SOUTH HOOK LNG TERMINAL COMPANY LTD.

IN THE MATTER OF THE GAS ACT 1986 SS 19C (AS AMENDED)

APPLICATION FOR EXEMPTION FROM REGULATED THIRD PARTY ACCESS TO UK LNG FACILITIES

PROPOSED LNG TERMINAL ("SOUTH HOOK")
AT MILFORD HAVEN

DATED 22 SEPTEMBER 2004

PUBLIC VERSION

IN THE MATTER OF THE GAS ACT 1986 SS 19C

APPLICATION FOR EXEMPTION FROM REGULATED THIRD PARTY ACCESS TO UK SOUTH HOOK TERMINAL LNG FACILITIES

BY

South Hook LNG Terminal Company Ltd., a company organised and existing under the laws of England and Wales and with its registered office at 10 Upper Bank Street London E14 5JJ (the "Applicant").

WHEREAS, the Applicant is a participant in the Qatargas II LNG project (the "QGII Project"), a vertically integrated project intending to supply gas to the United Kingdom; and

WHEREAS, as part of the QGII Project, the Applicant intends to construct in two phases, own and operate an LNG Terminal at South Hook, Milford Haven (the "Facilities").

NOW, THEREFORE, pursuant to s. 19C (2) of the Gas Act 1986 (as amended) (the "Gas Act") the Applicant hereby applies formally to the Authority for grant of exemption from regulated third party access (RTPA) to the Facilities.

In support of its application, the Applicant refers the Authority to the attached Informal Application dated 26 November 2003 included as Appendix 1 in this submission. Terms defined in this submission shall have the same meaning as those defined in the Informal Application.

Informal Application For Exemption From RTPA

The Sponsors of the Qatargas II Project, Qatar Petroleum (QP) and ExxonMobil, sought early guidance from Ofgem on the basis of a detailed regulatory review of an informal application for exemption from RTPA, submitted in November 2003 (the "Informal Application"). A favourable opinion for exemption from RTPA was received from Ofgem dated 10th February 2004 and a similarly favourable review by the European Commission Services was received by Ofgem at the end of March 2004. Subsequent to these opinions, the Sponsors have been able to maintain the intended schedule for the QGII Project. Commissioning of the South Hook LNG Terminal is scheduled for the end of 2007 with first deliveries to the NTS expected during the 07/08 Winter period.

A copy of the Informal Application is attached as Appendix 1 and substantially forms the basis of this formal application (the "Formal Application").

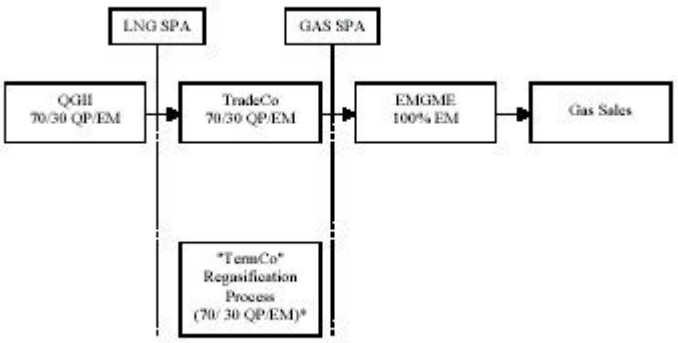
Structure and Effect of Formal Application

For the purposes of this Formal Application the Sponsors have made reference to the relevant sections of the Informal Application that they consider require updating or amending and this Formal Application should therefore be read in conjunction with the attached Informal Application.

Section 19C(7) Gas Act sets out the six tests (the "Tests") that must be satisfied to enable the Authority to grant an exemption. The Tests are, in all material respects, identical to the criteria set out in Article 22 of Directive 2003/55/EC and in the Informal Application (as supplemented by this Formal Application) the Sponsors have demonstrated that, subject to the European Commission being content with the exemption granted by the Authority, all the Tests are duly satisfied.

The headings for the sections updated in this Formal Application are the same headings used in the Informal Application.

Commercial Structure and Applicants To This Exemption Application



The commercial structure anticipated in Annex 5 (shown above) at the time of the Informal Application is confirmed for the purposes of this application. References to TradeCo and TermCo in the Informal Application should be read as references to South Hook Gas Company Ltd. and South Hook LNG Terminal Company Ltd. respectively that are, in each case, affiliated companies of the Sponsors and both of which are registered in England and Wales.

As referenced in section 1.1 of the Informal Application *"QP have reserved the right to introduce a third party into the joint venture; if QP exercise this flexibility the share of both current shareholders would reduce, although QP would remain the majority shareholder."*

QP is in discussions with third parties (including Total) which it may invite, in due course, to participate in the QGII Project. Any such change in participation will be subject to agreement on, inter alia, contract terms and satisfaction that such arrangements do not prejudice the project's financial viability. No such changes to participation have been finalised at this stage and, in any event, changes, if any, that may impact on the exemption arrangements will be discussed by the Sponsors with Ofgem in advance of any decision to implement such changes.

1.2.2 Upstream Elements - Timetable and Duration

This section stated that "*commissioning, production and export build up of the second phase (second liquefaction train, additional LNG tankers) is expected to start during the latter half of 2009 and be complete about one year later*".

The progress of the QGII Project may enable the Sponsors to start up the second liquefaction train early in 2009. Advancement of the schedule by about six months would allow the capture of construction cost efficiencies and help offset cost growth in other elements of the QGII Project. The final timing will be dependent on a number of technical and commercial factors including the market and costs.

2.5 Sponsors' Request

This section of the Informal Application stated "*If the QGII Project is to proceed on its current schedule to deliver LNG to the UK the Sponsors need assurances that an exemption from regulated third party access for the South Hook LNG terminal will be granted for at least 25 years from start up of each of the first and second phases of the project*"

The South Hook LNG Terminal may, as a consequence of the earlier production schedule for the second train, be constructed to its full design capacity of about 21 bcm/year consistent with the earlier upstream production schedule. Decisions on the construction phasing of the South Hook LNG Terminal are currently planned to be taken by year end 2004.

The start dates for terminal capacity exemption are necessarily linked to the relevant contractual start dates for the LNG/gas supplies and the triggering of the relevant contractual terms. This is because the exemption sought is designed and needs to match the contractual terms on commencement, volume and duration.

As it is the Sponsors' desire to match precisely the 25 year period sought for the capacity exemption with the 25 year supply terms under the Gas Sale and Purchase Agreement, it is only possible to provide the currently anticipated start dates. In the case of the second phase, the Sponsors seek a practical level of flexibility on the actual start window and volumes that take into account both market considerations and variability in the development programme.

The Facilities (South Hook LNG Terminal)	**Capacity MTA (BCM/YR)**	**Currently Anticipated Start Date**
Phase 1	7.8 (10.5)	Q1 2008
Phase 2	Up to 7.8 (10.5)	2009/2010

It is therefore the Sponsors' request that an exemption be granted on terms that allow them to commence the second phase for the relevant volume, up to 7.8 MTA, on the relevant start date (provided that the period falls within the above identified window) for a period of 25 years commencing on such start date.

4.12 Project Dependent on Exemption of Both Phases

In the Informal Application the Sponsors noted that *"Each of the two phases of the integrated project will need to be separately financed with funding decisions being required about three years prior to first gas in each case."*

This is no longer the expectation. The Sponsors' current expectation is that financing commitments for the two phases of the integrated project will be secured together, with release of the funding for the second phase by the lenders being dependent on their satisfaction of the overall economics and risk profile of the full 15.6 MTA UK terminal.

4.7 Market Share Analysis in Great Britain

The Sponsors' analysis at the time of the Informal Application is not changed for the purposes of this Formal Application but some additional commentary is appropriate.

Wholesale Market

The Sponsors supported the Ofgem/DTI conclusion (following the 2003 consultation on LNG Import Terminals and Interconnectors) that it was appropriate to define a wholesale market within Great Britain. Consequently, the Sponsors presented their market analysis on a basis consistent with those conclusions.

At the time of the Informal Application Ofgem carried out a detailed review of ExxonMobil's position in the wholesale market, considering the level of ExxonMobil's control over gas flows at South Hook (and elsewhere) and the alternative bases for defining the size of the wholesale market. Ofgem noted in its letter to the Sponsors dated 10th February 2004 (the "Comfort Letter") that ExxonMobil was not a significant trader and, even if the relevant transaction was considered to be the purchase by EMGME of 100% of the volumes delivered ex South Hook LNG Terminal, and that the market was defined only at a physical level, ExxonMobil's share of the market would not be detrimental to competition. The Sponsors considered that only the 30% equity share of the gas sold by South Hook Gas Company Ltd. should be taken into account when assessing ExxonMobil's market share of the wholesale market which should be defined to comprise both physical and re-traded volumes. Ofgem also considered that, in any event, the level of wholesale liquidity should lead towards a less narrow product market definition.

Subsequent to the Comfort Letter, the Sponsors have provided additional information on key contract terms including governance arrangements, on a confidential basis, to both Ofgem and the European Commission Services.

5.5.2.1 LNG Regasification Terminals

In this section the Sponsors explained that they *were "evaluating other LNG supply opportunities in Europe and are currently evaluating terminal options in Belgium and France. The Sponsors are not in a position at this stage to confirm whether any of the projects will proceed and/or the extent of the Sponsors' participation in the respective terminals. Their plans for the Rovigo terminal in Italy were announced on 20th November 2003."*

As far as the Rovigo terminal is concerned, no final decision has yet been made to proceed with this project. A final investment decision is currently scheduled to be made around the end of 2004/early 2005 provided that exemption from RTPA can be secured by the terminal owners for the benefit of a third party user who has entered into a conditional long term contract for most of the planned terminal capacity.

As far as terminal options in Belgium are concerned, Qatar Petroleum, through its wholly owned affiliate Qatar Terminal Limited and Zeebrugge LNG Trading Company an affiliate of ExxonMobil Corporation, announced (on 30th June 2004) the signature of a long term terminal capacity subscription agreement with Fluxys LNG. The agreement would secure capacity for 3.5 MTA of LNG at the Fluxys Zeebrugge Belgium terminal beginning in 2007.

Appendix 2 is an update to Annex 16 of the Informal Application showing the total potential regasification capacity in Europe and Turkey as estimated on the basis of publicly available information at 9th August 2004. Based on this update, total potential regasification capacity in Europe and Turkey would be about 235 bcm per annum in 2010 and South Hook Terminal capacity of 21 bcm per annum would be about 9% of the total potential capacity.

Appendix 3 is an update to Annex 2 of the Informal Application showing QP's current plans for supply of LNG/gas to GB/Europe. A confidential update of this outlook will be provided to Ofgem and the European Commission.

5.2 Article 22 (1)(b): The Level of Risk Attached to the Investment Is Such That The Investment Would not Take Place Unless An Exemption Was Granted

The Sponsors' financial advisors (Royal Bank of Scotland) have provided confidential information to both Ofgem and the European Commission Services to demonstrate the requirement for 100% exemption from RTPA for 25 years for each of the 10.5 bcm per annum phases of terminal capacity.

5.4 Article 22(1)(d): Charges Are Levied On Users of That Infrastructure

The Sponsors confirm that they will publish the tariffs on which exempt (own use) capacity will be charged.

5.5.5.1 Processing to NTS Specifications

The Sponsors note that the quality of the Qatari LNG is such that only limited nitrogen ballasting will be required at the terminal to meet the specifications of the GSMR for Wobbe, Soot Index and Incomplete Combustion Factor. The LNG to be supplied will have most of the LPGs extracted at source producing a "lean" quality supply. Sufficient nitrogen ballasting capability will be provided so as to ensure a specification comfort zone to cater for quality variability ex tank.

Annex 19 – Third Party Access Arrangements

A Terminal Access Code has been drafted, the terms of which at least meet the commitments included in Annex 19 and elsewhere (Section 2.4.) of the Informal Application attached. The Terminal Access Code will be finalised in conjunction with the final terms of the exemption and any other relevant regulations implemented in the meantime.

Annex 4 (ExxonMobil European Gas Interests)

Appendix 4, which is an update to Annex 4 of the Informal Application, shows the changes to ExxonMobil's European Gas Interests in Germany following the

restructuring of BEB. These changes have no impact on the substance of this exemption application.

Appendix 1

INFORMAL APPLICATION FOR EXEMPTION FROM REGULATED THIRD PARTY ACCESS TO UK LNG FACILITIES

PROPOSED LNG TERMINAL ("SOUTH HOOK") AT MILFORD HAVEN

DATED 26 NOVEMBER 2003

Contents

EXECUTIVE SUMMARY OF INFORMAL EXEMPTION APPLICATION FOR LNG TERMINAL

1. QATARGAS II LNG PROJECT FOR SUPPLY OF GAS

- Qatar Petroleum and ExxonMobil Qatargas (II) Limited (hereinafter called the "Sponsors") are parties to Heads of Agreements signed in June 2002 for the purposes of undertaking a feasibility study and entering into negotiations to develop the agreements necessary to implement a project for the proposed supply of LNG from Qatar to the United Kingdom.

- The Qatargas II LNG project (the "QGII Project") is a vertically integrated project for the supply of gas to the United Kingdom. Details of the facilities required for this supply of gas are set out in Section 1.2.

- Because of its size the QGII Project will be developed in two phases. When the second phase of construction is completed the LNG export rate is planned to plateau at about 15.6 MTA[1] LNG production with associated redelivery of base load pipeline gas of ~ 21 bcm[2] / year to the European market (and it is currently expected that all of the LNG would be imported through an own use receiving terminal called South Hook planned to be constructed near Milford Haven in South Wales).

- Initial LNG and gas supply contracts are anticipated for 25 years but the Qatar North Field has the potential to supply gas for much longer periods.

2. QGII PROJECT IS UNIQUE

- The QGII Project will be the largest of its kind in terms of scale, innovative technology extensions or applications, level of capital investment and level of project finance involved. While these innovations should allow the LNG to be supplied at a competitive price the level of risk that cannot be controlled by the Sponsors is significant including market, technology and political / regulatory risks.

3. SIGNIFICANCE OF THE UK IMPORT TERMINAL AT SOUTH HOOK

- While the majority of the investment cost and technology advancements are associated with the upstream elements of the project (onshore gas liquefaction and new LNG tankers) the viability of the whole project relies on finding a suitable location to deliver and regasify the LNG supply that is envisaged. The Sponsors have, over the last twelve months, considered several site locations (including merchant site alternatives) to ascertain whether they provide sufficient, secure and economically attractive capacity to match the intended LNG supply in accordance with the QGII Project timetable. The Sponsors are of the view that an own use terminal

[1] Million metric tonnes per annum ("MTA").
[2] Billion cubic meters ("bcm").

represents the lowest risk and is the most cost efficient option for the QGII Project.

- Planning permission to construct an own use LNG import terminal (South Hook) was granted by the local authorities in Wales in October 2003.

- The Front End Engineering and Design ("FEED") for South Hook was launched in July 2003 and is due to be completed before the end of 2003.

4. REASONS FOR MAKING AN INFORMAL EXEMPTION APPLICATION

- As the provisions of Article 22 of Directive 2003/55/EC (the "Second Gas Directive") need not be enacted in UK law until around July 2004 there is no possibility of obtaining a formal exemption at this time.

- As planning permission has now been granted for South Hook, the Sponsors would like to be in a position to confirm terminal selection as soon as possible. However, that decision cannot be made unless the Sponsors receive a high degree of comfort from both the UK regulatory authorities and the European Commission that an exemption would be granted on the terms requested when the formal application is made.

- Advance QGII Project commitments will accelerate significantly once terminal selection is made, rising to well over US$ 300 million by mid 2004.

- The scale of the advance commitments required for the QGII Project are such that the Sponsors are unwilling to proceed beyond January 2004 without first gaining assurances that the South Hook LNG Terminal at Milford Haven will be exempted from regulated or mandated third party access for at least the minimum 25 year duration of the QGII Project.

- Throughout 2003 the Sponsors have been in constructive discussions with Ofgem and the Department of Trade & Industry ("DTI") regarding the process for obtaining initial comfort and a subsequent exemption from regulated third party access for the terminal and this informal application has been developed to allow appropriate advance review.

5. SATISFACTION OF ARTICLE 22 TESTS

- The informal exemption application provided here will demonstrate that each of the tests set out in Article 22 of the Second Gas Directive are satisfied.

(a) The investment must enhance competition in gas supply and enhance security of supply

The supply of LNG from Qatar provides for a new source of gas for Great Britain and QP will be a new market entrant. The delivery record of cargoes made under existing Qatari projects has been exemplary. The supply of LNG through South Hook will facilitate a

new entry point to Transco's NTS transmission network and help to improve network gas security through increased diversity. Qatari gas reserves can contribute to a material long term mitigation of security of supply concerns in UK / Europe as indigenous production declines and a supply demand gap is forecast to open.

The development of the South Hook terminal and the technological innovation across the QGII Project will enhance competition by significantly increasing LNG import / regasification capacity in the UK and Europe, helping pave the way for future LNG investment and efficiency thereby enabling increased geographical diversity of supply well into the future.

(b) The level of risk attached to the investment is such that the investment would not take place unless an exemption was granted

The South Hook LNG Terminal is the critical element of a vertically integrated project for the supply of gas. The risks associated with the integrated project are significant and include technology risks, price / market risk and political / regulatory risk. If the exemption from mandated third party access is not granted, the risk profile of the project will increase to a level where the project could not be financed for supply through South Hook to the European market.

If an exemption were not granted on the reasonable terms requested, this would both prevent the investment in this project and deliver a negative signal to the wider LNG market that would be seen as inconsistent with the usual regulatory objectives of promoting innovation and cost efficiency in the interests of encouraging competition and value for the consumer.

(c) The infrastructure must be owned by a natural or legal person which is separate at least in terms of its legal form from the system operators in whose systems that infrastructure will be built

TermCo[3] will, when established, be a separate legal entity with a 70% direct or indirect shareholding by Qatar Petroleum and a 30% shareholding by an ExxonMobil affiliate.

TermCo will be a separate legal entity from National Grid Transco, the principal public gas transporter in the United Kingdom.

(d) Charges are levied on users of that infrastructure

Tariffs will be applied to TradeCo[4] via the throughput agreement between TradeCo and TermCo. Capacity that is not required by TradeCo or traded through the secondary market by TradeCo, will be

[3] See definition in footnote 6 on page 13.
[4] See definition in footnote 7 on page 13.

offered for third party access on non-discriminatory terms by TermCo.

(e) The exemption is not detrimental to competition or the effective functioning of the internal gas market, or the efficient functioning of the regulated system to which the infrastructure is connected

(i) Competition

While the project will increase the supply of gas and thereby help to alleviate the developing imbalance between supply and demand there will be no material effect on the upstream market for the production and supply of natural gas. Insofar as there is any effect on competition at all, the effect will be positive. In addition the contractual arrangements will not contain any destination or resale restrictions. QP will be a new entrant through its interests in Qatargas II (as defined in Section 1.1) and TradeCo.

The South Hook LNG Terminal is not an essential facility and capacity that cannot be used for Qatargas II LNG or traded in the market by TradeCo will be offered by TermCo to third parties.

(ii) Internal gas market

The increased supply of gas and increased flexibility of supply will be to the benefit of the operation of the internal gas market.

(iii) Regulated system

The development of a new entry point to the NTS, the purchase of entry capacity to the NTS on non-discriminatory terms and the fact that LNG will be processed to produce pipeline gas to NTS specification will contribute to the efficient functioning of the regulated system.

In addition to fulfilling the Article 22 tests the Sponsors have addressed the initial views of Ofgem / DTI as contained in the paper published in June 2003 on "*LNG facilities and interconnectors: EU legislation and regulatory regime*" (the "LNG Guidance Notes"). Specifically, as detailed in Sections 2.4 and Annex 19, the Sponsors will develop anti-hoarding mechanisms to ensure that the terminal operator can identify and market all available capacity in the terminal so that utilisation can be as high as possible.

6. EXEMPTION REQUESTED

- The QGII Project is an integrated project for the supply of gas which, as a result of the scale of the project, has to be implemented in two phases. The Sponsors are seeking assurances from the DTI, Ofgem and the European Commission that an exemption will be available for the total design capacity of the South Hook terminal of about 21 bcm / year and for the life of the project (25 years).

- The Sponsors have not identified at this stage alternative outlets for any part of the QGII LNG supply. Whilst a final decision is yet to be made, from a cost efficiency and financial lending perspective there is significant justification to handle all of the LNG supply through a single terminal. The Sponsors' decision to invest in Phase 1 of the QGII Project (10.5 bcm / year) depends not only on having financing arrangements agreed for that phase but on the overall economics and risk profile of both phases (trains) of the integrated project. The investment associated with the second phase is about 30% less than for the first phase because a number of facilities engineered and / or constructed in the first phase will be utilised for the second phase.

- The Sponsors have asked Ofgem to review an exemption for the second phase (10.5 bcm / year) as well as the first phase at South Hook because each phase cannot be considered in isolation. Recognising that the initial investment decision is dependent on overall project economics and the importance of both phases to that decision, the outcome of the regulatory review process for the second phase is also important both to the Sponsors and in relation to UK security of supply.

- While there is every expectation that the QGII Project facilities, including those constructed at South Hook will continue to operate for a significantly longer period, exemption from regulated third party access is requested for the capacity of the terminal which on its design basis will be 21 bcm / year for at least 25 years.

Following this Executive Summary is the informal application, which is based on Article 22 of the Second Gas Directive. The Sponsors are requesting a prompt review from both the UK and European regulatory authorities. Written letters of comfort have been discussed with and are sought from Ofgem and / or the DTI by the end of 2003 and from DG.Tren, through Ofgem, shortly thereafter.

The Sponsors are continuing to work with the relevant authorities and look forward to a timely and successful conclusion of the informal exemption review process.

1. INTRODUCTION

1.1 APPLICANTS TO THIS EXEMPTION

The Sponsors are parties to Heads of Agreements ("HOA") signed in June 2002 for the purposes of undertaking a feasibility study and entering into negotiations to develop the agreements necessary to implement a project for the proposed supply of LNG from Qatar to the United Kingdom. The signing of the HOA was announced through a press release in the United States of America on 24 June 2002 by Qatar Petroleum ("QP") and Exxon Mobil Corporation and the project was subsequently welcomed in a press release by the UK Minister of State for Industry and Energy at the time, Brian Wilson.

A new company is to be formed (incorporated in Qatar in accordance with Qatari legal requirements) called Qatar Liquefied Gas Company Limited II ("Qatargas II"). When it is established the partners in this new venture will be QP (70%) and ExxonMobil Qatargas (II) Limited ("EMQG (II)") (30%). QP have reserved the right to introduce a third party into the joint venture; if QP exercise this flexibility the share of both current shareholders would reduce, although QP would remain the majority shareholder. This exemption application is being made by the Sponsors in respect of the project planning basis of a two phase development of the South Hook LNG import / regasification terminal located at the site of the former Esso oil refinery at Milford Haven.

1.1.1 THE STATE OF QATAR AND QATAR PETROLEUM

The State of Qatar is a sovereign state that conducts its principal oil and gas operations through QP, which controls the State's interests in all oil, gas, petrochemicals and refining enterprises in Qatar and abroad. QP was created in 1974 by an Emiri Decree and is engaged in all phases of the hydrocarbon business, including exploration and drilling, production, refining, transportation, storage, sales and exports. The Government of Qatar has entrusted QP with the responsibility of supervising hydrocarbon activities conducted in Qatar by foreign companies.

QP is wholly owned by the State of Qatar and managed by a Board of Directors appointed by the Emir. QP's Chairman is the Minister of Energy and Industry and the Vice-Chairman is the Minister of Finance. Other members of QP's board include representatives of QP's major subsidiaries.

QP has been successful in contributing to the high rate of economic growth in Qatar by implementing various oil and gas projects both independently and with international partners. QP is implementing (with international partners including ExxonMobil) the development of the Qatar North field, the largest non-associated gas field in the world, which has proven gas reserves in excess of 25,000 bcm.

Through its controlling interests in both Qatargas and RasGas QP is one of the world's leading suppliers of LNG.

Qatargas represents Qatar's first LNG project which was established in 1984. Qatargas LNG facilities currently consist of three onshore gas treatment and liquefaction trains which together produce 7.7 MTA of LNG to supply customers in Japan, South Korea, USA, Spain, Italy, Turkey and France. Since its first delivery to Japan in late 1996, Qatargas has produced and sold over 33 million tonnes of LNG and has not missed a single delivery.

RasGas is Qatar's second LNG project which was established in 1993. RasGas facilities currently consist of two onshore gas treating and liquefaction trains which together produce about 7 MTA to supply customers in South Korea as well as the US and Mediterranean countries. Since its first delivery to South Korea in mid-1999, RasGas has produced and sold over 18 million tonnes of LNG and has not missed a single delivery. The RasGas LNG facilities are currently being expanded to supply LNG to India and locations in Europe.

Annex 1 shows those entities involved in natural gas supply in Europe which form part of the QP group of companies by virtue of QP's controlling interest in those ventures.

Annex 2 includes details of QP's currently planned LNG / natural gas sales to Europe via these ventures from which it can be seen that QP has yet to develop a material presence on the market.

Other than the QGII Project described in this application, QP has no oil or gas interests in Great Britain.

1.1.2 EXXONMOBIL GROUP OF COMPANIES

Exxon Mobil Corporation operates through its divisions or affiliates in some 200 countries and territories worldwide (collectively "ExxonMobil"). ExxonMobil is best known in Europe for its Esso and Mobil brands.

Annex 3 shows the ExxonMobil entities associated with Qatari LNG projects. ExxonMobil has diverse interests in the European gas market which are detailed in Annex 4. ExxonMobil does not anticipate that the QGII Project will result in a significant increase in ExxonMobil's market share at any level of the gas supply chain. The relevant markets and ExxonMobil's shares in those markets are analysed in Section 5. In addition, information on ExxonMobil's role in relation to gas supply to Great Britain is addressed in Section 4. ExxonMobil Gas Marketing Europe Limited ("EMGME") will market the regasified LNG and expects to ship gas for sale to a wide variety of customers on a long, medium and short term contract basis.

ExxonMobil has over 30 years of experience in the LNG industry. Today, ExxonMobil is an active participant in three world class LNG liquefaction projects (RasGas and Qatargas in Qatar and the Arun project in Indonesia). These projects together produce about 300 cargoes of LNG annually and have, to date, principally served the Asia-Pacific region.

1.1.3 EXXONMOBIL ACTIVITY WITHIN THE STATE OF QATAR

ExxonMobil subsidiaries have minority equity interests in the QP controlled RasGas (30%) and Qatargas (10%) LNG joint ventures in Qatar, and, outside of the LNG arena a further ExxonMobil subsidiary is the 100% contractor for the Al Khaleej Gas Development and Production Sharing Agreement that will provide for 18 bcm / year of sales gas from Qatar's North Field, to meet power and other industrial needs in Qatar and other Gulf States.

1.2 QATARGAS II – AN INTEGRATED PROJECT FOR THE SUPPLY OF GAS

The QGII Project involves the construction of

- the North Field production facilities;
- two LNG liquefaction trains at the Ras Laffan Industrial City in Qatar;
- approximately 17 LNG tankers; and
- the import / regasification terminal.

Assuming the exemption is granted the import terminal is targeted to be commissioned in the fourth quarter of 2007 and LNG shipments will continue until at least 2034.

The QGII Project will be the largest single LNG development so far undertaken in the industry. The participation of experienced sponsors with LNG supply rights, a proven track record of operational excellence, cost efficiency achieved through economies of scale and an integrated supply chain including downstream gas marketing are viewed as the key factors necessary to successfully co-ordinate and realise a project of this scale.

