UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION F – SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

1 GENERAL AND SYSTEM PRICES

1.1 Introduction

1.1.1 This Section F provides for:

(a) the clearing of each User's Daily Imbalances;

(b) the calculation and payment of Daily Imbalance Charges and Scheduling Charges;

(c) the calculation and payment of Balancing Neutrality Charges;

(d) the clearing of each User's Daily Reconciliation Quantities; and

(e) the clearing of each User's User UGR Quantities.

1.1.2 For the purposes of the Code:

(a) a "**Daily Imbalance Charge**" is an amount payable by or to a User in respect of a Daily Imbalance, in accordance with paragraph 2;

(b) "**Scheduling Charges**" are amounts payable by a User in respect of differences between quantities delivered and offtaken to or from the Total System each Day and the quantities Nominated for such delivery or offtake, in accordance with paragraph 3;

(c) "**Balancing Charges**" are Daily Imbalance Charges and Scheduling Charges;

(d) "**Balancing Neutrality Charges**" are amounts payable by or to National Gas Transmission, so that it does not gain or lose by the payment and receipt of Market Balancing Action Charges, Daily Imbalance Charges, Scheduling Charges and other amounts specified in and in accordance with paragraph 4;

(e) **"Default System Marginal Price"** is the price (in pence per kWh):

(i) calculated by National Gas Transmission in accordance with the Default System Marginal Price Methodology;

(ii) contained in the Default System Marginal Price Statement; and

(iii) which shall apply for the Gas Year following the Gas Year in which the Default System Marginal Price Statement is published;

(f) **"Default System Marginal Price Statement"** means the document prepared and published by National Gas Transmission by no later than 1 August 2012 and by no later than 1 August in each subsequent Gas Year;

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(g) **"Default System Marginal Price Methodology"** means the following formula:

$$\textit{Default System Marginal Price (pence/kWh)} = \left[\frac{\textit{Annual Compressor Fuel Cost (£) x 100}}{\textit{Total System Demand (TWh) x } 10^9} \right] + \textit{Average Forecast NTS Capacity Charges (pence/kWh)}$$

where:

(h) **"Annual Compressor Fuel Cost"** is the cost (in pounds sterling (£)) of operating all the NTS compressors during the Formula Year ending in the Gas Year in which the Default System Marginal Price Statement is published;

(i) **"Total System Demand"** is the total system actual demand (in Terawatt Hours (TWh)), as published within National Gas Transmission's Long Term Development Statement, for the Gas Year preceding the Gas Year in which the Default System Marginal Price Statement is published;

(j) **"Average Forecast NTS Capacity Charges"** are the charges (in pence per kilowatt hour (p/kWh)) determined as ADJRt (as defined in Special Condition 2.1 of National Gas Transmission's Transporter's Licence) in respect of the Formula Year commencing in the Gas Year in which the Default System Marginal Price Statement is published, divided by the 1 in 20 peak day demand in relation to the Gas Year following the Gas Year in which the Default System Marginal Price Statement is published; and

the numerical result derived from the application of the Default System Marginal Price Methodology shall be contained in the Default System Marginal Price Statement.

1.2 System prices

1.2.1 Subject to paragraphs 1.2.2, 1.2.5 and Section Q, for each Day:

(a) the "**System Marginal Buy Price**" is the greater of:

(i) the System Average Price plus the Default System Marginal Price; and

(ii) the price in pence/kWh which (subject to Section D4.1.4, 4.1.5(a)) is equal to the highest Balancing Action Offer Price in relation to a Market Balancing Buy Action taken for that Day;

(b) the "**System Marginal Sell Price**" is the lesser of:

(i) the System Average Price less the Default System Marginal Price; and

(ii) the price in pence/kWh which (subject to Section D4.1.4, 4.1.5(b) and 4.1.7) is equal to the lowest Balancing Action Offer Price in relation to a Market Balancing Sell Action taken for that Day;

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(c) the "**System Average Price**" for a Day is (subject to Section D4.1.4 and 4.1.6) the price in pence/kWh calculated as the sum of all Balancing Transaction Charges divided by the sum of the Market Transaction Quantities and Non-Trading System Transaction Quantities for all Balancing Transactions respectively effected in respect of that Day.

1.2.2 Where for any Day no Balancing Transaction was effected (or none other than one excluded for the purposes of paragraph 1.2.1 pursuant to paragraph 1.2.3), the System Average Price for that Day shall be the arithmetic mean of the System Average Price determined under paragraph 1.2.1 (or under this paragraph) for each of the 7 preceding Days.

