Winter Outlook 06/07
“Preparing to respond to potential tight supply conditions”

24 May 2006

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E.ON's UK position

- One of UK's the largest gas consumers.
- The UK's largest non-nuclear power station operator.
- By volume second largest gas supplier serving domestic to large I&C customers.
- E.ON Ruhrgas has a major stakeholding in the UK-Continent Interconnector.

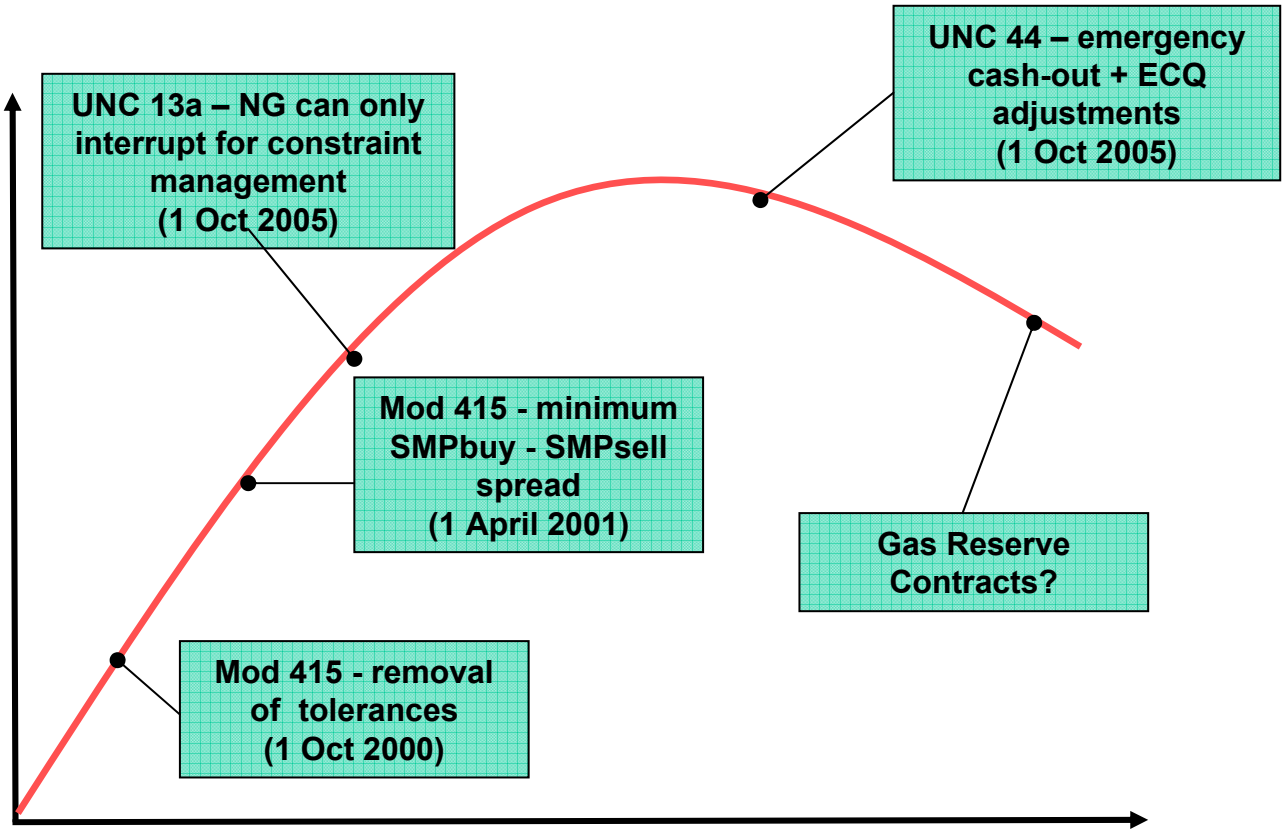
Committed to coordinate our efforts to assist Government/Regulatory Authorities in ensuring continuity of gas and electricity supplies

What to do or not to do for Winter 06/07?

