

ACCESS TO SECONDARY CAPACITY IN PHASE 1 OF THE ISLE OF GRAIN LNG IMPORT AND RE-GASIFICATION TERMINAL

A guide for prospective Secondary Shippers

Produced by
BP Gas Marketing UK Limited, La Société Sonatrach and National
Grid Grain LNG Limited

Disclaimer:

This document is intended as a guide and summary only. It does not constitute legal advice nor does it provide the full terms and conditions under which access to secondary capacity may be made available at the Isle of Grain LNG Import and Re-gasification Terminal. Any liability resulting from reliance upon statements made in this guide is expressly excluded. In the event of any inconsistency between this guide and any of the legal documentation in respect of Secondary Capacity access, the legal documentation will take precedence.

This guide may be amended from time to time to reflect changes in the mechanism for Secondary Capacity access and the Auction User Guide.

Any further questions with regards to the auction process for Secondary Capacity Access should be addressed to the Auction Administrator. Any questions on the operation of the Terminal or the contractual relationship between National Grid Grain LNG Limited and Secondary Shipper should be addressed to National Grid Grain LNG Limited.

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1. **Introduction**

This document is a guide for interested parties who may wish to access secondary capacity at Phase 1 of the Isle of Grain LNG import and re-gasification terminal (“Terminal”). It describes the nature of secondary capacity that will be made available and the auction process by which it will be offered. Interested parties considering bidding for access to secondary capacity at the Terminal in these auctions should follow the process described on the website at www.lngga.com.

The Terminal is operated by National Grid Grain LNG Limited (“GLNG” or the “Terminal Operator”). BP Gas Marketing Limited (“BP”) and La Société Sonatrach (“Sonatrach”) jointly hold long term capacity rights in Phase 1 of the Terminal as a single shipper, which they acquired in an open season auction process. BP and Sonatrach are referred to jointly as the “Primary Shipper”.

The Primary Shipper’s rights in the Terminal comprise separate rights to:

- a) berthing slots for LNG tankers scheduled in an unloading programme;
- b) storage capacity for LNG; and
- c) nomination rights to send out natural gas from the Terminal (referred to as either “delivery capacity” or “send out capacity”) – comprising vaporisation of LNG in-store and the export of natural gas into the National Transmission System (“NTS”) and the local distribution network (“LDZ”).

Access to secondary capacity as described in this document is not the only way by which third party shippers can access capacity rights held by the Primary Shipper at the Terminal. Access to capacity at Phase 1 of Grain LNG can also be attained via an ex-ship arrangement with the Primary Shipper.”

2. **How to Apply**

Applicants who wish to apply for access to secondary capacity as described in this document must take the following steps:

1. Download the Confidentiality & Escrow Agreement found at www.lngga.com, add in their company name and details where indicated on the form and print off and execute four (4) originals of this Agreement. No amendments will be accepted other than those relating to the identity of the Applicant and its contact details. If an Applicant makes changes to the form of the Confidentiality & Escrow Agreement of any substantive provisions, this will be rejected.
2. Send
 - a. the executed originals of the Confidentiality & Escrow Agreement by registered delivery post to the address below, and
 - b. an email to the Grain LNG Agency to advise them the document has been sent.

Address:	LNG Grain Agency, Regus, 3 More London, Riverside, SE1 2RE, United Kingdom
Telephone:	+44 (0) 203 283 4000
Contact:	LNG Grain Agent
Email:	lngagency@lngga.com
Website:	www.lngga.com

Counter-signed executed originals will be returned to the Applicant by the Auction Administrator, along with details of the respective methods of payment for BP and Sonatrach.

Upon receipt by the Applicant of the signed executed originals of the Confidentiality & Escrow Agreement, and details of the payment methods:

3. Pay the Auction Information Fee of £1,000 plus VAT to BP Gas Marketing Limited and £1,000 plus VAT to Sonatrach Gas Marketing UK Limited using the payment method specified by the Auction Administrator. BP and Sonatrach will each issue a receipted VAT invoice.

The Applicant will then receive a copy of the Auction User Guide (in PDF format) by email.

4. To participate in an auction the Applicant will be required to fulfil the pre-qualification and qualification requirements set out in the Auction User Guide, and summarised in part 4 below.

