

Company Name: Northern Gas Networks Limited
Date: January 2012

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TABLE 1 Jan-12 Mod 186 Report

Description	Licence Term	09/10 t-2	10/11 t-1	11/12 t	12/13 t+1	13/14 t+2	14/15 t+3	Assumptions
Year on Year RPI		3.8%	(0.4%)	4.7%	5.2%	3.2%	3.0%	RPI based on latest banking forecasts and the view of NGN management. Future forecasts for the next price control will be referenced in line with HM Treasury forecasts as set out in Ofgem's Jul-11 notice
RPI Effective % (A1)	RPI_t	14.9%	14.5%	19.9%	26.1%	30.1%	33.9%	Cumulative calculation of RPI above
Core Allowed Revenue in 2005/06 Prices (A2)	Z_t	286.1	276.9	283.6	286.8			Per Gas Transporter Licence
Core Allowed Revenue in Nominal Prices (A)	$RPI_t \times Z_t$	328.8	317.0	339.9	361.6			A = (1+A1) x A2
Allowed Pass-Through Items (B)	F_t	0.0	(1.3)	(3.3)	(1.7)			B=B1+B2+B3+B4
Pass-Through Business Rates (B1)	RB_t	0.6	(0.9)	(2.9)	(3.0)			Actual Business Rates known to Mar-12, assumed to increase by inflation thereafter
Pass-Through Licence Fees (B2)	LF_t	(0.5)	(0.5)	(0.3)	(0.4)			Actual Licence Fee known to Mar-12, assumed to increase by inflation thereafter
Pass-Through NTS Pension Deficit (B3)	PD_t	(0.1)	0.0	(0.1)	1.7			Actual Pension Deficit known to Mar-13
Pass-Through Others (B4): Theft of Gas, 3 rd Party Damage, Miscellaneous Pass-Through	$TG_t + TPWI_t + MP_t$	0.0	0.1	0.0	0.0			Actual Costs minimal, therefore forecast assumed zero

Shrinkage (C)	Sh_t	5.0	8.4	9.8	10.4			Shrinkage allowances are based on forward curve prices multiplied by the volumes contained within the Licence. Forward curve prices for the next 6 months have come down by c20% from a high in August 2011, although prices beyond Autumn 2012 remain higher than this time last year.
K Correction Factor Forecast (D)	K_t	(2.2)	1.7	(8.9)	(0.8)	0.0	0.0	Prior Year carried forward (small variation for interest)
Incentive Revenue and Other Adjustments Forecast (E)	$MSRA_t + Ex_t + IAE_t + EE_t + DRS_t + IFISD_t + LM_t$	7.3	4.4	10.7	15.3			MSRA is based on the latest available forecast data Exit Capacity forecasts are based on allowed volumes and indicative exit prices provided by NG NTS, and this is in line with recent Mod186 reports NGN was awarded £0.5m under the Discretionary Reward Scheme for gas safety initiatives. This is incorporated into 2012/13 Allowed Revenue Other incentives are based on the latest available internal data and are all in line with the Oct-11 Mod186 report
Final Allowed Revenue (F)	MR_t	338.9	330.2	348.2	384.8	393.6	405.6	F = A+B+C+D+E. Allowed Revenue up to and including the 2012/13 regulatory year is per the current Price Control. Beyond this, Allowed Revenue is currently assumed to be the same as 2012/13, adjusted for inflation
Final Collected Revenue (G)	R_t	337.3	339.0	349.0	384.8	393.7	405.7	
Forecast Over / (Under) Recovery (H)	K_t	(1.6)	8.8	0.8	0.0	0.0	0.0	H=G-E
Arithmetical April Price % needed for Collected Revenue to equal Allowed Revenue		4%	8%	6%	10%	5%	6%	

NTS Exit Capacity Charges recovered through new LDZ ECN charge from October 2012					5.9	11.8	12.0	2012/13 figures are based on 6 months estimate. These are included in the incentive figures above.
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Changes in SOQs effective from October each year		(4.1%)	(5.5%)	(1.8%)	(3.0%)	(3.0%)	(3.0%)	Final impact of October 2011 AQ Review yet to be finalised
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Other Assumptions/Issues

1. It is assumed that there will be one set of price changes per year effective on 1st April.
2. No adjustment has been made for any future operational impacts of the Traffic Management Act.
3. Recent UK Accounting Standards Board publications have raised the possibility of UKGAAP convergence with IFRS from 2014. No associated financial implications of accounting convergence have been incorporated in these projections at the current time given the prevailing uncertainty surrounding this and resulting consequences including a potential tax reopener.

TABLE 2 Potential Variation to Revenue from Central Estimate

Description	2011/12			2012/13		
Regulatory Year	2011/12			2012/13		
£m	Low (P10)	Central	High (P90)	Low (P10)	Central	High (P90)
Pass-Through Costs	(4.3)	(3.3)	(2.3)	(4.7)	(1.7)	1.3
Incentives inc Shrinkage	15.5	20.5	25.5	15.7	25.7	35.7
Final Collected Revenue Forecast	339.0	349.0	359.0	364.8	384.8	404.8