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The Balgzand-Bacton-Line (BBL)

Interconnector between U.K. and Dutch gas market

Energy charter Secretariat

Meeting Trade & transit working group

Brussels, 23 February 2007

_This presentation

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- Position of the Netherlands in the gas market
- BBL Project
  - Intergovernmental agreement
  - Specifications
  - Market prospects
- Conclusions

Position of Netherlands in gas market

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- Netherlands will become more dependent on imports of fossil fuels
- Already net-importer of oil & coal
- Netherlands could become net-importer of gas by around 2025

- Use remaining reserves responsibly:
- Ceiling on domestic gas production to slow depletion of Groningen reserves
- Larger part of domestic demand covered by imports
- Groningen gas field can function as a ‘strategic reserve’

_Key data

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Netherlands gas balance 2005:

Remaining proven gas reserves are 1.5 trillion cubic metres (BP, 2005)

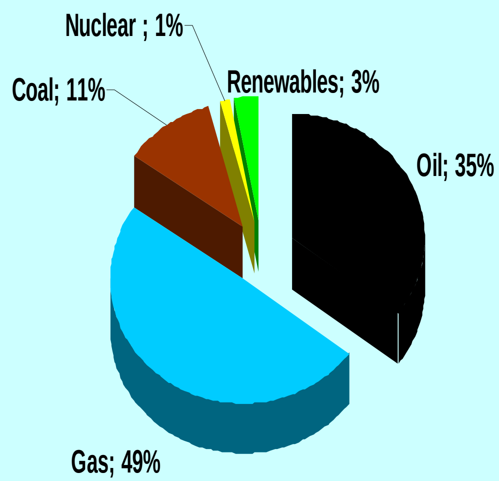
Production: 74.46 bcm

Domestic consumption: 46.04 bcm

Imports: 21.74 bcm

Exports: 49.45 bcm

Net exports= 27.71 bcm



NL Fuel mix

Trading partner countries:

Export: Germany, France, Italy, Belgium, Switzerland, UK

Import: Norway, Germany, Russia, Denmark, UK

Netherlands in the European Gas –Market

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Netherlands is aiming to become a "gas hub/roundabout in NorthWest European market

Source: Gasunie

The Netherlands, import and export country for natural gas

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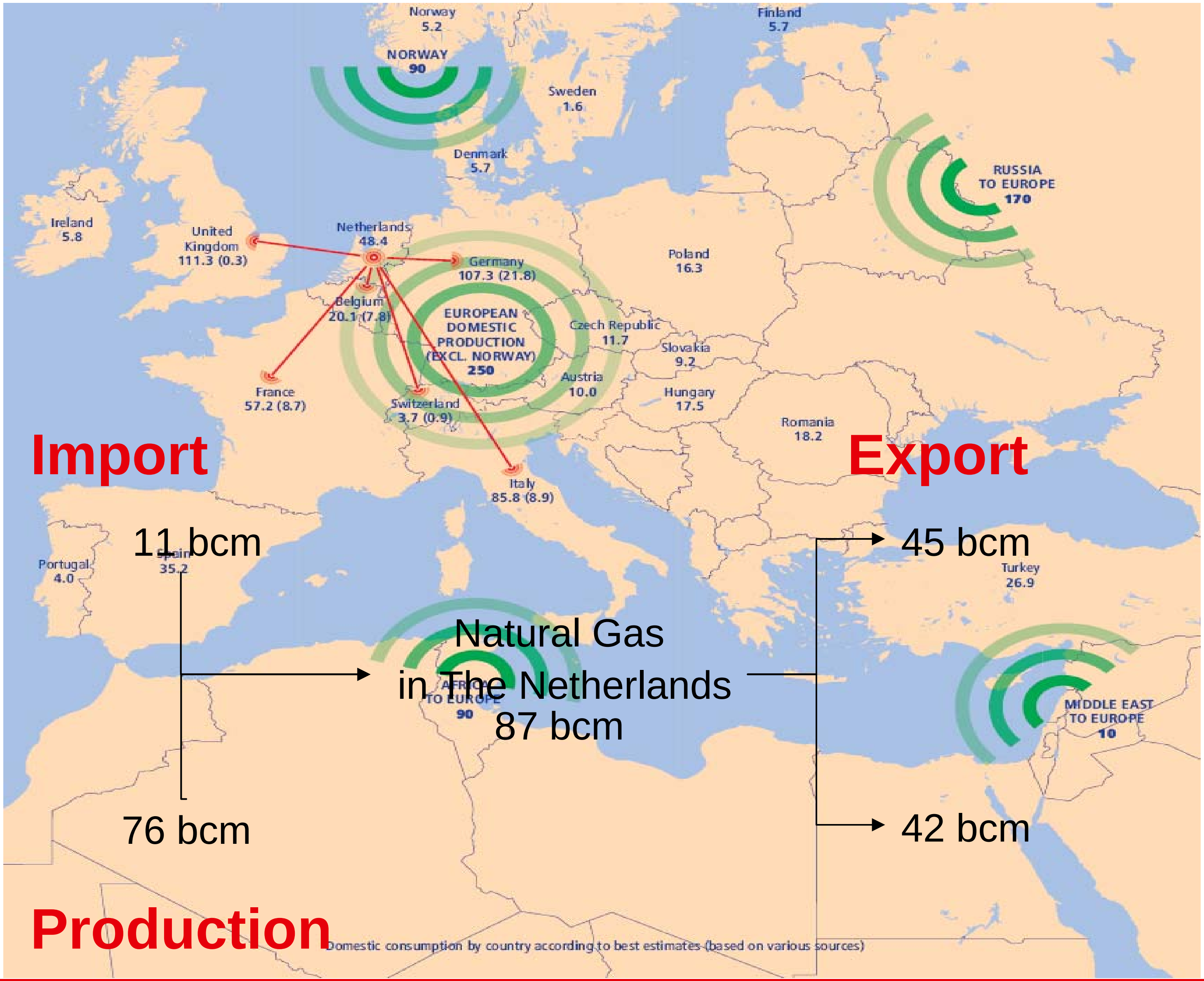

