

MODIFICATION PROPOSAL 335
Offtake Metering Error - Payment Timescales

LEGAL TEXT – v. 3.0 (30 August 2011) Incorporating Commentary
(prepared by Scotia Gas Networks Limited)

Proposed Amendments to the Uniform Network Code

TRANSPORTATION PRINCIPAL DOCUMENT

Note: Change-marking indicates differences between the proposed legal text and current UNC provisions. Changes to draft 1.0 of the legal text published on the Gas Governance website have been highlighted in yellow.

Business Rules not covered in Legal Text

The following Business Rules describe processes already dealt with by the existing UNC Legal Text and do not result in amendments:

- 1a. The allocation of gas following the ITE's final report is dealt with by OAD Section D 6.1.4 and TPD E7.1.4.*
- 1b. Calculation of the amount owed to NTS Shrinkage is dealt with by E7.6.1(a).*
- 2b. Updating of shrinkage account is dealt with by E7.6.1(a) (This is an internal accounting adjustment between National Grid NTS and the Shrinkage Manager.)*
- 5 Refers to application of existing Code rules in the event of a shipper termination.*

It is debatable as to whether or not legal text is required to give effect to Business Rule 7 (which is understood as meaning that shippers are required shippers to pay deferred charges for Mod 335 Reconciliation where the amount payable has been ascertained at the time of voluntary discontinuance but not otherwise). Additional text has been added to section V4.2 to remove any doubt as to whether or not pre-payment of such sums is required prior to voluntary discontinuance (as it might be argued that the instalments are recurrent charges becoming payable only by reason of the passage of time) and to make it clear that the discontinuing shipper has the right to pre-pay the instalments.

DEFINITIONS

| Defined Term | Definition | X-Ref | Comment |
|-------------------------------------|--|--------------|----------------|
| Aggregate NDM Reconciliation | is a reconciliation and adjustment in respect of gas offtaken from the Total System and certain Transportation Charges, in relation to Smaller NDM Supply Meter Points and Smaller Unmetered CSEPs in aggregate in an LDZ, in respect of quantities determined | E1.3.5 | |

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| | in accordance with paragraph 7 | | |
| Aggregate Reconciliation Transportation Charge Adjustments | Subject to paragraph 7.8, for each Reconciliation Billing Period, for each LDZ and for each Individual Reconciliation Sector ... is the Aggregate Reconciliation Quantity multiplied by the sum of the Applicable Commodity Rate for Smaller Supply Points of the NTS Commodity Charge, the LDZ Commodity Charge and the Commodity Variable Component (if any) of the Customer Charge, each applicable in relation to such Reconciliation Billing Period; | E7.2.2(b) | |
| DNO Qualifying Aggregate NDM Reconciliation | is Aggregate NDM Reconciliation carried out in respect of DNO Qualifying LDZ Reconciliation; | E7.8.1(d) | New (and subsequently revised). The revised text in version 3.0 corrects the omission of the word DNO from the defined term. |
| DNO Qualifying Aggregate NDM Reconciliation Charge | the aggregate of the Aggregate Reconciliation Clearing Values for each LDZ Reconciliation Month in the LDZ Reconciliation Period | 7.8.5(ii) | New. |
| DNO Qualifying LDZ Reconciliation | is Qualifying LDZ Reconciliation in respect of which the Aggregate Reconciliation Quantity is negative | E7.2.1(e) | New. See comment on text below. In the commentary on the text this type of reconciliation (and the corresponding DNO Qualifying Aggregate NDM Reconciliation) is referred to as “Mod 335 Reconciliation” |
| LDZ Reconciliation | means a reconciliation pursuant to paragraph 7.6.1 (which provides that “a reconciliation shall be carried out between the Transporter and the NTS Shrinkage Provider in respect of the relevant quantity of gas where: (a) after the Exit Close-out Date in relation to any Day, an adjustment is made in respect of the LDZ Daily Quantity Input for any LDZ and in respect of an amount calculated by multiplying such quantity of gas by the System Average Price for the Day on which such adjustment was deemed by the Transporter to relate; (b) ...” | E7.6.2(a) | |
| LDZ Reconciliation Month | in relation to Qualifying LDZ Reconciliation and DNO Qualifying Aggregate NDM Reconciliation ... is a calendar month which commences and/or ends in the LDZ Reconciliation | E7.8.1(e) | |

