



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 2021/22 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 2021 to 30 September 2022 (gas year 2021/22). The transmission network tariffs are published in a separate paper (CRU/21/058); also published today.

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

In its review of distribution tariffs, the CRU has carefully assessed the information presented by GNI and has aimed to ensure that where additional allowances have been provided, they are efficient and in the best interest of the customer. The review has resulted in the following tariffs (Table 1) for a typical residential tariff (annual quantity  $\leq$  73 MWh). A full set of tariffs for all customers is presented in Appendix A.

Table 1: Distribution tariffs for 2021/22

	2020/21 tariff		2021/22 Tariff	Change	
	20/21 tariff (nominal) <sup>1</sup>	20/21 tariff (real) <sup>2</sup>	21/22 charge (nominal)	20/21 (nominal) vs 21/22 tariff	20/21 (real) vs 21/22 tariff
<b>Capacity – c/peak kWh</b>	157.72	159.60	154.21	-2.23%	-3.38%
<b>Commodity – c/kWh</b>	0.3316	0.3356	0.3293	-0.69%	-1.86%

<sup>1</sup> Not adjusted for inflation.

<sup>2</sup> Adjusted for inflation. Forecast HICP inflation of 1.19% for 21/22.

Table 2: Recent distribution network tariffs (nominal)

	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Capacity – c/peak kWh</b>	158.33	152.18	149.63	157.72	154.21
<b>Commodity – c/kWh</b>	0.3424	0.3318	0.3163	0.3316	0.3293

Capacity charges have decreased by **3.4%** and commodity charges have decreased by **1.9%** (in real terms (i.e. adjusted for inflation)). Therefore, on an overall basis,<sup>3</sup> distribution network tariffs have decreased by c.3.1% when compared to 2020/21 tariffs. As highlighted by Table 2, these tariff levels are similar to those seen in previous years. A reason for the decrease is that demand is projected to increase for the upcoming gas year, while the allowed revenues remain at the same levels.

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 (transmission and distribution collectively) make up approximately 31% of a residential customer's bill. The distribution network tariff charge, if fully passed onto gas customers, would equate to a c. 0.4% (or €3.4) decrease (nominal) 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.

As in previous years, the CRU is also publishing, today, the transmission network tariffs. The transmission tariffs are set to increase (c. 5%). It is estimated that the combined change in transmission and distribution tariffs equates to a <0.1% (or €0.7) increase on an average residential gas customer's annual bill.

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<sup>3</sup> Accounting for 80:20 capacity commodity charge weighting.

## Customer 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 suppliers 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 2021 to 30 September 2022 are published in this paper.

Distribution network tariffs for 2021/22 are set to decrease by c. 3.1% when compared to the current gas tariffs for 2020/21. A reason for the decrease in tariffs is that gas demand is projected to increase for the upcoming gas year. As detailed in a separate publication alongside this paper, transmission tariffs are set to increase by c. 5%.

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

Currently, the CRU estimates that network tariffs (transmission and distribution collectively) make up approximately 31% of a residential customer's bill. The combined transmission and distribution tariffs, if fully passed onto gas customers, would equate to a **<0.1% (or €0.7)** 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.

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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>Distribution Supply Point Capacity</b>	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.
<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.

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

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).

## 1.2 Background information

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 2021 to 30 September 2022.

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. The transmission tariffs are published separately alongside this document.

### 1.2.1 Related Documents

Documents related to this publication are as follows:

- CRU Distribution Revenue Model 2021/22 (CRU/21/059a)
- Gas Networks Ireland Transmission Tariffs 2021/22 (CRU/21/058)
- 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](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 2021/22.

## 2 Setting the tariffs for 2021/22

In this section the CRU sets out the allowed revenues for gas year 2021/22 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 revenues that GNI's distribution business may recover over the five year period from 01 October 2017 to 30 September 2022 (PC4). That decision paper (CER/17/259) set out the initial allowed revenues for each year of the price control period. The allowed revenues are set to ensure that GNI can operate, maintain and invest in the network effectively. GNI as the distribution network operator, then recovers these revenues 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 €3.75m in pass-through costs for 2021/22 tariffs. This includes additional allowances for the 'typical' pass-through cost items, in this case, €1.5m for rates, €465k for shrinkage, €525k for safety initiatives and safety advertising and €110k for the CRU levy. In addition, the CRU has provided allowances for extra-over items, which include €1.01m for use of the South-North Pipeline<sup>4</sup> and €132k for the Pay as You Go

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<sup>4</sup> The South-North Pipeline (SNP) forms part of the Northern Irish gas transmission system and is paid for by the Northern Irish customer. 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.

(PAYG) enhancement project<sup>5</sup>. 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 €3.75m pass-through cost allowance.<sup>6</sup>

### **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 Kt-1, i.e. when setting the tariffs for the year 2021/22, the CRU closed out the year 2019/20.

The total distribution correction factor for 2021/22 tariffs is a €4.68m give-back to customers. This mainly occurred due to the actual inflation and actual pass-through costs for 2019/20, being lower than the forecasts. When interest is applied the resulting figure is a total giveback of €4.84m.

### **2.1.4 Allowed revenue**

The CRU has updated the initial allowed revenue set out in its PC4 decision to reflect 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 €204.90 for gas year 2021/22, which is a nominal increase of 1.2% (€2.44m) on the 2020/21 allowance. However, in real terms the allowed revenue has remained stable and therefore does not contribute to any change in tariff levels.

## **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 2021/22, GNI has analysed recent trends and then applied these learnings to the elements it typically draws from to forecast gas demand for the

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<sup>5</sup> 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.

