

STORAGE CAPACITY AUCTION REGULATION II/B

HUNGARIAN GAS STORAGE LTD.

**STORAGE CAPACITY AUCTION REGULATION II/B
FOR OPTIONAL ELECTRONIC CAPACITY AUCTIONS**

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1 INTRODUCTION, OBJECTIVE OF REGULATION

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 sets forth that access to natural gas storage facilities shall be provided on the basis of objective, transparent and non-discriminatory criteria.

The objective of this auction regulation (hereinafter referred to as Regulation) is to specify the procedure, the framework conditions of participation and the framework rules of optional electronic capacity auctions announced and planned to be carried out by the Hungarian Gas Storage Ltd (hereinafter referred to as HGS).

2 SUBJECT AND SCOPE OF REGULATION

This regulation provides information on the scope of auction participants, the service constituting the subject of the auction, as well as the process of carrying out the auction. Following a successful auction, HGS as the Auctioneer and the awarded Bidder shall conclude the Natural Gas Storage Contract specifying the general contractual terms and conditions of trading, settlement and payment, along with the rights and obligations of the contracting parties. The Natural Gas Storage Contract shall be annexed to the applicable auction notice.

The scope of the Regulation shall cover

- the Bidders intending to participate in the auction, as specified in the Regulation and, as well as their representatives acting on their behalf;
- the Auctioneer announcing and carrying out the optional capacity auction and offering the service at the auction, the representative acting on its behalf, along with those involved in carrying out the capacity auction.

3 REFERENCES

Act No. CXII of 2011 on the Freedom of Information

Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009

4 DEFINITIONS

The objective of this section is to clarify for every stakeholder the interpretation of the concepts referred to herein. As for financial definitions, this chapter shall only specify the explanation of concepts closely related to the auction.

Bid	Bid Price and related capacity booking request submitted by Bidders at the capacity auction. The Bid is valid if the Bid Price exceeds the Minimum Price, and meets all the other conditions specified in the auction notice.
Bid Price	Price offered by the Bidder for capacity bundles offered during the action, which shall be interpreted as a price in the currency of the auction.
Bid Submission Stage	When Bidders can submit their bid to the announced auction.
Bid Price Unit	The lowest place value of the Bid Price.
Bid Bond	Financial security which can be defined by the Auctioneer – exercising its discretionary powers – in the form of a bond, the amount of which can be determined by the Auctioneer in the announcement notice. If the Auctioneer prescribes a bond, the Bidder shall pay the amount of the bond to HGS's account prior to 12:00 hours on the business day preceding the auction. Failure to pay the bid bond in due time shall exclude participation in the auction. The bid bond shall serve as a security for paying the earnest money as defined hereunder. The Bidder shall pay earnest money in the amount of the bid bond in the event the Bidder fails to sign the natural gas storage contract within 5 business days from the auction. Following the conclusion of the procedure, the amount of the bid bond shall be reimbursed within 5 business days from signing the contract to Bidders entitled to conclude the natural gas storage contract. The amount of the bid bond shall be reimbursed within 5 business days to Bidders who have paid the bid bond and submitted an invalid Bid.
Bid Period / Period	Period of using storage capacities offered at the auction. Auctioneer specifies the availability date of the capacities in the Auction Notice.
Bid Quantity	Capacity quantity (number of capacity bundles) for the booking of which the Bidder makes a bid at the Bid Price.
Bidder	System Users entitled to book natural gas storage capacities in Hungary, submitting a bid in conformity with the Auction Notice. In case of an electronic auction, a person authorised in advance during the registration process by an entity with storage demand and right may act on behalf of the Bidder.

