

## **GUIDE TO SECONDARY CAPACITY ACCESS AT DRAGON LNG TERMINAL.**

### **Introduction.**

Dragon LNG terminal is located at Milford Haven South Wales. It is owned and operated by Dragon LNG Limited. All capacity rights at the Dragon LNG terminal have been sold to PETCO Trading (UK) Ltd (a wholly owned subsidiary of PETRONAS) and Shell Energy Europe Limited (“the Primary Shippers”) for a period of 20 years. The Primary Shippers’ capacity rights consist of the rights to:

- berth and unload LNG tankers (“berth slot”);
- store LNG prior to regasification; and
- regasify and send out gas into the National Grid National Transmission System.

The Primary Shippers have the right to sell or sublet their capacity rights to third parties. Parties wishing to use capacity at the terminal should, in the first instance, contact either of the Primary Shippers, as a prelude to potential bilateral negotiations for the use of capacity at the Dragon LNG terminal. Parties can also enter into ex-ship arrangements with the Primary Shippers for the delivery of LNG to the Dragon LNG terminal.

In the event that the Primary Shippers identify that a berth slot will not be used by either of the Primary Shippers or a third party, the Primary Shippers will use the anti-hoarding mechanism described below. The anti-hoarding mechanism should be considered as a “last resort” mechanism in the event that the Primary Shippers have failed to source a cargo to use the berth slot themselves, or have been unable to reach agreement for a third party to use the slot or sell a cargo on an ex ship basis to the Primary Shipper who holds the slot. The anti-hoarding mechanism will be triggered if the Primary Shipper has not identified a vessel to use the berth slot at least 12 days before the berth slot in question (the “Cut-off Date”) and any such available berth slot will be published on the Dragon website by the Cut-Off Date.

To summarise, third parties can access capacity at the Dragon LNG terminal via the following methods:

- Bilateral agreement with one of the Primary Shippers for use of capacity at the Dragon LNG terminal
- An ex ship arrangement with one of the Primary Shippers
- The Anti Hoarding Mechanism in the event that agreement has not been reached under the first two methods, and the Primary Shipper has identified a berth slot that will not be used.

### **Description of the Anti Hoarding Mechanism.**

The Anti Hoarding Mechanism consists of 3 main parts:

- The service provided
- The sales mechanism

- Qualification procedures.

These are described in the sections that follow. A final section, Contractual Structure and Documentation, describes the legal and other documents relevant to the anti hoarding mechanism.

### The Service Provided.

Using their capacity rights the Primary Shippers will provide a firm service which will enable the third party customer (the “Customer”) to unload an LNG cargo at the Dragon terminal, and receive an equivalent quantity of gas (less deductions for losses and for fuel gas use) at the National Balancing Point within National Grid’s National Transmission System. Each Primary Shipper will procure that the following is provided, using its rights at the Dragon LNG terminal and on National Grid’s National Transmission System:

- Firm access to a berth slot with a Scheduled Day of Arrival for the Customer’s vessel;
- Sufficient space in the LNG storage tanks to enable the Customer to unload its vessel and the Primary Shipper to take delivery, subject to a specified maximum cargo;
- Where relevant, limited nitrogen injection to enable the acceptance of LNG that would not otherwise meet UK gas quality specifications after regasification, subject to specified limits;
- Sufficient regasification capacity at the Dragon LNG terminal to ensure, if necessary, delivery of gas from the terminal to the National Transmission System;
- Sufficient entry capacity rights to the National Transmission System, subject to the rules governing entry capacity within the Uniform Network Code, to enable gas to be transported by Primary Shipper to the National Balancing Point; and
- Nomination of gas for delivery at the NBP using National Grid’s systems at a flat rate over 10 days.

The Customer will be charged for the following:

- A base charge for the service (see Sales Mechanism below for more details)
- Transportation and related charges on a pass through basis, based on the relevant charges levied by National Grid NTS and under the Uniform Network Code, applied to the equivalent quantity of gas expected to be delivered to the Customer as a result of the volume of LNG contracted to be delivered by the Customer
- Nitrogen Charges where applicable
- Additional charges where relevant e.g. insurance.

Indicative charges will be notified to third parties who are qualified to bid for the service, prior to the auction of the service. For more details on the auction process, see the Sales Mechanism below. In addition there is a deduction for Fuel Gas from the

quantity of LNG that is delivered by the Customer. This is required in connection with the operation of the Dragon LNG terminal.

The Customer is responsible for all arrangements with the local port authorities, tug services etc, and for paying any related charges.

In summary, the service can be viewed as a locational swap whereby the Primary Shipper receives LNG at the Dragon LNG terminal from the Customer, and redelivers gas to the Customer at the NBP. Operational risk and charges levied on the Customer reflect the risk and costs that the Customer would face if it were directly contracting for terminal capacity itself. However, by delivering gas at the NBP, the Primary Shipper may, at its discretion, be able to minimise the costs and risks to the Customer associated with the provision of the service from Dragon LNG Limited.

The terms and conditions governing the service provided are described in the LNG and Gas Delivery Terms and Conditions. For further details see Contractual Structure and Documentation below.

