

**COMPLETED ACQUISITION BY CENTRICA PLC OF DYNEGY STORAGE LTD  
AND DYNEGY ONSHORE PROCESSING UK LTD**

**UNDERTAKINGS GIVEN BY CENTRICA PLC AND CENTRICA STORAGE  
LIMITED TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY  
PURSUANT TO SECTION 88 OF THE FAIR TRADING ACT 1973**

**WHEREAS:**

- (a) On 14 November 2002 Centrica Storage Holdings Limited ('CSHL'), a wholly-owned subsidiary of Centrica plc ('Centrica'), acquired the entire issued share capital of Dynegy Storage Limited and Dynegy Onshore Processing UK Limited;
- (b) On 25 February 2003 the Secretary of State referred the resulting merger situation to the Competition Commission under sections 64 and 69(2) of the Act;
- (c) The report of the Competition Commission (the 'Report') was presented to Parliament in August (Cm 5885) and sets out such conclusions as are mentioned in section 73(1) of the Act;
- (d) Pursuant to a request by the Secretary of State, the OFT has consulted with Centrica and CSL with a view to obtaining from them undertakings to take action in accordance with section 88(1) of the Act;

**NOW THEREFORE** Centrica and CSL hereby give to the Secretary of State under section 88(2) of the Act the following undertakings to take the action necessary to remedy or prevent the adverse effects specified in the Report.

**1. Effective date of these Undertakings**

These Undertakings shall take effect from the date that, having been signed by Centrica and CSL, they are accepted and dated by the Secretary of State.

**SALE OF ROUGH CAPACITY**

**2. General**

2.1 CSL will (and Centrica will ensure that CSL will) sell all Rough Capacity on Non-Discriminatory Terms.

2.2 CSL will (and Centrica will ensure that CSL will):

- (a) offer for sale at least 20 per cent of Minimum Rough Capacity on annual contracts;
- (b) subject to (a) above, offer for sale Minimum Rough Capacity and Additional Space for a range of contract durations (such a range to include as a minimum contract durations of between 1 and 5 years);

- (c) offer to all customers (including the Centrica Group) the option of either fixed or indexed prices, and for Minimum Rough Capacity indexed prices shall include prices indexed to the difference between forward spot gas prices for the quarter commencing 1 January and the average of forward spot gas prices for the quarters commencing 1 April and 1 July in the preceding calendar year, or any other index developed in agreement with the customer.

For the avoidance of doubt offer for sale includes offerings to the Centrica Group in accordance with paragraph 3.3.

- 2.3 CSL will (and Centrica will ensure that CSL will) retain the SSC (a copy of the current terms of which is at Annex 10) for all sales of Rough Capacity.
- 2.4 Further:
  - (a) the terms of the SSC (a copy of the current terms of which is at Annex 10) cannot be altered unless:
    - (i) all Market Participants have been consulted (in accordance with the provisions contained in Annex 1) on the proposed change(s) to the terms of the SSC; and
    - (ii) Ofgem agree (following the procedure set out in Annex 1) to the proposed change(s) to the terms of the SSC.
  - (b) in particular, CSL will (and Centrica will ensure CSL will) continue to operate the 'use it or lose it' arrangements in relation to all Rough Capacity in line with the provisions contained in clause 14 of the SSC.

### **3. Sales before the Storage Year begins**

- 3.1 Subject to paragraphs 3.2 and 3.3, CSL will (and Centrica will ensure that CSL will) offer for sale at least the Minimum Rough Capacity for each Storage Year.
- 3.2 CSL will (and Centrica will ensure that CSL will) offer for sale to third parties at least:
  - (a) the capacity levels shown in the following table: and

| Storage Year                 | Minimum capacity to be offered for sale to third parties – SBUs (% of Minimum Rough Capacity) |
|------------------------------|---|
| 2004/2005                    | 364,000,000 (80%)   |
| 2005/2006                    | 368,550,000 (81%)   |
| 2006/2007                    | 373,100,000 (82%)   |
| 2007/2008                    | 377,650,000 (83%)   |
| 2008/2009                    | 382,200,000 (84%)   |
| 2009/2010 & subsequent years | 386,750,000 (85%)   |

- (b) subject to paragraph 3.3(b) of these Undertakings any Additional Space that is operationally available for use in each Storage Year.

3.3 In each Storage Year CSL may reserve to the Centrica Group:

- (a) allocations of SBUs that are less than or equal to the levels shown in the following table:

| Storage Year                  | Maximum capacity capable of being reserved to Centrica – SBUs (% of Minimum Rough Capacity) |
|-------------------------------|---|
| 2004/2005                     | 91,000,000 (20%)  |
| 2005/2006                     | 86,450,000 (19%)  |
| 2006/2007                     | 81,900,000 (18%)  |
| 2007/2008                     | 77,350,000 (17%)  |
| 2008/2009                     | 72,800,000 (16%)  |
| 2009/2010 & subsequent years. | 68,250,000 (15%)  |

- (b) an allocation of Additional Space that is less than or equal to the levels shown in the following table: and

| Storage Year                 | Maximum Additional Space reserved to Centrica (GWh) |
|------------------------------|---|
| 2004/2005                    | -   |
| 2005/2006                    | 307   |
| 2006/2007                    | 614   |
| 2007/2008                    | 921   |
| 2008/2009                    | 1228  |
| 2009/2010 & subsequent years | 1534  |

- (c) all Incremental Capacity.

3.4 CSL will (and Centrica will ensure that CSL will) auction all Minimum Rough Capacity and Additional Space for a Storage Year which has not been sold (or reserved to Centrica) no less than 30 days before the start of that Storage Year in accordance with the auction procedure contained at Annex 2, or as varied with the agreement of the OFT.

#### 4. Sales During the Storage Year

CSL will (and Centrica will ensure that CSL will) offer for sale all Further Additional Space that becomes available during the Storage Year in accordance with paragraphs 2.1, 2.2(c) and 2.3 of these Undertakings.

## SEPARATION

### 5. Legal, financial and physical separation

- 5.1 CSL will be maintained legally, financially and physically separate from all other businesses of Centrica in accordance with this paragraph 5.
- 5.2 Save as provided in paragraph 5.3(g) of these Undertakings, Centrica and CSL will, by 1 December 2003 and in accordance with the provisions contained in Annex 3, satisfy the OFT and Ofgem that the obligation contained at paragraph 5.1 has been complied with.
- 5.3 In order to comply with the general obligation contained at paragraph 5.1 above, Centrica and CSL will ensure in particular (but without limitation) that:
- (a) No member of the Centrica Group except Centrica, GBGH or CSHL shall, directly or indirectly:
- (i) hold any Interest in CSL;
  - (ii) hold any Interest in any company which exercises or otherwise has Control of CSL or any of its assets;
  - (iii) hold any Interest which gives the holder an entitlement to vote at the general meetings of CSL or in any company which exercises or otherwise has Control of CSL

save that BPGGS Limited (a subsidiary of GBGH) may hold non-voting preference shares in CSHL pursuant to an intra-group refinancing which took effect from 28 March 2003 between GBGH and CSHL.

- (b) No member of the Centrica Group shall, directly or indirectly, acquire any of the assets of CSL other than in the ordinary course of business.
- (c) Without prejudice to paragraphs 5.3(e) and (i) of these Undertakings, no employee or director of any member of the Centrica Group (other than subsidiaries of CSHL) or the agents or Affiliates of any such member shall hold or be nominated to any office of employment or directorship in, or provide any services to, CSL.

For the avoidance of doubt, provision of services shall not include the application of policies to the whole of the Centrica Group nor advice or guidance on the same (unless those policies relate specifically to gas supply, shipping, trading, storage procurement activities or asset operations).

- (d) Save as agreed by Ofgem, and without prejudice to paragraphs 5.3(e)(iv) and 5.3(i) of these Undertakings, no other member of the Centrica Group or the agents or Affiliates of any such member, or its employees or directors, shall directly or indirectly participate in the formulation or making of, or influence or attempt to influence, the commercial policy of CSL other than through responses to formal public consultation.