Auction Status	Stages of the auction process: Defined/Announced/Bid Submission/Evaluation/Evaluated/Archiving.
Undersubscription	Quantity – total capacity booking request submitted by all the Bidders – failing to reach the capacity offered by the Auctioneer.
Anonymous Announcement of Results	In the Evaluated status, Bidder can see the bids submitted by any of the entities, but not the name of such entities. Bidders shall be notified of the application of this by HGS in advance, in writing.
Archiving Status	Following evaluation, the auction is removed from the set of active auctions to be listed in the accessible archives.
Auction Round	The following processes shall belong to one Auction Round at the auction: submitting the Bids until the deadline defined for the capacity bundles, then processing and evaluating the received Bids and announcing the auction result to the Bidders.
Auction System	Closed bid submission system integrated into HGS's IT Platform (SMCS).
Defined Status	Pre-configuration auction status, prior to announcement.
Invalid Bid	A Bid that is not accepted by the Auctioneer during the evaluation.
Cancelled Bid	Bidder may cancel the submitted Bid during the bidding period.
Natural Gas Storage Contract	Contract entered into by and between the awarded Bidder(s) and the Auctioneer on booking the capacity bundles sold at the auction, which shall in any case be attached as annex to the public capacity auction notice.
Attorney-in-fact	Person acting on behalf of the capacity bidding company, accordingly, authorised in advance in writing during the capacity auction process.
Announced Status	Published auction status, a notice published for entitled System Users.
Lack of Subscription	No valid bid is received for the capacity bundles offered at the auction.
Evaluation Status	The auction system verifies the validity of the Bids submitted.

Evaluated Status	The system notifies the Bidders with regard to the auction result either privately, publicly or anonymously, depending on the auction notice.
Auctioneer	Magyar Földgáztároló Zrt. (seat: 1138 Budapest, Váci út 144-150, Trade Registry No.: 01-10-015043) as natural gas storage licensee.
Lowest Bid Unit (Bundle)	Minimum number of bid bundles.
Minimum price	The lowest unit price set forth by the Auctioneer below which the bid price renders the relevant bid invalid. Auctioneer determines the Minimum Price until the start of bidding status, and enters it into the system without making it public.
HGS (MFGT)	The abbreviated name of Hungarian Gas Storage Ltd as used herein; the Auctioneer.
Private Announcement of Results	Bidders can see the bids submitted by their own entities only. Bidders shall be notified of the application of this by HGS in advance, in writing.
Public Announcement of Results	In the Evaluated Status, Bidders can see the bids submitted by any of the entities, each specified. Bidders shall be notified of the application of this by HGS in advance, in writing.
Registration Process	Complete submission of the documents required for participation prior to the auction. In an announcement notice, HGS shall publish the date of the Registration Process and the set of documents to be submitted, following which submitted documents are accepted for the relevant storage year. Registration also possible prior to each auction.
Registration Deadline	Deadline for submitting the documents required for the successful completion of the Registration Process.
Partial Delivery	Partial meeting of bidders' requests depending on the bid price, in case of Oversubscription. The possibility of partial delivery shall be specified in the auction notice.
Participant	System Users entitled to book natural gas storage capacities in Hungary, having successfully participated in the Registration Process.

SMCS	HGS's IT platform, through which the electronic auction is carried out.
Oversubscription	Bidders' aggregate capacity request exceeding the amount of capacity offered by the Auctioneer.

5 AUCTION PROCEDURE

The capacity auction shall be publicly announced on the HGS website and by e-mail to System Users entitled to book natural gas storage capacities.

The Auctioneer publishes the auction regulation governing the relevant auction, together with the auction notice and the natural gas storage contract template on its website (<http://www.mfgt.hu>).

Auctioneer provides the following information in the auction notice:

- Name, availability details and submission deadline of the documentation required for registration
- Size and quantity of capacity bundles announced
- Exact specification of the Bid period
- Exact date of the capacity auction
- Possibility of Partial Delivery
- Deadline for receiving the Bid
- Maximum number of bids to be submitted
- Lowest bid unit
- Bid price unit
- Result announcement method
- Validity requirements for bids
- Detailed rules of conducting the auction
- Name and contact details of contact persons
- Type and amount of the security to be specified by the Auctioneer
- The auction notice also contains the Natural Gas Storage Contract which stipulates the general, trading, settlement and payment terms and conditions as well as the rights and obligations of the contracting parties.

Following the announcement of the auction, the contact person designated by the Auctioneer shall be entitled to answer any further questions in relation to the auction and to supply information.

Auctioneer shall handle data obtained during the procedure in compliance with the provisions of Act No. CXII of 2011 on the Right of Informational Self-Determination and on Freedom of Information.

