



SOUTHERN GAS NETWORKS plc

Indicative Notice of Proposed Changes to Transportation Charges on 1 April 2009

1. Charges from 1 April 2009

The latest estimates of allowed and collected revenue for formula year 2009/10 for Southern Gas Networks indicate that the current (1 October 2008) level of transportation charges will recover the allowed revenue very closely. This is because allowed revenue is forecasted to be at a level only marginally above that of collected revenue. The Network is therefore not at this time indicating a price change at 1 April 2009.

However it is very likely that this position will change as forecasts and actuals are updated over the next few months, before the submission of any final tariff change no later than 1 February 2009

2. Uncertainties

At this stage there are still some uncertainties which will probably cause the actual charges, which will be notified on 1 February 2009 to take effect on 1 April 2009, to differ from the indicative charges.

For example the current forecast of shrinkage allowance is based on prevailing gas prices. It is unlikely that the current volatility in wholesale gas prices will subside and thus the shrinkage allowance, which is based on a market index of gas prices throughout the regulatory year, is subject to significant movement. This is particularly true for 2009/10 as none of the 09/10 market index gas prices have been set yet.

3. Possible Restructuring of charges (DNPC04)

A proposal by the DNs to change the split of revenue recovery between the LDZ system charges and the customer charges from the current 70:30 split to a more cost reflective network basis is being consulted on at the moment and, if not vetoed by Ofgem, may be implemented on 1 April 2009, although implementation may be delayed until April 2010. In case the proposal is implemented on 1 April 2009, a document showing the existing level of charges restructured to the proposed 75:25 split for Southern Network is provided. To enable Users to compare easily the restructured charges with the existing charges the document contains sections **2.2 "LDZ System Charges"** and **2.3 "LDZ Customer Charges"** of the Network Transportation Charges Statement.

4. Final Notice of Changes to the Level of Charges

Final notice of any changes to the charges at 1 April 2009 will be given no later than 1 February 2009 in line with the two months' notice of price changes required by the Network Code.