

HUNGARIAN - ROMANIAN AGREEMENT ON A NEW INTERCONNECTOR

IMPACT TO THE ENERGY COMMUNITY REGION

3rd Gas Forum

Ljubljana, 16th of October 2008



1. Market sounding exercise (I)

- The previous discussions between TRANSGAZ Romania and MOL Hungary regarding the building of an Interconnector between the transmission systems of Romania and Hungary has been resumed during the year 2007.
- On 26th of July 2007 the decision to set off a market sounding exercise has been taken.
 - *Purpose*: the assessment of the TRANSGAZ and MOL current customers' potential interest to reserve capacity on the Interconnection
- Market sounding exercise closure: 5th of October 2007
 - Transgaz synthesis 22nd of October 2007:
 - 8 companies expressed their interest to transport gas through the Interconnector;
 - The annual volume estimated to be transmitted: 3,07 bcm (2010) – 3,53 bcm (2020);
 - Transgaz – MOL synthesis 20th of November 2007:
 - 11 companies expressed their interest to transport gas through the Interconnector.
 - The annual volume estimated to be transmitted: 3,68 bcm (2010) – 4,33 bcm (2020)



1. Market sounding exercise (II)

- Market sounding exercise conclusion: due to the major expressed interest the pipeline was decided as having potential, the operation starting with 1,7 bcm/year from the overall design capacity of 4 bcm/year.



2. Memorandum of Understanding (I)

- As a result of:
 - market sounding exercise;
 - implementation of provisions of the Council Directive 2004/67/EC concerning measures to safeguard security of natural gas supply;
 - previous cooperation which proved that the interconnection of the transmission systems from Hungary and Romania are technically possible,the two Transmission System Operators decided to conclude a Memorandum of Understanding.



2. Memorandum of Understanding (II)

The Parties:	<ul style="list-style-type: none">• The National Gas Transmission Company “Transgaz” S.A., with its headquarter in Medias, C.I.Motas Square, No. 1, Romania;• MOL Gas Transmission Plc., with its headquarter in Siofok, Tanacshaz Street, No. 5, Hungary;
The place and the date of the concluding:	<ul style="list-style-type: none">• Szeged, January 22nd, 2008;
Purpose:	<ul style="list-style-type: none">• The interconnection of the national transmission systems (HU-RO);
For the implementation of the project the parties decided on the:	<ul style="list-style-type: none">• Mutual information;• Concluding of a Joint Development Agreement;• Concluding of an Operation Agreement with an enclosed Capacity Allocation Agreement;
Support for the establishing of the methodology for the capacity allocation:	<ul style="list-style-type: none">• The national regulating authorities (HEO-HU, ANRE-RO);
Professional support for the elaboration of the above mentioned Agreements:	<ul style="list-style-type: none">• The contracting of a legal consultant having relevant experience in this area. Upon a selection process the legal company CMS Cameron McKenna LLP has been selected;

