

GAS NOTICE

Notice under Article 14 (3) of the Gas (Northern Ireland) Order 1996

The Northern Ireland Authority for Utility Regulation (hereinafter referred to as the “Authority”) pursuant to Article 14 (3) of the Gas (Northern Ireland) Order 1996, as amended (the “Order”) hereby gives notice as follows:

1. The Authority proposes to modify the conveyance licence of Phoenix Natural Gas Ltd. by adding Conditions 1.18 to 1.22 which provide for financial ring-fencing and corporate governance conditions.
2. The reasons for, and the effects of, the proposed modification are as follows:

Effect

1. To ensure that, regardless of ownership, Phoenix Natural Gas Ltd. have sufficient financial and managerial resources to perform its’ functions in the best interests of consumers and without undue burden on themselves.
2. To ensure that the financial position of Phoenix Natural Gas Ltd. does not reflect financial risks taken by other group entities.
3. The proposed licence modification adds the following conditions:
 - Condition 1.18 Corporate Governance
 - Condition 1.19 Indebtedness (contractual arrangements, securities, loans, cross-defaults)
 - Condition 1.20 Resources and Dividend Payment (undertaking on resources, any dividend payment has to be approved)
 - Condition 1.21 Undertaking of Controller (undertaking from the controller that the Licensee will have resources to comply with obligations)
 - Condition 1.22 Financial Gearing and Credit Rating

Reason

4. Financial ring fencing of monopoly businesses provides important safeguards for the financial stability of licensed companies. In particular, it provides protection from certain events that may otherwise lead to the insolvency of the licensee and possible disruption to consumers. It also allows a licensee to retain access to financial markets on reasonable terms, thus facilitating the funding of future investment. Financial ring-fencing requirements cover matters such as limits on indebtedness, maintaining sufficient financial resources and restrictions on business activity. Such conditions therefore reduce the likelihood of the regulated business being unable to finance its activities without otherwise unjustified price increases.
5. Credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Credit ratings are used by investors as indications of

the likelihood of receiving their money back in accordance with the terms on which they invested.

6. A credit rating can give a useful independent view on a company's financial standing, and in this case it could provide customers with some assurance in the activities of Phoenix Natural Gas Ltd.
7. The requirement to have a majority of independent non-executive directors provides some assurance that board structures work in the interests of consumers as well as shareholders.

A copy of the proposed modification can be obtained from Neil Bingham at NIAUR, Queens House, 14 Queens Street, Belfast, BT1 6ER. Email: neil.bingham@niaur.gov.uk

Representations or objections with respect to the proposed modification may be made on or before 25th June 2009.