

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 Reconciliation Quantities; and
- (e) the calculation and payment of Reconciliation Neutrality Charges.

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 Transco NTS, 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) "**Reconciliation Neutrality Charges**" are amounts payable by or to Transco NTS, so that it does not gain or lose by the payment and receipt of Reconciliation Clearing Values, in accordance with paragraph 6 (or in relation to NTS System Exit Points, paragraph 4).

1.2 System prices

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

- (a) the "**System Marginal Buy Price**" is the greater of :
 - (i) the System Average Price plus 0.0287 pence/kWh; and
 - (ii) the price in pence/kWh which is equal to the highest Market Offer Price

in relation to a Market Balancing Action taken for that Day;

- (b) the "**System Marginal Sell Price**" is the lesser of:
 - (i) the System Average Price less 0.0324 pence/kWh; and
 - (ii) the price in pence/kWh which is equal to the lowest Market Offer Price in relation to a Market Balancing Action taken for that Day;
- (c) the "**System Average Price**" for a Day is the price in pence/kWh calculated as the sum of all Market Transaction Charges divided by the sum of the Trade Nomination Quantities for all Market Transactions effected in respect of that Day

(and for the avoidance of doubt on a Day on which Transco NTS takes no Market Balancing Action the System Marginal Buy Price and the System Marginal Sell Price shall be the System Average Price).

1.2.2 Where for any Day no Market 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) Primary Excluded Actions and Secondary Excluded 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) a "**Primary Excluded Action**" is a Market Balancing Buy 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;
- (b) "**Secondary Excluded Actions**" are the Market Balancing Sell Actions which are excluded, in relation to any Relevant Primary Excluded Actions, in accordance with the following rules, which shall be applied in the chronological order in which Relevant Primary Excluded Actions were accepted:
 - (i) all Relevant Sell Actions shall be ranked in order of Market Offer Price (the lowest ranked first, and bids of equal Market Offer Price ranked in chronological order of acceptance);
 - (ii) such Relevant Sell Actions shall be excluded (in the order ranked) until:
 - (1) the aggregate of the Market Balancing Action Quantities under the actions so excluded is equal to or first exceeds the Market Balancing Action Quantity(ies) under the Relevant Primary Excluded Actions (the amount of any such excess, the "**relevant deficit excess**"), or
 - (2) all such Relevant Sell Actions have been excluded, if the

aggregate of the Market Balancing Action Quantities thereunder does not exceed the Market Balancing Action Quantity(ies) under the Relevant Primary Excluded Actions;

(iii) where there is a relevant deficit excess, the last Relevant Sell Action to be excluded under paragraph (ii)(1) shall be deemed, for the purposes of the further application of this paragraph 1.2.4, to be two Relevant Sell Actions, one (which shall not be treated as so excluded) for an Eligible Balancing Action Quantity equal to the relevant shortfall excess, and one (which shall be treated as so excluded) for a Market Balancing Action Quantity equal to the balance of the whole Market Balancing Action Quantity;

(iv) for the purposes of this paragraph (b), in relation to any Relevant Primary Excluded Actions, a "**Relevant Sell Action**" is a Market Balancing Sell Action which:

(1) was taken by Transco NTS pursuant to a Market Transaction other than a Locational Market Transaction effected in respect of the System Point in respect of which the Primary Excluded Action was taken;

(2) was taken during the period commencing with the taking of the Relevant Primary Excluded Actions and expiring on the expiry of the first full hour (ending on the hour) to expire thereafter; and

(3) was not excluded pursuant to paragraph (b) in relation to any earlier accepted Relevant Excluded Primary Actions;

(c) "**Relevant Primary Excluded Actions**" means one Primary Excluded Action or several Primary Excluded Actions which were accepted at the same time;

(d) "**Excluded Balancing Actions**" are Primary Excluded Actions and Secondary Excluded Actions.

1.2.5 Where:

(a) it appears to Transco NTS after consultation with the 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 Transco NTS's application the Authority has given Condition [A11(18)] Approval to Transco NTS's applying, with effect from the Day proposed by Transco NTS 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 Transco NTS 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 paragraph 2.2.1 and 3.2.2 until the date specified or determined pursuant to the provisions (applying pursuant to Section J1.3.2(b)) of the applicable Network Exit Agreement as the date when commissioning of the Consumer's Plant is completed, a VLDMC Supply Point Component will be treated as a DMC Supply Point Component other than a VLDMC Supply Point Component.

