

State of Israel

Ministry of National Infrastructures

November 6, 2005

Request for Information - Updated

I. Local Natural Gas Market

According to the Natural Gas Sector Law, gas activities such as supply, transmission, distribution and marketing of natural gas are to be separated. All activities except marketing require a license from the Minister. Transmission activity is a stand-alone activity, ie. a licensee for transmission is precluded from obtaining any other type of license. In addition, there is no exclusivity granted to the distribution licensees to sell gas in their respective regions. Based on these facts below is description of the activities in the Israeli market.

a. Supply

There are 3 major potential suppliers to the local natural gas market: Yam Thetis (offshore Israel), Egypt, and British Gas (offshore Gaza).

- **Yam Thetis** has proven reserves of 35-40 BCM. It has started to supply gas to the Israel Electric Corporation (IEC) during the first quarter of 2004, based on a long-term TOP contract between the parties, and is expected to contract all of its unsold reserves.
- **Egypt** - IEC has reached a long-term TOP contract with the EMG group for the supply of natural gas from Egyptian sources to its facilities, starting from August 2007. The initial amount expected to be supplied is about 2 BCM annually. Notwithstanding, the gas will be supplied through a pipeline that will be adequate for the transmission of up to 7 BCM a year.
- **British Gas** has proven reserves of 40 BCM.

b. Transmission

During 2004, the Minister has granted Israel Natural Gas Lines (INGL), a company wholly owned by the government, a license for the construction and operation of the

State of Israel

Ministry of National Infrastructures

natural gas transmission system. INGL is obliged to connect high pressure consumers (over 16 bar) subject to all applicable laws and the terms of its license.

According to the master plan approved by the Natural Gas Authority for the construction of the natural gas transmission system and INGL's license, the main transmission system is expected to be completed, connecting most of the high pressure customers, by 2010.

Transmission tariffs are prescribed by INGL and are subject to the consent of the Natural Gas Council of the Natural Gas Authority.

c. Distribution

The government intends to grant distribution licenses to licensees that will be required to connect low pressure consumers (less than 16 bars). The process under which such licenses will be granted and the terms of such licenses is currently being formulated, however it is expected that several distribution regions will be created and that the development of the distribution networks will commence by 2006.

d. Natural Gas Demand

According to government's analysis, it is projected that demand for natural gas in 2010 will be segmented by 2010 as follows:

Power production – 4.5 BCM

Major industries – 3 BCM

Distribution and other consumers – 0.5 BCM

It is projected that demand for natural gas will increase thereafter.

Based on this analysis of future demand and supply the government sees a strategic need of an additional source of natural gas supply by 2010.

State of Israel

Ministry of National Infrastructures

Conclusion

Based on the information above, any party seeking to enter a cooperation with the Government of Israel shall submit, no later than August 1th, 2006, an expression of interest to -

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