



An Coimisiún  
um Rialáil Fóntas  
Commission for  
Regulation of Utilities



An Coimisiún um Rialáil Fóntais  
Commission for Regulation of Utilities

# Gas Networks Ireland Transmission Tariffs and Allowed Revenue 2020/21 Decision Paper

Decision paper

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## CRU Mission Statement

The CRU's mission is to protect the public interest in Water, Energy and Energy Safety.

The CRU is guided by four strategic priorities that sit alongside the core activities we undertake to deliver in the public interest. These are:

- Deliver sustainable low-carbon solutions with well-regulated markets and networks
- Ensure compliance and accountability through best regulatory practice
- Develop effective communications to support customers and the regulatory process
- Foster and maintain a high-performance culture and organisation to achieve our vision

## Executive Summary

This paper sets out the transmission network tariffs to apply from 01 October 2020 to 30 September 2021 (gas year 2020/21). Article 29 of the Tariff Network Code<sup>1</sup>, 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 06 July 2020 for the forthcoming gas year which commences on 01 October 2020 (and runs until 30 September 2021). As such this information needs to be made available at the start of June. Although it is not required under Article 29, as the transmission and distribution tariffs are calculated in a joint process, the CRU is also publishing the distribution tariffs at this time, in a separate paper (CRU/20/060).

With this paper, the Commission for Regulation of Utilities (CRU) is publishing the required information. It should be noted that a more detailed paper on the transmission tariffs will be published 30 days ahead of the 2020/21 gas year. That publication will fulfil the requirements of Article 30 of the Tariff Network Code.

Each year, the network tariffs are reviewed to ensure that Gas Networks Ireland (GNI) only recovers the necessary costs for efficient operation of the network. The review uses the most up to date revenue and demand data, as submitted by GNI.

In its review, the CRU considered the impacts of Covid-19. In terms of setting transmission tariffs for the upcoming gas year, Covid-19 presents a challenge. Sustained large reductions in demand

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

could cause significant upward pressure on tariffs. However, gas demand has mostly recovered to normal levels, since the pandemic began and the most up to date forecasts are indicating that demand, for the gas year 20/21, will be similar to previous years. There are, of course, uncertainties that remain with Covid-19 and the CRU is continuing to monitor the situation carefully; ready to take any necessary action.

In its review of transmission tariffs, the CRU has carefully considered the above and how Covid-19 may impact network costs in the future. The review has resulted in the following tariffs outlined in Table 1.

Table 1: Transmission tariffs 2020/21

	<b>Bellanaboy entry</b>	<b>RNG entry</b>	<b>Moffat (IP) entry</b>	<b>Domestic exit</b>	<b>Gormanston (IP) exit</b>
<b>Firm<sup>2</sup> capacity - €/peak day MWh</b>	629.99 <sup>3</sup>	106.24	314.81	407.63	385.37
<b>Commodity - €/MWh</b>	0.114			0.236	

For comparison, Table 2 below provides the 2020/21 transportation cost of Great British (GB) gas<sup>4</sup> in the context of recent years. The transportation cost of GB gas is important because, generally, Irish wholesale gas prices are set by the GB price of gas plus the cost of transporting gas from GB to Ireland via the interconnectors, as GB gas is the marginal source of gas supply to Ireland. The transportation cost of GB gas to Ireland will increase in nominal terms by c.8%. The main reason for the 2020/21 increase in the cost of transportation of GB gas is that shrinkage costs have, moved into, and therefore increased the allowed revenue. This is being done in accordance with the CRU's 2019 decision on the harmonised transmission tariff methodology and in compliance with the EU tariff network code.<sup>5</sup>

<sup>2</sup> "Firm" means gas transmission capacity contractually guaranteed as uninterruptible by the transmission system operator.

<sup>3</sup> This is composed of two elements; one to remunerate the transmission services revenue of GNI (€132.36) plus a Corrib Linkline Element (€497.64), which will remunerate the revenues relating to the Corrib Linkline (Corrib Partners).

