

PROPOSED ACQUISITION BY DYNEGY EUROPE LIMITED OF BG STORAGE LIMITED

UNDERTAKINGS GIVEN BY DYNEGY EUROPE LIMITED TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY PURSUANT TO SECTION 75G(1) OF THE FAIR TRADING ACT 1973

Introduction

Whereas:

1. (a) on 16th July 2001, Dynegy Europe Limited agreed to acquire the entire issued share capital of BG Storage Limited (which is to be renamed Dynegy Storage Limited) from BG Energy Holdings Limited ("BG") (the "acquisition");
 - (b) it appears to the Secretary of State that as a consequence there is a merger situation qualifying for investigation ("merger");
 - (c) the Secretary of State has the power to make a merger reference to the Competition Commission under section 64(1) of the Fair Trading Act 1973 ("the Act");
 - (d) the Director General of Fair Trading (the "Director") has made a recommendation to the Secretary of State that, in the absence of appropriate undertakings, such a reference should be made and has given advice to the Secretary of State specifying the particular effects adverse to the public interest which in his opinion the merger situation qualifying for investigation may have or might be expected to have;
 - (e) the Secretary of State, instead of referring the merger under section 75 of the Act, may under section 75G of the Act accept undertakings which she considers appropriate to remedy or prevent the effects of the merger adverse to the public interest specified in the Director's advice; and
 - (f) the Secretary of State considers the undertakings given below by Dynegy appropriate to remedy or prevent the effects adverse to the public interest specified in the advice given by the Director.

Now therefore with effect from the completion of the acquisition, Dynegy Europe Limited, as the owner of Dynegy Storage Limited ("Dynegy") which in turn owns and operates the Rough and Hornsea gas storage facilities, gives the following undertakings to the Secretary of State in the form set out below pursuant to section 75G of the Act:

Interpretation

2. In these undertakings unless the context otherwise requires:

"affiliate" of any entity means any holding company or subsidiary company of that entity or any company which is a subsidiary company of any holding company of that entity and the expressions "holding company" and "subsidiary" shall have the meanings respectively given to them by section 736 of the Companies Act 1985.

“auction procedures” means the document to be drawn up by Dynegy pursuant to paragraph 7 as modified from time to time.

“firm rights” means rights to have gas injected into storage, to keep gas in storage or to have gas delivered from storage, each of which rights shall be exercisable in priority to any interruptible right.

“future operations statement” means the statement to be prepared by Dynegy pursuant to paragraph 8.

“Hornsea Facility” means the gas storage facility at Hornsea in Yorkshire as at the date of these undertakings.

“maximum physical capacity” means in respect of each of the Rough Facility and the Hornsea Facility the maximum physical capacity for the injection of gas, the storage of gas and the delivery of gas which can be safely and economically provided at each facility at the date of these undertakings and which is understood to be not less than the capacities set out in the following table:

| | Rough Facility | Hornsea Facility |
|----------------|-----------------------|-------------------------|
| Injectability | 160 GWh/day | 21.6 GWh/day |
| Storage Space | 30,300 GWh | 3,500 GWh |
| Deliverability | 455 GWh/day | 195 GWh/day |

“Rough Facility” means the offshore gas storage facility in the Rough gas field as at the date of these undertakings.

“storage business” means the activities from time to time of Dynegy in the administration, maintenance, and operation of, and sale of physical storage injectability, space and deliverability in the Rough and Hornsea facilities.

“storage services contracts” means the documents to be drawn up by Dynegy pursuant to paragraph 10 as modified from time to time.

“Storage Year” means each of the 12-month periods starting on 1 May 2002 and 2003 and “2002 and 2003 Storage Years” shall mean both of such 12-month periods.

“term of rights” means the period of time in respect of which firm rights to capacity are to be offered for sale pursuant to these undertakings.

Making Storage Capacity Available

3. Dynegy shall ensure that the maximum physical capacity of the facilities is made available to the market on non-discriminatory terms.
4. In respect of each Storage Year, Dynegy may, subject to paragraph 3 above, sell by any means (including without limitation auctions, tenders, or bilateral negotiations) firm rights to have gas injected into storage, to keep gas in storage and to withdraw gas from storage in each of the Rough Facility and the Hornsea Facility provided that it does so in the following proportions or any other proportions agreed between the Director and Dynegy:

| | Deliverability (kWh/Day) | Storage Space (kWh) | Injectability (kWh/day) |
|------------------|-------------------------------------|--------------------------------|------------------------------------|
| Hornsea Facility | 1 | 17.948718 | 0.110769 |
| Rough Facility | 1 | 66.593407 | 0.351648 |

5. Dynegy shall ensure that in each Storage Year a minimum of 20% of the maximum physical capacity of the Rough facility and 20% of the maximum physical capacity of the Hornsea facility are made available for a term of rights of one year, to the extent not sold for that Storage Year for such a term of rights.
6. In respect of each Storage Year, Dynegy shall in accordance with the process set out below offer for sale by auction at least 30 days before the start of each Storage Year firm rights to any proportion which then remains unsold of the maximum physical capacity of the Hornsea Facility and of the maximum physical capacity of the Rough Facility.

