

**INTERCONNECTION BETWEEN THE SLOVAK AND HUNGARIAN GAS
TRANSMISSION SYSTEMS**

**BINDING PHASE OF THE OPEN SEASON
SLOVAK PIPELINE**



SK-HU Interconnector, Slovak Pipeline

Open Season Procedure

Binding Phase

(hereinafter referred to as the “Rules of the Open Season Binding Phase” or the
“Rules”)



1. Introduction

Eustream, a.s. (hereinafter referred to as “Eustream”) is a gas transmission system operator in the territory of the Slovak Republic and FGSZ Natural Gas Transmission Closed Company Limited by Shares (hereinafter referred to as “FGSZ”) is a gas transmission system operator in the territory of Hungary. Eustream and FGSZ (hereinafter referred to as “the Parties”) are planning to construct a new interconnection between their gas transmission systems (the SK-HU Interconnector) by a 115 km long gas pipeline between Veľké Zlievce on the Slovak side and Vecsés in the suburbs of Budapest in Hungary. This Project will improve the integration of the EU gas infrastructure system, produce new transmission opportunities for market players, enhance cross-border liquidity and increase the security of gas supplies of the region.

Eustream and FGSZ are conducting parallel procedures known as Open Season in order to allocate and sell their respective transmission capacities. Eustream and FGSZ will also make available 10% of the total transmission capacity of the SK-HU Interconnector in each direction respectively for short-term booking and will allocate this capacity on a non-discriminatory basis and according to relevant national regulations outside the Open Season process.

The whole process of the Eustream and FGSZ parallel Open Season procedures consists of a non-binding and a binding phase. Eustream and FGSZ have discussed the outcome of the non-binding phase and adjusted the project characteristics accordingly, set up transportation capacity requirements for the planned pipeline and agreed on detailed terms of capacity booking for the new interconnector. Eustream and FGSZ mutually decided to continue with the binding phase of the procedure. The purpose of these parallel binding Open Season procedures is that interested Applicants submit their binding bids (binding capacity requests) for their requested capacity in the new Pipeline. After the evaluation process and allocation procedures conducted by Eustream and FGSZ separately, but in parallel with each other, the final transmission contracts will be concluded by and between Eustream or FGSZ on one side and shippers on the other side. All interested Applicants are aware and accept the fact that all bids presented in the binding phase of the Open Season will be considered legally binding.

Based on these considerations Eustream hereby officially announces the invitation to bid on the Open Season procedures for the Slovak Pipeline. These Rules of the Open Season Binding Phase serve solely for the Slovak Pipeline part of the SK-HU Interconnector and for bids in Hungarian Pipeline part of the SK-HU Interconnector the Applicants shall follow the invitation to bid published by FGSZ. In order to minimize the burden on Participants both Eustream and FGSZ made best endeavors to harmonize to maximum possible extent their respective Rules.



2. Definitions

Unless the context requires otherwise, words and expressions used in this document shall have the meanings stated below:

"Applicant" shall mean any natural person or legal entity who submits a Binding bid with necessary Annexes to Eustream under the Rules of the Open Season Binding Phase.

"Border Point" means the physical connection of the Slovak Pipeline and the Hungarian Pipeline near Balassagyarmat at border point at the Slovak-Hungarian state border.

"Technical Capacity" means the volume of natural gas that can be transmitted through the gas Pipeline, in one or the other direction, as the gas Pipeline may be expanded, extended, or modified, from time to time.

"Slovak Pipeline" means the approximately 21 km long DN800/PN75 section of the Pipeline between the Veľké Zlievce connection point and the border point at the Slovak-Hungarian state border together with the related equipment and facilities, owned and operated by Eustream.

"Hungarian Pipeline" means the approximately 94 km long DN800/PN75 section of the Pipeline between Vecsés node and the Balassagyarmat border point at the Slovak-Hungarian state border together with the related facilities, owned and operated by FGSZ.

"Non-Secured Credit Line" shall mean the result of the creditworthiness assessment as set forth in Chapter 4 and shall be used to determine whether the Applicant shall provide financial security in connection with its bid.

"Open Season Procedure" means the procedure or procedures through which Eustream offers the transmission capacity in the Slovak Pipeline to Applicants on a binding basis between 1 March 2010 and the signing of the resulting transmission contracts with the shippers.

"Participant" shall mean an Applicant whose application has been accepted by Eustream under the Rules of the Open Season Binding Phase.