<sup>4</sup> Moffat entry capacity tariff + domestic exit capacity tariff.

<sup>5</sup> Shrinkage gas includes own use gas (OUG) and unaccounted for gas (UAG). To date shrinkage costs were not included in the allowed revenue and are therefore not recovered through tariffs. Instead GNI billed these costs to gas shippers directly on a monthly basis, based on their throughput. However, as part of the CRU's tariff network code decision (CRU/19/060), it was decided that from 2020/21 onwards, shrinkage should be included in the allowed revenue as it is a transmission service. As this is a movement of costs, not an increase in overall costs, it should not lead to an increase in costs for end customers.

However, Table 2 shows that this cost has fallen in recent years. This is because GNI has earned more transmission revenue than expected, putting downward pressure on tariffs. This has been caused by greater gas demand than was forecast and also more supply being met from the Moffat entry point than initially forecast.<sup>6</sup> Despite the c.8% increase, due to reductions in the previous three years, the cost of transportation of GB gas remains below 2016/17 and 2017/18 levels.

Table 2: Recent cost of transportation for GB gas (nominal)

	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Capacity – €/peak MWh</b>	788.605	761.263	715.864	669.00	722.44

The CRU also considered options to address any potential unsustainable increases in tariffs due to Covid-19. However, on balance and in the interest of tariff stability for this coming year and further years, these are not considered appropriate at this time. Avoiding certain costs at this time could lead to a build-up of costs for future years and could increase the risk of customers facing more significant tariff increases in the coming years.

Network tariffs are charged to gas shippers/suppliers. It is up to suppliers whether to pass on these costs to their customers. Currently, the CRU estimates that network tariffs charges make up approximately 28% of a residential customer's bill. The transmission network tariff charge, if fully passed onto gas customers, would equate to a c. 0.2% (or €2) increase on an average residential gas customer's annual bill. However, the CRU would note that the pricing decisions of suppliers do not just reflect network charges but also the other charges they are faced with. For example, suppliers may be experiencing additional costs relating to the current pandemic, but they are also likely to be experiencing reduced wholesale gas costs.

As in previous years, the CRU is also publishing, today, the distribution network tariffs. The distribution tariffs are also set to increase (by c. 5%). It is estimated that the combined change in transmission and distribution tariffs equates to a 1.3% (or €11) increase on an average residential gas customer's annual bill. However, the CRU estimates that on an overall basis bills should not be higher for customers in gas year 2020/21 than they were in 2019/20, due to cost reductions in other areas that effect a customer's final bill.

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<sup>6</sup> The Moffat entry point is more expensive resulting in more revenue recovery by GNI.

## 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 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 transmission network – this network consists of the larger gas pipes, for example the gas pipes between larger cities and towns. The CRU conducts an annual review of transmission 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 2020 to 30 September 2021 are published in this paper.

In its review, the CRU considered the impacts of Covid-19. There has been some decrease in gas demand and increased uncertainty in terms of future demand. This is important because decreases in gas demand can lead to increased costs for customers.

The CRU has carefully considered this and how Covid-19 may impact network costs in the future. The CRU has decided that the network tariffs should be increased at this time. The CRU did consider options to address any potential unsustainable increases in tariffs due to Covid-19. However, on balance, these are not considered appropriate. The impact of the Covid-19 restrictions is yet unknown and avoiding increases at this stage could build up costs for future years, with the result that customers could face more significant tariff increases in the coming years. The CRU carefully considers any increases in customer bills and particularly at this difficult time. However, the CRU notes that despite this increase, due to reductions in the previous three years, the cost of using the transmission network remains below the cost in some recent years.

Network tariffs are charged to gas suppliers. It is up to suppliers whether to pass on these costs to their customers.

