

Advanced Reservation of Capacity Agreement (ARCA): High Level Principles.

Purpose

The ARCA is an agreement that establishes at an early stage that there is a clear intention of the counter party to proceed with a project for which new system capacity will be required. This is because the request is supported by a firm financial commitment on the part of the counter party, which will only be removed to the extent that relevant Users are registered as holding capacity at a level up to the amount requested for a minimum period. This commitment is required of the Counter Party in order to ensure that the investments costs to be incurred by National Grid NTS to provide the required level of incremental exit capacity are efficient and economic.

Principles

As described in National Grid NTS's Statement of "Principles and Methods to be used to Determine Charges for National Transmission System Connection Services" (the SC4B), there are two types of ARCA;

- the "DN ARCA", which applies to NTS/LDZ Offtakes; and
- the "DC ARCA", which applies to NTS Supply Points or CSEPs (Direct Connects)".

The key principles of these agreements, if they are required to be entered into pursuant to section 3A of the IExCR, are summarised below:

The counter party (i.e. the developer or shipper for a DC ARCA and a DNO User for a DN ARCA) wishes to be able to ensure that a certain level of incremental capacity (which is referred to below as the "reserved capacity") will be available by the date requested in accordance with the relevant UNC registration process. Subject to the provisions of the ARCA, National Grid NTS will ensure that the reserved capacity will be available by the agreed delivery date (the "Reduction Period Start Date").

The counter party to the agreement is obliged to:

- in the case of a DC ARCA signed by a developer or shipper, ensure that the reserved capacity is applied for in accordance with the UNC registration process;
- in the case of a DN ARCA signed by a DNO, apply for the reserved capacity in accordance with the UNC registration process;
- in the event that the counter party withdraws from the ARCA prior to the Reduction Period Start Date, pay to National Grid NTS the relevant investment costs incurred by National Grid NTS up to that time;
- in the event that the counter party withdraws from the ARCA after the Reduction Period Start Date, pay to National Grid NTS the Outstanding Amount (DN ARCA) or Security Amount (DC ARCA), which is equal to

the relevant investment costs less any exit capacity charges received in respect of the reserved capacity;

- at the end of the Reduction Period, pay to National Grid NTS the “ARCA Commitment”. This is an amount equal to the difference between the reserved level of incremental exit capacity and the actual incremental amount of capacity held by the relevant Shipper/DNO User at the NTS Exit Point over “n” years after the Reduction Period Start Date multiplied by the prevailing NTS Exit Capacity charges;
 - “n” will be the period over which the cost of the System Reinforcement Works would be returned through exit capacity transportation revenue based on the estimated NTS Exit Capacity charge rate at the time of execution of the ARCA;
 - the System Reinforcement Works cost will be the forecast, at the time of execution of the ARCA, of the costs associated with supplying the reserved capacity for the sole use of the connectee. This would accommodate any known existing or future loads that may benefit from the investments;
 - in the event that the System Reinforcement Works undertaken to enable the reserved capacity to be made available is found to be of benefit to other Users in the future, then National Grid NTS will reduce the ARCA Commitment and Outstanding Amount (DN ARCAs) or Security Amount (DC ARCAs) by the amount of capacity held by the relevant Shipper/DNO User at these connections multiplied by the relevant prevailing NTS Exit Capacity charges over the “n” years.
- in the case of a DC ARCA, provide a form of security acceptable to National Grid NTS. In the period up to the Reduction Period Start Date, the Security Amount will increase in line with investment costs incurred by National Grid NTS up to a maximum of the System Reinforcement Costs and will thereafter decrease in line with exit capacity charges received by National Grid NTS in respect of the reserved capacity.

National Grid NTS is obliged to:

- accept the relevant Shipper/DNO Users capacity application (made in accordance with the relevant UNC registration process) up to the level of reserved capacity; and
- undertake the System Reinforcement Works necessary to enable the reserved capacity as stated in the ARCA to be available by the specified delivery date.

In the event that the reserved capacity is not available by the delivery date National Grid NTS will be liable to pay the relevant Shipper/DNO Users for “failure to make gas available for offtake”, in accordance with the UNC.