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ROMANIA AS AN ENERGY HUB IN SOUTHEASTERN EUROPE

Currently, a whopping 84,72 percent of gas demand in Romania is met by domestic production while a 15,28 percent is imported from Russia. These data show that Romania is on the road to overcome dependence on Russian gas, while other EU Member States are importing more gas every year.

Romania has a long history in gas exploration and production, as the first well became operational in 1861. Currently, Romania produces 11 billion cubic meters of gas per year, while the domestic demand is around 15-16 billion cubic meters per year. The gap between production and demand is covered by gas imports, mainly from Russia. Romania started importing gas from Russia in 1979 and until the end of 2013 it had purchased more than 125 billion m³ of Russian gas. Gas imports from Russia are organized based on contracts concluded with Wintershall and Conef, contracts which are valid until 2030. The average price of imported gas has increased from USD 299/100 m³ in 2007 to USD 418/100 m³ in 2013.

According to the latest annual gas market monitoring report released by the National Energy Regulatory Authority ("ANRE"), in 2013, 84.72% of gas demand in Romania was met by domestic production and the rest, 15.28%, imported from Russia. As we can see from the data above, Romania is on the road to overcome dependence on Russian gas, while other EU Member States are importing more gas every year.

According to data from Gazprom Export, Gazprom's most important customer in Europe is Germany, which imported last year 40.18 billion m³ of gas, followed by Turkey (26.61 billion m³ of gas), Italy (25.33 billion m³ of gas) and UK (12.46 billion m³ of gas). In Eastern and Central Europe, according to Gazprom data, Romania is the seventh most important customer, after Poland, Czech Republic, Hungary, Slovakia, Austria and Bulgaria.

SNGN Romgaz SA, the state-owned company, and OMV Petrom SA, the former national oil company, dominate both production (i.e. 95%) and reserves. Onshore exploration outlook improved in July 2011, when OMV Petrom SA announced what could eventually be the largest onshore gas and condensate discovery in Romania in the last six years, in Oltenia, a region in Southwestern Romania. However, although the onshore production is considered to be depleted, Romania is among the first three European countries having high potential of unconventional gas exploration (e.g. shale gas exploration), because it has shale gas reserves of about 1,444 billion cubic meters,



according to a report released by US Energy Information Administration. Most blocks with shale gas potential are located in Eastern Romania, close to the border with Ukraine, as this area is part of three sedimentary basins: Carpathian Foreland, Carpathian Foredeep and Moesian Platform. Moreover, the Domino-1 well drilled by Exxon Mobil Corporation/OMV Petrom SA led to the first gas discovery in the deep-water Black Sea. Estimated recoverable gas resources range from 1.5 to 3 trillion cubic feet and it is the largest single discovery in the Black Sea to date. There are a number of smaller fields which have been discovered in the shallower waters, including the Lebada, Ana and Doina fields.

The Romanian gas market continues to be a regulated market where the price is not based on offer and demand. It is a 'basket price' set by ANRE, an average of domestic and import prices weighted with the respective quantities. The percentage of the imported gas price is higher for non-residential consumers. However, as a member of the EU, Romania is bound to comply with EU requirements for gas market liberalisation and unbundling, which will lead to the gradual abolition of the social tariff.

According to the 2012 Memorandum signed between the Romanian government, the IMF and the European Commission, gas prices will be completely liberalized by the end of 2014 for industrial consumers and by the end of 2018 for domestic consumers (including industrial consumers using gas to produce heat

in heating plants or cogeneration plants, further sold to households). Under the Energy and Natural Gas Law no. 123/2012 ("Energy and Gas Law"), the schedule for the deregulation of the gas prices for industrial consumers could be extended by 1 year (until December 31st, 2015) if the difference between the domestic price and the imported gas price is too high. The schedule provides for price adjustments for both residential and non-residential consumers every 3 months. The adjustment is made by ANRE by increasing the percentage of the imported gas price in the 'basket price' for each category of consumers. The first increase in the price according to the deregulation schedule entered into force on February 1st 2013 for industrial consumers and on July 1st 2013 for domestic consumers. The last increase was approved on April 1st 2014, respectively by 2% for domestic consumers and for 5% for industrial consumers. According to ANRE reports, out of the total number of end users, domestic end users represent 22.34%.

