

SCOTLAND	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Core Allowed	170.4	166.2	169.5	174.3	178.4	180.6
Cost Pass Through	17.6	17.5	17.46	17.4	17.37	17.3
Incentives (Shrinkage)	6.3	5.0	4.9	4.7	4.6	4.5
Final Allowed Rev per PCR	194.3	188.7	191.8	196.4	200.4	202.4
Inflation Assumed	1.06	1.11	1.16	1.19	1.22	1.24
Final Allowed Rev per PCR at prices of year	206.7	208.9	223.0	233.4	244.0	252.0
Cost Pass through Movements	-1.7	-1.6	-1.4	-1.2	-1.0	-0.7
Incentives Movement	1.2	1.8	3.3	4.0	4.1	4.0
K Movement	6.3	3.1	-0.5	0.0	0.0	0.0
Final Allowed Revenue Latest Forecast	212.5	212.2	224.4	236.2	247.1	255.2
% of previous year	117.2%	99.9%	105.7%	105.3%	104.6%	103.3%
Forecast Collected Revenue	209.6	212.7	224.4	236.2	247.1	255.2
Forecast Under / Over Recovery (K)	-2.9	0.5	0.1	0.0	0.0	0.0
Arithmetical Price level change needed for Collected to = Allowed (October 08 then April)	24%	3.2%*	-1.6%	5.7%	4.6%	3.3%

Disclaimer

This report is published without prejudice and whilst every effort has been made to ensure the accuracy of the information, it is subject to several estimations and forecasts and will not necessarily bear any relation to either the indicative or actual price change that Scotia Gas Networks will publish at later dates.

Core allowed revenue excludes amounts recovered from NTS in relation to Independent Systems.

SGN has not incorporated any Traffic Management Act (TMA) cost recoveries via the reopener in this analysis. This is due to the uncertainty over the impact of the TMA costs in Scotland. As the act is implemented and the costs are fully understood this may cause material changes to forecasted price levels.

Commentary

2007/8

Pass through movement is due to a reduction in Formula Rates and Licence Fees.

The increase in the Mains Replacement allowance outweighed the decrease in the Shrinkage allowance.

K movement is an under recovery from 2006/7.

The under recovery in 2007/08 is mainly due to the under recovery being brought forward from 2006/07 - this affect being reduced by the higher than forecast throughput.

2008/9

Pass through movement is due to a change in Formula Rates, NTS Pension and Licence Fees.

Incentive movement is primarily driven by an increase in the Shrinkage allowance and adjustments due to the Environmental Emissions, Mains Replacement and Innovation Funding Incentive mechanisms.

95/5 Capacity/Commodity methodology implemented from 1 October 2008.

2009/10 - 2012/13

Pass through movement is due to a change in Formula Rates, NTS Pension and Licence Fees.

Incentive movement is primarily driven by an increase in the Shrinkage allowance, and adjustments due to Replacement and Innovation Funding Incentive mechanisms - and the Discretionary Reward Scheme from 2010/11.

* This is an increase to new rates under 95/5 methodology, not an increase to Oct 07 rates.

Approximate scaling factors to apply to Oct 07 charges to calculate charges under new 95/5 methodology are:

Commodity 9.5%

Capacity 191.7%

Sensitivity Analysis

E.g. If gas prices increased by 20% before April 09, and remained that level until the end of March 2010, the April 09 tariff change would be -1.0% instead of -1.6% as currently forecasted (all other variables remaining equal).