- (e) No member of the Centrica Group (or its employees, directors, agents or Affiliates) shall enter into or carry out any agreement or arrangement for the provision of services to CSL, save as follows:
- (i) legal, regulatory, company secretarial, human resources, business assurance, taxation, treasury, finance and accounting, insurance, information systems, investor relations, corporate affairs and procurement services (each as described in Annex 4, Part A) provided by Centrica's Corporate Centre;
  - (ii) services provided by Centrica's Group Risk Team and Financial Risk Management Committee (as described in Annex 4, Part B);
  - (iii) property and facilities management services (as described in Annex 4, Part C);
  - (iv) services relating to health and safety and the environment, as provided by Centrica's Director of Health, Safety and the Environment (including his/her appointment as a director of CSHL and/or its subsidiaries), Head of Environment and Head of Occupational Health (as described in Annex 4, Part D); and
  - (v) asset management support and advice services (as described in Annex 4, Part E)

to the extent that other members of the Centrica Group (or their agents or Affiliates) currently provide such services to CSL, and provided that individuals engaged in providing the above services to CSL are:

- (aa) bound by a code of conduct in accordance with paragraph 6 of these Undertakings; and
- (bb) (as regards legal, regulatory, company secretarial, human resources, and business assurance services, each as described in Annex 4, Part A) not involved in providing any such services to other members of the Centrica Group which from time to time carry on gas supply, shipping, trading, storage procurement activities or asset operations (which currently includes all those businesses listed in Annex 5).

For the avoidance of doubt, provision of services shall not include the application of policies to the whole of the Centrica Group nor advice or guidance on the same (unless those policies relate specifically to gas supply, shipping, trading, storage procurement activities or asset operations).

- (f) No member of the Centrica Group shall enter into or carry out any agreement or arrangement with any person if the carrying out of that agreement or arrangement would, or is intended to, result in it or its agents or Affiliates, directly or indirectly, doing any of the things listed in sub-paragraphs (a) to (e) above.

- (g) By 31 December 2003, all CSL staff are located at separate physical locations to those of all businesses of Centrica and other members of the Centrica Group involved in gas supply, shipping, trading, storage procurement activities or asset operations.
- (h) CSL does not share any communication or electronic networks and systems with Centrica or any other members of the Centrica Group, unless restrictions are in place to prevent directors and employees of other members of the Centrica Group (or their agents or Affiliates) having access to those facilities (or parts of those facilities, where relevant) used by CSL (and vice versa). For the avoidance of doubt this provision shall not preclude the operation of a Centrica Group-wide intranet system, communication or other electronic network provided that no commercially sensitive information (as defined in paragraph 6 of these Undertakings) shall be accessible by the rest of the Centrica Group.
- (i) The company secretary of Centrica has responsibility for CSL or, with the prior approval of the OFT, a full time executive director may be appointed to have responsibility for CSL;
- (j) (Without prejudice, and in addition to the consolidation of the accounts of members of the Centrica Group in accordance with section 227 of the Companies Act 1985) CSL's accounts are maintained, audited and reported separately from those of Centrica or any other member of the Centrica Group. For the avoidance of doubt, this paragraph shall not preclude the use by CSL of Centrica Group's appointed auditors.
- (k) Subject to agreeing its capital and revenue budget with Centrica CSL has sole responsibility for all financial (including investment) decisions concerning CSL and its businesses.
- (l) Revenues from operations at Rough are not used to subsidise the business operations of Centrica or any other member of the Centrica Group. For the avoidance of doubt the declared profits of CSL may be passed to Centrica by way of dividends and consolidated with the results of all other members of the Centrica Group.

## **6. Commercially sensitive information**

- 6.1 Centrica and CSL will ensure that no commercially sensitive information arising from the operation of Rough or Easington is passed directly or indirectly, including information passed via the new Easington (Ormen Lange) facilities, to any business of either Centrica or any other member of the Centrica Group which from time to time carries on gas supply, shipping, trading, storage procurement activities or asset operations (which currently includes all those businesses listed in Annex 5).
- 6.2 Centrica and CSL will ensure that the staff of all members of the Centrica Group are bound by a code of conduct which prohibits the disclosure of commercially sensitive information to, and the solicitation or use of commercially sensitive information by, staff of any business of Centrica (or the business of any member of the Centrica Group, other than CSL) which carries on gas supply, shipping, trading, storage procurement activities or asset operations. In particular, the code of conduct must:

- (a) be in the terms of the code of conduct found at Annex 6, or in equivalent terms; and
  - (b) provide that breach of the code of conduct is a disciplinary matter which could lead to the termination of employment.
- 6.3 For the purposes of this paragraph 6, the phrase 'commercially sensitive information' includes information which is:

- (a) specific to an individual storage or processing customer (relating to a customer's booking of capacity at Rough and/or its nominations for the injection or the withdrawal of gas at Rough, or a customer's use of Easington); or
- (b) operational information relating to the Rough or Easington facilities, which includes, information relating to storage capacity, gas-in-storage, Gross Nominations, and the day to day operation and maintenance of Rough and Easington; or
- (c) known to CSL as a result of a request to it by OFT or Ofgem in relation to an investigation by OFT or Ofgem of any other member of the Centrica Group (which includes, without limitation, the nature and existence of any such investigation).

BUT does not include information:

- (d) of the type specified in (a) which is disclosed in accordance with the consent of the supplier of that information;
- (e) of the type specified in (a) which is disclosed back to the supplier of that information;
- (f) disclosed to an individual (employee or professional adviser) only for the purposes of enabling that individual to provide advice or support to the operators of Rough or Easington provided that:
  - (i) the individual is bound to keep the information confidential; and
  - (ii) the disclosure of the information by the individual to a third party or use by the individual for purposes other than to provide advice or support to the operators of Rough or Easington shall constitute an infringement of this undertaking;
- (g) which is otherwise publicly available or, if relating to information of the type specified in (b), is disclosed to all storage customers simultaneously by way of publication on the STORIT system.

## **7. Shipping**

- 7.1 CSL may only engage a Shipper from within the Centrica Group to conduct Trades on its behalf if the information provided to that Shipper is simultaneously made available to all other Market Participants.

- 7.2 For the avoidance of doubt CSL may, on obtaining its own Shipper's licence, conduct its own Trades.
- 7.3 Provision of information to Market Participants under 7.1 shall be made by publication on the STORIT system and, until such a time as all Market Participants have full access to a public version of the STORIT system, by publication on the CSL website.
- 7.4 For the purposes of paragraphs 7.1 and 7.3, 'information' includes all information provided to a Shipper including the decision of CSL to conduct Trades.

#### **INFORMATION – PROVISION OF INFORMATION TO OFT AND OFGEM**

#### **8. General Obligation**

- 8.1 Without prejudice to any other provision of these Undertakings, Centrica and CSL will furnish promptly to the OFT and/or Ofgem such information as is considered necessary to monitor these Undertakings within 10 working days of a written request being received (unless otherwise agreed).
- 8.2 Written requests under paragraph 8.1 should be addressed to:

Centrica Storage Limited  
Attention: Bruce Walker, Managing Director  
17 London Road  
Staines  
Middlesex  
TW18 4AE  
bruce.walker@centrica-sl.co.uk

Centrica plc  
Attention: Iain Taylor, Director Regulatory Affairs  
3 The Square,  
Stockley Park  
Uxbridge  
UB11 1BN.  
iain.taylor@centrica.co.uk

or as otherwise notified to the OFT and Ofgem by CSL or Centrica from time to time.

#### **9. Verification of Additional Space and Further Additional Space**

- 9.1 CSL will (and Centrica will ensure that CSL will) provide to Ofgem on an annual basis, in electronic format (unless Ofgem require otherwise) the following:
- (i) by 1 July in each year, details of the highest and lowest net reservoir volume for the previous Storage Year; and
  - (ii) by 29 February 2004 and by 31 January in each subsequent year, a report on the previous injection season, which will include information as prescribed in Annex 7, and which will have been verified by a third

party engineer not otherwise currently employed by the Centrica Group, save as otherwise agreed by Ofgem.

