



Observations of eustream, a.s. on the subject of the incremental capacity project proposal for the Mosonmagyaróvár interconnection point (ACER call for opinion from 20 November 2018)

Eustream welcomes the opportunity given by ACER to raise its observations on the subject of the incremental capacity project proposal for the Mosonmagyaróvár interconnection point. Eustream considers itself as directly impacted by the procedure open by ACER.

Based on the reasons, which are described and explained in more detail below in the document, we would like to propose to ACER:

- a) not to proceed in the case, or
- b) to support the decision of the Hungarian NRA - MEKH

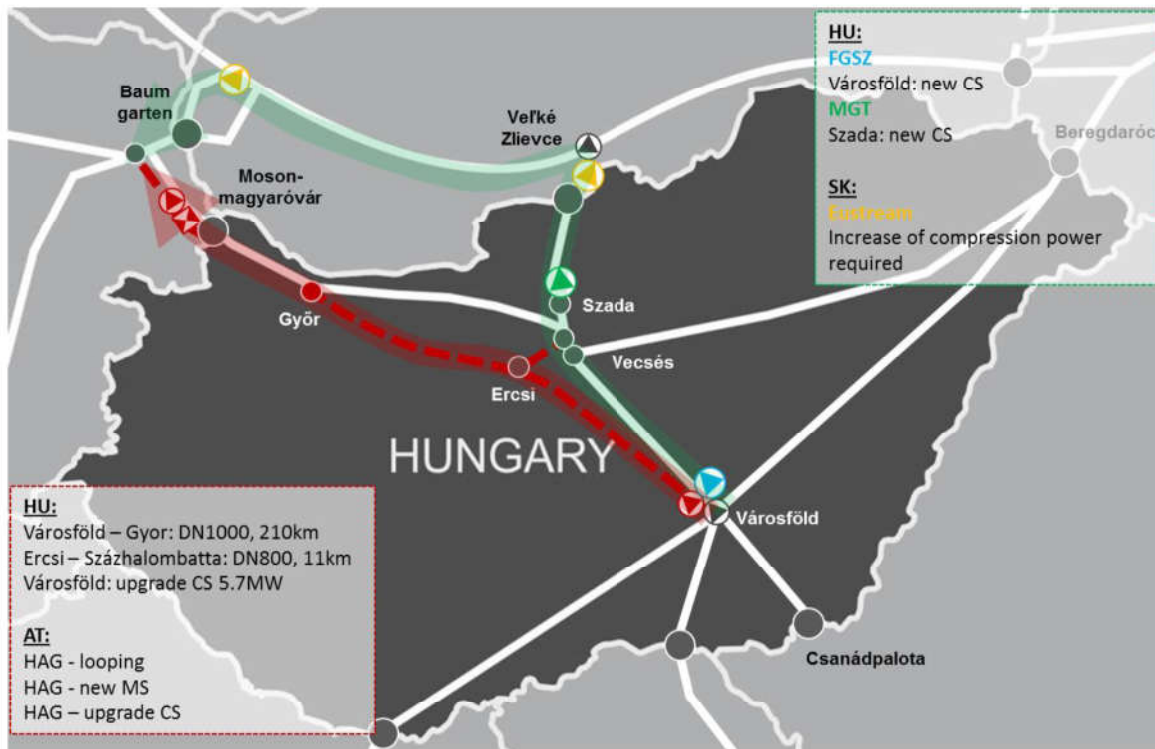
In our observation we focus on two main areas:

- a) economic implications of the HUAT project potentially assessed by ACER and
- b) other significant objective arguments to be genuinely taken into consideration:

A. Economic Implications of the HUAT project.

Eustream, as part of the Central Gas Corridor and the transmission system operator with the highest capacity as well as flows of natural gas heading towards Central European Gas Hub, could be adversely economically and operationally affected by the development of the competing route to Austria via Mosonmagyaróvár interconnection point. In addition, Eustream is currently running process of Alternative Allocation Procedure, being in line with the Article 30 of the Commission Regulation (EU) 2017/459, to increase the firm capacity from Hungary through Slovakia to Austria (the "HUSKAT project" or the "Project"). Eustream, Magyar Gáz Tranzit and Gas Connect Austria have promoted so-called HUSKAT project and all three respective regulators - URSO, MEKH, E-Control, approved the Alternative Allocation Procedures. The Project offers incremental capacity at interconnection points Balassagyarmat/Velke Zlievce and at the Slovak side of IP Baumgarten and is in direct competition with the HUAT incremental capacity project. The Alternative Allocation Procedure should be finalized till 3rd May 2019. This includes also the step back right of the shippers, to whom the transmission capacity has been allocated and which is due on 29th March 2019. Therefore any decision to continue the Mosonmagyaróvár incremental project could have an adverse effect on the HUSKAT project while could motivate the shippers to use the step back right.