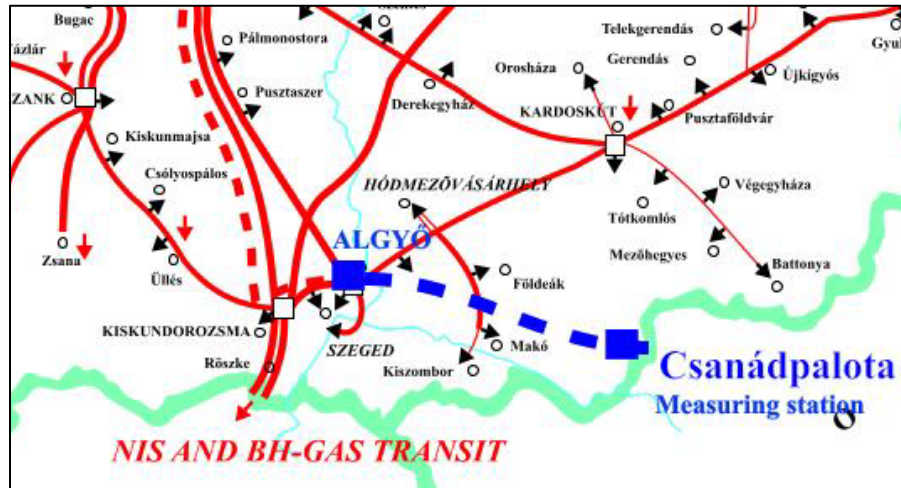


3. The Joint Development Agreement

The Parties:	<ul style="list-style-type: none"> • FGSZ Natural Gas Transmission Closed Company Limited by Shares/FGSZ Ltd., with its registered seat in Siofok, Tanacshaz Street, No. 5, Hungary; • The National Gas Transmission Company “Transgaz” S.A., with its headquarter in Medias, C.I.Motas Square, No. 1, Romania;
The place and the date of the concluding:	<ul style="list-style-type: none"> • Arad, July 1st, 2008;
Purpose:	<ul style="list-style-type: none"> • Building of an interconnection pipeline (Interconnector) between the transmission systems from Hungary and Romania;
Legal aspects:	<ul style="list-style-type: none"> • Purpose: <ul style="list-style-type: none"> ✓ to establish the mutual rights and liabilities of the parties; • Liabilities: <ul style="list-style-type: none"> ✓ to obtain the licenses and approvals necessary for the project development; ✓ to implement the project in due time (1st of January 2010); • Rights: <ul style="list-style-type: none"> ✓ to terminate the contract in case of breach of obligation;
Economical aspects:	<ul style="list-style-type: none"> • Financing: each party finances its section of the pipeline by own sources; • In case of default termination: the guilty Party shall pay to the other Party liquidated damages/compensation;



4. Main features of the Interconnector (I)



• Pipeline diameter:	DN 700 mm;
• Total length:	about 109 km;
• Length of the Hungarian section:	~ 47 km (between Algyő and Csanádpalota) ;
• Length of the Romanian section:	~ 62 km (36,7 km built) (between Csanádpalota and Horia);



4. Main features of the Interconnector (II)

• Connection to the Hungarian Transmission System:	Algyő;
• Connection to the Romanian National Transmission System:	Horia village, in the vicinity of Arad;
• Design pressure:	63 bar;
• Location of commercial metering station:	Csanádpalota (at the Romanian – Hungarian border);
• Initial flow:	200 000 cm/h (1,75 bcm/year) (at 15 °C and 1,01325 bar pressure)
• Maximum flow:	500 000 cm/h (4,4 bcm/year) (at 15 °C and 1,01325 bar pressure)
• Gas pressure at the border:	40 bar;
• Direction of flow:	At first, from Hungary to Romania; At a later stage, technical conditions might be created for the transportation of natural gas from Romania to Hungary;
• Completion date:	1 st of January 2010;



5. Capacity Allocation Agreement

The Parties:	<ul style="list-style-type: none">• FGSZ Natural Gas Transmission Closed Company Limited by Shares/FGSZ Ltd., with its registered seat in Siofok, Tanacshaz Street, No. 5, Hungary;• The National Gas Transmission Company “Transgaz” S.A., with its headquarter in Medias, C.I.Motas Square, No. 1, Romania;
The place and the date of the concluding:	<ul style="list-style-type: none">• Siofok, August 18th, 2008;
Purpose:	<ul style="list-style-type: none">• Harmonization of capacity allocation mechanisms on the Hungarian section and - Romanian section of the interconnection pipeline;
Legal aspects:	<ul style="list-style-type: none">• Represents:<ul style="list-style-type: none">✓ Annex to the Operation Agreement;• Establish:<ul style="list-style-type: none">✓ General principles of the allocation of the Interconnector’s capacity;✓ General principles for granting the allocated capacities in the operation period;• Termination:<ul style="list-style-type: none">✓ On common consent;✓ By either party;
Economical aspects:	<ul style="list-style-type: none">• In case of default termination: the guilty Party shall pay to the other Party liquidated damages/compensation;



6. FGSZ – Open Season Procedure 1 (I)

(5th of August 2008 – 3rd of September 2008)

