

SOUTHERN	2007/8 (2005/6 prices)	2008/9 (2005/6 prices)
Core Allowed	359.6	385.3
Cost Pass Through	56	55.9
Incentives (Shrinkage)	16.8	13.4
Final Allowed Rev per PCR	432.4	454.7
Inflation Assumed	1.06	1.11
Final Allowed Rev per PCR at prices of year	460.0	503.4
Cost Pass through Movements	-0.9	-0.7
Incentives Movement	3.2	-1.9
K Movement	7.9	4.5
Final Allowed Revenue Latest Forecast	470.1	505.3
% of previous year	122.2%	107.5%
Forecast Collected Revenue	465.9	488.1
Forecast Under / Over Recovery (K)	-4.3	-17.2
Arithmetical October Price level change needed for Collected to = Allowed	31%	6%*

Disclaimer

This report is published in advance of Mod 186 being implemented. It is published on without prejudice basis 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 a later date for October 2008.

Commentary

2007/8

Pass through movement is due to a reduction in Formula rates and Licence fees.

Incentive movement is due to a drop in the forecast shrinkage allowance, an estimated large negative Repex value and an estimated exit incentive value.

K movement is an under recovery from 2006/7

The under recovery in 2007/8 is due to an under recovery brought forward from 06/07, the 2007 AQ review which reduced forecast capacity revenue and repex adjustment.

2008/9

Forecast throughput for 2008/9 not finalised.

Pass through movement is due to a change in Formula Rates.

Incentive movement is due to a change in forecast Shrinkage allowance.

95/5 Cap/ com methodology implemented from October 2008

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

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

Commodity 10.9%

Capacity 173.5%