As with any major gas supply project the decision to develop relies on identification of a market requiring gas supply: Great Britain (and Europe as a whole) will rely increasingly on attracting imported gas supplies as indigenous production moves into decline and gas demand continues to grow. Technology advances have enabled the Sponsors to engineer for two liquefaction trains, each producing an average of 7.8 MTA over a 25 year period, and to design LNG ships with cargo capacity of 205,000 - 250,000m^3 [5] – between 50 and 75% above today's typical cargo size of around 138,000m^3. The Sponsors believe that the economy-of-scale cost efficiency derived from

[5] Cubic metres ("m^3").

the two-train project will enable Qatari LNG to compete effectively in the European market with other sources of gas. However, project viability is entirely dependent on costs and risks being kept to a minimum in each element of the integrated project.

A chart showing the commercial structure of the QGII Project, as currently envisaged, is set out in Annex 5.

1.2.1 UPSTREAM ELEMENTS - DESCRIPTION

Offshore production facilities in Qatar's North Field are expected to consist of 3 platforms, 33 wells, and two 36 inch diameter pipelines to shore.

Onshore facilities at Ras Laffan will include two liquefaction trains each producing about 7.8 MTA of LNG; LPG extraction facilities are included to produce lean (high methane content) quality LNG and separate propane and butane products totalling 1.7 MTA, with new LPG holding tankage and export facilities provided for that purpose.

Export LNG facilities will include one new LNG berth with associated loading facilities capable of handling vessels up to 250,000 m^3. LNG will be transported from Qatar to Great Britain by a new fleet of LNG tankers (approximately 17 in total) to be constructed with a cargo capacity of 205,000 - 250,000 m^3 (number and mix of vessel sizes is to be determined).

1.2.2 UPSTREAM ELEMENTS - TIMETABLE AND DURATION

Due to the scale of the project, the construction and commissioning of the upstream elements of the project is to be completed in two phases.

Export LNG rates for the first phase will build up over about a twelve month period, limited primarily by the schedule on which new LNG tankers can be constructed and commissioned. By early 2009 export production for the first phase will be at maximum design rate of about 7.8 MTA (equivalent to about 10.5 bcm / year of dry pipeline gas).

Commissioning, production and export build up of the second phase (second liquefaction train, additional LNG tankers) is expected to start during the latter half of 2009 and be complete about one year later. On completion of the second phase build up period the total LNG export rate would be about 15.6 MTA (equivalent to about 21 bcm / year of dry pipeline gas).

1.2.3 THE IMPORT / REGASIFICATION TERMINAL ELEMENT

In order to deliver gas to the UK National Transmission System ("NTS") (that is operated by National Grid Transco ("Transco")) at a pressure, temperature, and composition compatible with the system and the other gas flowing within it, it will be necessary to regasify the

LNG in an appropriately sized and engineered terminal. The identification of the appropriate terminal is critical to the progress of the project. The Sponsors have given consideration to the options available for access to such a terminal and a summary of this review is provided in Section 2.

The Sponsors are ready to and wish to select the import / regasification terminal option by the end of January 2004, at which time advance commitments will accelerate significantly rising to well over US$ 300 million by mid 2004. The selection of the terminal is critical to the timely progress of the QGII Project as a whole. The decision for full funding for Phase 1 of the upstream element of the project is planned for the second half of 2004.

1.2.4 NTS CONNECTION

A new pipeline will be required to connect the terminal to Transco's existing network. The requirement for this extension has already been signalled by the Sponsors, on a planning basis, through Transco's "Transporting Britain's Energy" annual plan process. The Sponsors are pursuing discussions on terms with Transco and have entered a preliminary works agreement, to cover Transco's reasonable costs of advanced engineering activities, before entry capacity commitments can be made in respect of South Hook.

2. OPTIONS AVAILABLE FOR REGASIFICATION IN GREAT BRITAIN

2.1 UK TERMINAL PROJECT - OPTIONS

An LNG import / regasification terminal facility in Great Britain will perform a similar role to that of existing onshore gas processing facilities that receive and condition UK Continental Shelf ("UKCS") offshore pipeline gas. The additional processes involved in an LNG import / regasification terminal are those of offloading LNG from tankers into temporary storage and regasification through heating.

The principal consideration for the Sponsors in selecting a terminal option is the ability of the terminal owners to provide:

(i) baseload facilities and capacity on a construction schedule that is fully compatible with the upstream element of the project including the capacities of the LNG tankers; and

(ii) capital operating cost efficiencies that will result in minimum throughput charges.

2.2 TYPES OF LNG FACILITIES - IMPORT BASELOAD AND PEAK SHAVING SEASONAL

2.2.1 PEAK SHAVING LNG FACILITIES

Peak shaving LNG facilities are typically small units often located close to major market demand areas or, as in the case of Great Britain, constructed to support demand at the extremities of the transportation network. Their primary purpose is to provide gas for exceptional peak demand periods. In terms of function, they are analogous to the subsurface dry gas storage facilities (such as Hornsea and Rough) that are used to modulate peak day demands. This type of LNG facility typically takes already processed gas from the grid in low demand periods, liquefies it and then stores it ready for the peak demand periods. Transco LNG ("TLNG") currently operates four such peak shaving facilities in Great Britain.

The hold up period of the LNG in tank is typically a year or more and the capacity of the installed vaporisation facilities and NTS entry point is such that vaporisation of all stored LNG back into the grid can be achieved over about five days.

2.2.2 LNG IMPORT AND REGASIFICATION TERMINALS

By contrast an LNG import facility that is used for the purposes of importation and regasification of LNG is similar in purpose to that of other onshore processing facilities. The terminal receives liquefied natural gas, delivered from ships, before vaporising and treating the LNG for redelivery as pipeline quality gas to the transmission

operator's grid. LNG import / regasification facilities need to be seen as part of a processing chain starting with production of natural gas, treatment and liquefaction at source, export as LNG via ships (rather than via pipelines) and finally receipt or importation ex ship into the LNG import and regasification facility.

In an integrated LNG supply project the own use LNG import facility is designed and constructed to be consistent with supporting a reliable, baseload upstream production and liquefaction operation. At the import facility the number of tanker berths, the operating capacity of receipt tankage and LNG vaporising capacity need to be optimised to:

(i) minimise overall facility costs including that of the upstream LNG storage facilities (at the point of export);

(ii) specifically match the capacity of the number of tankers in the shipping fleet;

(iii) be compliant with conditions or constraints (e.g. planning or environmental conditions and / or physical constraints) at the import location.

As the import terminal is part of the production facility the average residence or hold up time in the storage component of the terminal would be days rather than months. In operational terms the actual storage duration depends primarily on the timing of the next and subsequent ship arrivals.

2.3 QGII PROJECT OWN USE TERMINAL

Neither European (Gas Directive) nor British (Gas Act) law limits the Sponsors' ability to pursue an own use terminal option.

The Sponsors submitted a planning application in April 2003 for an own use terminal (South Hook) at Milford Haven in Wales. Subsequently, in July 2003, the Sponsors elected to proceed to Front End Engineering Design ("FEED") for that site. The planning application describes plans for facilities to be constructed in two phases to handle the total output of the QGII Project. Planning permission was obtained in October 2003.

Because an own use terminal represents the lowest risk it is the most cost efficient option for the QGII Project. It provides the Sponsors with full planning and engineering control within the integrated project so that capacity, processing facilities as well as timing can be aligned with the needs of the upstream elements of the project that carry the significant share of the total QGII Project capital and financing costs. Having control over facilities, permitting, engineering and construction throughout the integrated project enables the costs of both the terminal and the upstream elements of the project to be minimised. This should help ensure that target project cost efficiency can be achieved and that Qatari LNG can be as competitive as possible with other imported supplies.

2.4 APPROPRIATE REGULATION FOR THIRD PARTY ACCESS

The Sponsors are of the view that exemptions from regulated third party access will be a critical factor in attracting investment to Europe in new LNG terminal import facilities. The Sponsors also consider that own use terminal developers should not be expected to offer initial capacity to the market in order to secure an exemption. It appears to the Sponsors that an open season process would not, in the case of an own use LNG terminal, benefit the consumer. Furthermore, such a process can be reasonably expected to raise the cost of supply by increasing risks and hence adding costs either directly at the level of terminal infrastructure or further upstream in the LNG supply chain.

Ofgem / DTI in the LNG Guidance Notes have stated that an initial offer of capacity to the market through an open season process may help to demonstrate non-discrimination and effective competition. However, an open season process does not prevent either merchant or own use terminal owners from allocating capacity to the shipper that provides the "best fit" for the terminal. As such it is the view of the Sponsors that, particularly in the case of own use terminals, an "open season" offering of capacity would be a wholly artificial process when the terminal project in question is solely for the purposes of securing access for a competitive new LNG supply. Rather than an open season process what is, in fact, important is that capacity that is built is appropriately utilised, and therefore both merchant and own use terminal owners should provide a commitment to provide for arrangements that enable the trade of unused capacity rights and ensure that spare capacity can be offered to the market. The contractual arrangements to be developed should also incentivise the terminal operator to optimise the availability and use of capacity at all times.

The Sponsors support Ofgem's initial views set out in the LNG Guidance Notes that there should be:

- appropriate rules and procedures that promote, or at least do not prevent, secondary trading of capacity rights to third parties; and

- appropriate "use it or lose it" mechanisms or equivalent market mechanisms to ensure that capacity is not hoarded.

In the case of "use it or lose it" the Sponsors believe that capacity that may not, in certain circumstances, be required for own use could be offered either as longer term or spot capacity. Forward offers of longer term or spot capacity would be made, for example, via an electronic bulletin board. A non-discriminatory tender process could be specified to provide a route to selection and technical terms and conditions will be the same as those applied to the Sponsors. In addition, to further encourage the efficient use of capacity TermCo[6] would intend to establish an appropriate system to enable TradeCo[7]

[6] TermCo is the temporary description applied to a company that will be established and named at a later date. For a description of the commercial structure currently envisaged please see Annex 5.

[7] TradeCo is the temporary description applied to a company that will be established and named at a later date. For a description of the commercial structure currently envisaged please see Annex 5.

and third parties who obtain available capacity to market such capacity on a secondary market.

The Sponsors' view is that, in general, if capacity is not traded on the secondary market it would be sold under bundled regasification tariff schedules providing for an identified tanker berthing slot (or series of slots) and an initial rate of vaporisation into the NTS that, together, would determine the duration over which temporary storage capacity would be available.

The terminal operator would, after an initial period of facilities commissioning and familiarisation, have both the operating discretion and the commercial incentive to optimise the use of all the facilities for the benefit of shippers using them subject to its obligations to maintain priority access for Qatargas II LNG.

Ofgem / DTI note in their LNG Guidance Notes that Ofgem would require information to be provided on capacity utilisation, tariffs charged and real time gas flows. The Sponsors would support the provision of such information to Ofgem where this is reasonably required to provide evidence that access to capacity has not been arbitrarily refused or hoarded.

2.5 SPONSORS' REQUEST

If the QGII Project is to proceed on its current schedule to deliver LNG to the UK the Sponsors need assurances that an exemption from regulated third party access for the South Hook LNG terminal will be granted for at least 25 years from start up of each of the first and second phases of the project as follows:

South Hook	Capacity MTA (BCM/YR)	Currently Anticipated Start Date
Phase 1	7.8 (10.5)	Q4 2007
Phase 2	7.8 (10.5)	Q1 2010

3. OWN USE OPTION (SOUTH HOOK) PROJECT OVERVIEW

3.1 SOUTH HOOK (MILFORD HAVEN) LNG IMPORT REGASIFICATION TERMINAL

3.1.1 SUMMARY OF REGASIFICATION FACILITIES

- A refurbished jetty with unloading arms suitable for discharge at high rates and capable of accepting LNG tankers with capacity in the range 120,000 - 250,000m^3;
- A cryogenic line from jetty to onshore tankage;
- New onshore tankage;
- Vaporiser pumps and other treatment facilities required to process LNG ex tank and redeliver it to the NTS as pipeline specification gas.

3.1.2 FACTORS AFFECTING FINAL DESIGN OF THE LNG FACILITY

3.1.2.1 Planning Permission to Construct an LNG Import Terminal

The planning application submitted on 17 April 2003[8] sought permission to build regasification capacity to match both the initial phase of the upstream project (7.8 MTA ~ 10 bcm / year) and the second phase (also 7.8 MTA) scheduled to come on stream two years later. Planning permission was granted in October 2003. Annex 21 includes a site plan prepared as part of the planning application.

3.1.2.2 Front End Engineering Design

FEED for the terminal was launched[9] at the same time as for the upstream onshore facilities and feasibility engineering for the larger LNG ships. These activities will be completed around the end of 2003.

3.1.2.3 Ship Simulation Studies : Tanker Fleet / Export / Import Facilities

Simulation exercises for different LNG shipping fleet configurations (size and number of ships) are required to optimise the shipping fleet configuration together with the upstream onshore and downstream import terminal facilities. The simulation exercises will take into account, inter alia, the statistically likely patterns of arrival (and variability around these) of LNG tankers at the export and import terminals and

[8] The planning application was submitted to Pembrokeshire Coast National Park Authority and Pembrokeshire County Council.

[9] FEED was announced in a Press Release on 7 July 2003.

reliability of supply criteria. These exercises will influence the overall cost optimised design and capacity of a number of key facility components including the upstream export LNG storage, the shipping fleet configuration and the downstream import receiving storage.

3.1.2.4 Transco's NTS Entry Specifications

The entry specifications that will apply at the Milford Haven entry point are currently being discussed with Transco and the outcome of those discussions will have an impact on final design. Furthermore the entry specification may change, prior to construction, if the British Government's recent initiative[10] to review the specification of gas for end consumers in Great Britain results in a change to the upper Wobbe limit and associated specifications under the Gas Safety Management Regulations 1996.

3.1.2.5 LNG Storage is for Production Purposes

The Sponsors are not designing facilities (for either the initial or second phase) that would include import terminal storage capacity for stocking purposes. The LNG storage facilities being designed constitute storage for production purposes as defined in the Second Gas Directive.[11] The capacity of the storage facility will be optimised in conjunction with the upstream facilities so that it is sufficient to support the reliable baseload production of Qatargas II LNG.

Ofgem / DTI have indicated[12] that it is "important that a consistent set of arrangements are applied in relation to the treatment of storage services across Great Britain, including (as appropriate) any separately identifiable services at LNG import terminals." Providing additional LNG storage for stocking purposes is not cost effective when compared to other forms of storage. As Great Britain is a highly competitive segment of the market providing storage from new build LNG facilities would be a highly speculative proposition. Consequently the Sponsors have no intention of designing more storage capacity than is required to match upstream QG II Project requirements.

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10 The then Energy Minister Brian Wilson launched a "Comprehensive Scoping Study on the Quality of Imported Gas" in a parliamentary statement on 5th June 2003.

11 "Storage facility" is defined in Article 2(9) of Directive 2003/55/EC as "…a facility used for the stocking of natural gas and owned and / or operated by natural gas undertaking, including the part of LNG facilities used for storage **but excluding the portion used for production operations**…". [Emphasis added].

12 LNG facilities and interconnectors : EU legislation and regulatory regime - DTI / Ofgem initial views : June 2003; Section 7.12.

3.2 DOWNSTREAM PROJECT - TRANSCO NTS PIPELINE EXTENSION

3.2.1 NEW NTS PIPELINE CONNECTION

Pipeline quality gas will enter Transco's network in Great Britain and the market through a new high pressure transmission line extension that would be constructed by Transco to the terminal site at Milford Haven.[13] The details (diameter, capacity, and price for entry) of the pipeline will depend on the aggregate capacity booked and allocated for the Milford Haven entry point at the end of the extended auction.[14]

3.2.2 CONTRACTUAL TERMS FOR ACCESS TO THE NTS

EMGME, as the principal NTS shipper associated with the LNG project, will need to participate in a long term system entry capacity auction at Milford Haven and bid for firm capacity rights in competition with all other potential shippers.

[13] A schematic of the pipeline extension on this was presented by Transco at their Transporting Britain's Energy event held on 26 June 2003 and can be seen on their website at www.transco.uk.com

[14] NetworkCode modification 0638 was approved by Ofgem on 4 August 2003 along with Transco licence amendments incorporating a new entry point at Milford Haven.

4. NATURE OF THE NATURAL GAS SUPPLY CHAIN IN GREAT BRITAIN

4.1 OFGEM : WELL-ESTABLISHED INDEPENDENT REGULATORY BODY

The development of competition has, and continues to be, closely monitored by the independent energy regulator Ofgem (The Office of Gas and Electricity Markets). Ofgem is a non-ministerial Government department. Because the State has no ownership in the British gas industry, Ofgem is entirely independent. It is governed by the Gas and Electricity Markets Authority ("GEMA") which determines strategy, and decides on major policy issues. It is anticipated that policy decisions on exemptions for major infrastructure projects will be made and supported by GEMA.

UK legislation (Gas Act 1986, as amended by the Utilities Act 2000) provides GEMA with primary responsibilities that include:

(a) protecting the interest of consumers wherever possible by promoting effective competition[15]; and

(b) securing long term and diverse energy supply.[16]

4.2 END CONSUMER CHOICE

The British market for natural gas has been fully open since 1998 and is widely regarded as one of the most highly developed competitive energy markets in the world.

All natural gas customers are free to choose their supplier and a significant level of supplier switching has occurred in all market sectors.

4.3 NON-DISCRIMINATORY ACCESS TO LEGALLY SEPARATE TRANSMISSION NETWORK

Ofgem has been charged with the development of effective and efficient regulation of the gas transmission network that is owned by Transco. The means to achieve efficient price regulation are special licence conditions that are applied to Transco and periodically reviewed and adjusted by Ofgem in line with market and regulatory developments.

The terms and conditions for access to the transmission and distribution networks, as contained in the Network Code, are non-discriminatory and are published in a transparent manner.

In 2002 significant licence changes were introduced by Ofgem that enabled Transco to offer to shippers network entry capacity rights on a long term as well as medium and short term bases. Simultaneously, Transco's Network Code was modified by Transco through industry consultation to provide a

[15] Section 4AA(1) Gas Act 1986.
[16] Section 4AA(5)(c) Gas Act 1986.

non-discriminatory set of auction rules through which shippers could participate in and compete for long term entry capacity rights. The benefit of the scheme for shippers is that it allows signalling of capacity requirements back to back with the planned development of new pipeline or LNG fed imported supplies. Transco can use the signals from such auctions, as well as information provided to it under its planning processes, to make decisions about the efficient level, location and timing of transmission expansions or extensions required to support the new supplies. These arrangements, which continue to be refined, will ensure that Great Britain maintains the ability to attract competitive new supplies.

4.4 HIGH LEVELS OF COMPETITION THROUGHOUT THE GAS CHAIN

Customer freedom of choice of gas supplier, coupled with non-discriminatory third party access arrangements to Great Britain's transmission and distribution networks, has led to active competition at all levels of the gas supply chain.

The market shares of individual producers remain relatively small. Producers can sell their gas at all stages of the gas chain, from well-head to the burner-tip of domestic consumers. These choices of point of sale, as well as the opportunities for producers and others to buy and resell gas, has led to a wide variety of business models amongst British gas industry participants.

While QP is not yet present in Great Britain, ExxonMobil has interests in production / upstream gas supply, upstream infrastructure and gas marketing on the wholesale market. ExxonMobil does not sell to industrial, commercial or domestic customers but does make some at the meter sales to the power generation sector at this time. ExxonMobil has no gas storage interests in Great Britain.

The NTS is owned and operated by Transco. The charges for use of this pipeline system are regulated and numerous shippers hold licences to transport and redistribute gas through the system.

About 50% of gas supplied at entry points across Great Britain is now "physically delivered" through trades at National Balancing Point ("NBP") under both shorter and longer term arrangements. This provides both counter-parties with a liquid market-based mechanism for balancing production and marketing activities. In addition, a well-developed market for gas futures has evolved over the last few years: this enhances, and is a symbol of, liquidity in the delivered commodity. One illustration of liquidity at the NBP is the significant increase in volume traded at the NBP relative to the volume transported as illustrated in Annex 9.

After the regasified LNG has been purchased (by EMGME from TradeCo on arm's length terms) EMGME proposes to integrate this gas with its pipeline gas portfolio. EMGME's portfolio is currently sold under a broad mix of short term NBP trades and medium / long term arrangements to multiple customers predominantly at the NBP but also at NTS exit points to interconnectors and power stations.

Finally, from the perspective of the end consumer, levels of competition have developed rapidly in all sectors. The DTI's recent report entitled "UK Energy Sector Indicators 2003" included graphical illustrations of this that are set out in Annex 11.

4.5 GAS AND ELECTRICITY CONSUMERS' COUNCIL

The Gas and Electricity Consumers' Council is an independent complaint-handling organisation who also work to educate consumers on the benefits of competition in the energy markets and thus directly help consumers and indirectly help the functioning of the competitive market.

4.6 COMPARISON OF THE BRITISH MARKET WITH OTHER EUROPEAN GAS MARKETS

The features of the British segment of the European internal market are well documented and can be characterised as follows:

- Great Britain is 100% open to competition;
- The extent of customer switching continues to be very high;
- Third party access to Transco infrastructure has been a reality since 1991;
- Transmission arrangements in Great Britain are increasingly being seen as the benchmark for regulators in other Member States.

The European Commission has recently published its Second Benchmarking Report on the Implementation of the Internal Electricity and Gas Market.[17] In the various comparisons made between Member States in this report Great Britain continues to exact the most favourable comment as a result of its success in maintaining a fully competitive market. For example:

(i) In relation to gas customer choice and switching: "... for smaller customers only the UK, to date, has been able to provide real customer choice to the same degree as for electricity."

(ii) "The UK remains the leader in terms of effective competition, particularly among smaller customers."

As a consequence of the advanced state of liberalisation in Great Britain, Ofgem has recognised the need for a different approach to regulation of the gas industry. While monopolistic and transitioning markets may need tight regulation to establish wider competition regulators in an already competitive environment can focus on establishing the climate for competitive investment rather than control every level of the supply chain.

[17] Published on 7 April 2003 - SEC(2003)448.

4.7 MARKET SHARE ANALYSIS IN GREAT BRITAIN

4.7.1 INTRODUCTION

As described in this Section 4 competition in the supply of gas in Great Britain is intense. While indigenous supplies are declining there are numerous import projects competing to cover the resulting shortfall. As far as the QGII Project is concerned QP will be a new entrant on the upstream supply and wholesale markets in Great Britain as well as being a participant in the South Hook terminal. EMGME, as a gas shipper, will compete with numerous other gas shippers trading at the NBP and other locations on the system.

This Section 4.7 will demonstrate that the QGII Project will enhance security of supply and competition in Great Britain and that the market shares of QP and ExxonMobil raise no competition law concerns.

In the LNG Guidance Notes DTI / Ofgem have indicated that they consider, for gas markets, the relevant quantitative analysis should include:

- the level of upstream competition;
- the contractual position at the beach;
- the level of downstream competition.

4.7.2 UPSTREAM LEVEL

While the Sponsors consider that the relevant market for upstream supplies comprises gas from the EEA, Russia, and Algeria as well as global LNG supplies, Ofgem has requested that the Sponsors provide information on a narrower basis.

The Sponsors have therefore analysed gas sources which are currently expected to flow directly to Great Britain. In addition to production from the UKCS, this would at least include Norwegian imports, certain LNG projects, the expansion of the existing Great Britain - Belgium interconnector and a possible second interconnector from the Netherlands (see Annex 7).

QP will be a new entrant to the British market through its majority interests in Qatargas II and had no share of production and supply of gas to Great Britain in 2002. QP's 70% interest in Qatargas II means that, as also illustrated in Annex 6, its forecast share of production and potential supply of gas to Great Britain is about 5% in 2010 and about 9% in 2015.

ExxonMobil's share of Great Britain production and potential supply was around 15% in 2002.[18] An analysis of supply including expected

[18] Source: Wood Mackenzie Actual UK Production Data.

Norwegian imports and LNG (see Annex 6) shows that ExxonMobil's share of production and potential supply of gas to Great Britain (including UKCS production & 30% of QGII volumes), is forecast to be in the range 5 - 15% through the period from 2003 to 2015.

However, the above analysis has been conducted on a narrow basis. As illustrated in the last chart in Annex 14 and the second chart of Annex 12, gas from a large number of sources could now be economically delivered to the UK and other parts of Europe. These sources include new gas from Russia and the Caspian as well as LNG from a wide range of locations including, Nigeria, Egypt, Oman, Venezuela as well as Qatar. An estimate of the gas reserves that are potentially capable of production from such sources for competitive supply to the UK are provided in Annex 17.

At Ofgem's request ExxonMobil has included in Annex 7 some details of gas that may be exported by Gasunie to Great Britain if its interconnector project proceeds.

4.7.3 CONTRACTUAL ARRANGEMENTS AT THE BEACH

Ofgem has requested the Sponsors to describe contractual arrangements at the beach. The Sponsors consider that there is no independent beach market. First sales by producers at the beach or the NBP (i.e. producer-direct sales) form part of the upstream supply market already described above. Resales by any entity made at the beach, NBP or interconnector entry points form part of the wholesale market, as do sales of processed gas imported through interconnectors and resales of gas originally delivered as LNG. The wholesale market is further addressed in Section 4.7.4.

In this section the Sponsors describe the nature of the various long term contractual arrangements that exist today "at the beach" or which are envisaged "at the beach" as part of the QGII Project.

Existing Long Term Sales At The Beach In Great Britain

QP currently has no contractual commitments at the beach in Great Britain.

ExxonMobil has a variety of sales agreements at the beach and also at the NBP and other points. These arrangements can be summarised in categories as follows :

- Producer-direct sales to third party redistributors at the beach (or other locations) form a declining proportion of ExxonMobil's sales in Great Britain. These sales are principally "buyers nomination" contracts (with take or pay clauses) under which the volumes of gas produced for sale are determined by the buyers. These long term sales are made at the NBP and at inter-connector entry points.

The aggregated forecast level of such producer direct sales are shown in Annex 6 at the upstream level of the market.

- Equity gas produced by ExxonMobil's UK production companies (Esso Exploration and Production UK Limited (EEPUK), Mobil North Sea Limited ("MNSL") and Superior Oil (UK) Limited ("SOUK")) which are not sold as producer-direct sales are marketed by EMGME.

- The majority of ExxonMobil's sales in Great Britain are re-sales by EMGME of the UK equity gas mentioned above, imported equity gas and gas purchased from third parties. These re-sales are made to various customers with delivery at the beach, NBP and inter-connector entry points. Re-sales at the beach are typically short notice / short duration and mainly take place at Bacton. EMGME also resells gas under long term arrangements at the NBP and at inter-connector entry points and the aggregate of these volumes is also shown in Annex 6 included in the wholesale market.

QGII Project Arrangements At The Beach

As illustrated in Annex 5 the upstream LNG supplier Qatargas II will deliver and sell LNG to TradeCo ex-ship at South Hook Terminal under a Sales and Purchase Agreement (SPA). TradeCo will resell the LNG, once re-gasified, ex terminal to EMGME who will arrange onward resale. There will be a 25 year Gas Sales and Purchase Agreement (GSPA) governing sales from TradeCo to EMGME at the beach for each phase of the project.

Delivery of gas under the GSPA will reflect the baseload annual program for LNG tanker deliveries nominated by QatarGas II as producer to TradeCo under the LNG SPA. As described in Section 2.2, The Sponsors are not planning to build storage at South Hook for stocking purposes which could be used by TradeCo to holdback supplies. EMGME will be obliged under the GSPA to take all gas delivered on a 100% take or pay basis.

In the context of this arrangement QatarGas II is present on the upstream supply market. TradeCo will be a new entrant on the wholesale market in Great Britain as it is reselling gas delivered by a producer. EMGME is also present on the wholesale market through its resale activities. This is an important factor to note as it makes clear that the wholesale market in Great Britain includes both first re-sales and subsequent re-trades, in this case both the initial re-sale by TradeCo and the subsequent resale by EMGME (not to mention further re-sales of these volumes by EMGME's customers).

