



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

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Gas Networks Ireland Distribution Tariffs and Allowed Revenue 2019/20 Information Note

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Executive Summary

This paper sets out the distribution network tariffs to apply from 1st October 2019 to 30th September 2020. This paper is being published alongside a separate paper detailing the transmission tariffs for this period. Article 29 of the Tariff Network Code¹, 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 1 July 2019 for the forthcoming gas year which commences on 1 October 2019. As a result, 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.

On the basis of the revenues, forecast capacity bookings and forecast commodity flows, the network tariffs that will prevail from 01 October 2019 to 30 September 2020 are as detailed in Table 1 below.

Table 1 Distribution Tariffs 2019/20

| | 2018/19 Tariff | | 2019/20 Tariff | Nominal | Real ² |
|-------------------------|--|--|------------------------------|--|--|
| | 18/19 charge in 18/19 monies (Nominal) | 18/19 charge in 19/20 monies (Nominal) | 19/20 charge in 19/20 monies | 18/19 charge in 18/19 monies Vs 19/20 tariff | 18/19 charge in 19/20 monies Vs 19/20 tariff |
| Capacity Charge | 152.1816 | 154.0687 | 149.6290386 | -1.68% | -2.92% |
| Commodity Charge | 0.3318 | 0.3359 | 0.3163151 | -4.66% | -5.90% |

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

² Forecast HICP inflation of 1.24% for 19/20.

In nominal terms capacity charges have decreased by **1.68%** and commodity charges have decreased by **4.66%**. Therefore, distribution network tariffs³ in nominal terms are down **c.2.2%** when compared to 2018/2019 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. 0.65% (or €4.93)** decrease on an average domestic gas customer's bill.

The combined effect of the Transmission and Distribution Network Tariffs for 2019/20 on the average **annual** bill for a residential gas customer would see a decrease of c. **€8.59**, which overall is a **1.13%** 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 distribution system. Our mission is to protect the public interest in water, energy and energy safety.

The tariffs set out in this paper are charged to suppliers for use of Gas Network Ireland's distribution network – this network consists of smaller pipes that includes those running to customers' homes. The tariffs are designed to recover only necessary costs. Suppliers may choose to pass the costs for use of this network on to their customers.

The CRU conducts an annual review of distribution tariffs to ensure that only necessary costs are included in the calculation of these tariffs. This work has now completed and the distribution tariffs to apply from 01 October 2019 to 30 September 2020 are published in this paper. These tariffs are lower than the distribution network tariffs currently in place. In nominal terms, they will reduce distribution network tariffs by just over 2% (approximately a **2.2%** reduction). In terms of their impact on residential customers, it is estimated that the distribution network tariffs detailed in this paper will decrease the average residential gas customer's bill by **c. 0.65% (or €4.93)**.

The tariffs for the use of Gas Networks Ireland's transmission network (the larger gas pipes moving gas around the country) are also being published today. Those tariffs will also apply from 01 October 2019 to 30 September 2020. They are detailed in a separate paper. When we consider the combined effect of the Transmission and Distribution network tariffs for the period 30th September 2019 to 1st October 2020, it is estimated that the average annual bill for residential gas customers will decrease by c. **€8.59** or **1.13%** in percentage terms.

Glossary of Terms and Abbreviations

| Abbreviation or Term | Definition or Meaning |
|---|---|
| Allowed Revenues | The sum of revenues that the DSO 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

The Commission for Regulation of Utilities (CRU) is Ireland's independent energy and water regulator. The CRU was established in 1999 and now has a wide range of economic, customer protection and safety responsibilities. The CRU's mission is to regulate water, energy and energy safety in the public interest.

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

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

This paper outlines the CRU's decision in relation to Gas Networks Ireland's (GNI) allowed revenues and distribution tariffs that will apply from 01 October 2019 to 30 September 2020.

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 1 July 2019. As a result, the transmission reserve prices and a set of accompanying information will be published on 31 May 2019.

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).
- Gas Networks Ireland Transmission Tariffs 2019/20 (CRU19061)

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

2 Setting the tariffs for 2019/20

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 an additional **€2.39m** for pass-through cost for 2019/20 tariffs. This includes an allowance of **€0.49m** for safety initiatives and advertising, **€1.35m** for rates and other items are **-€0.12m** under their PC4 allowance.

In addition to pass-through costs, the CRU has decided to allow GNI **€0.09m** for Supplier of Last Resort (SoLR)⁵ and **€0.57m** for the Pre-Payment Metering (PPM) Enhancement project⁶. These costs are extra over items, which were not foreseen at the time of the Price Control. However, the CRU has decided that the costs incurred for SoLR⁷ and the PPM Enhancement project will be treated as 100 per cent pass-through costs so that any costs not spent can be recovered as part of the Price Control 5 look-back.

