

ExxonMobil
*Gas & Power
 Marketing*

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Proposed Incentive Arrangements
For The Provision of Entry
Capacity At Milford Haven

Dear David,

Thank you for the opportunity to comment on the above consultation. ExxonMobil International Limited is responding on behalf of the sponsors of the Qatargas II project as well as its UK gas shipping entity ExxonMobil Gas Marketing Europe Limited. Our response addresses the key questions that Ofgem raises in its consultation.

Q1 & 2 Should New Incentive Arrangements for NGG NTS be developed in relation to the delivery of gas transmission capacity for Milford Haven and are the principles in paragraph 4.3 an appropriate basis for new incentive arrangements ?.

We support Ofgem's proposals to implement clear incentives on NGG for the timely provision of entry capacity at Milford Haven. The maximum level of the incentive to which NGG is exposed is a matter for regulatory analysis and judgment. What matters is that NGG can see the arrangement as providing a reasonable incremental financial risk if it were to fail to deliver capacity on time. We would support an incentive structure operating consistently with delivery of the full 650 GWh/d entry capacity capability before the end of Q407, whilst ending ahead of the new price control commencing April 07. We therefore favour Option A from Ofgem's Table 2 matrix below.

Table 2 - Illustration of the options for profiling incentives

	£m	2007				2008								Total
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
O P T I O N	A	12			24			0	0	0	0	0	0	36
	B	4	4	4	8	8	8	0	0	0	0	0	0	36
	C	2	2	2	8	8	8	1	1	1	1	1	1	36
	D	2	2	2	6	6	6	2	2	2	2	2	2	36

Ofgem asks in 4.3. whether it would seem appropriate that any new incentive arrangements should:

- (i) *Protect consumers from meeting costs that have arisen because of any inefficiency or are above the level consistent with the operation of a reasonably efficient transmission system.*
- (ii) *Encourage National Grid NTS to deliver additional NTS entry capacity in a timely and cost effective manner, taking account of both its investment costs and the economic costs of disruption to the LNG supply chains.*
- (iii) *Protect National Grid NTS from risks that might have the effect of unduly increasing its overall business risk and cost of capital*
- (iv) *And be consistent with a stable regulatory framework that promotes investment in the gas supply chain including LNG import facilities. [If National Grid NTS is unable to meet its contractual commitments for the provision of firm entry capacity and where interruptions lead to substantial costs for shippers that cannot be mitigated, then it will be important to recognize that it might be appropriate that compensation should be greater than a simple refund of capacity charges.]*

Clearly all principles can be simultaneously achieved if the incentive structure is chosen and implemented to work effectively to assist timely delivery of capacity. There is some risk of substantial costs being incurred where entry capacity delivery is delayed. Affected shippers should be able to achieve compensation for all economic losses through an appropriate arrangement.

Q3 Should National Grid NTS be shielded from buyback costs if there are undue delays in the DTI giving consent for the construction of the reinforcement pipelines, adverse weather conditions or other exceptional factors ?

We would not be sympathetic to providing NGG with any opportunity to seek relief from buyback costs.

In the instance of South Hook, NGG has known about the capacity planning basis of the proposed LNG terminal from early 2003 which remained unchanged throughout the period of Pre Works Agreements with Transco (first entered into Q4 2003) until confirmation of entry capacity requirements at the 2004 QSEC auctions.

Furthermore we believe NGG must have appreciated the aggregate capacity potential of the LNG facilities being considered at Milford Haven at the time it first published QSEC prices covering demand levels up to 1000 GWh/d of entry capacity. Had NGG believed that demand was going to be substantially less than that it seems to us that they would not have offered so much entry capacity at auction in the first place. In such circumstances we believe that lead time or uncertainty of entry capacity demand was not quite as NGG would have it portrayed. NGG has had more than adequate time to plan for this project and has been funded by developers (at their risk) in advance of the auction; NGG is familiar with consent processes, it has control over the submission and the process leading to the submission.

We cannot support the award of relief, other than for exceptional events, and certainly not on consents. We would urge Ofgem to consider how the affording of relief might undermine the incentive and provide NGG the opportunity to spend time on building the case for relief rather than focusing on the primary task of completing the pipeline on time and avoiding costs for all.

Q4&6 What are the advantages and disadvantages of the new incentive arrangements described in this chapter?

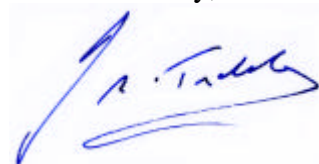
An incentive struck at the level proposed is sufficient to ensure that project planning integrity and focus remains and that completion is timely. As such costs are minimized for all whilst security of supply is enhanced. We can see no disadvantage.

Q5 Should this deferral “skip” the period November through February during which construction is not practical ?

We don't support any deferral of the commencement of the incentive. We actually don't accept that Winter construction is necessarily out of the question – it would at least depend on actual weather and land conditions experienced. Furthermore any project is faced with certain construction constraints and these are addressed in the project execution plan; issues of Winter working are well understood and should have been reasonably accounted for in the project execution plan associated with this project.

We trust that these views will be taken into account and please do not hesitate to contact us should you require any clarification.

Yours sincerely,



Ian Trickle