Summary

The Sponsors believe that sales at the beach cannot be considered to comprise a market in its own right and that difficulties will arise if

markets are too narrowly defined. In the context of the wholesale market, for example, it is artificial and would be misleading to focus purely on "physical" volumes as both TradeCo and EMGME will be present on the wholesale market in respect of the same volumes of gas (as will EMGME's customers who are also resellers). An analysis confined to a physical-only basis would necessitate an arbitrary exclusion of all but one of the relevant re-sellers.

4.7.4 DOWNSTREAM LEVEL

For the purposes of this Application Ofgem has requested that the Sponsors provide details of their share of sales at the downstream level of the gas supply chain in Great Britain. The Sponsors consider the Downstream comprises:

(a) gas sold on the wholesale market

(b) gas (sourced from producers or wholesalers) sold to end users (i.e. at the meter) in the industrial and commercial, domestic and power station sectors, which the Sponsors have characterised collectively as the Retail market.

Geographic Extent of Wholesale Market

As described in Section 4.7.3 above, both QP (through its interest in TradeCo) and EMGME will be present on the wholesale market. Whilst the Sponsors believe that there is evidence to argue that the relevant geographic market is already European wide, at the request of Ofgem and for the purposes of this application the Sponsors have presented a Great Britain analysis through to 2015. Even if there is doubt today as to the geographic scope of the market, it is clear that the market will widen substantially to include most, or all, of Europe by 2010 (when maximum LNG export levels are expected to reached by the QGII project). Sales in Great Britain by resellers based on the Continent already occur and are on the increase. It is the Sponsors' view that this development should be taken into account by the authorities during their review of this application.

Scope of Wholesale Market

The Sponsors consider that the GB wholesale market comprises resales of gas purchased from producers as well as sales of processed gas imported through interconnectors and resales of gas originally delivered as LNG. These resales are made at the beach, NBP and other trading points, including interconnector and storage trading points, to a variety of aggregators and large end-users.

Gas sold under contracts where the contractual delivery point is the end user's meter (where there is no scope for retrade) forms part of the Retail market. The Sponsors are of the view that most gas sold in the Retail market has been sourced from the wholesale market. However,

at Ofgem's request and for the purposes of this Application only, the Sponsors have assumed that those Retail market participants who have UKCS production interests are supplying end users direct from the upstream supply market. The Sponsors consider that this assumption produces an artificially narrow market size but, notwithstanding this, no significant competition concerns arise. In reality, much of this volume will be re-traded on the wholesale market first in the same way that ExxonMobil producers sell to EMGME and third parties and EMGME acquires gas from its affiliated producers and from third parties at the NBP or other trading points.

Physical Component of Wholesale Market

In trying to identify the physical component of the wholesale market, ExxonMobil has had to rely on its experience of the nature of contracting and supply portfolio arrangements as these have evolved between producers, gas shippers, gas suppliers and power generators. The analysis performed (the approach to which has been shared with Ofgem on a confidential basis) indicates that the "physical" part of the wholesale market met at least 70% of total NTS demand in 2002. The size of the physical component is expected to increase steadily so that it would be around 90 % of NTS demand by 2015 and beyond; this would be consistent with the anticipated replacement of producer-direct sales of UKCS gas by imported supplies which are likely to be re-sold at the NBP or other locations before final distribution to end users. This trend is apparent at the NBP (see Annex 9).

In assessing QP and ExxonMobil shares the Sponsors have taken TradeCo's sale as the relevant physical sale, in order to avoid double counting with the EMGME subsequent resale (as it is the first sale at this level of the market). As already mentioned, it is the Sponsors' view that it is artificial and misleading to focus on physical volumes alone for this reason.

On this basis QP (through its interest in TradeCo) would be a new entrant to the market with a share that grows with QGII LNG supply build-up and which will be around 12% by 2015. Thereafter this share is expected to decline.

ExxonMobil's share is currently in the range 15-25% (2002) but is expected to decline with indigenous production to be in the range 5-15% through to 2015 and beyond.

Wholesale Market includes Physical Plus Traded Volumes

As mentioned above concentration on physical volumes alone provides a misleading picture of the market and forces arbitrary or illogical assumptions over relevant transactions. The Sponsors therefore consider that a proper analysis should be based on physical plus traded volumes. In order to provide a conservative assessment of overall market size, the Sponsors have only included:

- Gas retraded at the NBP held steady at 2002 levels as measured by Transco (about 550 bcm / year) plus

- Volumes reflecting the EMGME second re-trading of QG II gas (first TradeCo re-sale deemed to be included in the 2002 level above and subsequent re-trades by EMGME customers ignored).

This assessment excludes re-sales that are known to occur at other trading points but for which there is no transparent measure of annual volumes involved and ignores likely growth in the level of re-trades over time.

On this analysis QP's share of the wholesale market peaks at about 3% and ExxonMobil's share remains < 5% throughout.

Market Shares Summary

In either of the two analyses presented, QP is a new entrant to the wholesale market. ExxonMobil's share of the market never reaches appreciable levels and is either static or declining in the period to 2015 and beyond.

Even taking an extreme case, EMGME market shares do not reach problematic levels. For example, if the Sponsors were to count the EMGME resale of gas as the physical volume (rather than the TradeCo's first sale to EMGME) then EMGME's share of the market would remain in the range 15-25% in the period 2010 – 2015, declining over time. It is the Sponsors' view therefore that, on all potential analyses and without exception, QP's entry into the wholesale market enhances competition and ExxonMobil's market shares are not detrimental as they either remain static or decline.

Even on the narrowest basis ExxonMobil does not have scope to distort the market and this should be particularly clear when considering other key factors such as (i) the contractual basis on which EMGME is taking delivery of gas from TradeCo (100% take or pay); (ii) the commitments of the Sponsors to provide for Third Party Access through unused capacity; and (iii) EMGME's plans to resell the gas under a range of long and shorter term contracts to a variety of customers.

When these factors are coupled with the structure and number of players in both the upstream supply and wholesale markets today (over 140 licensed shippers) and with new entrants continuing to join each market, it is difficult to envisage how market concentration levels could ever exceed the DTI's benchmark test of 1800 on the HHI measure.

As regards the Retail market, EMGME no longer supplies Industrial and Commercial customers and has an immaterial share of sales at the

meter to the power generation sector (< 5%). No new commitments in this market are currently foreseen.

4.7.5 INFRASTRUCTURE

Section 5.5.2.1 sets out the Sponsors' assessment of the relevant product market for LNG regasification terminals. While it could be argued, for the reasons set out in that section, that LNG regasification terminals compete with onshore processing facilities for the treatment of pipeline gas, for the purposes of this Application the Sponsors have considered LNG regasification terminals separately.

Details of the share that the South Hook terminal capacity will constitute in the relevant geographic market are set out in Section 5.5.2.1.

QP has no interests in existing UKCS infrastructure. In Annex 8, as requested by Ofgem, the interests of ExxonMobil in UK North Sea pipelines and onshore processing facilities (for the treatment of pipeline gas) in Great Britain are summarised.

4.7.6 SUMMARY OF BRITISH MARKET SHARE ANALYSIS

The above analysis illustrates the high level of competition at all levels of the supply chain in Great Britain.

QP will be a new entrant to the British market. Even at its projected peak QP's forecast share of production and potential supply of gas to Great Britain will represent only a 9% share in the upstream supply market and on the narrowest measure of the wholesale market in GB this share would be 12% by 2015.

Great Britain has the most liquid market in Europe and in the downstream sector there are many competitors. Details of the level of NBP trading activity are set out in Annex 9.

The market share of ExxonMobil (following purchase of gas by EMGME from TradeCo ex-terminal) is forecast to remain at less than 5% of the wholesale market between 2002 and 2015. Even on the narrowest measure, ExxonMobil's shares will remain comparable with current levels.

In respect of infrastructure ExxonMobil has a 9% share of UK and Norwegian North Sea pipeline capacity and only an 8% share of UK and Norwegian North Sea pipeline gas processing terminal capacity. As illustrated in Annex 8 on even the most narrow market definitions, at no level can ExxonMobil's infrastructure interests have an appreciable effect on competition.[19]

[19] OFT Guidance Note 401 of March 1999 in paragraph 2.19 states that "…an agreement will generally have no appreciable effect on competition if the parties combined share of the relevant market does not exceed 25 per cent…".

As explained in Section 4.9 below the QGII Project will enhance competition in the upstream supply market and on the wholesale market. As illustrated above the QGII Project enhances competition at these levels of the supply chain in Great Britain and is not to the detriment of competition at any other level.

4.8 GAS ACT 1986 ALREADY PROVIDES FOR EXEMPTION FROM REGULATED THIRD PARTY ACCESS

The Gas Act 1986[20] provides for exemptions from regulated third party access otherwise required in relation to the capacity associated with storage, LNG and transportation facilities. Exemptions of an unlimited duration may be granted although these may currently be revoked on four months' notice by the Secretary Of State.

Where major infrastructure investments (such as LNG import facilities and the associated upstream investments) are being made, it is the view of the Sponsors that an exemption, once granted, should not be at risk of being withdrawn unless it is established that the specific terms under which such exemption has been granted have been clearly breached. Furthermore, where there is an alternative remedy available to address legal or regulatory concerns (such as the use of competition laws, the Utilities Act 2000, or the assessment of merger impacts under appropriate merger regulations) such remedies should be used rather than a review or withdrawal of an exemption.

4.9 COMPETITION IN GREAT BRITAIN MAINTAINED OR ENHANCED AS A CONSEQUENCE OF THE PROJECT

In paragraph 19 of the *Joint Energy Security of Supply Working Group (JESS) Report* of February 2003 it is stated that "…as production from the UKCS declines and the UK becomes more dependant on imported gas, there will be an increasing need for new gas supply sources as well as investment in infrastructure projects. ExxonMobil's declining share of supply illustrates not only the need for alternative supply sources to be developed by existing suppliers, to replace traditional sources of supply, but also the increasing role that will be played by new entrants such as QP.

As illustrated in Annex 10, gas demand in Great Britain is forecast to grow by approximately 2% per annum between 2005 and 2015.[21] If market forces are allowed to prevail, existing producers, infrastructure developers and new entrants are likely to respond to these investment signals by developing new sources of supply and the necessary infrastructure. While the QGII Project will make a material contribution to supply security in Great Britain it will, in no way, close the forecast supply gap by itself. In addition to established entities currently competing for supply to Great Britain (such as Shell, BP and Statoil) new entrants are likely to invest in supply to Great Britain and further increase competition. The growing demand for gas in Great Britain means that the QGII Project will not inhibit the attraction of gas from other sources such as Algeria, Nigeria, Norway, the Netherlands and Russia with which the

[20] Section 19 Gas Act 1986.
[21] Wood Mackenzie Mutli Client Study : January 2003 "Pushing the Boundaries".

QGII Project and regasified LNG from other supply sources will compete. Indeed, a successful process for the QGII Project is likely to encourage other investment and demonstrate the support of the British government for free market principles.

Assuming the QGII Project proceeds the risk of supply shortages being suffered in Great Britain is reduced. This not only results from the availability of Qatari LNG, to partially fill the supply gap, but also because the Sponsors' use of South Hook Terminal will ensure capacity in other LNG facilities in Great Britain is available to other LNG suppliers, further increasing the potential supply of gas and hence competition.

Increased supplies of gas should reduce the risk of price increases, that may otherwise arise from supply shortfalls, if the project does not proceed.

As South Hook is one of a number of planned LNG import terminals no monopoly issues arise.

Through its interests in Qatargas II and TradeCo, QP will be a new market entrant at the level of upstream supply in Great Britain and also at the level of the wholesale market.

As illustrated in Annex 11 concentration levels in the British gas supply chain are not high. With a growing number of new entrants expected as imports replace indigenous supplies and the number of shippers operating in the wholesale market continuing to grow it is difficult to see how concentration levels could increase above the DTI's benchmark of 1800 on the HHI.

4.10 INTERACTION WITH THE BALANCING REGIME IN GREAT BRITAIN

EMGME is a licensed gas shipper with many years of experience in gas balancing operations in Great Britain. EMGME is already providing and will continue to provide advice to the Sponsors on all matters relating to the interaction with the transmission network.

TermCo and TradeCo will also comply with their legal obligations and will be aware of the duties of those licensed gas shippers who may be using the terminal facilities or who are taking delivery of gas for onward transmission through Transco's network.

4.11 INCREASED NGT NETWORK EFFICIENCY

Adding a new entry point at Milford Haven and flowing gas into the network from the south west of Great Britain provides for network efficiency benefits.

(i) With a reliable gas flow entering the NTS via a geographical extremity in the south western part of Great Britain and via a new entry point location, the transmission network will be less vulnerable to supply shocks, enhancing transportation security. It could be expected that, for instance, summer interruptions would be much less likely.

(ii) The new flows of gas will provide Transco with options to dispose of or convert for alternative commercial use, the existing LNG peak shaving facilities at Dynevor Arms and, potentially, also at Avonmouth. Both of these facilities are currently used for transmission support at this end of the network and would or could become redundant for this purpose after the introduction of high flows of gas from the South Hook LNG import terminal.

4.12 PROJECT DEPENDENT ON EXEMPTION OF BOTH PHASES

The QGII Project is a two train integrated project for the supply of gas. While, as a result of the scale of the project, it is proposed to be implemented in two phases, before any decision is made to proceed with Phase 1 the Sponsors need to receive assurances from the DTI, Ofgem and from the Commission (through Ofgem) that an exemption will be available for both Phase 1 and Phase 2 capacity.

Each of the two phases of the integrated project will need to be separately financed with funding decisions being required about three years prior to first gas in each case. However, the Sponsors' decision to invest in Phase 1 depends not only on having financing arrangements agreed for that phase but on the overall economics and risk profile of both phases (trains) of the integrated project. It should be noted that, notwithstanding the same projected volumes of gas for each phase, the investment associated with the second phase is 30% less than for the first phase because a number of facilities engineered and / or constructed in the first phase will be shared for the second phase. Consequently the economics for building one train do not meet either QP's or ExxonMobil's investment thresholds and FEED is therefore now being undertaken for both phases.

4.13 CONCLUSION

The British segment of the European market for natural gas is the most open and strongly competitive on all key measures. There is a high level of liquidity on the wholesale market (over 140 licensed gas shippers), and consumers have clearly benefited from competitively priced gas as evidenced by the large number (60+) of licensed gas suppliers competing for market share.

In recognition of this highly competitive environment Ofgem has directed its resources to that of monitoring the markets and, both separately and together with the DTI, to encouraging new supplies.

Market conditions and this new emphasis adopted by the British Government and the independent regulator Ofgem will encourage the development of large new gas import projects that will provide the opportunity for British consumers to continue to benefit from competitively priced gas even as indigenous production begins to decline.

The QGII Project can contribute to the continuation and enhancement of these high levels of competition by bringing a new market entrant on both the

upstream supply and wholesale markets. The QGII Project would enhance security of supply through the replacement of some of the declining indigenous reserves and will increase diversity of supply by introducing Qatari LNG and QP to Great Britain. ExxonMobil's other interests in Great Britain are such that they will not undermine these benefits.

As other LNG terminal projects are already underway, the grant of the exemption will not foreclose access to terminal capacity in Great Britain by other LNG suppliers nor inhibit further investment or the supply of gas delivered by pipeline from Norway, Belgium, the Netherlands or further afield. Indeed, Great Britain is an island with many potentially suitable deepwater locations capable of receiving LNG tankers. Oil refinery or former oil refinery sites provide potential locations for future LNG developments and the Sponsors are aware of a number of other possible locations where LNG terminal facilities could be constructed.

5. SUBSTANTIVE REASONS SUPPORTING AN EXEMPTION (IN LINE WITH ARTICLE 22 OF THE SECOND GAS DIRECTIVE)

5.1 ARTICLE 22(1)(A) : THE INVESTMENT MUST ENHANCE COMPETITION IN GAS SUPPLY AND ENHANCE SECURITY OF SUPPLY

5.1.1 THE INVESTMENT WILL ENHANCE COMPETITION IN GAS SUPPLY IN GREAT BRITAIN AND EUROPE

Section 4 demonstrates that the investment will enhance competition in Great Britain.

In addition, the successful implementation of the current project will increase the likelihood of QP's investment in other projects designed to bring LNG to Europe, enhancing competition in the European gas production and supply market by securing the long term presence of a valuable new entrant, delivering gas from a highly reliable source, and providing an alternative to Russian gas as European indigenous production declines.

Annex 12 illustrates Wood Mackenzie's estimate of the European supply / demand shortfall and how that shortfall may be met. ExxonMobil's estimated shares of potential production and supply within the relevant markets (as further detailed in Section 5.5.2.2) are also included. QP's estimated shares of potential production and supply within the relevant markets are set out in Annex 2. Whilst LNG plays an important role in filling that gap, other significant competing resources will be available ensuring competitive market conditions.

5.1.2 THE INVESTMENT WILL ENHANCE SECURITY OF SUPPLY IN GREAT BRITAIN

<u>Background - UK supply-demand (JESS) and Ofgem annual report 2002</u>

The Department of Trade and Industry and Ofgem established in July 2001 the Joint Energy Security Of Supply Working Group ("JESS") that includes certain terms of reference that are relevant to this Application as follows:

- to monitor at a strategic level, over a timescale of at least seven years ahead, the availability of supplies of gas and the adequacy of Great Britain's gas and electricity infrastructure;
- to assess whether appropriate market-based mechanisms are bringing forward timely investment to address any weaknesses in the supply chain that are anticipated;
- to identify relevant policy issues and consider the implications.

The second six monthly report published by JESS in February 2003 identified that in the next 20 years, as production from the UKCS declines, Great Britain will increasingly move from a position of a net exporter of gas to one of increasing dependency on imports.

The report recognised that, as Great Britain becomes more dependent upon imported gas, there will be an increasing need for new gas supply sources as well as investment in infrastructure projects to meet both the annual baseload demand and the peak loads expected in winter.

Three potential sources of baseload gas were identified: additional import connections from Norway, imports from Continental Europe (via upgrades to the existing interconnector and via new interconnections) and LNG terminals to import gas from worldwide sources.

Also, in the foreword of its Annual Report published in July 2003, Ofgem's Chief Executive noted in paragraph 1.10 that it was "working actively to facilitate investment in LNG terminals, which bring geographical diversity of supply."

<u>The QGII Project will help to offset declines in indigenous production</u>

The chart included in Annex 13 that is taken from the February 2003 JESS report illustrates the outlook for Great Britain in terms of the percentage of gas demand that will rely on imported sources of gas. Around 50% of British demand will need to be met by imported supply by 2010.

Transco in its Transporting Britain's Energy review on 26 June 2003 presented forecasts to the industry indicating that it saw similar levels of import dependency and that, by the end of 2012, such dependency could be as high as 70%. Transco also presented its outlook for potential new import capacity to Great Britain (based on projects notified to it) that can be summarised as follows (see Annex 14 for further details):

Source (No projects)	**Transport**	**Timeframe**	**Potential volume (bcm / yr)**
LNG (3)	Ship	2004 / 7	36
Continent (2)	Interconnectors	2005 / 6	36
Ormen Lange (1)	New Pipeline	2007 / 8	20
Ormen Lange	UKCS infrastructure	2007 / 8	10
Total			**102**

Increasing import dependency is also illustrated by recent Wood Mckenzie supply / demand data[22] showing that the level of imported supplies required to balance UK demand in 2010 is likely to be about 50 bcm / year increasing to 100 bcm / year by 2015. The importation of Qatargas II LNG would contribute to that need.

Project will provide new source of gas

Through its interests in Qatargas II, TradeCo and TermCo, QP will provide Great Britain and Europe with access to the world class North Field, with proven non associated gas reserves in excess of 25,000 bcm.

Not only is Qatar a large potential source of gas it is also a new source of gas into Great Britain and QP will be a new entrant at both the upstream supply and wholesale markets. Such diversity of supply of gas represents an enhancement to security of supply.

Proposed (South Hook) LNG terminal is an additional point of entry into Great Britain

The proposed South Hook LNG terminal provides a new point of entry for LNG into Great Britain. As a result of the interconnection of Great Britain and the Continent LNG, once regasified, could displace supplies which may otherwise have flowed from mainland Europe increasing the supply of natural gas not only in Great Britain but in Europe as a whole.

Neither the construction of a new LNG terminal nor its exemption from regulated third party access inhibits, in any way, the construction of other LNG import facilities or new pipelines capable of delivering natural gas to Great Britain or elsewhere in Europe. In the February 2003 JESS report, reference was made to several such infrastructure developments that are currently in the public domain.[23]

LNG transportation will provide flexibility of supply source

Sales agreements between TradeCo and EMGME will provide TradeCo with a right to direct its cargoes of LNG to other regasification locations to meet supply shortages elsewhere in Europe. While this cargo diversion is not anticipated at the outset it does provide the market with more flexibility. To the extent that these cargo diversion rights were exercised, the resulting spare capacity in the terminal would be made available promptly to third parties on non-discriminatory terms.

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22 Data shown by Wood Mackenzie at "Transporting Britain's Energy 2003 : Moving Towards Import Dependency" and available on the Transco website at www.transco.uk.com

23 The projects listed in the 2003 JESS Report, Appendix B, included: Ormen Lange; compressors at Zeebrugge to increase import capacity into the UK; interconnector from Bacton to Balgzand; Aldbrough storage; Cheshire storage; Isle of Grain LNG; Milford Haven LNG (Petroplus and QP / ExxonMobil), Humbly Grove storage; Welton storage and Lancashire storage. It was also stated that "JESS is aware of a number of other projects that are under consideration, but for commercial reasons have yet to be announced".

LNG suppliers with a proven history of reliability

Qatari LNG is amongst the most reliable energy supply sources in the world. Qatar based LNG contracts have a highly reliable delivery profile. Over 1,000 cargoes have been loaded to date at the Ras Laffan terminal and no deliveries have been missed since the commencement of operations in 1996.

5.2 ARTICLE 22 (B) THE LEVEL OF RISK ATTACHED TO THE INVESTMENT IS SUCH THAT THE INVESTMENT WOULD NOT TAKE PLACE UNLESS AN EXEMPTION WAS GRANTED

5.2.1. LEVEL OF RISK

As will be illustrated in the following sections the Sponsors agree with the views expressed by Ofgem / DTI in the LNG Guidance Notes[24] that: "In a competitive market, project financiers will bear the risk and upside returns will be capped by competitive pressures. It is appropriate to conclude that in certain circumstances major new infrastructures may well not be built unless an exemption is granted."

The investment in South Hook terminal is being made solely for the purposes of enabling a significant new upstream gas supply from the Qatar North Field to access and compete for sales in the European market and in Great Britain in particular. The terminal is being engineered to provide a capacity match with the upstream parts of the project where the significant part of the total project investment is required to secure offshore field development, construction of onshore large capacity liquefaction trains and a fleet of large capacity new LNG ships.

The range and level of risk undertaken by the Sponsors is considerable and includes, but is not limited to, construction cost, technology, operational, supply, credit, and price risks in a competitive wholesale market. The individual and combined magnitude of these risks is significant.

The "level of risk" in the terminal investment should therefore be reviewed in the context of the significant upstream investment it is designed to facilitate. The investment in the South Hook terminal only makes sense for the Sponsors (whose primary business focus is the production and supply of gas for trade in wholesale markets) as a means to allow the upstream elements of the project to proceed.

World trade in short term / spot LNG sales is at present limited and adequate terminal and shipping capacity cannot reliably be secured at short notice. However, to justify investment in the upstream assets (field development, liquefaction, shipping) and obtain financing, the shareholders, ship owners and external lenders require guaranteed access rights throughout the entire supply chain, from field to market

[24] Paragraph 8.31, LNG Guidance Notes.

and for the whole project life. Such access therefore needs to be in place before investment decisions are taken.

The future development of reliable, liquid LNG spot markets cannot be predicted and could not be an acceptable basis to underpin a current project for any part of its life without increasing risks to the point that financing would be impossible. Therefore for this project to be viable it is essential that lenders are certain that the Sponsors can secure, in advance, guaranteed long term terminal access.

The Sponsors believe therefore that it is reasonable to both request and be granted an exemption covering all of the planned terminal capacity for a minimum period of 25 years from the start up of each phase.

5.2.2 TERMINAL COSTS MINIMISED

Qatari LNG will only be competitive with indigenous production if costs throughout the integrated project supply chain, including the terminal, are minimised. This can be achieved, in part, through technology advances that allow larger scale liquefaction and shipping facilities with resulting economies of scale. It is essential for this purpose that the terminal facilities are matched both in terms of scale and operational efficiency with the rest of the chain.

5.2.3 EXEMPTION SOUGHT FOR 100% OF TERMINAL CAPACITY

The terminal specification and capacity will be designed to match the requirements of the upstream element of the project, which at the current time assumes all QGII volumes will be brought to Great Britain. Given the level of project risk and the need to control and optimise terminal costs to ensure overall project economic viability and the ability to compete effectively in Great Britain, the Sponsors cannot justify the cost or uncertainty associated with the building of surplus capacity or other facilities for third parties.

As described earlier in Section 2, planning permission for South Hook terminal was granted in October 2003, pre-FEED engineering has been completed and FEED is in progress with a design objective to provide a cost efficient match with the production and transportation capacity of the upstream element of the project. A change of business model from an own use to part merchant terminal is not consistent with the business focus or project timetable of the Sponsors. It is therefore not appropriate for the Sponsors, having permitted and engineered capacity to match the upstream elements of the project, to subsequently offer initial capacity to the market. Such an approach would put the future of the project in question.

5.2.4 EXEMPTION REQUIRED FOR A MINIMUM 25 YEAR TERM FROM START UP OF EACH PHASE OF THE PROJECT

The term over which the upstream element of the project is required to produce gas to make an acceptable economic return is at least twenty five years from the start up of each of the two phases. Firm rights to regasification capacity in the South Hook terminal are essential to allow for the repayment of external debt and an acceptable return to the equity investors involved in the integrated project, covering field development, liquefaction and shipping. Shortening the period of exemption, even by a few years, introduces unnecessary uncertainty and risks to the project as a whole.

The Sponsors, lenders and shipowners need to be able to justify their investment based on minimised risks and a secure period of sales in which to recover their capital. A reduced term of guaranteed access could undermine the ability to finance the QGII Project. Lenders typically require the period of guaranteed access to exceed the length of any loans by several years so that, if project cash flows in the early years fall short of debt service needs, they can recoup losses towards the end of the project life. With the market at its early stages of development prudent investors cannot assume rapid development of a liquid market in LNG shipping and import / regasification capacity. Without secure terminal access the investment decision would need to allow for the possibility that regasification capacity may not be surplus in the future and therefore the price for LNG to access the market could be much higher than budgeted. With limited ability to pass on higher costs in a competitive market, project cash flows will be reduced and debt service could be jeopardised. This risk is likely to increase the overall cost of capital of the project by reducing the availability of debt finance and increasing ship charter costs thereby undermining project viability.

The market may develop from its current nascent state into an actively traded one characterised by multiple terminals, excess shipping and terminal regasification capacity. If or to the extent this occurs later in the life of the QGII Project, market forces may be expected to cause the Sponsors to increasingly trade regasification capacity rights on the secondary market to optimise their LNG sales portfolios in order to remain competitive. One such consequence of increased trade would be that of increased third party shipping through the South Hook terminal. However, as explained above, such developments cannot be predicted with any certainty and exemption from regulated third party access for the duration of the QGII Project is therefore essential to underpin the project's financing.

It should, in particular, be noted that a regulator need not be concerned that an exemption might extend into a period when a liquid market exists. If such market circumstances arise, market forces will secure increased third party access without any need for RTPA. On the other hand failure to grant a sufficient exemption at the outset will

discourage and could prevent investment in regasification capacity and would tend to slow the development of European trade in LNG.