As in previous years, the CRU is also publishing, today, the distribution network tariffs. The distribution tariffs are also set to increase. Currently, the CRU estimates that network tariffs charges make up approximately 28% of a residential customer's bill. However, the CRU would note that the pricing decisions of suppliers do not just reflect network charges but also the other charges they are faced with. For example, suppliers may be experiencing additional costs relating to the current pandemic, but they are also likely to be experiencing reduced wholesale gas costs. The combined transmission and distribution tariffs, if fully passed onto gas customers, would equate to a c. **1.3% (or €11)** increase on an average residential gas customer's annual

bill. However, the CRU estimates that on an overall basis bills should not be higher for customers in gas year 2020/21 than they were in 2019/20, due to cost reductions in other areas that effect a customer's final bill.

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## Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
<b>Allowed Revenues</b>	The sum of revenues that the TSO is entitled to obtain in a given period, as approved by the CRU.
<b>CRU</b>	Commission for Regulation of Utilities
<b>Correction Factor (K-Factor)</b>	An adjustment of revenue applied to rectify over or under recoveries.
<b>Extra-over items</b>	Work items not included in the Price Control
<b>GNI</b>	Gas Networks Ireland
<b>Pass-through items</b>	Work items that were included in the Price Control but the costs of which were not certain at the time of the Price Control.
<b>Price Control</b>	A 5 - yearly review of GNI's allowed revenues.
<b>VRF</b>	Virtual Reverse Flow

# 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](http://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 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 Network Ireland's (GNI) allowed revenues and transmission tariffs that will apply from 01 October 2020 to 30 September 2021.

The calculation of transmission tariffs is based on the Price Control (PC4) (CER/17/260), which established revenues for Transmission over the 5 year period from October 2017 to September 2022.

## 1.2 Background information

Article 29 of the Tariff Network Code<sup>7</sup>, requires that transmission tariffs and a set of accompanying information is published 30 days ahead of the annual yearly capacity auctions. This year, the annual yearly capacity auctions will be held on 06 July 2020. As a result, the transmission tariffs and a set of accompanying information is being published by 05 June 2020.

### 1.2.1 Related Documents

Documents related to this publication are as follows

- CRU Transmission Revenue Model 2020/21 (CRU/20/059a)
- Corrib Linkline Element Calculation 2020/21 (CRU/20/059b)

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<sup>7</sup> Commission Regulation (EU) 2017/460 – 16 March 2017

- Gas Networks Ireland Distribution Tariffs 2020/21 (CRU/20/060)
- Decision on October 2017 to September 2022 transmission revenue for GNI (CRU/17/260)
- Gas Transmission Tariff Methodology – Tariff Network Code Article 28 Call for Evidence Gas year 2020/21 (CRU/20/057)

Information on the CRU's role and relevant legislation can be found on the CRU's website at [www.CRU.ie](http://www.CRU.ie)

### **1.2.2 Structure of Paper**

The structure of this paper is as follows:

- Section 1 provides an introduction and background.
- Section 2 provides a brief explanation of the CRU's tariff setting process.
- Section 3 sets out the tariffs for gas year 2020/21.

## 2 Setting the tariffs for 2020/21

In this section the CRU sets out the allowed revenue for gas year 2020/21 and provides a brief overview of GNI's demand forecasts for the coming gas year. The allowed revenue is combined with the demand forecasts to calculate the network tariffs.

### 2.1 Allowed revenue

#### 2.1.1 Price control 4

In August 2017, the CRU published its Decision Paper (CER/17/260) on the allowed revenue that GNI's transmission business may recover over the Price Control period from 01 October 2017 to 30 September 2022 (PC4). This decision paper (CER/17/260) sets out the initial allowed revenue for each year of the price control period. The allowed revenue is set to ensure that GNI can operate, maintain and invest in the network effectively. GNI as the transmission network operator, then recovers this allowed revenue on an annual basis through network tariffs, which are set by the CRU. As part of the annual tariff setting process, the CRU analyses any additional revenue requests from GNI (pass-through costs and extra-over items), over/under recoveries in the previous years and updated demand projections. These items are now discussed.

#### 2.1.2 Pass-through costs and extra-over items

As part of the annual tariff setting process, GNI submits requests for items that are either considered pass-through costs or extra-over items. Pass-throughs are cost items that GNI has no control over or limited control over. As a result, GNI's ability to forecast these costs accurately at the time of the Price Control is limited. Extra-over items are generally new capex or opex work-items that could not have been reasonably foreseen at the time the Price Control was set.

