

Company Name: Northern Gas Networks Limited

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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%	5.1%	3.3%	3.0%	Forecasts based on latest banking indices and the judgment of NGN management
RPI Effective % (A1)	RPI_t	14.9%	14.5%	19.9%	26.1%	-	-	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	372.6	-	-	A = A1 + A2
Allowed Pass-Through Items (B)	F_t	0	(1.4)	(3.4)	(4.8)	-	-	B=B1+B2+B3+B4
Pass-Through Business Rates (B1)	RB_t	0.6	(0.9)	(2.9)	(4.2)	-	-	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-Through	$TG_t + TPWI_t + MP_t$	-	-	-	-	-	-	Actual Costs minimal, therefore forecast assumed zero
Correction Factor Forecast (C)	K_t	(2.4)	1.5	(8.8)	(0.9)	-	-	Prior Year carried forward (small variation for interest)

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	10.4	13.3	-	-	<p>D</p> <p>MSRA is based on the latest available data. Slightly 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.</p> <p>Exit Capacity forecasts are based on allowed volumes and indicative exit prices provided by NG NTS, and this is in line with the Jan-11 Mod186 report.</p> <p>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.</p> <p>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.</p> <p>Other incentives are based on the latest available internal data and are all in line with the Jan-11 Mod186 report.</p>
Final Allowed Revenue (E)	MR _t	338.8	330.3	348.8	380.2	392.9	404.7	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 assumed to be the same as 2012/13, adjusted for inflation
Final Collected Revenue (F)	R _t	337.3	339.0	349.7	380.1	392.7	404.6	
Forecast Over / (Under) Recovery (G)	K _t	(1.5)	8.6	0.9	(0.1)	(0.1)	(0.1)	G = F-E
Arithmetical April Price % needed for Collected Revenue to equal Allowed Revenue		3.6%	8.4%	6.4%	11.2%	6.3%	6.0%	

Other Assumptions/Issues

1. SOQ reductions have been forecasted to be 3% for years 2011/12, 2012/13 and 2013/14.
2. It is assumed that there will be one set of price changes per year effective on 1st April.
3. No adjustment has been made for any future operational impacts of the Traffic Management Act.
4. 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	8.2	8.6	9.0						
Pass-Through Costs				(4.3)	(3.4)	(2.5)	(5.8)	(4.8)	(3.8)
Incentives				6.4	10.4	14.4	8.3	13.3	18.3
Final Collected Revenue Forecast				341.7	349.7	357.7	382.7	392.7	402.7