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 Agreement.

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 M4.8 and E3.5) for a DM Supply Point Component:

- (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 Component was a DMC Supply Point Component:

- (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, Transco NTS 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 Transco NTS 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, Transco NTS will be liable to pay to the User;
- (b) if the Daily Imbalance was negative, the User will be liable to pay to Transco NTS

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.

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 DM 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 Transco NTS pursuant to paragraph 1.4.2(a) or paid to Transco NTS 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 Sections M4.8 or E3.5 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.

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 Transco NTS;

(b) where the Daily Imbalance is negative, the seller is Transco NTS 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 Section U6) 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 S.

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 Subject to paragraph 3.4, 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 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 Component other than a SDMC(I) Supply Point Component; or
 - (ii) a relevant Connected System Exit Point; or
 - (iii) the Scheduling Firm Supply Point Group for any LDZ; or
 - (iv) the Scheduling Interruptible Supply Point Group for any LDZ;
- (b) for each LDZ:
 - (i) the "**Scheduling Firm Supply Point Group**" is all of the DMA(F) Supply Point Groups for each Exit Zone in that LDZ;
 - (ii) the "**Scheduling Interruptible Supply Point Group**" is all of the DMA(I) Supply Point Groups for each Exit Zone, and all of the Registered SDMC(I) Supply Point Components, 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 Component (other than a SDMC(I) Supply Point Component), the Nominated Quantity under its Output Nomination for the relevant System Exit Point;
 - (ii) in the case of a relevant Connected System Exit Point, the Nominated Quantity under its Output Nomination for the relevant System Exit Point;
 - (iii) in the case of a Scheduling Firm Supply Point Group, the sum of the Nominated Quantities under its Output Nominations for all DMA(F) Supply Point Groups for Exit Zones in the relevant LDZ; and
 - (iv) in the case of a Scheduling Interruptible Supply Point Group, the sum of the Nominated Quantities under its Output Nominations for all DMA(I) Supply Point Groups for Exit Zones, and for all Registered SDMC(I) Supply Point Components, 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 Point Components in the relevant LDZ;
 - (ii) in respect of a Scheduling Interruptible Supply Point Group, the aggregate of the User's UDQOs for all of the Registered Interruptible DMA Supply Point Components and all of the Registered SDMC(I) Supply Point Components in the relevant LDZ; and

- (iii) in respect of any other System Exit Point (other than an NDM Supply Point Component), 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:
 - (i) in respect of a DMC Supply Point Component other than a VLDMC Supply Point Component or SDMC(I) Supply Point Component, or a relevant Connected System Exit Point, the quantity which is 25% of the Scheduling Output Nominated Quantity;
 - (ii) in respect of a VLDMC Supply Point Component or relevant Connected System Exit Point, the quantity which is 3% of the Scheduling Output Nominated Quantity; and
 - (iii) in respect of a Scheduling Firm Supply Point Group, the quantity which is 20% of the Scheduling Output Nominated Quantity;
 - (iv) in respect of a Scheduling Interruptible Supply Point Group, the quantity which is 25% 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 Component, other than a SDMC(I) Supply Point Component, will not be an Output Scheduling Point or Group where:

- (a) in respect of any Supply Meter Point (other than a Supply Meter Point at which telemetry equipment is installed as part of the Supply Meter Installation) comprised therein, 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 Component.

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 Transco NTS 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 any User other than a Shrinkage Provider, and Transco NTS when acting for Operating Margins Purposes;
- (b) **"relevant UDQI"** means a UDQI of a relevant User; and
- (c) **"relevant UDQO"** means a UDQO of a relevant User

4.2 Payment of charge

- 4.2.1 Each relevant User shall pay to Transco NTS, or (as the case may be) Transco NTS 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 Unit Daily Neutrality Amount multiplied by the sum of the relevant User's relevant UDQIs and relevant UDQOs for the relevant Day.
- 4.2.3 The Balancing Neutrality Charge is payable by Transco NTS to the User where it is negative and by the User to Transco NTS 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 sum of the Basic Net Neutrality Amount (under paragraph 4.4) and the Adjustment Neutrality Amount (under paragraph 4.5) 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 Transco NTS 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 Transco NTS 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 Transco NTS in respect of each negative Daily Imbalance on that Day; and
 - (c) the Scheduling Charges payable to Transco NTS in relation to Input Scheduling

Quantities and Output Scheduling Quantities in respect of that Day;

- (d) the Physical Renomination Incentive Charges payable to Transco NTS in respect of that Day; and
- (e) Total Incentivised Nomination Charges payable to Transco NTS in respect of that Day.