Taking account of the above considerations the Sponsors are of the view that there can be no objective regulatory justification to limit the period for guaranteed access below that sought.

5.2.5 PRECEDENTS FOR PERIOD OF EXEMPTION REQUESTED

In paragraph 8.44 of the LNG Guidance Notes Ofgem notes that "...it is the policy of the Commission DG Competition to limit relevant clearance for agreements, which meet certain conditions, from certain provisions of EU competition law, to periods of up to 15 years."

The Sponsors would point out that while a 15 year period for exemption may, as Ofgem notes in paragraph 8.44, be "...an appropriate general starting point for considering the duration of exemption from RTPA requirements..." Ofgem quite correctly points out that "…certain market features and arrangements might justify a longer exemption than the 15 years."

The Sponsors agree with the view expressed by Ofgem and also consider that precedent supports this approach. For example on 1 June 1995 the Commission cleared the long term arrangements relating to the UK-Belgium subsea interconnector. In its press release[25] announcing its intention to allow the project to proceed the Commission noted that there are "...restrictions on competition to enable the members of the consortium to enjoy the use of the interconnector for a specified period that allow adequate recompense for the expense of providing a major infrastructure." On the basis of information published on the Interconnector (UK) Limited website the project cost was only £460 million (in comparison with the multi billion dollar investment in the QGII Project). From the same source it would appear that first gas flows commenced on 1 October 1998 and that the company has long term agreements until 2018 to transport gas through the pipeline.

In a similar vein, on 11 June 2000, the Commission published its view that agreements in relation to the Viking cable (between E.ON Energie, Statkraft, Statnett and Viking Cable AS) that was proposed to be constructed for the purposes of transmitting high-voltage electricity between Norway and Germany were not contrary to Articles 81 or 82 of the EC Treaty.[26] The agreements notified provided that Statkraft and E.ON Energie would have exclusive rights to use the Viking Cable for a period of 25 years. In the published notice the Commission recognised that the construction of the cable would "...result in new capacity being added to the transmission connections between Germany and Norway..." and noted the requirement for "substantial

[25] Press release DN:IP/95/550 of 01/06/1995.

[26] Notice pursuant to Article 19(3) of Council Regulation No.17 concerning case COMP/E-3/37.921 - Viking Cable (2001/C247/04).

investments" by the notifying parties. While the project to construct the Viking Cable has not, in fact, proceeded comparisons between the Viking Cable case and the QGII Project can be made. In the same way, the QGII Project is bringing new capacity to the market. In addition it is bringing a new entrant and, unlike the Viking case, will be making spare capacity available to third parties.

Furthermore, the Court of First Instance has reminded the European Commission[27] that the duration of an exemption must be sufficient to enable the beneficiaries to achieve the benefits justifying such investment and that, when considerable investment is required "the length of time required to ensure a proper return on that investment is necessarily an essential factor to be taken into account when determining the duration of an exemption, particularly in a case such as the present, where it is undisputed that the services in question are completely new, involve major investments and substantial financial risks and require the pooling of know-how by the participating undertakings."

Considering the multi billion dollar investment (with the level of project finance expected to be the highest of any LNG project) coupled with the exceptional level of risk involved, the Sponsors are of the view it is both wholly justified and consistent with Commission precedent to seek at least a 25 year exemption from third party access from the date of start up of each phase of the QGII Project.

5.3 ARTICLE 22(1)(C) : THE INFRASTRUCTURE MUST BE OWNED BY A NATURAL OR LEGAL PERSON WHICH IS SEPARATE AT LEAST IN TERMS OF ITS LEGAL FORM FROM THE SYSTEM OPERATORS IN WHOSE SYSTEMS THAT INFRASTRUCTURE WILL BE BUILT

TermCo, when established, will be a separate legal entity with a 70% direct or indirect shareholding by QP and a 30% shareholding by an ExxonMobil affiliate.

TermCo will be a separate legal entity from National Grid Transco, the principal public gas transporter in Great Britain.

5.4 ARTICLE 22(1)(D) : CHARGES ARE LEVIED ON USERS OF THAT INFRASTRUCTURE

Tariffs will be applied to TradeCo via the throughput agreement between TradeCo and TermCo.

Tariffs for access by third parties to spare capacity will be established through a non-discriminatory mechanism further details of which are set out in Annex 19.

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[27] Judgement of the Court of First Instance in European Night Services Ltd (ENS) -v- Eurostar (UK) Ltd, 15 September 1998.

5.5 ARTICLE 22(1)(E): THE EXEMPTION IS NOT DETRIMENTAL TO COMPETITION OR THE EFFECTIVE FUNCTIONING OF THE INTERNAL GAS MARKET, OR THE EFFICIENT FUNCTIONING OF THE REGULATED SYSTEM TO WHICH THE INFRASTRUCTURE IS CONNECTED

5.5.1 INTRODUCTION

In order to demonstrate that the above test shall be satisfied the Sponsors have estimated the proportion of capacity that the South Hook LNG terminal will comprise relative to other LNG terminals in the EEA. In addition this section also addresses any effect on competition in the markets for natural gas at the levels of potential production and supply, and distribution. Competition law principles have been applied to identify the potentially relevant markets and previous Commission decisional practice has been reflected where still relevant on the current facts. In most cases these relevant markets cover a wider area than Great Britain although Section 4 has addressed the British dimensions of the project within the broader relevant markets.

5.5.2 ANALYSIS OF MARKETS

5.5.2.1 LNG Regasification Terminals

Relevant product market

Natural gas at the wellhead is rarely suitable for onshore transmission or commercial use prior to processing. In the case of gas delivered from offshore facilities the processing that is required will typically be undertaken at onshore processing facilities. In the case of gas that has been liquefied for the purposes of transportation by ship it will typically be delivered to an onshore terminal for regasification and other processing.

After onshore processing of natural gas or the regasification of LNG is completed, the gas delivered into the onshore transmission system will be of pipeline quality and customers do not differentiate on the basis of its original source or the method by which it has been transported from that source to the processing facility.

While it could therefore be argued that LNG regasification terminals compete with other onshore processing facilities, for the purposes of this Application, the Sponsors have considered such facilities separately.

Relevant geographic market

The delivery of LNG from its source by ship provides considerable flexibility to potential suppliers in their choice of regasification terminals.

In addition to the ability to access regasification facilities in various locations the interconnection of European gas markets means that gas delivered to a terminal in one Member State can flow to other Member States through the integrated European transmission network.

Given the fact that LNG suppliers will, when selecting terminals for regasification capacity, be in a position to select facilities over a wide geographic location the relevant geographic market for LNG import / regasification terminals is, at least, EEA wide.

Annex 15 illustrates existing and potential LNG import / regasification terminals. Pipeline projects supported by DG.Tren as being of pan-European interest are also shown. Annex 15 also illustrates how the European gas pipeline network and both current and planned LNG terminals will compete to facilitate the delivery of gas to its ultimate destination.

South Hook LNG share of EEA LNG terminal capacity

At present neither QP nor ExxonMobil has any ownership interest in LNG terminal facilities in the EEA. The current annual capacity of the existing LNG terminals in the EEA is estimated to be 46 bcm at nine active terminal sites.[28] There are currently no LNG import terminals in operation in Great Britain.

By 2010 industry outlooks vary widely for LNG terminal capacity but, as illustrated in Annex 16, estimates suggest that the potential LNG regasification terminal capacity in the EEA could reach around 180 bcm. With a capacity of 21 bcm at the South Hook terminal, Termco's share of capacity would therefore be estimated at about 11%. Today some 20 terminal projects are in various stages of planning at various locations in the EEA, of which three are known to be planned for Great Britain.[29] Further details are also set out in Annex 16.

The Sponsors are evaluating other LNG supply opportunities in Europe and are currently evaluating terminal options in Belgium and France. The Sponsors are not in a position at

[28] See Annex 16.
[29] See Annex 16.

this stage to confirm whether any of the projects will proceed and / or the extent of the Sponsors' participation in the respective terminals. Their plans for the Rovigo terminal in Italy were announced on 20th November 2003. The Sponsors each intend to take a 45% interest in the terminal, the remaining 10% being held by Edison. The Rovigo terminal is planned to have an 8.4 bcm capacity accounting for 4% of the European market for LNG terminal capacity.

5.5.2.2 Production, Supply, Distribution and Marketing of Natural Gas

The European natural gas supply chain has in previous Commission decisions been divided into three market levels.

- The "upstream" production and supply of natural gas.
- The redistribution of natural gas, which involves the resale of supplies obtained directly or indirectly from gas producers to a mix of other redistributors, local distributors and large end users, such as power generators and large industrial users (which can be characterised as the wholesale market in relation to Great Britain).
- The local distribution of gas to households and small commercial users by local distribution companies (which can be characterised as the Retail market in relation to Great Britain, along with sales at the meter in the power generation sector).

Relevant product market

In the *Exxon/Mobil* Merger Decision[30] the Commission concluded that the production and supply of natural gas constituted a relevant product market. This conclusion has been followed by the Commission in subsequent mergers including *Chevron / Texaco*[31] and *Conoco / Phillips.*[32]

Prior to liquefaction, for the purposes of economic transportation, Qatari gas supplies can be compared directly with traditional sources of gas that are located geographically more proximate to their ultimate market. Once LNG has been regasified it is a direct substitute for traditional pipeline gas that has been processed in an onshore terminal and customers do not differentiate on the basis of the method of transportation of the gas from its source. Therefore in terms of the "upstream" market for the production and supply of natural gas no distinction can be drawn between traditional

[30] Commission Decision of 29.09.1999 declaring a concentration compatible with the common market and the EEA Agreement (Case No: COMP/M.1383 - Exxon / Mobil).
[31] Article 6(1)(b) Non-opposition : Date 28/02/2001 : Case No. COMP/M.2208.
[32] Article 6(1)(b) Non-opposition : Date 06/03/2002 : Case No. COMP/M.2681.

pipeline gas and LNG. The potential production and supply of LNG therefore forms a part of the product market for the potential production and supply of natural gas.

Relevant geographic market

In *Exxon / Mobil* the Commission concluded that the relevant geographic market for the production and supply of natural gas included the EEA, Russia and Algeria (pipeline and LNG sources). This conclusion has been followed by the Commission in subsequent mergers including *Chevron / Texaco* and *Conoco / Phillips*. However, the Sponsors consider that the relevant geographic market for the potential production and supply of natural gas now also includes LNG from other areas including the Middle East (e.g. Qatar), Trinidad, Nigeria and Angola as they are now economically feasible sources of gas for Europe. The Wood Mackenzie chart in Annex 14 illustrates that these sources can be economically competitive for the supply of gas to Europe.

Indeed, in paragraph 19 in *Exxon / Mobil* the Commission "...examined whether smaller geographic areas could constitute relevant markets." While it was recognised that security of supply considerations may lead to purchasing policy focusing on the origin of gas (Spain was cited as an example) the Commission concluded that it was "... unlikely that a price increase of gas produced in the EEA would not be defeated by a small increase in the proportion of gas purchased from Russia and Algeria."

While the geographic scope of natural gas supply has traditionally been more limited than for other energy sources (such as the global market for oil) due to its low density and its correspondingly high transport and storage costs developments in LNG liquefaction, shipping and regasification technology mean, in all likelihood, that the three traditionally distinct natural gas markets (Europe / Russia / North Africa; North America; and Asia / Pacific) will become increasingly linked by LNG trade.

For the above reasons it is the view of the Sponsors that the relevant geographic market for the potential production and supply of natural gas includes the EEA, Russia and Algeria (both pipeline and LNG sources) and LNG from other locations. Within the EEA area the Sponsors have included the countries that are already interconnected and will become Member States of the European Community when it expands in 2004 or who have applied to join the European Community in 2007.

Supply of natural gas

Annex 17 shows an estimate of proved natural gas reserves worldwide. It illustrates that the largest natural gas reserve concentrations are found in the Former Soviet Union (31% of global proven reserves), Africa (7%) and the Middle East (40%). Natural gas reserves in Qatar amount to 14% of global or 36% of Middle East proved reserves. EEA proved natural gas reserves account for approximately 4% of world proved reserves, with the largest gas reserves located in Norway (49% of EEA reserves), the Netherlands (20% of EEA reserves) and the United Kingdom (15% of EEA reserves).

EEA demand for natural gas

Estimated EEA natural gas demand of about 450 bcm in 2003[33] will be met by a combination of supplies from indigenous EEA production and imports (pipeline gas and LNG).

Annex 18 illustrates that EEA natural gas demand (including demand in new European Community Member States) is forecast to rise to about 550 bcm in 2005, 650 bcm in 2010 and 720 bcm by 2015.

Increasing need for imports into the EEA

Marketed natural gas production from EEA resources are expected to amount to 315 bcm in 2003, with the United Kingdom 119 bcm, the Netherlands 67 bcm, and Norway 79 bcm the largest of the EEA producing countries.[34]

However, despite an expected production increase from Norway's new fields that brings EEA total production to 345 bcm by 2007, the production from these traditional sources is currently forecast to fall to 330 bcm by 2010 and 280 bcm by 2015.[35]

To meet EEA demand in 2003 imports of 130 bcm will be required for approximately 30% of total EEA consumption.[36] The bulk of these imports is expected to be pipeline gas from Russia and Algeria.

Given the growing supply / demand imbalance the importance of imports of natural gas into the EEA in substitution for declining production from traditional sources of supply is increasing. Imports are expected to cover more

33 Wood Mackenzie Multi Client Study : January 2003 "Pushing the Boundaries".
34 Wood Mackenzie Multi Client Study : January 2003 "Pushing the Boundaries".
35 Wood Mackenzie Multi Client Study : January 2003 "Pushing the Boundaries".
36 Wood Mackenzie Multi Client Study : January 2003 "Pushing the Boundaries".

than 40% of the EEA's natural gas requirements by 2010 rising to about 55% by 2015.[37]

Imports of gas from sources such as Russia and Algeria and imports of LNG by ship from other locations such as Qatar will increasingly be required to address the supply demand imbalance.

LNG deliveries have begun and will increasingly compete with gas delivered through pipelines. As indicated above the relevant geographic market for the potential production and supply of natural gas to the EEA includes and will continue to include the EEA, Russia, Algeria, and LNG from other locations including Qatar.

Qatargas II interests in the market for the potential production and supply of natural gas

If pursued the combination of Phases 1 and 2 of the QGII Project will facilitate an average supply of about 21 bcm / year of gas to the EEA over the life of the project and potentially beyond that period.

These supplies are estimated to constitute approximately 2% of potential natural gas production and supply to the EEA when the Project has reached plateau production level in 2011.[38]

Qatar Petroleum interests in the market for the potential production and supply of natural gas

QP's share of potential natural gas production and supply to the EEA is currently negligible, is expected to remain at less than 5% through 2010 and be in the range of 5 –15 % by 2015.

ExxonMobil interests in the market for the potential production and supply of natural gas

ExxonMobil's sales of own production volumes constituting its share of potential natural gas production and supply to the EEA is expected to be in the range of 5 -15% through the period 2003 to 2015.

[37] Wood Mackenzie Multi Client Study : January 2003 "Pushing the Boundaries".
[38] Wood Mackenzie Multi Client Study : January 2003 "Pushing the Boundaries".

5.5.2.3 Distribution and Marketing of Natural Gas

Relevant product market

As explained in Section 5.5.2.2. the distribution and marketing of natural gas has, broadly speaking, been divided into a redistribution segment and a local distribution segment.

- Redistributors (i.e. wholesalers) aggregate processed / regasified gas that they obtain directly or indirectly from various producers. They then re-sell to a mix of other wholesalers, local distributors and large end users. Wholesalers utilise transmission systems and storage facilities to deliver gas at the location and volumes required by their customers.

- Local distributors on-sell the gas to end users (i.e. in the Retail market).

Relevant geographic market

The Commission concluded in *Exxon / Mobil* that the relevant geographic market for redistribution (i.e. wholesale) of natural gas was national. However, since that decision in 1999 this section of the market has developed and a number of factors, including the increasing interconnection of European transmission networks, results in the relevant geographic market for the wholesale of gas now being European Community wide.

For example, the implementation of Directive 98/30 EC has assisted wholesalers in the sourcing of gas from cross border sources. Gasunie's evaluation of the construction of a potential second interconnector between Great Britain and the Netherlands is a demonstration of the trend towards cross border sales and purchases by wholesalers. In addition, continuing initiatives by the Commission such as the Trans-Europe Energy Networks programme are likely to continue to further the integration of European gas markets and interstate sales of gas. It is therefore the view of the Sponsors that the relevant geographic market for redistribution of gas is now, at least, European Community wide.

In its 2002 Annual Report, GTE (Gas Transmission Europe) which comprises 28 network operators, quoted as one of its key figures that "over 60%" of gas consumption in the countries of GTE Members crosses at least one EU border.[39]

With regard to local distribution the Sponsors are of the view that the relevant geographic market remains national.

[39] Page 2 of GTE Annual Report, 2002.

However, for the purposes of this application, in light of previous Commission decisions and to meet the request of the DTI and Ofgem the Sponsors have provided data in Section 4.7 assessing the QGII Project's impact on Great Britain using the market segments proposed by the DTI and Ofgem. It can be seen that neither of the Sponsor's market shares will be appreciable using any measure of the wholesale market and QP, through its interests in Qatargas II and TradeCo will be a new entrant.

5.5.2.4 Infrastructure

QP has no interests in North Sea infrastructure or onshore infrastructure in Great Britain.

ExxonMobil has no interests in onshore gas pipelines in Great Britain that fall within the jurisdiction of Ofgem. ExxonMobil's interests are confined to pipes that connect facilities outside of the NTS.

ExxonMobil's interests in offshore pipelines and onshore processing facilities in the relevant market are not appreciable and details of such interests are set out in Annex 8.

5.5.3 EXEMPTION IS NOT TO THE DETRIMENT OF COMPETITION

5.5.3.1 Market Share

No material effect on competition

As illustrated in Section 5.5.2.2 the QGII Project will have no material effect on the upstream market for the production and supply of natural gas. Insofar as there is any effect on competition at all, the effect will be positive as Qatargas II is a new supplier to the UK sector of the wider European market. Indeed, given the supply demand imbalance that is developing, LNG imports will play an increasingly important role as a substitute for declining production from traditional sources of supply and the project will increase the supply of gas into Great Britain and Europe. The Sponsors' market shares will not be sufficient to have any adverse effect on competition.

On the wholesale market, the natural gas purchased by EMGME from TradeCo for resale is, in large part, replacing traditional sources of supply and therefore has no adverse impact at this level of the market. TradeCo will be a new market entrant.

The QGII Project will not have any effect at the local distribution level of the market.

As illustrated in Section 4 Great Britain is regarded as one of the most highly developed and competitive energy markets in the world but is in need of additional supplies, some of which can be provided by the QGII Project.

In addition the capacity of the South Hook terminal, as a proportion of overall capacity in the EEA, is not expected to be significant and no material effect on competition is expected as a consequence of the granting of an exemption in respect of both phases of the QGII Project. As illustrated in Section 5.5.2.1 the South Hook terminal is forecast to comprise about 11% of the total capacity of LNG regasification terminals in the EEA by 2010 and the Rovigo terminal to account for 4% by 2010. In addition, barriers to entry for the development of LNG regasification terminals in the EEA and Great Britain, in particular, are low and, as such, there is no issue of dominance.

5.5.3.2 Enhancement of Competition

As described above, any effect which the QGII Project might have on competition in Great Britain or in Europe would be a positive one, particularly in view of QP's role as a new market entrant to the UK. If the QGII Project progresses gas supply to Great Britain will be increased thereby reducing the risk of price increases that may otherwise arise from supply shortfalls. The increased supply of gas to Great Britain is also likely to bring benefits elsewhere in Europe as gas flows that otherwise may have been destined for Britain can be re-routed to Continental destinations increasing supply in other Member States. However, while the project will make a material contribution to security of supply the growing supply / demand imbalance means that the project will not inhibit investment by existing competitors and new entrants either in Great Britain or in other Member States.

The construction of a new import / regasification facility at Milford Haven will create a new entry point to Great Britain and ensure capacity in other LNG facilities is available to competitors further increasing the supply of gas and, hence, competition. As South Hook terminal will be one of a number of LNG import terminals no issues of dominance arise and the terminal will not be an essential facility.

It is the intention of EMGME to sell regasified LNG to a wide range of customers at the NBP. ExxonMobil's market shares remain static or decline and are not at a level that, in any way, raises competition law concerns.

5.5.3.3 Spare Capacity Offered to Third Parties

As explained in Annex 19 (Third Party Access Arrangements), the terminal operating company (TermCo) will offer capacity that cannot be used or traded by TradeCo, in the form of Available or Spot Capacity to third parties on non-discriminatory terms.

5.5.3.4 The South Hook LNG Terminal is not an Essential Facility

The Commission has defined an essential facility as "a facility or infrastructure without access to which competitors cannot provide services to their customers."[40]

Barriers to entry for the development of LNG regasification terminals in the EEA and Great Britain, in particular, are low. As such competitors that wish to import LNG into Great Britain (or elsewhere in Europe) have various options with regard to access to import facilities including construction of new facilities or the use of existing facilities or future planned facilities. The proposed terminal is one of a number of current and planned LNG import facilities in the EEA. LNG shippers therefore have or will have access to import facilities necessary to access European markets and the proposed terminal is not an Essential Facility.

5.5.3.5 No Destination / Resale Restrictions and Contractual Arrangements Consistent with Law

The contractual arrangements being negotiated by QP and ExxonMobil will not contain any destination or resale restrictions. In addition, the arrangements will not restrict either party from independent investment in the natural gas or LNG supply chain in Great Britain or elsewhere in Europe.

5.5.4 EXEMPTION IS NOT TO THE DETRIMENT OF THE INTERNAL GAS MARKET

5.5.4.1 Increased Supply of Gas

The QGII Project will increase the supply of gas into Europe in general and Great Britain, in particular, from a new source and through a new entry point providing a reliable alternative to Russian imports to Europe as indigenous production goes into decline.

The supply of gas into Great Britain increases the potential for cross-border flows of gas on mainland Europe by creating the possibility for gas that would otherwise have flowed to

[40] Sea Containers / Stena Sealink OJ 1994 L15/8.

Great Britain (perhaps from Dutch or Norwegian sources) to flow to other Member States.

5.5.4.2 Increased Flexibility of Supply

As described earlier the Project will facilitate future LNG investment and provides the potential for supplies of LNG to be diverted to other Member States in response to market signals indicating supply shortages.

In the event of diversions, as described in Annex 19, there is the potential for other suppliers of LNG to obtain access to available capacity in the South Hook LNG terminal on non-discriminatory terms.

5.5.4.3 Regulation Needs To Be Consistent With Market Needs

The Sponsors are concerned that over-regulation of the LNG terminal market in its early stages of development has the potential to distort the natural competitive forces which would encourage investment. As LNG viability (as an alternative to declining indigenous supplies) is dependent on costs being kept low throughout the supply chain there are real risks associated with those costs being artificially raised by regulatory imposition. It is essential to avoid requirements for oversized terminals, inadequate capacity for investors' needs or delays associated with identifying additional investors. The Sponsors believe that this view is reflected by Ofgem / DTI in their LNG Guidance Notes.

5.5.5 EXEMPTION IS NOT TO THE DETRIMENT OF THE EFFICIENT FUNCTIONING OF THE REGULATED SYSTEM IN GREAT BRITAIN

5.5.5.1 Processing to NTS Specifications

LNG supplied to the South Hook LNG Terminal for regasification will be processed to produce pipeline gas that meets the transmission quality and pressure specifications required under the terms of a Network Entry Agreement to be agreed with Transco as required by the terms of the Network Code, ensuring compatibility with the regulated system at the relevant entry point to that system.

5.5.5.2 New Entry Point to the NTS

Access to the NTS will be obtained through the allocation of entry capacity under auctions governed by the terms of Transco's network code. The commitments made in long term auctions will determine the basis on which Transco construct a new pipeline extension to the Milford Haven terminal.

The availability of a new entry point increases flexibility and security of supply for the benefit of the British consumer.

5.5.5.3 Non Discriminatory Purchase of Entry Capacity

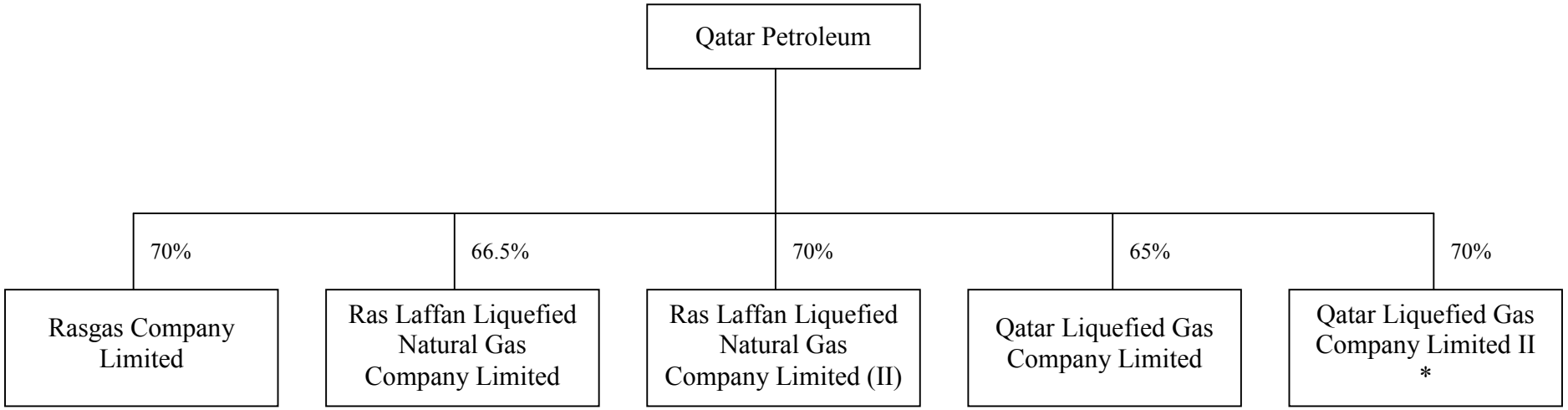
Entry capacity to the NTS will be bid for under non-discriminatory terms specified, at the relevant time, in the UK Network Code with capacity allocated at price levels governed by the terms of Transco's Gas Transporter Licence.

5.5.5.4 Other Benefits

Please refer to Sections 4.10 and 4.11.

ANNEX 1

QATAR PETROLEUM EUROPEAN GAS SUPPLY INTERESTS



Note: Minority interests in these ventures are held by ExxonMobil group companies. For further details of such minority interests please see Annex 3.

* This company has not yet been incorporated.