The following picture summarizes both competing projects:



In this respect, we would like to stress on some advantages of the HUSKAT project, if compared to the HUAT:

1. *Flexible capacity for lower investment costs*

Transmission capacity of the HUSKAT project is 5.3 bcm/y with the overall investment costs of 116 mEur. The capacity of the Project can be expanded up to 17.5 bcm/y with additional estimated costs up to 190¹ mEur. When comparing costs of the Project to the costs of HUAT project, which according to the consultation document (LINK/nazov) achieve the level of 578 mEur for capacity 5.4 bcm/y and 837 mEur for capacity 9.4 bcm/y, the costs of the Project are significantly lower.

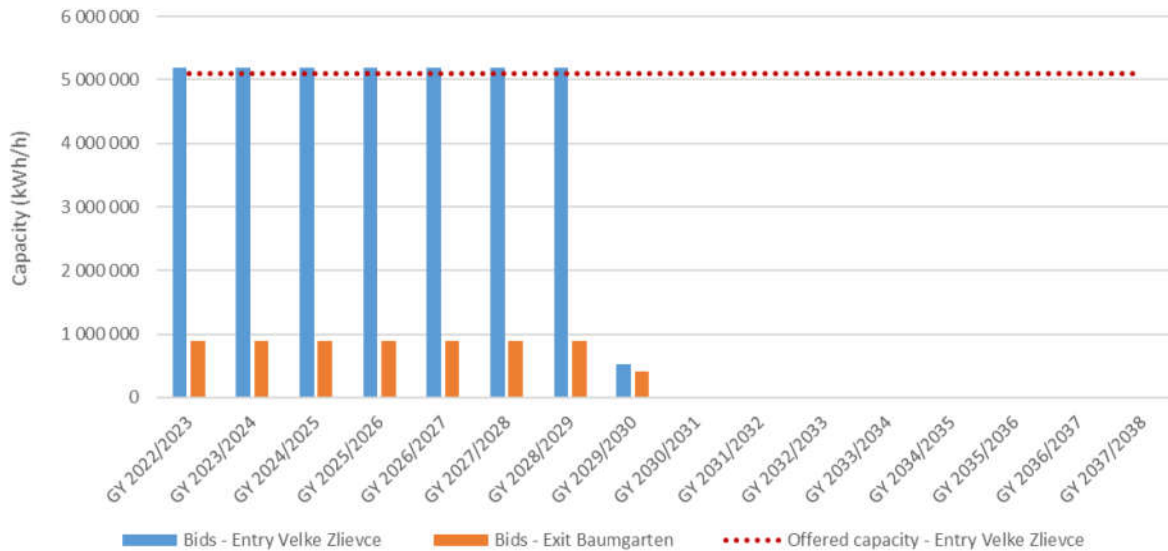
Additionally, the investment costs of HUAT project on the Hungarian side represent almost 50% of the current level of RAB of Hungarian transmission system operators, which could significantly affect the costs of transmission service and final costs of natural gas for the final consumers in Hungary.

2. *Unparalleled market connection*

The HUSKAT project is routed to the transmission system of Eustream, which has the flexibility to ship gas to Ukraine, North-Western, Southern and in the near future also to the North European countries. HUAT is routed directly to Baumgarten and does not have this possibility, due to limited available transmission capacities from Baumgarten towards North-Western Europe. Such flexibility is very important for shippers, which has been

¹ Internal analysis of Eustream

confirmed also by results of the allocation procedure for the HUSKAT project, in which shippers booked all capacity offered at Entry Velke Zlievce and only minor bids have been received at Exit Baumgarten point (as shown on the following chart).



3. **Advanced concept**

The HUSKAT project received positive feedback from shippers, demanding transmission capacity in the second bid submission in August 2018. Total amount of bids for interconnection point Balassagyarmat/Velke Zlievce has exceeded 4.29 bcm/year for the long-term period from October 2022 to September 2029. The concluded capacity contracts contain a condition in favour of the shippers to step back from the contracts due in March 2019. The Alternative Allocation Procedure will be finalized in May 2019 and in case of positive result, shippers can use the capacity from October 2022. Comparing to the HUAT project the Project is in more advanced stage with the start of transmission guaranteed in October 2022 (subject to positive results of the bid submission).