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|--|---|-----------|---|
| | Period | | |
| LDZ Reconciliation Period | is the continuous period of Days (as referred to in paragraph 7.6.1(a) [see above]) in respect of which such adjustments were made; | E7.8.1(a) | In other words the period covered by the reconciliation – (defined term changed to avoid confusion as to what relevant period is being talked about (“relevant period” is defined in several different ways) |
| “particular” LDZ Reconciliation | is LDZ Reconciliation under paragraph 7.6.1(a) in respect of adjustments (as referred to in that paragraph) made as a result of a particular failure or error in measurement equipment or other particular cause; | E7.8.1(a) | |
| “Qualifying” LDZ Reconciliation | is particular LDZ Reconciliation for which the relevant quantity is not less than 50 GWh; | E7.8.1(c) | Qualifying LDZ Reconciliation covers significant metering errors whether or not these result in payments to or from NTS Shrinkage. A separate category is needed for Mod 335 Reconciliations hence the introduction of DNO Qualifying LDZ Reconciliations (and the corresponding DNO Qualifying Aggregate Reconciliation) |
| User Deferred Aggregate Reconciliation Charge | in relation to DNO Qualifying Aggregate NDM Reconciliation and a User ...the User Aggregate Reconciliation Value in respect of each LDZ Reconciliation Month within the LDZ Reconciliation Period | 7.8.4(c) | New. |

SECTION E

DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

7 AGGREGATE NDM RECONCILIATION

7.2 Definition and calculation of relevant terms

Delete paragraph 7.2.1(d) and replace it with the following new paragraphs 7.2.1(d) and (e):

(d) **"Individual Reconciliation Sector"** means, in relation to each LDZ, System Exit Points of the kind in respect of which paragraph (a), (b) or (c) applies and LDZ Reconciliation; and

(e) **"DNO Qualifying LDZ Reconciliation"** is Qualifying LDZ Reconciliation in respect of which the Aggregate Reconciliation Quantity is negative.

Comment: *DNO Qualifying LDZ Reconciliation ("Mod 335 Reconciliation") is a significant metering error (i.e. >50 GWh) which results in a rebate to NTS Shrinkage Manager- in other words an error of the magnitude and type addressed by the modification proposal.*

7.3 Aggregate NDM Reconciliation Adjustments

Delete paragraph 7.3.2 and replace it with the following new paragraph 7.3.2:

7.3.2 For the purposes of Section F5, the Reconciliation Clearing Charge in respect of a System Clearing Contract under paragraph 7.3.1 shall be:

(a) subject to paragraph (b) below, the User Aggregate Reconciliation Clearing Value; and

(b) zero, where such System Clearing Contract relates to the User Aggregate Reconciliation Quantity in respect of DNO Qualifying LDZ Reconciliation.

Comment: *E7.3.2 equates to **Business Rules 2a and 4a** (in so far as these rules indicates that the shipper does not pay National Grid NTS for the gas which is subject to Mod 335 Reconciliation): For Mod 335 Reconciliation the value of the System Clearing Contract between the shipper and National Grid is zero. The Shipper is deemed to have acquired the gas by virtue of a system clearing contract under F5, but does not pay anything to National Grid.*

Delete paragraph 7.3.4 and replace it with the following new paragraph 7.3.4:

7.3.4 For the purposes of Aggregate NDM Reconciliation the User Aggregate Transportation Charge Adjustment shall be payable:

(a) where the Reconciliation Quantity is negative:

- (i) in the case of the adjustment to the NTS Commodity Charges save where paragraph (iii) below applies, by the User to National Grid NTS;
- (ii) in the case of the adjustment to the LDZ Commodity Charges and Commodity Variable Components (if any) of the Customer Charges, by the User to the Transporter;
- (iii) (without prejudice to paragraph 7.8.4) in the case of an Aggregate NDM Reconciliation in respect of DNO Qualifying LDZ Reconciliation (that is to say DNO Qualifying Aggregate NDM Reconciliation) by the relevant DNO User to National Grid NTS;

(b) where the Reconciliation Quantity is positive:

- (i) in the case of the adjustment to the NTS Commodity Charges, by National Grid NTS to the User;
- (ii) in the case of the adjustment to the LDZ Commodity Charges and Commodity Variable Components (if any) of the Customer Charges, by the Transporter to the User.

and, subject to paragraph 7.8, shall be invoiced and are payable in accordance with Section S.

***Comment:** E7.3.4(a)(iii) equates to **Business Rules 2a and 4a** in so far as these rules indicate that the relevant DNO (and not the shipper) pays National Grid for transportation charges on gas which is subject to MOD 335 Reconciliation: For MOD 335 Reconciliation the DNO pays the transportation charges due to National Grid in relation to the reconciled gas. This is consistent with the statement in the Proposal that “it is proposed that the interim shortfall be picked up by the appropriate Downstream Transporter who shall cover both Transportation and Energy costs.” (NB In the light of this statement it is not clear what is meant by **Business Rule 2c:**” National Grid NTS to consider changes in costs/revenues and consider setting the SO Commodity charge to meet allowed costs/revenue”. It is understood that the Proposer intends that in the interim the DNO should cover the shortfall in National Grid NTS’s transportation charges, so it is not clear what purposes **Business Rule 2c** serves.*

7.8 Qualifying LDZ Reconciliation

Delete paragraph 7.8.1 and replace it with the following new paragraph 7.8.1:

7.8.1 For the purposes of the Code:

- (a) “**particular**” LDZ Reconciliation is LDZ Reconciliation under paragraph 7.6.1(a) in respect of adjustments (as referred to in that paragraph) made as a result of a particular failure or error in measurement equipment or other particular cause;
- (b) in relation to particular LDZ Reconciliation or Aggregate NDM Reconciliation:
 - (i) the “**LDZ Reconciliation Period**” is the continuous period of Days (as referred to in paragraph 7.6.1(a)) in respect of which such adjustments were made;
 - (ii) the “**relevant quantity**” is the aggregate quantity which is subject to such adjustment over the whole of the LDZ Reconciliation Period;
- (c) “**Qualifying**” LDZ Reconciliation is particular LDZ Reconciliation for which the relevant quantity is not less than 50 GWh;
- (d) “**DNO Qualifying Aggregate NDM Reconciliation**” is Aggregate NDM Reconciliation carried out in respect of DNO Qualifying LDZ Reconciliation;
- (e) in relation to Qualifying LDZ Reconciliation and DNO Qualifying Aggregate NDM Reconciliation, an “**LDZ Reconciliation Month**” is a calendar month which commences and/or ends in the LDZ Reconciliation Period.

Comment: LDZ Reconciliation and “particular” LDZ Reconciliation relate to the reconciliation carried out between the Transporter and the NTS Shrinkage Provider. DNO Qualifying Aggregate NDM Reconciliation is used to denote the Aggregate NDM Reconciliation between the Transporter and the DNO which corresponds to Mod 335 LDZ Reconciliation.

In paragraph 7.8.2, after the words “for the purposes of paragraphs 7.2.2 and 7.2.3”, insert the words “and this paragraph 7.8”.

Delete paragraph 7.8.4 and replace it with the following new paragraphs 7.8.4 to 7.8.9:

Comment: Existing 7.8.4 renumbered as 7.8.9.