ANNEX 2

QP'S CURRENTLY PLANNED LNG / NATURAL GAS SALES TO EUROPE

Source	Buyer	Country		2003	2005	2010	2015
QG Tr 1-3	Gas Natural	Spain		1	1	1	
QG Tr 1-3	Gas Natural	Spain		1	1	1	
QG Tr 1-3	BP	Spain		1	1		
RG Tr 1-2	Endesa	Spain				1	1
RG Tr 5	[✂]	[✂]		[✂]	[✂]	[✂]	
QGII Tr 4	EMGME	UK				10	10
QG Tr 1-3 / RG Tr 1-2	[✂]	[✂]		[✂]	[✂]	[✂]	[✂]
RG Tr 4	[✂]	[✂]		[✂]	[✂]	[✂]	[✂]
QGII Tr 5	EMGME	UK				5	10
RG Tr 4	[✂]	[✂]		[✂]	[✂]	[✂]	[✂]
RG Tr 7	[✂]	[✂]		[✂]	[✂]	[✂]	[✂]

TOTAL	bcm	[✂]		[✂]	[✂]	[✂]	[✂]

Total Potential Production & Supply Available to Europe[1]	bcm			687	795	946	1033

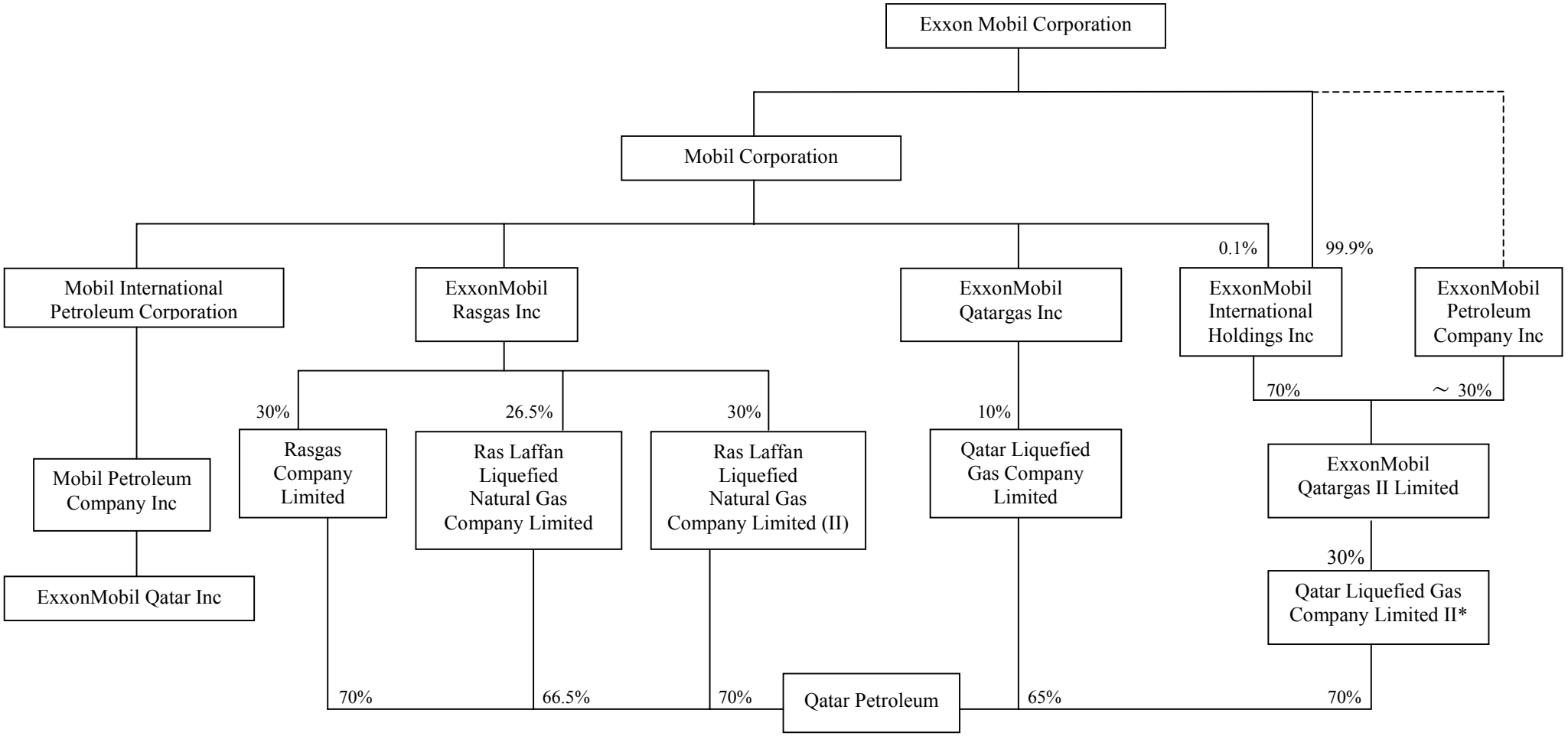
QP Share of Potential Production &Supply Available to Europe	%			< 5	< 5	< 5	5– 15

Notes: 1. Europe Production and Supply based on Wood Mackenzie Multi Client Study - "Pushing the Boundaries". See Annex 12.
2. All figures shown designate projected volumes in bcm.

Key: QGI Qatargas I
QGII Qatargas II
RG Rasgas
RGII Rasgas II
Train [and number]

ANNEX 3

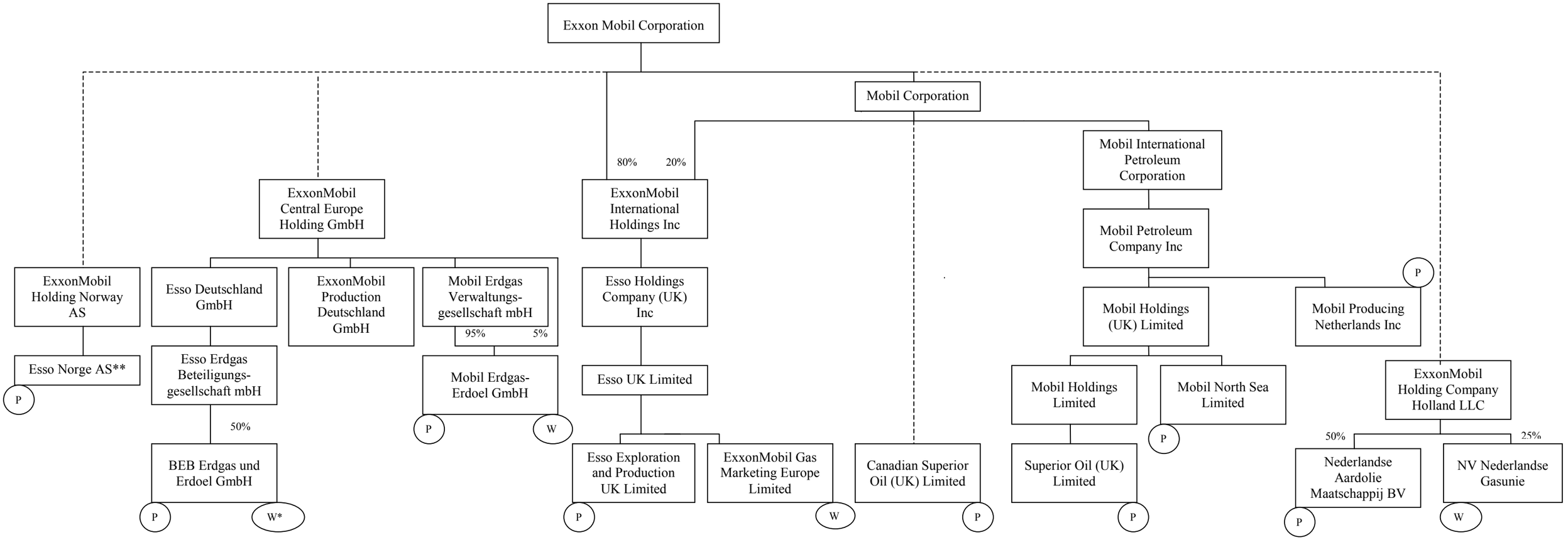
EXXONMOBIL MINORITY INTERESTS IN QATARI LNG PROJECTS



* This company has not yet been incorporated.

ANNEX 4

EXXONMOBIL EUROPEAN GAS INTERESTS



NORWAY **GERMANY** **UK** **NETHERLANDS**

KEY

P Producer

W Wholesaler

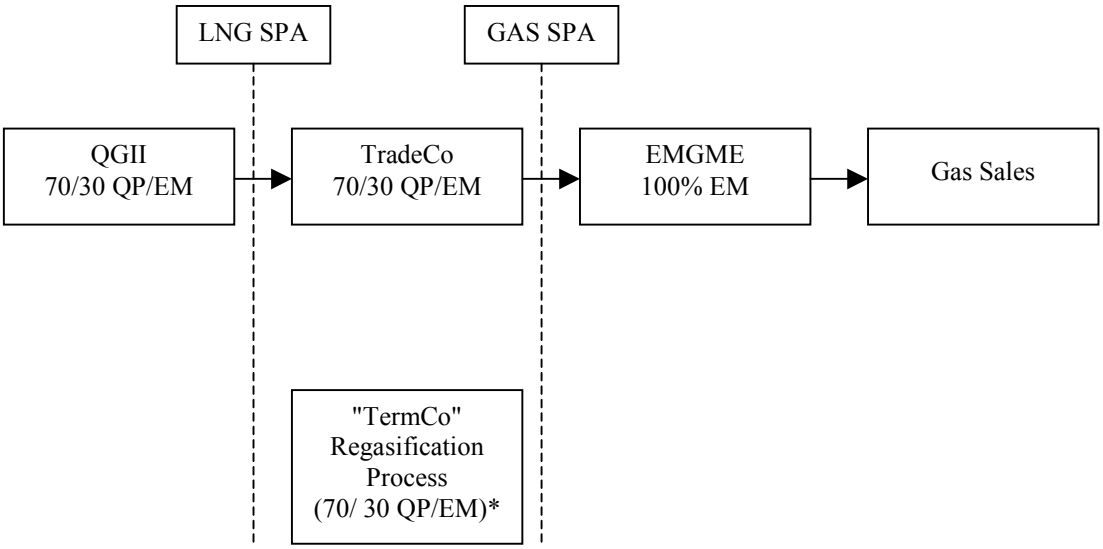
ExxonMobil International Limited acts as representative of certain ExxonMobil affiliates listed above but holds no assets independently.

On 26 September 2003 an agreement was signed by ExxonMobil and Shell to restructure BEB's gas marketing activities under the terms of which the business will be split into two equal shares and ExxonMobil and Shell entities will acquire sole control over the activities of their respective merchant.

** Acting on behalf of itself and Esso Exploration and Production Norway A/S, Mobil Development Norway A/S and Mobil Exploration Norway Inc.

ANNEX 5

COMMERCIAL STRUCTURE CURRENTLY ENVISAGED



* TermCo and TradeCo will be affiliated companies incorporated in England.

- Qatargas II will have a Sales and Purchase Agreement (SPA) with TradeCo for the duration of the project.
- TradeCo will sell gas to EMGME under a Gas Sales and Purchase Agreement (GSPA) for the duration of the project.
- TradeCo will have a separate agreement with TermCo for terminal services.

Key to chart above:

SPA:	"Sales and Purchase Agreement"
QGII:	"Qatargas II"
EM:	"An ExxonMobil affiliate"
QP:	"Qatar Petroleum"
EMGME:	"ExxonMobil Gas Marketing Europe Limited"

ANNEX 6

MARKET SHARE ANALYSIS AT UPSTREAM AND DOWNSTREAM (WHOLESALE) LEVELS IN GREAT BRITAIN (INCLUDING EXXONMOBIL CONTRACTUAL POSITION AT THE BEACH)

1. Upstream Supply Market

1.1 Total Sector

Bcm	2002	2005	2010	2015
UKCS Production[1]	111	116	88	51
Existing Import Capacity to Great Britain[2]	18	18	18	18
Potential New Import Capacity to Great Britain[3]	0	10	102	102
TOTAL	**129**	**144**	**208**	**171**

1.2 ExxonMobil Share

Bcm	2002	2005	2010	2015
ExxonMobil UKCS Production[4]	16	15	6	2
ExxonMobil Imports[5]	[✂]	[✂]	[✂]	[✂]
ExxonMobil Potential Imports[6]	[✂]	[✂]	[✂]	[✂]
TOTAL (Assuming 30% QGII)	[✂]	[✂]	[✂]	[✂]
ExxonMobil Share % [7]	**5 - 15**	**5 - 15**	**5 - 15**	**5 - 15**

1.3 QP Share

Bcm	2002	2005	2010	2015
QGII Volume – bcm	0	0	15	21
QP % Share (Assuming 70% QGII)	0	0	5	9

1. Data on UKCS production in 2002 is based on Indigenous Production recorded in Table 4.1 of the Energy Digest of Statistics (Natural Gas Supply and Consumption). UKCS supply forecasts from 2003 onwards are based on Wood Mackenzie Multi Client Study January 2003 ("Pushing the Boundaries").

2. Existing import capacity to Great Britain is based on current available import capacities through the Vesterled connection from Norway (Gassled) and the Continent connection (IUK).

3. Potential new import capacity is conservatively based on new infrastructure / supply potential notified to Transco under its annual planning process and as shown in Annex 14.

4. ExxonMobil UKCS production in 2002 is based on Wood Mackenzie actual data and forecasts from 2003 onwards are based on Wood Mackenzie Corporate Analysis Tool production forecasts ("CAT"). The volumes are for all existing or committed fields in which ExxonMobil has an equity interest and includes volumes produced for direct sale to third parties under existing long term contracts in GB. Committed fields defined as those under production, under development or to be developed in the near future and where plans are sufficiently developed to have a good estimate of reserves.

5. ExxonMobil imports are principally through Vesterled

6. ExxonMobil imports are principally the 30% interest in QGII but also includes equity production from Ormen Lange and Statfjord. ExxonMobil's share of Gasunie's sale to Centrica is excluded as Gasunie is a reseller. This volume is included in the wholesale market. Further details regarding the Gasunie arrangements are set out in Annex 7.

7. Ofgem asked that analysis be provided on the basis of ExxonMobil's 30% share in Qatargas II.

2. Beach Contractual Arrangements

ExxonMobil and QP Producer Sales (Upstream Market Segment)

Bcm	2002	2005	2010	2015
ExxonMobil Producer Sales to Third Parties[8]	[✂]	[✂]	[✂]	[✂]
ExxonMobil Producer Sales To EMGME At Beach[9]	[✂]	[✂]	[✂]	[✂]
ExxonMobil Producer Sale to TradeCo (for 30% of QGII)	0	0	5	6
QP Producer Sale to TradeCo (for 70% QGII)	0	0	11	15

8. Sales are direct sales from ExxonMobil producer entities on long term take or pay, buyer nomination contracts at the beach, NBP and interconnector entry points.

9. Sales are equity production that is not committed to third parties under 1 and represent the ExxonMobil produced volumes that are to be marketed in GB by EMGME (includes Norwegian sourced equity as well as UKCS sourced equity.

2.2 TradeCo "Beach" Resale (Wholesale Market)

Bcm	2002	2005	2010	2015
QP (70%)	0	0	11	15
EM (30%)	0	0	5	6

3. Wholesale Market In GB

3.1 Wholesale Market (Physical + Traded)

Bcm	2002	2005	2010	2015
(a) Great Britain End Use Demand[10]	102	116	128	137
(b) Exports from Great Britain[11]	14	14	14	14
(c) NBP Trade Less NBP Physical Trade[12]	550	550	550	550
(d) EMGME Resale of TradeCo Resale to EMGME[13]	0	0	15	21
(e) Other Resales At Beach , NBP, Interconnector etc[14]	> 0	> 0	> 0	> 0
(f) Less Production Contracted Directly for End Use[15]	(35)	(35)	(32)	(27)
TOTAL	**> 631**	**> 645**	**> 675**	**> 694**
TOTAL (Physical / Narrow)[16] excludes c, d, e	**81**	**95**	**110**	**124**

10. Great Britain's end use demand data for 2002 is based on DTI Energy Digest Of Statistics Table 4.1 (Natural Gas Supply and Consumption) "Total Demand". Forecasts of Great Britain's demand are based on Wood Mackenzie Multi Client Study January 2003 ("Pushing the Boundaries") – UK Demand. United Kingdom Demand has been adjusted down by the level of Northern Ireland demand as provided in Table 2.4 page 749 of the Department of Communications, Marine and Natural Resources Site (an Irish Government department website at http://www.marine.gov.ie/display.asp/pg=749).

11. Exports from Great Britain in 2002 are based on DTI UK Energy Digest of Statistics Table 4.1 (Natural Gas Supply and Consumption) "Exports". Forecast exports are assumed at the same level as for 2002 on an assumption that import levels will be primarily driven by Winter demand, but that as most new supplies will be baseload, it is likely that GB will continue to export during the Summer.

12. Total NBP retraded volumes based on Annex 9 which assumes zero growth from 2002 levels. Traded volumes of gas in the wholesale sector have been conservatively calculated and therefore do not include volumes of gas traded at storage points, on the IPE / NBP forward curve or at inter connector points within Great Britain.

13. The first resale of Qatargas II volumes (i.e. from TradeCo to EMGME) is assumed to be included in the GB end use demand. Subsequent resale by EMGME to other resellers therefore has to be added. Further resales by EMGME are ignored.

14. Whilst the Sponsors do not have evidence of other wholesale transactions or trends this entry is left in to indicate that there would be volumes in this category.

Annex 6 continued

15. The Sponsors have estimated the maximum level of UKCS equity production that might have been contracted by other producer marketers for direct sale to their end users (power, I&C and Domestic) based on an assessment of the level of UKCS equity production available to those producers who may directly sell to the end user market. The Sponsors consider that it is highly unlikely that this level of direct contracting actually exists in practice and the estimate is only for purposes of providing Ofgem with a view of the narrowest physical description of the wholesale market. Ofgem would be in a better position to assess the scope and trend of such arrangements than the Sponsors.

16. The Sponsors have provided a narrow / physical description of the wholesale market at Ofgem's request. The Sponsors view is that the wholesale market is in reality defined by inclusion of all resale volumes and that volumes for all sales to end users have in fact been sourced via the wholesale market.

3.1.1 ExxonMobil Share Of Wholesale Market (True market and narrow / physical case requested by Ofgem)

	2002	2005	2010	2015
ExxonMobil – bcm[17] (includes 30% TradeCo resale to EMGME, 100% EMGME resale of TradeCo volumes)	[✂]	[✂]	[✂]	[✂]
ExxonMobil – bcm[18] (includes 30% TradeCo resale, 0% EMGME resale of TradeCo volumes) – Narrow / Physical	[✂]	[✂]	[✂]	[✂]
ExxonMobil Share[19]	**< 5**	**< 5**	**< 5**	**< 5**
ExxonMobil Share[20] (Narrow / Physical market basis)	**15-25**	**5-15**	**5-15**	**5-15**

17. Volumes represent those that should be counted against a true wholesale market description. In this case 100% of the EMGME volumes purchased from TradeCo are counted as the second resale in addition to the 30% ExxonMobil share of the initial resale from TradeCo to EMGME.

18. These volumes are for purposes of evaluating a share of the narrow / physical case requested by Ofgem. In this case ExxonMobil's 30% share of the first resale is counted but not the subsequent EMGME resale. This is to avoid double counting.

19. In the true wholesale market representation ExxonMobil has < 5% share to 2015 that is insignificant in competition terms

20. In the narrow / physical case ExxonMobil's share is lower in 2015 than in 2002.

3.1.2 QP Share Of Wholesale Market (True and Narrow / Physical Case)

Share [21] %	2002	2005	2010	2015
QP (70% TradeCo resale)	0	0	2	3
QP (70% TradeCo resale) – Narrow / Physical basis	0	0	10	12

21. QP is a new entrant to the wholesale market and competition is enhanced under either the true and / or narrow / physical descriptions of the market.

ANNEX 7

INFORMATION REQUESTED BY OFGEM ON POTENTIAL GASUNIE INTERCONNECTOR PROJECT

Ofgem requested that ExxonMobil include, in this application, some details of gas that may be sold by Gasunie in Great Britain if its interconnector project proceeds.[41]

ExxonMobil does not hold any veto rights over Gasunie's strategic decisions as a consequence of its minority (25%) interest in Gasunie [✂[42]]. As ExxonMobil does not control Gasunie it is ExxonMobil's view that its minority equity interest should not be included for the purposes of assessing its interests in the production and supply of natural gas to Great Britain. However, as illustrated in Annex 6, if ExxonMobil's 25% equity interest in the possible Gasunie sale to British Gas Trading Limited is assumed the forecasts show that ExxonMobil's share of supply of natural gas to Great Britain may be 5-15 % between 2010 and 2015. However, these market shares would be materially reduced by probable further investment in LNG importation / regasification facilities, the reverse operation of the Great Britain / Belgium interconnector (expected in 2005) transporting gas from Russian and other continental sources to Great Britain and a potential third pipeline / interconnector for the transportation of Russian gas.

41 Press release issued in London / Groningen on 25 June 2002.
42 [✂]

ANNEX 8

SUMMARY OF EXXONMOBIL'S UK AND NORWEGIAN NORTH SEA INFRASTRUCTURE INTERESTS

In *BP Amoco / Arco* BP submitted that gas transportation and gas processing were separate product markets. In that case the Commission agreed deciding that the competitive conditions differed to a sufficient degree to imply that they were separate markets. BP also defined the geographic market for gas processing on the basis that the Northern North Sea[43] ("NNS") and Southern North Sea[44] ("SNS") were separate markets. The Commission followed this submission and found that the SNS and NNS constituted distinct geographic markets.

However, the Commission recognised that[45]: "the relevant geographic market consists, from a demand perspective, i.e. owners of gas fields requiring transport and/or processing, of the (existing or newly constructed infrastructure) *that forms a viable economic alternative*". Particularly in the case of Norwegian fields that are likely to consider both British and Continental evacuation routes the Sponsors are therefore of the view that the relevant geographic market includes the UK North Sea and Norway. However, for the purposes of this application the Sponsors also propose to show ExxonMobil's share of infrastructure (both capacity and ullage) on the narrow market definition advanced in *BP Amoco / Arco*.

ExxonMobil has the following shares of UKCS pipeline and onshore processing terminal infrastructure (calculated on the basis of the narrow market analysis in *BP Amoco / Arco*):

- 12% of UK SNS pipeline capacity
- [✂]% of UK SNS pipeline ullage
- 9% of UK SNS onshore processing capacity
- [✂]% of UK SNS onshore processing ullage
- 14% of UK NNS pipeline capacity
- [✂]% of UK NNS pipeline ullage
- 16% of UK NNS onshore processing capacity
- [✂]% of UK NNS onshore processing ullage

As at the date of this application ExxonMobil has a 9.8% interest in the Norwegian North Sea infrastructure operated by Gasled. However, ExxonMobil has no control or negative control over this regulated infrastructure and, as such, it has not been included in this analysis.

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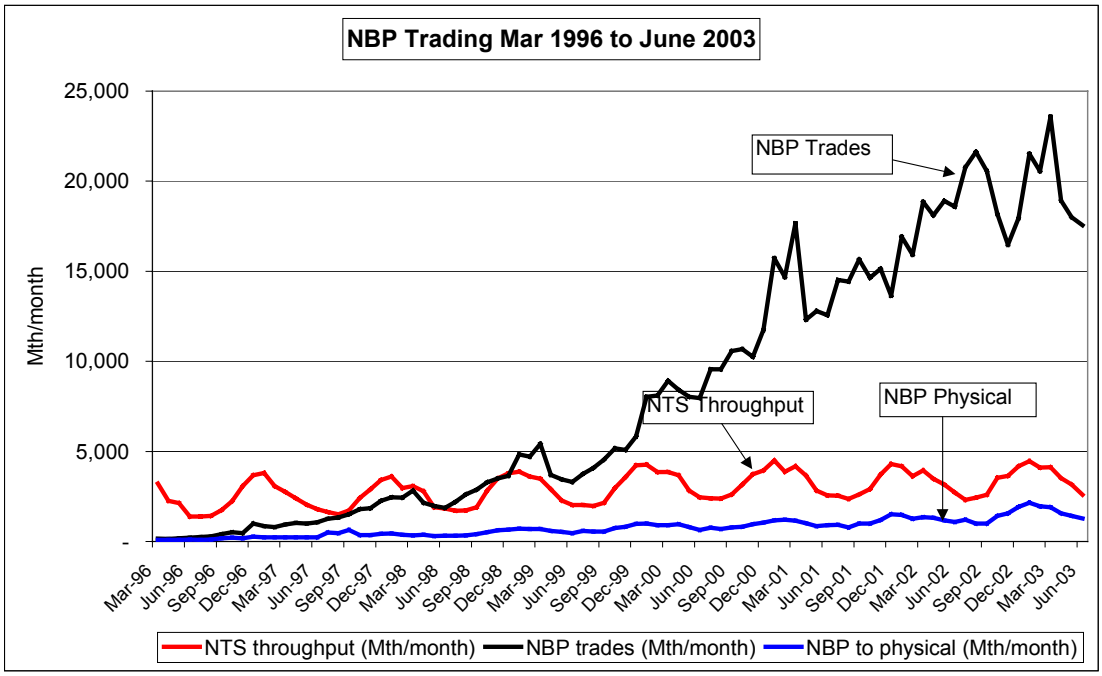
43 Defined as the area of the North Sea lying to the north of latitude 55ºN.
44 Defined as the area of the North Sea lying to the south of latitude 55ºN.
45 Case No. IV/M.1532 at paragraph 43 (emphasis added).

ANNEX 9

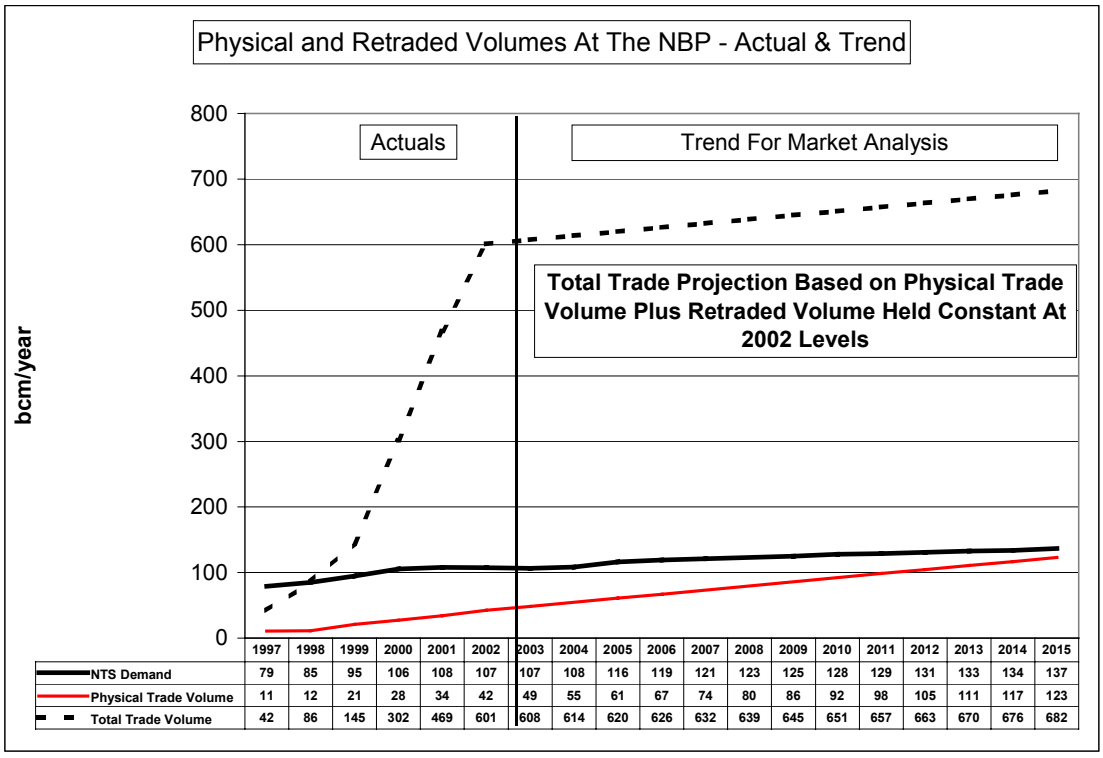
NBP TRADING ACTIVITY

1. NBP Trading March 1996 to June 2003



Source: Monthly data provided by Transco in kwhr / month. Conversion to therms using a factor of 29.3071 kwhrs / therm.