- 9.2 CSL will (and Centrica will ensure that CSL will) provide to Ofgem, within 30 working days of receipt of a written request from Ofgem, in electronic format (unless Ofgem require otherwise), such information as Ofgem reasonably regard as being necessary to enable it to verify the level of Additional Space and Further Additional Space for the period specified in its written request.

#### **10. Individual Capacity Sales**

Without exception, CSL will (and Centrica will ensure that CSL will) provide to both OFT and Ofgem, in electronic format (unless either OFT or Ofgem require otherwise), details of all Individual Capacity Sales for each month, such information to be provided:

- (a) within 10 working days of the end of the month to which the information relates; and
- (b) in the format prescribed in Annex 8.

#### **INFORMATION – PUBLICATION AND DISCLOSURE**

#### **11. Weighted Average Price of Capacity**

CSL will (and Centrica will ensure that CSL will) publish the Weighted Average Price of Capacity at the beginning of each Storage Year. Publication of this information shall be made by publication on the STORIT system and, until such a time as all Market Participants have full access to a public version of the STORIT system, by publication on the CSL website.

#### **12. Storage Operations**

If any information relating to Storage Operations is to be disclosed, disclosure must be made by CSL to all Market Participants simultaneously. Disclosure of this information shall be made by publication on the STORIT system and, until such a time as all Market Participants have full access to a public version of the STORIT system, by publication on the CSL website.

#### **13. Gross Nominations**

- 13.1 CSL will publish information on Gross Nominations on at least four occasions each day, of which at least:

- (a) one occasion is on the Preceding Day after 4pm; and
- (b) not less than three occasions (which are no less than three hours apart) are during the Gas Flow Day before 6pm.

- 13.2 Publication of information on Gross Nominations in accordance with paragraph 13.1 shall be made by publication on the STORIT system and, until such a time as all Market Participants have full access to a public version of the STORIT system, by publication on the CSL website.

**14. Publication on the STORIT system or the CSL website**

CSL will (and Centrica will ensure that CSL will) ensure that all publications made on the STORIT system or the CSL website made pursuant to these Undertakings will include the date and time of publication.

**PRIMARY AND SECONDARY MARKETS**

**15. Primary Sales Process**

Centrica will not participate in the Primary Sales Process, nor procure any agent or any other person to do so on its behalf.

**16. Secondary Market**

CSL will (and Centrica will ensure that CSL will) facilitate the efficient operation and development of a Secondary Market in Rough Capacity by:

- (a) ensuring that injectability, space and deliverability rights are defined in the SSC such that they can be freely traded separately;
- (b) maintaining in the SSC arrangements that allow for the assignment and/or transfer of all or part of the rights purchased in the Primary Market (such assignment/transfers not to be unreasonably restricted).

**COMPLIANCE AND MONITORING**

**17. Centrica's Audit Committee**

Centrica will procure that Centrica's Audit Committee will:

- (a) on a quarterly basis, conduct an independent review of compliance with these undertakings in their entirety; and
- (b) provide the Centrica Board an annual report on the compliance with these undertakings in their entirety, and in preparing that report will follow the principles set out in Annex 9. The Centrica Board shall review the annual report and produce a report thereon itself which it shall provide to the OFT and Ofgem, together with the report of Centrica's Audit Committee as submitted to the Centrica Board.

**18. Co-operation**

Centrica and CSL will co-operate fully with the OFT and Ofgem when:

- (a) monitoring compliance with these Undertakings; or
- (b) investigating potential breaches of these Undertakings.

**19. Directions**

Centrica and CSL will comply promptly with such written directions as OFT or Ofgem may from time to time give:

- (a) to take such steps as may be specified or described in the directions for the purpose of carrying out or securing compliance with these undertakings; or
- (b) to do or refrain from doing anything so specified or described which they might be required by these undertakings to do or to refrain from doing.

**20. Centrica Group**

- (a) Centrica will procure that all members of the Centrica Group shall comply with these undertakings as if they had given them.
- (b) Where any Affiliate or agent of Centrica is not a member of the Centrica Group, Centrica shall ensure that any such Affiliate or agent shall comply with these undertakings as if it had given them.

**INTERPRETATION**

- 21. The Interpretation Act 1978 shall apply to these Undertakings as it does to Acts of Parliament.
- 22. Further, in these Undertakings (and attached Annexes):

**'the Act'** means the Fair Trading Act 1973;

**'Additional Space'** means that space into which gas can be injected over and above the Minimum Rough Capacity, which has been created as the result of the operation of Rough by its previous owners and which can be quantified before the beginning of the Storage Year following observations on the pattern and extent of customer withdrawal nominations in the previous Storage Year, but which in any event will be no less than 1534GWh;

an **'Affiliate'** of a person is another person who satisfies the following condition, namely that any enterprise (which, in this context, has the meaning given in section 63(2) of the Act) that the first person carries on from time to time and any enterprise that the second person carries on from time to time would be regarded as being under common control for the purposes of section 65 of the Act;

**'business'** has the meaning given by section 137(2) of the Act;

**'CEMG'** means Centrica Energy Management Group, a business unit within Centrica;

**'Centrica Group'** means the group of companies that comprises of Centrica and:

- (i) any direct or indirect holding company (as defined in section 736(5) of the Companies Act 1985) of Centrica from time to time; and
- (ii) any direct or indirect subsidiary (as defined in section 736(1) of the Companies Act 1985) from time to time; and

- (iii) any company which from time to time has Control of Centrica or any company falling under (i) or (ii) above; and
- (iv) any company over which Centrica or any company falling under (i) or (ii) above has Control.

**'Centrica's Audit Committee'** means the audit committee of Centrica as described in Centrica's Annual Report and Accounts (or a sub-committee thereof), responsible for monitoring compliance with these undertakings and comprised solely of independent non-executive directors;

**'Control'** shall be construed in accordance with section 65 of the Act, and in the case of a body corporate, a person shall, for the purposes of these undertakings, be deemed to control it if he holds, or has an interest in, shares of that body corporate carrying an entitlement to vote at general meetings of shareholder of that body corporate of 10 per cent or more of the total number of votes which may be cast at such meetings;

**'CSL'** means Centrica Storage Limited, a wholly owned subsidiary of CSHL;

**'Easington'** means the onshore terminal which processes gas from Rough;

**'Further Additional Space'** means that space into which gas can be injected over and above the Minimum Rough Capacity and Additional Space, which can only be quantified and sold during the Storage Year, but excluding space created through Incremental Capacity;

**'Gas Day'** means a period of twenty-four consecutive hours commencing at 6.00am on a given calendar day and ending at 6.00am on the following calendar day (the calendar date for a Gas Day is the date on which it begins);

**'Gas Flow Day'** means the day of the injection or withdrawal of gas or flows of gas or other operations;

**'GBGH'** means GB Gas Holdings, a holding company and wholly owned subsidiary of Centrica;

**'Gross Nominations'** means the aggregate quantities of gas nominated by storage customers for injection into and withdrawal from Rough;

**'Incremental Capacity'** means capacity created at Rough achieved through investment in storage operations by CSL which is incremental to the Minimum Rough Capacity, Additional Space and Further Additional Space;

**'Individual Capacity Sales'** means all sales of capacity at Rough by CSL on the Primary Market;

**'Interest'** means any interest in shares, and any other interest, if it carries an entitlement to vote at general meeting of shareholders, and for this purpose an 'interest in shares' includes an entitlement by a person other than the registered holder, to exercise any voting rights conferred by the holding of those shares at general meetings of shareholders or an entitlement to control the exercise of any such voting rights;

**'Market Participants'** means all Shippers and all participants and potential participants in the Primary Market or Secondary Market and, for the avoidance of doubt, shall be taken to include (but shall not be limited to) all signatories of the SSC;