3. **Secondary Capacity Access**

There are a number of operational features that affect use of Phase 1 of the Terminal:

- The Primary Shipper is obliged under arrangements with the Terminal Operator and with National Grid Gas to maintain at all times a volume of LNG in temporary storage at the Terminal. This LNG held in store reduces the amount of commercial storage capacity that is available to the Primary Shipper. The level of LNG in store to be maintained by the Primary Shipper may vary seasonally.
- LNG quality restrictions exist due to the UK gas entry specifications. This can result in the requirement to use blending services at the Isle of Grain Terminal. The plant and equipment needed to provide these services has been commissioned and paid for by the Primary Shipper in a bilateral shipper-specific agreement after the open season for Phase 1.

The method of access to secondary capacity at the Terminal described in this guide has been developed so that, in the context of the current Grain Terminal, the Primary Shipper will make available via auction to another shipper (called "Secondary Shipper") the following (subject to Terminal requirements):

1. Firm right to berth an LNG tanker with loaded capacity up to 138,000m³ within a scheduled berthing slot;
2. Firm right to unload the quantity and quality of LNG nominated by the winning bid for that berthing slot;
3. Firm temporary storage capacity within the Terminal to the extent required;
4. Firm right to access regassified LNG at the NTS or LDZ system entry points at Grain or at the NBP during a six or seven day period starting with the unloading berthing slot, depending on the schedule for other berthing slots; and
5. Services of a Secondary Capacity Access Administrator to manage the access on behalf of the Secondary Shipper.

In addition, the Secondary Shipper may have access to additional interruptible delivery capacity, if available and agreed with Terminal Operator. The Terminal Operator will provide access to its inventory management and gas nomination systems to track the LNG-in-store and quantities of gas delivered from the Terminal.

For any queries relating to the Terminal please contact the Terminal Operator, whose contact details are listed at the end of this guide.

The method by which a Secondary Shipper will be able to access capacity at the Terminal is summarised as follows:

- The Primary Shipper's three (3) month programme of scheduled berthing slots (also known as the Ninety Day Schedule) will be published in advance on the following website (www.lngga.com). This may be subject to alteration as a result of operational performance failure, maintenance at the Terminal and shipping issues such as bad weather. Any updates are posted on this website from time to time.
- If the Primary Shipper does not intend to use a scheduled berthing slot then ten days in advance of that berthing slot an auction will be opened in respect of that berthing slot and corresponding temporary storage and delivery capacity. Interested parties who have become pre-qualified bidders will be informed of such auctions and the auctions will be administered by the Auction Administrator.
- The winner of the auction will be required to enter into a number of legally binding agreements which are explained in Section 6 below. By entry into these contracts, the winner of the auction will become the Secondary Shipper.
- The Primary Shipper will transfer its relevant rights to the applicable berthing slot and capacity in the Terminal to that Secondary Shipper by way of a service transfer under the Primary Shipper's services agreement with the Terminal Operator. This transfer is further explained below.

Primary Shipper Activities:

The Primary Shipper will:

- transfer to the Secondary Shipper the right to use the berthing slot specified in the relevant auction;
- clear LNG from temporary storage in the Terminal to the extent required in advance of the scheduled berthing slot so that the Secondary Shipper's nominated LNG cargo can be unloaded; and
- transfer to the Secondary Shipper for a period of either six (6) or seven (7) days (the "Transfer Period") from the date of the scheduled berthing slot:
 - temporary storage to unload and store the Secondary Shipper's LNG cargo. This temporary storage capacity will be offered on the basis of a daily declining profile so that the capacity reaches zero on the final day in the Transfer Period; and
 - firm delivery capacity required by the Secondary Shipper for send out from the Terminal, up to the Primary Shipper's contracted maximum. The send out profile will be provided as a flat daily flow

The Primary Shipper may elect to swap all or part of the Secondary Shipper's unloaded LNG for gas at the NBP in order to manage levels of LNG in the Terminal, reflecting its long term relationship with the LNG terminal and commitments to National Grid Gas, whilst enabling the Secondary Shipper to receive its gas at the NBP. In that case, an amount of LNG unloaded by the Secondary Shipper will be transferred to the Primary Shipper and in return the Secondary Shipper will receive an amount of gas at the NBP which is equivalent to the amount it could have otherwise flowed physically from the Terminal from sending out its unloaded LNG cargo. The Secondary Shipper's access to the Terminal with respect to this amount of LNG will essentially be virtual rather than physical. The volumes that the Primary Shipper elects to swap will be notified to bidders during the auction process.

The Terminal may not be able to support both the firm rights of the Primary Shipper to access their contracted send out at the same time as allowing the Secondary Shipper to exercise firm rights to send out its daily volumes from the Terminal during the week after the Secondary Shipper's scheduled berthing slot (week 2). Therefore to enable the Secondary Shipper to have firm send-out rights (or firm Delivery Capacity) in week 2, the Primary Shipper will also give up its Delivery Capacity during week 2, thereby sterilising certain residual volumes of LNG stored at the Terminal which may not be able to be accessed by the Primary Shipper during this time.