As part of its efforts to increase transparency and liberalize the energy market, the Romanian Government has adopted recently a government emergency ordinance which states that ANRE will allot a certain gas production quota to be traded by producers and suppliers on the bourse each year until 2018. Romanian gas producers will have to trade a part of their output on the commodities market from July 1st (i.e. OMV Petrom SA and Romgaz SA, the two largest gas producers in the European Union, will be forced to trade

part of their natural gas output and the decree applies to imported gas as well), with natural gas suppliers expected to join in 2015. The draft law provided in the initial form for the full liberalization of the gas market for the non-household consumers starting on July 1st, but it has not been approved.

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The Energy and Gas Law, as further amended and completed, transposing the provisions of Directive 2003/55/EC concerning common rules for the internal market in natural gas abrogated the distinction between 'transit gas pipelines' and the national gas transport system. According to the Energy and Gas Law, it seems that the principle of free access to the national gas transport system should also apply to access to former 'transit pipelines' which are now considered to be part of the national gas transport system, provided that all the conditions for connection are observed as detailed in our previous note. In addition, almost



2 years ago, Romania abolished the ban on export of natural gas in order to avoid the sanctions imposed by the European Commission. Traditionally, the 'transit gas pipelines' (i.e. gas pipelines allowing the flow of gas on the Romanian territory for gas exchanges between 2 different countries) were separated from the national gas transport system and had a special regime.

The provisions of the Energy and Gas Law regarding free access to the national gas transport system (including the former 'transit pipelines') and the 'free export principle', as a result of the abolishment of the ban on export of natural gas, have also been implemented in secondary legislation, such as ANRE Order no. 29/2012 and ANRE Order no. 66/2013.

Until the entering into force of the Order no. 29/2012, Gazprom was the only company which had access to Isaccea - Negru Voda 'transit pipeline', operated by the Bulgarian gas transmission operator (Bulgartransgaz EAD) allowing the flow of gas on the Romanian territory between Russia (through Ukraine) and Bulgaria. ANRE's Order no. 29/2012 approved in principle the connection of third parties, producers of gas on the Romanian territory, to the Isaccea - Negru Voda 'transit pipeline' in order to export gas using the 'transit pipeline'. The approval was limited to one year and to the available capacity of the 'transit pipeline'. Also, based on the provisions of ANRE's Order no. 66/2013, Isaccea I and Negru Voda I (the entrance and exit points Isaccea - Negru Voda 'transit

pipeline') operated by the Bulgarian gas transmission operator (Bulgartransgaz EAD) are officially included in the national gas transport system as relevant entrance or exit points of the national gas transport system.

Although, under the Energy and Gas Law, gas export is permitted, currently the available export infrastructure is very limited. The Romanian national gas grid is interconnected to the Hungarian market although the export capacity is very low. The interconnection with Hungary dates back to 2010 and until 1 January 2014 the interconnector was available only for imports, having an import capacity of 60,000 m³/hour. Starting on 1 January 2014 there is an available export capacity of 10,000 m³ per hour due to reach maximum export capacity by 2016 (4.4 billion m³/year). Petrom and Romgaz have expressed their intention to export. At the present time 95% of the internal production is realized by Romgaz and Petrom. Apparently four companies (MOL, Petrom, Wintershall and GDF Suez) have booked such capacity but no physical export has occurred so far. The pipeline is due to achieve maximum export capacity in 2016 after investments of €120 million.

The interconnector between Romania and Bulgaria is not yet operational because the section under Danube is still under construction. The interconnector Giurgiu-Ruse will have a maximum transport capacity of 1.5 billions m³ of gas per year, and the minimum capacity from Romania

towards Bulgaria will be 500 billions m³ of gas per year. The operator of the national grid is in discussions with Serbia on the Romania - Serbia interconnection. Romania and Ukraine share two interconnection points, at Isaccea (PIF 1978) and Mediesu Aurit (PIF 1999), since 1979 and 1999, and the entire capacity of the interconnector has been booked since 2000 by two companies that buy gas from Gazprom Export and sell it in Romania.

According to ANRE 2013 Gas Market Monitoring Report, the back-haul exports of gas, possible since 1 July 2013, so far have been carried out by small producers: Amromco Energy (3.68%), MOL Energy Trade Romania (52.32%), Arelco Power (1.58%), Wier Romania (24.31%), Axpo Energy Romania (18.11%). Romgaz and Petrom have agreed with the Government not to export before 2015.

As a conclusion, one could say that there has been significant progress in the direction of opening the Romanian gas market to exports and any barriers -be it legal or lack of infrastructure-, will be abolished in a few years. Moreover, given the recent discoveries in the Black Sea and the development of shale gas exploration, Romanian gas exports seem to be closer than anyone would have expected.

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