1.2.3 For the purposes of paragraph 1.2.1(a), (b) and (c) Excluded Locational Actions and Excluded DSR Actions will be excluded in determining the System Marginal Sell Price, System Marginal Buy Price and the System Average Price.

1.2.4 For the purposes of paragraph 1.2.3:

(a) an **"Excluded Locational Action"** is a Market Balancing Buy Action or a Market Balancing Sell Action taken pursuant to Section D1.5 for the purposes of increasing or decreasing gas flows at a System Point for the purposes of avoiding or remedying a Localised Transportation Deficit, Transportation Constraint, Entry Capability Shortfall or Firm Capacity Shortfall;

(b) an "**Excluded DSR Action**" is a Marketing Balancing Action taken by way of acceptance of a DSR Market Offer submitted pursuant to a 5-Day-Ahead Option pursuant to Section D7.

1.2.5 Where:

(a) it appears to National Gas Transmission after consultation with the Uniform Network Code Committee or any relevant Sub-committee that there is an alternative basis for determining a price to apply each Day as the System Average Price for the purposes of paragraph 5, and that such basis would be more appropriate for such purposes than that set out in paragraphs 1.2.1 and 1.2.2 (or applying at the time pursuant to any prior application of this paragraph 1.2); and

(b) upon National Gas Transmission's application the Authority has given Condition A11(18) Approval to National Gas Transmission's applying, with effect from the Day proposed by National Gas Transmission after such consultation, such alternative basis for such purposes

then with effect from such Day the price determined each Day pursuant to such alternative basis will be applied for the purposes of paragraph 5 and references to the System Average Price in that paragraph will be construed accordingly (but without prejudice to the continued application of the System Average Price determined under paragraphs 1.2.1 and 1.2.2 for other purposes of the Code); and National Gas Transmission will as soon as reasonably practicable after the Authority gave such approval notify Users of such alternative basis.

1.3 Commissioning VLDMCs

1.3.1 Subject to paragraph 1.3.2 for the purposes of paragraphs 2.2.1 and 3.2.2 until the date

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specified or determined pursuant to the provisions (applying pursuant to Section J1.5.2(b)) of the applicable Network Exit Provisions as the date when commissioning of the Consumer's Plant is completed, a VLDMC Supply Point will be treated as a DMC Supply Point other than a VLDMC Supply Point.

1.3.2 Paragraph 1.3.1 will apply only where the Registered User gives notice to the Transporter of the commissioning and complies with any other procedural requirements in accordance with the applicable Network Exit Provisions.

1.4 Daily Read Errors

1.4.1 Where for a Daily Read Error Day an Error Revised UDQO has been determined (pursuant to Sections E3.4 and M6.6) for a DM Supply Point:

(a) the Transporter will, as soon as reasonably practicable, determine by reasonable estimation, and notify to the relevant User, the quantities and amounts referred to in this paragraph 1.4;

(b) this paragraph 1.4 shall apply on the basis of the quantities and amounts so determined by the Transporter.

1.4.2 Where the relevant Supply Point was a DMC Supply Point:

(a) where the amount (if any) invoiced to or paid by the User by way of Output Scheduling Charge exceeds the amount (if any) which the User would have been liable to pay by way of Output Scheduling Charge on the basis of the Error Revised UDQO, National Gas Transmission will pay to the User the amount of the excess;

(b) where the amount (if any) invoiced to or paid by the User by way of Output Scheduling Charge is less than the amount (if any) which the User would have been liable to pay by way of Output Scheduling Charge on the basis of the Error Revised UDQO, the User will pay to National Gas Transmission the amount of the deficit.

1.4.3 Subject to paragraph 1.4.4, where the magnitude of the User's Daily Imbalance for the Daily Read Error Day would have been greater had the Error Revised UDQO been used in the calculation under Section E5:

(a) if the Daily Imbalance was positive, National Gas Transmission will be liable to pay to the User;

(b) if the Daily Imbalance was negative, the User will be liable to pay to National Gas Transmission

the amount (if any) calculated as the relevant quantity multiplied by the relevant price (in accordance with paragraph 1.4.5).

1.4.4 Where the User's Daily Imbalance would have been positive and not negative, or negative and not positive, had the Error Revised UDQO been used in the calculation under Section E5 paragraph 1.4.3 shall apply, irrespective of whether the magnitude of such Daily Imbalance would have been greater on the basis that the reference therein to whether the Daily Imbalance was positive or negative shall be to whether it would have been positive or negative.

