



DISTRIGAZ SUD S.A.



Response to the ERGEG Public Consultation for Guidelines of Good Practice on Functional and Informational Unbundling

By email: ergeg-unbundling@ergeg.org

26 June 2007

Dear Sirs,

We are pleased to provide our response to the above public consultation.

Distrigaz Sud is the leading distribution company in Romania. The company is currently implementing the legal separation of its network business, using the Vertically Integrated Undertaking model, and considers as essential to guarantee to all network users the same and equal treatment.

However, measures to be implemented should not have significant impact on the regulated tariffs supported by the final customers nor compromise the right of the shareholders to supervise the economic performance of the network activities.

Taking into account these constraints, below we list a few remarks about the proposed measures.

G01: The management of the system operator shall work in a geographically separated structure from the competitive business structures.

In order to limit the cost of this measure, this should not imply to have separate buildings for the Network Company. A strict control of access to the premises used for network activities, especially avoiding any access by the personnel involved in the commercial activities, seems satisfactory.

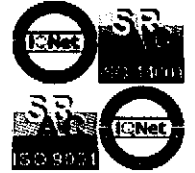
G05: The management of the system operator must neither own shares of the competitive businesses nor shares of the vertically integrated company as this would undermine his independence.

We do not consider that the ownership of a few shares of the vertically integrated company by the management of the system operator will challenge its independence. This criteria should be eased.

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DISTRIGAZ SUD S.A.



G06: Activities and rights of the mother company on the system operator have to be limited to secure her financial interest (supervisory function). Interference by the mother company outside this supervisory function in the network business and knowledge of the day-to-day network business is not allowed.

The mother company should also have the right to implement its industrial strategy, for example in creating synergies among several affiliates, which could lead to costs savings for the full benefit of all network users.

G11: The network company shall have enough human and physical resources at its disposal to carry out its work and decide independently from other parts of the integrated company. This includes having enough resources to prepare decisions, to evaluate

We understand that the idea is to avoid a network company employing directly only management without employees. We agree with this criteria as long as it does not prevent the Vertically Integrated Undertaking to share some common support functions (Financial, IT, HR,...) in order to limit the redundancy of personnel.

G13: If independent decisions of the network company imply certain actions by the parent company (for instance in case of assets owned by the parent company) the statutes of the parent company have to foresee an obligation to follow decisions taken by the network company. Compensation for any damages incurred by the network company has to be agreed by contract between the network company and the asset owning mother company.

We think that independent decisions of the network company can be more easily guaranteed through the infrastructures agreement to be negotiated between the mother company owning the assets and the network company using them.

G15: The financial plan shall be proposed by the network company. Any refusal of that plan must only be based on a pre-defined risk adjusted return on capital in line with internal requirements and capital market conditions. For investment under Third Party Access (TPA) the return on capital is usually set by the regulatory authority.

While Regulatory Authority has to create a favourable environment linked to its strategy as regards the development of the gas market, such as a fair remuneration of the investments, the approval of the investment program must be also under the responsibility of the mother company, according to its own criteria of profitability, without prejudice of the investment obligations which could exist besides (from concession agreements,...).

Q1. General: Do you think that these Guidelines are sufficient to guarantee a level playing field in view of vertically integrated companies?

We consider these proposed Guidelines as sufficient to guarantee a level playing field in view of vertically integrated companies, except as regards the few comments mentioned above, which, if not taken into account, could lead to an increase of the costs without any significant improvement of the independency of the network company.

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DISTRIGAZ SUD S.A.



Q2. Are unbundling requirements already today included in Corporate Governance Guidelines or your Quality Management Systems? Do you think that these measures may harmonize implementation of unbundling in Europe?

We are currently reviewing our Quality Management System in order to take into account unbundling requirements.

Q3. G06: Does unbundling in your view necessitate a restriction of information flows to the mother company further than those necessary for a pure financial investor? Do you experience conflicts of governance regulations in your country with unbundling requirements? Would it be possible to install trustees who act on behalf of the mother company (investor) in supervisory boards and who are to protect financial interests of the investor without disclosing commercial information to the mother company?

We consider installing trustees who act on behalf of the mother company (investor) in supervisory boards present some disadvantages. Actually, the appointment by the mother company of qualified people, familiar with the specificities of the network activities in all its components (technical, financial, commercial, human resources, ...), is the best solution as it can bring more benefit to the company and consequently to its customers. Naturally this appointment shall be in line with the functional unbundling principles (independence of the management) and accompanied by rules dealing with the management of commercially sensitive information.

Q4. G08: Do you think that these rules can guarantee the independence of the management and employees? Or do you think that the possibility for management and employees to be assigned to the network company and the back to the competitive business after some time as part of the internal career should be prohibited?

We consider these rules as sufficient.

We trust that you find the response helpful. Please do not hesitate to contact us if there is any point you would like to clarify.

Yours faithfully,



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