"Pipeline" means the DN800/PN75 gas pipeline of approximately 94 km in length between the Vecsés node (Hungary) and the Balassagyarmat border point and the DN800/PN75 gas pipeline of



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approximately 21 km in length between the Hungarian/Slovak border point and the Vel'ké Zlievce connection point (Slovakia) together with the related equipment and facilities.

"Project" means the evaluation, design development, construction, installation, financing, insuring, ownership, operation, repair, replacement, refurbishment, maintenance, expansion, and extension (including laterals) of the Pipeline.

"Target Commercial Operation Date" shall be 1 January 2013. Applicants are hereby noticed that this deadline may be extended, should this be needed.



3. How to participate in the binding Open Season Procedure

3.1. General rules

Applicants that are interested in participating in the binding Open Season Procedure should proceed as follows:

1. Fill in Annex 1 (Registration form) with the company details. Return the document by registered post or courier (original) duly signed by authorized person(s) within your organization to Eustream address listed in Chapter 7 (Notices) as soon as possible, but before 30 March 2010. An advanced copy by fax or e-mail to transmission@eustream.sk is recommended. For bids in Hungarian Pipeline the Applicants shall follow the procedures published by FGSZ. Both Eustream and FGSZ made best endeavors to harmonize to maximum possible extent their respective Rules.
2. Annex 1 shall be accompanied by the documents required for the assessment of creditworthiness by methods set forth in Chapter 4. The minimum required set of documents shall include:
 - Evidence of equity capital, e.g. annual accounts with auditor's certificate (balance sheet, profit and loss account, and cash flow statement and management report) for the business year last ended;
 - Evidence of credit rating including details about the rating agency.
3. Fill in a capacity nomination in Annex 2 (Binding bid). Return the documents by registered post or courier (original) duly signed by authorized person(s) within your organization to Eustream address listed in Chapter 7 (Notices) before 31 May 2010. An advanced copy by fax or e-mail to transmission@eustream.sk is recommended. The Binding bid shall be sent in a sealed envelope clearly marked "Open Season".
4. If the Binding bid is not signed by an authorized body, then the Binding bid must be supported by a notarized power of attorney issued to the signatory and which contains an authority to sign the Binding bid.

Eustream may request further information from the Applicant deemed necessary in order to register it as a Participant and/or establish a Non-Secured Credit Line.

Eustream will confirm the receipt of the documents detailed in Annexes 1 and 2. Eustream shall analyze the obtained bids on a non-discriminatory basis and announce the acceptance or refusal of such a bid by 15 June 2010 the latest. Such an acceptance of a bid shall be considered as an offer of Eustream to sell capacities to the Participant under the terms and conditions as stated in Annex 3 (Operational Order of Eustream).



Eustream acknowledges that any data, information or notification to be prepared by Applicants and Participants to the Open Season Procedure that will be handed over shall be considered as confidential. Eustream declares that such confidential information shall only be used in connection with the evaluation of the Open Season Procedure.

Provided the registration documents are submitted on time, Eustream shall verify their completeness. If it is verified that the submitted documents were received in full and by the end of the indicated period, Eustream shall send the Applicant a notification. The Applicant becomes a Participant in the binding Open Season Procedure upon receipt of the notification.

3.2. Regulatory issues

The Open Season Procedure is organized in a non-discriminatory and transparent way, fully complying with the relevant national and EU law and regulations, ERGEG Guidelines for Good Practice on Open Season Procedures and with standards used by European TSOs as well. The support of the European Union authorities for this Project has been demonstrated by its inclusion in the list of eligible projects to be co-financed by the EEPR programme, as published in the Regulation of the European Parliament and Commission No. 663/2009. Simultaneously, the state authorities of both the Slovak Republic and Hungary have also expressed their full support in several key state documents and manifestos as the national energy master plan, the State Energy Policy, governmental resolutions, etc. The National Regulatory Authorities of both states have been duly consulted.

The information contained in this document has been agreed on in detail with the Slovak Regulatory Authority (ÚRSO) and in the FGSZ Rules with the Hungarian Regulatory Authority (MEH). Eustream has taken all reasonable steps to ensure that the information was correct at the time of publication. Eustream cannot be held responsible for any misinterpretation or usage of the data contained in this document and they accept no liability of any kind for acts, consequences, losses, etc., arising from the information or from inaccuracy, incompleteness, or omissions in the contents of this publication.

