"the EFET standard contracts"

+ other initiatives for Standardisation & Streamlining of business procedures in the European Energy Industry

Flame, Amsterdam, 22nd March 2002

Jan van Aken
Secretary General of EFET

The European Federation of Energy Traders

www.efet.org
Main topics presentation

- EFET: who & what
- The EFET 2.1 Electricity contract
- The EFET 1.1 Gas contract
- EASEE- Gas: who & what
- Conclusions
Who is member of EFET

- 50 top trading companies in Europe member (gas/electricity)
- 12 trading companies as Associate member
- Members from 15 European countries
Members

- AEP - APT - Aquila - Atel - Avenis - Barclays - Bewag -
  BG International - BKW FMB - Cargill - Centrica -
  Dalkia - Delta - Duke - Dynegy - EDFT - Edison - EGL -
  Electrabel - El Paso - Elsam - Elyo - ENBW - Endesa
  Energy - Enel - Eneco - Enipower - Entergy-Koch -
  E.ON - Essent - E&T - EPSC - Fortum - Gaselys - GEW -
  Nordic Powerhouse - Hidroelectric del Cantabrico -
  Iberdrola - Innogy - Mirant - Morgan Stanley - MVV
  Energie - Norsk Hydro - Nuon - ONS Energy Services -
  PowerGen - RAO UES - Reliant - Remu - RWE Energy
  Trading - Sempra - Statkraft - Sydkraft - Tiwag -
  TotalFinaElf - Trianel - TXU - Union Fenosa - Vattenfall
  - Williams Energy.
EFET - its objectives

- To promote energy trading in Europe (to increase market efficiency)
- Analyse barriers & obstacles for trade
- Lobby for removal of obstacles & barriers
- Promote standardisation
EFET

Standardisation & streamlining
EFET

initiates, co-ordinates or stimulates:

- Standard Electricity contract EFET 2.1
- Standard Gas Master Agreement 1.1
- Credit Annex
- IT (Electronic Matching Deal Confirm.)
- promoting VAT harmonisation
- Promoting RECS
- Promoting EASEE-gas
Main topics presentation

- EFET: who & what
- The EFET 2.1 Electricity contract
- The EFET 1.1 Gas contract
- EASEE- Gas: who & what
- Conclusions
EFET’s Long term vision on Master Agreements

- To have:
  - 1
  - European
  - Multi-Energy:
    - Electricity, Gas and Coal
  - Master Agreement
Benefits of Master Agreements

- Standardisation of procedures
  - more efficient; less mistakes
- Umbrella credit provisions
  - less credit necessary (netting)
  - less risk
- Close-out netting
  - less risk
- Big Savings on legal costs
General Structure of a Master Agreement

- Components
  - General Agreement
  - Election Sheet (check list)
  - Annexes
  - Pro forma Confirmations
EFET Electricity
Master Agreement
(version 2.1)

- Designed for Physical Trading
  - physical delivery as settlement
- Download from internet@<www.efet.org>
  - free of charge
- Negotiation-Friendly Format
  - Standard Optional Provisions in General Agreement
  - Election Sheet with “Check The Box” customization
  - Similar Structure to Principle Trading Agreements used in other Markets and for Other Commodities and Commodity Derivatives (ISDA, GTMA, EEI, etc)
EFET Electricity Master Agreement (version 2.1)

- Addresses European Cross-Border issues:
  - Multi-jurisdictional Trading
    - Country specific Annexes to address specific local law requirements
  - Collateral and Security Issues
    - Credit Support Annex
  - Multi-jurisdictional “Close Out Netting”
    - legal opinions for 9 countries by local counsel on behalf of EFET membership
<table>
<thead>
<tr>
<th>Country</th>
<th>Normal price</th>
<th>EFET members</th>
<th>Law Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>- 1687</td>
<td></td>
<td>Weiss-Tessbach</td>
</tr>
<tr>
<td>Belgium</td>
<td>- 1801</td>
<td></td>
<td>A&amp;O</td>
</tr>
<tr>
<td>France</td>
<td>- 2025</td>
<td></td>
<td>Freshfields</td>
</tr>
<tr>
<td>Germany</td>
<td>- 1272</td>
<td></td>
<td>Clifford Chance</td>
</tr>
<tr>
<td>Italy</td>
<td>- 1965</td>
<td></td>
<td>Clifford Chance</td>
</tr>
<tr>
<td>Netherlands</td>
<td>- 1608</td>
<td></td>
<td>A&amp;O</td>
</tr>
<tr>
<td>Spain</td>
<td>- 1965</td>
<td></td>
<td>Clifford Chance</td>
</tr>
<tr>
<td>Switzerland</td>
<td>- 1806</td>
<td></td>
<td>Lenz&amp;Staehelin</td>
</tr>
<tr>
<td>UK</td>
<td>- 2025</td>
<td></td>
<td>Freshfields</td>
</tr>
</tbody>
</table>
EFET Electricity Master Agreement (version 2.1)