5.1 Registration Process and Implementation, General Rules of Registration

5.1.1 Preliminary Registration Process

Prior to the auction period, Auctioneer shall announce a time interval, during which companies intending to participate may register for the auctions to be announced in the relevant storage year by submitting the required documents.

The period shall be published in the Auction Notice by HGS on its website, and registered users (Participants) shall also be notified via an automatic email sent by the SMCS system.

Registration shall also be possible during the storage year, under the same conditions.

Insofar as following the Registration Process, there is any change within the relevant storage year in the content of any document or with regard to the attorney(s)-in-fact, Bidder shall immediately send the affected document to the Auctioneer, failing which Participant/Bidder may be disqualified from the auction process. The company defaulting on submission shall be liable for any direct or indirect damage arising from the failure to submit the updated documents, vis-a-vis the Auctioneer and to third parties, as well.

5.1.2 General Rules of Registration

The first step of participating in the capacity auction is participating in the Registration Process according to the above, during which the company intending to participate shall send the required documents to the Auctioneer and specifies the Attorney(s)-in-fact who may act on behalf of the company in the Auction system.

At the capacity auction, bids can be made by only those capacity bidders that are eligible for storage access as per Section 1.4.3 of the Grid Code, and whose documents submitted during the Registration Process were accepted.

Documents to be submitted during the Registration Process:

- Original certificate of incorporation not older than 30 days in case of business organisations registered in Hungary and abroad, and in case of business organisations registered abroad, its translated copy in Hungarian or in English (certified translation is not required, in case of companies registered in Hungary, the online version by the Hungarian Ministry of Justice is accepted <http://www.e-cegjegyzek.hu/>).
- The original copy of the IT Platform (SMCS) Registration Datasheet and Power of Attorney (Annex No. 1) authorizing the Attorney(s)-in-fact to act during the capacity auction process on behalf of the capacity bidding company, the Bidder. The power of attorney shall clearly indicate that the attorney-in-fact is entitled to represent the capacity bidder during the *Submission of Bids*.

- In case of business organisations registered in Hungary: *copy* of the specimen signature(s) or sample signature(s) countersigned by an attorney-at-law of the authorised signatory (signatories) signing the Power of Attorney.
- In case of business organisations registered abroad: *copy* and translated English or Hungarian copy of the notarised specimen signature(s) (or sample signature(s) countersigned by an attorney-at-law) of the authorised signatory (signatories) signing the bid; or the *original* copy and translated English or Hungarian copy of their sample signature signed in manuscript in the presence of two witnesses, and in the latter case: a Hungarian or English copy of the signed side of a personal document belonging to the signatory (by mail or e-mail).

Where following the Registration Process, there is any change within the relevant storage year in the content of any of the above specified documents or with regard to the attorney(s)-in-fact, Bidder shall immediately send the affected and updated document to the Auctioneer, failing which Bidder may be disqualified from the auction process. Participant shall be liable for any direct or indirect damage arising from the failure to submit the updated documents, vis-a-vis the Auctioneer and to third parties.

Accordingly, in order to participate in the capacity auction, Participant shall submit the specified documents during the Registration Process announced by the Auctioneer, in the relevant storage year or prior to the auction separately. In the event of any changes in the content/form of the documents (e.g.: changes in signatories/persons authorized to submit bids, identification instruments or data concerning the company) as submitted previously (within the storage year), Participant shall inform the Auctioneer and re-submit the relevant document(s) not later prior to participating in the subsequent capacity auction.

In as far as the company with the intent to participate fails to submit the required (and updated) document(s) or fails to inform the Auctioneer of the changes, its registration for the capacity auction shall not be accepted until the correction of such document(s). Furthermore, Participant shall be fully liable to the Auctioneer or to any third party for any direct or indirect damage arising from the failure to provide or to properly provide such information.

Auctioneer reserves the right to request deficiency correction from the company with the intent to participate – if any formal or substantive deficiency or other non-conformity (e.g.: delay) is detected during the optional review of the documents submitted –, and such company with the intent to participate may not have valid registration for the relevant storage year or auction unless such deficiency correction is performed within the deadline – set forth by the Auctioneer.