2. Potential Growth in Level of Gas Traded at NBP



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
NTS Demand	79	85	95	106	108	107	107	108	116	119	121	123	125	128	129	131	133	134	137
Physical Trade Volume	11	12	21	28	34	42	49	55	61	67	74	80	86	92	98	105	111	117	123
Total Trade Volume	42	86	145	302	469	601	608	614	620	626	632	639	645	651	657	663	670	676	682

Data Sources:

1. Actual Data 1997 - 2002.[46]

2. NTS throughput from 2003 is based on Wood Mackenzie Multi Client indigenous Great Britain demand i.e. excludes exports to Ireland and Continent from Great Britain.

Key Assumptions:

1. NBP physical trade levels increase to 90% of NTS throughput by 2015.

   (i) this would be consistent with trend over period up to 2002;
   (ii) it is not an unreasonable assumption as existing UKCS long term beach contracts will be increasingly replaced with imported supplies on a similar trend;
   (iii) there is evidence[47] that these new imports are likely to be first sold into the liquid NBP market rather than for end use

2. Retraded volumes conservatively assessed constant at 2002 levels (~ 550 bcm). Growth would be expected with level of physical delivery/players growing.

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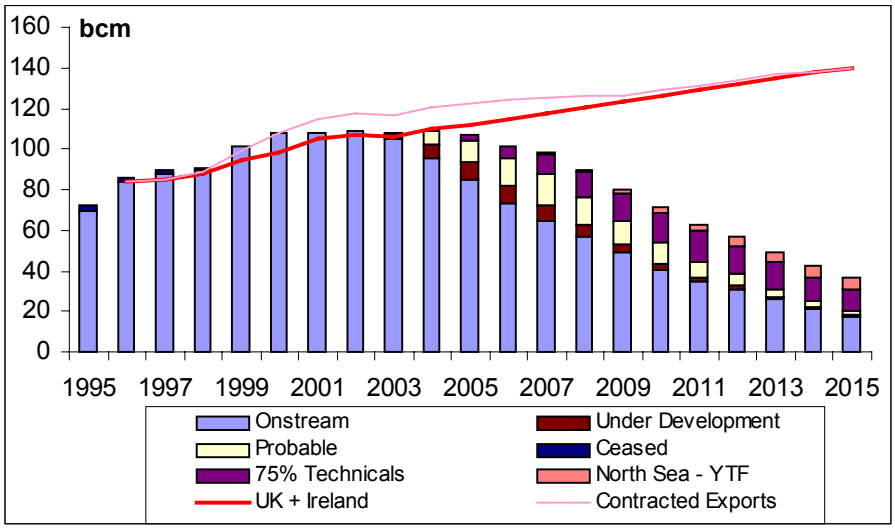
46 Transco.

47 British Gas Trading contract with Statoil announced in a press release dated 10 June 2002 and further described in "European Gas Markets" 14 June 2002.

ANNEX 10

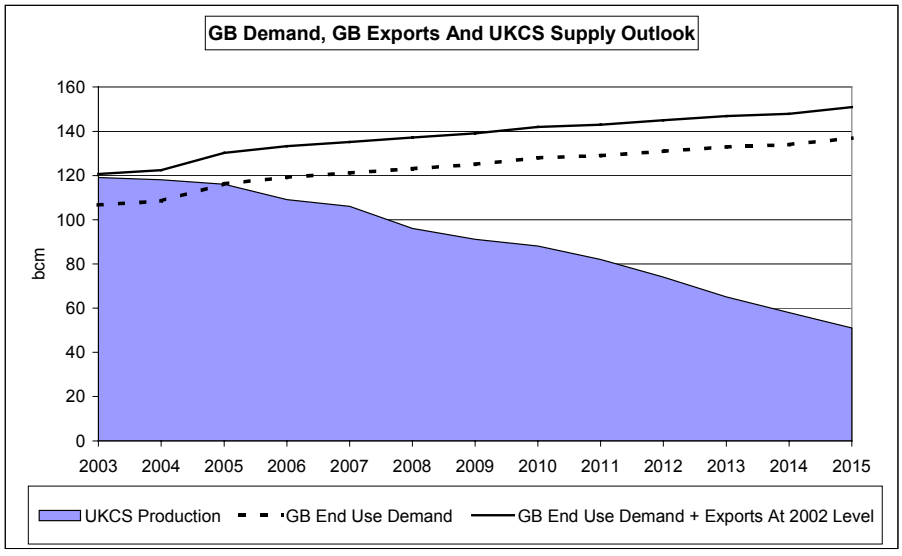
FORECAST OF DEMAND GROWTH FOR GAS IN GREAT BRITAIN

UK Gas Supply-Demand Balance



Significant supply gap opening from 2005

Source: Transco Website www.transco.uk.com - chart presented by Wood Mackenzie at the Transporting Britain's Energy event hosted by Transco on 26 June 2003.

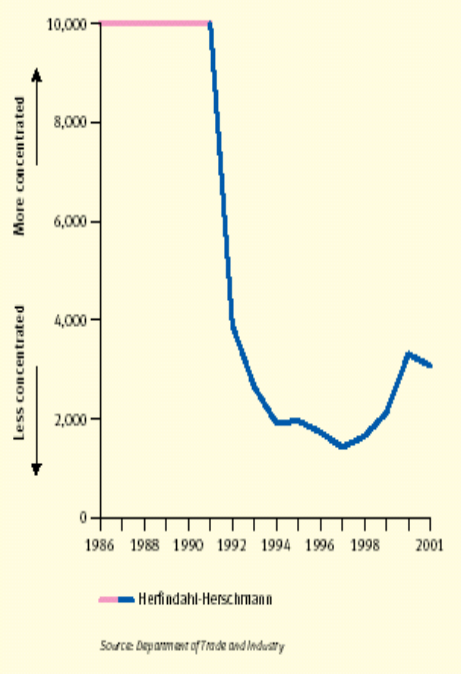


Sources: UKCS production based on Wood Mackenzie Multi Client Study January 2003 "Pushing the Boundaries".
Great Britain Demand based on Wood Mackenzie Multi Client Study January 2003 UK demand forecast reduced by Northern Ireland demand as found on Department of Communications, Marine and Natural Resources (www.marine/gov.ie).
Net physical exports of 14 bcm/annum (2002 basis) is the Sponsors' assumption consistent with Annex 6.

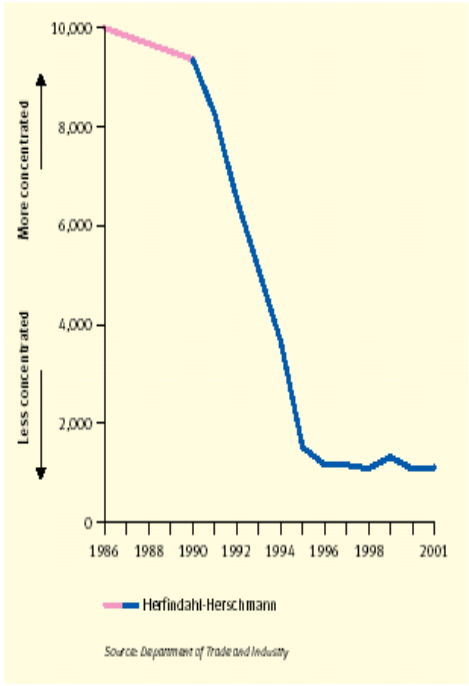
ANNEX 11

CONCENTRATION LEVELS IN THE DOMESTIC SECTOR OF THE BRITISH MARKET

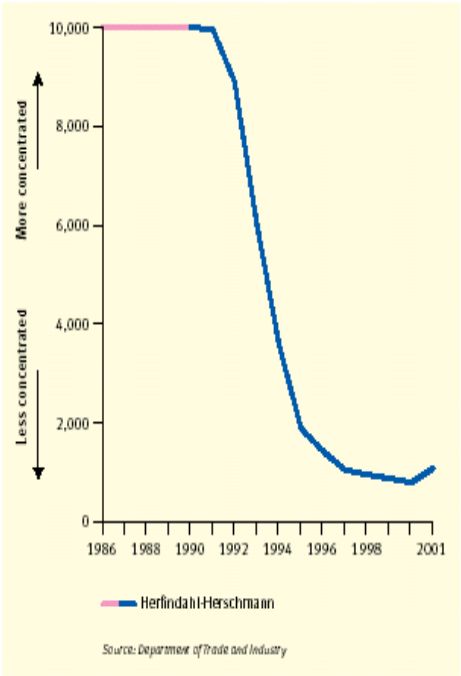
Competition in gas sales to electricity generators, 1986 to 2001



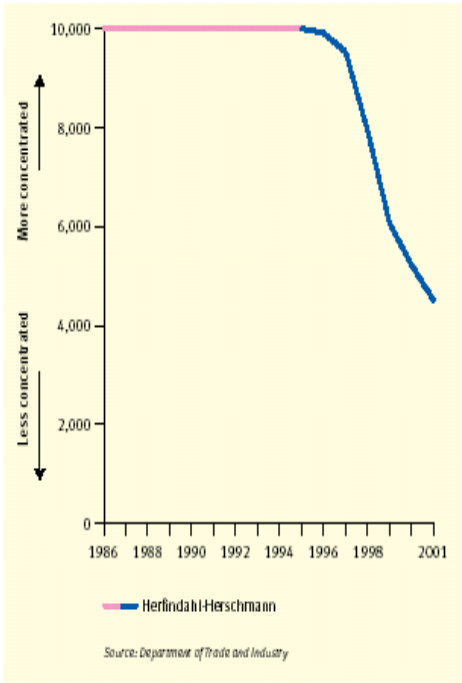
Competition in gas sales to the industrial sector, 1986 to 2001



Competition in gas sales to the commercial sector, 1986 to 2001

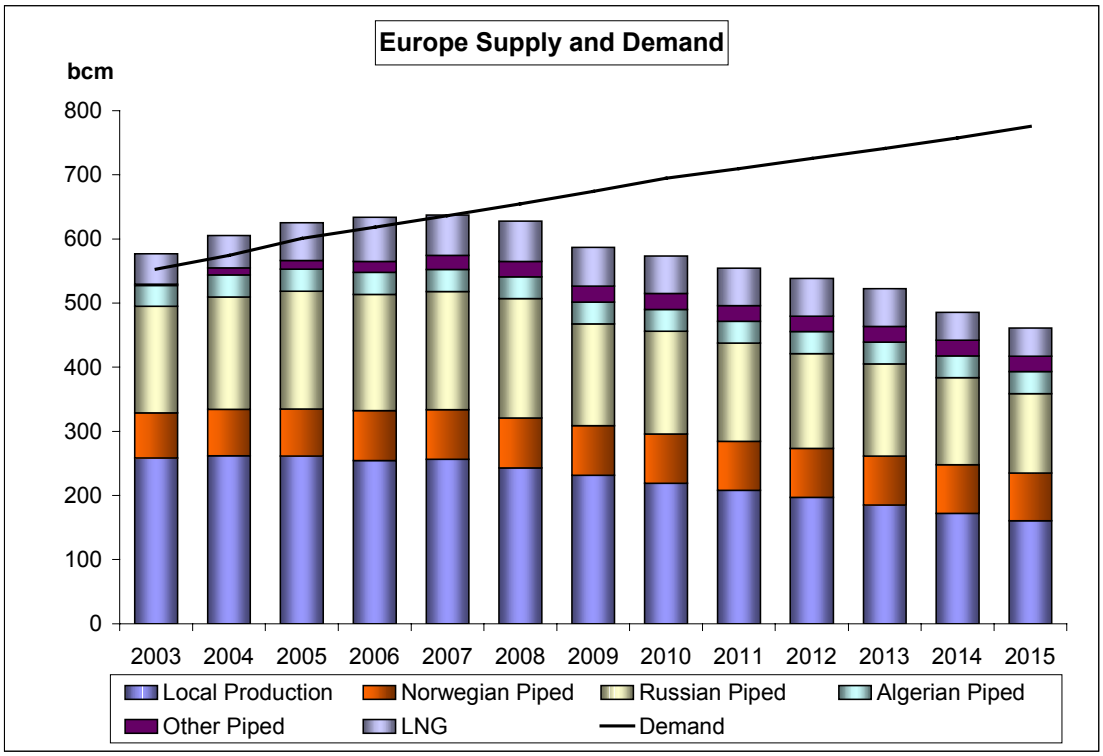


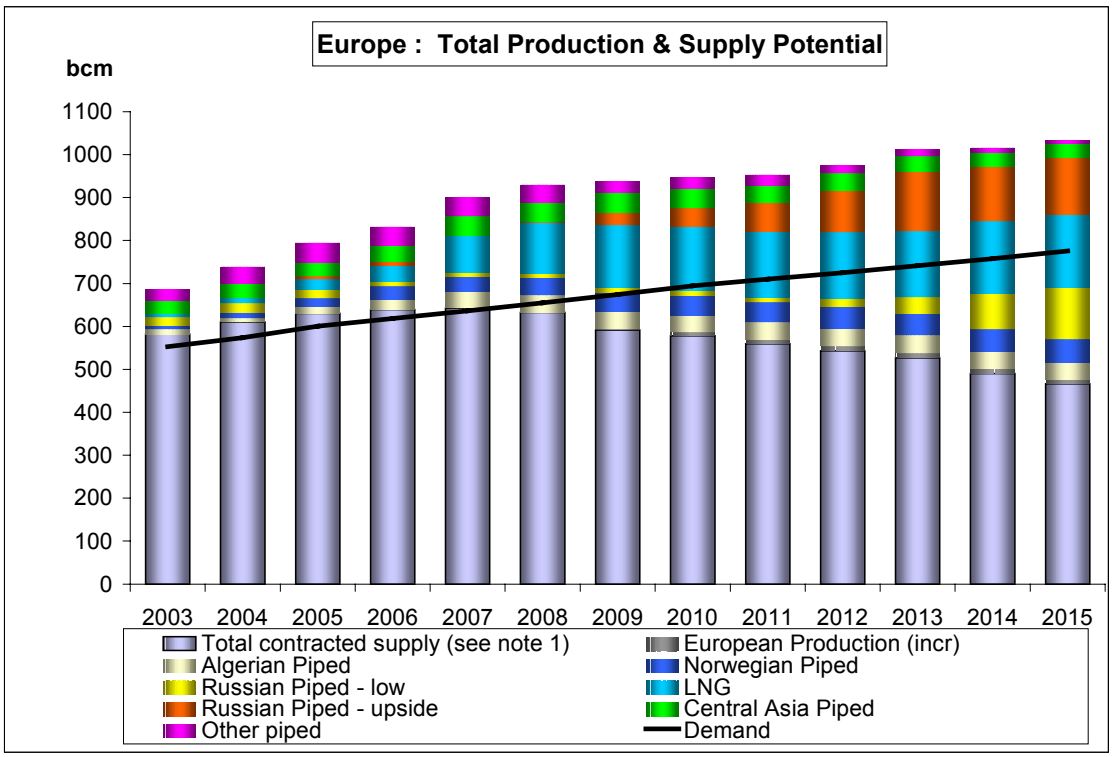
Competition in gas sales to the domestic sector, 1986 to 2001



ANNEX 12

EUROPEAN SUPPLY / DEMAND AND DETAILS OF EXXONMOBIL SHARES OF POTENTIAL PRODUCTION AND SUPPLY





Data Sources: Wood Mackenzie Multi Client Study : January 2003 ("Pushing the Boundaries").
Total contracted supply in lower chart is the sum of contracted production and supply in the upper chart.

Annex 12 continued

ExxonMobil Production and Supply

1. Market for Production and Supply

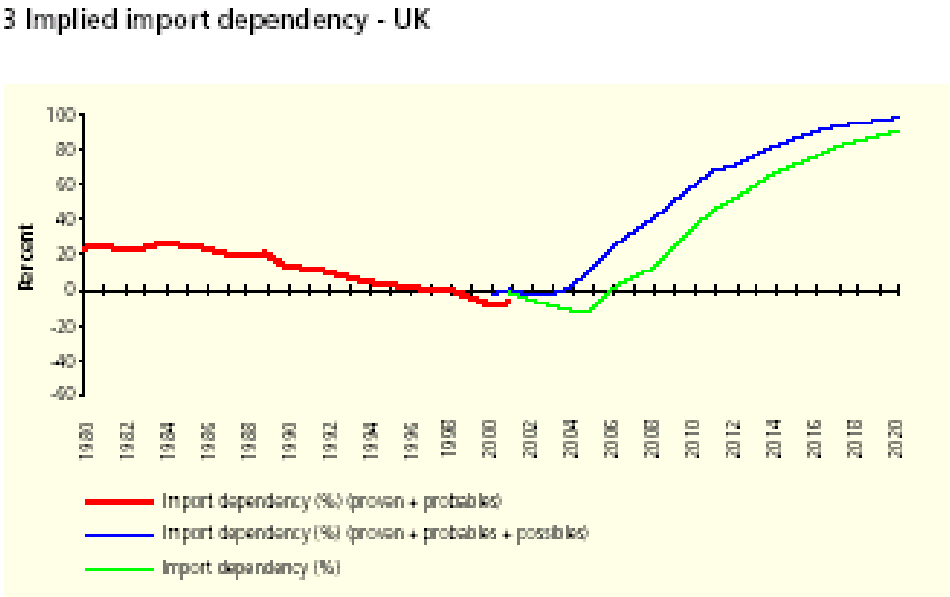
bcm	2003	2005	2010	2015
Potential Production and Supply to Europe	687	795	946	1033

2. ExxonMobil Share of Market

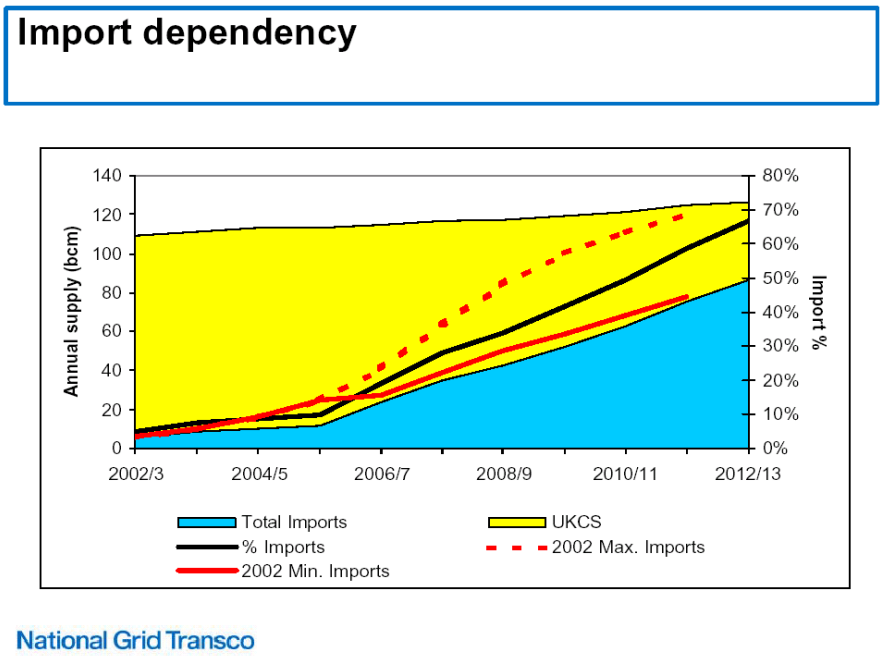
bcm	2003	2005	2010	2015
Local Production [EM✂]	[✂]	[✂]	[✂]	[✂]
Pipeline Gas Import [EM✂]	[✂]	[✂]	[✂]	[✂]
ExxonMobil Potential Production and Supply [EM✂]	[✂]	[✂]	[✂]	[✂]
% Share -vs- Market [EM✂]	5–15	5–15	5–15	5–15

ANNEX 13

PERCENTAGE OF UK GAS DEMAND THAT WILL RELY ON IMPORTED SOURCES OF GAS



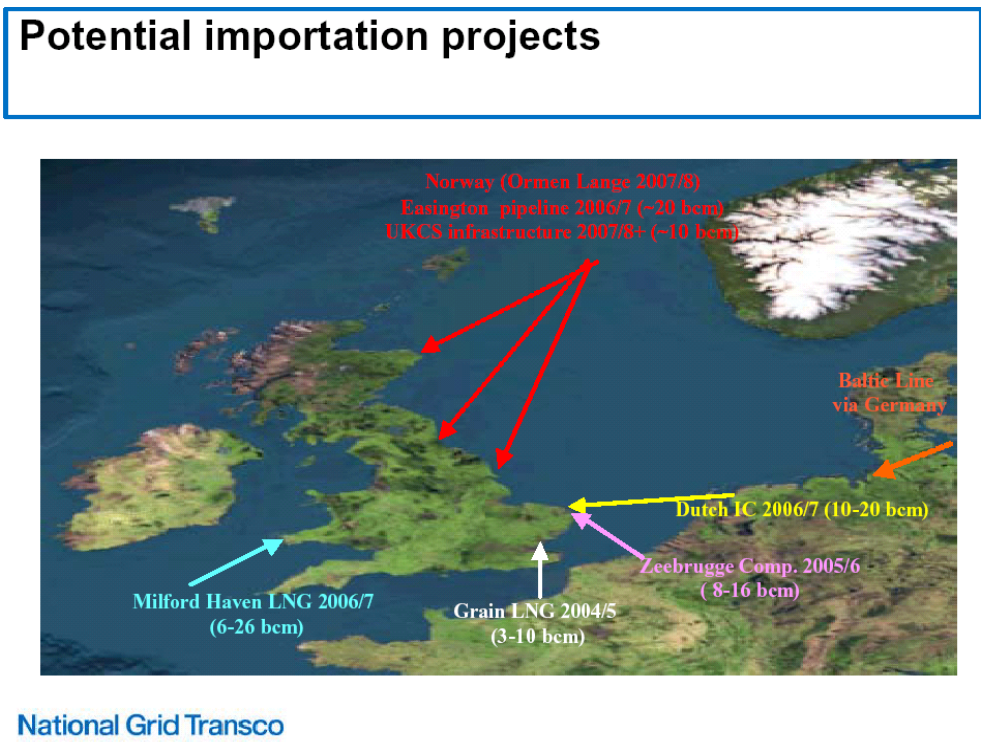
Source : Joint Energy Security of Supply Working Group (JESS) - Department of Trade and Industry : February 2003 : Page 18.



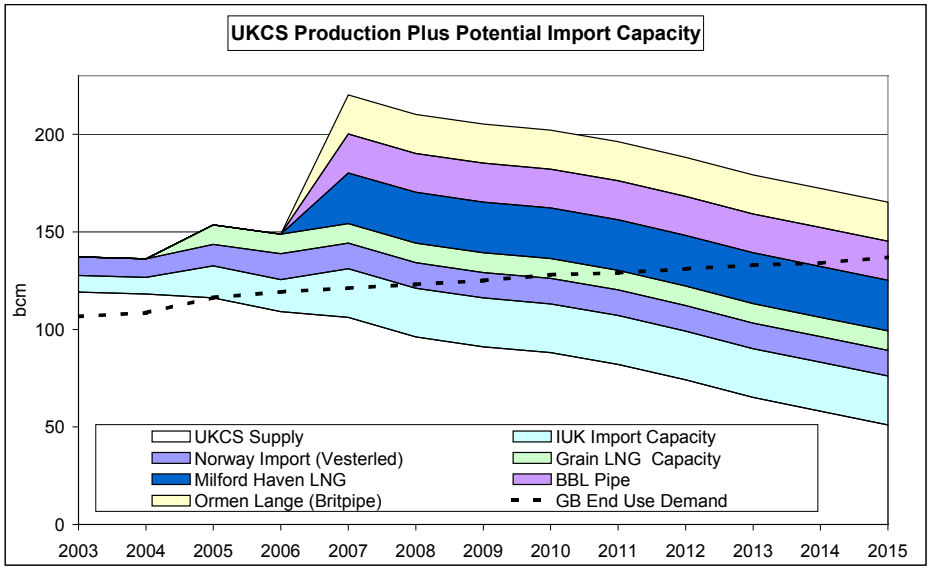
Source: Transco website www.transco.uk.com. Slide presented at Transco's Transporting Britain's Energy event 26 June 2003.

ANNEX 14

NEW SUPPLY COVERAGE OUTLOOK FOR GREAT BRITAIN



Source: Transco website (www.transco.uk.com) : slide presented by Transco at Transporting Britain's Energy : Towards Import Dependency" 26th June 2003.

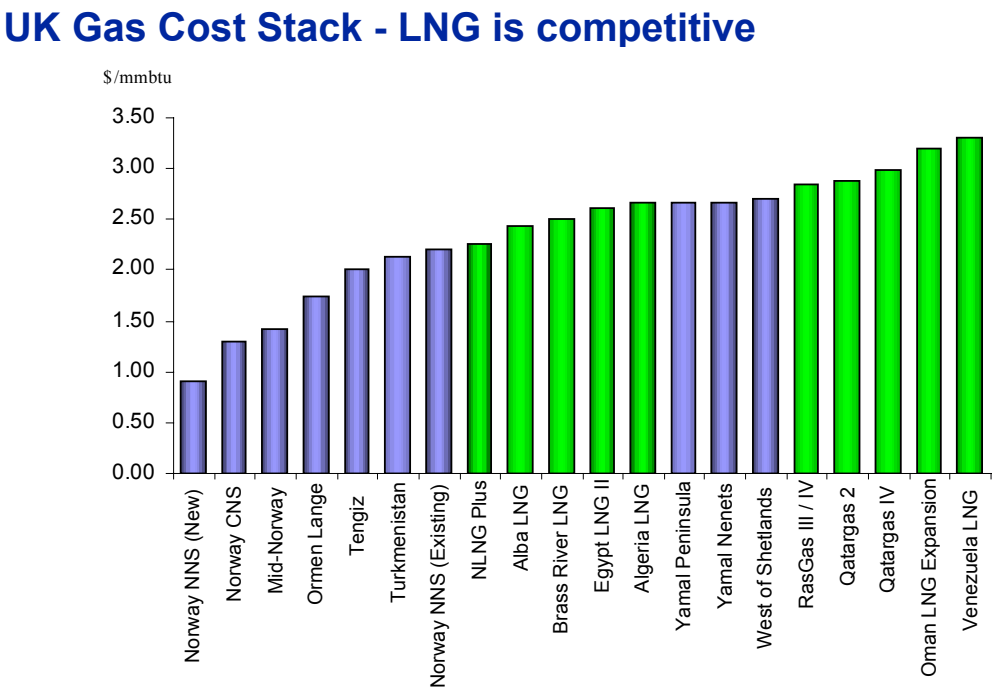


Sources:

1. UKCS supply - Wood Mackenzie Multi Client Study January 2003.
2. Great Britain demand - Wood Mackenzie Multi Client Study UK demand less N. Ireland demand.
3. Vesterled Facts 2003, The Norwegian petroleum sector, Ministry of Petroleum and Energy.
4. Potential new import capacities based on the Transco data shown in the top diagram.