Auction Process

7. Dynegy shall conduct any auctions, as referred to in paragraph 6, in accordance with the arrangements set out in the document prepared by BG plc (as constituted at that time) dated 17 February 1999 entitled the "auction procedures", the latest application of which was for the auctions carried out by BG Storage for the storage year beginning 1 May 2001.
8. Prior to the 2002 Storage Year Dynegy will make available documentation setting out its intention with regard to the operation of the storage business ("the future operations statement") until the end of the Storage Year beginning on 1 May 2003.
9. Dynegy shall publish the auction procedures, the future operations statement and the storage services contracts at least 30 days before the start of each Storage Year, and send a copy of the auction procedures, the future operations statement and the storage services contracts free of charge to any person who asks for such copies during that Storage Year within a reasonable period of time from having received that request.
10. Dynegy will offer to enter into a contract with each successful bidder in each auction on the terms and conditions set out in the documents which have been approved by the Director for that purpose.
11. Dynegy will sell to each successful bidder firm rights to have gas injected into storage, to keep gas in storage and to withdraw gas from storage in each of the Rough Facility and the Hornsea Facility in the following proportions (as set out in the auction procedures):

| | Deliverability (kWh/Day) | Storage Space (kWh) | Injectability (kWh/day) |
|------------------|-------------------------------------|--------------------------------|------------------------------------|
| Hornsea Facility | 1 | 17.948718 | 0.110769 |
| Rough Facility | 1 | 66.593407 | 0.351648 |

12. (a) Any auctions shall be conducted according to the auction procedures modified only (other than in accordance with paragraph 12(b) below) to take account of

the change of Storage Year. Except with the consent of the Director, which will not be unreasonably withheld so far as concerns modifications which facilitate the separate auctioning of the rights referred to in paragraph 11 above, the firm rights offered for sale in those auctions shall be the rights defined in the auction procedures and the storage services contracts.

- (b) The auction procedures and the storage services contracts shall not be modified, other than by agreement between the Director and Dynegy.

Capacity remaining unsold following auctions

- 13. In respect of any Storage Year up to and including the Storage Year starting on 1 May 2003 except with the consent of the Director, Dynegy shall offer for sale any firm rights to any proportion of the maximum physical capacity of the Rough Facility or of the Hornsea Facility in respect of that Storage Year which remain unsold following any auctions as referred to in paragraph 6, at the start of that Storage Year at a price equal to the reserve price in respect of the most recent auction of firm rights to capacity in that facility; and Dynegy shall not sell or offer for sale firm rights in respect of any proportion of the maximum physical capacity for any Storage Year of the Hornsea Facility or of the Rough Facility other than in accordance with these undertakings except with the consent of the Director .

Secondary markets

- 14. Dynegy shall facilitate the development of a secondary market in each of the firm rights to capacity sold by it pursuant to these undertakings by:
 - (a) ensuring that injectability, space and deliverability rights are defined in ways which allow them to be traded separately; and
 - (b) establishing arrangements that allow for the transfer, on a basis which is not unreasonably restricted, of all or any part of the rights purchased under the auctions described above at the request of the holders of those rights.

Separation

- 15. Dynegy will maintain a robust financial, information and systems separation of the storage business from all other commercial activities carried on by Dynegy from the date on which the acquisition is completed.
- 16. Dynegy will maintain separate accounts for the storage business from the accounts for any of its other activities.

Provision of information

- 17. Dynegy shall promptly provide to the Director such information as he may reasonably require from time to time for the purpose of ascertaining that these undertakings are being or will be complied with.

Transfer

18. If Dynegy transfers the Rough Facility or the Hornsea Facility to an affiliate it shall procure that that affiliate shall comply with the provisions of these undertakings as if that affiliate had given such undertakings to the Secretary of State.

Termination

19. These undertakings shall terminate at the end of the Storage Year beginning on 1 May 2003.

Signed for and on behalf of Dynegy Europe Limited by:

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Director

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Director

Date: 8 November 2001