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1.4.5 For the purposes of this paragraph 1.4:

(a) the "**relevant quantity**" is for the purposes of paragraph 1.4.4 the sum of the User's Daily Imbalance and the error quantity, less the Imbalance Tolerance Quantity;

(b) the "**relevant price**" is the difference between:

(i) for the purposes of paragraph 1.4.3(a), the System Marginal Sell Price; or

(ii) for the purposes of paragraph 1.4.3(b), the System Marginal Buy Price

and the System Average Price, each for the Daily Read Error Day (it being acknowledged that Offtake Reconciliation will separately provide an appropriate adjustment as to the System Average Price);

(c) the "**error quantity**" is the magnitude of the difference between the Error Revised UDQO and the UDQO originally determined under Section E3.

1.4.6 Amounts paid by National Gas Transmission pursuant to paragraph 1.4.2(a) or paid to National Gas Transmission pursuant to paragraphs 1.4.2(b) and 1.4.3 will be additional Monthly Adjustment Neutrality Costs or (as the case may be) additional Monthly Adjustment Neutrality Revenues for the purposes of paragraph 4.5.3 in the month in which such amounts are paid.

1.4.7 It is acknowledged that the payments to be made pursuant to this paragraph 1.4 are separate additional obligations for the purposes of the Code, and nothing in Section E3.4 or M6.6 or this paragraph 1.4 shall prejudice the liability of the Transporter or any User to make payments (determined on the basis of the original UDQO) pursuant to any other provision of the Code.

1.5 DNO User

In this Section F references to Users exclude DNO Users other than a DNO User in its capacity as an LDZ Shrinkage Provider.

1.6 Trader User

In this Section F references to Users, except in paragraphs 1.1, 1.2 and 2 exclude Trader Users.

1.7 CSEP Supply Points and USEP System Entry Points

In this Section F:

(a) references to Supply Meter Points and Supply Points (and classes thereof) include CSEP Supply Meter Points and CSEP Supply Points (and the corresponding classes thereof);

(b) references to System Entry Points include USEP System Entry Points.

1.8 CDSP Functions

1.8.1 Agency Functions of the CDSP to support implementation of this Section F are:

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(a) calculating Energy Balancing Charges; and

(b) calculating Scheduling Charges.

2 DAILY IMBALANCES

2.1 Introduction

2.1.1 The gas representing the amount of a User's Daily Imbalance in respect of a Day shall be deemed to be sold and purchased and the imbalance cleared in accordance with this paragraph 2.

2.1.2 The Daily Imbalance Charge in respect of a User's Daily Imbalance shall be determined in accordance with paragraph 2.3.

2.2 System Clearing Contract

2.2.1 The quantity of gas comprising a User's Daily Imbalance shall be deemed to have been sold and purchased pursuant to a System Clearing Contract.

2.2.2 For the purposes of such System Clearing Contract:

(a) where the Daily Imbalance is positive, the seller is the User and the buyer is National Gas Transmission;

(b) where the Daily Imbalance is negative, the seller is National Gas Transmission and the buyer is the User.

2.2.3 The System Clearing Contract shall be deemed to have been performed fully except as to payment.

2.2.4 The Daily Imbalance shall be extinguished by the System Clearing Contract.

2.3 Clearing Charge

2.3.1 The Daily Imbalance Charge shall be the Clearing Charge in respect of the System Clearing Contract under this paragraph 2 and shall be calculated by multiplying the Daily Imbalance of the User as follows:

(a) where the Daily Imbalance is positive, the System Marginal Sell Price for the Gas Flow Day; and

(b) where the Daily Imbalance is negative, the System Marginal Buy Price for the Gas Flow Day.

2.3.2 In the event of a Class A Contingency (in accordance with GT Section D5.9) occurring on the Gas Flow Day the references in paragraph 2.3.1(b) to System Marginal Sell Price and System Marginal Buy Price shall be to the System Average Price.

2.3.3 The buyer shall pay the Daily Imbalance Charge in respect of the Daily Imbalance to the seller.

2.3.4 The Daily Imbalance Charge shall be invoiced and payable in accordance with Section

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3 SCHEDULING CHARGES

3.1 Introduction

3.1.1 Where on a Day the quantity of gas delivered to or offtaken from the Total System by a User at a System Point or group of System Points differs (by more than an allowed tolerance) from the quantities nominated by the User in respect of that System Point or group, the User shall pay a Scheduling Charge in accordance with this paragraph 3.

3.1.2 Scheduling Charges incurred under this paragraph 3 will be invoiced and are payable in accordance with Section S.

3.1.3 No account shall be taken of gas flows at Inter-System Offtakes for the purposes of calculating Scheduling Charges.