- Incentives on market participants.
- Demand side response.
- Gas Reserve Contracts.
- Market Information.

Incentives on market participants

Shipper Incentives to avoid an Emergency



Demand side contracts

- Commercial imperative to facilitate demand side contracts.
- Suppliers such as E.ON active in offering innovative commercial and emergency ‘sell-back’ products
- New contracts used during GBA on 13 March 2006.
- Limited take up during 2005 –need to create greater awareness of
  - risks customers face in the current market
  - value of these products in mitigating that risk
- E.ON is working with our B2B customers to gain greater insight and to see what arrangements will work best.

I &C demand side response

- Demand side contract represented a worthy but relatively small 5 to 7 mcm at the peak during winter 05/06.
- Only a limited number of large customers are interested in demand side products
  - Typically those with a back-up fuel alternative.
  - But majority unwilling to cease production for a payment.
- Sell back products with price and volume levels set by customer likely to be the most effective going forward.

Non-generator demand side response is likely to be a useful but limited source of gas flexibility
(More response could be achieved under extreme conditions)

Customer dilemma

OR

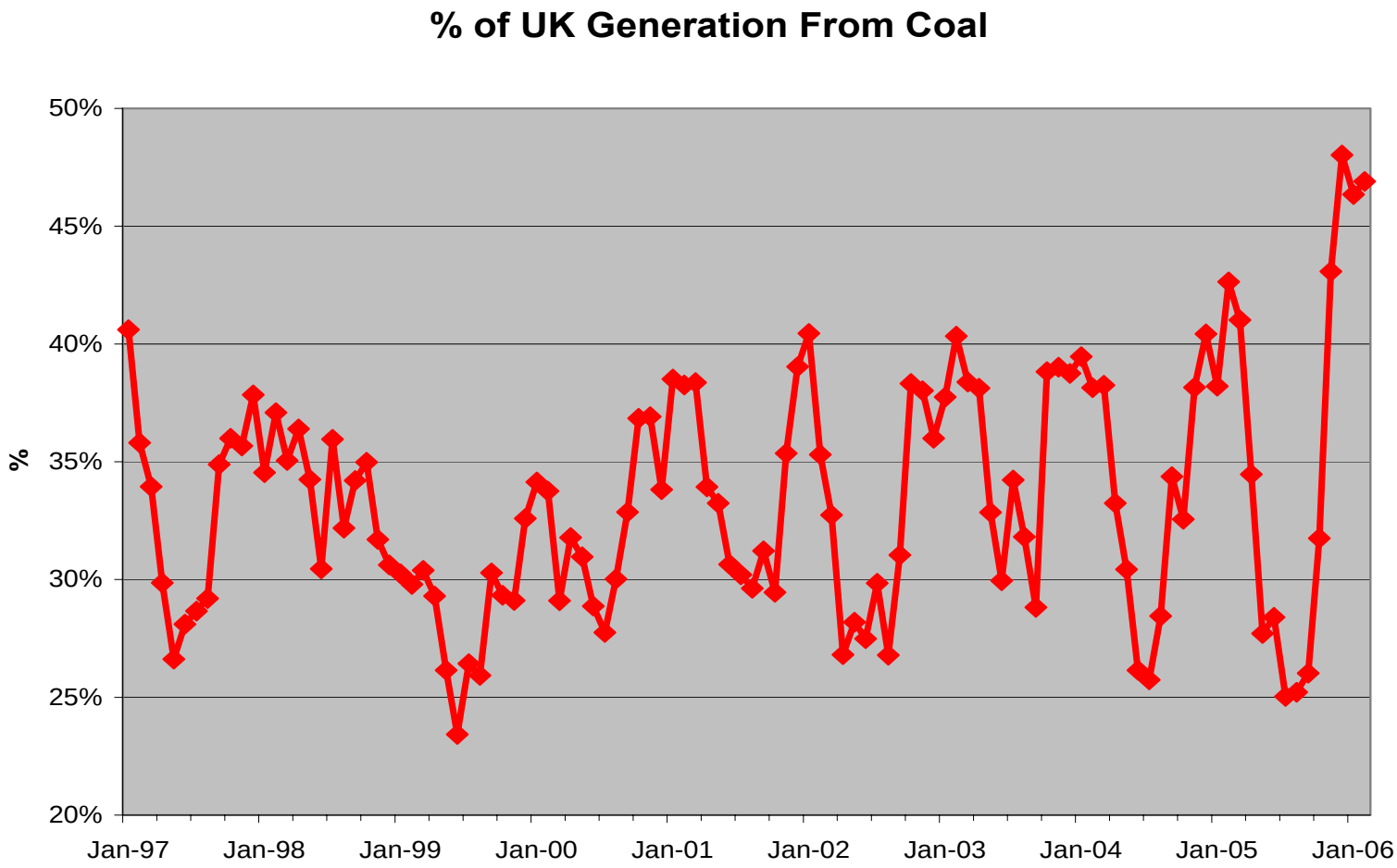
Shut down +
Cash now

Chance it, & get nothing
in an emergency

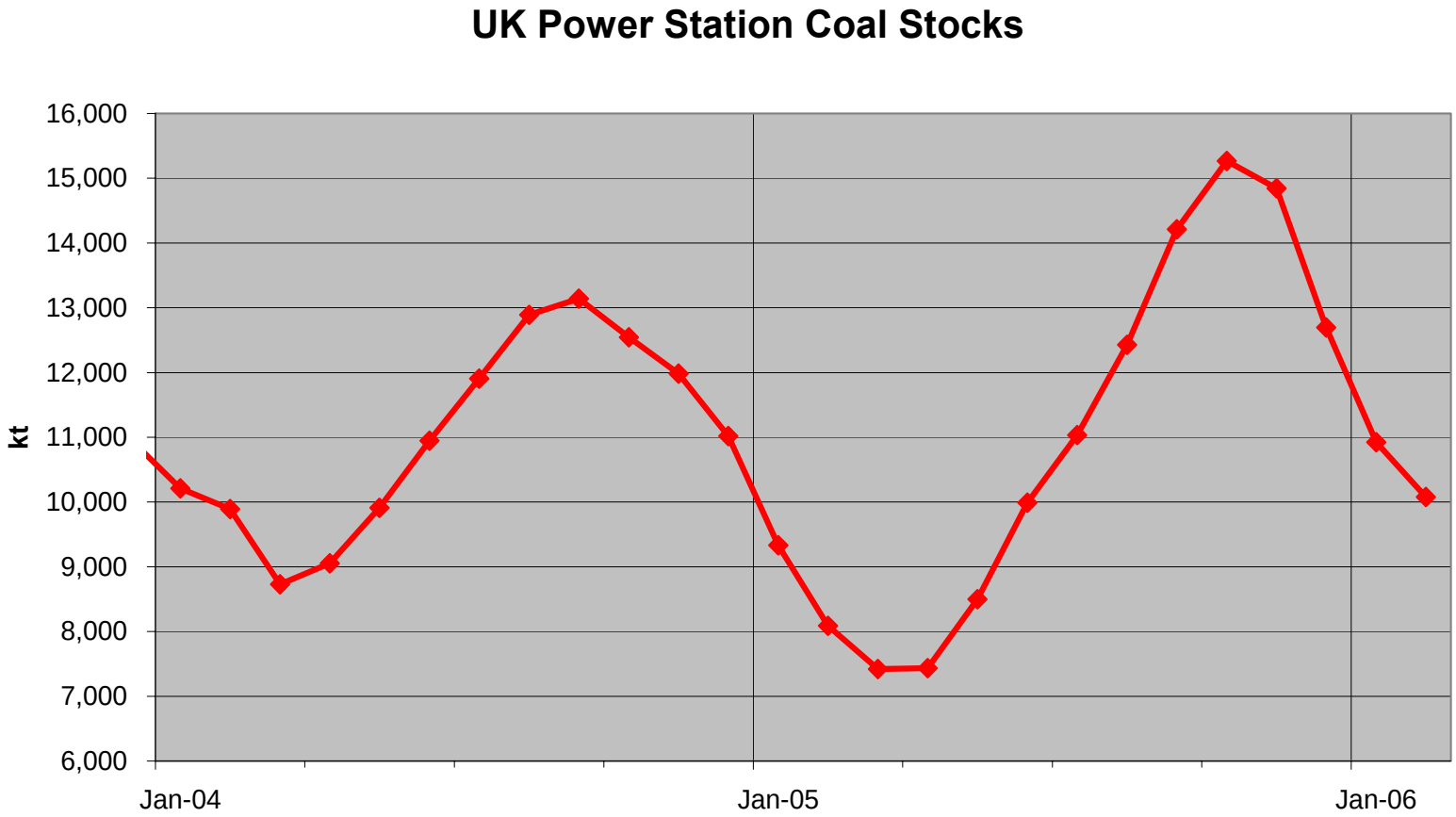
Further generator demand side response

- Exceptional during 2005/06 yielding up to 40 mcm of gas during peak gas demand periods. Scope to increase this to 50 mcm?
- Potential during peak electricity demand day of 25 to 30 mcm but limited by fuel switching capability. Nuclear availability is key to creating more ‘headroom’.
- Some 35 mcm may still be needed for gas generation on peak electricity demand day.
- More fuel switching throughout winter (Oct to Mar) could yield an extra 1 bcm of gas to help preserve storage stocks,
- Relaxation of environmental constraints could offer significantly more fuel switching opportunities – decisions required now to make any difference.

Coal stations met the challenge last winter



Preparing to meet the challenge for Winter 06/07?