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 Transco NTS 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 Transco NTS 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 Transco NTS under paragraph 2.2.1 in respect of each positive Daily Imbalance on that Day.

4.5 **Adjustment Neutrality Amount**

4.5.1 The "**Adjustment Neutrality Amount**" 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.

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 K5.2, and
- (b) the Clearing Charges payable by Transco NTS 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 Transco NTS in respect of Unauthorised Gas Flows (in accordance with Section E4.2.2(b)) at System Exit Points.

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;
- (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, User Aggregate Reconciliation Clearing Charges, Reconciliation Clearing Charges (payable to Transco NTS) or Clearing Charges in respect of Unauthorised Gas Flows at System Entry Points which were due for payment to Transco NTS in month m-2 but were unpaid to Transco NTS as at the last Day of month m;
- (iii) the amount of any costs, expenses, payment or other amount incurred by Transco NTS 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;
- (iv) the amount of any interest paid (in accordance with Section S4.3.2) by Transco NTS 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); 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 Transco NTS in month m where the Authority has, upon Transco NTS's application, given Condition [A11(18)] Approval to Transco NTS recovering such amount, or amounts of such kind, by inclusion in this paragraph (a);
- (vi) the amount of the Reconciliation Clearing Charges, relating to DM Reconciliation in respect of NTS Supply Meter Points or CSEP Reconciliation in respect of NTS Connected System Exit Points, payable by Transco NTS in respect of Days in month m.

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;
 - (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, User Aggregate Reconciliation Clearing Charges, Reconciliation Clearing Charges (payable to Transco NTS) 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 Transco NTS since the last Day of month m-1;
- (iii) the amount of any interest paid (in accordance with Section S4.3.2) by any User to Transco NTS 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, User Aggregate Reconciliation Clearing Charges, Reconciliation Clearing Charges or Clearing Charges in respect of Unauthorised Gas Flows at System Entry Points; 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.
- 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 Transco NTS 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 Transco NTS:
- (a) from any gas supplier pursuant to the undertaking required to be entered into by the supplier pursuant to Standard Condition 37 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.

4.6 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 Transco NTS from Users on that Day, less the amount of all payments made by Transco NTS 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, and
- (ii) Balancing Neutrality Charges;
- (iii) User Aggregate Reconciliation Clearing Charges;
- (iv) Reconciliation Clearing Charges;

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

- (i) for the date of the Code, 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 Transco NTS,
- (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 Transco NTS,

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

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 Transco NTS exceeding payments made to it, and negative where the closing cash balance represents (on a cumulative basis) payments made to Transco NTS exceeding payments made by it.

5 RECONCILIATION CLEARING

5.1 System Clearing Contract

- 5.1.1 Upon each Individual Reconciliation, Aggregate NDM Reconciliation and End of Year AQ Reconciliation, the quantity of gas comprising the Reconciliation Quantity shall be deemed to have been sold and purchased pursuant to a System Clearing Contract.
- 5.1.2 Without prejudice to Section N4.5, for the purposes of such System Clearing Contract:
- (a) where the Reconciliation Quantity is positive, the seller is the User and the buyer is Transco NTS;
 - (b) where the Reconciliation Quantity is negative, the seller is Transco NTS 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 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 this paragraph 5 shall be the Reconciliation Clearing Value determined in accordance with Section E6.1.5 and the Clearing Charge ("**User Aggregate Reconciliation Clearing Charge**") in respect of the System Clearing Contract under paragraph 5 shall be the User Aggregate Reconciliation Clearing Value in accordance with paragraph 7.2.3. The Clearing Charge ("**End of Year AQ Reconciliation Clearing Charge**") in respect of the System Clearing Contract under paragraph 5 shall be the Annual Quantity Revision Difference Clearing Value in accordance with Section E7.4.5.
- 5.2.2 The buyer shall pay the Reconciliation Clearing Charge, the User Aggregate Reconciliation Clearing Charge or the End of Year AQ Reconciliation Clearing Charge to the seller.
- 5.2.3 Reconciliation Clearing Charges, User Aggregate Reconciliation Clearing Charges and End of Year AQ Reconciliation Clearing Charges shall be invoiced and are payable in accordance with Section S.
- 5.2.4 The Reconciliation Clearing Charge shall be treated as payable in respect of the Day on which there was provided to or obtained by the Transporter the later of the two Meter Readings on the basis of which the Individual NDM Reconciliation, DM Reconciliation or (as the case may be) Individual CSEP Reconciliation was carried out, or if later the 5th Day following the Meter Read Date in respect of such Meter Reading.
- 5.2.5 The User Aggregate Reconciliation Clearing Charge shall be treated as payable for the purposes of Aggregate NDM Reconciliation on the last Day in the relevant Reconciliation Billing Period.
- 5.2.6 The End of Year AQ Reconciliation Clearing Charge shall be treated as payable for the

