

This report is published as a goodwill gesture from Northern Gas Networks Limited (NGN) 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 Review Group 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 estimated prices of year	291.0	310.7
Movement in pass through items and incentives	(5.2)	(0.0)
Movement in K	0.2	(2.9)
Final Allowed Revenue Latest Forecast	286.0	307.8
% of previous year	~	7.6%
Forecast Collected Revenue	288.6	307.7
Forecast Over / (Under) Recovery (K)	2.7	(0.1)
	0.9%	0.0%
Arithmetical October Price level change needed for Collected to = Allowed	27%	(10%)

Commentary

We currently anticipate a very small over recovery in 2007/08. This is partly due to reductions in our forecast of Final Allowed Revenue due to movements in incentives and pass through costs. In addition, slightly colder than forecast weather has increased forecast commodity revenue. These factors have been partially offset by the reduction in revenue from capacity charges brought about by the outcome of the 2007 AQ review.

Allowed Revenue is as per the final proposals decision document for the PCR.

Post 1 October 2008 the structure of charges for LDZ charges has changed to be 95% capacity based.

There are a number of factors that will influence the actual price change in October 2008. For example:

- January to March is the highest demand period, and so differences between forecast and actual demand will be magnified over these months.
- All elements of Final Allowed Revenue in the current year as well as next year are subject to adjustment as new information is received.

As stated above, on 1 October 2008, the structure of LDZ charges changes to 95% capacity based, therefore, in order to determine the actual change in distribution charges relative to current charges, it is necessary to scale the current LDZ charges to fit the new 95-5 structure, before applying the price change. Different sized consumers will have different scaling factors but an approximation of the required scaling factors are 10.7% for commodity charges and 178.2% for capacity charges. (i.e. to approximate the change to NGN charges, the commodity charge should be multiplied by 10.7% and the capacity charge by 178.2% before applying the October 2008 price change.)