Netherlands as a gas hub

Transit centre for gas flows in the Northwest European gas market:

- building new routes (pipelines and LNG terminals)
- better interconnections

• supplier of gas flexibility:

- increase capacity of underground gas storage facilities
- able to adjust supply to seasonal demand

Gas hub: initiatives

- facilitate building of LNG terminals:
  - three existing plans for LNG liquefaction terminals (2 in port of Rotterdam, 1 in Eemshaven)
  - Algeria, Libya, Qatar: explore possibilities for cooperation in LNG

- Facilitate new pipeline routes:
  - participation Gasunie in Nordstream pipeline, linking NL gas network with Russia
  - participation Gazprom in BBL
  - MoU signed in October 2006, negotiations on implementation underway
  - Discussing possible pipeline link with Norway

BBL / Intergovernmental agreement

Intergovernmental agreement (UK, NL) signed 21 March 2005

Regulates a.o.:

1) Matters that are not regulated by national law: agreements on jurisdiction, direction of gas flows, dispute settlement, fiscal regime

2) Safety and the environment; and monitoring/inspection regime
3) Coordination of policies (appointing operator) emergency measures, suspending operations

BBL Structure

Operator:

BBL company (private company with limited partnership)

Shareholders:

N.V. Nederlandse Gasunie 60%

E.On Ruhrgas Transport (Germany) 20%

Fluxys (Belgium) 20%

Gazprom will also receive a stake in exchange for a stake of Gasunie in Nordstream (currently under negotiation)

BBL Specifications

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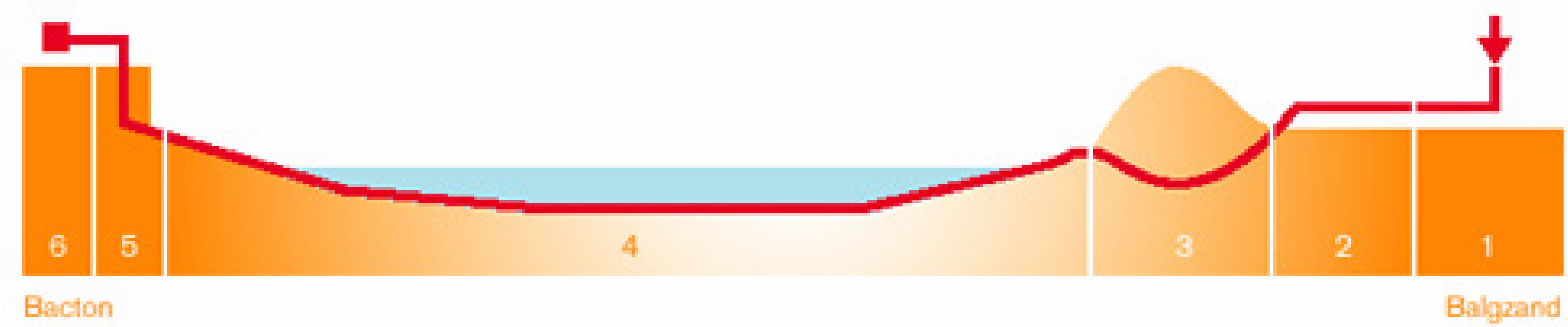
First gas flows: december 2006
Shippers: Gasterra, E.On Ruhrgas, Wingas