purposes of End of Year AQ Reconciliation as and when invoiced by Transco NTS in accordance with the provisions of Section S.

6 RECONCILIATION NEUTRALITY

6.1 Introduction

6.1.1 The difference between the amounts received or receivable and the amounts paid or payable by Transco NTS in respect of Residual Reconciliation Clearing Charges in each month is payable to or recoverable from relevant Users in accordance with this paragraph 6.

6.1.2 This paragraph 6 shall apply in respect of Individual NDM Reconciliation, DM Reconciliation and Individual CSEP Reconciliation, other than in respect of NTS Supply Meter Points and NTS Connected System Exit Points.

6.1.3 For the purposes of this paragraph 6:

- (a) "**relevant User**" means any User other than a Shrinkage Provider and Transco NTS when acting for Operating Margins Purposes;
- (b) "**relevant UDQO**" means a UDQO of a relevant User in respect of an NDM Supply Point Component or relevant Unmetered Connected System Exit Point.
- (c) "**Residual Reconciliation Clearing Charges**" are those Reconciliation Clearing Charges attributable to Reconciliation Clearing Values calculated:
 - (i) following First Reconciliation in respect of the period prior to the Reconciliation by Difference Date; or
 - (ii) after the Reconciliation by Difference Date but attributable to the period before such date.

6.2 Payment of charge

6.2.1 Each relevant User shall pay to Transco NTS, or (as the case may be) Transco NTS shall pay to each relevant User, in respect of each calendar month ("**relevant month**") a Reconciliation Neutrality Charge.

6.2.2 For each relevant User the Reconciliation Neutrality Charge shall be calculated as the Unit Reconciliation Neutrality Amount multiplied by the sum of the relevant User's relevant UDQOs for each Day in the relevant neutrality month.

6.2.3 The Reconciliation Neutrality Charge is payable by Transco NTS to the User where it is negative and by the User to Transco NTS where it is positive.

6.2.4 Reconciliation Neutrality Charges shall be invoiced and are payable in accordance with Section S.

6.2.5 The "**relevant neutrality month**" shall be, where the relevant month:

- (a) is before the Reconciliation by Difference Date, the relevant month;

- (b) is after the Reconciliation by Difference Date, the month ("**final neutrality month**") preceding the month in which the Reconciliation by Difference Date falls.

6.3 Unit Reconciliation Neutrality Amount

6.3.1 Subject to paragraph 6.3.2, the "**Unit Reconciliation Neutrality Amount**" for a relevant month is the sum of the Basic Net Reconciliation Neutrality Amount (under paragraph 6.4) and the Adjustment Reconciliation Neutrality Amount (under paragraph 6.5) for each Day in the relevant month, divided by the sum of all relevant UDQOs for each Day in the relevant neutrality month for all relevant Users.

6.3.2 Where in respect of any relevant neutrality month (the "**capped month**") the magnitude of the amount (where positive) determined under paragraph 6.3.1 exceeds 0.015 pence per kWh:

- (a) the magnitude of the Unit Reconciliation Neutrality Amount shall be equal to 0.015 pence per kWh;
- (b) the amount determined in accordance with paragraph 6.3.3 shall be carried forward and taken into account in determining the Adjustment Reconciliation Neutrality Amount for the following relevant neutrality month or in the final neutrality month, in the following Reconciliation Billing Period.

