

Background information CESEC High Level Group (Central and South-Eastern European Gas Connectivity)

Background

- ▶ In order to accelerate the integration of Central- and South-Eastern European gas markets and diversify gas supplies, Austria, Bulgaria, Croatia, Greece, Hungary, Italy, Romania, Slovakia, Slovenia, Albania, Bosnia and Herzegovina, Macedonia, Moldova, Serbia and Ukraine and the EU set up a High Level Working Group in February 2015.
- ▶ The aim of the group is to coordinate efforts to facilitate cross-border and trans-European projects that diversify gas supplies to the region, as well as to implement harmonized rules.
 - ▶ September 2017: The Memorandum of Understanding for Gas (signed 2015) has been extended to the areas electricity, renewables and energy efficiency by a separate MoU signed on 28th September 2017.
 - ▶ H1 2018: meeting of working group 'physical bi-directional gas flows via the Trans-Balkan pipelines' took place → OMV as producer is highly interested to participate in WG; invitation for WG meeting in July 2018 was confirmed by Dir. Borchardt in a meeting in June 2018

General OMV concerns

- ▶ A competitive, stable and predictable regulatory framework is an essential requirement for sustaining investments in gas activities and constitutes a prerequisite for the optimal development of the SEE Region's upstream potential.
- ▶ The region has the potential to contribute by indigenous hydrocarbon production and by regional energy integration, to the diversification of European gas supply sources.
- ▶ The following points can facilitate to the above target:
 - ▶ Governmental organizations should apply high priority and importance to the European Equity Gas (e.g. Black Sea Gas)
 - ▶ South Eastern European countries should be aligned in the application of EU law in particular by
 - Connection of National Gas Transmission Systems (NTS) to Trans Balkan Pipelines System (e.g. Connection of Romanian NTS to Transit Lines T1 and T2 & T3).
 - Capacity marketing at cross border interconnection points should be synchronized with respect to terms & conditions and auction schedules (e.g. bundled capacity products). The above EU rules shall also be implemented at interconnection points to non-EU countries in the region (e.g. to Ukraine and Turkey which is a route to alternative gas sources for Europe).
 - Technical obstacles at cross-border interconnection points shall be eliminated (e.g. capacity limitations due to pressure differences, missing reverse flow capability of facilities).
 - Gas export restrictions e.g. by limiting physical cross border flow shall be eliminated. (Gas exports from country of production would offer upstream companies the necessary flexibility regarding access to different markets for gas and enhancing security of supply in the region.)
- ▶ Additionally, full gas market liberalization is needed to facilitate the development and to push upstream investments in the region.
- ▶ In Romania the following issues have to be solved:
 - ▶ To date Ordinance 64/2016 is obliging gas producers in Romania to trade an equivalent 30%, from volumes contracted on a centralized platform. In addition, a new proposal is on the table aiming to increase the before mentioned volume to 50% and potentially furthermore.
 - ▶ Such obligations have a strong potential to prevent gas producers and shippers entering into bilateral sales agreements and subsequently long term transport capacity bookings.
 - ▶ Therefore, such obligations have the potential to hinder also the envisaged cross-border infrastructure developments, jeopardizing the commercial basis and ultimately the implementation of these cross-border infrastructure developments.
 - ▶ Overall such obligations are generating a substantial risk for the planned investments in new gas production in Romania.

Recent developments on specific projects in the region

Neptun

- ▶ Interconnectivity to neighbouring system is a key requirement for the project.
- ▶ To date no effective interconnection of the Romanian NTS with neighbouring transmission systems is in place.

BRUA & ROHUAT

- ▶ Originally anticipated ROHUAT product was cancelled and reduced to a ROHU product only.
- ▶ As a consequence the so called BRUA corridor, meaning a pipeline from Bulgaria via Romania and Hungary to Austria doesn't exist anymore.