- Route length: 235 km, of which 230 km offshore (4)
- Entry Point: (newly-built) compressor station Anna Paulowna (1)
- Exit Point: (existing) Bacton terminal, UK (6)
- Pipeline diameter: 36"
- The design pressure of the pipeline is 137 bars
- Design project based on life cycle of 50 years
- Initial capacity 30 million m3 per day (approx 15 bcm per year)
- Capacity 1.75 million m3 per hour
- Initial installed compressor station capacity 45 megawatts
- Maximum compressor station capacity: 70 megawatts
- Building costs 500 million Euros



_UK gas market outlook

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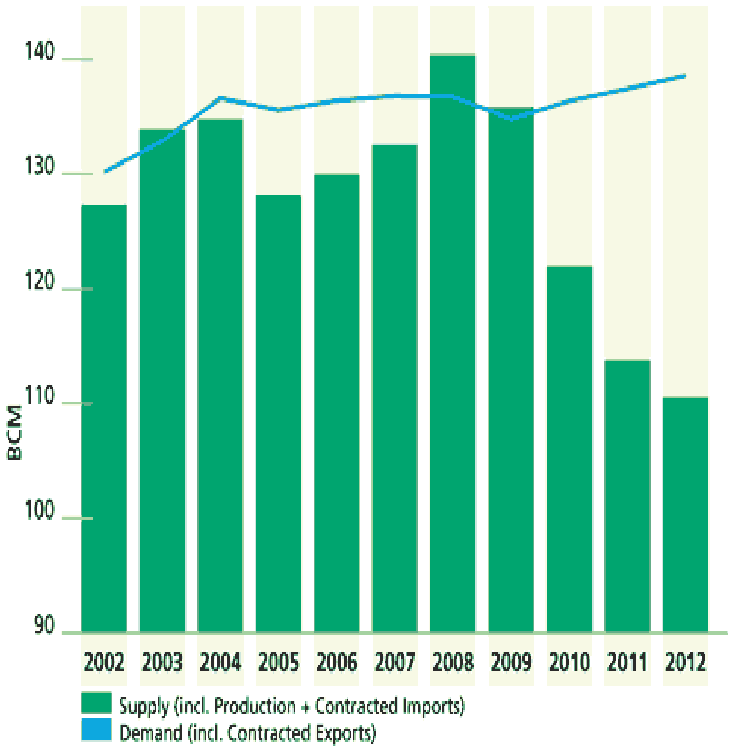
- Natural gas has become an important fuel for the United Kingdom.
- UK's import dependency could increase significantly beyond 2010.

Outlook UK gas demand and supply



According to many different studies, the United Kingdom will face serious supply-side challenges if the UK Continental Shelf (UKCS) production rate goes down as expected.

Market for BBL

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Strong business case for the BBL, given the potential of the continental market upstream of the Balgzand entry point to provide the necessary resources to help meet these future shortages.

- The BBL offers an opportunity to bring gas from continental sources to the United Kingdom via a route of just 230 kilometres.
- BBL important for supply diversification.
- In a later stage also Russian gas could flow to the UK via the BBL and the planned Nord Stream.

BBL: Regulatory aspects

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- Access to BBL capacity is regulated in the Dutch gas law
- EU gas directive 98/30/EG and 2003/55/EG : sets rules for regulated access to pipelines/interconnectors for Third parties
- Under article 22, exemption from TPA for new pipelines is possible under certain conditions
- BBL company has requested Ministry Economic Affairs for an exemption from TPA.
- This was granted for a 10 year period in 2005 and approved by the EU

_Regulatory aspects (2)

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- Shippers are Gasterra, E.On Ruhrgas and Wingas.
- Shippers have long term contracts with BBL.
- BBL has exemption from TPA for the fulfillment of these contracts.
- Gas law defines that remaining capacity in BBL is open for TPA on non-discriminatory basis. Monitored by DTe (state agency)
- BBL Company sells the available capacity on a monthly basis, thorugh open season procedures.
- Dutch national gas network operator Gas Transport Services will make sure that sufficient capacity is available for transport of gas from German border to the entry point at Balgzand, to allow for transport through NL
- In case of a change in national laws on pipeline access, NL and UK governments will consult eachother (mandatory) to make sure laws will not contradict with TPA exemption in place

_Conclusions

- BBL project is important project for NL and instrumental in the ambition to become a gas hub in Northwest European gas market
- Link with Nordstream (Russia-Germany) will create a Northern European gas corridor and is vital for European security of supply of gas
- BBL is part of INOGATE priority axis for natural gas pipelines
- Direct gas link with growing and competitive UK gas market

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Thank you!

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