4. **Existing infrastructure**

The HUSKAT project uses the existing infrastructure and capacity increase will be secured by adding the compression power via investments to the compression units. The HUAT project is new infrastructure project, with required investments to the new DN1000 pipeline of approximate length of 210 km as well as to the new compression power on the Hungarian side and looping of HAG, building new metering station and upgrading of the existing compression station in Austria. We are of the opinion that if there is credible, smarter and cheaper alternative to address the identified needs and able to utilize the existing infrastructure to the maximal possible extent, then this should be preferred solution in comparison with the new infrastructure projects.

B. Other significant objective arguments, we would like to present to the casebesides of above mentioned:

1: Regulatory aspects:

- NRA, carrying out its regulatory tasks specified in the Gas Directive², shall take all reasonable measures within their duties and powers, inter alia via “helping to achieve, in the most cost–effective way, the development of secure, reliable and efficient non-discriminatory systems that are customer oriented, and promoting system adequacy and, in line with general energy policy objectives, energy efficiency...”³ NRA, when considering/assessing an each infrastructure project shall take into account inter alia the possible economic impact on existing infrastructure not making it stranded and the costs impact, relating to the necessary reinforcement of the transmission system in order to make bi-directional capacity operational, on customers especially on vulnerable ones.
- Based on the Gas Directive⁴ NRAs are legally distinct and functionally independent from any other public or private entity and are expected to act independently from any market interest. It means that an opinion of NRAs could differ from opinions of any other entities as their role is to assess a proposal in a broader regulatory framework in comparison with TSOs which decisions are usually revenues driven. NRAs are watchdogs of a process and its results and therefore they are expected to behave in such a way.
- The NRA when implementing its tasks has the right to give a priority to one of competing projects especially existing ones based on the evaluation of the investment costs/costs of stranded assets/operational costs etc. of an each project, based on the reasonable analysis and under the condition that the binding demand is satisfied and lower investments bring the same value to market participants;
- Hungarian part of the HUAT project is not included in the national ten-year network development plan of Hungary⁵ and is not included in the latest edition of the EU TYNDP 2018⁶;
- In the legislation there is no obligation imposed on any member state/NRA/TSO that a part of the project or a whole project with the PCI labels should be built.

² Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC

³ Article 40(d) of the Gas Directive

⁴ (Art.39(4)(a) and (b)(i) of the Gas Directive

⁵ https://fgsz.hu/file/documents/1/1159/tyndp_18122018_en.pdf

⁶ <http://www.entsog.eu/index.php/tyndp#entsog-ten-year-network-development-plan-2018>

2: Market functioning:

- There is market demand for the transport capacities, not related to an exact route, for new gas sources from Black sea area and potentially from south of Europe (former South Stream, White Stream, potentially Eastring) by means of which gas could flow to the closest liquid market hub (Baumgarten). This market demand could be saturated by implementation of different projects on the territory of Hungary, Slovakia and Austria. These projects compete among each other for the same demand;
- In the region of the HU, SK and AT there is massive gas infrastructure system in operation in the East-West flow direction being able to absorb the potential gas flow from new sources from Black sea or southern Europe due to change of the gas flow patterns in last years;

3: Security of supply:

- Based on the latest results of the EU TYNDP 2018 modelling there are no infra gaps between Austria and Hungary⁷
- Based on the SOS modelling of ENTSOG there is no security issue between Hungary and Austria for the relevant scenarios – disruption of all imports to EU via Ukraine⁸;
- NRA, when considering/assessing each infrastructure project, shall take into account, inter alia, (i) the possible economic impact on existing infrastructure and the costs of bi-directional capacity including the necessary reinforcement of the transmission system and (ii) the benefits to the security of gas supply, taking into account the possible contribution of bi-directional capacity to meet the infrastructure standard set out in the SoS regulation⁹;
- Sufficient available existing infrastructure in the direction from Hungary to Austria via Slovakia and vice versa

To conclude the above stated, we would like stress that we consider the decision of the MEKH as reasonable, meeting the criteria of effectiveness, supporting the regional cooperation and supportive for development of fully functional and efficient gas market in the CEE region.

⁷ http://www.entsog.eu/sites/default/files/2018-12/ENTSOG_TYNDP_2018_System%20Assessment_web.pdf

⁸ http://www.entsog.eu/sites/default/files/entsog-migration/publications/sos/ENTSOG%20Union%20wide%20SoS%20simulation%20report_INV0262-171121.pdf

⁹ Article 5 of the Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010