



SCOTLAND GAS NETWORKS plc

Indicative Notice of Change to Transportation Charges on 1 April 2011

1. Indicative Change from 1 April 2011

The indicative notice of change to gas transportation charges from 1 April 2011 in Scotland Gas Networks is an increase in the region of 19%. This change will apply to the LDZ System Charges (Directly Connected and Connected Systems) and the Customer Charges.

The increase is required because of a combination of higher forecast allowed revenue in 2011/12 relative to 2010/11 and lower collected revenue. Higher allowed revenue accounts for about 13% of the increase, of which about half is due to higher core allowed revenue and the other half due to higher allowances from the incentives and a higher level of under-recovery expected to be carried forward from 2010/11 into 2011/12 than was carried forward into 2010/11 from 2009/10. An allowance for TMA is included for the first time for 2011/12.

Lower collected revenue accounts for the rest of the increase. This is because the declining trend of supply point SOQs which is being experienced currently reduces the collected revenue from any given level of charges.

2. Uncertainties

At this stage there are still important uncertainties which will inevitably cause the actual change in the charges, which will be published on 1 February 2011, to be different from the indicative change. These uncertainties are mainly the level of K to be carried forward from 2010/11, the level of the incentive allowances, and actual inflation for the last 3 months of 2010.

3. Other Charges

The "Other Charges" in section 2.4 of the Charges Statement comprise the CSEPs Admin charge and admin charges for Shared Supply Meter Points (SSMPs). The CSEPs Admin charge will be reduced from £0.45 per supply point per annum to £0.37 (0.1020pence per day) on 1 April 2011. The admin charges for SSMPs are under review and may change before the publication of the final charges on 1 February 2011.

4. Final Notice of Changes to the Level of Charges

Final notice of any changes to the charges on 1 April 2011 will be given no later than 1 February 2011 in line with the two months' notice of price changes required by the Network Code.