TRANSGAZ S.A.

FGSZ Ltd

Paris, 24 July 2017

Subject: ROHU Open Season documents

Dear Sirs,

Following your publication on July 20th, 2017, of updated documents for the open season procedure, engaging capacity reservation at the Romania-Hungary border, please find below our remarks to the Rulebook to the Binding Open Season Procedure published on 21st July 2017.

A. Capacity Allocation Concept:

1. Incremental Capacity Definition

We observe that the definitions of '**incremental capacity**' are not identical between FGSZ and Transgaz:

According to the definition of the Economic Viability by Transgaz SA. (page 17):
"...incremental capacity means the aggregated value of requested capacity exceeding the level of 2,120,142 kWh/h/year at entry/exit point Csanadpalota, capacity level ensured by implementing the BRUA, phase I project. "
Our understanding is that full FID is already taken on Phase 1 by Transgaz (including European Union grant) and that this capacity is therefore considered as 'existing'.

In the FGSZ Economic Test, however, 'incremental capacity' is defined as the full 4,648,063 kWh/h/yr. This was confirmed to us by their representative today.

To our knowledge, Phase 1 investment cost on Hungarian is relatively minor (approximately 10% of total Hungarian project cost), considering the existing pipeline infrastructure that was built under the Open Season held in 2009 (where Engie has been one of the launching shippers detaining a 20 yr capacity contract). To our understanding, Phase 1 investment could easily be 'socialized' within the overall yearly investment plan accepted by the Hungarian regulator.
Please clarify the discrepancy between the two approaches.

2. Justification of alternative allocation mechanism

Article 30 (2)(a) Principles for alternative allocation mechanisms of the CAM NC stipulates that:

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" An alternative capacity allocation mechanism can be used, subject to national regulatory authorities' approval, where it is reasonable to conclude from the market demand assessment pursuant to Article 26 or the consultation defined in Article 27(3) that the ascending clock auction is not suitable and that the incremental capacity project fulfils both of the following conditions:
(a) it involves more than **two entry-exit systems** and bids are requested along several interconnection points during the allocation procedure;
(b) bids with a duration of more than 1 year are requested."

Considering that the new ROHU project involves only two entry-exit systems between Romania and Hungary, our conclusion is that the mandatory condition of Article 30 (2)(a) is not fulfilled.

Could you give the precise argumentation to consider that the alternative capacity allocation mechanism can be used for Phase 1 and Phase 2?

B. Economic Viability:

The calculation of the "Economic Viability @ SNTGN Transgaz SA." is comprehensible. Nonetheless, the clarification of the exit tariff at Csanadpalota of 15,873120 Lei/kWh/h/y complicates the understanding.

We also consider the calculations of Transgaz's tariff should be directly converted into kWh 25/0°C. According to the Commission regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules, the reference temperature should be kWh 25/0°C.

On the contrary, the result of the FGSZ'S economic test do not match:

According to the mechanism, such as described in the Rulebook,

- PVUC ≥ 38,313,956,616 HUF
- the present value of binding commitments of network users with a 70% booking of the entry capacity, with
  - a yearly inflation of 1%
  - a discount rate of 8,9%
  - based only upon the supplement of 1166,99 HUF/kWh/h/year (using the methodology explained by FGSZ's representative, i.e. not taking into account the reference price of 1483,63 HUF/kWh/h/year)

represents approximately 25,000,000,000 HUF.

Please explicit how to calculate the PV_{UC}.

Yours truly,

PERSONAL DATA REMOVED