**'Minimum Rough Capacity'** means 455 million SBUs;

**'Non-Discriminatory Terms'** means terms which are no more and no less favourable than those offered to comparable customers (including Centrica or any other member of the Centrica Group) with respect to the purchase of comparable services;

**'Ofgem'** means the Office of Gas and Electricity Markets;

**'OFT'** means the Office of Fair Trading;

**'Preceding Day'** means the day before the Gas Flow Day;

**'Primary Market'** means the market for the sale by CSL of SBUs, Additional Space and Further Additional Space at Rough;

**'Primary Sales Process'** means the purchase of SBUs, Additional Space and Further Additional Space at Rough in the Primary Market;

**'Rough'** means the offshore gas storage facility in the Rough gas field and Easington;

**'Rough Capacity'** means the overall capacity of Rough, comprising Minimum Rough Capacity, Additional Space and Further Additional Space to store gas at any one time, and Incremental Capacity;

**'SBUs'** means standard bundled units of gas storage at Rough (each comprising 1 kWh/day deliverability, 66.593407 kWh of space, and 0.351648 kWh/day injectability);

**'Secondary Market'** means the market where Rough Capacity is bought and sold subsequent to its sale in the Primary Sales Process;

**'Secretary of State'** means the Secretary of State for Trade and Industry;

**'Shipper'** means a company holding a shipper's licence granted by Ofgem;

**'SSC'** means the Storage Services Contract in use from time to time, a copy of the current contract can be found at Annex 10;

**'Storage Operations'** means the operation of Rough;

**'Storage Year'** is the period from the Gas Day 1 May in any year to (and including) Gas Day 30 April of the following year;

**'STORIT system'** means CSL's web-based information service through which CSL receives customer nominations, allocates capacity, supports trading in the Secondary Market and publishes information on operations at Rough;

**'Trades'** means the buying or selling of gas on the market for gas, related capacity products and related derivatives;

**'Weighted Average Price of Capacity'** means the volume weighted average price for SBUs sold on fixed price for the forthcoming Storage Year, and the volume weighted average price for SBUs sold for the previous Storage Year; and

**'working day(s)'** means a day which is not Saturday, Sunday or any other day on which the Office of Fair Trading is closed for business.

**FOR AND ON BEHALF OF CENTRICA PLC**

.....  
**Name**.....  
**Director**

**Date**.....

.....  
**Name**.....  
**Director/Secretary**

**Date**.....

**FOR AND ON BEHALF OF CENTRICA STORAGE LIMITED**

.....  
**Name**.....  
**Director**

**Date**.....

.....  
**Name**.....  
**Director/Secretary**

**Date**.....

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## ANNEX 1

### PROPOSED CHANGES TO THE SSC CONSULTATION OF RELEVANT PARTIES

#### 1. Consultation Paper

1.1 If CSL proposes any changes to the terms of the SSC, it will prepare a paper which details the proposed changes to the SSC (including a copy of the proposed new legal drafting of the SSC, with modifications identified and the intended date of implementation of the proposed changes specified) and explains the reasons behind the proposed changes (the 'Consultation Paper'). CSL will also:

- (a) send Ofgem a copy of the Consultation Paper; and
- (b) post the Consultation Paper on the CSL website and a statement announcing the consultation and providing details of the consultation process on STORIT.

1.2 The Consultation Paper, issued on the website, and the statement issued on STORIT must indicate when responses to the Consultation Paper must be received by. The period during which responses may be submitted (the 'Consultation Period') shall not be less than one calendar month, unless otherwise agreed with Ofgem, from the latest of the following:

- (a) the date on which the Consultation Paper was sent to Ofgem;
- (b) the date on which the Consultation Paper was posted on the CSL website;
- (c) the date on which a statement announcing the consultation was issued on the STORIT system.

#### 2. Modification and Withdrawal

2.1 Should CSL wish to modify its proposal to change the SSC at any time during or after the Consultation Period, CSL will:

- (a) provide a paper to Ofgem explaining the proposed modifications;
- (b) if, in Ofgem's view, the proposed modifications are material, prepare and issue a new consultation paper (a 'Revised Consultation Paper') in accordance with paragraph 1 above;
- (c) if, in Ofgem's view, the proposed modifications are not material:
  - (i) send Ofgem a copy of the Consultation Paper amended to reflect the modifications; and
  - (ii) post the Consultation Paper amended to reflect the modifications on the CSL website and, if modifications are proposed after the end of the Consultation Period, publish a statement on STORIT announcing the changes.

2.2 It shall be made clear in a Revised Consultation Paper that it supersedes the original Consultation Paper and that it forms part of a new consultation process.

2.3 If CSL wishes to withdraw a modification proposal then it shall notify Ofgem and post a statement on STORIT.

### **3. Application to Ofgem**

3.1 No more than one calendar month after the end of the Consultation Period, CSL shall submit an application (the 'Application') to Ofgem for it to approve the proposed changes to the SSC, together with a further copy of the Consultation Paper (or Revised Consultation Paper, if appropriate) and copies of all responses.

3.2 CSL will furnish to Ofgem such further information as is considered necessary to assess whether or not to approve the proposed changes to the SSC within 5 working days of a written request being received.

### **4. Ofgem Determination**

The proposed modification shall be deemed to have been approved by Ofgem unless CSL have received a veto of the modification from Ofgem (the 'Veto') by the later of one calendar month from the date of delivery of the Application or receipt of a request for further information from Ofgem.

### **5. Post-Ofgem Determination**

5.1 Following approval by Ofgem or in the absence of a Veto, CSL will, within 5 working days:

- (a) post details of Ofgem's decision and a copy of the revised SSC on its website; and
- (b) issue a statement on the STORIT system announcing Ofgem's decision.

5.2 Following a Veto, CSL will, within 5 working days:

- (a) post details of Ofgem's decision on its website; and
- (b) issue a statement on the STORIT system announcing Ofgem's decision.

## ANNEX 2

### AUCTION PROCEDURES

#### AUCTIONS OF OTHERWISE UNSOLD STORAGE CAPACITY AT ROUGH

##### 1. Introduction

- 1.1 CSL must auction all Minimum Rough Capacity and Additional Space at Rough for a Storage Year, which has not been sold (or reserved to Centrica) no less than 30 days before the start of that Storage Year in accordance with the following procedures.
- 1.2 Any auction of Auctioned Capacity at Rough that takes place in accordance with paragraph 1.1 must be without a reserve price but, for the avoidance of doubt, CSL will not be obliged to accept any negative bids.

##### 2. Bid Invitations

- 2.1 CSL will issue an invitation for bids (the 'Bid Invitation') no less than 30 days before the start of the relevant Storage Year. Bid Invitations shall be published by:
  - (a) publication on the STORIT system; and
  - (b) publication on the CSL website.
- 2.2 CSL will inform Ofgem of the number of units of Auctioned Capacity to be auctioned in accordance with paragraph 1.1 no later than 31 March of each year and will publish the information on STORIT and the CSL website.

##### 3. Bidders

- 3.1 Subject to paragraph 3.2 below, each person making a bid ('Bidder') must be party to the SSC and Credit Agreement.
- 3.2 Bidders not already party to the SSC must have returned to CSL by the Auction Closing Date, two signed copies of each of the SSC and the Credit Agreement (signed in each case by authorised signatories of the Bidder). CSL will sign both copies of each of the SSC and the Credit Agreement and return one signed copy of each to the Bidder as soon as possible.
- 3.3 Bidders must give CSL notice in writing prior to the Auction Closing Date if they are associated with any other person who will be submitting bids in respect of the auction. In giving such notice, such bidders must:
  - (a) identify any Related Persons who will be submitting bids in the auction;
  - (b) provide details of:
    - (i) any agreement, arrangement or concerted practice to which the Bidder is a party and which is intended to influence the outcome (including, but not limited to, the prices achieved) of any auction conducted under these procedures; and

- (ii) any actions taken or to be taken in concert with any other Bidder, in relation to any matter related to any auction;
- (c) to undertake to inform CSL if, at any time prior to the auction closing date, any information provided to CSL under (a) and (b) changes. CSL will make any such information available to Ofgem.

