

This report is published as a goodwill gesture from the Northern Gas Networks to all Shippers, in advance of the expected implementation of Mod 186. This is in response to requests from the shippers involved in Mod 160 and Mod 162.

It is published on a without prejudice basis and whilst every effort has been made to ensure the accuracy of the information contained here, it is subject to several estimations and forecasts and will not necessarily bear any relation to either the indicative or the actual price change that NGN will announce at a later date for October 2008.

	2007/8	2008/9
	(£m)	(£m)
Final Allowed Revenue per PCR (2005/6 prices)	273.5	280.6
Estimated year on year inflation (as calculated in the NGN Licence)		4.1%
Inflation (from 2005/6 prices)	6.4%	10.7%
Final Allowed Revenue per PCR at prices of year	291.0	310.7
Movement in pass through and incentives	-6.9	0.1
Movement in K	0.2	-9.1
Final Allowed Revenue Latest Forecast	284.2	301.6
% of previous year	~	6.1%
Forecast Collected Revenue	292.6	301.8
Forecast (Under) / Over Recovery (K)	8.4	0.1
	2.9%	0.0%
Arithmetical October Price level change needed for Collected to = Allowed	27%	N/A #

Commentary

We currently anticipate an over recovery in 2007/8. This is because our current forecast of 2007/8 Allowed Revenue is slightly lower than we forecast at price setting. This is partly due to reductions in our forecast Shrinkage Allowance, offset by increases in our forecast Repex Adjustment. In addition, weather has been colder than forecast at price setting, in particular during the first three months of 2008.

Included within the 2008/9 incentives, is an adjustment for the loss of meter work revenue and subsequent stranding of emergency provision costs. This is offset by adjustments to Shrinkage and DNMSRA forecasts. Allowed Revenue is as per the final proposals decision document for the PCR.

Post 1 October 2008 the structure of charges for LDZ charges will change to be 95% capacity based. There are a number of factors that will influence the actual price change in October 2008.

For example:

- The value of DNMR in 2007/8 is yet to be confirmed as relevant data is still being collated.
- The current level of forward gas prices is high and there is uncertainty around this which will affect shrinkage costs.
- Actual demand between now and August may be different from that forecast.
- All other elements of Final Allowed Revenue in the current year as well as next year are subject to adjustment as new information is received.
- It is assumed that AQs will reduce in October broadly in line with last year. Thus unit rates must be higher in order to drive the same revenues. These estimates may be revised as more information becomes available.

- As stated above, on 1 October 2008, the structure of LDZ charges changes to 95% capacity based, and so there will not be a consistent standard percentage price change across all unit rates.

Thus an October 2008 price change has not been provided.

Instead, the actual unit rates that we expect to charge have been appended to this document. The overall effective price change will be different for different customers and will depend on the level of their load factor relative to others in the network.

Estimated indicative unit charges

Directly connected supply points

	Capacity	Commodity
	pence per peak day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1227	0.0191
73,200 to 732,000 kWh per annum	0.1135	0.0177
732,000 kWh per annum and above	$0.5389 \times \text{SOQ}^{-0.1806}$	$0.1099 \times \text{SOQ}^{-0.2121}$
Interruptible customers 732,000 kWh per annum and above	$0.2554 \times \text{SOQ}^{-0.1806}$	

Connected Systems

	Capacity	Commodity
	pence per peak day kWh per day	pence per kWh
Up to 73,200 kWh per annum	0.1227	0.0191
73,200 to 732,000 kWh per annum	0.1135	0.0177
732,000 kWh per annum and above	$0.5699 \times \text{SOQ}^{-0.1939}$	$0.1049 \times \text{SOQ}^{-0.2131}$
Interruptible customers 732,000 kWh per annum and above	$0.2701 \times \text{SOQ}^{-0.1939}$	

Optional LDZ Charge

Pence per peak day kWh per day
$902 \times [(\text{SOQ})^{-0.834}] \times D + 772 \times (\text{SOQ})^{-0.717}$

LDZ Customer Capacity charges

	Capacity
	pence per peak day kWh per day
Up to 73,200 kWh per annum	0.0732
73,200 to 732,000 kWh per annum	0.0026
732,000 kWh per annum and above	$0.0559 \times \text{SOQ}^{-0.2100}$

LDZ Customer Fixed charges - 73,200 to 732,000 kWh per annum only

	Fixed
	pence per day
Non-monthly read supply points	23.0496
Monthly read supply points	24.5426

CSEP administration charge

	pence per day
Charge per supply point	0.1523 pence per day (£0.56 per annum)