3.2 Input Scheduling Charges

3.2.1 For the purposes of the Code, for each User in respect of each Aggregate System Entry Point on each Day:

(a) the "**Scheduling Input Nominated Quantity**" is the sum of the Nominated Quantities under its Input Nominations for each System Entry Point comprised in that Aggregate System Entry Point;

(b) the "**Input Scheduling Quantity**" is the amount by which the sum of the UDQIs (in accordance with Section E2.1) for each System Entry Point comprised in that Aggregate System Entry Point was greater than or (as the case may be) less than the Scheduling Input Nominated Quantity;

(c) the "**Inner Input Tolerance Quantity**" is 3% of the Scheduling Input Nominated Quantity;

(d) the "**Outer Input Tolerance Quantity**" is 5% of the Scheduling Input Nominated Quantity;

(e) the "**First Chargeable Input Scheduling Quantity**" is:

(i) where the magnitude of the Input Scheduling Quantity exceeds the Outer Input Tolerance Quantity, the amount of the difference between the Outer Input Tolerance Quantity and the Inner Input Tolerance Quantity;

(ii) where the magnitude of the Input Scheduling Quantity does not exceed the Outer Input Tolerance Quantity, the amount (if any) by which the magnitude of the Input Scheduling Quantity exceeds the Inner Input Tolerance Quantity;

(f) the "**Second Chargeable Input Scheduling Quantity**" is the amount (if any) by which the magnitude of the Input Scheduling Quantity exceeds the Outer Input Tolerance Quantity.

3.2.2 Where the magnitude of the Input Scheduling Quantity exceeds the Inner Input

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Tolerance Quantity (but not otherwise), the User shall pay a Scheduling Charge determined as the sum of:

(a) the amount of the First Chargeable Input Scheduling Quantity multiplied by 2% of the System Average Price for the Gas Flow Day; and

(b) the amount of the Second Chargeable Input Scheduling Quantity (if any) multiplied by 5% of the System Average Price for the Gas Flow Day.

3.3 Output Scheduling Charges

3.3.1 Subject to paragraph 3.3.4, for the purposes of this Section F, for each User:

(a) an "**Output Scheduling Point or Group**" is:

(i) a Registered DMC Supply Point; or

(ii) a relevant Metered Connected System Exit Point; or

(iii) the Scheduling Firm Supply Point Group for any LDZ.

(b) for each LDZ the "**Scheduling Firm Supply Point Group**" is all of the User's DMA Supply Point Groups for each Exit Zone in that LDZ.

3.3.2 Subject to paragraph 3.3.4, for the purposes of the Code, for each User in respect of each Output Scheduling Point or Group:

(a) the "**Scheduling Output Nominated Quantity**" is:

(i) in the case of a Registered DMC Supply Point the Nominated Quantity under its Output Nomination for the relevant System Exit Point;

(ii) in the case of a relevant Metered Connected System Exit Point, the Nominated Quantity under its Output Nomination for the relevant System Exit Point; and

(iii) in the case of a Scheduling Firm Supply Point Group, the sum of the Nominated Quantities under its Output Nominations for all DMA Supply Point Groups for Exit Zones in the relevant LDZ.

(b) the "**Scheduling UDQO**" is:

(i) in respect of a Scheduling Firm Supply Point Group, the aggregate of the User's UDQOs for all of the Registered Firm DMA Supply Points in the relevant LDZ; and

(ii) in respect of any other System Exit Point (other than an NDM Supply Point), the User's UDQO for that System Exit Point;

(c) the **"Output Scheduling Quantity"** is the amount by which the Scheduling UDQO was greater than or (as the case may be) less than the Scheduling Output Nominated Quantity;

(d) the **"Output Tolerance Quantity"** is:

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(i) in respect of a DMC Supply Point other than a VLDMC Supply Point or a relevant Metered Connected System Exit Point, the quantity which is 25% of the Scheduling Output Nominated Quantity;

(ii) in respect of a VLDMC Supply Point or relevant Metered Connected System Exit Point, the quantity which is 3% of the Scheduling Output Nominated Quantity;

(iii) in respect of a Scheduling Firm Supply Point Group, the quantity which is 20% of the Scheduling Output Nominated Quantity;

(e) the "**Chargeable Output Scheduling Quantity**" is the amount (if any) by which the magnitude of the Output Scheduling Quantity exceeds the Output Tolerance Quantity.

3.3.3 Where the magnitude of the Output Scheduling Quantity exceeds the Output Tolerance Quantity (but not otherwise), the User shall pay a Scheduling Charge determined as the Chargeable Output Scheduling Quantity multiplied by 1% of the System Average Price for the Gas Flow Day.