### The Sales Mechanism.

Access to the service described above will be via an auction. Only Qualified Bidders (as defined in the Qualification Procedures below) will be allowed to participate in an auction. (See Qualification Procedures below for further details on how to become a Qualified Bidder). A notice (“Auction Notice”) that an auction is going to take place will be placed on the Dragon website at least 12 days prior to the relevant berth slot (the “Scheduled Day of Arrival”). Any Qualified Bidder may request further details about the auction from the relevant Primary Shipper, following which the Primary Shipper will e-mail the Qualified Bidder the specific conditions associated with the auction (e.g. maximum cargo size to be accepted, reserve price, indicative transportation related charges etc.).

The Qualified Bidder who submits the highest valued conforming bid (measured in terms of total net profit, i.e. the total bid price in pence per therm multiplied by the quantity of LNG in therms) will win the auction.

A reserve price will be used to ensure that at least the costs of providing the service are covered. Costs may arise where the Primary Shipper, in providing sufficient storage space for the third party LNG, is forced to send out gas early at a lower price than would have been available if the gas had been sent out later. The reserve price may also be used to ensure that the Primary Shipper receives a reasonable share of the market value of the slot. The reserve price is calculated using market prices. An indicative reserve price is notified to all Qualified Bidders when the auction is announced. A final reserve price is notified to Qualified Bidders at the start of the last day of the auction. This is to enable the reserve price to take account of any changes in market prices since the indicative reserve price was announced.

In order to participate in an auction Qualified Bidders will also need to have in place sufficient credit support in the form of a letter of credit issued by a bank or financial institution satisfactory to the Primary Shipper (“**Letter of Credit**”). To minimise potential costs to Qualified Bidders, a short term Letter of Credit is required of all bidders in an auction. The winning bidder is required to put in place a longer term Letter of Credit, whilst the short term Letters of Credit are returned to all the unsuccessful bidders after the auction close.

Full details of the sales mechanism can be found in the Auction Code. (See Documentation below).

An indicative timetable for an auction is shown below. Note that this timetable will be lengthened to take account of non business days, so that the timetable below shows the minimum time period during which an auction can take place.

- D-13. Primary Shipper confirms to Dragon that berth slot is not scheduled to be used.
- D-12. Auction announced on Dragon website. Qualified Bidders may request further information from the relevant Primary Shipper. Any Qualified Bidder who requested further information will receive an e-mail from the Primary Shipper including the indicative reserve price, and other slot specific terms and conditions (including the timetable for the auction).
- D-10. Qualified Bidders send electronic copy of short term Letter of Credit to Primary Shipper and details of vessel and cargo they propose to deliver. If vessel and cargo accepted, Primary Shipper notifies Qualified Bidder.
- D-9. 10.00 Primary shipper e-mails final reserve price to Qualified Bidders whose ships have been accepted and who arranged an acceptable short term Letter of Credit.
- D-9 12.00. Deadline for Qualified Bidders to send final bids (“Final Offers”) and the original Letters of Credit.
- D-9 24.00 Primary Shipper completes evaluation of bids and notifies winning Qualified Bidder (who becomes the Customer) by accepting his Final Offer. Primary Shipper issues an initial invoice to winning bidder including the base charge (the winning bid value), estimation of transportation charges, nitrogen, etc. based on quantities and quality of LNG notified by winning bidder.
- Letters of Credit returned to losing bidders.
- D-8 to D-1. Primary Shipper empties tanks at the Dragon LNG terminal in order to accommodate the Customer’s LNG cargo.
- D-6 The Customer pays the initial invoice and sends electronic copy of long term Letter of Credit. Customer sends original of long term Letter of Credit to Primary shipper.
- D-4. Upon receipt of original of long term Letter of Credit, Primary Shipper returns short term Letter of Credit to the Customer.
- D 0 Scheduled Day of Arrival and unloading of the Customer’s ship. The Primary Shipper takes title to the LNG delivered by the Customer.
- D+1 to D+10. Delivery of gas to the Customer at the NBP.

Failure to comply with all the terms and conditions of the auction and the service may result in the cancellation of the auction or service at any time.

Note that each Primary Shipper is responsible for managing the use of its own berth slots, administration of its auction process and calculation of its reserve price. However the underlying procedures and principles, and the contractual terms and conditions are common to both Primary Shippers.

## Qualification Procedures.

As the anti-hoarding mechanism is a “last resort” mechanism, it is necessary that third parties who may wish to use the service are qualified in advance of an auction. This includes ensuring that third parties are credit worthy counter-parties, and that their ships are fit to use the Dragon LNG terminal. The qualification forms used by the Primary Shippers are the same, however, each Primary Shipper will apply its own rules and procedures when assessing a third party for qualification, for example for credit. If a third party is only qualified by one of the Primary Shipper, it will only be allowed to participate in auctions for slots administered by the Primary Shipper which has qualified that third party.