#### **4. Bidding**

- 4.1 Bidders may bid for any number of units of Auctioned Capacity.
- 4.2 The terms 'Deliverability', 'Space' and 'Injectability' shall be given the meaning accorded to those terms in the SSC.
- 4.3 Bidders must submit to CSL bids which must arrive with CSL by not later than 12:00 hours on the Auction Closing Date. CSL may decide not to consider bids submitted after this time.
- 4.4 Bids must be submitted in electronic format, whether by post (including a computer disk) or e-mail (clearly endorsed as 'Rough Auction for Storage Year [ ]'). CSL will acknowledge receipt of all bids submitted to it within one working day of receipt. CSL accepts no responsibility in respect of lost bids.
- 4.5 There is no limit on the number of bids which a Bidder may submit provided that the aggregate units of all the bids of an individual bidder does not exceed the Auctioned Capacity. Bidders must submit their bids using the template attached to the Bid Invitation (the 'Application Form').
- 4.6 Each bid submitted must be numbered and indicate:
  - (a) the number of units of Auctioned Capacity which are being applied for; and
  - (b) the unit bid fixed price in pence per unit of Auctioned Capacity (which must be stated to 4 decimal places and be not less than zero pence per unit).
- 4.7 CSL will not be required to consider bids submitted by a Bidder where:
  - (a) the Bidder is not already a signatory of the SSC and Credit Agreement and where CSL is not in receipt of two duly signed copies of each of the SSC and the Credit Agreement from the Bidder by 12:00 hours on the Auction Closing Date.
  - (b) the bids have been submitted other than in accordance with paragraph 4;
  - (c) the bids have been submitted other than by the means specified in this paragraph 4;
  - (d) the bidder is an existing customer who is in credit default, as defined in clause 20.3 of the SSC.

- 4.8 Each Bidder who submits an Application Form shall be deemed to have accepted the terms of the Bid Invitation, and Bidders who are successful will be bound by the terms and conditions of the SSC and the Credit Agreement in respect of the allocated capacity. The unit bid price will be payable by the Bidder to CSL for each unit of Auctioned Capacity allocated.
- 4.9 Each compliant bid submitted shall be a firm and binding unconditional offer on the part of the Bidder to CSL and shall (subject to paragraph 4.12) remain irrevocable from the date on which the Application Form is submitted until the earlier of:
- (a) the rejection of the bid by CSL; or
  - (b) the announcement by CSL of the results of the auction in accordance with paragraph 6.
- 4.10 The Bid Invitation will not constitute an offer on the part of CSL or any of its Affiliates and is not capable of acceptance by any person.
- 4.11 A Bidder may indicate on its Application Form (within the ranges specified on the Application Form) its specified percentages for the purpose of the attribution of the aggregate annual value between Deliverability, Space and Injectability.
- 4.12 A Bidder wishing to withdraw a bid must notify CSL before 12:00 hours on the Auction Closing Date that it wishes CSL to withdraw their bid. Following a withdrawal of a bid, the Bidder may submit further bids in accordance with this paragraph 4.

## **5. Final allocation of auctioned capacity**

- 5.1 As soon as reasonably practicable after 12:00 hours on the Auction Closing Date CSL will review all bids submitted and verify that the bids are in compliance with the provisions of paragraph 4. Bids which are not in compliance will not be considered by CSL. CSL will undertake the steps in this paragraph 5 for the purposes of determining Bidder's final allocations no less than 5 days before the start of the relevant Storage Year.
- 5.2 CSL will rank all compliant bids in order of unit bid price (highest ranking first) and will allocate, sequentially (subject to paragraphs 5.3, 5.4, 5.6) in the order ranked (starting with the highest ranking), compliant bids until either:
- (a) all units of Auctioned Capacity under auction have been allocated to compliant Bidders; or
  - (b) all compliant bids have been allocated.
- 5.3 CSL will calculate the final allocation of units of Auctioned Capacity for each Bidder.
- 5.4 The 'final market clearing price' will be the unit bid price associated with the allocation (in accordance with paragraph 5.2) of the last unit of Auctioned Capacity to a Bidder, or if appropriate, zero.

- 5.5 In the event that one or more bids are submitted at the final market clearing price the bids will be allocated such that in respect of each bid the ratio between the number of units of Auctioned Capacity comprised in each such bid and the number of units of Auctioned Capacity allocated is equal.
- 5.6 Any dispute, disagreement or conflict in applying the foregoing allocation rules must be notified to CSL by the end of the working day following the delivery of the customer's Auction Allocation Statement. Such dispute disagreement or conflict shall be determined in the first instance by CSL, who will make a recommendation to Ofgem no less than 6 days before the start of the relevant Storage Year. Following receipt of the CSL recommendation, Ofgem may request further information. Ofgem will issue a final decision within two working days of the later of the delivery of the CSL recommendation or CSL's response to any request for further information. Failure to issue such a decision will be deemed acceptance of the CSL recommendation.

## **6. Notification**

- 6.1 As soon as reasonably practicable, but no more than 10 working days, following the close of each auction CSL will publish details of the following:
- (a) the weighted average price of all units of Auctioned Capacity allocated;
  - (b) the final market clearing price;
  - (c) the number of Bidders who have been allocated units of Auctioned Capacity; and
  - (d) if any, the number of units of Auctioned Capacity not allocated to Bidders.
- 6.2 Publication of the details set out in paragraphs 6.1(a) to (d) shall be made by:
- (a) publication on the STORIT system; and
  - (b) publication on the CSL website.
- 6.3 No less than 8 days before the start of the relevant Storage Year, CSL will deliver a completed statement (an 'Auction Allocation Statement') to each successful Bidder together with the Registered Capacity Certificates consistent with the Auction Allocation Statement and, where applicable, one signed copy of each of the SSC and the Credit Agreement.
- 6.4 The Auction Allocation Statement will set out the following details:
- (a) for each successful bid, the number of units of Auctioned Capacity allocated, the bid price and the annual charge for the units of Auctioned Capacity;
  - (b) the aggregate number of units of Auctioned Capacity allocated and the aggregate annual charge for all units of Auctioned Capacity;

- (c) the circumstances leading to partial allocation of any bid;
  - (d) the percentage of the aggregate annual value of all SBUs allocated attributable to Deliverability, Space and Injectability.
  - (e) for each of Deliverability, Space and Injectability the aggregate amount of capacity allocated and the unit price consistent with (d) (which will be the Applicable Annual Rate for the purposes of the SSC).
- 6.5 Information made available to CSL by Bidders in connection with these auction procedures and information relating to the conduct and outcome of each auction will be made available to Ofgem on a confidential basis by CSL. Details of bids submitted to CSL will be provided in the format prescribed in Annex 8.

## 7. Payment

- 7.1 In respect of each successful bid, the relevant capacity price will be payable by the Bidder to CSL in accordance with the terms and conditions of the SSC.

## 8. Interpretation

In these procedures:

**'Auctioned Capacity'** shall mean SBUs or Additional Space as applicable and 'unit of Auctioned Capacity' means 1 (one) SBU in the case of SBUs, and 1 (one) kWh in the case of Additional Space.

**'Auction Closing Date'** means the day on which bids must be submitted to CSL, which shall be no less than 10 days before the start of the relevant Storage Year and no less than 20 days after the date on which the Bid Invitation is issued;

**'Credit Agreement'** means a credit agreement between CSL and signatories to the SSC; and

**'Related Persons'** means:

- (a) in relation to the Bidder which is an undertaking within the meaning of Section 259 of the Companies Act 1985 (the 'principal undertaking'), a parent of subsidiary undertaking of the principal undertaking or a subsidiary undertaking of a parent undertaking of the principal undertakings in each case within the meaning of Section 258 of that Act;
- (b) in relation to any person (including such undertaking) a connected person within the meaning of Section 286 of the Taxation of Chargeable Gains Act 1992.