3.3. Information campaign

Eustream and FGSZ will provide all necessary information to all involved stakeholders in a continuous manner. Besides information, conveyed by means of regular updates at their websites, the Applicants will be invited to a common information meeting with interactive presentation and consultation on 30



March 2010. The venue of this meeting will be announced by Eustream and FGSZ in due time (please consult www.eustream.sk and www.fgsz.hu).

3.4. The structure of the Open Season process

As a result of the non-binding phase, Eustream and FGSZ have decided to continue by invitation potential Applicants to the binding Open Season Procedure.

3.4.1. Purpose of the binding phase of the Open Season Procedure

The binding phase shall start on 1 March 2010. In the binding phase, all Applicants that have registered to the binding phase can submit binding bids for their requested capacity. This phase will also cover the submission of questions and common information meeting for all registered Applicants. The main objective of this phase will be to conclude the transmission contracts with the Participants after the evaluation process and final allocation procedures is done.

3.5. Timetable

Eustream and FGSZ will publish information and instructions for the binding phase of the Open Season at their respective websites.

Timetable of the binding phase of the Open Season Procedure:

Binding phase	Date	
	01/03/2010	Start of the registration process
	till 22/03/2010	Submission of questions
	30/03/2010	Information meeting
	till 31/05/2010	Submission of Binding bids
	15/06/2010	Evaluation and allocation process, publication of the results
	till 15/07/2010	Conclusion of transmission contracts



4. Creditworthiness verification procedure

4.1. General guidelines

- a) Following the receipt of the registration form and the creditworthiness documents submitted by the Applicant, Eustream will determine the Non-Secured Credit Line of the Applicant. The Non-Secured Credit Line shall be used to determine whether the Applicant shall provide security in connection with its bid.
- b) Within 10 business days from the date of the approval and notification of the Participant's registration, the Participant will be notified of the decision made by Eustream regarding the size of the Non-Secured Credit Line.
- c) The Non-Secured Credit Line will be based upon the equity capital of the Participant as determined by Eustream and the Participant's credit rating from Moody's, Standard & Poor's or Fitch as set forth below. In the event that the Participant has received ratings from more than one rating agency, the lowest rating will be used to determine the Non-Secured Credit Line.
- d) In the event that the Participant's equity is comprised wholly or in part of financial instruments or intra-group debt or his credit situation seems otherwise uncertain, Eustream shall adjust the Participant's equity capital for the purpose of verifying the Participants creditworthiness.
- e) For the assessment of the Participant's creditworthiness Eustream reserves the right to decide on taking into account the credit rating of the Participant's parent company provided that due and sufficient documentation is submitted.
- f) The Participant's Non-Secured Credit Line will be determined as follows:
 - 10 % of the Participant's equity capital provided a credit rating of AAA or similar (highest rating from the relevant rating agency).
 - 7.5 % of the Participant's equity capital provided a credit rating of AA or similar (second highest rating from the relevant rating agency).
 - 5 % of the Participant's equity capital provided a credit rating of A or similar (third highest rating from the relevant rating agency).
 - 2.5 % of the Participant's equity capital provided a credit rating of BBB+ or similar (fourth highest rating from the relevant rating agency).
- g) The Participant is obliged to inform Eustream of any change occurred in its credit rating. Such new rating may cause that Eustream will revise the Non-Secured Credit Line.



4.2. Security

In case the expected amount payable for capacity during the first year of the Participant's commitment exceeds the Participant's Non-Secured Credit Line, the Participant shall provide a security in the form of an irrevocable, unconditional bank guarantee payable on demand. The Participant shall submit required security at the time of the conclusion of a transmission contract.

The amount of the security to be provided by the Participant shall be equal to the difference between

- (i) the fee expected to be paid by the Participant for capacity during the first year of term of the transmission contract; and
- (ii) the Participant's Non-Secured Credit Line.

The fee for capacity during the first year shall be calculated on the basis of Eustream tariffs. Eustream shall announce the respective value to the Participants in due time.

Fifty percent of the amount under the security shall be released when the Participant has used the requested capacity under the relevant transmission contract for a period of one year. The remaining amount under the security will be released in equal parts once a year during the following five years.