3.3.4 A DMC Supply Point will not be an Output Scheduling Point or Group where:

(a) in respect of a Class 1 or Class 2 Supply Meter Point (other than a Telemetered Supply Meter Point), the Gas Flow Day was a Failed Daily Read Day; or

(b) the Transporter did not make gas available for offtake from the Total System at the Supply Point.

4 BALANCING NEUTRALITY CHARGES

4.1 Introduction

4.1.1 The difference between the amounts received or receivable and the amounts paid or payable by National Gas Transmission in respect of Balancing Charges and certain other amounts in each month is payable to or recoverable from relevant Users in accordance with this paragraph 4.

4.1.2 For the purposes of this paragraph 4:

(a) "**relevant User**" means subject to paragraph 4.1.2(e) below, any User other than a Shrinkage Provider, and National Gas Transmission when acting for Operating Margins Purposes;

(b) "**relevant UDQI**" means a UDQI of a relevant User;

(c) "**relevant UDQO**" means a UDQO of a relevant User;

(d) **"relevant Adjustment Day"** is the Day that any of the charges or amounts set out in paragraphs 4.5.2 and 4.5.3 relate to; and

(e) for the purposes of paragraph 4.5 references to relevant User shall mean Users that were a User on the relevant Adjustment Day and on the relevant Day.

4.2 Payment of charge

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4.2.1 Each relevant User shall pay to National Gas Transmission, or (as the case may be) National Gas Transmission shall pay to each relevant User, in respect of each Day ("**relevant Day**") a Balancing Neutrality Charge.

4.2.2 For each relevant User the Balancing Neutrality Charge shall be calculated as the sum of:

(a) the Unit Daily Neutrality Amount multiplied by the sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Day;

(b) the Adjustment Neutrality Amount for the relevant Day.

4.2.3 The Balancing Neutrality Charge is payable by National Gas Transmission to the User where it is negative and by the User to National Gas Transmission where it is positive.

4.2.4 Balancing Neutrality Charges shall be invoiced and are payable in accordance with Section S.

4.3 Unit Daily Neutrality Amount

The "**Unit Daily Neutrality Amount**" for a relevant Day is the Basic Net Neutrality Amount (under paragraph 4.4) for the relevant Day, divided by the sum of all relevant UDQIs and relevant UDQOs for all relevant Users.

4.4 Basic Net Neutrality Amount

4.4.1 For each relevant Day the "**Basic Net Neutrality Amount**" is Aggregate System Payments (in accordance with paragraph 4.4.3) less Aggregate System Receipts (in accordance with paragraph 4.4.2).

4.4.2 "**Aggregate System Receipts**" for a Day are the aggregate, for all Users, of the following:

(a) the Market Balancing Action Charges payable to National Gas Transmission in respect of each Market Balancing Sell Action (or negatively priced Market Balancing Buy Action) taken for that Day (other than any Market Balancing Sell Action (or negatively priced Market Balancing Buy Action) taken for that Day as a result of a Localised Transportation Deficit and/or a Transportation Constraint) and any other amounts payable to National Gas Transmission in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements (other than as a result of a Localised Transportation Deficit and/or a Transportation Constraint) in respect of such Day;

(b) the Daily Imbalance Charges payable to National Gas Transmission in respect of each negative Daily Imbalance on that Day; and

(c) the Scheduling Charges payable to National Gas Transmission in relation to Input Scheduling Quantities and Output Scheduling Quantities in respect of that Day;

(d) the Physical Renomination Incentive Charges payable to National Gas Transmission in respect of that Day;

(e) Total Incentivised Nomination Charges payable to National Gas Transmission

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in respect of that Day;

(f) the amounts received by National Gas Transmission from Users pursuant to Section Q6.2 or Section Q6.3 in respect of Users' Emergency Curtailment Quantity relating to that Day or any revisions thereto;

(g) the amounts received by National Gas Transmission from Users pursuant to Section Q7.2 relating to that Day; and

(h) the amount (if any) by which the aggregate amount of all Post-Emergency Claims Charges received by National Gas Transmission in respect of a Day exceeds the aggregate amount of all Post-Emergency Claims Payments paid by National Gas Transmission in respect of that Day, in each case pursuant to Section Q4.5.

(i) the amount determined as being receivable by National Gas Transmission in the event of a claim by a User in accordance with Section E paragraph 1.3.10 above.

