

## **Notes on User Commitments and Advance Reservation of Capacity ARCAs**

There are a number of Ofgas and Ofgem policy documents and Determination that are relevant to the level of user commitments for new loads.

### **October 1997 – “A report on agreements made pursuant to the Network Code, including Advance Reservation of Capacity Agreements (ARCAs).”**

- A user commitment based on one year’s exit and entry (weighted average) capacity is appropriate.
- Larger user commitments may be appropriate where NGG is able to prove that a specific load is riskier than the generality of loads.
- Stated ARCAs could sit outside the Network but must be subsidiary to it

### **February 2003 – Direction in connection with the modification of the Transco pipe-line system for the purpose of conveying gas to the proposed power station at Langage Energy Park**

- Transco concerned not to make ‘uneconomic’ investment and having revenue disallowed.
- Ratified the 1997 ‘shallow connection policy’ i.e. the ‘closest economically practical point’ (Reducing the direct cost of connection for Langage).
- Ofgem emphasise that it is right to recover the cost of pipeline reinforcement from general transportation charges.
- NGG sought to apply an economic test to the cost of reinforcement namely extra transportation revenue generated (entry plus exit) over 15 years must cover the cost of reinforcement.
- ARCA commitment should be based on one year’s exit capacity charges.

### **November 2006 - Direction of GEMA concerning the terms of an Advanced Reservation of Capacity Agreement and the charges associated with the proposed connection of a power station to the National Transmission System (Marchwood Power Limited)**

- Commitment should reflect the riskiness of the load but did not conclude that Marchwood was riskier than the generality of other loads.
- Reaffirmed the previous Langage determination stating that the **ARCA commitment should be based on one years exit capacity charges.**
- Ofgem comment that “they consider that it is more appropriate for the risks associated with transmission reinforcement to be managed by those parties best able to manage them” [i.e. users].

Peter Bolitho  
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