### ANNEX 3

#### LEGAL, FINANCIAL AND PHYSICAL SEPARATION INFORMATION TO BE PROVIDED TO OFT AND OFGEM

Save as agreed by OFT pursuant to paragraph 5.2 of the Undertakings, Centrica and CSL will, on or by 1 December 2003, provide to OFT and Ofgem, evidence which demonstrates that:

- (a) a separate Centrica Storage business unit has been created;
- (b) the separate management reporting structure reporting into the Company Secretary of Centrica has been implemented;
- (c) the boards of CSHL and its subsidiaries (the 'CSHL Group') are comprised of persons not holding any office of employment or directorship in, or provide any services to CSL (save as allowed by paragraphs 5.3(e) and (i) of the Undertakings);
- (d) separate audited statutory annual report and accounts will continue to be filed at Companies House for CSHL Group companies (consolidated group reporting of annual results of the Centrica group of companies will include the CSHL Group companies);
- (e) separate premises for Centrica Storage have been obtained (separate from any other part of Centrica carrying out gas supply, shipping, trading, storage procurement and asset operations); and
- (f) restrictions have been put in place to prevent directors and employees of other members of the Centrica Group (or their agents or Affiliates) having access to the communication or electronic networks and systems or facilities (or parts of those facilities, where relevant) used by CSL (and vice versa).

## **ANNEX 4**

### **PART A – SERVICES PROVIDED BY CENTRICA’S CORPORATE CENTRE**

#### ***LEGAL***

Legal advice and support services provided by a member of Centrica's Corporate Centre Legal Team to CSL.

#### ***REGULATORY***

To the extent that any such advice does not require access by the Regulatory Affairs Corporate Centre function to commercially sensitive information, advice provided by the Regulatory Affairs Corporate Centre function to CSL on matters relating to compliance best practice, compliance with a shippers licence, compliance with these Undertakings, compliance training to all CSL staff (both commercial and operational), and independent advice from a member of the Regulatory Affairs Corporate Centre function (who, for these purposes, must report to CSL management only, but must not be the Director of Regulatory Affairs) to the CSL compliance officer (who, for all purposes, must report to CSL management only save to the extent provided for in Annex 9 Paragraph 4(b)).

For the purposes of this Annex 4, 'commercially sensitive information' has the meaning given in paragraph 6 of these Undertakings.

#### ***COMPANY SECRETARIAL***

Company secretarial services provided to CSHL and its subsidiaries by the Secretariat function, comprising of corporate administration relating to preparation for and administration of Board meetings, filings at Companies House and other administration arising from corporate governance best practice recommendations.

#### ***HUMAN RESOURCES***

Advice or support from the Corporate Centre Human Resources function on the application and administration of policies, procedures and employment terms to the person appointed for that role within CSL.

Advice and support on Human Resources issues specifically related to working within an asset operations environment and working offshore provided by CEMG Asset Operations.

#### ***BUSINESS ASSURANCE***

Advice and support regarding the internal audit activity and the facilitation of the Centrica Group's risk management process provided by the Business Assurance team at the Corporate Centre, including working with external auditors and assisting in the quarterly reporting to Centrica's Audit Committee and annual reporting to the OFT and Ofgem.

## ***TAXATION***

Tax advice and centralised tax administration services provided by the Tax function of the Corporate Centre.

## ***TREASURY***

Services relating to the provision of standard group Treasury services including group cash management, the netting of group cash positions (bank balances) organisation of funding (bank borrowing) and investments and managing interest rate and foreign currency exchange risk provided by the Treasury function.

## ***FINANCE AND ACCOUNTING***

Support and advice provided by the Corporate Centre Finance function relating to finance and accounting in order to enable consolidation of group accounts and for the provision of advice, support and guidance on the application of accounting principles.

## ***INSURANCE***

Services relating to Centrica and CSL's insurance requirements (comprising cover for the assets and Directors and Officers liability insurance) provided by an insurance department based at Corporate Centre.

## ***INFORMATION SYSTEMS***

Support to CSL, provided by Centrica's Group Information Systems function, in the following areas; setting of Information Systems strategy, security standards, provision of infrastructure services (including but not limited to voice networks and security), hardware maintenance and system development consultancy and proactive monitoring of systems.

## ***INVESTOR RELATIONS***

Services provided by Centrica's Corporate Centre Investor Relations team, including communicating with and handling the investment and analyst community on behalf of the Centrica Group and all businesses within the Centrica Group.

## ***CORPORATE AFFAIRS***

Services relating to the handling of the media (including media communications), the lobbying of ministers or government departments on behalf of the Centrica Group as a whole, Community support and internal communications provided by Corporate Affairs team at Corporate Centre.

## ***PROCUREMENT***

Procurement of items other than specific procurement of products or services relating to the Storage Operations of CSL will be handled by the Group Procurement function.

## **PART B – FINANCIAL RISK AND MANAGEMENT SERVICES**

Services provided by the Centrica Group Risk Team, whose role is to ensure that the overall group risk profile is understood and monitored and which has a duty to look at all the assets and activities of the Centrica Group (in accordance with best practice risk management corporate governance guidelines). The Corporate Risk team reports into the Centrica Financial Risk Management Committee (FRMC), a sub-committee of which has been formed to deal with CSL storage issues.

Specialist advice and support, provided by Group Risk, on calculating and managing the price risk associated with CSL revenues, setting risk and credit policies and monitoring and managing credit exposures.

## **PART C - PROPERTY AND FACILITIES MANAGEMENT**

Services relating to the management of property and the provision of facilities provided by the Group Property and Facilities Corporate Centre functions, including the search and negotiation of property leases, liaising and managing relationships with landlords and provision of facilities such as security, catering, cleaning, maintenance and provision of utilities.

## **PART D - HEALTH, SAFETY AND ENVIRONMENT (INCLUDING OCCUPATIONAL HEALTH)**

Regular, independent and impartial HS&E reports and advice to CSL about HS&E policy, performance and strategic direction provided by Centrica's Director of Health, Safety and Environment (who, in accordance with HSC guidance, is a director of all Centrica's companies engaged in asset operations).

Strategic advice and consultancy support on environmental matters provided by Centrica's Head of Environment.

Services relating to occupational health arrangements to meet the health assessment and surveillance needs of workers provided by Centrica's Head of Occupational Health/Chief Occupational Physician.

## **PART E - ASSET MANAGEMENT SUPPORT AND ADVICE SERVICES**

The following areas of support and advice will be provided by the Asset Management team in the Centrica Energy Management Group;

- ***Health Safety Environment and Quality*** - Advice on maintaining best in practice health, safety, the environment and quality policies consistently across Centrica-owned assets by ensuring adherence to legislation and continuous improvement through upkeep of standards, procedures and improvement campaigns.
- ***Asset Integrity and Performance*** - Sharing of best practice on business processes, systems for monitoring and reporting business performance, HR management in an asset operations environment and management of major projects.
- ***Reservoir and process plant modeling and development*** - Advice from a pool of expertise in reservoir engineering, geology and process engineering to

predict capability of facilities and identify opportunities for optimisation and enhancement.

- ***Emergency Response*** - Advice on procedures and mobilisation of management and technical support from within Cemg Asset Operations.
- ***UKOOA Participation*** - Services relating to the CSL and Centrica's role in UKOOA provided by CEMG Asset Operations.

## ANNEX 5

Centrica Group companies currently involved in gas supply, shipping, trading, storage procurement and asset operations:

Accord Energy Limited  
British Gas Power Generation Limited  
British Gas Trading Limited  
Centrica Barry Limited  
Centrica KL Limited  
Centrica PB Limited  
Centrica RPS Limited  
Centrica Resources Limited  
Centrica Resources (Armada) Limited  
Electricity Direct (UK) Limited  
Humber Power Limited (60% owned by Centrica)  
Humberland Limited  
Hydrocarbon Resources Limited  
Regional Power Generators Limited

## ANNEX 6

### CODE OF CONDUCT FOR CENTRICA STAFF

#### Separation of Centrica Storage from the rest of the Centrica Group

***Effective from 1 December 2003 and supersedes all previous Codes relating to Centrica Storage***

#### Introduction

Centrica acquired the Rough gas storage facility on 14 November 2002. The acquisition was subject to a Competition Commission (CC) inquiry to consider the ownership of the storage business by Centrica plc in view of Centrica's wider position in the gas market. Following the inquiry, Centrica has been allowed to retain ownership of Rough subject to commitments given by Centrica and Centrica Storage to the Secretary of State to behave and operate in certain ways.

