



An Coimisiún
um Rialáil Fóntas
Commission for
Regulation of Utilities



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Commission for Regulation of Utilities

Gas Networks Ireland Distribution 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 distribution network tariffs to apply from 01 October 2020 to 30 September 2021 (gas year 2020/21). The transmission network tariffs are published in a separate paper (CRU/20/059); also published today.

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 distribution tariffs for the upcoming gas year, Covid-19 presents a challenge. 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 are, of course, uncertainties that remain with Covid-19 and the CRU is continuing to monitor the situation carefully.

In its review of distribution 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 (Table 1) for a typical residential tariff (annual quantity ≤ 73 MWh). A full set of tariffs for all customers is presented in Appendix A.

Table 1: Distribution tariffs for 2020/21

	2019/20 tariff		2020/21 Tariff	Change	
	19/20 tariff (nominal) ¹	19/20 tariff (real) ²	20/21 charge (nominal)	19/20 (nominal) vs 20/21 tariff	19/20 (real) vs 20/21 tariff
Capacity – c/peak kWh	149.63	149.85	157.72	5.41%	5.25%
Commodity – c/kWh	0.3163	0.3168	0.3316	4.83%	4.68%

Table 2: Recent distribution network tariffs (nominal)

	2016/17	2017/18	2018/19	2019/20	2020/21
Capacity – c/peak kWh	154.51	158.33	152.18	149.63	157.72
Commodity – c/kWh	0.3370	0.3424	0.3318	0.3163	0.3316

Capacity charges have increased by **5.4%** and commodity charges have increased by **4.8%**. Therefore, on an overall basis,³ distribution network tariffs have increased by c.5.3% when compared to 2019/20 tariffs. However, due to reductions in the previous two years, the tariffs remain below 2017/18 levels. A reason for the increase is that demand, as mentioned previously, is projected to be slightly lower in the upcoming gas year as the industrial/commercial sector continues to recover from effects of the current pandemic. 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 build up costs for future years, which increases the risk of customers facing more significant tariff increases in the coming years.

Network tariffs are charged to gas suppliers. It is a decision for 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 distribution network tariff charge, if fully passed onto gas customers, would equate to a c. 1.1% (or €9) 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

¹ Not adjusted for inflation.

² Adjusted for inflation. Forecast HICP inflation of 0.15% for 20/21.

³ Accounting for 80:20 capacity commodity charge weighting.

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 transmission network tariffs. The transmission tariffs are also set to increase (by c. 8%). 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.

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 gas shippers for use of Gas Network Ireland's distribution network – this network consists of smaller pipes that includes those running to customers' homes. 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 2020 to 30 September 2021 are published in this paper.

The CRU has considered the impact 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 by a small amount 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 two years, the cost of using the distribution network remains below the cost in some recent years.

Network tariffs are charged to gas suppliers and it is a decision for suppliers whether to pass on these costs to their customers.

As in previous years, the CRU is also publishing, today, the transmission network tariffs. The transmission 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
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

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 2020 to 30 September 2021.

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

1.2 Background information

Article 29 of the tariff network code⁴, 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.

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

⁴ [Commission Regulation \(EU\) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas](#)

1.2.1 Related Documents

Documents related to this publication are as follows

- CRU Distribution Revenue Model 2020/21 (CRU/20/060a)
- Gas Networks Ireland Transmission Tariffs 2020/21 (CRU/20/059)
- 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

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/17/259) on the allowed revenue that GNI's distribution business may recover over the five year period from 01 October 2017 to 30 September 2022 (PC4). This decision paper (CER/17/259) 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 distribution 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 €1.34m for pass-through costs for 2020/21 tariffs. This includes additional allowances for the 'typical' pass-through cost items, in this case €424k for safety initiatives and safety advertising and €181k for the CRU levy. In addition, the CRU has provided allowances for extra-over items, which include €1.35m for use of the South-

North Pipeline⁵ and €184k for the pre-payment metering (PPM) enhancement project⁶. The CRU has decided to treat the expenditure associated with these extra-over items as pass-through costs so that any costs not spent can be recovered as part of the Price Control 5 look-back (i.e. review of PC4 spend). For this reason, they are included in the €1.34m pass-through cost allowance.⁷

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 distribution correction factor for 2020/21 tariffs is a €2.08m give-back to customers. This is made up of an over-recovery of €0.09m in 2018/19 and an over-recovery €1.81m in 2017/18. When inflation is applied to these two over-recoveries the resulting figure is a total of €2.16m. The reason that €1.81m relating to 2017/18 is being returned now is that any recovery in excess of 105% of allowed revenues is returned in the following gas year. As the k-factor for 17/18 exceeded the 105% rule, the remainder of the 17/18 k-factor, in this case €1.81m, carried over to this year and is now returned to customers. The 105% rule is in place in order to aid tariff stability.