- Recognised as THE European “Standard” Contract
  - 75+% of OTC- Electricity Trading on Continent under EFET 2.1
- Neutral basis to start negotiations
- Many translations for better understanding
- EFET approved German translation
- Civic law & common law lawyers can feel comfortable
- Fast growing pool of legal experience
- Convergeance of opinions among lawyers
  - often lawyers do not agree when they not fully understand particular issue
Main topics presentation

- EFET: who & what
- The EFET 2.1 Electricity contract
- The EFET 1.1 Gas contract
- EASEE- Gas: who & what
- Conclusions
Structure of EFET Gas
Master Agreement

- Components
  - General Agreement
  - Election Sheet (check list)
  - Annexes (Credit Support; Hub specific terms)
  - Pro forma Confirmations
EFET Gas
Master Agreement
(version 1.1)

• Specifically developed for physical gas trading in Continental European Gas markets

• A truly “Pan-European” Contract
EFET Gas Master
How has it been created?

- A truly “Pan-European” Contract
  - Drafting committee comprised of both Civil Law and Common Law lawyers from 4 different countries + 2 outside lawfirms
  - Drafts were circulated to members and potential members
  - all 21 companies (7 counties) that made (high level) comments were invited for meeting to finalise document
EFET Gas
Master Agreement
(version 1.1)

- Designed for Physical Trading
  - physical delivery as settlement
- Download from internet@<www.efet.org>
  - free of charge
- Negotiation-Friendly Format
  - Standard Optional Provisions in General Agreement
  - Election Sheet with “Check The Box” customization
  - Similar Structure to Principle Trading Agreements used in other Markets and for Other Commodities and Commodity Derivatives (ISDA, GTMA, EEI, etc)
EFET Gas Master Agreement (version 1.1)

Gas Trading Mechanics

- Scheduling obligations
- Hub and Flange Trading
- Contract Quantity and Delivery Quantity
- Remedies for breach of delivery or acceptance obligations
- Force Majeure
EFET Gas
Master Agreement
(version 1.1)

- “European” contract creates more trading relations
- neutral basis to start negotiations
- modular approach gives flexibility
- EFET contract strong on credit & netting
- growing legal experience
- big potential for standardisation procedures
- better risk control
EFET Gas
Master Agreement
(version 1.1)

- Outside law firms that assisted:
  - Lovells Richard Tyler
  - Troutman Sanders John Varholy
EFET: who & what

The EFET 2.1 Electricity contract

The EFET 1.1 Gas contract

EASEE - Gas: who & what

Conclusions
EASEE-gas: European Association for the Streamlining of Energy Exchange - Gas

- New organisation set up by:
  - Edig@s; EFET; Eurogas; Eurelectric; GTE; Geode; OGP + others. In future only for and by companies from the gas industry.
  - Founding companies: Distrigas; Gasunie; GDF; Statoil; Ruhrgas & Centrica
  - Objective: To develop and promote common practices to simplify and streamline business processes that will lead to an efficient and effective European gas Market
  - Membership fee is: Euro 1500 per year per segment
EASEE-gas: European Association for the Streamlining of Energy Exchange - Gas

- **8 segments represented:**
  - Producers
  - Traders & Shippers
  - Transporters
  - Distribution Network operators
  - Suppliers (industrial)
  - Retail Suppliers &
  - Service Providers
EASEE-gas: European Association for the Streamlining of Energy Exchange-Gas

- New organisation set up by:
  - Edig@s; EFET; Eurogas; Eurelectric; GTE; Geode; OGP + others. In future only for and by companies from the gas industry.
  - Founding companies: Distrigas; Gasunie; GDF; Statoil; Ruhrgas & Centrica
  - Objective: To develop and promote common practices to simplify and streamline business processes that will lead to an efficient and effective European gas Market
  - Membership fee is: Euro 1500 per year per segment
New initiatives; Working Groups on:

- Business Rules & Scenario’s, e.g. OBA’s
- Harmonisation of Units of Measurements
- Co-ordination development ebXML
- Real time data exchange
- Message standardisation & validation
- IT Communication Network
Main topics presentation

- EFET: who & what
- The EFET 2.1 Electricity contract
- The EFET 1.1 Gas contract
- EASEE- Gas: who & what
- Conclusions
Conclusions

- Standardisation & Harmonisation & Streamlining is a hot topic currently:
- Standardisation & Harmonisation & Streamlining can and will create big efficiency improvements in the European Energy industry.
- Timing is right. It is now that the industry must allocate money and good people. It is a good investment.
- Join Working Groups
- join EASEE-gas: secretariat@easee-gas.org www.easee-gas.org
Thank you for your attention

secretariat @ efet.org