7.8.4 In relation to DNO Qualifying Aggregate NDM Reconciliation and a User:

- (a) the User Aggregate Transportation Charge Adjustment in respect of the NTS Commodity Charges;
- (b) the User Aggregate Transportation Charge Adjustment in respect of LDZ Commodity Charges and Commodity Variable Components (if any) of the Customer Charges; and

(c) the “User Deferred Aggregate Reconciliation Charge”, being the User Aggregate Reconciliation Value

in respect of each LDZ Reconciliation Month within the LDZ Reconciliation Period shall be payable by the User to the relevant DNO User in installments as specified in paragraph 7.8.6

Comment: Equates to **Business Rules 1c, 3b and 4a** by providing for payments by shippers to the DNO (in relation to NTS Commodity Charges, LDZ Transportation Charges and energy charges) for Mod 335 Reconciliation to be made in installments as specified in paragraph 7.8.6.

7.8.5 In relation to DNO Qualifying Aggregate NDM Reconciliation the DNO User shall pay National Grid NTS:

- (i) the aggregate of, for each LDZ Reconciliation Month in the LDZ Reconciliation Period, the sum of F (where F is the factor specified in the Transportation Statement for the purposes of paragraph 7.2.3 - representing an estimate of the average discount in the Applicable Commodity Rate for Smaller Unmetered CSEPs compared with such rate for Smaller Supply Points -) multiplied by the Aggregate Reconciliation Transportation Charge Adjustment in relation to that DNO Qualifying Aggregate NDM Reconciliation in respect of the NTS Commodity Charges for that LDZ Reconciliation Month; and
- (ii) the “DNO Qualifying Aggregate NDM Reconciliation Charge” being the aggregate of the Aggregate Reconciliation Clearing Values in respect of that DNO Qualifying Aggregate NDM Reconciliation for each LDZ Reconciliation Month in the LDZ Reconciliation Period.

Comment: Equates to **Business Rules 2a and 3a** by providing that in the case of Mod 335 Reconciliations the DNO will pay National Grid NTS the sum of all payments that would normally be due from shippers collectively to National Grid NTS in respect of: (i) transportation charges (the Aggregate Reconciliation Transportation Charge Adjustment corresponds to the aggregate payable by all shippers to National Grid NTS in respect of NTS usage prior to its allocation to individual shippers); and (ii) the total reconciled energy.

7.8.6 Payments due pursuant to paragraph 7.8.4 in respect of LDZ Reconciliation Months in relation to a DNO Qualifying Aggregate NDM Reconciliation shall be payable in a number of monthly installments equal to the number of LDZ Reconciliation Months in the LDZ Reconciliation Period. The payment in respect of the first LDZ Reconciliation Month in a LDZ Reconciliation Period shall be treated as being payable on the last Day in such LDZ Reconciliation Period and shall be invoiced as soon as reasonably practicable after the carrying out of such DNO Qualifying Aggregate NDM Reconciliation. Subject to Section S1.7.4(b), payments in respect of

subsequent LDZ Reconciliation Months in relation to such DNO Qualifying Aggregate NDM Reconciliation shall be payable sequentially in monthly intervals thereafter and shall be invoiced accordingly.

Comment: Equates to **Business Rules 1c, 3b and 4a:** Invoices for energy and transportation charges (attributable to NTS and LDZ usage) are paid by the shipper to the DNO as invoiced on a monthly basis over a number of months equal to the length of the period covered by the Mod 335 Reconciliation.

7.8.7 Payments due pursuant to paragraph 7.8.5 in respect of LDZ Reconciliation Months in relation to a DNO Qualifying Aggregate NDM Reconciliation shall be treated as being payable on the last Day in the LDZ Reconciliation Period and shall be invoiced as soon as reasonably practicable after the carrying out of such DNO Qualifying Aggregate NDM Reconciliation.