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 €202.46 for gas year 2020/21, which is a nominal increase of 3.4% (€6.75m) on the 2019/20 allowance. This increase is a result of the additional allowances provided for in section 2.1.2 and because there was a larger giveback to customers last year due

⁵ The South-North Pipeline (SNP) forms part of the Northern Irish gas transmission system and is paid for by the Northern Irish customer. Part of the SNP runs through Ireland, connecting to the Irish gas system at Gormanston IP. A connection to the SNP has been established to facilitate gas flows from the Irish network via the SNP to serve Irish gas customers in Dundalk (Haynestown offtake). This is an arrangement between GNI, who are the Irish gas network operator, and GNI(UK), who are the Northern Irish operator of the SNP. This connection allows for increased demand on the Irish gas network, which will benefit all Irish gas customers. This arrangements also benefits Northern Irish gas customers by reducing costs.

⁶ This projects involves GNI enhancing its PAYG IT solution with a view to ensuring that it may be developed over the longer-term to facilitate new entrants in the gas retail market.

⁷ Some allowances provided for in PC4, e.g. distribution shrinkage, have been reduced as part of the pass-through cost updates resulting in an overall net figure of €1.34m.

to the significant 17/18 k-factor. The increase in the allowed revenue puts some upward pressure on tariffs for 2020/21 relative to gas year 2019/20.

2.2 Demand forecasts

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 distribution tariffs.

In order to establish demand forecasts for 2020/21, GNI has analysed the actual impact of Covid-19 on demand to date and then applied these learnings to the elements it typically draws from 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 distribution 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: Distribution demand forecast summary

Demand	19/20 demand forecast	19/20 Recast Covid-19 forecast	20/21 demand forecast	Variation vs 19/20 initial	Variation vs 19/20 update
Commodity	16,682	16,599	16,441	-1%	-1%
Capacity	119,187	118,526	116,563	-2%	-2%

In summary, for the forthcoming year 2020/21, total distribution commodity forecasts are 1% lower than both the forecast for 2019/20 and the updated forecast for 2019/20 (i.e. Covid-19 recast). This is mostly driven by reductions in gas demand in the daily metered (DM) industrial/commercial (I/C) sector. Although demand is returning to normal the short-medium term impacts on I/C are still uncertain. Residential demand is expected to remain relatively stable.

In terms of capacity GNI's forecast total supply point capacity (SPC) for 2020/21 is 2% lower than both the forecast for 2019/20 and the updated forecast for 2019/20 (i.e. Covid-19 recast). This is driven by both a lower 1 in 50 forecast for 2020/21 and reductions in gas demand in the DM I/C sector feeding through to expected capacity bookings. This reduction in demand puts some upward pressure on tariffs for 2020/21 relative to gas year 2019/20.

3 CRU Decision on Distribution Tariffs for 2020/21

3.1 Distribution 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 distribution tariff uses a tiered structure whereby alternative charges are applied to customers based on their annual quantities. There are four tiers. The tariffs in Table 4 below are for the smallest tier (≤ 73 MWh), within which a typical residential customer will be placed. See Appendix A for the tariffs for each of the four tiers.

The CRU's decision is that GNI implement the tariffs set out in Table 4 & Appendix A for gas year 2020/21. Capacity charges have increased by **5.4%** and commodity charges have increased by **4.8%**. Therefore, on an overall basis,⁸ distribution network tariffs have increased by 5.3% when compared to 2019/20 tariffs.

Table 4: Distribution tariffs 2020/21

	2019/20 tariff		2020/21 Tariff	Change	
	19/20 tariff (nominal) ⁹	19/20 tariff (real) ¹⁰	20/21 charge (nominal)	19/20 (nominal) vs 20/21 tariff	19/20 (real) vs 20/21 tariff
Capacity – c/peak kWh	149.63	149.85	157.72	5.41%	5.25%
Commodity – c/kWh	0.3163	0.3168	0.3316	4.83%	4.68%

For comparison, Table 5 below provides the 2020/21 in the context of recent tariff levels.

Distribution tariffs have remained relatively stable, as GNI's demand forecasts have generally been in line with expectations.

Table 5: Recent distribution network tariffs (nominal)

	2016/17	2017/18	2018/19	2019/20	2020/21
Capacity – c/peak kWh	154.51	158.33	152.18	149.63	157.72
Commodity – c/kWh	0.3370	0.3424	0.3318	0.3163	0.3316

⁸ Accounting for 80:20 capacity commodity charge weighting.

⁹ Not adjusted for inflation.

¹⁰ Adjusted for inflation. Forecast HICP inflation of 0.15% for 20/21.

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 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 distribution network tariff charge, if fully passed onto gas customers, would equate to a c. 1.1% (or €9) 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 transmission network tariffs. The transmission tariffs are also set to increase (by c. 8%). Combined 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.

Appendix A: GNI distribution tariffs 2020/21

Volume Range (MWh)		Capacity Charge (c/peak day kWh)		
>	< or =	A	B	Total
0	73	157.7187		
73	14,653	139.6192	4.0590	A - B *Ln(PDV[MWh])
14,653	57,500	348.8190	50.0558	A - B *Ln(PDV[MWh])
57,500		43.0155		

Volume Range (MWh)		Commodity Charge (c/kWh)		
>	< or =	A	B	Total
0	73	0.3316		
73	14,653	0.2649	0.0257	A - B *Ln(PDV[MWh])
14,653	57,500	0.3087	0.0407	A - B *Ln(PDV[MWh])
57,500		0.0604		