Annex 14 continued

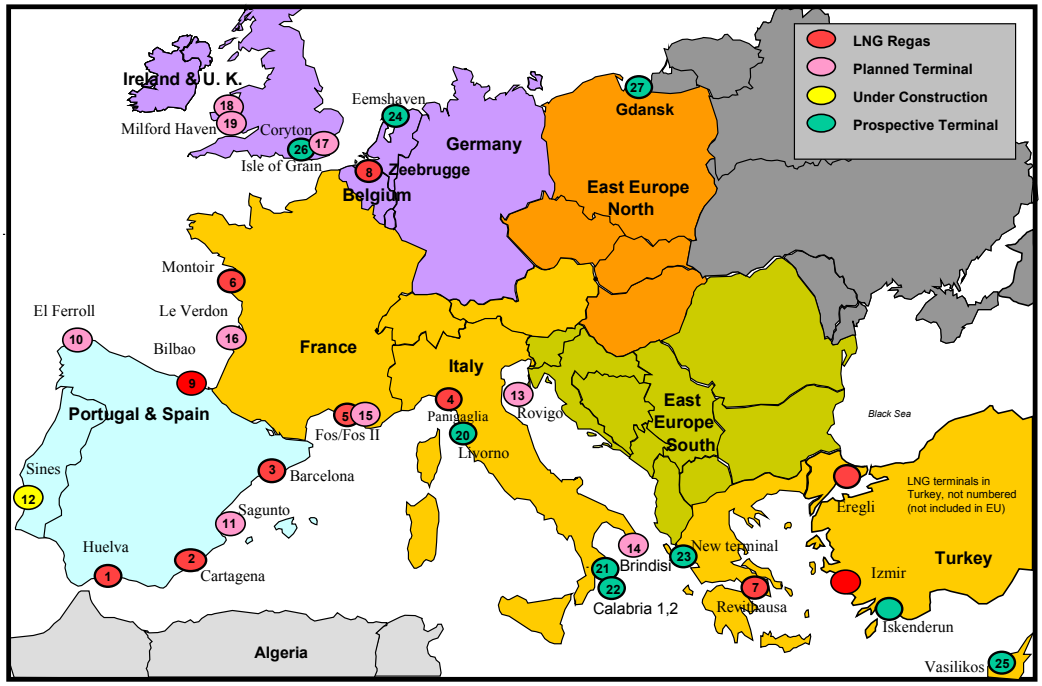
Available Supply Sources Potentially Competing for Access to the GB Segment of the Market



Source: Wood Mackenzie at Transco's industry seminar "Transporting Britain's Energy: Towards Import Dependency" 26th June 2003 and available on Transco's website.

ANNEX 15

ILLUSTRATION OF EXISTING / POTENTIAL LNG TERMINALS AND GAS FLOWS IN EUROPE



Source : LNG terminal locations based on analysis shown in Annex 16.

Source : "Projects of Pan European Interests" : Map presented to the Euro-Mediterranean Ministerial Meeting of May 2003 to illustrate existing pipeline interconnectivity and proposed priority axes for future natural gas flows.

ANNEX 16

FORECAST EEA LNG IMPORT TERMINAL CAPACITY

EEA LNG Terminals

No.	Country	Terminal	Owners	Start Date	Existing capacity (bcm p.a)	Existing +Potential capacity (bcm p.a) 2010
Existing Terminals						
1	Spain	Huelva	Enagas	1988	4	12
2	Spain	Cartagena	Enagas	1989	4	12
3	Spain	Barcelona	Enagas	1969	11	12
4	Italy	La Spezia (Panigaglia)	Snam Rete Gas	1969	5	5
5	France	Fos sur Mer	GdF	1972	5	5
6	France	Montoir de Bretagne	GdF	1980	10	10
7	Greece	Revithousa	DEPA	2000	3	3
8	Belgium	Zeebrugge	Fluxys	1987	5	9
9	Spain	Bilbao	Repsol, et al	2003	4	7
Sub-Total					**46**	**75**
Expected Future Terminals						
10	Spain	El Ferrol (Galicia)	Sonatrach, UF, et al	2004		4
11	Spain	Sagunto (Valencia)	Union Fenosa, et al	2005		5
12	Portugal	Sines	GALP	2003		16
13	Italy	Rovigo	QP/EM/Edison	2007		8
14	Italy	Brindisi	BG	2006		12
15	France	Fos II	GdF	2006		8
16	France	Le Verdon	TFE			?
17	UK	Isle of Grain	National Grid Transco	2005		17
18	UK	Milford Haven	Petroplus	2006		9
19	UK	Milford Haven	EM/QP	2007		21
Sub-Total Planned EU Terminals						**101**
Sub-Total					**46**	**176**
Other Future Potential Terminals						
20	Italy	Livorno	BP/ Edison			3
21	Italy	Calabria 1				10
22	Italy	Calabria 2				8
23	Greece	New terminal				?
24	Netherlands	Eemshaven				?
25	Cyprus	Vasilikos				1
26	UK	Coryton	BP			?
27	Poland	Gdansk				?
Sub-Total						**22**
Total (Existing + Planned + Potential)						**197**

South Hook (21 bcm p.a.) as % of Potential Market	**11%**

Annex 16 continued

	EEA
1	**Huelva :** Existing capacity **3.9 bcm**. Expansion plan to **12.3 bcm** by end 2005 approved. DATA SOURCES: ▪ http://translate.google.com/translate?hl=en&sl=es&u=http://www.enagas.es/index.jsp&prev=/search%3Fq%3Denagas%26hl%3Den%26lr%3D%26ie%3DUTF-8%26oe%3DUTF-8%26sa%3DG (Enagas Website) ▪ http://www.valve-world.net/projects/news_fullstory.asp?NewsID=1887 - Valve Worlds, 27 March 2002: ▪ http://www.eia.doe.gov/emeu/cabs/spain.html ▪ http://www.fwc.com/publications/heat/heat_pdf/summer02/FrontBurner09-02-3.pdf
2	**Cartagena :** Existing capacity **3.9 bcm**. Expansion plan up to **12.1 bcm** by end 2007approved. DATA SOURCES: ▪ http://translate.google.com/translate?hl=en&sl=es&u=http://www.enagas.es/index.jsp&prev=/search%3Fq%3Denagas%26hl%3Den%26lr%3D%26ie%3DUTF-8%26oe%3DUTF-8%26sa%3DG - (Enagas Website) ▪ http://www.valve-world.net/projects/news_fullstory.asp?NewsID=1887 - Valve Worlds, 27 March 2002: ▪ http://www.eia.doe.gov/emeu/cabs/spain.html ▪ http://www.fwc.com/publications/heat/heat_pdf/summer02/FrontBurner09-02-3.pdf
3	**Barcelona :** Existing capacity **10.5 bcm**. Expansion plan to **12.3 bcm** by end 2007approved. DATA SOURCES: ▪ http://translate.google.com/translate?hl=en&sl=es&u=http://www.enagas.es/index.jsp&prev=/search%3Fq%3Denagas%26hl%3Den%26lr%3D%26ie%3DUTF-8%26oe%3DUTF-8%26sa%3DG - (Endesa web site) ▪ http://www.eia.doe.gov/emeu/cabs/spain.html ▪ http://www.paceglobal.com/paceglobal/inserts/rev1span1.pdf
4	**Panigaglia :** Existing capacity of **5.3 bcm pa** (2001). ENEL imports LNG from Algeria under a 25-year contract that will last in 2015. DATA SOURCES: ▪ http://www.platts.com/features/lng/
5	**Fos Sur Meir :** Existing capacity **4.5 bcm pa**. Note: GdF is planning the construction of a second terminal at Fos-sur-Mer. The terminal will be commissioned in 2006 and will have a maximum capacity of 8.25-bil cu m. (See Fos 2) DATA SOURCES: ▪ http://www.platts.com/features/lng/ ▪ "Europe Gas Industry Needs Considerable Further Reshaping" by Standard & Poor (14 Nov 02), http://www.standardandpoors.com/europe/francais/Fr_forum/
6	**Montoir de Bretagne :** Existing capacity ~**10 bcm p.a**. LNG is regasified and piped to Italy where it is distributed by Enel as part of a 22-year contract the Italian utility signed with Nigeria in 1992. Deliveries began in 1999. DATA SOURCES: ▪ http://www.platts.com/features/lng/
7	**Revithousa :** Completed in early 2000 with a capacity of ~**2.6 bcm pa**. DATA SOURCES: ▪ Hellas Energy; http://www.hellasenergy.com/ ▪ The LNG and GTL Portal at http://gmaiso.free.fr/lng/index.php3?zoter=Greece&pages=4
8	**Zeebrugge :** Existing capacity **5 bcm p.a**. Fluxys LNG is planing to increase the capacity at this terminal to nearly double (~ 9 bcm/year) the terminal capacity by end 2007. DATA SOURCES: ▪ Fluxxy's website: http://www.fluxyslng.net/ ▪ Announcement by Financieel Economische Tijd on November 11 2003 . The Council of Federal Ministers provides Belgian Natural Gas company Fluxys the opportunity to significantly expand the Zebrugge terminal. Fluxys estimates that the capacity of the terminal could be doubled to nearly 9 bcm/year
9	**Bilbao :** Operational starting 3Q 2003 at a capacity of **3.5 bcm p.a**. Plan for expansion to **7.0 bcm p.a**. approved. DATA SOURCES: ▪ http://www.gasandoil.com/goc/company/cne31436.htm ▪ http://www.eia.doe.gov/emeu/cabs/spain.html - Spain Country Analysis ▪ http://www.platts.com/features/lng/europe.html ▪ http://www.sofregaz.fr/references.php ▪ http://uktop100.reuters.com/latest/BP_Amoco/top10/default.asp

10	**El Ferrol :** Expected to operate in 2004 at **3.5 bcm p.a**. DATA SOURCES: ▪ Spain Country Analysis, http://www.eia.doe.gov/emeu/cabs/spain.html ▪ http://www.platts.com/features/lng/europe.html ▪ IBC LNG 2002 Forum in Madrid, "Developing the European Market" Opening Remarks by Theo Oerlemans - Senior Advisor Poten & Partner
11	**Sagunto :** Planned for **5 bcm p.a**. capacity (EndesaPress Release - 16 July 2002) Osaka Gas Engineering was awarded a contract for he new Sagunto terminal. DATA SOURCES: ▪ http://www.endesa.es/english/prensa/noticias/16jul02.html ▪ Osaka Gas Press Release, March 13, 2003. http://www.osakagas.co.jp/Press/english/pr030313.htm ▪ Spain Country Analysis, http://www.eia.doe.gov/emeu/cabs/spain.html
12	**Sines :** Under construction and expected to be operating in 2003, at a capacity of **16.4 bcm p.a.** DATA SOURCE: ▪ http://www.platts.com/features/lng/
13	**Rovigo :** ~ 2007 start. **8.4 bcm p.a.** (sizing of terminal subject to Italian regulations) DATA SOURCES: ▪ http://www.platts.com/features/lng/europe.html ▪ IBC LNG 2002 Forum in Madrid, "Developing the European Market" Opening Remarks by Theo Oerlemans - Senior Advisor Poten & Partner ▪ Snam Rete Gas' presentation titled "Analyst Presentation - 2002 Preliminary Results", page 8, 25 February 2003 ▪ Obtaining permits for new pipelines and terminals: http://www.thecwcgroup.com/system/images/cwc/confsession/2683.60844889783-1033747772_21706.pdf ▪ Qatar Petroleum/ExxonMobil announced acquisition of a 90% interest in the Edison Gas' north Adriatic Liquefied Natural Gas (LNG) Terminal. QP and ExxonMobil's shares will be equally divided between the two companies which will each own a 45% share of the terminal equity. RasGas II and Edison S.P.A of Italy signed an amended Sale and Purchase Agreement to increase LNGsupplies frothe initially agreed level of 3.5 MTA to 4.7 MTA, commencing in 2007.
14	**Brindisi :** Brindisi terminal has obtained approval and to start in 2006 at an initial capacity **4 bcm p.a** with potential expansion to **12 bcm p.a** - phase II. DATA SOURCES: ▪ Presentation: "The Internationalisation of Gas Supplies - The LNG Role" by Franco Fassio, President of BG-Italia, at the conference ▪ IBC LNG 2002 Forum in Madrid, "Developing the European Market" Opening Remarks by Theo Oerlemans - Senior Advisor Poten & Partner. ▪ Snam Rete Gas' presentation titled "Analyst Presentation - 2002 Preliminary Results", 25 Feb 2003 (page 8) ▪ Obtaining permits for new pipelines and terminals: http://www.thecwcgroup.com/system/images/cwc/confsession/2683.60844889783-1033747772_21706.pdf
15	**Fos II :** GdF is planning the construction of a second terminal at Fos-sur-Mer. The terminal will be comissioned in 2006 and will have a maximum capacity of **8.25 bcm p.a**. DATA SOURCES: ▪ http://www.platts.com/features/lng/europe.html ▪ GdF Press Release, 25 June 2002 ▪ IBC LNG 2002 Forum in Madrid, "Developing the European Market" Opening Remarks by Theo Oerlemans - Senior Advisor Poten & Partner
16	**Le Verdon :** TotalFinaElf reported to be in planning stage for a terminal at Le Verdon. DATA SOURCES: ▪ Bulletin Of Cedigaz Members February 2002 ▪ http://www.europarl.eu.int/commonpositions/2003/pdf/c5-0033-03_en.pdf
17	**Transco's Isle of Grain :** LNG Terminal is expected to operate in 2005 at a capacity between **3 - 10 bcm p.a.** DATA SOURCES: ▪ Transco website www.transco.uk.com contains an NGT presentation given at the Transporting Britain's Energy Event 26 th June 2003 showing capacity range of 3 -10 bcm p.a. ▪ NGT submitted a planning application to Medway Ports Authority in August 2003 for permission to construct three new tanks of 190,000 m3 each to increase the total throughput at the site to ~ 13.5 MTA (about 17 bcm /annum)
18	**Petroplus Milford Haven :** Planning permission granted in September 2002 **for 6 bcm p.a.** The terminal which will have regas facilities and two 165,000 storage tanks planned operational in Q4 2006. Petroplus has also submitted an application to increase the terminal capacity on 24 April 2003. The application is for the construction of a third tank with an identical capacity of 165,000 CM was approved and implies expansion to **9 bcm p.a.** DATA SOURCES: ▪ Ofgem document - Dec. 2002 at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1952_LNGnote.pdf ▪ Petroplus Press Release at http://www.energyforwales.co.uk/press_releases/2003-04-29.html
19	**QP/ExxonMobil Milford Haven South Hook :** Terminal capacity 21 bcm p.a. by 2010

20	**Livorno :** Edison, Solvay and BP announced the start of an integrated project to build a **3 bcm p.a.** LNG terminal in Rosignano, Marittimo, Livorno. DATA SOURCES: ▪ Press Release: Edison, Solvay and BP : February 2003. http://www.edison.it/english/cs2003/n3febbraio2003.pdf ▪ Livorno is also included in the University of Genova paper : http://www.enricomusso.it/GNL_1.pdf ▪ Construction of an LNG terminal in Livorno is also included on page 8 of Snam Rete Gas' presentation titled "Analyst Presentation - 2002 Preliminary Results", 25 February 2003 ▪ http://www.eia.doe.gov/emeu/cabs/italy.html; (Italy Country Brief Analysis) ▪ Obtaining permits for new pipelines and terminals: http://www.thecwcgroup.com/system/images/cwc/confsession/2683.60844889783-1033747772_21706.pdf
21	**Calabria 1 :** Falks plans to build 2 LNG re-gas terminals at the Calabrian Coast. Estimated capacity **: 6 - 10 bcm p.a.** DATA SOURCES: ▪ Company News Feed (formerly Regulatory News Service) April 7, 2003 ▪ Italy Country Brief Analysis; http://www.eia.doe.gov/emeu/cabs/italy.html ▪ University of Genova paper : http://www.enricomusso.it/GNL_1.pdf ▪ Obtaining permits for new pipelines and terminals: http://www.thecwcgroup.com/system/images/cwc/confsession/2683.60844889783-1033747772_21706.pdf
22	**Calabria 2 :** Falks plans to build 2 LNG re-gas terminals at the Calabrian Coast. Estimated capacity **: 6 - 10 bcm p.a.** DATA SOURCES: ▪ Company News Feed (formerly Regulatory News Service) April 7, 2003 ▪ Italy Country Brief Analysis; http://www.eia.doe.gov/emeu/cabs/italy.html ▪ University of Genova paper : http://www.enricomusso.it/GNL_1.pdf ▪ Obtaining permits for new pipelines and terminals: http://www.thecwcgroup.com/system/images/cwc/confsession/2683.60844889783-1033747772_21706.pdf
23	**Potential for another LNG terminal in Greece :** (if an underwater gas pipeline connecting Italy and Greece does not come into fruition). Also, 2 new terminals included in the EU Commission Report. DATA SOURCES: ▪ Hellas Energy; http://www.hellasenergy.com/ ▪ http://europa.eu.int/comm/energy/ten-e/comm_decision%20_16112000/c2000-2683-en.pdf
24	**Eemshaven** (The Netherlands) **:** LNG feasibility Study starts in Eemshaven by Groningen Seaports and NV NOM on request of El Pase Corp. DATA SOURCE: ▪ Announcement by Groningen Seaports and NV NOM, 16/01/2003 ; http://live.thefactore.com/docs/seaports/live/detail.cfm?id=618startrow=1
25	**Vassilikos** (Cyprus) **:** Potential LNG from Egypt. Expected capacity **0.7 bcm p.a**. Expected start up in 2009 DATA SOURCE: ▪ http://europa.eu.int/eur-lex/en/com/pdf/2003/com2003_0262en02.pdf; COMMISSION OF THE EUROPEAN COMMUNITIES Brussels, 26.5.2003 - COM(2003) 262 final/2 - CORRIGENDUM
26	**BP Coryton** (UK) **:** BP plans to bring liquefied natural gas (LNG) to Britain, via an import terminal it will build in Coryton near London. DATA SOURCE: ▪ Reuter Thursday 31 July, 2003 11:42 BST
27	**Poland LNG Terminal :** A first LNG plant is foreseen in Poland. Pan European Interest map also shows a potential LNG terminal at **Gdansk**. DATA SOURCES: ▪ Source: Priority Axes and TEN-E Projects - Dated : 25/07/2003 ▪ http://www.europa.eu.int/comm/energy/ten-e/consultation_2003_07_25/priority_axes_and_projects_en.pdf

ANNEX 17

ESTIMATES OF PROVED NATURAL GAS RESERVES IN THE WORLD (2002)

	BCM	TCF
NORTH AMERICA	**6660**	**235.2**
Canada	1660	58.6
United States	5000	176.6
LATIN AMERICA	**8033**	**283.7**
Argentina	764	27.0
Bolivia	790	27.9
Brazil	229	8.1
Chile	93	3.3
Colombia	198	7.0
Cuba	71	2.5
Ecuador	115	4.1
Mexico	797	28.1
Peru	255	9.0
Trinidad and Tobago	558	19.7
Venezuela	4163	147.0
EUROPE	**7219**	**254.9**
Austria	24	0.8
Denmark	141	5.0
France	10	0.4
Germany	254	9.0
Greece	1	0.0
Ireland	34	1.2
Italy	191	6.7
Netherlands	1616	57.1
Norway	3833	135.4
Turkey	4	0.1
United Kingdom	1111	39.2
CENTRAL EUROPE	**609**	**21.5**
Bulgaria	6	0.2
Croatia	31	1.1
Hungary	34	1.2
Poland	152	5.4
Romania	322	11.4
Serbia	43	1.5
Slovakia	15	0.5
Other countries	6	0.2
FORMER SOVIET UNION	**55880**	**1973.4**
Armenia	176	6.2
Azerbaijan	1370	48.4
Kazakhstan	1900	67.1
Russia	46475	1,641.3
Turkmenistan	2900	102.4
Ukraine	1100	38.8
Uzbekistan	1850	65.3
Other countries	109	3.8
AFRICA	**13106**	**462.8**
Algeria	4523	159.7
Angola	370	13.1
Cameroon	102	3.6
Congo (Republic of)	122	4.3
Egypt	1557	55.0
Equatorial Guinea	70	2.5
Ethiopia	25	0.9
Gabon	33	1.2
Ghana	24	0.8
Ivory Coast	30	1.1
Libya	1314	46.4
Mozambique	62	2.2
Namibia	85	3.0
Nigeria	4500	158.9
Rwanda	57	2.0
Senegal	11	0.4
Somalia	6	0.2
South Africa	18	0.6
Sudan	86	3.0
Tanzania	28	1.0
Tunisia	78	2.8
Other countries	5	0.2

	2002	TCF
MIDDLE EAST	**70742**	**2498.3**
Abu-Dhabi	5620	198.5
Bahrain	92	3.2
Dubai	115	4.1
Iran	26100	921.7
Iraq	3109	109.8
Israel	45	1.6
Jordan	7	0.2
Kuwait	1557	55.0
Oman	946	33.4
Qatar	25768	910.0
Ras-Al-Khaimah	34	1.2
Saudi Arabia	6340	223.9
Sharjah	289	10.2
Syria	241	8.5
Yemen	479	16.9
ASIA-OCEANIA	**15231**	**537.9**
Afghanistan	100	3.5
Australia	3550	125.4
Bangladesh	464	16.4
Brunei	356	12.6
China	1560	55.1
India	645	22.8
Indonesia	3800	134.2
Japan	40	1.4
Malaysia	2390	84.4
Myanmar (Burma)	287	10.1
New-Zealand	85	3.0
Pakistan	750	26.5
Papua New Guinea	428	15.1
Philippines	165	5.8
Taiwan	75	2.6
Thailand	366	12.9
Vietnam	170	6.0
WORLD TOTAL	**177480**	**6267.7**

Source: Natural Gas in the World - CEDIGAZ

ANNEX 18

EEA /EUROPE NATURAL GAS DEMAND OUTLOOK

EEA / Europe Demand (bcm / year)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current EU Members													
Sub-Total	447	464	483	494	507	520	532	544	554	565	576	586	597
New EU Members (May 2004)	Demand included in EEA starting 2005												
Sub-Total			61	63	66	69	72	75	76	78	81	82	86
Future EU Members (2007)	Demand included in EEA starting 2008												
Sub-Total						29	30	31	31	32	33	34	34
Western Europe													
Sub-Total	1	1	1	2	2	2	2	2	4	4	4	4	5
Total EEA Demand	448	465	545	559	575	620	636	652	665	679	694	706	722
Total Europe Demand	553	576	601	617	636	656	676	694	709	724	742	757	775

Source: Wood Mackenzie Multi Client Study: January 2003 "Pushing the Boundaries".
Note that the Europe Supply Demand outlooks provided in Annex 12 are for all Europe, including Turkey.

Note: Total Europe demand includes non EEA countries, principally Turkey.

ANNEX 19

THIRD PARTY ACCESS ARRANGEMENTS

General

The Sponsors will ensure that the terminal operating company (TermCo) is incentivised to maximise utilisation of all of the capacity of the terminal facilities at all times.

TermCo will be a separate legal entity and will produce separate accounts for LNG terminal activity.

Base Capacity

The terminal will be constructed by TermCo to provide Base Capacity required to receive, temporarily store, regasify and process LNG consistent with the requirements of the upstream element of the QGII Project and redelivery as pipeline gas for sale by TradeCo to EMGME under the Gas Sales and Purchase Agreement. The facilities will have been optimised to enable a baseload supply of pipeline gas to be redelivered at the exit point of the regasification plant. All of the Base Capacity shall be provided on a first rights basis to TradeCo under the terms of its agreements with QGII and TermCo.

Base Capacity is expected to be defined in terms of the key capacity components associated with an LNG import and regasification terminal, namely:

1. Annual berthing slots.

2. Working tank capacity for temporary LNG storage.

3. Firm regasification capacity.

4. Standby regasification capacity.

Capacity Available for Sale to Third Parties

The arrangements between TradeCo and TermCo will require that TradeCo notifies annually its requirements for Base Capacity up to 100% of the terminal capacity. TermCo will be required to offer to the market any part of the Base Capacity that TradeCo does not require. Such part of the Base Capacity not required by TradeCo will be termed Available Capacity.

TermCo will promptly advertise the Available Capacity to the market in an appropriate electronic form such as on a website, together with dates by which applications for access are to be submitted and allocated or rejected. All other information necessary for third parties to determine their access applications will be made available including:

- Quality specification ranges;
- All standard terms and conditions, including credit requirements;
- Framework contract;
- Priorities.

TermCo will also advise the market promptly of any Spot Capacity that may be identified within the year.

The standard technical terms and conditions between TermCo and third party applicants for Available Capacity will be the same or materially similar to those in force between TradeCo and TermCo. Commercial terms for third party applicants will be offered on a non discriminatory basis.

- Applicant third parties who, for example, do not meet commercial creditworthiness criteria or whose LNG supplies are unable to comply with the LNG receipt specification (set by the processing limits available at the terminal and the NTS specification in force at the time) will not be considered for allocation of Available Capacity.
- The terms will reflect the obligation of TermCo to ensure that TradeCo's first rights to capacity are maintained.

In addition TermCo will be under an obligation to keep information regarding the activities of LNG suppliers and shippers in the terminal confidential from each other except where the provision of such information is required by the regulator or by Transco for the purposes of safe and reliable operation of the transmission network.

It is also expected that as part of the exemption conditions, TermCo / TradeCo will agree to provide any such information as may be required by Ofgem to enable it to perform its duties as the regulator under the terms of UK legislation.

The precise arrangements by which the market will be advised of Available Capacity and / or Spot Capacity will be developed and notified prior to first operation of the facility.

Market Clearing

TermCo will operate a process that invites priced offers for Available Capacity and where there is more than one qualifying third party user making an application, TermCo will allocate capacity in the following manner:

Preference will be given to the applicant whose access request allows revenues for TermCo to be maximised.

Spot Capacity which becomes available from time to time will be allocated either on the same basis as Available Capacity, or on the basis of first come, first served, depending on the timing of Spot Capacity availability.

Secondary Trading

To further encourage the efficient use of capacity, TermCo would intend to establish an appropriate system to enable TradeCo and third parties who obtain Available Capacity to market such capacity on a secondary market.

Entry Capacity

Third parties who wish to acquire rights to Available Capacity will, of course, have the option to purchase corresponding entry capacity from Transco or from other shippers having entry capacity rights at the entry point to Transco's system.

To the extent that no capacity is available through such routes, there will be enabling provisions to ensure that unutilised firm entry capacity can be made available from EMGME to third party applicants for Available and or Spot Capacity for the duration of the period in which TermCo offers offloading slots, temporary storage and regasification capacity. The enabling mechanisms for this are under consideration.