<sup>6</sup> 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.

coming gas year. When Covid-19 restrictions were put in place, there was a significant fall in gas demand in certain sectors, particularly in the non-daily metered (NDM) 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 (commodity and capacity) for gas year 2021/22. For context these forecasts are presented alongside GNI's actual demands for 2019/20, the 2020/21 forecast for tariff setting and GNI's most up to date forecast for 2020/21. Highlighting the forecast demands for the upcoming gas year, against the demands forecast when setting the tariffs last year is particularly useful, as higher/lower demand relative to last year will lead to upward/downward pressure for the upcoming gas year.

As highlighted by Table 3 and the 2020/21 updated forecast, gas demand has remained relatively stable during 2020/21 despite the impacts of the pandemic. Although certain parts of the industrial/commercial (I/C) sector (e.g. hotels) have had decreases in gas demand in 2020/21, other areas (e.g. technology and pharmaceuticals) have had increases in demand. In addition, the demand of residential customers has increased, potentially reflecting increased demand for home heating as a result of more people working from home during the pandemic.

**Table 3: Distribution demand forecast summary**

Demand	19/20 actual demand	<b>20/21 tariff forecast</b>	20/21 updated forecast		<b>21/22 demand forecast</b>	Variation vs 19/20	<b>Variation vs 20/21 tariff</b>	Variation vs 20/21 update
Commodity	16,961	<b>16,441</b>	16,915		<b>17,575</b>	4%	<b>7%</b>	4%
Capacity	119,576	<b>116,563</b>	117,841		<b>120,303</b>	1%	<b>3%</b>	2%

For the forthcoming gas year 2021/22, total distribution commodity forecasts are 4% higher than the actual (outturn) commodity demand for 2019/20 and 7% higher than the 2020/21 commodity forecast for tariff setting. This is mostly driven by increases in the industrial/commercial (I/C) sector, both due to GDP growth and a recovery in demand as pandemic related restrictions ease.

In terms of capacity GNI's forecast total supply point capacity (SPC) for 2021/22 is 1% higher than the outturn capacity for 2019/20 and 3% higher than the 2020/21 capacity forecast for tariff setting. This is mainly driven by a higher 1 in 50 forecast for 2021/22. The projected increase in commodity demand (particularly Daily Metered (DM) I/C sector) is also driving this increase.

## 3 CRU Decision on Distribution Tariffs for 2021/22

### 3.1 Distribution tariffs for 2021/22

GNI has calculated distribution network tariffs for the period 01 October 2021 to 30 September 2022 based on the allowed revenues and demands set out in the previous section. The distribution tariff uses a tiered structure whereby charges depend on the customer's annual quantities. There are four tiers. The tariffs presented in Table 4 are for the smallest tier ( $\leq 73$  MWh), within which a typical residential customer would be placed. See Appendix A for the tariffs for each of the four tiers.

The CRU's decision is that GNI implements the tariffs set out in Table 4 & Appendix A for gas year 2021/22. Capacity charges have decreased by **3.4%** and commodity charges have decreased by **1.9%** (in real terms (i.e. adjusted for inflation)). Therefore, on an overall basis,<sup>7</sup> distribution network tariffs have decreased by c.3.1% when compared to 2020/21 tariffs. A reason for the decrease is that demand is projected to increase for the upcoming gas year, while the allowed revenues remain at the same levels.

Table 4: Distribution tariffs 2021/22

	2020/21 tariff		2021/22 Tariff	Change	
	20/21 tariff (nominal) <sup>8</sup>	20/21 tariff (real) <sup>9</sup>	21/22 charge (nominal)	20/21 tariff (nominal)	20/21 tariff (real)
<b>Capacity – c/peak kWh</b>	157.72	159.60	154.21	-2.23%	-3.38%
<b>Commodity – c/kWh</b>	0.3316	0.3356	0.3293	-0.69%	-1.86%

For comparison, Table 5 provides the 2021/22 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.

<sup>7</sup> Accounting for 80:20 capacity commodity charge weighting.

<sup>8</sup> Not adjusted for inflation.

<sup>9</sup> Adjusted for inflation. Forecast HICP inflation of 1.2% for 21/22.

Table 5: Recent distribution network tariffs (nominal)

	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Capacity – c/peak kWh</b>	158.33	152.18	149.63	157.72	154.21
<b>Commodity – c/kWh</b>	0.3424	0.3318	0.3163	0.3316	0.3293

## 3.2 Impact on a residential customer's bill

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 (transmission and distribution) make up approximately 31% of a residential customer's bill. The distribution network tariff charge, if fully passed onto gas customers, would equate to a c. 0.4% (or €3.4) decrease (nominal) 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.

As in previous years, the CRU is also publishing, today, the transmission network tariffs. The transmission tariffs are set to increase (by c. 5%). It is estimated that the combined change in transmission and distribution tariffs equates to a <0.1% (or €0.7) increase on an average residential gas customer's annual bill.

## 3.3 Next steps

These tariffs will take effect from 01 October 2021.

## Appendix A: GNI distribution tariffs 2021/22

Volume Range (MWh)		Capacity Charge (c/peak day kWh)		
>	< or =	A	B	Total
0	73	154.2089		
73	14,653	136.5122	3.9686	A - B *Ln(PDV[MWh])
14,653	57,500	341.0567	48.9419	A - B *Ln(PDV[MWh])
57,500		42.0583		

Volume Range (MWh)		Commodity Charge (c/kWh)		
>	< or =	A	B	Total
0	73	0.3293		
73	14,653	0.2631	0.0256	A - B *Ln(PDV[MWh])
14,653	57,500	0.3065	0.0404	A - B *Ln(PDV[MWh])
57,500		0.0599		