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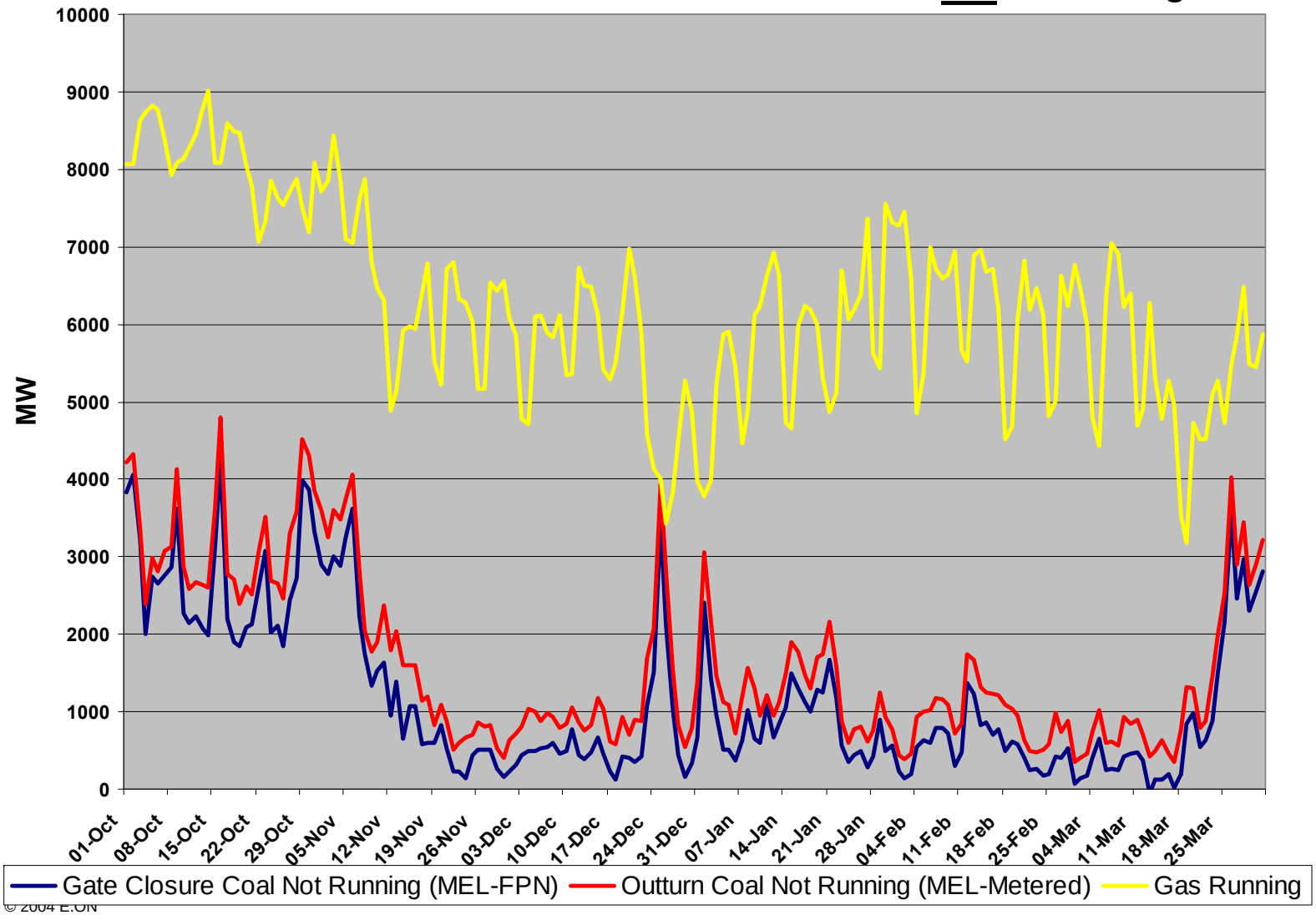