The CRU has decided to allow GNI an additional €9.83m for pass-through costs for 2020/21 tariffs. This includes an additional allowance for a 'typical' pass-through cost item, in this case €181k for the CRU levy. In addition, the CRU has provided an allowance for an extra-over item, i.e. €9.6m for shrinkage<sup>8</sup>. The CRU has decided to treat the expenditure associated with

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<sup>8</sup> Shrinkage gas includes own use gas (OUG) and unaccounted for gas (UAG). Currently, the transmission business' shrinkage costs are not included in the allowed revenue and are therefore not recovered through tariffs. Instead GNI bills these costs to gas shippers directly on a monthly basis, based on their throughput. However, as part of the CRU's tariff network code decision (CRU/19/060), it was decided that from 2020/21 onwards, shrinkage should be included in the allowed revenue.

shrinkage as a pass-through cost so that any costs not spent can be recovered as part of the k-factor.<sup>9</sup> For this reason, it is included in the €9.83m pass-through cost allowance.

### **2.1.3 Correction factor (k-factor)**

A correction factor (or k-factor) is a revenue adjustment applied to rectify over or under recoveries of revenue by GNI in previous gas years. It is based on the difference between the actual inflation, interest rates, 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 2020/21, the CRU closed out the year 2018/19.

The total transmission correction factor for 2020/21 tariffs is a €9.45m give-back to customers. 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 2018/19 k-factor > 105% is returned in gas year 2021/2022 and not gas year 2020/21. There was an over-recovery of €9.62m in 2018/19. As this k-factor give-back exceeds the 105% rule, €9.05m will be returned in 2020/21 (€9.45m when interest is applied) and €0.57m will be returned in 2021/22. This is to ensure that the tariffs are stable and that volatility is avoided. There was also an over-recovery in excess of the 105% rule in 2017/18, and this money is still to be returned to customers. In total €11.45m (not including interest) is to be returned to gas customer's next year.

The CRU carefully considered returning this money to customers in this tariff year. However, on balance, this was not considered in the customer's best interest. The Covid-19 pandemic has increased the uncertainty surrounding gas demand forecasts and Covid-19 may impact network costs in the future. The €11.45m due to be returned next year will assist in offsetting some upward cost pressures that may arise when setting the tariffs for 2021/22. This approach will provide a buffer and may avoid customers facing more significant tariff increases in the coming years.

### **2.1.4 Allowed revenue**

The CRU has updated the initial allowed revenue set out in its PC4 decision to allow the additional expenditure set out in section 2.1.2 and for the k-factor set out in section 2.1.3. This results in an allowed revenue of €197.01 for gas year 2020/21, which is a nominal increase of 11.5% (€20.35m) on the 2019/20 allowance. This increase is partly a result of the additional shrinkage allowance provided for in section 2.1.2. In addition, when setting the PC4 allowed revenue the CRU intentionally profiled the revenue to increase over the PC4 period in line with

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<sup>9</sup> The CRU will review whether shrinkage should continue to be treated as a pass-through cost as part of its Price Control 5 decision.

forecasted supply increasing at the more expensive Moffat entry point, resulting in greater levels of revenue recovery by GNI. This was done to enhance tariff stability. The increase in the allowed revenue due to shrinkage puts some upward pressure on tariffs for 2020/21 relative to gas year 2019/20.

## 2.2 Demand projections

In addition to information relating to expenditure, demand forecasts are also estimated through the Price Control process for each of the five years of the Price Control period. As part of the annual tariff setting process GNI submits updated demand figures which take into consideration the latest forecasts. These are reviewed and are used in setting the transmission tariffs.

In order to establish demand forecasts for 2020/21, GNI has analysed the actual impact of Covid-19 on demand at this time and then applied these learnings to the elements it typically uses to forecast gas demand for the coming gas year. When Covid-19 restrictions were put in place, there was a significant fall in gas demand, particularly in the industrial & commercial sector. However, since then demand has begun to recover and is broadly in line with expectations with seasonal demand.