2.3 Correction Factor (K-Factor)

A correction factor (or k-factor) is an adjustment of revenue applied to rectify over or under recoveries from previous gas years. It is based on the difference between the actual inflation, interest rates,

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.

⁶ In 2017, the CRU deemed it appropriate that suppliers contract their own pre-payment channels for gas. As part of this the CRU directed GNI to review its gas prepayment IT solution with a view to ensuring it may be developed over the longer term to facilitate new entrants in the gas retail market.

⁷ 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.

revenues collected and pass-through costs incurred by GNI; versus the ex-ante projections for such items.

The k-factor closes out the year K t-1, i.e. when setting the tariffs for the year 2019/20, the CRU close out the year 2017/18. This is to ensure that the tariffs are stable and that volatility is avoided.

The distribution correction factor for 2019/20 tariffs is a **€12.36m** give-back. This over-recovery relates to a 2017/18 allowed revenue variance (€9.98m), pass-through costs (€0.81m), inflation (€0.9m) and interest costs (€0.67m). It should be noted that any over-recovery in excess of 105% of allowed revenues is returned in the following gas year i.e. any 17/18 k-factor > 105% is returned in gas year 2020/2021 and not gas year 2019/20. As this k-factor give-back exceeds the 105% rule, €10.32m will be returned in 2019/20 and the remainder will be returned in 2020/21.

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.2%** when compared to the 2018/19 tariff demands.

Distribution Supply Point Capacity (SPC)⁸ in 2019/20 is forecast to decrease by **c.2%** compared to 2018/19 tariff forecasts. This is due mainly to a lower 1 in 50⁹ in 2019/20.

For the forthcoming year, total distribution commodity forecasts are **c.2%** higher than 2018/19 tariff forecasts. This is reflective of higher than anticipated growth in the Non-Daily Metered (NDM) sector, due to strong growth in the economy¹⁰. Metered (LDM/DM) commodity is in line with 2018/19 with growth being off-set by efficiencies.

⁸ Relates to the capacity for the peak day reserved for a gas supply point.

⁹ NDM customers are required to reserve capacity or 'space' in the pipe for a '1 in 50' peak day. A '1 in 50' peak day is based on weather conditions so severe that statistically they are only likely to occur once every 50 years.

¹⁰ The NDM sector covers small customers primarily residential and small businesses.

3 CRU Decision on Distribution Tariffs for 2019/20

Previous sections outline the elements affecting the distribution tariffs which will apply from 01 October 2019 to 30 September 2020. The CRU hereby directs GNI to implement the tariffs set out in the table below from 01 October 2019 to 30 September 2020, based on an **allowed revenue of €196m.**

Overall, capacity tariffs are down 1.68% in nominal terms versus 2018/19 and commodity tariffs are down 4.66% on 2018/19. Therefore, distribution network tariffs for 2019/20 have decreased by c.2.2% ¹¹compared to 2018/19.

Table 3.1: Distribution Tariffs 2019/20

| | 2018/19 Tariff | | 2019/20 Tariff | Nominal | Real ¹² |
|-------------------------|--|--|------------------------------|--|--|
| | 18/19 charge in 18/19 monies (Nominal) | 18/19 charge in 19/20 monies (Nominal) | 19/20 charge in 19/20 monies | 18/19 charge in 18/19 monies Vs 19/20 tariff | 18/19 charge in 19/20 monies Vs 19/20 tariff |
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¹¹ Weighted

¹² Forecast HICP inflation of 1.24% for 19/20, average of Central Bank and Dept. of Finance forecasts.

Appendix A

Table 1 Distribution Capacity tariffs 19/20

| Volume Range (MWh) | | Capacity Charge (c/pk day kWh) | | |
|--------------------|--------|--------------------------------|----------|---------------------|
| > | < or = | <i>A</i> | <i>B</i> | <i>Total</i> |
| 0 | 73 | 149.6290 | | 149.6290 |
| 73 | 14,653 | 132.4579 | 3.8508 | A - B *Ln(PDV[MWh]) |
| 14,653 | 57,500 | 330.9276 | 47.4883 | A - B *Ln(PDV[MWh]) |
| 57,500 | | 40.8092 | | 40.8092 |

Table 2 Distribution Commodity tariffs 19/20

| Volume Range (MWh) | | Commodity Charge (c/kWh) | | |
|--------------------|--------|--------------------------|----------|---------------------|
| > | < or = | <i>A</i> | <i>B</i> | <i>Total</i> |
| 0 | 73 | 0.3163 | | 0.3163 |
| 73 | 14,653 | 0.2527 | 0.0246 | A - B *Ln(PDV[MWh]) |
| 14,653 | 57,500 | 0.2944 | 0.0388 | A - B *Ln(PDV[MWh]) |
| 57,500 | | 0.0576 | | 0.0576 |