4.4.3 "**Aggregate System Payments**" for a Day are the aggregate, for all Users, of the following:

(a) the Market Balancing Action Charges payable by National Gas Transmission in respect of each Market Balancing Buy Action (or negatively priced Market Balancing Sell Action) taken for that Day (other than any Market Balancing Buy Action (or negatively priced Market Balancing Sell Action) taken for that Day as a result of a Localised Transportation Deficit and/or a Transportation Constraint) and any other amounts payable by National Gas Transmission in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements (other than as a result of a Localised Transportation Deficit and/or a Transportation Constraint) in respect of such Day;

(b) the Daily Imbalance Charges payable by National Gas Transmission under paragraph 2.2.1 in respect of each positive Daily Imbalance on that Day;

(c) the amounts payable by National Gas Transmission to Users pursuant to Section Q6.2 or Section Q6.3 in respect of Users' Emergency Curtailment Quantity relating to that Day or any revisions thereto;

(d) the amounts payable by National Gas Transmission to Users pursuant to Section Q7.2 relating to that Day; and

(e) the amount (if any) by which the aggregate amount of all Post-Emergency Claims Payments paid by National Gas Transmission in respect of a Day exceeds the aggregate amount of all Post-Emergency Claims Charges received by National Gas Transmission in respect of that Day, in each case pursuant to Section Q4.5.

(f) the amount determined as being payable by National Gas Transmission in the event of a claim by a User in accordance with Section E paragraph 1.3.10 above.

4.5 Adjustment Neutrality Amount

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4.5.1 The "**Adjustment Neutrality Amount**" for a relevant User for a Day is the sum of:

(a) the "**Daily Adjustment Neutrality Amount**" for the relevant Day in accordance with paragraph 4.5.2;

(b) the amount of the "**Monthly Adjustment Neutrality Amount**" determined under paragraph 4.5.3 for the calendar month (the "**relevant month**") in which the relevant Day falls, divided by the number of Days in the relevant month; and

(c) the amount of the rounding adjustment in respect of the preceding Day in accordance with paragraph 4.5.5 divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day.

4.5.2 The "**Daily Adjustment Neutrality Amount**" for a relevant Day is the sum of:

(a) the Daily Margins Recovery Amount in accordance with Section K4.3.1; and

(b) the Clearing Charges payable by National Gas Transmission in respect of Unauthorised Gas Flows (in accordance with Section E4.2.2(a)) at System Entry Points; less

(c) the Clearing Charges payable to National Gas Transmission in respect of Unauthorised Gas Flows (in accordance with Section E4.2.2(b)) at System Exit Points.

divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day.

4.5.3 The "**Monthly Adjustment Neutrality Amount**" for the relevant calendar month (month 'm') is:

(a) the sum of the following amounts:

(i) the magnitude of the Balancing Neutrality Financing Adjustment for each Day in month m for which it is positive divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day;

(ii) the amount of any Market Balancing Action Charges (other than Market Balancing Action Charges in relation to any Market Balancing Action taken as a result of a Localised Transportation Deficit and/or a Transportation Constraint), other amounts payable in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements (other than as a result of a Localised Transportation Deficit and/or a Transportation Constraint), Physical Renomination Incentive Charges, Total Incentivised Nomination Charges, Balancing Charges, Balancing Neutrality Charges, Reconciliation Clearing Charges (payable to National Gas Transmission), User Unidentified Gas Amounts (payable to National Gas Transmission) or Clearing

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Charges in respect of Unauthorised Gas Flows at System Entry Points which were due for payment to National Gas Transmission in respect of each Day in month m-2 but were unpaid to National Gas Transmission as at the last Day of month m divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day;

(iii) the amount of any costs, expenses, payment or other amount incurred by National Gas Transmission as referred to in Section E2.3.7(c) in connection with any claim by a third party in respect of gas subject to an Unclaimed Entry Allocation Statement and paid in month m divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day;

(iv) the amount of any interest paid (in accordance with Section S4.3.2) by National Gas Transmission to any User on any Day in month m by virtue of the User having made an over-payment in respect of any of such amount as is referred to in paragraph (ii) divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day; and

(v) any other amount (an **"additional Monthly Adjustment Neutrality Cost"**):

(1) provided to be included in this paragraph (a) in relation to month m under any provision of the Code; or

(2) incurred by National Gas Transmission in month m where the Authority has, upon National Gas Transmission's application, given Condition A11(18) Approval to National Gas Transmission recovering such amount, or amounts of such kind, by inclusion in this paragraph (a)

divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day

(vi) the amount of the Reconciliation Clearing Charges, relating to Offtake Reconciliation in respect of NTS Supply Points or NTS Connected System Exit Points, payable by National Gas Transmission in respect of Days in month m divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day;

