

Indicative Distribution Transportation Charges from 1 October 2006 for Scotland Gas Networks and Southern Gas Networks

1. Introduction

On 1 October 2005 gas transportation charges in the Scotland Gas Network and the Southern Gas Network were increased by 4.5% and 2.7% respectively. Latest available forecasts of collected and allowed revenue for 2006/07 for both networks suggest that no further changes may be necessary on 1 October 2006. However at this stage there are still significant uncertainties which may change this position. The most important of these are the forecast throughput volumes for 2006/07 and the Mains Replacement Incentive Mechanism for 2005/06.

2. Forecast Volumes

The assessment that no change in the level of distribution transportation charges may be necessary on 1 October 2006 is based, among other factors, on the volume forecasts produced by National Grid in May 2005. These forecasts are due to be updated in the middle of May 2006, which is too late to take them into account in this notice of indicative charges. Changes in throughput volumes affect collected and allowed revenue to different extents, and therefore if the new forecasts are significantly different from the existing ones this may give rise to forecast over- or under-recovery which is not evident at the moment. If the forecast over- or under-recovery were large enough it could require an adjustment to the level of charges on 1 October 2006. Notice of any such change would be given no later than 1 August 2006 in line with the two months' notice of price changes required by the Network Code.

Another, but smaller source of volume uncertainty is the fact that final reconciled volumes for 2005/06 are still not available.

3. Mains Replacement Incentive Mechanism

The allowed revenue for each network contains an allowance to cover the cost of an assumed level of mains replacement activity. Where the transporter carries out more or less mains replacement work, and carries it out more or less efficiently than allowed for in the formula, then an adjustment is made to the level of allowed revenue. The final mains replacement incentive position for 2005/06 will not be known until July 2006. This, together with the mains replacement performance over the next three months and any changes to the forecast performance for the rest of the formula year could affect the allowed revenue for 2006/07 and any price change required.

Range of Uncertainty

The range of uncertainty of the size of a price change at 1 October 2006 is of the order of plus or minus 2% for each network.

4. Structure of Distribution Transportation Charges

No change to the structure of the distribution transportation charges is being proposed at the moment, although changes are being considered and proposals will be made in

due course following the publication of the Ofgem document “Conclusions of the Review of the Structure of Gas Distribution Charges” in February 2006.

5. Final Notice of Changes to the Level of Charges

If any changes to the level of charges do become necessary for 1 October 2006 then notice of these changes will be given no later than 1 August 2006 in line with the two months’ notice of price changes required by the Network Code.