Comment: Equates to **Business Rule 2a:** National Grid NTS invoices the DNO for the outstanding amount due to the Significant Metering Error on a Mod 335 Reconciliation. (This provision corresponds to the current E7.8.3 which currently relates to invoicing of shippers for Significant Meter Error Reconciliations and which will continue to apply to such reconciliations where they are not Mod 335 Reconciliations)

7.8.8 Amounts payable pursuant to this paragraph 7.8 shall be invoiced by Ad-hoc Invoice.

7.8.9 Where a User that was a User at any time during the Aggregate Reconciliation Period determined pursuant to paragraph 7.8.2(a)(i) becomes a Discontinuing User on or before the date of submission of the relevant Ad-hoc Invoice to that User, then to the extent that the amounts determined in accordance with paragraph 7.2.3 in relation to that Aggregate Reconciliation Period cannot be recovered from or paid to the Discontinuing User (or from or to any other User that is responsible for the payment of, or entitled to receive, such amounts), such amounts (including amounts payable to a DNO pursuant to paragraph 7.8.6) shall be payable by or to all other Users, as appropriate, in the proportions that would be determined in accordance with 7.2.3 (as modified by this paragraph 7.8.9) as if the User SP LDZ Aggregate AQ and the User CSEP LDZ Aggregate AQ for the Discontinuing User were zero.

Comment: Equates to **Business Rule 6:** If the shipper terminates before a deferred payment in respect of Mod 335 Reconciliation has been invoiced (and the amount cannot be collected), then the amounts payable by the other shippers to the DNO will be recalculated accordingly. (The adjustment has no bearing on the amount payable by the DNO to National Grid NTS which will be unaffected). It is understood that this smearing should occur (in relation to the unbilled amounts) if a shipper is terminated before all payments due in respect of a Mod 335 Reconciliation have been invoiced and not just where it is terminated prior to the error having been identified, as in the example given in Business Rule 6. It is understood that the Proposer does not intend that smearing should occur in respect of amounts which have been invoiced to the User prior to termination but which cannot be collected.

Further amendments have been suggested to clarify 7.8.9 on the understanding that as a result of paragraph 7.8.2(b) in the context of paragraph 7.2.(and hence 7.8.9) a reference to an Aggregate Reconciliation Period is a reference to an LDZ Reconciliation Month

SECTION F

SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

5 RECONCILIATION CLEARING

5.2 Clearing Charge

In paragraph 5.2.1, delete the words “paragraph 7.2.3” and replace them with the words “Section E7.2.3”.

SECTION S

INVOICING AND PAYMENT

1.4 Invoice timing

Insert the following new paragraph 1.4.5:

1.4.5 Paragraph 1.4.4 shall not apply to Invoice Items or Invoice Amounts in respect of:

- (a) User Aggregate Transportation Charge Adjustments; or
- (b) User Deferred Aggregate Reconciliation Charges,

in relation to a LDZ Reconciliation Month in respect of DNO Qualifying Aggregate NDM Reconciliation where any amount has become due and payable by the relevant DNO in respect of such LDZ Reconciliation Month and DNO Qualifying Aggregate NDM Reconciliation pursuant to Section E7.8.5

Comment: Equates to **Business Rule 8 (first paragraph):** The “line in the sand” Code Cut-off Date does not apply to amounts to due from shippers to the DNO in relation to Mod 335 Reconciliation where the DNO itself was not exonerated from the corresponding payments to National Grid NTS by the Code Cut-off Date.

1.7 Termination and Insolvency

Delete paragraph 1.7.4 and replace it with the following new paragraph 1.7.4:

1.7.4 In relation to a User, on the occurrence of any of the events set out in paragraph V4.3.1(e), notwithstanding paragraph 3.1:

- (a) all amounts payable to the Transporter (whether the Invoice Document in which such amounts are shown was submitted before or after the date of the occurrence of any of the events set out in paragraph V4.3.1(e)) shall be immediately payable; and
- (b) any installments of a User Aggregate Transportation Charge Adjustment or User Deferred Aggregate Reconciliation Charge payable by the defaulting User to the Transporter in relation to DNO Qualifying Aggregate NDM Reconciliation which have not as yet become due for payment shall become immediately due and payable.

