



An Coimisiún
um Rialáil Fóntas
**Commission for
Regulation of Utilities**

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Gas Networks Ireland Distribution Tariffs and Allowed Revenue 2018/19

Information Note

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Executive Summary

Article 29 of the Tariff Network Code¹, now requires that transmission reserve prices and a set of accompanying information is published 30 days ahead of the annual yearly capacity auctions. The annual yearly capacity auctions will be held on 2 July 2018 for the forthcoming gas year which commences on 1 October 2018. As a result, this is the first time that the transmission reserve prices for the coming gas year will be known to Shippers in advance of the annual yearly capacity auctions. Although it is not required under Article 29, as the transmission and distribution tariffs are calculated together, the Commission for Regulation of Utilities (CRU) is also publishing the distribution tariffs.

It should be noted that, under Article 30 of the Tariff Network Code, a more detailed paper on the transmission tariff information will be published 30 days ahead of the gas tariff period which runs in from 1 October – 30 September. This paper will contain the information typically included in the CRU's tariff decision papers. This CRU will also take this opportunity to publish a more detailed paper containing distribution tariff information.

On the basis of the revenues, forecast capacity bookings and forecast commodity flows the network tariffs, that will prevail from 01 October 2018 to 30 September 2019 are outlined in the table below.

Table 1 Distribution Tariffs 2018/19

	2017/18 Tariff		2018/19 Tariff	Nominal	Real ²
	2017/18 charge in 17/18 monies (Nominal)	2017/18 charge in 18/19 monies (Nominal)	18/19 charge in 18/19 monies	17/18 charge in 17/18 monies vs 18/19 tariff	17/18 charge in 18/19 monies vs 18/19 tariff
Capacity Charge	158.3296	160.0118	152.1816	-3.9%	-4.9%
Commodity Charge	0.3424	0.3461	0.3318	-3.1%	-4.2%

¹ Commission Regulation (EU) 2017/460 – 16 March 2017

² Forecast HICP inflation of 1.06% for 18/19, average of Central Bank and Dept. of Finance forecasts.

In nominal terms capacity charges have decreased by **3.9%** and commodity charges have decreased by **3.1%**. Therefore, distribution network tariffs³ in nominal terms are down **c.4%** when compared to 2017/2018 tariffs.

Network tariffs are charged to gas suppliers who may choose to pass them on to their customers. The distribution network tariff charge in this paper will equate to a **c.1.25%** decrease on an average residential gas customer's bill.

The combined effect of the Transmission and Distribution Network Tariffs for 2018/19 on an average residential gas customer's **annual** bill would see a decrease of c. **€13.67**, which overall is a **1.8%** decrease.

³ Weighted average

Public Impact Statement

The CRU is legally responsible for regulating network charges in the natural gas market. The CRU may set the basis for charges for using the transmission systems. The CRU does so this in the best interests of the consumer. Our goal is to ensure that the gas is safely and securely supplied and that the charges are fair and reasonable.

The key customer impacts are as follows:

- Distribution network tariffs in nominal terms are down c.4% when compared to 2017/2018 tariffs. Network tariffs are charged to gas suppliers who may choose to pass them on to their customers. The distribution network tariff charge in this paper will equate to a c.1.25% decrease on an average residential gas customer's bill.
- The combined effect of the Transmission and Distribution Network Tariffs for 2018/19 on an average residential gas customer's annual bill is a decrease of c. €13.67, which is a 1.8% decrease.

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 CRU.
CRU	Commission for Regulation of Utilities
Correction Factor (K-Factor)	An adjustment of revenue applied to rectify over or under recoveries.
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.
Extra-over items	Work items not included in the Price Control
GNI	Gas Networks Ireland
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.
Price Control	A 5 - yearly review of GNI’s allowed revenues.

1 Introduction

1.1 Commission for Regulation of Utilities

Under the Gas (Interim) (Regulation) Act, 2002, the CRU is responsible for regulating charges in the natural gas market. Under Section 14 of the Act, the CRU may set the basis for charges for transporting gas through the transmission system.

This paper outlines the CRU's decision in relation to the Gas Networks Ireland's (GNI) allowed revenues and distribution tariffs that will apply from 01 October 2018 to 30 September 2019.

The calculation of distribution tariffs is based on the Price Control (PC4) (CER/17/259) which established revenues for distribution over the 5 year period from October 2017 to September 2022.

1.2 Background Information

Article 29 of the Tariff Network Code⁴, requires that transmission reserve prices and accompanying information is published 30 days ahead of the annual yearly capacity auctions. This year, the annual yearly capacity auctions will be held on 2 July 2018. As a result, this is the first time that the transmission reserve prices and a set of accompanying information will be published at the earlier time of 1 June 2018.

Although it is not required under Article 29, as the transmission and distribution tariffs are calculated together, the CRU is publishing the distribution tariffs along with the transmission tariffs.

1.3 Related Documents

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

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

⁴ Commission Regulation (EU) 2017/460 – 16 March 2017

2 Setting the tariffs for 2018/19

2.1 Revenue setting process and inputs

In August 2017, the CRU 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.