Compliance with this Code of Conduct is one of the conditions of Centrica retaining ownership of Rough.

As a result of the acquisition, Centrica is both the owner/operator and a user of Rough. A key outcome of the CC inquiry is that a clear distinction must be maintained between these two roles. The Centrica Storage business is therefore located and operated separately and independently from other businesses within the Centrica group and in particular from Centrica's gas supply, shipping, trading, storage procurement or asset operations activities (CEMG, British Gas, Centrica Business Services and Accord Energy). It is essential that Centrica does not obtain any unfair commercial advantage as a result of owning and operating the Rough facility (in particular by certain information passing from Centrica Storage directly or indirectly to those other parts of Centrica).

To this end, the Code of Conduct for Centrica Staff sets out three key compliance rules:

- ***Prohibition on Centrica Storage Staff disclosing Commercially Sensitive Information to the rest of the Centrica Group;***
- ***Prohibition on Centrica Supply Staff soliciting or making use of Commercially Sensitive Information; and***
- ***Prohibition on discrimination in the provision of Centrica Storage Services.***

These three key compliance rules are set out in more detail below.

#### 1. PROHIBITION ON CENTRICA STORAGE STAFF DISCLOSING COMMERCIALY SENSITIVE INFORMATION

## ***Background***

Information received by Centrica Storage in its capacity as operator of Rough and Easington from gas shippers and its customers could have commercial significance for other parts of Centrica involved in gas supply, shipping, trading, storage and asset operations activities. Most of that information will already be protected from disclosure by the duty of confidentiality contained in the SSC between Centrica Storage and its customers.

In addition to this customer-specific information relating to the provision of Centrica Storage Services, information relating to the operation and running of Rough or Easington may also have commercial significance.

Finally, there may be occasions where Centrica Storage is asked to provide information to the OFT or to Ofgem about another part of Centrica (because OFT/Ofgem are carrying out an investigation into that other part of Centrica) and Centrica Storage must not, directly or indirectly, pass on to other parts of Centrica any information about that investigation, its existence or nature.

It is therefore essential that information of this nature, Commercially Sensitive Information, is not disclosed to other gas shippers or traders and in particular is not disclosed, directly or indirectly, to Centrica Supply (unless, where it is operational information, it is disclosed to the market simultaneously). This includes ensuring that such Commercially Sensitive Information is not passed to Centrica Supply via the new Easington (Ormen Lange) facilities.

It is therefore necessary to place a number of prohibitions on the direct and indirect disclosure of Commercially Sensitive Information by Centrica Storage to Centrica Supply (see definitions).

### ***Centrica Storage Staff***

Centrica Storage Staff must not disclose Commercially Sensitive Information to Centrica Supply Staff.

All storage customers receive operational information on aggregate (gross) nominations for injections into and withdrawals from Rough. This information is also to be made available to any person accessing STORIT. Centrica Storage Staff must ensure that such information is released to Centrica Supply and other market participants simultaneously, and not otherwise released in any way that may give Centrica Supply any unfair commercial advantage.

### ***Designated Persons***

As an exception to the general prohibition on disclosure of Commercially Sensitive Information, Centrica Storage Staff can disclose such information to Designated Persons but only for the purpose of seeking advice or support to Centrica Storage.

To the extent that Designated Persons hold Commercially Sensitive Information, they are bound by the terms of this Code of Conduct in relation to that information and therefore must not disclose that information to Centrica Supply Staff (although they can disclose that information to other Designated Persons, provided disclosure is made with regard to the provision of advice or support to Centrica Storage by such

other Designated Persons). In these circumstances, Designated Persons are in the same position as Centrica Storage Staff.

## **2. PROHIBITION ON CENTRICA SUPPLY STAFF SOLICITING OR MAKING USE OF COMMERCIALY SENSITIVE INFORMATION**

Centrica Supply Staff must not solicit or otherwise try to obtain Commercially Sensitive Information from Centrica Storage Staff (or from Designated Persons). If Centrica Supply Staff do receive or become aware of Commercially Sensitive Information relating to Centrica Storage Services they must notify the Centrica Compliance Manager immediately and must not use that information in any way that may be considered to give Centrica Supply any unfair commercial advantage.

## **3. PROHIBITION ON DISCRIMINATION IN THE PROVISION OF CENTRICA STORAGE SERVICES**

Centrica Storage Staff must not unduly discriminate between requests for Centrica Storage Services or, in any way, give preferential treatment to Centrica Supply such that Centrica Supply could obtain any unfair commercial advantage.

In providing operational information concerning Centrica Storage Services or in the provision of information on future storage developments or plans, Centrica Storage Staff must ensure that all customers are treated equally. If any such information is to be published outside Centrica Storage, it should be disclosed to all market participants simultaneously by being published on STORIT and/or the Centrica Storage website.

In addition, Centrica Supply Staff must not solicit or otherwise try to obtain preferential treatment from Centrica Storage.

### **INTERPRETATION**

**“CEMG”** – the Centrica Energy Management Group;

**“Centrica”** - Centrica plc and its subsidiaries;

**“Centrica Staff”** – all Centrica staff whether under a contract of employment (whether full-time or part-time, permanent or temporary) or a contract for services;

**“Centrica Storage”** – the business unit dedicated to the provision of Centrica Storage Services;

**“Centrica Storage Compliance Manager”** – a senior member of Centrica Storage Staff from time to time appointed by the Managing Director of Centrica Storage;

**“Centrica Storage Services”** – all commercial services provided to storage customers related to offers for sale and the sale of storage capacity and customer nominations for the injection and withdrawal of gas at Rough;

**“Centrica Storage Staff”** – Centrica Staff engaged in Centrica Storage;

**“Centrica Supply”** – any Centrica business carrying on gas supply, shipping, trading, storage procurement or asset operations activities (other than Centrica Storage) including but not limited to CEMG;

**“Centrica Supply Compliance Manager”** – a senior member of Centrica Supply Staff appointed by the Director of Regulatory Affairs;

**“Centrica Supply Staff”** – Centrica Staff engaged in Centrica Supply;

**“Commercially Sensitive Information”** – means the following:

**“Customer-specific information”**:

- Information which is specific to an individual storage or processing customer (relating to a customer’s booking of capacity at Rough and/or its nominations for the injection or the withdrawal of gas at Rough or a customer’s use of Easington);

**“Operational information”**:

- Information relating to the operation of the Rough or Easington facilities which includes information relating to storage capacity, gas-in-storage, gross nominations and the day-to-day operation and maintenance of Rough and Easington;

**“OFT/Ofgem Requests for Information”**:

- Information known to Centrica Storage as a result of a request from OFT or Ofgem in relation to an investigation by OFT or Ofgem of Centrica (including the nature and existence of any such investigation).

Information will not be Commercially Sensitive Information:

- where the information is Customer-specific information, and it is either disclosed back to the supplier of that information or is disclosed in accordance with their consent;
- if it is disclosed only to a Designated Person to enable that person to provide Centrica Storage with advice or support; or
- if it is otherwise publicly available or, if Operational information, is disclosed simultaneously to all market participants.