- On the 5th of August 2008 FGSZ Ltd. has launched the Open Season Procedure for capacity booking on the Algyő - Csanádpalota interconnection pipeline.
- Terms and conditions:
 - Purpose of the tender invitation: Selling of maximum 90% (i.e. 180.000 cm/h) of the capacity of the Algyő - Csanádpalota interconnection pipeline;
 - Bidders will apply for capacities for two periods: either for the period of January 1st, 2010 and June 30th, 2010 (6 months) and/or for the period of July 1st, 2010 and June 30th, 2030 (20 years);
 - Algyő nod is the exit point of the existing Hungarian transmission system, being at the very same time the entry point of the interconnection pipeline;
 - Exit point of the interconnection pipeline: the filtering and measuring station in Csanádpalota, on the Hungarian/Romanian border;
 - In case of overbooking, capacities will be allocated based on pro rata principle (in proportion of the capacities applied for). The allocated capacity can be 180.000 cm/h at the most;
 - Transgaz will fully accept the outcome of the Open Season Procedure;



6. FGSZ – Open Season Procedure 1 (II)

(5th of August 2008 – 3rd of September 2008)

- Accordingly Transgaz will enter into obligation to sign Annual and/or Long Term contract/s with those Romanian shippers who shall be shipper-pairs of the Hungarian shippers to whom capacities have been granted as the outcome of this procedure;
- The capacity booked at the „cross border point” of the Hungarian-Romanian border shall be equal to the capacity awarded as the outcome of this process;
- The Open Season Procedure has been closed on 3rd of September 2008:
 - FGSZ has determined that only 5 bids has completely fulfilled the mandatory terms and conditions.
 - Because the bidders did not apply for a total transmission capacity reaching 70% of the Algyő - Csanádpalota interconnection pipeline capacity (i.e. 140 000 cm/h), FGSZ has declared the Open Season Procedure unsuccessful.



7. FGSZ – Open Season Procedure 2

(12th of September 2008 – 12th of October 2008)

- On 12th of September 2008 FGSZ has launched a new Open Season Procedure for capacity booking on the Algyő - Csanádpalota interconnection pipeline;
- The Open Season Procedure has been closed on 12th of October 2008:
 - FGSZ has determined that all five submitted bids fulfilled completely the mandatory terms and conditions;
 - Because the bidders apply for a total transmission capacity reaching 160.662 cm/h of the Algyő - Csanádpalota interconnection pipeline (above the established minimum limit of 140.000 cm/h), FGSZ has declared the Open Season Procedure successful;
- The successful bidders are:
 - MOL Energiakereskedő Kft.
 - E.ON Földgáz Trade Zrt.
 - EconGas GmbH
 - GDF Suez SA
 - Global NRG Zrt.



8. Future actions (I)

- Between 13th and 20th of October 2008: FGSZ – negotiation and concluding of the Initial Long Term Agreements with the Hungarian shippers;
- Between 14th and 20th of October 2008: TRANSGAZ – negotiation and concluding of the Preliminary Agreements for long term capacity booking in the NTS with the Romanian network users;
 - Terms and conditions:
 - are available in detail on the TRANSGAZ web site.
 - The capacity booking period is:
 - 1st of January 2010 – 30th of June 2010 or
 - 1st of January 2010 – 30th of June 2030 or
 - 1st of July 2010 – 30th of June 2030.



8. Future actions (II)

- Fulfillment of the Romanian legal provisions regarding the capacity booking on the NTS.
- Starting the negotiation of the Operation Agreement;
- Concluding until 15th of December 2008 of the Long Term Transmission Contract between Transgaz and the Romanian network users who have signed the Preliminary Agreement;



9. Interconnector's impact to the Energy Community Region

- At present, the project for the interconnection pipeline between the transmission systems from Hungary and Romania represents rather a potential impact to the Energy Community;
- In the future, according to the evolution of the commercial relationships and of the natural gas transmission infrastructures (evolution materialized especially in the building of new interconnection pipelines between the neighboring countries and cross-border pipelines), this Interconnector could contribute to:
 - establishing of an integrated natural gas market in the region;
 - providing of high levels of natural gas provisions to all citizens based on public service obligations;
 - enhancing the security of supply;
 - developing gas market competition in the region.

