

Company Name: Northern Gas Networks Limited

Date: July 2011

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TABLE 1

Description	Licence Term	09/10 t-1	10/11 t	11/12 t+1	12/13 t+2	13/14 t+3	14/15 t+4	Assumptions
Year on Year RPI		3.8%	(0.4%)	4.7%	5.4%	4.1%	3.0%	RPI based on latest banking forecasts and the judgement 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 July 2011 notice
RPI Effective % (A1)	RPI_t	14.9%	14.5%	19.9%	26.3%	-	-	Cumulative calculation of RPI above
Core Allowed Revenue in 2005/06 Prices (A2)	Z_t	295.3	286.0	292.5	295.6	-	-	Per Gas Transporter Licence
Core Allowed Revenue in Nominal Prices (A)	$RPI_t \times Z_t$	339.4	327.5	350.6	373.4	-	-	A = A1 + A2
Allowed Pass-Through Items (B)	F_t	0	(1.3)	(3.4)	(4.9)	-	-	B=B1+B2+B3+B4
Pass-Through Business Rates (B1)	RB_t	0.6	(0.9)	(2.9)	(4.3)	-	-	Following an unexpected fall in 2010/11, forecast Rates assumed to increase by inflation. Next update of forecast due Sep-11
Pass-Through Licence Fees (B2)	LF_t	(0.5)	(0.5)	(0.5)	(0.6)	-	-	Forecast Licence Fees assumed to increase by inflation
Pass-Through NTS Pension Deficit (B3)	PD_t	(0.1)	-	-	-	-	-	Forecast NTS Pension Deficit assumed to increase by inflation
Pass-Through Others (B4): Theft of Gas, 3 rd Party Damage & Water Ingress, Miscellaneous Pass-	$TG_t + TPW_t +$	-	0.1	-	-	-	-	Actual Costs minimal, therefore forecast assumed zero

Through	MP _t							
Correction Factor Forecast (C)	K _t	(2.4)	1.5	(9.2)	(3.7)	-	-	Prior Year carried forward (small variation for interest). K in 2011/12 has increased £0.4m since the April-11 Mod186 report due to finalisation of 2010/11 incentive figures prior to the E20 Final Allowed Revenue submission to Ofgem in July-11.
Incentive Revenue and Other Adjustments Forecast (D)	MSRA _t + Ex _t + IAE _t + Sh _t + EE _t + DRS _t + IFISD _t + LM _t	1.7	2.7	8.1	13.3	-	-	D MSRA is based on the latest available data. Lower workload forecasts in 2011/12 have been pushed into 2012/13 but this will have minimal impact on overall price change % in both years. Exit Capacity forecasts are based on allowed volumes and indicative exit prices provided by NG NTS, and this is in line with the Apr-11 Mod186 report. Shrinkage allowances are based on forward curve prices multiplied by the volumes contained within the Licence. Forward curve prices have increased 20% since the Jan-11 Mod186 report for years 2011/12 and 2012/13. Innovation Funding Incentive for Sustainable Development has increased by £1m since Jan-11 Mod186 report in 2011/12, with no change in the other years. Other incentives are based on the latest available internal data and are all in line with the Apr-11 Mod186 report.
Final Allowed Revenue (E)	MR _t	338.8	330.0	346.1	378.1	393.6	405.6	E = A+B+C+D. 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 (F)	R _t	337.3	339.0	349.7	378.1	393.6	405.6	
Forecast Over / (Under) Recovery (G)	K _t	(1.5)	9.0	3.6	-	-	-	G = F-E
Arithmetical April Price % needed for Collected Revenue to equal Allowed Revenue		3.6%	8.4%	6.4%	10.2%	7.1%	6.0%	

Other Assumptions/Issues

1. SOQ reductions have currently been forecasted to be 3% for years 2011/12, 2012/13 and 2013/14. Preliminary figures from xoserve suggest the SOQ reduction due in October 2011 may not be as high as forecast, in which case this would lead NGN to over recover additional revenue in 2011/12 and consequently put through a lower price change in 2012/13. If SOQ reductions in October 2011 are 2%, all things being equal, the 2012/13 price change will be 8.7%; at 1% the 2012/13 price change will be 7.2%.
2. As a consequence of NTS Exit Capacity Charges being passed through to the DNs from October 2012, NGN is forecasting an increase in 2012/13 Allowed Revenue of £5.9m for 6 months to March 2013. This has been incorporated into the Allowed Revenue figures above.
3. It is assumed that there will be one set of price changes per year effective on 1st April.
4. No adjustment has been made for any future operational impacts of the Traffic Management Act.
5. Recent UK Accounting Standards Board publications have raised the possibility of UKGAAP convergence with IFRS by 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

Description	Regulatory Year t			Regulatory Year t+1			Regulatory Year t+2		
Regulatory Year	Regulatory Year t			Regulatory Year t+1			Regulatory Year t+2		
£m	Low (P10)	Central	High (P90)	Low (P10)	Central	High (P90)	Low (P10)	Central	High (P90)
Under/over recovery	8.5	9.2	9.7						
Pass-Through Costs				(4.3)	(3.4)	(2.5)	(5.9)	(4.9)	(3.9)
Incentives				3.1	8.1	13.1	8.3	13.3	18.3
Final Collected Revenue Forecast				341.7	349.7	357.7	383.7	393.7	403.7