Romanian Gas Market Design: EU Conformity & Gas Exchange Trading

- ▶ The status of implementation of an Entry - / Exit System seems to be currently on track and a working group, under the steering of EU Commission (DG ENER) and which includes Romanian Energy Regulator (ANRE), Romanian Gas TSO (Transgaz) and the Agency for the Cooperation of Energy Regulators (ACER), is supporting such development and implementation.
- ▶ However, at today, all of the 2nd level legislations, as well as the rules & contract templates with TSO to get market access, are not yet drafted / finalized. In the context of the drafting of the required rules / documents, recently a number of public consultations where held.
- ▶ In addition, a recent draft for amending the Amendment Romanian Electricity and Natural Gas Law 123/2012 give reasons for concern as they are stipulating hurdles for traded markets (obligation of 50% of volumes to be traded on a platform; restricted access to the VTP).

BACI (Bidirectional Austrian Czech Interconnector) & TRU (Trading Region Upgrade)

- ▶ BACI was officially added – thanks to the support of the Austrian government – to the European Union's PCI-list (Project of Common Interest) by the Commission in November 2017, despite SK opposition.
- ▶ The PCI-list includes a footnote which stipulates that the implementation of BACI is depending on the outcome of a pilot project named Trading Region Upgrade (TRU).
- ▶ The TRU service is a new specially designed service to connect the Austrian and the Czech gas markets.
- ▶ For the first time, customers of Gas Connect Austria and Net4Gas, succeeding in the TRU auctions, will have the opportunity to have their gas shipped directly from Austria to the Czech Republic and vice versa with a single contract, including trading hubs.
- ▶ This facilitates cross-border transports and reduces transaction costs for customers as booking can be made on a "One-Stop-Shop" basis.
- ▶ In the meantime the technical support agreement with Eustream has been signed and the market has been informed about the upcoming auctions which will take place on 2. July 2018.

Status quo

ROHU (interconnection between Romanian and Hungary)

- ▶ For the Romanian section of the so called BRUA corridor construction works for stage 1 have commenced recently.
- ▶ On Hungarian territory, where construction of on compressor station is required, no construction works yet.

ROHUAT & HUSKAT

- ▶ For the HUSKAT product, the involved project partners have announced an Open Season, which shall take place in September 2018.
- ▶ In comparison of the original ROHUAT product the ROHU plus HUSKAT ends up with a higher tariff for gas transports from Romania to Austria.
- ▶ The rationale why a pipeline which was constructed as bidirectional interconnector with EU co-funding requires an Open Season to ensure a minimum booking level for the financing additional project work to enable a minimum transmission capacity from Hungary to Slovakia cannot be understood.
- ▶ Despite the shippers interest expressed for reverse flow at IP Mosonmagyaróvár, Hungarian parties (TSO and NRA) have been reluctant to establish and offer such product.

Working Group 'physical bi-directional gas flows via the Trans-Balkan pipelines'

- ▶ OMV welcomes the establishment of the CESEC Working Group 'physical bi-directional gas flows via the Trans-Balkan pipelines'.
 - ▶ We do not understand why OMV Group (including OMV Petrom as the largest regional gas producer) is excluded - despite several requests - from this working group. The working group currently involves only the network operator's I; thereby the requirements of the market (producers, shippers, etc.) are not taken into account.
 - ▶ In April Ukrtransgaz (UTG) has conducted a non-binding market demand assessment for reverse flow from Romania to Ukraine at IP Issaccea-Orlovka via T1 of the Trans Balkan Pipeline System.
 - ▶ Accumulated results have demonstrated a market interest of ca. 10,0 bcma, while a capacity of 5,0 bcma was offered by UTG during this market survey.
 - ▶ This underlines the strong market interest and need for reverse flow from Romania to Ukraine via the Trans Balkan Pipeline System.
 - ▶ We therefore expect that next steps to enable interested market users to book and utilize transport capacity will be launched in very short time.
 - ▶ We have high expectations regarding the concept paper of CESEC group regarding reverse flow on Trans Balkan Pipeline announced for the CESEC High Level Group meeting – the concept paper shall include i.a. a firm timeline for reverse flow implementation steps and the capacity that can be expected.
 - ▶ OMV Group welcomes the announcement to be part of the working group for the next meeting in July 2018 and to look forward to receiving an invitation
 - ▶ This project is of utmost importance, a quick feasibility of the first steps will be a positive signal for the progress in this region.