Table 3 below presents GNI's transmission network demand forecasts for gas year 2020/21. For context these forecasts are presented alongside GNI's original forecasts for 2019/20 and its updated forecasts for 2019/20 (i.e. Covid-19 recast), which aim to take into account the effects of Covid-19 on gas demand.

Table 3: Transmission demand forecast summary - MWh

	<b>19/20 demand forecast</b>	<b>19/20 Recast Covid-19 forecast</b>		<b>20/21 demand forecast</b>	<b>Variation vs 19/20 initial</b>	<b>Variation vs 19/20 update</b>
Entry Commodity	56,391	57,705		57,202	1%	-1%
Exit Commodity	54,908	56,295		55,869	2%	-1%
WA <sup>10</sup> Entry Capacity	219,191	216,151		220,061	0%	2%
WA Exit Capacity	289,729	280,022		291,425	1%	4%

<sup>10</sup> WA stands for weighted annualised. Shorter-term bookings, which can occur at different times of year (different costs) are adjusted for representation as an equivalent annual amount so that the overall demand can be compared more easily across years.

For the forthcoming year, total transmission commodity forecasts are 2% higher than the forecast for 2019/20 and 1% lower than the updated forecast for 2019/20 (i.e. Covid-19 recast). The reduction versus the 2019/20 recast is mostly driven by reductions in gas demand in the daily metered (DM) industrial/commercial (I/C) sector, which feeds through from the distribution network demand forecasts. This reduction is offset by increases in Power demand resulting in the 2% increase when compared to the 2019/20 forecast.

In terms of capacity GNI's forecasted weighted annualised exit capacity demand for 2019/20 is 1% higher than the forecast for 2019/20 and 4% higher than their expected updated forecast for 2019/20 (i.e. Covid-19 recast). This 4% difference is driven by a combination of increased power demand pushing up the 20/21 demand and a decrease<sup>11</sup> in the updated forecast for 2019/20.

GNI's forecasted weighted annualised Entry capacity is <1% higher than the forecast for 2019/20 and 2% higher than their updated forecast for 2019/20 (i.e. Covid-19 recast). The Entry capacity bookings do not increase to the same degree as Exit bookings because there is a secondary capacity trading market for Entry and therefore there is not a booking ratio of 1:1. As expected Entry demand continues to move to the more expensive Moffat entry point as Corrib production declines, resulting in greater revenue recovery by GNI. GNI's forecasted weighted annualised Entry capacity at Moffat is 11% higher than the forecast for 2019/20 and 12% higher than the updated forecast for 2019/20 (i.e. Covid-19 recast).

This increase in demand puts some downward pressure on tariffs relative to gas year 2019/20.

## 2.3 Tariff network code

In line with Article 29 of the Tariff Network Code<sup>12</sup>, this section includes the accompanying information which the CRU is required to publish along with the transmission tariffs.

### 2.3.1 Multipliers and seasonal factors

Multipliers and seasonal factors are applied to the reference prices to set the tariffs for non-yearly capacity products. Table 4 below outlines the multiplier and seasonal factor profile for gas year 2020/21. The CRU decided to not to change the profile for gas year 2020/21 as set out in its annual tariff network code Article 28 paper (CRU/20/057).

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<sup>11</sup> More specifically there has been lower gas power demand due to record wind in January and February 2020 and the rescheduling of maintenance works to non-gas power generation, which gas plant would typically replace.