(vii) the amount of any costs, expenses or other amount incurred by National Gas Transmission in providing security and/or collateral to the Trading System Operator (pursuant to the Trading System Arrangements) in respect of Market Balancing Actions taken or to be taken by National Gas Transmission and paid in month m and

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(viii) the amount of any costs, expenses or other amounts payable by National Gas Transmission for the provision of Credit Rating Analytic Services procured from third parties in accordance with Section X2.2.6(c).

less:

(b) the sum of the following amounts:

(i) the magnitude of the Balancing Neutrality Financing Adjustment for each Day in month m for which it is negative divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day;

(ii) the amount of any Market Balancing Action Charges (other than Market Balancing Action Charges in relation to any Market Balancing Action taken as a result of a Localised Transportation Deficit and/or a Transportation Constraint), other amounts payable in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements (other than as a result of a Localised Transportation Deficit and/or a Transportation Constraint), Physical Renomination Incentive Charges, Total Incentivised Nomination Charges, Balancing Charges, Balancing Neutrality Charges, Reconciliation Clearing Charges (payable to National Gas Transmission), User Unidentified Gas Amounts payable to National Gas Transmission or Clearing Charges in respect of Unauthorised Gas Flows at System Entry Points which:

(1) was unpaid as at the last Day of month m-3 and were taken into account (under paragraph (a)(ii) above) in calculating the Monthly Adjustment Neutrality Amount for month m-1; but

(2) has been paid to National Gas Transmission since the last Day of month m-1

divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day

(iii) the amount of any interest paid (in accordance with Section S4.3.2) by any User to National Gas Transmission on any Day in month m by virtue of the late payment of Market Balancing Action Charges (other than Market Balancing Action Charges in relation to any Market Balancing Action taken as a result of a Localised Transportation Deficit and/or a Transportation Constraint), other amounts payable in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements (other than as a result of a Localised Transportation Deficit and/or a Transportation Constraint), Physical Renomination Incentive Charges, Total Incentivised Nomination Charges, Balancing Charges, Balancing Neutrality Charges, Reconciliation Clearing Charges or Clearing Charges in respect of Unauthorised Gas Flows at System Entry Points divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day

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multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day; and

(iv) any other amount (an "**additional Monthly Adjustment Neutrality Revenue**") provided to be included in this paragraph (b) in relation to month m under any provision of the Code divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for the relevant Adjustment Day multiplied by sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Adjustment Day.

4.5.4 For the purposes of paragraphs 4.5.3(a)(v) and 4.5.3(b)(iv) any amount therein referred to shall be included in the month in which National Gas Transmission makes or receives payment of such amount, failing which in the month in which invoiced Balancing Charges in respect of the Day on which such amount accrued become due for payment pursuant to Section S.

4.5.5 The rounding adjustment for a Day is the amount by which, as a result of the rounding (to any given number of decimal places) of the Unit Daily Neutrality Amount for the Day, the sum of all Balancing Neutrality Charges for the Day is less (in which case the rounding adjustment is positive) or more (in which case the rounding adjustment is negative) than the sum of the Basic Net Neutrality Amount and the Adjustment Neutrality Amount.

4.5.6 For the purposes of paragraph 4.5.3(b), so much of any amounts received by National Gas Transmission:

(a) from any gas supplier pursuant to the undertaking required to be entered into by the supplier pursuant to Condition 18 of the Supplier's Licence; or

(b) from any consumer, pursuant to an arrangement which is exempt pursuant to the Gas Act 1986 Exemptions (No. 2) Order 1996,

as are calculated in like manner to, or may be considered to be equivalent to, Energy Balancing Charges, will be Additional Neutrality Adjustment Costs.

4.5.7 Where, pursuant to Section D6, any TSMP Demand Procurement Amounts (**TDP Amounts**) are payable by National Gas Transmission in respect of any relevant Day (as defined in Section D6.2.3):

(a) for the purposes of paragraph 4.5.3(a), such TDP Amounts are additional Monthly Adjustment Neutrality Costs in respect of the month M in which the relevant Day falls, subject to paragraph (b) below;

(b) the Monthly Neutrality Adjustment Amount for a User in respect of month M is calculated to include:

(i) as additional Monthly Adjustment Neutrality Costs, the TDP Amounts in respect of relevant Days in month M from and including Day 23 of that month;

(ii) an amount calculated as the aggregate TDP Amounts in respect of relevant Days in month M+1 up to and including Day 22 of that month, divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for all Days in month M, multiplied by the sum of the relevant

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User's relevant UDQIs and relevant UDQOs for all Days in month M;

(iii) in respect of relevant Days in month M up to and including Day 22 of that month, a reconciliation amount (added under paragraph 3.5.4(a) or deducted under paragraph 3.5.4(b), as appropriate) calculated as the difference between:

(1) the aggregate amount of the additional Monthly Adjustment Neutrality Costs for those relevant Days, as determined in accordance with paragraph (a); and

(2) the aggregate amount counted in the Monthly Neutrality Adjustment Amount for the User in Month M-1 pursuant to paragraph (ii).