2.2 Pass-through costs and extra-over items

As part of the annual tariff setting, GNI submits requests for items that are either considered pass-through costs or extra over items. Pass through costs are those which at the time of the Price Control, the exact expenditure was not finalised. The CRU has decided to allow GNI **€3.47m** to GNI for pass-through cost for 2018/19 tariffs. This includes an allowance of **€2m** for Supplier of Last Resort (SoLR)⁵, **€0.45m** for gas shrinkage and **€1.02m** for safety initiatives and advertising.

In addition to pass-through costs, GNI has also submitted a request of **€0.666m** for extra over items, which are items that were not foreseen at the time of the Price Control. The CRU has not provided an allowance for extra over items at this time.

2.3 Correction Factor (K-Factor)

A correction factor is an adjustment of revenue applied to rectify over or under recoveries.

The distribution correction factor for 2018/19 tariffs is a **€4.09m** give-back. This over-recovery relates to a 2016/17 allowed revenue variance (€2.58m), pass-through costs (€1.36m) and interest costs (€0.149m)⁶.

⁵ The role of the SoLR is to ensure the continuity of supply to customers where a shipper ceases operation. Bord Gáis Energy (BGE) is the designated SoLR. As part of the PC4 Decision, the CRU decided that costs incurred for SoLR would be treated as a 100 per cent pass-through cost.

⁶ In setting the 2018/19 tariffs an inflation rate of 1.06% is assumed. This is average of the Central Bank, ESRI and Dept. of Finance forecasts.

2.4 Demand Projections

As part of the PC4 Decision demand projections were estimated by GNI for each of the five years of the control period. As part of the setting of annual tariffs these demand figures have been adjusted to consider the latest available forecasts.

At a high-level, GNI forecast distribution demand to increase by **c.4%** when compared to the 17/18 tariff demands.

Distribution Supply Point Capacity (SPC)⁷ in 2018/19 is forecast to increase by **c.7%** compared to 2017/18 tariff forecasts. This is due mainly to a higher 1 in 50 in 2018/19, underlying growth due to gross domestic product (GDP) and expected growth in new connections.

For the forthcoming year, total distribution commodity forecasts are **c.4%** higher than 17/18 tariff forecasts. This is reflective of higher than anticipated growth in the Non-Daily Metered (NDM) sector, due to strong growth in the economy. The Daily Metered (DM) and Large Daily Metered (LDM) commodity is in line with 2017/18 with growth being off-set by lower efficiencies.

⁷ Relates to the capacity for the peak day reserved for a gas supply point.

3 CRU Decision on Distribution Tariffs for 2018/19

Previous sections outline the elements affecting the distribution tariffs which will apply from 01 October 2018 to 30 September 2019. The CRU hereby directs Gas Networks Ireland to implement the tariffs set out in the table below from 01 October 2018 to 30 September 2019, based on an allowed revenue of €204m.

Overall, capacity tariffs are down 3.9% in nominal terms versus 2017/18 and commodity tariffs are down 3.1% on 2017/18. Therefore, distribution network tariffs for 2018/19 have decreased by c.4% compared to 2017/18.

Table 3.1: Distribution Tariffs 2018/19

	2017/18 Tariff		2018/19 Tariff	Nominal	Real ⁸
	2017/18 charge in 17/18 monies (Nominal)	2017/18 charge in 18/19 monies (Nominal)	18/19 charge in 18/19 monies	17/18 charge in 17/18 monies vs 18/19 tariff	17/18 charge in 18/19 monies vs 18/19 tariff
Capacity Charge	158.3296	160.0118	152.1816	-3.9%	-4.9%
Commodity Charge	0.3424	0.3461	0.3318	-3.1%	-4.2%

3.1 Next Steps

It should be noted that, under Article 30 of the Tariff Network Code, a more detailed paper on the transmission and distribution tariffs will be published 30 days ahead of the gas tariff period which runs in ROI from 1 October – 30 September. It should be noted however that the Tariff figures will not change for 2018/19.

⁸ Forecast HICP inflation of 1.06% for 18/19, average of Central Bank and Dept. of Finance forecasts.

Appendix A

Table 1 Distribution Capacity tariffs 18/19

Volume Range (MWh)		Capacity Charge (c/pk day kWh)		
>	< or =	A	B	Total
0	73	152.1816		152.1816
73	14,653	134.7176	3.9165	A - B *Ln(PDV[MWh])
14,653	57,500	336.5730	48.2984	A - B *Ln(PDV[MWh])
57,500		41.5054		41.5054

Table 2 Distribution Commodity tariffs 17/18

Volume Range (MWh)		Commodity Charge (c/kWh)		
>	< or =	A	B	Total
0	73	0.3318		0.3318
73	14,653	0.2650	0.0258	A - B *Ln(PDV[MWh])
14,653	57,500	0.3088	0.0407	A - B *Ln(PDV[MWh])
57,500		0.0604		0.0604