



Making a positive difference  
for energy consumers

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Dear Steve,

**Our assessment of National Grid's proposal to change the conditions when an Advanced Reservation Capacity Agreement (ARCA) is required**

Under Gas Distribution Standard Licence Condition 4B (SLC 4B) Gas Transporters are required to maintain a connection charging methodology.

Earlier this year National Grid Gas Distribution (NGGD) submitted to us a proposed change to its Connection Charging Methodology which would change the conditions when an Advanced Reservation of Capacity Agreement (ARCA) will be required.

An ARCA obliges a connecting customer (or a customer requesting a load increase or transfer) to either ensure that the user books capacity in advance or pays the Gas Distribution Network (GDN) an appropriate amount to compensate for the loss of transportation revenue.

An ARCA is currently required when a new load, or increase to an existing load, requires specific reinforcement upstream and is expected to exceed 586 GWh per year. Given that an ARCA is only required for extremely large loads, very few customers require an ARCA.

NGGD's modification introduces a further requirement for an ARCA when the costs of specific upstream reinforcement are expected to equal, or exceed, £500,000.

**Consultation**

Given the potential impact on future connection projects, on May 12 2014 we consulted with stakeholders about NGGD's proposed changes.

We received two responses to our consultation. Both responses were from GDNs<sup>1</sup> and each supported NGGD's proposed changes. One respondent noted that if no shipper books exit capacity for a high cost connection then existing customers have to fund the shortfall in transportation revenue. This respondent therefore considered it appropriate to refer ARCA requirements to financial thresholds. Both respondents considered that the proposed £500,000 threshold was appropriate.

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<sup>1</sup> All responses can be found on our website here: <https://www.ofgem.gov.uk/publications-and-updates/consultation-modifying-national-grid%E2%80%99s-charging-methodology-change-conditions-when-advanced-reservation-capacity-agreement-required>

One respondent also asked us to comment on whether it is appropriate for ARCAs to last more than one year.

### **Our assessment**

After reviewing the proposed change and the responses to our consultation, we are satisfied that the modifications will better achieve the relevant objectives set out in Standard Licence Condition (SLC) 4B paragraph 5 (a). We consider that its impact on the other relevant objectives is neutral. We are also satisfied that not vetoing the modification is consistent with our principal objective and statutory duties.

**(a) compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;**

We consider that by linking the requirement for an ARCA with a financial cost threshold will better enable NGGD to develop and maintain an efficient and economical gas pipeline system by requiring large value connecting customers to commit to new capacity or pay compensation upfront. This would allow NGGD to better meet their obligations under the Gas Act 1986.

We are satisfied that the modifications to NGGD's Connection Charging Methodology are necessary for the purpose of better achieving relevant objective 5(a) as set out in SLC4B. Since we have not given a direction to the licensee that the modification shall not be made, in accordance with paragraph 6 (c) of SLC 4B, the changes will be implemented in accordance with the National Grid's modification.

We note that the consultation received views on how long ARCAs should run. We encourage the industry to develop their thinking on this topic. We are willing to consider any alternative approaches proposed by the GDNs.

Yours sincerely



James Veaney  
**Head of Distribution policy**