There is a 3 step qualification process:

1. The third party (“the Applicant”) downloads the Confidentiality Agreement and the Customer Information Form from the Dragon LNG website. The Customer Information Form asks for basic information on the Applicant (e.g. Company Name, Company Registration Number etc.). The Applicant returns the signed Confidentiality Agreement, completed Customer Information Form and makes a payment of £1,000 plus VAT to each Primary Shipper, in accordance with the relevant payment procedures<sup>1</sup>.
2. Assuming that the Primary Shipper is satisfied with the Customer Information Form and the Confidentiality Agreement, the Primary Shipper will send the Applicant a copy of the Auction Code. This details the further qualification requirements, which include, amongst other things, required credit checks. If the Applicant wishes to proceed, he returns the relevant information outlined in the Auction Code (e.g. Pre-Qualification Form, NBP Counter Party Form), and makes a payment of £5,000 plus VAT to each Primary Shipper, in accordance with the relevant payment procedures<sup>2</sup>. If the Primary Shipper is satisfied with the information provided, the Applicant becomes a pre-qualified bidder (“**Pre-Qualified Bidder**”).
3. The Primary Shipper sends the LNG and Gas Delivery Terms and Conditions, and Terminal Regulations to the Pre-Qualified Bidder. To become a qualified bidder (“**Qualified Bidder**”), the Pre-Qualified Bidder must complete a qualification form to the satisfaction of the Primary Shipper and have the vessel(s) he intends to use at the Dragon LNG terminal successfully vetted by the Primary Shipper. (Note: Shell Energy Europe Limited and PETCO Trading (UK) Ltd have agreed that they will respect the vetting procedures of the other, so a vessel successfully vetted by one Primary Shipper should be acceptable to the other). A bidder is only a Qualified Bidder in respect of bids submitted using a successfully vetted vessel.

Applicants, Pre-Qualified Bidders and Qualified Bidders are responsible for ensuring that the information on which their bidding status is based is accurate and up to date at all times. Failure to do so, or a change in circumstances, can result in the withdrawal of their bidding status. Third parties may apply at any time to become a Pre-Qualified or Qualified Bidder.

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<sup>1</sup> For details of the payment procedures, please contact the relevant Primary Shipper.

<sup>2</sup> Refer to Footnote 1.

To summarise, only Qualified Bidders can take part in auctions for the service provided. Qualified Bidders must have satisfied the Primary Shippers of the following:

- Identity of the company
- Creditworthiness
- Accession to the Uniform Network Code and possession of a valid Shipper's Licence, and ability to trade gas at the NBP *or* the appointment of a shipper as an agent on its behalf
- Access to vessels that have been successfully vetted and comply with the regulations governing use of the Dragon LNG terminal.

### **Contractual Structure and Documentation.**

The winning Qualified Bidder contracts with the relevant Primary Shipper for the service described above. The contract consists of the Final Offer accepted by the Primary Shipper and the LNG and Gas Delivery Terms and Conditions. The Primary Shipper uses its contractual rights with the Dragon LNG terminal to ensure that it can meet its obligations under the LNG and Gas Delivery Terms and Conditions. There is no direct contractual relationship between the Customer and Dragon LNG Limited (other than a Confidentiality Agreement), thereby simplifying the contractual arrangements for third parties.

There are a number of documents associated with the Anti Hoarding Mechanism. These are listed and described below:

- Guide To Secondary Capacity Access At Dragon LNG Terminal.
  - This document.
  - Available on the Dragon website [www.dragonlng.co.uk](http://www.dragonlng.co.uk) under Current Availability
  - Explains first steps to become qualified and describes the anti-hoarding mechanism at the Dragon LNG terminal.
- Confidentiality Agreement
  - Available on the Dragon website [www.dragonlng.co.uk](http://www.dragonlng.co.uk) under Current Availability
  - Required to proceed to qualification. Applicants must sign this in order to receive further documentation and to proceed to the second stage of the qualification process.
- Customer Information Form
  - Available on the Dragon website [www.dragonlng.co.uk](http://www.dragonlng.co.uk) under Current Availability
  - Required to proceed to qualification. Applicants must complete this in order to receive further documentation and to proceed to the second stage of the qualification process.
- Dragon LNG Secondary Capacity Access Auction Code

- Detailed qualification procedures and auction processes.
- Includes forms (including the Final Offer) required for Applicants to complete the qualification process and for Qualified Bidders to take part in the auction process.
- Provided to Applicants who successfully complete the Customer Information Form and the Confidentiality Agreement, including payment of a fee of £1,000 plus VAT to each Primary Shipper.
- LNG and Gas Delivery Terms and Conditions
  - Together with the Final Offer from a Qualified Bidder which is accepted by the Primary Shipper, forms the contract between the Primary Shipper and the winning bidder (“the Customer”).
  - Details all the terms and conditions relevant to the delivery of the service described above.
  - Latest version provided to Applicants on becoming a Pre-Qualified Bidder, following payment of a fee of £5,000 plus VAT to each Primary Shipper.
- Dragon LNG Terminal Regulations

**Contacts.**

Third parties who are interested in secondary capacity access should contact one or both of the Primary Shippers, details of which are set out below:

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