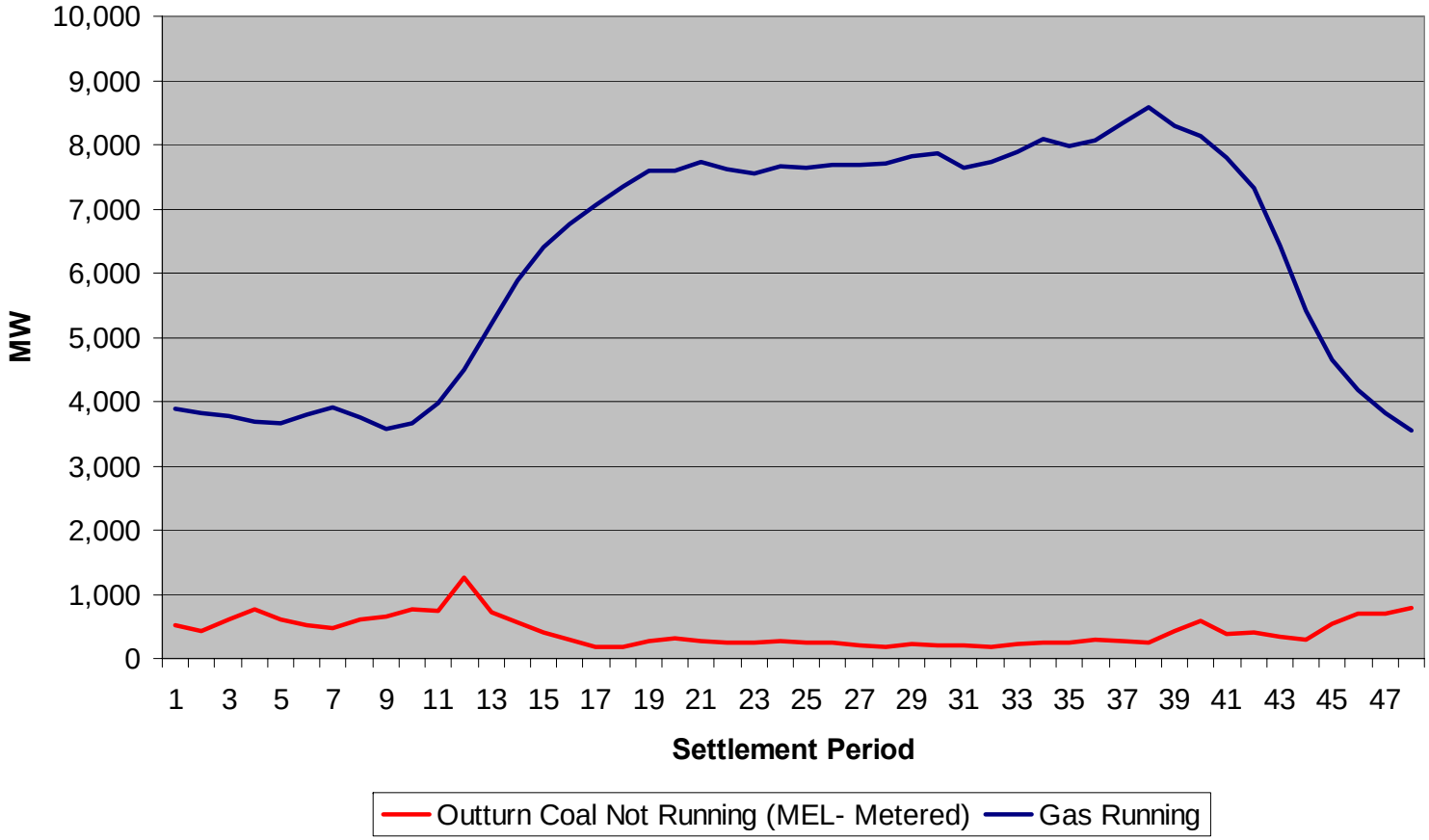
Ave Gas Generation and Available Coal Plant Not Generating



