

## Case Study: Contract re-negotiation YE Enron

### Background to the Engagement

Darrell was engaged as the principal external legal advisor to Yorkshire Electricity Group plc (he was then a senior associate at Garretts, the legal arm of Arthur Andersen). The Client had entered into a five year contract for difference with Enron as a hedge against future electricity price movements. Within 18 months of the start of the contract the market price moved downward so far that the contract (worth approximately £40million in total) would show a deficit to YE of around £12million if the contract ran for its full term. Darrell was asked to investigate whether it was possible to terminate or re-negotiate the contract to mitigate this significant liability.

### Approach to the Engagement

“Darrell did not just review the contract from a legalistic perspective; he took the time to learn the underlying fundamentals of our market and was never afraid to ask questions to ensure he fully understood the underlying mechanisms behind the sometimes very esoteric trading environment in which we operated (something lawyers are often reluctant to do in my experience).

Darrell understands that it is not always necessary to have a bulletproof legal argument to force a re-negotiation; but that it is sometimes enough to raise sufficient doubts in the other party’s mind about the security of their position to bring them to the table.”

### Contribution to the Bottom Line

“Darrell was instrumental in helping us develop a sophisticated chain of argument based on background changes to the way the electricity base price was calculated (as the result of legislative change) combined with the language used in the contract itself to enable us to negotiate a significant discount to the original deficit of well over 50%. In less than three months from first instructing Darrell we got to a position where we had effectively reduced the contract deficit to £5million, a saving of over £7million, without ever having to resort to (or even threaten) formal litigation.”

### Relationship with Client Staff

“Darrell’s collaborative, friendly approach meant that every one of our staff who was engaged in the background investigation to the formation of the contract felt comfortable to be open and frank about the original rationale for the deal without criticism or scape-goating; Darrell remained focussed on outcomes not blame. This approach helped enormously in generating ideas and strategies to bring to the negotiating table.

Darrell’s low-key approach to face to face negotiation also, I believe, helped to defuse the potentially highly emotionally charged atmosphere, kept egos out of the equation and led to a pragmatic outcome that both parties felt comfortable with.

I would recommend Darrell to anyone who wants to achieve a pragmatic outcome to any potentially difficult contractual re-negotiation.”