Secondary Shipper Activities:

The Secondary Shipper will:

- Provide acceptable credit support for the performance of its obligations;
- Berth the specified vessel and cargo on the date of the specified berthing slot;
- Unload the quantity and quality of LNG detailed in the winning bid;
- Ensure that it has sufficient NTS entry capacity to accommodate send out of its physical volumes;
- Make all payments due under the contracts; and
- Ensure it has evacuated the whole of its LNG inventory from the Terminal by the end of the Transfer Period.

The Secondary Shipper must make send out nominations so that all of its LNG inventory is evacuated from the Terminal by the end of the Transfer Period. Nominations by the Secondary Shipper for send out will be made via a third party nominated by the Primary Shipper (the Secondary Capacity Access Administrator" or "SCA Administrator"). The SCA Administrator will be appointed by the Secondary Shipper under the legal documentation to carry out specified transfers and nominations on behalf of the Secondary Shipper. To the extent that the Secondary Shipper has been notified that it will receive gas at NBP in respect of a swap for unloaded LNG in tank, the Secondary Shipper is responsible for placing acquiring trade nominations at the NBP to receive the specified volumes from the relevant Primary Shipper marketing entity.

The Secondary Shipper may apply for additional interruptible delivery capacity directly from the Terminal Operator during the period the Secondary Shipper holds send out capacity in the Terminal. If any additional interruptible delivery capacity is allocated by the Terminal Operator, the Secondary Shipper will have to ensure that the Secondary Capacity Access Administrator makes the appropriate increased nominations on its behalf.

Payments by Secondary Shipper

In outline the payments that the Secondary Shipper will be required to make to the Primary Shipper if they are the successful winner of the auction may include:

- the winning bid price;
- to compensate the Primary Shipper in part for loss arising from the need to clear LNG from temporary storage, a payment may be payable by the Secondary Shipper with respect to the volume of LNG that had to be cleared where the NBP price in the week before the auctioned berthing slot (week 1) is less than that in week 2 (the "Compensation Volume Payment"). This volume will be notified to the bidders during the auction; and

- where the Secondary Shipper has been notified that the Primary Shipper wishes to swap for a volume of the Secondary Shipper's LNG for provision of gas at NBP, a payment which reflects the variable blending costs that the Secondary Shipper, had it retained such LNG volume and physically sent it out from the Terminal, would have had to pay to blend its LNG to the requisite quality (the "Transferred LNG Blending Costs"), an estimate of which will be provided to the Secondary Shipper by the Terminal Operator during the auction, as well as associated entry and transportation charges.

In addition:

- to the extent the Secondary Shipper has physical volume of LNG at the Terminal, the Secondary Shipper will be required to pay the Terminal Operator directly for any variable send out and blending costs, together with any other amounts that may be charged directly to the Secondary Shipper in accordance with the STA and/or the GTCs; and
- bidders will be required to pay administration fees to the Terminal Operator and the Primary Shipper.

Miscellaneous

- An independent surveyor appointed by the Terminal Operator will verify the quality and quantity of LNG unloaded by the Secondary Shipper, against that specified in the winning bid.
- The Secondary Shipper will assume the same Terminal performance risk exposure that the Primary Shipper is exposed to when the Primary Shipper is sole shipper in the Terminal
- The amount of LNG sent out from the Terminal by any shipper is subject to fuel gas shrinkage and any other shrinkage incurred at the Terminal. This means that the daily energy reduction in Secondary Shipper's LNG inventory will be greater than the amount of daily energy delivered at the NTS or LDZ delivery points or at the NBP and will be reported daily on the commercial system
- The Secondary Shipper is responsible for all port management charges and for arranging and paying for tug services in connection with the delivery of its cargo at the Terminal.
- The Secondary Shipper should be aware that the send out on the day of unloading will be affected by the time at which the Secondary Shipper is able to commence its unload.
- The Secondary Shipper will be responsible for any Minimum Send Out from the Terminal associated with the delivery of the Secondary Shippers LNG cargo.

4. **Primary Shipper Pre-Qualification and Qualification Requirements**

Any person wishing to participate in an auction must meet objective pre-qualification and qualification requirements.

These pre-qualification requirements are set out in full in the Auction User Guide and apply equally to all prospective auction participants. Section 2 of this document details the process to be followed by those wishing to receive the Auction Users Guide.