Gas Generation and Available Coal Plant Not Generating
13/03/06



Helping preserve storage stocks – potential fuel switching capability

Generation Type	Additional potential gas 'release'
Coal	0.7 bcm
Oil	0.3 bcm

More if nuclear performs well

Based on working within existing environment and operational constraints

Potential additional 1 bcm demand side response

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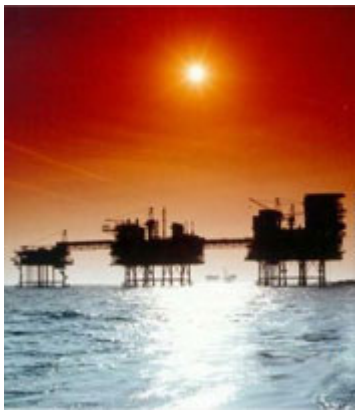


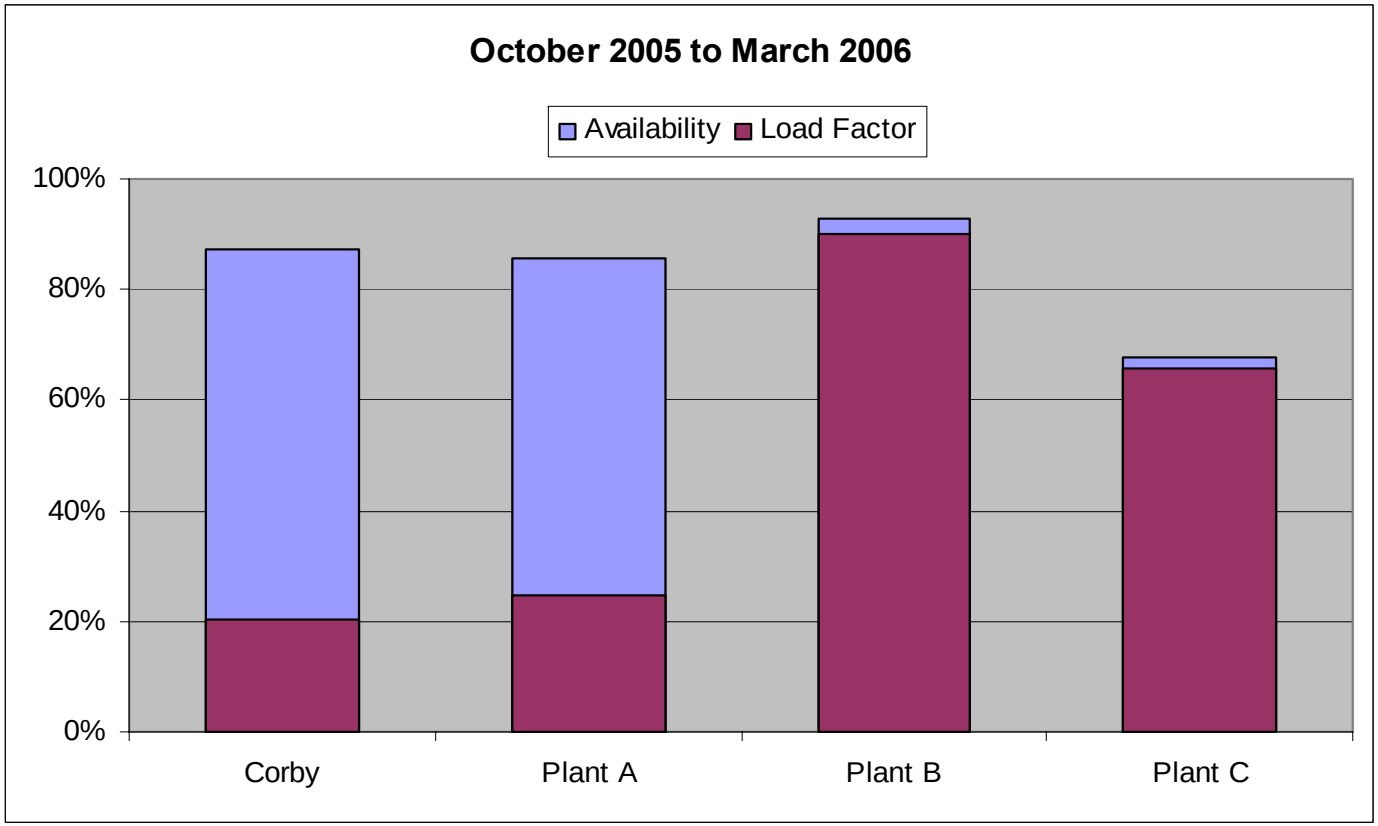
1/3 Rough Space

(On top of the 2½ bcm already provided by CCGTs)

