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June 25, 2007

Re: Modification Proposal 0146: Acceptable Security Tools available to Users for Transportation Credit Arrangements Version 1.0

Dear Julian,

RWE Npower does not support the implementation of the proposed modification.

Our concerns relating to this centre around one major issue – the requirements stated in the Draft Modification Report with regard to the provision of Parent Company Guarantees as a form of security.

National Grid has stated in the Draft Modification Report that although Parent Company Guarantees from non-England and Wales registered companies are acceptable, the User shall, where requested to do so by the Transporter, provide at its own expense a legal opinion as to the enforceability of such a Parent Company Guarantee. In addition, the country of residence of the parent company providing the guarantee must have a sovereign credit rating of least A awarded by Moody's or the equivalent awarded by Standard & Poor's.

While we accept that Transporters are required to take steps and receive assurances to reduce the level of credit risk inherent in gas transportation, we note that, of the "big six" suppliers in the UK market, Centrica is the only one of these six which would not have to provide a legal opinion relating to Parent Company Guarantee enforceability under the proposed Modification. This is owing to the fact that RWE Npower and Powergen are subsidiaries of RWE and E.ON respectively (both registered in Germany), EDF Energy is a subsidiary of Electricité de France (registered in France), Scottish Power is a subsidiary of Iberdrola (registered in Spain) and Scottish and Southern, although not a subsidiary of any other organisation, is registered in Scotland and is therefore a non-England and Wales registered company.

The financial cost of supplying a legal opinion relating to Parent Company Guarantee enforceability could be significant and we are further concerned by the fact that the legal text relating to the proposed modification states only that *"...the User shall at its own expense provide such legal opinion as the Transporter may reasonably require."*

The legal term "reasonable" is subject to some degree of interpretation, but it does not give us any guarantee that Users will not be required to provide Transporters with legal

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opinions relating to enforceability whenever Transporters choose to ask for them. In addition, we question the reason for the requirement of provision of such legal opinion at all, particularly in the case of an England and Wales registered company not being required to provide such opinion.

We note that the countries of registration of the non-UK parent companies listed above, Germany, France and Spain respectively, are all in possession of AAA sovereign credit ratings as awarded by Standard and Poor's – exactly the same rating as that held by the UK. Using National Grid's basis of sovereign credit ratings to benchmark creditworthiness, we would be interested to know what extra credit risk, therefore, these companies represent over and above that posed by England and Wales registered Users.

As mentioned, Scottish and Southern itself is a UK registered company but, under a strict reading of the proposed modification and the legal text, must itself provide a legal opinion on enforceability relating to a Parent Company Guarantee. This is despite the fact that it and Centrica will both be assessed based on the same UK sovereign AAA credit rating, as Scotland does not have a separate sovereign credit rating of its own. We are aware that Scottish law differs from English law in some respects, but this seems somewhat illogical to say the least.

In addition, all the parent companies mentioned above are registered in European Union member states, which should provide a considerable level of reassurance relating to the value of a Parent Company Guarantee from any of these organisations.

In summary, we strongly feel that the legal enforceability requirement should either be applied across the board to all Users wanting to post a Parent Company Guarantee or to none at all, as long as the country in which the company providing the Guarantee is based is in possession of the necessary minimum A sovereign credit rating.

We would be most interested if National Grid would provide us with an idea of its reasoning behind the inclusion of this requirement for non England and Wales registered companies, which we would describe as almost amounting to unjustified discrimination. We would also like to note that we requested such clarification some weeks ago from National Grid but it has not as yet been forthcoming.

If you wish to discuss any points raised in this response further, please do not hesitate to contact me.

Regards,

Chris Hill

Gas Codes Analyst