Pre-Qualification:

In summary, the main requirements relating to Pre-Qualification include:

- provision of company details for the applicant and confirmation the applicant is not acting on behalf of another party;
- completion of 'Know your client' (KYC) checks by the Primary Shipper;
- confirmation that the applicant has rights to commercial quantities of LNG available for importation into the UK; and
- confirmation that the applicant is either the holder of a valid Gas Shipper's Licence under the Gas Act 1986 or has written confirmation from that applicant's NBP Counterparty that that NBP Counterparty will enter into system entry capacity and NBP delivery arrangements, if applicable.

During pre-qualification an applicant will receive the legal documentation, including the Secondary Capacity Access Standard Terms and Conditions ("STCs") on payment of a legal documentation fee of £8,000, plus VAT, to the Primary Shipper.

Applicants are encouraged to submit an application for pre-qualification within a 1 month window for each summer and winter period and should note that it may take up to 3 weeks for the Primary Shipper to confirm them as a pre-qualified bidder, including setting the applicant up as a trading counter-party. An increased documentation fee may be incurred in respect of applications outside these windows.

A pre-qualified bidder must become a qualified bidder in order to participate in an auction.

Qualification:

In summary, the main requirements relating to Qualification include:

- confirmation of the information provided at pre-qualification; and
- confirmation that the applicant or its NBP Counterparty has acceded to the Uniform Network Code, entered into relevant agreements with Claims Validation Services Limited and Claims Validation Information Services and is capable of trading gas at the NBP.

A Qualified Bidder may submit a bid at an auction in accordance with the requirements set out under the Auction User Guide. The Auction process and requirements are further explained below.

Terminal Operator Pre-Qualification Requirements

All LNG Tankers to be used at the Terminal must be pre-approved by the Terminal Operator. As this process can take some time to complete, potential bidders are strongly advised to seek to have their LNG Tankers vetted prior to any auction being announced. Potential bidders

interested in having their LNG tankers vetted by the Terminal Operator should visit the relevant part of the Terminal Operator's website¹ for further information, and for the terms and conditions applicable (and charges payable) for carrying out such vetting procedures.

As part of the auction process, bidders will have to obtain confirmation from the Terminal Operator (in the form of a Provisional Cargo Acceptance Notice) that the proposed LNG cargo can be accommodated in the Terminal. In advance of any auction being announced, the Terminal Operator is willing to give an indication (on a non-binding basis) as to whether any potential LNG cargo could be accommodated in the Terminal. Potential bidders interested in having their LNG cargoes considered by the Terminal Operator should visit the relevant part of the Terminal Operator's website for further information, and for the terms and conditions applicable (and charges payable) to the Terminal Operator carrying out such indicative acceptance procedures.

Potential bidders who require a copy of the General Terms and Conditions (the "GTCs") applicable to the terminal should contact the Terminal Operator, and will be required to enter into a confidentiality agreement with the Terminal Operator before being provided with a copy of the GTCs.

¹ <http://www.nationalgrid.com/uk/grainlng>

5. **Auction Process**

All applicants that are successful in pre-qualification and qualification will be invited to bid in each auction that takes place.

The auction will be held and administered by the Auction Administrator. It will be conducted as follows:

- ten days in advance (D-10) of the scheduled unloading date for the berthing slot under auction (D), the Auction Administrator will send an “Auction Notification” to all Pre-Qualified and Qualified Bidders. This notice will announce the start of the auction, specify the maximum cargo size acceptable and amount of storage and send-out capacity available on a daily basis as well as specific credit provisions and market pricing data pertaining to the use of the slot.
- On D-9 any bidder wishing to bid in the auction will be required to submit a Cargo Information Notice, which will include the nominated tanker details and the LNG cargo specifications, specifically quantity and quality, to the Auction Administrator, with a copy to the Terminal Operator.
- On D-8 the Auction Administrator will send to those who have submitted a Cargo Information Notice and thus are bidders an “SCA Information Notice”, based on the information in the Cargo Information Notice, notifying the bidders how much of the unloaded LNG will be swapped for gas at the NBP.
- On D-7 the Terminal Operator will notify the bidders whether their cargo has been accepted (via a Provisional Cargo Acceptance Notice, or “PCAN”) or rejected (via a Cargo Rejection Notification).
- Based on the information provided to a bidder in the Auction Notification, the SCA Information Notice and the PCAN, the bidder will complete a SCA Confirmation Notice which will detail the amount of Storage Capacity and Delivery Capacity they are bidding for and the amount of gas delivered at NBP they expect to receive from BP and Sonatrach. This Notice, four counterparts of the Secondary Capacity Access Agreement signed by the bidder and an Offer Letter detailing the final bid must be submitted to the Auction Administrator by 12:00 noon on D-7, along with approved credit support. In addition, each bidder must pay the relevant administration fees.
- The Auction Administrator will determine if each bid is a valid bid by checking if the bidder has completed all necessary requirements (as detailed in the Auction User Guide) and may reject any bids that have not met these criteria, including, if the Competition Proxy applies, whether the bids are below the applicable Competition Proxy. A “Competition Proxy” will apply where there are 3 or fewer compliant bidders in any auction and is calculated for each auction by reference to the relevant NBP index.
- All valid bids will then be ranked by the Auction Administrator who will determine the Winning Bidder on the basis of the highest priced valid bid, or in the event of an equal price, on the highest volume.
- The Auction Administrator will then notify the winning bidder, the Primary Shipper and the Terminal Operator. The Auction Administrator will also notify other bidders that they have been unsuccessful.
- Each quarter the Auction Administrator will make publicly available on its website the following details in respect of auctions conducted in the preceding quarter:
 - the number of auctions held;

