Indicative Transmission Tariffs for gas year 2003/2004

Under Section 14 (3) of the Gas (Interim) (Regulation) Act, 2002, the Commission may give directions to Bord Gáis in respect of the basis for charges for the transportation of gas through the pipelines of the pipeline operator.

The purpose of this paper is to set out indicative transmission tariff estimates based on the Commission's Proposals on Transmission Use of System Revenue Requirement and Tariff Structure, 1 October 2003 – 30 September 2007 (Ref: CER/03/144 as published in June 2003).

Up to gas year 2002/2003, transmission tariffs were determined by BGÉ largely in line with the Ministerial Directives of November 2001[1]. However, in its Natural Gas Policy Framework document, the Commission identified as one of the key areas of the reform of the gas market arrangements a full review of the charging regime for gas transmission and distribution services in time for the gas year starting 1 October 2003.

The CER Transmission & Distribution Principles paper[2] set out the objectives and proposed principles that would guide the Commission's determination of BGÉ's allowable revenues for its transmission and distribution business units. In that paper, the Commission stated that, irrespective of the specific methodology used to determine revenues and set tariffs, that it was keen to ensure that the level of allowed revenue was sufficient to recover prudently incurred operating expenditure and to provide a reasonable return on investment, commensurate with the risks faced by BGÉ. Consistent with this principle, the Commission also stated its intention to ensure that the gas transmission tariff methodology implemented by BGÉ:

- provides correct signals for consumption and investment;
- does not discriminate unfairly between different customer categories; and
- given forecast customer numbers and load, enables Bord Gáis Transmission (BGT) to recover no more than the maximum revenues allowed by the Commission.

The approach taken in developing indicative transmission tariffs for gas year 2003/04 is in line with the objectives of the CER.

It was evident from various submissions to the CER and also from various comments and presentations made by attendees at the CER Workshop held on May 15th 2003 that year 2003/2004 would be a difficult year regarding transmission tariff setting. Particularly, the closure of IFI in late 2002 was identified, all others things being equal, as having a strong upward impact on future tariffs. Furthermore, the current entry-exit tariff structure makes the individual entry tariffs sensitive to assumptions around the forecast levels and timing of indigenous gas production.

[1] General Directive concerning standard service pricing for gas transmission on the Onshore Network", "General Directive concerning standard service pricing for gas transmission between Scotland and the Republic of Ireland" and "General Directive concerning standard service pricing for gas transmission Entry/Exit Inch" *Department of Public Enterprise*, 6 November 2001.

[2] Transmission And Distribution Tariffs Objectives And Principles Consultation Document, 19 March 2003 - (CER/03/060)

The indicative transmission tariffs for gas year 2003/04 are based on four key assumptions:

Item	**Assumption**
Allowable Revenues	As per the Commission's Proposals on Transmission Use of System Revenue Requirement (CER/03/144)
Tariff Structure	The indicative tariffs are based on the Locational Entry-Postalised Exit Model and also, as before, on a 90:10 capacity / commodity split.
Demand	The demand assumptions are based on the Draft Gas Capacity Statement "*steady growth*"[3] scenario. A key demand assumption was also required on capacity bookings by the power generation sector. Currently a number of power generators buy interruptible capacity (as provided in the Competition for Allocation of Natural Gas Capacity for the Generation of Electricity in 2000). The indicative tariffs assume that these plants will book firm capacity in the longer term.
Supply	For ***Inch Entry*** it has been assumed that peak day capacity booking will be of the order of 70 GWh/day for the period. The actual booking will vary with production levels in the Kinsale area. As there is some uncertainty over the ***Corrib Gas*** deliveries, it has been assumed that Corrib would be on-stream in Summer 2007, with a capacity booking of around 80 GWh/day. Given current uncertainty, first deliveries of gas from Corrib could be earlier or later than Summer 2007. All other gas capacity needs are assumed to be booked on the Interconnector System.

In general, Bord Gáis is incentivised to set the tariffs so as "to recover no more than the level of maximum revenues allowed by the Commission". Any over-recovery above 103% of allowed revenues will attract a charge at the Euribor rate +4%. [4] The indicative tariffs for year 2003/2004 are what Bord Gáis considers appropriate – given the above assumptions and forecasts – exactly to recover allowable revenues.

The Balance of the Factors Impacting Tariff Calculations:

As the industry is aware, there were many factors potentially leading to higher transmission tariffs for year 2003/2004 and beyond. Actions were taken by the CER through the review process to mitigate, amongst other things, the impact of these factors, many reducing expected cashflows for Bord Gáis.

[3] This represents a middle case in the Draft Gas Capacity Statement projections and down on previous demand forecasts.
[4] Commission's Proposals on Transmission Use of System Revenue Requirement and Tariff Structure, page 21

Factors Leading to a Transmission Tariff Increase	**Actions Taken To Mitigate The Tariff Increase**
• Allowance for BGE Under-Recovery in 2002/03 • Investment in the Midleton Compressor station • 16% lower demand, mainly reflecting the IFI closure • Inflation • Shortening the Tariff period	• Lower Rate of Return • Longer asset lives • Deferral of Depreciation on pipeline assets at IC2 and on the Pipeline to the West • Reduction on allowed operating and capital expenditure costs • Reallocation of EU Grant

Tariff Results

- Tariffs have changed significantly owing to the review, with an overall increase accompanied by significant changes in the relativities of the various tariffs.
- The Interconnector capacity tariff will be reduced by 5% in money of the day terms (c. 9% reduction in real terms), compared with the 2002/03 tariff. However, the cost of capacity through the Moffat system and including the onshore component increases by 12%, again compared with the 2002/03 tariff.
- The cost of capacity through the Inch system and including the onshore component increases by 34%. However, the Inch Entry tariff represents only 11% of the Interconnector Entry tariff.

Illustrative Transmission Transportation Costs

Average Cost For 90% Load Factor User		**Published Tariff 02/03**	**Indicative Tariff 03/04**	**Change in Cost %**
Gas Source				
UK Gas	€/MWh	2.4555	2.7245	**11%**
Inch Gas	€/MWh	1.2176	1.6420	35%
UK Gas	C/Therm	7.20	7.98	**11%**
Inch Gas	C/Therm	3.57	4.81	35%

The detail of the Indicative Tariffs are set out overleaf:

Indicative Transmission Tariffs

Gas Year 2003/2004, Effective from October 1 2003

Individual Tariffs:

	Published Tariff 02/03 €	Indicative Tariff 03/04 €	Change in Tariff %
Entry & Exit Tariffs			
Onshore Exit			
Capacity	318.21	422.11	33%
Commodity	0.16	0.22	37%
Interconnector Entry			
Capacity	367.27	347.41	-5%
Commodity	0.21	0.16	-22%
Inch Entry			
Capacity	25.21	37.40	48%
Commodity	0.01	0.02	103%

Combined Tariff, including Entry and Exit

		Published Tariff 02/03 €	Indicative Tariff 03/04 €	Change in Tariff %
Combined tariffs				
Moffat System & Postalised Exit				
Capacity		685.47	769.52	12%
Commodity		0.37	0.38	4%
Inch System & Postalised Exit				
Capacity		343.41	459.51	34%
Commodity		0.17	0.24	41%
Average cost for 90% load factor user				
UK Gas	€/MWh	2.4555	2.7245	11%
Inch Gas	€/MWh	1.2176	1.6420	35%