



Making a positive difference
for energy consumers

To all interested parties

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Dear Stakeholder,

A consultation on modifying National Grid's charging methodology 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.

National Grid Gas Distribution (NGGD) has submitted to us a proposed change to its Connection Charging Methodology which will change the conditions when an Advanced Reservation of Capacity Agreement (ARCA) will be required.¹ The existing requirement for an ARCA is when a new load or increase in existing load exceeds 586 GWh. NGGD's proposal will require an ARCA where the cost of specific upstream reinforcement equals or exceeds £500,000.

We are minded to allow NGGD to make this change to its methodology. However given the potential impact on other parties, this consultation seeks views on the impact of this change, particularly on large scale projects where the need for an ARCA may now be triggered.

Background

An ARCA obliges a party making a connection to the network (or load increase or transfer) to either ensure that their registered user books capacity in advance or pays the Gas Distribution Network (GDN) an appropriate amount to compensate for the loss of transportation revenue.

Currently an ARCA is needed when a new load or increase to an existing load requires specific reinforcement upstream of the charging point and is expected to exceed 586 GWh per year. Given that an ARCA is required for very large loads, there have only been a limited number of them.

NGGD's proposed modification introduces a further requirement for an ARCA when a new load or increase to an existing load is below 586 GWh but where the costs of specific upstream reinforcement is expected to equal or exceed £500,000.

¹ The terms "the Authority", "Ofgem", "us" and "we" are used interchangeably in this document.

Reasons for change and potential impact

The ARCA offers protection to the GDN's existing customers against having to pay for reinforcement work for very large new loads that may not be used. It ensures that the party requiring the large new load (or increase to an existing load) bears the risk of the increased capacity not being used. This requirement is currently only for very large loads (above 586 GWh) as loads of this size are likely to need substantial upstream reinforcement to increase capacity which is unlikely to be needed for any other purpose.

However, reinforcement costs may not always be linked to the actual size of the new load or increase in existing load. There may be other locational factors that mean that the cost of specific upstream reinforcement is high even if the anticipated new load (or increase in existing load) is lower than 586 GWh. For example, the network may already be constrained in that area or the geography of a particular location may cause the cost of reinforcement work to be high. NGGD's proposed change extends the protection of an ARCA, further mitigating against the risk of its customers potentially having to cover the costs of unutilised additional capacity.

This change could result in an increase in projects requiring an ARCA. However, given the relatively high threshold of £500,000, NGGD expects that only a limited number of projects will be affected by this change. NGGD has indicated that since 2004-5 there would only have been two instances where an ARCA was not needed but would have been required under these proposed new arrangements.

Our position and invitation of views

We are minded to accept the proposed change to NGGD's charging methodology given the increased protection it offers its customers. However, given the potential impact on future projects that would require large new loads or increase to existing loads, we are giving other parties an opportunity to express their views. We invite views from all parties on NGGD's proposal, in particular:

1. Do you agree with NGGD's proposed change to the conditions for an ARCA? If not please could you provide reasons why you disagree with its proposal.
2. Do you think that the proposed threshold of £500,000 for when an ARCA will be required is justified? (or is it too high or too low?)

Please send responses to Jacob Kane (jacob.kane@ofgem.gov.uk) by 23 June 2014. Please note that, unless clearly marked confidential, your response may be published on our website.

Yours sincerely,



James Veaney
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