an under-recovery of €1.98m.This was due to milder than anticipated weather which resulted in lower than expected usage. Additionally, actual pass-through items are also corrected for.

In addition to the above, as part of the 2014/15 tariffs the CER decided that an over-recovery for 2012/13 of €5.63m would be given back over a three year period. Therefore, €2.05m over-recovery will be applied to the required revenues for 15/16. This has been profiled in an NPV neutral way to ensure that the true value of the over-recovery is given back in 2015/16.

The variance on the pass-through items is indicated below.

13/14 Actual Outturn	Over/Under recovery	€m	Cumulative additional revenue required €m
Revenue recovery 13/14	Under	+1.98	+1.98
Rates	Over	-0.68	+1.30
Safety	Over	-0.25	+1.05
CER Levy	Under	+0.20	+1.25
Gas Shrinkage	Under	+0.10	+1.35
Gaslink	Over	-0.05	+1.30
Revenue Protection	Over	-0.29	+1.01
Total 13/14 under recovery			**+1.01**
Interest rate Multiplier			1.05
Total Correction Factor 13/14	Under		**+1.07**
12/13 Revenue Over recovery	Over		**-2.05**
Correction applied to 15/16 tariffs	Over		**-0.98**

Table 4.1 13/14 Corrections

5.0 Interest Rate Multiplier/Euribor Rates

5.1. Euribor Rates

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

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

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

Table 5.1 Euribor

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%[2] 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.

[2] Source: Central Bank HICP

6.0 Demand Projections

For the PC3 period demand projections were estimated for each of the 5 years of the Price Control. The annual tariff setting process updates the forecasts.

The Commodity forecast haw increased which is due to strong underlying Industrial/Commercial (IC) growth and a number of new connections arising in 2015/16.

In general, capacity projections are based on the Supply Point Capacity (SPC) calculation. At an overall level the SPC for existing customers has reduced. Therefore, notwithstanding the growth evident in increased Commodity projections the expected peak day capacity bookings have been reduced. In essence, the customers are becoming less peaky.

The demand projections for capacity have decreased for Capacity and increased a small amount for Commodity.

Commodity (15/16)	**GWh**
PC3 Projections	14,585
Current Projections	15,344
% Change	3.9%

Table 6.1 Commodity Projections

Capacity (15/16)	**GWh/per peak day**
PC3 Projections	117.18
Current Projections	113.58
% Change	-2.6%

Table 6.2 Capacity Projections

7.0 CER Decision on Distribution Tariffs for 2015/16

Previous sections outline the elements affecting the Distribution tariffs to apply from October 2015. The five year revenue review (CER 12/194) 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). The 15/16 revenues (€188m) are just under 1% higher than the 14/15 revenues (€187m).

These revenues are then adjusted for inflation and for any additional revenues required for 15/16 and for corrections in previous years. Additionally, as noted in section 6 the Supply Point Capacity (SPC) for existing customers has reduced leading to a reduction in the overall capacity bookings from what had been expected.

The combination of these factors are responsible in large part for the increase in tariffs when compared to 14/15 tariffs.

The CER hereby directs Gas Networks Ireland to implement the tariffs set out in the table below from 1st October 2015 – 30th September 2016. A worked example, outlining the effect on an average residential dwelling is also shown below.

Volume Range (MWh)		**Capacity Charge(c/peak day kWh)**		
>	< or=	A	B	Total
0	73	153.6833		153.6833
73	14,653	136.0469	3.9551	A - B *Ln(PDV[MWh])
14,653	57,500	339.8943	48.7750	A - B *Ln(PDV[MWh])
57,500		41.9149		41.9149

Table 7.1 Capacity charges

Volume Range (MWh)		**Commodity Charge(c/ kWh)**		
>	< or=	A	B	Total

0	73	0.3412		0.3412
73	14,653	0.2725	0.0265	A - B *Ln(PDV[MWh])
14,653	57,500	0.3176	0.0419	A - B *Ln(PDV[MWh])
57,500		0.0621		0.0621

Table 7.2 Commodity charges

An example for a domestic dwelling is included below (<73,000 MWh). This indicates that whilst the capacity charge element is higher than 2014/15, the commodity element of an average domestic dwelling distribution tariff is slightly lower. Overall, weighted nominal tariffs have increased 3.3% versus the 14/15 tariffs.

	14/15 charges (14/15 monies)	14/15 charges (15/16 monies)	15/16 charge	Nominal 14/15 charges vs. 15/16 charge	Real 14/15 charge(in 15/16 monies) vs. 15/16 charges
Capacity charge	147.1558	148.5538	153.6833	+4.4%	+3.5%
Commodity charge	0.3451	0.3484	0.3412	-1.1%	-2.1%
				% change in weighted tariffs (80% Capacity/20% Commodity) +3.3%	+2.4%

Table 7.3 NDM tariff impact