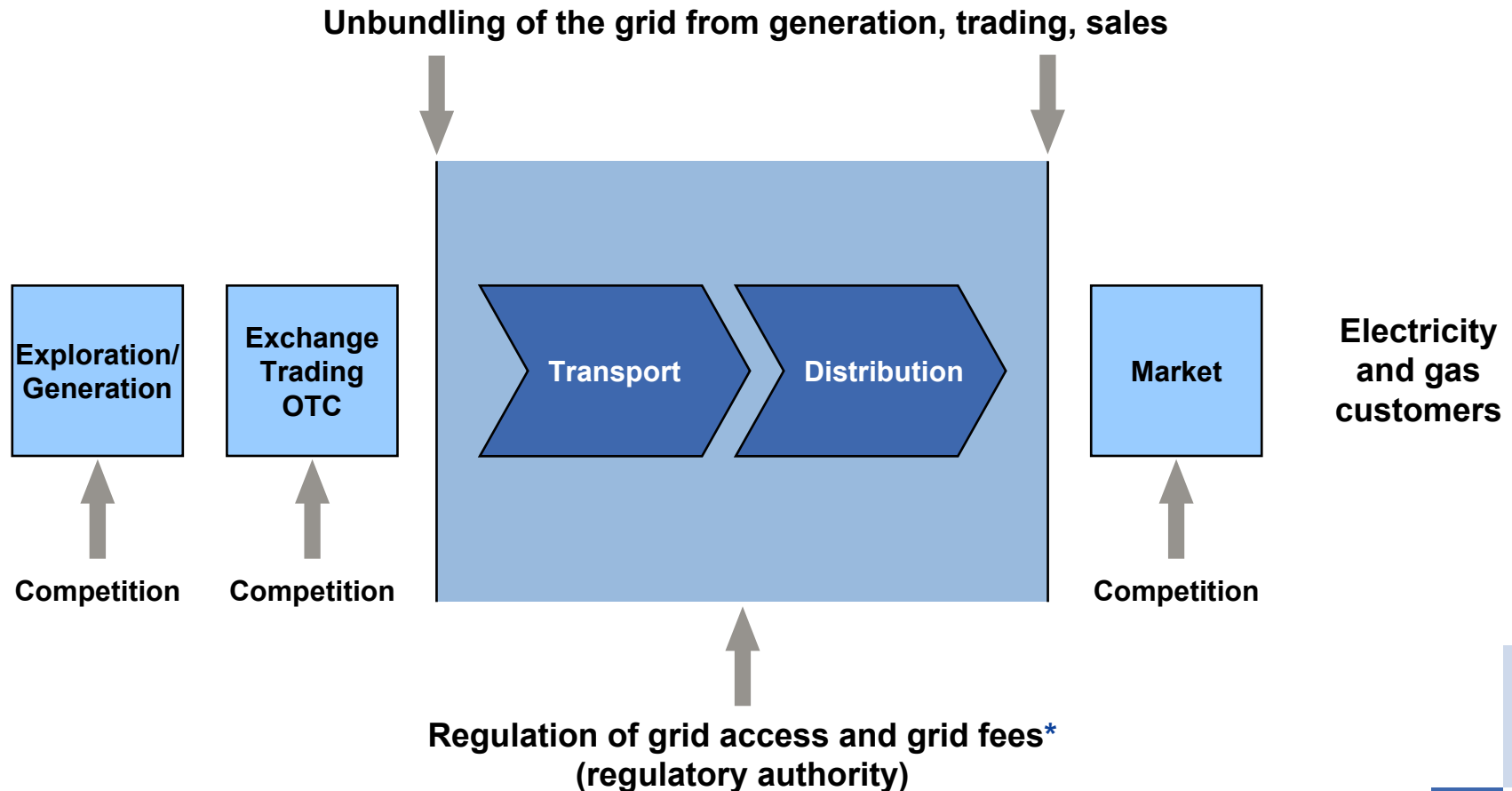


The New German Energy Industry Act (EnWG) - Basis for Network Regulation -

July 13, 2005



The new German Energy Industry Act regulates grid access and grid fees in the electricity and gas markets



* Exemption of gas Transport System Operator from regulation when competition can be proven

Key elements of the new German Energy Industry Act (EnWG)