**“Designated Persons”** – any persons within Shared Services providing services to Centrica Storage. An up to date list of Designated Persons shall be held by the Compliance Managers;

**“Easington”** – the onshore terminal which processes gas from Rough;

**“Rough”** – the Rough gas storage facility and Easington;

**“Shared Services”** – shall mean services provided to Centrica Storage by Legal, Regulatory Affairs, Secretariat, HR, Business Assurance, Taxation, Treasury, Insurance, Investor Relations, Corporate Affairs, IS, Procurement, Risk Management, Property and Facilities Management, Health, Safety and Environment, Occupational Health provided by Centrica’s Corporate Centre and support and advice in relation to Asset Management provided by CEMG;

**“SSC”** – Storage Services Contract; and

**“STORIT”** – shall mean Centrica Storage’s web-based information service.

## **Compliance**

Any person who requires advice or guidance on the interpretation and operation of this Code can consult their line manager, the Centrica Storage Compliance Manager (if they work within Centrica Storage) or the Centrica Compliance Manager (if they work within Centrica Supply) either directly or through their line manager.

Any member of Centrica Staff who suspects any breach of the Code, whether intentional or otherwise, must immediately report the matter to the relevant Compliance Manager either directly or through their line manager. The Compliance Manager will then investigate the matter to determine whether a breach has occurred and, if so, what remedial action should be taken. In the event of any challenge to the Compliance Manager’s decision on any interpretation of the Code, the General Counsel and Company Secretary of Centrica plc will have the final decision.

## **GENERAL DUTY OF CONFIDENTIALITY**

All Centrica Staff are reminded of their obligations with regard to confidential information held in the course of their employment and/or any other specific confidentiality agreement.

Furthermore, the SSC governing commercial relations between Centrica Storage and individual storage customers refers to “protected information”. This Code expands on the general duty of confidentiality and that applying under the SSC.

## **Disciplinary Action**

A breach of this Code constitutes misconduct on the part of the member of staff concerned and will be dealt with under disciplinary procedures (and may lead to dismissal).

Grant Dawson  
General Counsel and Company Secretary, Centrica plc  
December 2003

## ANNEX 7

### VERIFICATION OF ADDITIONAL SPACE AND FURTHER ADDITIONAL SPACE

Pursuant to paragraph 9 of the Undertakings, CSL will (and Centrica will ensure that CSL will) by 29 February 2004 and by 31 January in each subsequent year, provide to Ofgem a report on the previous Injection Season (the 'Injection Season Report').

1. The Injection Season Report will include, without limitation:
  - (a) details of when the two compressors providing injection capacity were reduced to one (the 'final single compressor');
  - (b) details of when the final single compressor approached recycle;
  - (c) details of the injection operation from the time at which the final single compressor approached recycle until the highest NRV for that injection season was reached;
  - (d) details of the injection operation from the time at which the highest NRV for that injection season was reached until the end of the injection season;
  - (e) (without prejudice to paragraph 10 of the Undertakings) a list of all dates and volumes of the Additional Space and Further Additional Space sold to third parties or reserved to Centrica in accordance with paragraph 3 of the Undertakings; and
  - (f) (if the final single compressor fails to reach recycle) such information on the Storage Operations at Rough as is necessary to verify the level of Additional Space and Further Additional Space.
2. For the purposes of paragraphs 1(c) and (d), the details to be provided include:
  - (a) pressure data;
  - (b) flow data; and
  - (c) compression specific dataas sourced from the platform control and supervision systems at Rough and Easington.
3. Data provided under paragraphs 1 and 2 must, in CSL's reasonable opinion:
  - (a) be sufficient to enable Ofgem to verify that the injected volume had, where applicable, been physically limited by the facilities;
  - (b) demonstrate that CSL at all times acting as a reasonable and prudent operator sought to provide the maximum space possible within the Rough reservoir.

## ANNEX 8

### INDIVIDUAL CAPACITY SALES – INFORMATION TO BE PROVIDED TO OFT AND OFGEM

#### SBU's

| Customer Name | Form of Allocation (i.e. Bilateral Negotiation or Auction) | Date and Time of the Formal* Offer / Bid | Price / Indexation Terms | No. of SBU's | Duration of Rights | Start Date | Formal Offer / Bid Accepted / Rejected | Date of Sale |
|---------------|--|--|--------------------------|--------------|--------------------|------------|--|--------------|
|               |  |  |                          |              |                    |            |  |              |

#### Additional Space

| Customer Name | Form of Allocation (i.e. Bilateral Negotiation or Auction) | Date and Time of the Formal Offer* / Bid | Price / Indexation Terms | GWh | Duration of Rights | Start Date | Formal Offer / Bid Accepted / Rejected | Date of Sale |
|---------------|--|--|--------------------------|-----|--------------------|------------|--|--------------|
|               |  |  |                          |     |                    |            |  |              |

**Further Additional Space**

| Customer Name | Form of Allocation (i.e. Bilateral Negotiation or Auction) | Date and Time of the Formal Offer* / Bid | Price / Indexation Terms | GWh | Duration of Rights | Start Date | Formal Offer / Bid Accepted / Rejected | Date of Sale |
|---------------|--|--|--------------------------|-----|--------------------|------------|--|--------------|
|               |  |  |                          |     |                    |            |  |              |

\* For the avoidance of doubt, a formal offer shall be one which is required to be confirmed in writing.

## ANNEX 9

### CENTRICA'S AUDIT COMMITTEE

Pursuant to paragraph 17 of the Undertakings, Centrica's Audit Committee must provide an annual report on compliance with the Undertakings in their entirety (the 'Report'). In preparing such a Report, Centrica's Audit Committee will follow the principles set out below:

1. The Report should include a detailed and accurate and complete account of:
  - (a) steps taken during the year to ensure compliance with the Undertakings;
  - (b) instances where a breach or potential breach of the Undertakings has been identified, and any steps taken as a consequence;
  - (c) how the Report was compiled;
  - (d) (if external auditors are used) the relationship between the external auditors and any member of the Centrica Group;
  - (e) (if internal auditors or compliance officers are used) the position of each internal auditor or compliance officer within the Centrica Group;
  - (f) any reports prepared for Centrica's Audit Committee for the purposes of preparing the Report; and
  - (g) the names of the members of Centrica's Audit Committee and any changes to its composition during the relevant period of review.
2. Centrica's Audit Committee must maintain full responsibility for the Report, its compilation, the accuracy and the completeness of its contents.
3. Individuals within external auditors employed to review compliance with the Undertakings must, when conducting a review of, or preparing reports on, compliance with the Undertakings:
  - (a) act solely on the instructions of Centrica's Audit Committee (save that instructions relating to the day to day activities of external auditors may be given by the Business Assurance team of the Corporate Centre on behalf of Centrica's Audit Committee);
  - (b) report directly to Centrica's Audit Committee;
  - (c) not be otherwise be employed by Centrica or any other member of the Centrica Group, save as otherwise agreed by the OFT; and
  - (d) are subject to an obligation not to disclose, directly or indirectly, any commercially sensitive information (as defined in paragraph 6 of the Undertakings) or any information made known to them as a result of their review of compliance with the Undertakings to any other individual within the external auditors not acting on the instructions of Centrica's Audit Committee, nor to any other member of the Centrica Group or the agents or Affiliates of any such member.

4. Any internal auditors or compliance officers employed to review compliance with the Undertakings must, when conducting a review of, or preparing reports on, compliance with the Undertakings on behalf of Centrica's Audit Committee:
  - (a) act solely on the instructions of Centrica's Audit Committee; and
  - (b) report directly to Centrica's Audit Committee.
5. The Report as submitted to OFT and Ofgem must be the same as that submitted by Centrica's Audit Committee to the Centrica Board, although the Board may review the Report and provide its own additional report thereon to OFT and Ofgem.
6. Centrica's Audit Committee will keep under review the scope of any internal or external audit, audit plans and relevant processes, and the effectiveness of the review of compliance.
7. The first Report to be submitted to OFT and Ofgem, dealing with the period from the effective date of the Undertakings to 31 August 2004, should be submitted no later than 30 November 2004. All subsequent Reports should be submitted at intervals of no more than twelve months, and in any event no more than three months after the end of the period under review.

**ANNEX 10**

**SSC**

ATTACHED