



Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Gas Networks Ireland Allowed Revenue and Distribution Tariffs 2017/18

Decision Paper

Reference:	CER/17/274	Date Published:	30/08/2017	Queries to:	Daniel Ward dward@cer.ie
------------	------------	-----------------	------------	-------------	-----------------------------

Regulating Water, Energy and Energy Safety in the Public Interest

The Exchange, Belgard Square North, Tallaght, Dublin 24, Ireland
+353 1 4000 800 | info@cer.ie | www.cer.ie

Public Impact Statement

Gas Networks Ireland (GNI) owns and operates the gas network which supplies all gas customers in Ireland. GNI charges gas customers an amount towards the cost of safely operating and maintaining the gas network through gas customers' bills.

The Commission for Energy Regulation's (CER) role is to protect gas customers by ensuring that GNI spends customers' money appropriately and efficiently to deliver necessary services. The CER does this through the Price Control review, which is carried out every 5-years, and through the annual tariff setting process.

The annual tariff setting process is important as it ensures that GNI has the required amount of money to safely operate the gas network and in turn customers are correctly charged for the services. The impact for customers will be:

- Distribution Network Tariffs for 2017/18 have increased by 2.3% compared to 2016/2017. Network tariffs are charged to gas suppliers who may choose to pass them on to their customers. At present distribution network tariffs make up approximately 30% of a domestic customers bill. The network tariff changes in this paper will equate to a c. 0.77% increase on an average residential gas customer's bill.
- The combined effect of the Transmission and Distribution Network Tariffs for 2017/18 on an average residential gas customer's annual bill is an increase of €2.89.

The CER will continue to monitor GNI to ensure the following:

- A gas network that is operated to the highest safety standards, ensuring safe supply of gas to customers;
- A reliable and secure supply of gas to homes and businesses;
- The efficient management of the gas network resulting in stable tariffs; and,
- A high standard of customer service at all times with timely resolution to complaints.

Executive Summary

This Decision Paper sets out the Allowed Revenues that GNI may recover during the course of Gas Year 2017/18 stemming from the CER's PC4 Decision Paper (CER/17/259).

The Distribution revenues are required for the safe and efficient operation and maintenance of the low pressure distribution system

Normally, the annual tariff decision paper provides updates on additional revenue requests from GNI which the CER has approved and examines key inputs such as the Cost of Capital, the inflation rate and the forecast capacity bookings and commodity flows which all influence the level of GNI's tariffs. However the CER has completed the price control review for PC4 and consequently this information was examined as part of that review and can be found [here](#).

On the basis of the revenues and forecast capacity bookings and forecast commodity flows, the network tariffs that will prevail from 01 October 2017 to 30 September 2018 are set out in Section 4.

In nominal terms capacity charges have increased by 2.5% versus 2016/17 and commodity charges have increased by 1.6%. The weighted tariff has increased by 2.3% in nominal terms.

The distribution network tariff changes in this paper will equate to a c. 0.77% increase on an average residential gas customer's bill.

The combined effect of the transmission and distribution network Tariffs for 2017/18 on an average residential gas customer's annual bill is an increase of €2.89, which is less than half a percent.

Table of Contents

Executive Summary	1
Public Impact Statement	Error! Bookmark not defined.
Table of Contents	3
Glossary of Terms and Abbreviations	4
1 Introduction	5
1.1 Commission for Energy Regulation	5
1.2 Related Documents	5
1.3 Structure of Paper	5
2 Background to CER Tariff setting	6
2.1 Revenue Setting process and inputs	6
3 Demand Projections	7
4 CER Decision on Distribution Tariffs for 2017/18	8

Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
Allowed Revenues	The sum of revenues that the TSO is entitled to obtain in a given period, as approved by the CER.
Capex	Capital Expenditure (Capex) is the initial expenditure on investment in network infrastructure, such as underground cables.
CER	Commission for Energy Regulation
Correction Factor (K-Factor)	An adjustment of revenue applied to rectify over or under recoveries.
Cost of Capital	The return that GNI are permitted to earn during a given year.
Distribution Supply Point Capacity	Capacity in kilowatt-hours (kWh) at a Supply Point that is deemed to be reserved for the peak day. A “1-in-50” peak day is used, which is based on weather conditions so severe that statistically they are only likely to occur once every 50 years.
Euribor	Euro Interbank Offered Rate indicating the average interest rates at which Eurozone banks offer to lend to other banks.
Extra-over items	Work items not included in the Price Control
GNI	Gas Networks Ireland
HICP	Harmonised Index of Consumer Pricing
Pass-through items	Work items that were included in the Price Control but the costs of which were not certain at the time of the Price Control.
PC	Price Control
Price Control	A 5 - yearly review of GNI’s allowed revenues.
WACC	Weighted Average Cost of Capital (WACC) is a weighted average of the expected equity and debt for the transmission and distribution system operator, which is GNI.