5. Allocation of capacity

Eustream will allocate the capacity in the following way:

5.1. Offered capacity

Eustream offers to Applicants the following transmission capacities:

a) Direction SK-HU

Exit Point: Veľké Zlievce

Daily maximum capacity: 14.4 mcm/day (15°C;101325Pa)

Hourly average flow rate: 600.000 cm/h

Available: from the Target Commercial Operation Date

b) Direction HU-SK

Entry Point: Veľké Zlievce

Daily maximum capacity: 14.4 mcm/day (15°C;101325Pa)

Hourly average flow rate: 600.000 cm/h

Available: from the Target Commercial Operation Date

5.2. Lot size, duration of lots

- a. The capacity is to be sold in lots. One lot (hereinafter defined to as “Lot”) means transmission capacity of 100 000 cm/day. Lots shall be booked for a determined period of time ((hereinafter referred to as “Lot duration”).
- b. For each Lot, the Applicant must specify the Lot duration.
- c. The Lot duration in a Binding bid presented by any Applicant shall start on the Target Commercial Operation Date.
- d. Eustream shall offer three categories of the Lot duration with the respective volume limits:
 - 5 years, reserved 10% of the Technical Capacity
 - 10 years, reserved 10% of the Technical Capacity
 - 20 years reserved 70% of the Technical Capacity.



- e. Applicants shall present a binding request for quantities corresponding to a whole-number multiple of one lot in each category of Lots. Any bid for a daily transmission capacity exceeding 144 lots (14 400 000 cm/day) in one duration category shall be considered as invalid.

5.3. Minimum booking requirement

Eustream has the right to invalidate the Open Season Procedure in the event that the transmission capacities booked by the Participants do not guarantee economical viability of the Project. In such case, Eustream shall consult the Slovak National Regulatory Authority (ÚRSO) in order to search a solution for accomplishment of the construction of the Pipeline.

5.4. Contracting

- a. Both Eustream and FGSZ are responsible for selling capacity of its own pipeline.
- b. Shippers booking capacity on Hungarian part of the Pipeline are responsible to find their Shipper pair on the Slovak part of the Pipeline. Shippers booking capacity on Slovak part of the Pipeline are responsible to find their Shipper pair on the Hungarian part of the Pipeline.
- c. Any Shipper has the right to book capacity on Slovak Pipeline and on the Hungarian Pipeline separately.
- d. Eustream and FGSZ have agreed upon to evaluate requested capacity demand of Participants in the Open Season Procedure separately on Slovak-Hungarian and Hungarian-Slovak directions.
- e. After the Actual Commercial Operation Date Eustream and FGSZ shall sell the free capacity according to the normal procedure of the national regulations and network codes.



5.5. Capacity allocation in case of overbooking

- a. Shall the aggregated volume of the total of accepted bids for any booking period exceed 90% of the offered daily maximum capacity as detailed in Chapter 5.1. Eustream will apply the pro rata rules for allocation of capacity amongst the Participants in their respective Open Season proceedings. This means the following: Lots with the 5 years Lot duration shall be reduced first, Lots with the 10 years Lot duration shall be reduced second and Lots with the 20 years Lot duration as the last. For the avoidance of doubt in case of reduction of Lots in some category, the pro-rata rule shall be calculated solely on the basis of Lots in the respective category.
- b. Eustream has the right to initiate a modification of the pipeline system technical configuration with regard to the booked capacities.



6. Tariffs and access to the system

All rules for access to the SK-HU Interconnector, as well as for setting the respective business terms and conditions, including transmission tariffs, will be in full compliance with the valid regulatory framework of Slovakia (for the Slovak part of the SK-HU Interconnector), Hungary (for the Hungarian part of the SK-HU Interconnector) and the EU. The terms and conditions will be determined in accordance with the approval of the Slovak and Hungarian National Energy Regulatory Authorities.

6.1 Tariffs payable for using the Slovak part

Gas transmission is a fully regulated activity in the Slovak Republic and tariffs for access to the transmission network and transmission service are determined by the National Regulatory Authority - Regulatory Office for Network Industries (ÚRSO). Tariffs for gas transmission in the Slovak Republic are structured in a fully de-coupled entry/exit model (please consult the currently valid price decision of ÚRSO No. 003/2010/P published at www.eustream.sk). The respective price decisions are issued by ÚRSO as a rule in yearly intervals, based on a price proposal of Eustream. In case of changes in the market situation, there is an option of submitting a price proposal also outside of the regular periodicity.