- On June 16, the Lower House (Bundestag) and on June 17, the Upper House (Bundesrat) passed the new Act on the regulation of the German electricity and gas markets (Energiewirtschaftsgesetz – EnWG). The most important legal regulations were passed by the Bundesrat and the federal government in July 2005.
- Under the new Act, the German regulatory agency for post and telecommunications will be in charge of monitoring grid access as well as electricity and gas grid fees. It will be renamed 'Bundesnetzagentur' (BNA), Federal Grid Agency
- Grid operators with fewer than 100,000 electricity or gas customers can be regulated by one of the 16 federal states. The federal states may delegate responsibility to the BNA
- All grid fees will be subject to prior approval (ex-ante regulation). They can be reviewed retrospectively back to the formal start of regulation
- The present method of calculating grid fees – based on current cost accounting – will be maintained for existing assets. As of 2006, investment in new assets will be subject to regulation based on historic cost accounting with inflation-adjusted returns
- Within 12 months from the entry into force of the Act, the BNA shall design a system of incentive regulation which will replace the current “cost plus” calculation. Incentive regulation, on the basis of a legal regulation, is expected to become effective in 2007.
- For the gas grid, a new grid access model will be introduced
- The tariff-rate approval by the federal states for end-customer electricity tariffs will be abolished two years after the formal start of regulation

Unbundling in the German energy market

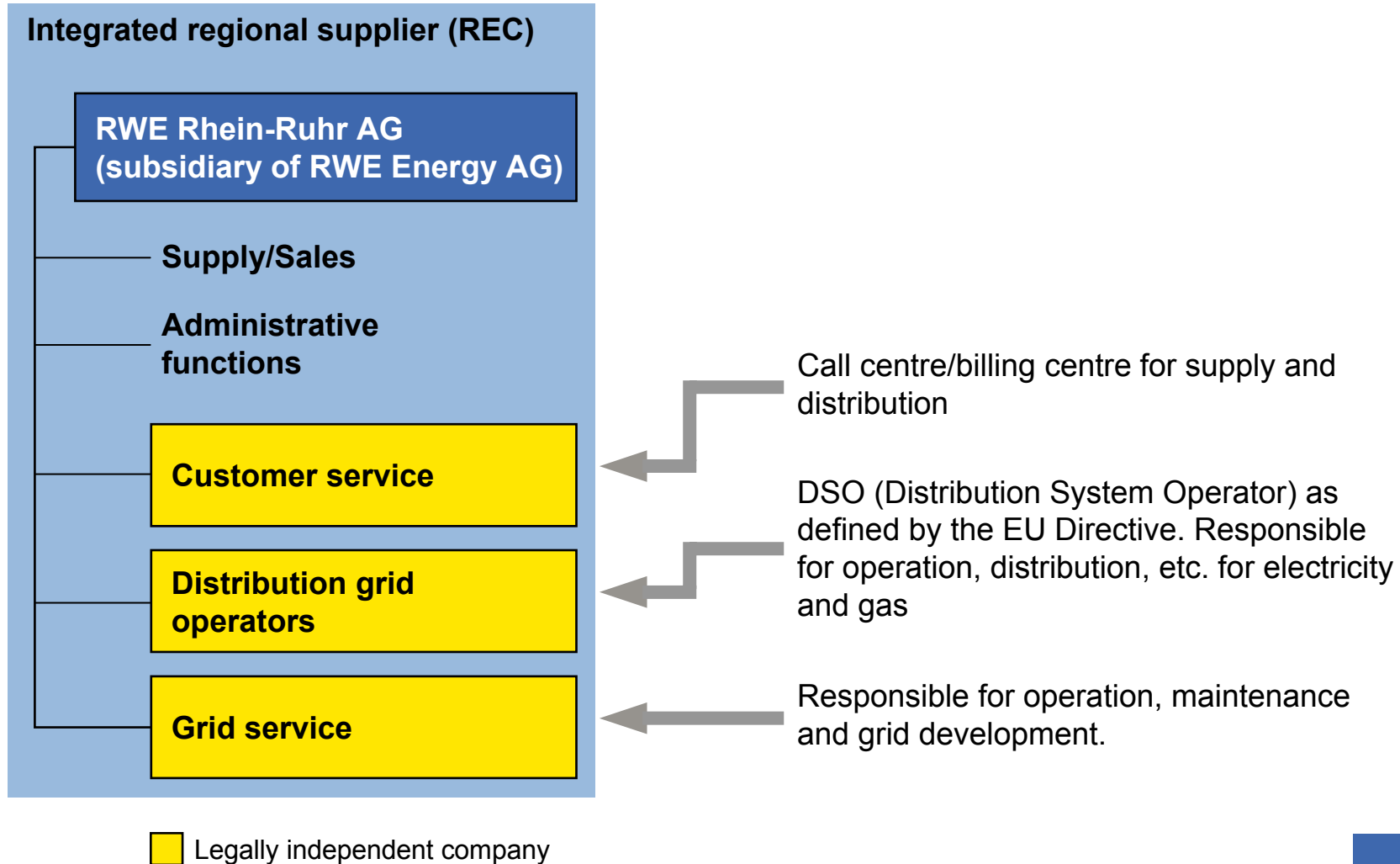
	Legal unbundling	Functional unbundling	Accounting unbundling
TSO¹	Obligatory after July 13, 2005	Obligatory after July 13, 2005	Obligatory³ after July 13, 2005
DSO² >100,000 customers	Obligatory after July 1, 2007	Detailed rules to unbundle staff, equal treatment programme	Auditor's certificate plus separate balance sheets and profit and loss accounts must be disclosed and sent immediately to the regulator
DSO² <100,000 customers			