- the number of successful auctions and those declared void or cancelled; and
 - if more than three auctions were held in such quarter, the lowest and highest valid Bid Prices specified in Bid Confirmations in relation to such period.
- Neither the Primary Shipper, nor BP and Sonatrach separately, nor their affiliates, will participate in the auction.
- The Auction Administrator may cancel the auction with respect to a berthing slot before 11:00 hours on D-7. Cancellation will occur only if unforeseen circumstances prompt the Primary Shipper to schedule a shipment for the Terminal that had not been contemplated earlier or for other technical or operational reasons. The Auction Administrator will announce the cancellation of any auction to all pre-qualified and qualified bidders simultaneously, and will make the announcement as soon as reasonably practicable upon receiving the details of the cancellation. The fees for the services of the Auction Administrator paid by the bidders to the Primary Shipper in connection with an auction cancelled by the Primary Shipper will be refunded in full. GLNG may also cancel the berthing slot, which (if the cancellation occurred before 12:00 hours on D-7) would result in a cancelled auction.

6. **Legal Documentation**

There are a number of legal agreements which must be entered into in order to use the secondary capacity at the Terminal.

The first is a Confidentiality & Escrow Agreement between the prospective applicant, the Primary Shipper and the Auction Administrator. This permits the applicant access to the Auction User Guide and copies of the other legal documentation (subject to the compliance with certain conditions and payment of certain fees).

Secondly, each bidder must put in place suitable credit cover with the Primary Shipper and Terminal Operator before a bid can be accepted as a conforming bid.

The third is the Secondary Capacity Access Agreement between the Secondary Shipper, the Terminal Operator and the Primary Shipper. This incorporates the Secondary Capacity Standard Terms and Conditions ("STCs") (which set out the terms and conditions upon which the Primary Shipper makes available and transfers to the Secondary Shipper the berthing slot, temporary storage and send-out rights, including the requirement for credit support, and also disappplies certain provisions of the GTCs that are not appropriate or relevant for a Secondary Shipper in the Terminal).

Additionally, a Specific Terms Agreement ("STA") is entered into between the Secondary Shipper and the Terminal Operator (which in turn incorporates the General Terms & Conditions ("GTCs"), being the general terms of use applicable to all shippers at the Terminal).

Please apply to the Terminal Operator for further details about the GTCs. Copies of the other legal documents will be provided by the Auction Administrator during the pre-qualification process set out above.

7. Contact Details

Any further questions with regards to the auction process for Secondary Capacity or the contractual relationship between the Primary Shipper and a Secondary Shipper should be addressed to the Auction Administrator. Any questions on the operation of the Terminal or the contractual relationship between National Grid Grain LNG Limited and a Secondary Shipper should be addressed to National Grid Grain LNG Limited.

Function:	Auction Administrator
Address:	LNG Grain Agency, Regus, 3 More London, Riverside, SE1 2RE, United Kingdom
Telephone:	+44 (0) 203 283 4000
Email:	lngagency@lngga.com
Contact:	LNG Grain Agent
Website:	www.lngga.com

Company:	National Grid Grain LNG Limited
Address:	National Grid House, Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA, United Kingdom
Telephone:	+44 (0) 1926 656 556
Email:	box.glngcommercial@uk.ngrid.com
Contact:	Commercial Operations
Website:	http://www.nationalgrid.com/uk/GrainLNG