1 Introduction

1.1 Commission for Energy Regulation

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 the distribution system.

This paper outlines the CER's decision in relation to the GNI's allowed revenues and distribution tariffs that will apply from 01 October 2017 to 30 September 2018.

The calculation of tariffs for the forthcoming gas year is based on the CER's recent decision regarding GNI's allowed revenues for the next 5 years. GNI is currently in its fourth Price Control (PC4) with 2017/18 being the first year of PC4.

1.2 Related Documents

- Decision on October 2017 to September 2022 distribution revenue for Gas Network Ireland (CER/17/259).

Information on the CER's role and relevant legislation can be found on the CER's website at www.cer.ie

1.3 Structure of Paper

This paper is divided into a number of sections detailed below:

- **Section 1** details the purpose of this paper.
- **Section 2** details the revenues that GNI are allowed to obtain in the coming Gas Year (2017/18).
- **Section 3** outlines the PC4 forecast capacity and commodity trends.
- **Section 4** details the CER's decision on Distribution tariffs for the upcoming gas year 2017/18.

2 Background to CER Tariff setting

2.1 Revenue Setting process and inputs

In August 2017 the CER published its Decision Paper (CER/17/259) on the allowed revenue that GNI's distribution business may recover over the Price Control period from 01 October 2017 to 30 September 2022. The PC4 Decision Paper has allowed €989.6m (15/16 monies) to be recovered for the distribution business over the 5 year period.

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 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. However as this year was a Price Control review year there are no "pass-through" or "extra-over" items for the distribution business for this tariff period.

3 Demand Projections

As part of the PC4 Decision demand projections were estimated for each of the five years of the control period. As part of the setting of annual tariffs during PC4 these demand figures will be adjusted to consider the latest forecasts.

GNI forecast that distribution commodity will increase by c. 8% over the PC4 period. Growth in the Industrial and Commercial sector (particularly daily metered) is the main driver of this increase. The forecast increase in distribution demand is a direct result of a return to economic growth, the connection of new towns in PC3 and the additional customers targeted as part of GNI's growth strategy.

Distribution Supply Point Capacity is forecast to remain at the same level by the end of PC4. This is mainly due to growth in the daily metered sector being offset by reductions in the residential sector.

4 CER Decision on Distribution Tariffs for 2017/18

The 2017/18 revenues (€198.5m) are 0.05% higher than the 16/17 revenues (€198.4m). These revenues are presented in 2017/18 monies.

The CER hereby directs Gas Networks Ireland to implement the tariffs set out in the table below from 01 October 2017 to 30 September 2018.

Table 2.1: Distribution Capacity tariffs 17/18

Volume Range (MWh)		Capacity Charge(c/peak day kWh)		
>	< or=	A	B	Total
0	73	158.3296		158.3296
73	14,653	140.1600	4.0747	A - B *Ln(PDV[MWh])
14,653	57,500	350.1701	50.2496	A - B *Ln(PDV[MWh])
57,500		43.1821		43.1821

Table 2.2: Distribution Commodity tariffs 17/18

Volume Range (MWh)		Commodity Charge(c/ kWh)		
>	< or=	A	B	Total
0	73	0.3424		0.3424
73	14,653	0.2735	0.0266	A - B *Ln(PDV[MWh])
14,653	57,500	0.3187	0.0420	A - B *Ln(PDV[MWh])
57,500		0.0623		0.06233

Table 2.3: Tariff comparison for standard domestic dwelling

	2016/17 Tariff charge in 16/17 monies (Nominal)	2017/18 Tariff charge in 17/18 monies (Nominal)	17/18 charge vs. 16/17 charge (Nominal)	17/18 charge vs 16/17 charge (Real) ¹
Capacity Charge	154.5120	158.3296	2.5%	1.5%
Commodity Charge	0.3370	0.3424	1.6%	0.6%
% change in Weighted Tariff			2.3%	1.3%

¹ Forecast HICP inflation of 0.96% for 17/18, average of Central Bank, ESRI and Dept. of Finance forecasts.