SCOTLAND GAS NETWORKS plc

Notice of Changes to LDZ Transportation Charges on 1 October 2008

1. Introduction

The attached document gives notice of the LDZ transportation charges which will apply from 1 October 2008 for the use of Scotland Gas Networks and is being issued now to comply with the Network Code requirement to give two month's notice of changes to the charges. The document is based on Section 2 of the published LDZ Transportation Charges Statement and follows the same paragraph and table numbering to enable easy comparison with that Statement.

The change to gas transportation charges on 1 October 2008 in Scotland Gas Networks plc is an increase of 3.2% to apply to the LDZ System Charges and the Customer Charges. The change takes into account the fact that the capacity/commodity split of the LDZ system charges will change from 50:50 to 95:5 with effect from 1 October 2008. The increase compares with a 3.3% reduction which was published in the Notice of Indicative Charges on 3rd May. The main factors contributing to the revised price change are discussed below.

The percentage change referred to above applies to the average level of charges. However the change to the capacity/commodity split also happening on 1 October 2008 means that the change in the level of charges experienced by particular supply points may be significantly different from the average.

There will also be a reduction in the CSEP Administration charge with effect from 1 October.

2. Changes since Publication Of Indicative Charges

The main reasons for the movement from a price reduction published in the Indicatives to a price increase are an increase in the estimate of allowed revenue and a reduction in the estimate of collected revenue in 2008/09. The main elements of these changes are:

Allowed Revenue

1. **2007/08 Under-recovery (K).** The under-recovery in 2007/08 is higher than was originally estimated at the time of the Indicatives, mainly due to an increase in the Repex Allowance for that year following finalisation of the abandonment lengths.
2. **Incentives Movement** The main elements are an increase in both the forecast Shrinkage and Innovation Funding Incentive allowances.

Collected Revenue

1. **SOQs Adjustment.** Supply point SOQs, which are now the major determinant of collected revenue because of the move to predominantly capacity based charges, are now estimated to be lower from 1 October than was the case when the Indicative charges were published. This is because we have taken account of the probable reductions on 1 October in AQs and SOQs which xoserve have indicated are likely as a result of this summer's AQ Review.
2. **Actual Collected Revenue.** Based on the experience of three months actuals (April to June 08) collected revenue is lower than forecasted in the indicatives.

3. Change to the LDZ System Charges Capacity/Commodity split
The Capacity/Commodity split of the LDZ system charges for all the DNs is changing from the existing 50:50 to 95:5 with effect from 1 October 2008. The price change is calculated after taking this change into account. The change to 95:5 in itself reduces the amount of revenue which would be collected in the second half of the year - compared with the more commodity based 50/50 structure - by about 12%.

As part of the change to a 95:5 capacity/commodity split Interruptible supply points will pay 47.37% of the appropriate capacity charge. This is shown in section **2.2 "LDZ System Charges"** of the attachment to this notice.

4. Conclusion
Based on the latest projections of SOQs, volumes and revenue, the 1 October increase is forecast to leave Scotland Gas Networks plc neither over- nor under-recovered at the end of the current formula year, 31 March 2009.

If you have any questions about this notice please e-mail
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