ANNEX 20

ADDITIONAL DETAILS OF THE UPSTREAMPROJECT

1. Offshore Facilities

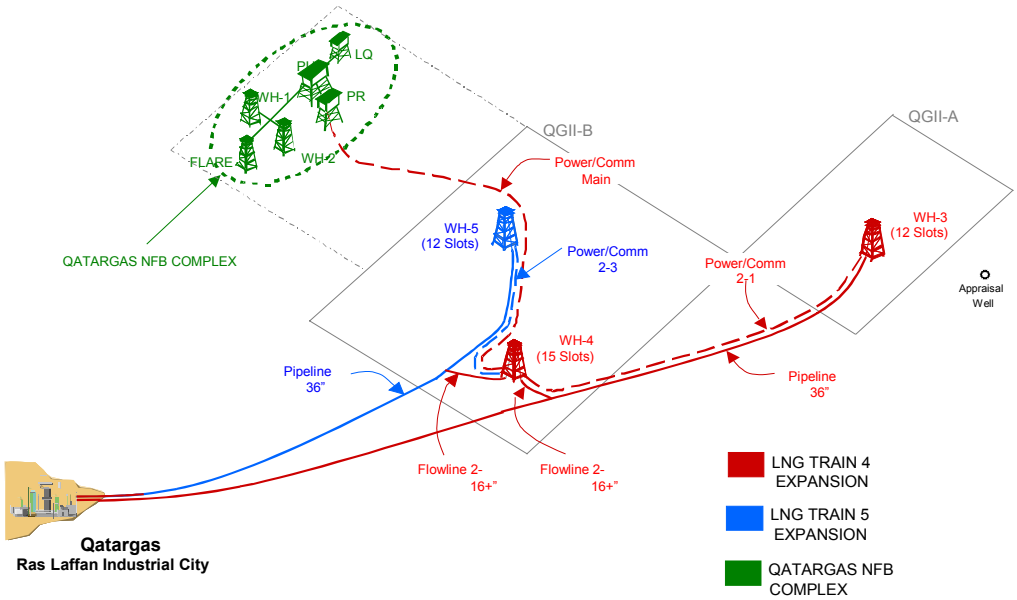
Gas Source – Qatar's North Field

- Reserves of 900 TCF
- The largest non-associated gas field in the world

Current Description of Development

- 30 wells
- Three wellhead platforms
- Two 36" wet gas pipelines to shore (lengths of ~80 km & ~105 km)
- Power, communication, and control from QG complex
- 2.9 BCFD untreated gas production
- 100,000 barrels per day condensate production

Qatargas II Train 4/5 Offshore Conceptual Layout

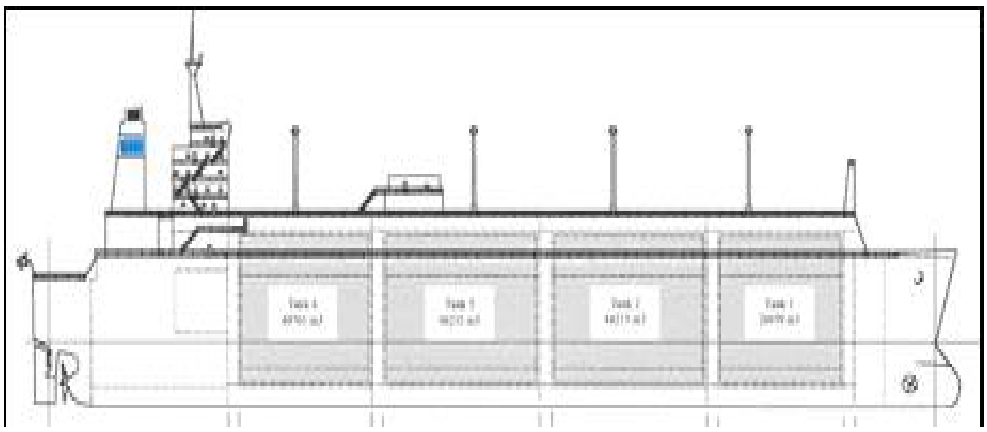


2. Onshore Facilities

Current Description of Development

- Inlet Facilities including slugcatcher and condensate stabilization
- Gas Pre-Treating
- LPG recovery: Recovery of propane and butane products, fractionation, treating and storage
- Liquefaction: 2 X 7.8 MTA LNG units
- LNG Storage and Export: tanks and berth facilities to accommodate large (up to 250 km^3) LNG carriers
- Shared facilities

3. Shipping

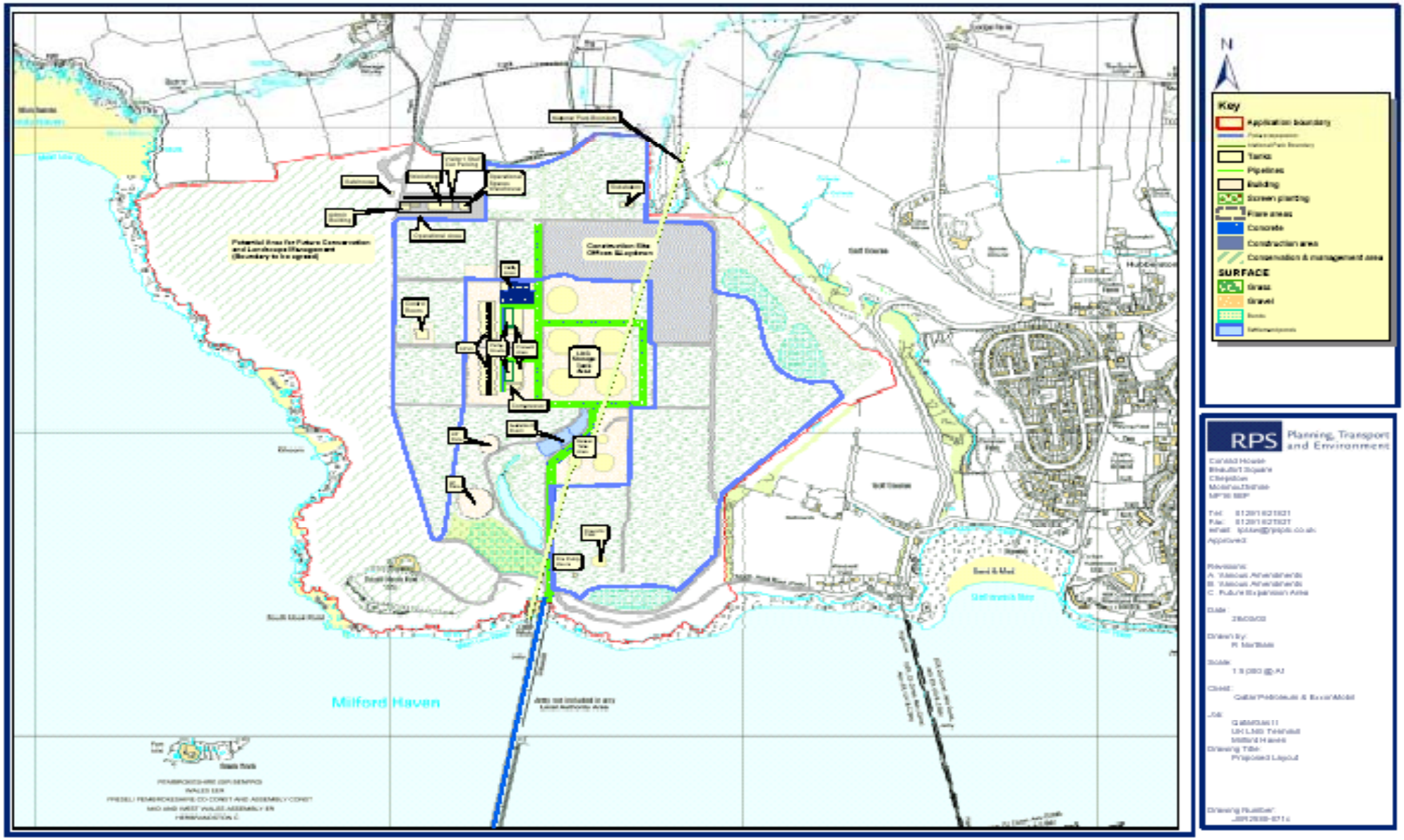


Target LLNG Carrier: 200+ KM^3 Membrane Containment, with Low Speed Diesel and Cargo Reliquefaction

Description of Development

- Shipping fleet configuration under review. Options include:
  - 4 X 145,000 m^3 + 14 X 185,000 m^3 vessels
  - 16 X 200,000 m^3 vessels
  - 13 X 250,000 m^3 vessels
- Ship propulsion systems under evaluation:
  - Conventional steam turbines, boil off LNG for fuel
  - Diesel - less space, higher speed, lower cost
- Boil off gas re-liquefaction if diesel propulsion used

ANNEX 21 - SOUTH HOOK SITE PLAN



Appendix 2 – Updated Outlook For Potential Regasification Capacity in Europe

EEA LNG Terminals

No.	Country	Terminal	Owners	Start Date	Existing capacity (bcm p.a)	Existing +Potential capacity (bcm p.a) 2010
Existing Terminals						
1	Spain	Huelva	Enagas	1988	4	12
2	Spain	Cartagena	Enagas	1989	5	11
3	Spain	Barcelona	Enagas	1969	11	15
4	Spain	Bilbao	Repsol - BP	2003	3	5
5	Italy	La Spezia (Panigaglia)	Snam Rete Gas	1969	4	4
6	France	Fos sur Mer	GdF	1972	5	6
7	France	Montoir de Bretagne	GdF	1980	10	10
8	Greece	Revithousa	DEPA	2000	3	3
9	Belgium	Zeebrugge	Fluxys	1987	5	9
10	Portugal	Sines	GALP Atlantico	2004	5	5
11	Turkey	Marmara Eglisi	Botas	1994	5	5
		Sub-Total			**47**	**79**
Expected Future Terminals						
12	Spain	El Ferrol (Galicia)	Sonatrach, UF, Enagas et al	2004		4
13	Spain	Sagunto (Valencia)	Union Fenosa, et al	2005		7
14	Italy	Rovigo	Edison/ (QP/EM)	2007		8
15	Italy	Brindisi	BG	2007		8
16	France	Fos II	GdF	2007		8
17	France	Le Verdon	TFE	?		?
18	UK	Isle of Grain	National Grid Transco	2005		10
19	UK	Milford Haven	BG/Petronas/Petroplus	2007		12
20	UK	Milford Haven	QP/EM	2007/8		21
21	Turkey	Izmir	Depa	2004		6
Sub-Total Planned EU Terminals						**77**
		Sub-Total			**47**	**156**
Other Future Potential Terminals						
22	Italy	Livorno (Rosignano)	BP/ Edison / Solvay			3
23	Italy	Vado Ligure	ENEL			9
24	Italy	Livorno Offshore	Cross Energy - OLT			3
25	Italy	Taranto	ENEL			9
26	Italy	San Ferdinando or Gioia Tauro	Cross Energy			10
27	Italy	Corigliano Calabro	Cross Energy			8
28	Italy	Muggia Treste	ENEL			9
29	Italy	Taranto	Gas Natural			8
30	Italy	Trieste	Gas Natural			8
31	Italy	Gioia Tauro	Gioia Tauro Oil (ItalPetroli-Sensi)			6
32	Greece	New terminal (Western Coast)				?
33	Netherlands	Eemshaven				?
34	Cyprus	Vasilikos				1
35	UK	Coryton	BP			?
36	UK	Anglesey	Canatxx			6
37	UK	Canvey Island	Calor (SHV)			?
38	Poland	Gdansk (West Pomeranian)				?
39	Germany	Wilhelmshaven	Ruhrgas AG			?
40	Turkey	Iskenderun				6
		Sub-Total				**80**
		Total (Existing + Planned + Potential)				**235**

South Hook LNG As % Of Potential Market	**9%**

Updates since November 2003 are shaded blue.

Appendix 2 Continued – Updated Outlook For Potential Regasification Capacity in Europe

EEA LNG Terminal Data Sources - Update At August 9th 2004

2	**Cartagena : Existing capacity 3.9 bcm. Expansion plan up to 10.5 bcm by end 2007 approved.** DATA SOURCES: http://www.enagas.es/enagas/website/principal.jsp?cnfjdbc=jdbc_enagas_app.xml&sesid=153879&fvparentmenu=105525052490&fvmenudefecto=null&URL=mapas/infraestructura.htm&fvnivel=1
3	**Barcelona : Existing capacity 10.5 bcm. Expansion plan to 14.5 bcm by end 2005 approved.** DATA SOURCES: http://www.enagas.es/enagas/website/principal.jsp?cnfjdbc=jdbc_enagas_app.xml&sesid=153879&fvparentmenu=105525052490&fvmenudefecto=null&URL=mapas/infraestructura.htm&fvnivel=1 http://www.enagas.es/enagas/website/resources/269677358730.pdf
4	**Bilbao : Operational starting 3Q 2003 at a capacity of 3.5 bcm p.a. Expansion plan to 7.0 bcm p.a. (s/u 2004) approved.** DATA SOURCES: http://www.gasandoil.com/goc/company/cne31436.htm http://www.rigzone.com/news/article.asp?a_id=14377 http://www.bplng.com/about/where/markets_existing.asp http://www.eia.doe.gov/emeu/cabs/spain.html http://www.enagas.es/enagas/website/principal.jsp?cnfjdbc=jdbc_enagas_app.xml&sesid=153879&fvparentmenu=105525052490&fvmenudefecto=null&URL=mapas/infraestructura.htm&fvnivel=1
5	**Panigaglia : Existing capacity of 3.65 bcm pa (2001). ENEL imports LNG from Algeria under a 25-year contract that will last in 2015.** DATA SOURCES: http://www.snamretegas.it/english/infrastruttura/rigassificazione.html http://www.snamretegas.it/english/business/anno_termico_03_04/pdf/gnl_italia/d_aprocedura_assegnazione.pdf http://www.mip.polimi.it/upload/Relazione%207.pdf?crc=c0a75ef
6	**Fos Sur Meir : Existing capacity 4.5 bcm pa.** DATA SOURCES: http://transport.gazdefrance.com/offre/Capacites_sur_reseau_Gaz_de_France_juillet_2004-1.xls http://transport.gazdefrance.com/offre/anglais/the_offer.htm http://transport.gazdefrance.com/frameset_actu3.htm
9	**Zeebrugge : Existing capacity 5 bcm p.a. Fluxxy LNG is considering to increase the capacity at this terminal which could include increasing the send out capacity and storage tank size (can be made available in 2007)** DATA SOURCES: http://www.qp.com.qa/qp.nsf/0/ffc26b8123b90c3e43256ec400167ab1?OpenDocument http://www.fluxys.net/pdf/PB040715_Fluxys_EPC_UK_def.pdf
10	**Sines : Operating since early 2004, at a capacity of 5.2 bcm p.a.** DATA SOURCE: http://www.transgasatlantico.pt/ http://www.eia.doe.gov/emeu/cabs/portugal.html http://www.tractebel.de/uploads/media/Sines_LNG_Terminal.pdf http://europa.eu.int/comm/energy/ten-e/comm_decision%20_16112000/c2000-2683-en.pdf
11	**Marmara Eglisi : Start-up in 1994 - Owned by State owned Botas** **Existing: Marmara Eglisi (Istambul) - Company: Botas - Capacity 5.2 bcm** DATA SOURCE: http://www.iea.org/dbtw-wpd/textbase/work/2004/investment/ses2.9.pdf http://www.eia.doe.gov/oiaf/analysispaper/global/importers.html http://www.unece.org/ie/se/pp/gas/turkey1.pdf http://www.cerrahogullari.com.tr/ports/BOTAS%20TERMINAL%20-%20MARMARA%20EREGLISI.htm http://www.platts.com/Natural%20Gas/Resources/News%20Features/LNG/eurolng.html

Appendix 2 Continued – Updated Outlook For Potential Regasification Capacity in Europe

12	**El Ferrol : Expected to operate in 2004 at 3.5 bcm p.a.** DATA SOURCES: http://www.eia.doe.gov/emeu/cabs/spain.html http://www.enagas.es/enagas/website/principal.jsp?cnfjdbc=jdbc_enagas_app.xml&sesid=153879&fvparentmenu=105525052490&fvmenu defecto=null&URL=mapas/infraestructura.htm&fvnivel=1 http://home.houston.rr.com/nugent/ferrol.html
13	**Sagunto : Planned for 5 bcm p.a. capacity (EndesaPress Release - 16 July 2002) Osaka Gas Engineering was awarded a contract for he new Sagunto terminal.** DATA SOURCES: http://www.enagas.es/enagas/website/principal.jsp?cnfjdbc=jdbc_enagas_app.xml&sesid=153879&fvparentmenu=105525052490&fvmenu defecto=null&URL=mapas/infraestructura.htm&fvnivel=1 http://www.halliburton.com/news/archive/2001/kbrnws_021401.jsp
14	**Rovigo : End 2007. 8.0 bcm p.a.** DATA SOURCES: http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf
15	**Brindisi : BG is developing an 8 bcmpa (6 mtpa) LNG terminal at the outer harbour of the port of Brindisi. First imports into the Italian market expected to start in 2007. BG and Enel equally share the 80% reserved capacity in the terminal** DATA SOURCES: http://www.bg-group.com/international/int-italy.htm http://www.mip.polimi.it/upload/Relazione%207.pdf?crc=c0a75ef http://www.enel.it/azienda_en/investor_relations/comunicati_stampa/ss_comunicatiarticolo.asp?IdDoc=327154&Version=1 http://www.eia.doe.gov/oiaf/analysispaper/global/pdf/app_k.pdf
16	**Fos II : GdF is planning the construction of a second terminal at Fos-sur-Mer. The terminal will be commissioned in 2006 and will have a maximum capacity of 8.25 bcm p.a.** DATA SOURCES: http://www.rigzone.com/news/article.asp?a_id=9596 http://transport.gazdefrance.com/qui_sommes_nous/FosCavaou0502.pdf http://www.rigzone.com/news/article.asp?a_id=14637
17	**Le Verdon : TotalFinaElf reported to be in planning stage for a terminal at Le Verdon.** DATA SOURCES: http://www.sogreah.fr/pages/anglais/ref_ind_develop_sites_gb.htm http://www.gulf-news.com/Articles/print.asp?ArticleID=5004
19	**Petroplus Milford Haven : Planning permission granted in September 2002 for 6 bcm p.a. The terminal which will have regas facilities and two 165,000 storage tanks planned operational in Q4 2006. Petroplus has also submitted an application to increase the** DATA SOURCES: http://www.energyforwales.co.uk/proposed_lng_terminal.html http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/6671_DragonDraftExemptionFINALPublicVersion290304.pdf
21	**Izmir: Terminal completed but not yet in operation (6 bcm pa)** DATA SOURCES: http://www.gasandoil.com/goc/news/nte82294.htm http://www.iea.org/dbtw-wpd/textbase/work/2004/investment/ses2.9.pdf http://www.platts.com/Natural%20Gas/Resources/News%20Features/LNG/eurolng.html http://www.hydro.com/library/attachments/en/investor_relations/cmd/cmd2_skalmeraas.pdf
22	**Livorno (Rosignano): Edison, Solvay and BP announced the start of an integrated project to build a 3 bcm p.a. LNG terminal in Rosignano Marittimo, Livorno.** DATA SOURCES: http://www.processingmagazine.com/Web_First/pr.nsf/ArticleID/DVMN-5JMKA4?OpenDocument&Click= http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf http://www.cga.ca/pdfs/Currie%20Forum%20presentation.pdf

Appendix 2 Continued – Updated Outlook For Potential Regasification Capacity in Europe

23	**Vado Ligure : ENEL plans to build 2 LNG re-gas terminals at either Taranto, Vado Ligure or Muggia. Vado Ligure 's capacity shown as 5 - 9 bcm p.a.** DATA SOURCES: http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf http://www.e-gazette.it/approfondimenti/ap214.htm
24	**Livorno Offshore : Golar LNG has joined forces with Italian developer CrossGas to develop a floating regasification terminal offshore Livorno** DATA SOURCES: http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf http://www.gasnet.com.br/artigos/artigos_view2.asp?cod=426
25	**Taranto : ENEL plans to build 2 LNG re-gas terminals at either Taranto, Vado Ligure or Muggia. Taranto's capacity shown as 5.0 - 8.9 bcm p.a.** DATA SOURCES: http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf http://www.energialab.it/Downloads/ScenarioGas2004.pdf
26	**San Ferdinando or Gioia Tauro (Calabria): Falks plans to build 2 LNG re-gas terminals at the Calabrian Coast. Estimated capacity : 6 - 10 bcm p.a.** DATA SOURCES: http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf http://www.energialab.it/Downloads/ScenarioGas2004.pdf http://www.mip.polimi.it/upload/Relazione%207.pdf?crc=c0a75ef
27	**Corigliano Calabro (Calabria): Terminal currently Waiting for Authorization. Capacity between 6 - 8 bcm.** DATA SOURCES: http://www.camera.it/_dati/leg14/lavori/stenografici/sed180/pdfbt05.pdf http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf
28	**Muggia Treste : is located on the northeast coast of Italy, shown as one of the future Italian LNG terminals. Estimated capacity : 5 - 9 bcm p.a.** DATA SOURCES: http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf http://www.energialab.it/Downloads/ScenarioGas2004.pdf
29	**Taranto and/or Treste : Gas Natural will present to the Industry Ministry the project for the construction of two LNG Terminals (8 bcm/year), one in the North and one in the south. At least one of the Italian LNG Terminal has to be in Taranto or Trieste** DATA SOURCES: http://www.staffettaonline.com/SNews/news/Article.asp?ID=3622 http://www.staffettaonline.com/SNews/News/Article.asp?ID=3708
30	**Taranto and/or Treste : Gas Natural will present to the Industry Ministry the project for the construction of two LNG Terminals (8 bcm/year), one in the North and one in the south. At least one of the Italian LNG Terminal has to be in Taranto or Trieste** DATA SOURCES: http://www.staffettaonline.com/SNews/news/Article.asp?ID=3622 http://www.staffettaonline.com/SNews/News/Article.asp?ID=3708
31	**Gioia Tauro (Calabria): Gioia Tauro Oil (Ital Petroli - Sensi). Terminal currently Waiting for Authorization. Capacity between 6 - 8 bcm.** DATA SOURCES: http://library.iea.org/dbtw-wpd/bookshop3/ill/LNG%20Import%20Terminals.pdf http://www.energialab.it/Downloads/ScenarioGas2004.pdf http://www.cga.ca/pdfs/Currie%20Forum%20presentation.pdf http://www.mip.polimi.it/upload/Relazione%207.pdf?crc=c0a75ef

Appendix 2 Continued – Updated Outlook For Potential Regasification Capacity in Europe

32	**Potential for another LNG terminal in Greece : (if an underwater gas pipeline connecting Italy and Greece does not come into fruition). Also, 2 new terminals included in the EU Commission Report.** DATA SOURCES:
33	**Eemshaven (The Netherlands) : LNG feasibility Study starts in Eemshaven by Groningen Seaports and NV NOM on request of El Pase Corp.** DATA SOURCE: http://www.eia.doe.gov/oiaf/analysispaper/global/pdf/app_k.pdf http://www.eia.doe.gov/oiaf/analysispaper/global/importers.html
34	**Vassilikos (Cyprus) : Potential LNG from Egypt. Expected capacity 0.7 bcm p.a. Expected start up in 2009** DATA SOURCE: http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr123892e.html
36	**Anglesey LNG Terminal : Proposed by Canatxx to be operating by 2008 in Wales** DATA SOURCES: http://www.newswales.co.uk/?section=Environment&F=1&id=7112 http://icnorthwales.icnetwork.co.uk/news/bangoranglesey/tm_objectid=14402270&method=full&siteid=50142&headline=safety-fear-over-new-gas-terminal-name_page.html
37	**Canvey Island LNG Terminal: Plans have been submitted to develop what might become the UK's fourth LNG terminal, at Canvey Island near London. Calor gas on Aug. 9 applied to Castle Point local council** DATA SOURCES: New UK LNG Site (Copyright © 2004 Energy Intelligence Group, Inc.) Wednesday, August 11, 2004
38	**Poland LNG Terminal : A first LNG plant is foreseen in Poland. Pan European Interest map also shows a potential LNG terminal at Gdansk.** DATA SOURCES: http://www.redsq.ipl.net/gas.poland.html http://www.europa.eu.int/comm/energy/ten-e/consultation_2003_07_25/priority_axes_and_projects_en.pdf
39	**Wilhelmshaven LNG Terminal : Ruhrgas has a plot of land and a permit to build an LNG Terminal in Wilhelmshaven. Terminal will be built after an "appropriate LNG contract has been signed"** DATA SOURCES: http://www.igu.org/members/developm_2003/Ruhrgas.pdf http://www.ruhrgas.de/englisch/technik/transportsys/transport_tanker.htm
40	**Izkenderun LNG Terminal : Turkish government confirmed that the construction of this terminal will be considered only after Izmir terminal will be completed** DATA SOURCES: http://www.gasandoil.com/goc/news/nte82294.htm http://www.inogate.org/html/countries/turkey.htm

Appendix 3

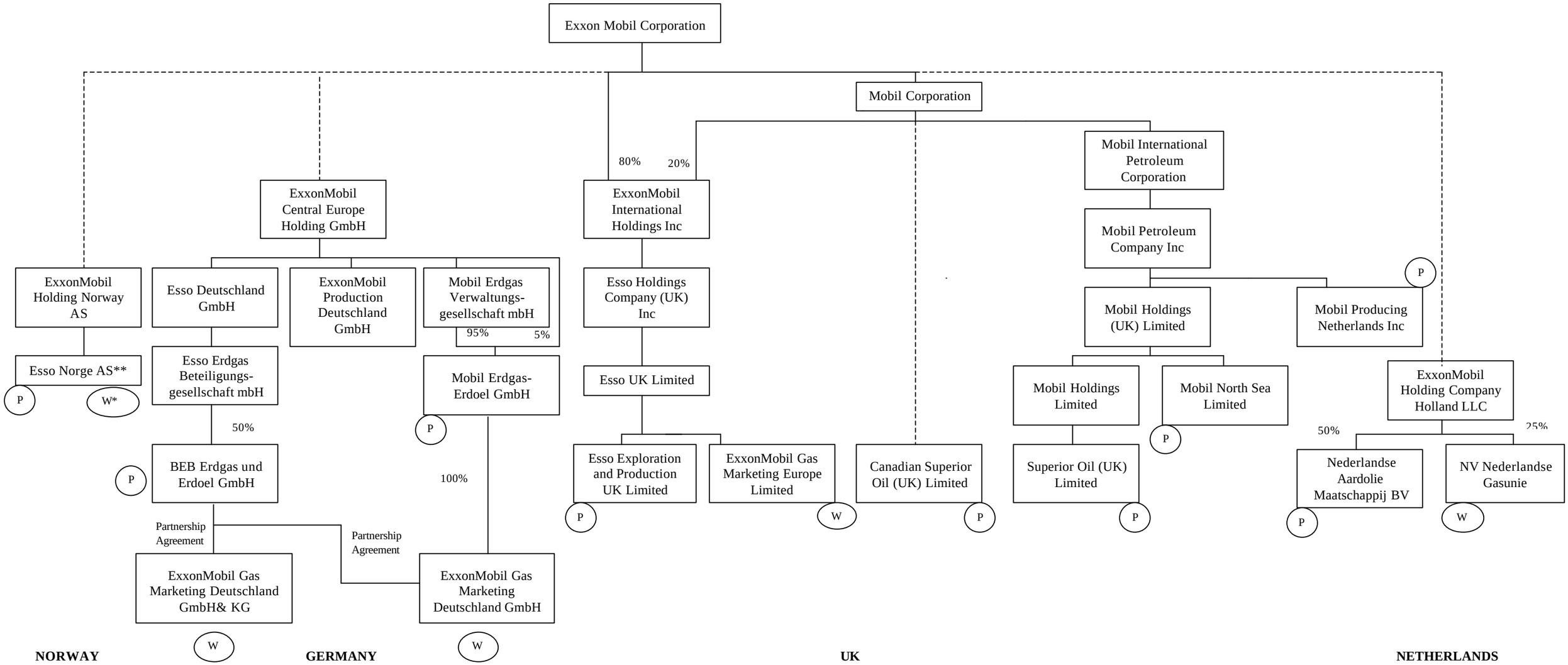
Updated - QP'S CURRENTLY PLANNED LNG / NATURAL GAS SALES TO EUROPE

Source	Buyer	Country		2003	2005	2010	2015
QG Tr 1-3	Gas Natural	Spain		1	1	1	
QG Tr 1-3	Gas Natural	Spain		1	1	1	
QG Tr 1-3	BP	Spain		1	1		
RG Tr 1-2	Endesa	Spain				1	1
RGII Tr 4 or 5	Edison	Italy				7	7
QGII Tr 4	EMGME	UK				10	10
QG Tr 1-3	Gas Natural	Spain			1	2	2
RGII Tr 4 or 5	[✂]	Belgium				5	5
QGII Tr 5	EMGME	UK				10	10
RG Tr 4 or 5	[✂]	[✂]				[✂]	[✂]
QGII / RGII Tr TBN	[✂]	[✂]				[✂]	[✂]
TOTAL	BCM[2]	[✂]		3	4	[✂]	[✂]
Production & Supply Available to Europe[1]	BCM / Year			687	795	946	1033
QP Share of Production & Supply Available to Europe	%			< 5	< 5	5-15	5-15

Notes:
1. Europe Production and Supply based on Wood Mackenzie Multi Client Study - "Pushing the Boundaries" Supply available includes all production or supply sources able to economically compete for sales in Europe
2. All figures shown designate maximum projected volumes rounded to nearest 1 BCM per annum

Key:
QGI Qatargas I
QGII Qatargas II
RG Rasgas
RGII Rasgas II
Train [and number]

Appendix 4 Updated – ExxonMobil European Gas Interests



KEY

P — Producer

W — Wholesaler

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