Factors limiting generators offering demand side response

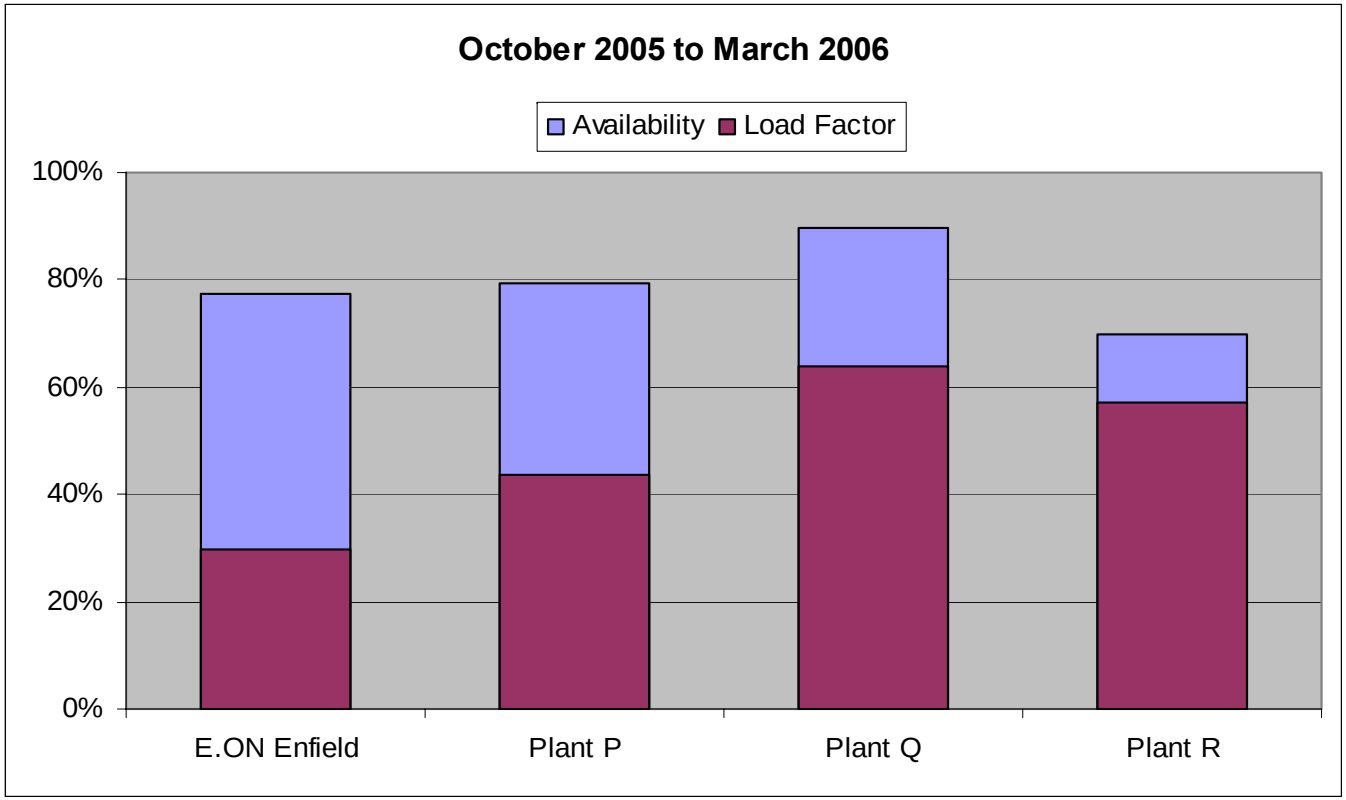
- Technical flexibility of plant
- Other technical constraints – e.g. non NTS spec. gas that cannot be diverted to NTS.
- Contractual constraints.
- Trading strategy – offering plant into BM rather than offering into the forward and spot markets.
- As a result of P194 risk adverse CCGT operators may be more likely to run through the night.

Example 1 – comparison of demand side response for similar plant. Winter 05/06



“Two similar units operating flexibly, two inflexibly”

Example 2 – comparison of demand side response for similar plant. Winter 05/06



"And again for another CCGT type"

Gas Reserve Contracts

- Dilutes shippers primary responsibility for energy balancing (NG should remain a residual player).
- As such it undermines shippers focus on demand side response.
- NG taking significant forward positions will distort the market. FSA implications for NG.
- ‘Paper’ contracts cannot guarantee to preserve stocks of gas in store.
- It will be prohibitively expensive – costs ultimately passed through to customers.
- Ultimately storage monitors protect safety of system.

Market Information – energywatch mod to disclosure 'real time' terminal delivery flow data

- Supported by E.ON UK
- Will ultimately help improve the efficiency of the market and ability of market participants to respond appropriately.
- Danger that initially participants could over-react to information on changes to flows.

Is October the best time to be implementing this proposal?

Actions/initiatives ahead of winter 2006/07

- Concentrate on generator demand side response and plant availability to maximise fuel switching ‘headroom’.
- Consider relaxation of emission constraints.
- Focus efforts on offering demand side contracts to large users especially sell back products.
- Bring forward implementation of energywatch mod or delay to 1 April 2007
- NO to Gas Reserve Contracts.

Conclusions

The market should be allowed to work.

Avoid meddling with market rules

Existing market arrangements* offer the best means of maintaining continuity of supply during Winter 06/07

***Subject to scope of activities being limited by legal and operational Constraints.**