SOUTHERN	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Core Allowed	359.6	385.4	399.2	398.5	404.1	411.4
Cost Pass Through	56	55.9	55.81	55.7	55.6	55.5
Incentives (Shrinkage)	16.8	13.4	13.1	12.7	12.4	12.0
Final Allowed Rev per PCR	432.4	454.7	468.1	466.9	472.1	478.9
Inflation Assumed	1.06	1.11	1.16	1.19	1.22	1.24
Final Allowed Rev per PCR at prices of year	460.0	503.4	544.0	554.8	574.9	596.0
Cost Pass through Movements	-0.9	-0.8	7.8	7.9	9.0	10.2
Incentives Movement	-0.5	2.6	8.2	8.8	9.0	8.7
K Movement	7.9	-4.3	-2.7	0.0	0.0	0.0
Final Allowed Revenue Latest Forecast	466.5	500.9	557.4	571.5	592.9	614.9
% of previous year	121.2%	107.4%	111.3%	102.5%	103.7%	103.7%
Forecast Collected Revenue	470.5	503.5	557.1	571.5	592.9	614.9
Forecast Under / Over Recovery (K)	**4.0**	**2.5**	**-0.2**	**0.0**	**0.0**	**0.0**
Arithmetical Price level change needed for Collected to = Allowed (October 08 then April)	**31%**	**8.5%***	**1.1%**	**3.1%**	**3.7%**	**3.7%**

Disclaimer

This report is published without prejudice 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 later dates.

Commentary

2007/8

Pass through movement is due to a reduction in Formula Rates and Licence Fees.
The decrease in the Shrinkage allowance has offset increases in Mains Replacement and Exit Incentive allowances.
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, NTS pension and Licence Fees.
Incentive movement is primarily driven by an increase in the Shrinkage allowance and adjustments due to Mains Replacement and Innovation Funding incentive mechanisms - offsetting a negative Exit Incentive allowance.
95/5 Capacity/Commodity methodology implemented from 1 October 2008.

2009/10 - 2012/13

Pass through movement is due to a change in Formula Rates, NTS Pension, Licence Fees and the Traffic Management Act.
Incentive movement is primarily driven by an increase in the Shrinkage allowance, and adjustments due to the Environmental Emissions, Mains Replacement and Innovation Funding Incentive mechanisms - and the Discretionary Reward Scheme from 2010/11.

***** 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%

Sensitivity Analysis

E.g. If gas prices increased by 20% before April 09, and remained that level until the end of March 2010, the April 09 tariff change would be 1.8% instead of 1.1% as currently forecasted (all other variables remaining equal).