<sup>12</sup> Commission Regulation (EU) 2017/460 – 16 March 2017

Table 4: Multipliers and seasonal factor profile<sup>13</sup>

Month	Quarterly %	Monthly %	Daily %
October	38.43%	12.81%	0.64%
November		12.81%	0.64%
December		17.08%	1.14%
January	80.69%	29.89%	1.99%
February		34.16%	2.28%
March		25.62%	1.71%
April	13.27%	12.81%	0.64%
May		0.97%	0.05%
June		0.97%	0.05%
July	2.61%	0.97%	0.05%
August		0.97%	0.05%
September		0.97%	0.05%
Total	135.0%	150.0%	279.44%

### 2.3.2 Interruptible discounts - virtual reverse flow

Virtual Reverse Flow (VRF) is a 'reverse flow' service offered on a virtual interruptible basis, at the Interconnection Points, to enable Shippers to virtually flow gas from Ireland via Moffat and into Ireland via Gormanston.<sup>14</sup> In accordance with the CRU's TAR NC decision paper, for gas year 2019/20 a new tariff was introduced for VRF, which replaced the previous registration fee approach. The calculation of the VRF tariffs at Moffat and Gormanston are now based on the TAR NC principles and requirements for standard interruptible capacity products. Art. 16 of TAR NC specifies the calculation of reserve prices for standard interruptible capacity products by applying an adjustment to the reserve prices for the corresponding standard firm capacity products.

Full details on how the CRU sets the VRF tariffs for Moffat and Gormanston and the reasoning for its approach, can be found in section 3.11 of the CRU's TAR NC decision paper (CRU/19/060), in summary:

- The VRF tariffs are based on the Moffat exit point and Gormanston entry point reference prices, as calculated by the Matrix RPM.

<sup>13</sup> To understand how this works, consider the following example: The reference price for Moffat entry is €301/MWh. If you wanted to book monthly capacity for December, you could calculate the cost by referring to the table and applying the relevant combined multiplier & seasonal factor; in this case 17.08%. That would result in the following – €301/MWh \* 17.08% = €51.4/MWh.

<sup>14</sup> For example, if there is a total nomination of 100 units of gas for delivery from GB to ROI and a gas shipper in Ireland wishes to virtually transport 10 units of gas from ROI to GB, these 10 units are netted off the 100 units, resulting in the delivery of 90 units into the ROI gas network.

- A Pro Factor of 8% is applied to the Moffat and Gormanston VRF products.
- A risk premium of 10% is applied to both the Moffat and Gormanston VRF products.
- A market interaction factor of 30% applies to the Moffat VRF product only to bring the price below that of the equivalent forward flow tariff for reasons of cross-border trade.

These inputs result in an A-factor of 6 for Moffat VRF and an A-factor of 2.25 for the Gormanston VRF. The CRU decided to not to change the adjustment for gas year 2020/21 as set out in its annual tariff network code Article 28 paper (CRU/20/057).

## 3 CRU Decision on Transmission Tariffs for 2020/21

### 3.1 Transmission tariffs for 2020/21

GNI have calculated distribution network tariffs for the period 01 October 2020 to 30 September 2021 based on the allowed revenue and demands set out in the previous section. The CRU's decision is that GNI implement the tariffs set out in Table 5 and Table 6 for gas year 2020/21.

With these updated tariffs, the transportation cost of GB gas to Ireland (Moffat entry tariff + domestic exit tariff) will increase in nominal terms by c.8%. The main reason for the 2020/21 increase in the cost of transportation of GB gas is that shrinkage costs have moved into, and therefore, increased the allowed revenue. This is being done in accordance with the CRU's 2019 decision on the harmonised transmission tariff methodology and in compliance with the EU tariff network code.<sup>15</sup>

Table 5: Transmission tariffs for 2020/21

	Bellanaboy entry	RNG entry	Moffat (IP) entry	Domestic exit	Gormanston (IP) exit
<b>Firm<sup>16</sup> capacity - €/peak day MWh</b>	629.99 <sup>17</sup>	106.24	314.81	407.63	385.37
<b>Commodity - €/MWh</b>	0.114			0.236	

<sup>15</sup> Shrinkage gas includes own use gas (OUG) and unaccounted for gas (UAG). To date shrinkage costs were not included in the allowed revenue and are therefore not recovered through tariffs. Instead GNI billed these costs to gas shippers directly on a monthly basis, based on their throughput. However, as part of the CRU's tariff network code decision (CRU/19/060), it was decided that from 2020/21 onwards, shrinkage should be included in the allowed revenue as it is a transmission service. As this is a movement of costs, not an increase in overall costs, it should not lead to an increase in costs for end customers.