¹ TSO = Transport System Operator

² DSO = Distribution System Operator

³ Implementation at the beginning of 1st fiscal year after law comes into effect

Unbundling in the RWE Group structure (RWE Rhein-Ruhr AG as an example)



Key elements of grid access

■ Electricity:

- The previous access model of the association agreement for electricity is basically confirmed (including transaction-independent point model with cost pass-through and creation of individual balancing zones)

■ Gas:

- Entry-exit model with close cooperation among transmission system operators
- Capacity transfer when suppliers are switched
- Creation of as few subgrids as possible taking account of technical feasibility and economic reasonableness
- Exemption of gas Transport System Operator from regulation when competition can be proven
- Interim period of six months for new gas grid access model as from entry into force of the new Act

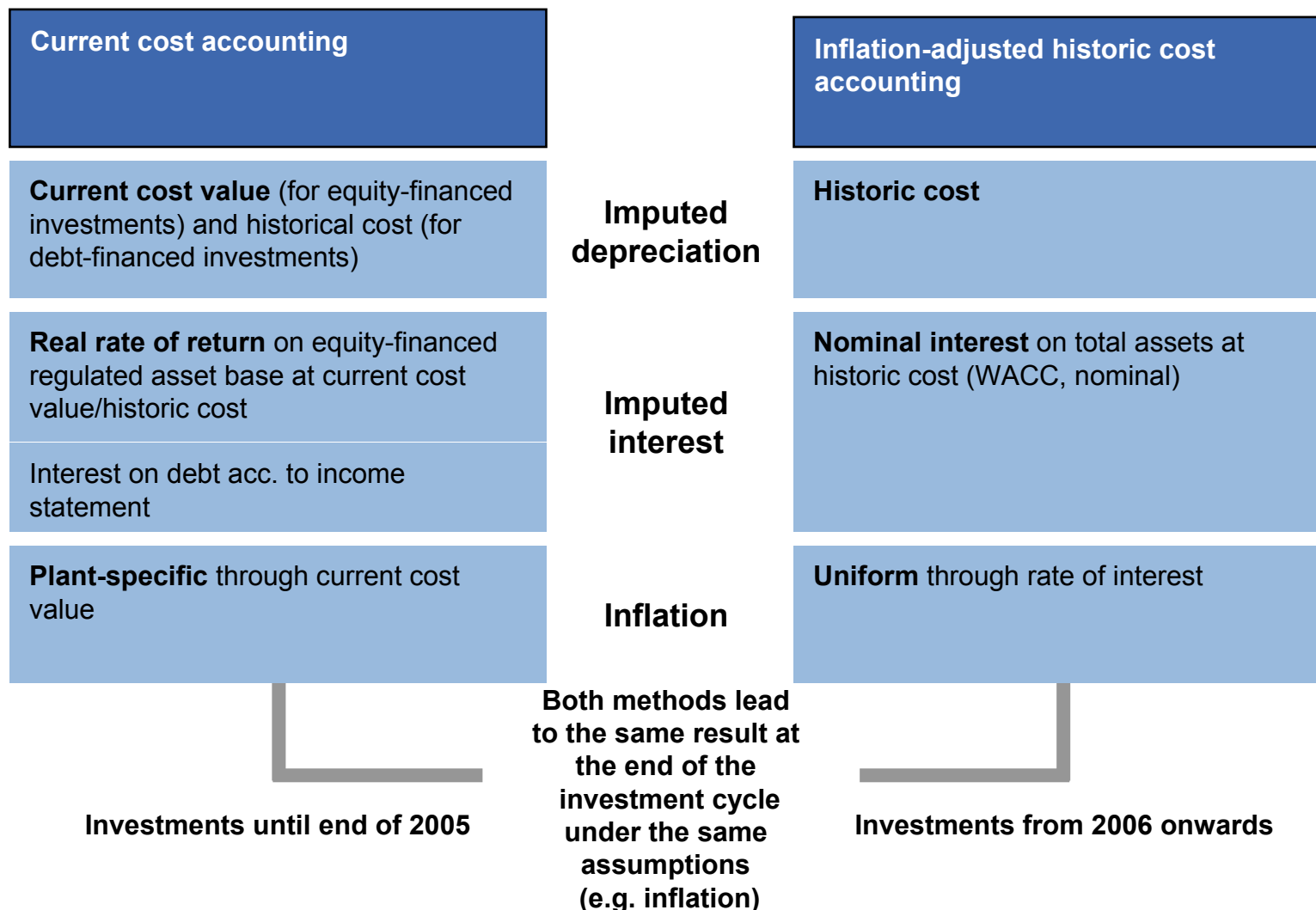
Entry-Exit model for the gas grids

- Entry-exit model: Only one entry contract and one exit contract is required for transmission across several grids placed one behind the other, unless the required cooperation among the grid operators is technically not feasible or economically unreasonable
- Close cooperation among the grid operators in calculating and offering capacities, providing system services and recharging costs or fees
- Utilisation of all opportunities for cooperation (taking account of technical restrictions and economic reasonableness) with the aim of keeping the number of subgrids and balancing zones as low as possible. The BNA will decide on the pooling of subgrids as far as technically feasible and economically reasonable
- Development of common contractual standards

Key elements of grid fee calculation

- All grid fees must be approved ex-ante. The first application for grid fees must be filed within three months of the start of regulation for electricity, and six months for gas. The fees applied for are deemed approved if the BNA has not objected to the application within six months. All ex-ante approvals can be revoked by the BNA at any time
- Current cost accounting for rate of return and imputed depreciation will continue to apply for all investments until December 31, 2005. The real rate of interest on equity (i.e. equity-financed regulated asset base) up to the introduction of the incentive regulation amounts to 6.5% (electricity) and 7.8% (gas)
- All investments as from January 1, 2006, will yield interest based on the method of inflation-adjusted historic cost accounting and be subjected to imputed depreciation. The nominal interest rate up to the introduction of the incentive regulation amounts to 7.91% (electricity) and 9.21% (gas)