Eustream has already entered into discussions with ÚRSO with regard to the tariffs for the Slovak part of the SK-HU Interconnector. The tariffs, proposed by Eustream to ÚRSO for access to the transmission network and gas transmission in the Slovak Pipeline, are as follows:

Tariff group (booked daily capacity)	Initial tariff rate at the entry point Veľké Zlievce ($P_{0en(n)(t)}$) (EUR/(m ³ /d)/y)	Initial tariff rate at the exit point Veľké Zlievce ($P_{0ex(n)(t)}$) (EUR/(m ³ /d)/y)
1. $T_{en1/ex1}$ (up to 1,75 mil. m ³)	0,8019	0,8179
2. $T_{en2/ex2}$ (over 1,75 mil. m ³ including, up to 40 mil. m ³)*	0,8144	0,8307

* please note that the final tariff for the capacity group No. 2 is to be calculated from the initial tariff, reflecting the daily capacity factor, according to the formula under Chapter II. of the price decision of ÚRSO No. 003/2010/P



Rates of tariffs of gas for operational needs (calculated as percentage rates from the physically transmitted gas quantity):

Entry / exit point Veľké Zlievce	
Tariff rate at the entry point (%)	0,10
Tariff rate at the exit point (%)	0,10

For all further terms and conditions of the tariff-setting methodology, the respective provisions of the price decision of ÚRSO No. 003/2010/P apply as applicable.

Eustream will specify all details on the tariffs as soon as the approval process is completed. In the meantime, Eustream will ensure ongoing information and consultation contact for the Participants. Any particular questions can be meanwhile discussed also on a bi-lateral basis, using the contact channels mentioned at www.eustream.sk.

6.2. Tariffs payable for using the Hungarian part

For details on the tariffs for the Hungarian part of the SK-HU Interconnector, the Applicants can consult analogous Rules of the Open Season Binding Phase of FGSZ.

6.3. Terms and conditions of bidding

The Binding bid should be valid for a period of at least 90 days following its submission.

The Binding bid should contain a commitment that the Applicant will accept all terms and conditions specified in this Rules without reservation. The Applicant shall not modify or withdraw its bid(s). The Binding bid shall contain an expressed commitment that it is an irrevocable and binding bid.

If the Applicant fails to comply with any of the above commitments, no further complaint (objection) shall be accepted by Eustream in this regard.

The Binding bid may be declared invalid if:

- it is not submitted in full, latest at the date specified in the Rules;
- it does not comply with the terms and conditions specified in the Rules;



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- it does not contain direct reference to the binding nature of it as it is set out above.

An invalid bid will not trigger any kind of obligation or liability to either party.

6.4. Payment terms

Payment terms shall be stipulated in the transmission contracts. For further information please consult Annex 3.



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7. Notices

Unless expressly otherwise provided for in this document, all notices or other communications to be given or made hereunder shall be in writing, shall be addressed for the attention of the person indicated below and shall be delivered personally or sent by prepaid post or by fax. All notices given by fax shall be confirmed in writing delivered or sent as aforesaid but the failure to give such confirmation shall not invalidate the original notice. The language of all notices shall be the English language. The address for service of Eustream and its respective fax number shall be:

For Eustream:

Address: Mlynské nivy 42, 825 11 Bratislava, Slovak Republic

Fax No.: +421 2 5869 2649 (before 1 April 2010)

Fax No.: +421 2 6250 7051 (after 1 April 2010)

Attention: Dr. Milan Sedláček

E-mail: transmission@eustream.sk

All notices shall be effective upon actual receipt.



8. Other provisions of the Rules

There shall be no limitation for liability by Applicants of damages which are the result of bad faith or negligent breach of obligations.

Eustream reserves the right to amend the terms and conditions of the Rules and the Open Season process. In case of such amendment, each Applicant shall be informed in the same way. Eustream does not assume any responsibility vis-à-vis any Applicant for any consequence arising from such amendments. Eustream reserves the right to ask for supplements from any Applicant, if needed. Eustream reserves the right to accept no bid and to cancel the Rules without giving any reasons thereof or paying any compensation therefore.

Eustream shall have the right to declare the bidding process frustrated without giving any reason thereof and paying any compensation therefore.

All costs and expenses incurred related to the bidding process and preparation of bid will be solely borne by the Applicant.



9. Governing law, dispute resolution

The relevant laws of the Slovak Republic in force will govern any issue not regulated in the Rules. All disputes arising from or related to the bidding process shall be settled exclusively by the Arbitration Court of the Slovak Chamber of Commerce and Industry. The place of arbitration shall be Bratislava; its language shall be the Slovak language. The number of arbitrators shall be three (3). The resolution of the Court of Arbitration shall be final and enforceable.

10. Miscellaneous

The following Annexes are an integral part of the Open Season Procedure and shall be published at the Eustream website in due course:

Annex 1: Registration form

Annex 2: Binding bid (Binding capacity request)

Annex 3: Operational Order of Eustream (setting the business conditions)