6.3.3 The amount referred to in paragraph 6.3.2(b) is the amount by which the amount (where positive) determined under paragraph 6.3.1 (disregarding paragraph 6.3.2(a)) in respect of the capped month exceeds 0.015 pence per kWh, multiplied by the sum of the relevant UDQOs for all relevant Users for each Day in the relevant neutrality month.

6.3.4 The rounding adjustment for a month is the amount by which, as a result of the rounding (to any given number of decimal places) of the Unit Reconciliation Neutrality Amount for Days in that month, the sum of all Reconciliation Neutrality Charges 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 Reconciliation Neutrality Amounts and the Reconciliation Adjustment Neutrality Amounts for all such Days.

6.4 Basic Net Reconciliation Neutrality Amount

For each relevant month the "**Basic Net Reconciliation Neutrality Amount**" is the aggregate amount of Residual Reconciliation Clearing Charges payable by Transco NTS in respect of Days in the Reconciliation Billing Period which commenced in that month, less the aggregate amount of Residual Reconciliation Clearing Charges payable to Transco NTS in respect of Days in that Reconciliation Billing Period, plus the amount of the rounding adjustment in respect of the preceding month in accordance with paragraph 6.3.4.

6.5 Adjustment Reconciliation Neutrality Amount

- (a) the sum of the following amounts:
 - (i) the magnitude of the Reconciliation Neutrality Financing Adjustment for each Day in month m for which it is positive;

- (ii) the amount of any Residual Reconciliation Clearing Charges or Reconciliation Neutrality Charges (payable to Transco NTS) which were due for payment to Transco NTS in month m-2 but were unpaid to Transco NTS as at the last Day of month m;
- (iii) the amount of any interest paid (in accordance with Section S4.3.2) by Transco NTS 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);
- (iv) the amount (if any) determined under paragraph 6.3.3; and
- (v) any other amount (an "**additional Adjustment Reconciliation Neutrality Cost**") provided to be included in this paragraph (a) in relation to month m under any provision of the Code;

less

- (b) the sum of the following amounts:
 - (i) the magnitude of the Reconciliation Neutrality Financing Adjustment for each Day in month m for which it is negative;
 - (ii) the amount of any Residual Reconciliation Clearing Charges or Reconciliation Neutrality Charges (payable to Transco NTS) 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 Reconciliation Adjustment Neutrality Amount for month m-1, but
 - (2) has been paid to Transco NTS since the last Day of month m-1;
 - (iii) the amount of any interest paid (in accordance with Section S4.3.2) by any User to Transco NTS on any Day in month m by virtue of late payment of Residual Reconciliation Clearing Charges or Reconciliation Neutrality Charges, and
 - (iv) any other amount (an "**additional Adjustment Reconciliation Neutrality Revenue**") provided to be included in this paragraph (b) in relation to month m under any provision of the Code.

6.6 Reconciliation Neutrality Financing Adjustment

6.6.1 For the purposes of this paragraph 6, "**Reconciliation Neutrality Financing Adjustment**" for a Day is the sum, for each Day in the relevant month, of the amounts calculated as the Neutrality Interest Rate for the Day multiplied by the closing cash balance for that Day.

6.6.2 For the purposes of this paragraph:

- (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 Transco NTS from Users on that Day, less the amount of all payments made by Transco NTS

for Users on that Day, in each case in respect of:

- (i) any of the amounts taken into account (in accordance with paragraphs 6.4 and 6.5) in determining Reconciliation Neutrality Charges, and
 - (ii) Reconciliation Neutrality Charges
- (b) the "**opening cash balance**" for a Day is:
- (i) on 1 March 1996, zero;
 - (ii) for each subsequent Day, the amount of the closing cash balance for the preceding Day.

6.6.3 For the purposes of paragraph 6.6.2(a)(i), the amount of the Reconciliation Neutrality Financing Adjustment for a Day in any month shall be treated as a payment made or received (pursuant to paragraph 6.5) by Transco NTS on the date on which invoiced Balancing Charges in respect of Days in that month become due for payment in accordance with Section S.

6.6.4 The amount determined under paragraph 6.6.2 for a Day is positive where the closing cash balance represents (on a cumulative basis) payments made by Transco NTS exceeding payments made to it, and negative where the closing cash balance represents (on a cumulative basis) payments made to Transco NTS exceeding payments made by it.