- Control of anti-competitive practices by benchmarking of company clusters
- Tax treatment:
 - No recognition of corporation taxes (incl. taxes on fictitious profit) until the incentive regulation has entered into force but recognition of “Gewerbsteuer” (trades tax)
 - Recognition of all taxes, as from introduction of the incentive regulation. At the same time, adjustment of the required rates of return

Comparison of network calculation models



Key elements of incentive regulation

- By July 2006, the BNA is to compile a report for the introduction of incentive regulation. Academics, industry and state governments must be involved. International experience must be taken into account
- The report will be the basis for drafting a legal regulation of the federal government requiring approval of the Upper House (Bundesrat). It will determine the method, procedure and timing of the introduction of incentive regulation
- Incentive regulation, on the basis of legal regulation, is expected to become effective in 2007
- A development path for prices (price cap) or revenues (revenue cap) will be defined for a regulation period (2-5 years)
- Adjustment of grid fees taking account of:
 - Inflation
 - General development of productivity
 - Company-specific efficiency improvement targets
- The efficiency of a grid operator will be determined by benchmarking methods (i.e. inefficient companies may face a steeper reduction in price/revenue than efficient companies)
- Determination of interest rate for return on capital by the regulator as after-tax interest rate in real terms
- Taking into account all taxes, in parallel with adjustment to interest rates

Further topics of the EnWG

■ Basic supply

- Formal approval for customers at tariff rates until mid-2007. Afterwards regulation of prices exclusively by control of anti-competitive practices (cartel authority)

■ Balancing power

- The transmission grid operators have to jointly invite tenders for balancing power across all balancing zones. Every TSO is entitled to source balancing power in his own control zone to the extent that system stability requires this

■ Metering

- Immediate opening of the market for hardware
- Possibility of opening the general metering service by legal regulation of the government
- Supplementary provisions through legal regulation

■ Reducing the burden on energy-intensive industries

- The legislator will enable the regulatory authority to grant consumers with special load characteristics a reduction of up to 50% of grid fees. These costs will be passed through to the other grid users