*Comment: Equates to **the second paragraph of Business Rule 8**: On termination a shippers liability for deferred Mod 335 Reconciliation charges is accelerated to preserve the effect of existing Code provisions that termination would not absolve the shipper of its liability for charges arising out of Aggregate NDM Reconciliation.*

ANNEX S-1

INVOICE TYPES AND INVOICE ITEMS

6 Reconciliation Invoice

In paragraph 6, delete the words “Amounts in respect of Aggregate LDZ Reconciliation pursuant to Section E7.8.2” and replace them with the words:

Amounts in respect of:

- (i) Aggregate LDZ Reconciliation pursuant to Section E7.8.2; and
- (ii) DNO Qualifying Aggregate NDM Reconciliation pursuant to Sections E7.8.4 and E7.8.5.

shall be invoiced by way of Ad-hoc Invoice and not Reconciliation Invoice.

SECTION V

GENERAL

4.2 Voluntary discontinuance

Insert the following new paragraph 4.2.1A:

4.2.1A For the purposes of paragraph 4.2.1(a) User Aggregate Transportation Charge Adjustments and User Deferred Aggregate Reconciliation Charges in relation to a LDZ Reconciliation Month in respect of DNO Qualifying Aggregate NDM Reconciliation where any amount has become due and payable by the relevant DNO in respect of such LDZ Reconciliation Month and DNO Qualifying Aggregate NDM Reconciliation pursuant to Section E7.8 shall be treated as being payable at the relevant time.

Delete paragraph 4.2.3 and replace it with the following new paragraph 4.2.3:

4.2.3 Where a User has given notice under paragraph 4.2.1:

- (a) the User and the Transporter shall remain bound by the Code and the Shipper Framework Agreement and any Ancillary Agreement to which the User is party until the requirements of paragraph 4.2.2 are satisfied;
- (b) the System Capacity which the User is registered as holding shall not be reduced or cancelled other than in accordance with the relevant provisions of the Code (and the User will remain liable for payment of Transportation Charges in respect thereof but may elect to make prepayment thereof) and
- (c) the User may elect to make prepayment of any installments of charges payable pursuant to Sections E7.8.4 and E7.8.6 in relation to DNO Qualifying Aggregate NDM Reconciliation.

Comment: 4.2.1A and 4.2.3(c) equate to Business Rule 7 which is understood to mean that a Shipper cannot voluntarily discontinue unless he has prepaid any installments that are scheduled in respect of MOD 335 Reconciliation (where the Reconciliation Quantity has been ascertained as evidenced by National Grid NTS's invoice to the DNO).

GENERAL TERMS

SECTION C

Delete the definition of "Energy Balancing Charges" in paragraph 1 and replace it with the following new definition:

"Energy Balancing Charges" means Market Balancing Action Charges, other charges payable in respect of Eligible Balancing Actions pursuant to Contingency Balancing Arrangements, Physical Renomination Incentive Charges, Clearing Charges in respect of Unauthorised Gas Flows, Balancing Charges, Balancing Neutrality Charges, Reconciliation Clearing Charges, User Aggregate Reconciliation Clearing Charges, DNO Qualifying Aggregate NDM Reconciliation Charges and Reconciliation Neutrality Charges;

Comment: DNO Qualifying Aggregate NDM Reconciliation Charges, being the energy charges payable by the DNO in relation to Mod 335 Reconciliation should accordingly be

classified as Energy Balancing Charges. (The deferred charges in respect of energy paid by the shippers to the DNO cannot be energy balancing charges since they are not payable to National Grid NTS).