4.6 Balancing Neutrality Financing Adjustment

4.6.1 For the purposes of this paragraph 4, "**Balancing Neutrality Financing Adjustment**" for a Day is the amount calculated as the Neutrality Interest Rate for the Day multiplied by the closing cash balance for that Day.

4.6.2 For the purposes of this paragraph 4:

(a) the "**closing cash balance**" for a Day is the amount of the opening cash balance, plus the amount (if any) of all payments received by National Gas Transmission from Users on that Day, less the amount of all payments made by National Gas Transmission for Users on that Day, in each case in respect of:

(i) any of the amounts taken into account (in accordance with paragraphs 4.4 and 4.5) in determining Balancing Neutrality Charges;

(ii) Balancing Neutrality Charges;

(iii) Reconciliation Clearing Charges;

(b) the "**opening cash balance**" for a Day is:

(i) for 1 March 1996, zero;

(ii) for each subsequent Day, the amount of the closing cash balance for the preceding Day.

4.6.3 For the purposes of paragraph 4.6.2(a)(i)):

(a) the amount of the Balancing Neutrality Financing Adjustment for a Day shall be treated as a payment made or received (pursuant to paragraph 4.5.3) by National Gas Transmission;

(b) the amount of the Daily Margins Recovery Amount for a Day in any month shall be treated as a payment made or received (pursuant to paragraph 4.5.3) by National Gas Transmission,

in each case on the date on which invoiced Balancing Charges in respect of that Day become due for payment pursuant to Section S.

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4.6.4 The Balancing Neutrality Financing Adjustment for a Day is positive where the closing cash balance represents (on a cumulative basis) payments made by National Gas Transmission exceeding payments made to it, and negative where the closing cash balance represents (on a cumulative basis) payments made to National Gas Transmission exceeding payments made by it.

5 RECONCILIATION CLEARING

5.1 System Clearing Contract

5.1.1 Upon each:

(a) Offtake Reconciliation, the quantity of gas comprising the Reconciliation Quantity;

(b) Unidentified Gas Reconciliation, the quantity of gas comprising the User UGR Quantity

shall be deemed to have been sold and purchased pursuant to a System Clearing Contract.

5.1.2 For the purposes of a System Clearing Contract:

(a) under paragraph 5.1.1(a), and without prejudice to Section N4.5:

(i) where the Reconciliation Quantity is positive, the seller is the User and the buyer is National Gas Transmission;

(ii) where the Reconciliation Quantity is negative, the seller is National Gas Transmission and the buyer is the User;

(b) under paragraph 5.1.1(b):

(i) where the User UGR Quantity is positive, the seller is the User and the buyer is National Gas Transmission;

(ii) where the User UGR Quantity is negative, the seller is National Gas Transmission and the buyer is the User.

5.1.3 The System Clearing Contract shall be deemed to have been performed fully except as to payment.

5.1.4 The amount of the Reconciliation Quantity or the User UGR Quantity shall be extinguished by the System Clearing Contract.

5.2 Clearing Charge

5.2.1 The Clearing Charge ("**Reconciliation Clearing Charge**") in respect of the System Clearing Contract under:

(a) paragraph 5.1.1(a) shall be the Reconciliation Clearing Value determined in accordance with Section E6.2.5;

(b) paragraph 5.1.1(b) shall be the UGR Clearing Value determined in accordance

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with Section E7.1.3.

5.2.2 The buyer shall pay the Reconciliation Clearing Charge to the seller.

5.2.3 Reconciliation Clearing Charges shall be invoiced and are payable in accordance with Section S.

5.2.4 The Reconciliation Clearing Charge under paragraph 5.2.1(a) shall be treated as payable in respect of the Day on which there was provided to or obtained by the Transporter the Reconciliation Meter Reading on the basis of which the Offtake Reconciliation was carried out, or if later the 5th Day following the Read Date in respect of such Meter Reading.

5.2.5 The Reconciliation Clearing Charge under paragraph 5.2.1(b) shall be treated as payable for the purposes of Unidentified Gas Reconciliation on the last Day in the relevant Reconciliation Billing Period.

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