

SOUTHERN	2007/8	2008/9
Core Allowed	359.6	385.3
Cost Pass Through	56	55.9
Incentives (Shrinkage)	16.8	13.4
Final Allowed Rev per PCR	432.4	454.7
Inflation Assumed	1.06	1.11
Final Allowed Rev per PCR at prices of year	460.0	503.4
Cost Pass through Movements	-0.9	-0.9
Incentives Movement	0.4	0.8
K Movement	7.9	-4.6
Final Allowed Revenue Latest Forecast	467.4	498.7
% of previous year	121.5%	106.7%
Forecast Collected Revenue	471.6	491.4
Forecast Under / Over Recovery (K)	4.2	-7.3
Arithmetical October Price level change needed for Collected to = Allowed	31%	2.7%*

Disclaimer

This report is published in advance of Mod 186 being implemented. It is published without prejudice basis and whilst every effort has been made to ensure the accuracy of the information, it is subject to several estimations and forecasts and will not necessarily bear any relation to either the indicative or actual price change that Scotia Gas Networks will publish at a later date for October 2008.

SGN has not incorporated any Traffic Management Act cost recoveries via the reopener in this analysis

Commentary

2007/8

Pass through movement is due to a reduction in Formula rates and Licence fees.

Increases in repex and exit incentive allowances have offset the decrease in shrinkage allowance

K movement is an under recovery from 2006/7

The over recovery is due to higher than forecast volumes.

2008/9

Pass through movement is due to a change in Formula Rates and licence fees.

The incentive movement is due to an increase in repex allowance from the replacement incentive mechanism being partly offset by a decrease in exit incentive and shrinkage allowance

95/5 Cap/ com methodology implemented from October 2008

* This is an increase to new rates under 95/5 methodology, not an increase to Oct 07 rates.

Approximate scaling factors to apply to Oct 07 charges to calculate charges under new 95/5 methodology are:

Commodity 11.0%

Capacity 172.0%