<sup>16</sup> "Firm" means gas transmission capacity contractually guaranteed as uninterruptible by the transmission system operator.

<sup>17</sup> This is composed of two elements; one to remunerate the transmission services revenue of GNI (€132.36) plus a Corrib Linkline Element (€497.64), which will remunerate the revenues relating to the Corrib Linkline (Corrib Partners).

Table 6: Virtual reverse flow (VRF) tariffs for 2020/21

	<b>Gormanston (IP) VRF entry</b>	<b>Moffat (IP) VRF exit</b>
<b>Capacity – €/peak day MWh</b>	76.15	270.86
<b>Commodity - €/MWh</b>	0.114	0.236

For comparison, Table 7 below provides the 2020/21 transportation cost of GB gas<sup>18</sup> in the context of recent years. The transportation cost of GB gas is important because, generally, Irish wholesale gas prices are set by the GB price of gas plus the cost of transporting gas from GB to Ireland via the interconnectors, as GB gas is the marginal source of gas supply to Ireland. The table shows that this cost has fallen in recent years. This is because GNI has earned more transmission revenue than expected, putting downward pressure on tariffs. This has been caused by greater gas demand than was forecast and also more supply being met from the Moffat entry point than initially forecast.<sup>19</sup> Despite the c.8% increase, due to reductions in the previous three years, the cost of transportation of GB gas remains below 2016/17 and 2017/18 levels.

Table 7: Recent cost of transportation for GB gas (nominal)

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Capacity – €/peak MWh</b>	788.605	761.263	715.864	669.00	722.44

The CRU has carefully considered its decision to increase network tariffs in the context of the Covid-19 pandemic. Sustained large reductions in demand could cause significant upward pressure on tariffs. However, gas demand has mostly recovered to normal levels, since the pandemic began and the most up to date forecasts are indicating that demand, for the gas year 20/21, will be similar to previous years. There remain uncertainties with Covid-19 and its impact on network costs and the CRU is continuing to monitor the situation carefully.

The CRU did consider options to address any potential unsustainable increases in tariffs due to Covid-19. However, on balance, these are not considered appropriate. For example, they could

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<sup>18</sup> Moffat entry capacity tariff + domestic exit capacity tariff.

<sup>19</sup> The Moffat entry point is more expensive resulting in more revenue recovery by GNI.

build up costs for future years, which increases the risk of customers facing more significant tariff increases in the coming years.

## 3.2 Impact on a residential customer's bill

Network tariffs are charged to gas suppliers. It is up to suppliers whether to pass on these costs to their customers. Currently, the CRU estimates that network tariffs charges make up approximately 28% of a residential customer's bill. The transmission network tariff charge, if fully passed onto gas customers, would equate to a c. 0.2% (or €2) increase on an average residential gas customer's annual bill. However, the CRU would note that the pricing decisions of suppliers do not just reflect network charges but also the other charges they are faced with. For example, suppliers may be experiencing additional costs relating to the current pandemic, but they are also likely to be experiencing reduced wholesale gas costs.

As in previous years, the CRU is also publishing, today, the distribution network tariffs. The distribution tariffs are also set to increase (by c. 5%). It is estimated that the combined change in transmission and distribution tariffs currently equate to a **1.3% (or €11)** increase on an average residential gas customer's annual bill. However, the CRU estimates that on an overall basis bills should not be higher for customers in gas year 2020/21 than they were in 2019/20, due to cost reductions in other areas that effect a customer's final bill.

## 3.3 Next steps

These tariffs will take effect from 01 October 2020.

Under Article 30 of the Tariff Network Code, a more detailed paper on the transmission network will be published 30 days ahead of the tariff period, however the tariffs will not change. That paper will include: (1) methodology parameters related to technical characteristics of the transmission system; (2) Transmission System Operator revenue information (3) additional information related to tariff evolution and (4) the publication of a simplified transmission tariff model.