Bidder shall be represented by its officer authorised to represent the Bidder and entitled to act as its signatory, or by a person authorized in writing by such an officer (in the event of joint signatories: officers) of the Bidder.

The deadline for submitting these documents to the Auctioneer shall be the date specified by HGS in the auction notice (Registration Deadline). Acceptance of the registration by the Auctioneer is conditional on the full and complete submission of the *Documents to be submitted during Registration Process* by mail or by email, however, in the latter case, the original

documents shall also be submitted, in the absence of which the registration is rendered invalid, and thus no subsequent bid can be evaluated either.

In case of a valid registration, the Auctioneer confirms the fact of registration to the Bidder by e-mail.

During registration, Auctioneer shall be obliged to treat data submitted to the auction in a confidential manner and will not disclose them to any third party.

In addition, following a successful Registration, HGS shall not be responsible for any damage caused to the Bidder or any third party by any person acting without a valid power of attorney in case of an auction participation (lost password, unauthorised log-in into the Auction system).

5.2 General Rules and Conduct of Capacity Auction

5.2.1 General Rules of Capacity Auction

Registered Bidders shall pursue open market behaviour during the auction, therefore they shall not initiate any background agreement infringing the capacity auction participation and interests of the Auctioneer and other Bidders or providing unjustified advantages. The Bidder shall agree and declare neither to conclude, nor to have concluded any contract or agreement with any other party which would confer any undue advantage in relation to the given auction (e.g.: with regard to the coordination of bidding intention/behaviour, strategy or Bid Prices).

Bidders shall agree to the content of the Auction Regulation, and understand that breaching the content thereof results in the Bidder's immediate exclusion.

Auctioneer shall provide the electronic system required for carrying out the auction.

The Auctioneer offers storage capacities at the auction in bundles of

- injection peak capacity [kWh/day] and/or
- working gas capacities [kWh] and/or
- withdrawal peak capacity [kWh/day] and/or
- any other potential service elements

for sale. Any capacity element can be 0 (zero) when bundles are created. Auctioneer is to decide this in view of the available free capacities.

5.3 CONDUCTING THE CAPACITY AUCTION

The capacity auction shall be carried out on the IT platform specified by the Auctioneer, via the Auction system integrated into SMCS. The Auction system can be accessed only by Attorneys-in-fact registered and authorized in advance by the relevant companies during the Registration period. Prior to logging into the system, Participant /Bidder shall accept with binding effect via the Attorney-in-fact the terms of use and the relating regulations (Code of Business Conduct,

Capacity Auction Regulation II/B). Following the acceptance of the terms and regulations, HGS cannot consider any complaints/comments with regard to the auction procedure.

HGS is be entitled to revoke the auction procedure in any auction stage without explanation, simultaneously notifying the Participants. HGS shall assume no liability for any failure that may hamper or prevent system access if it falls outside its control.

The Capacity Auction shall consist of the following stages:

a. Definition

Auctioneer exhaustively specifies the auction parameters. Auction Status: Defined.

b. Announcement

Following the Definition, the auction is published. HGS publishes the announcement notice in such a way as to ensure it is available to anyone. Registered users (Participants) receive an automatic message from SMCS.

The content of the announcement notice shall be as specified in Section 5.1.

Auction Status: Announced.

c. Submission of Bids

In the bidding period, only Bidders with valid registration or their Representative may submit bids for the capacity bundles offered by the Auctioneer. Auctioneer shall first specify the offered quantity, the quantity of the lowest bid unit and the bid period in the announcement notice.

Bids can be made for one bundle or for the integral multiple of a bundle . The bid shall contain the capacity booking request of the Bidder (number of bundles) and the Bid Price.

Auction Status: Submission of Bids.

Auctioneer shall specify it in the auction notice which type of Bid Submission is to be applied out of the two:

1. One bid may be submitted at a time in the auction: Bidder may submit only one bid for the offered capacity bundles per auction. During the Submission of Bids, Bidder may subscribe and cancel its bid an indefinite number of times. Following the closure of the period, no further modifications are possible, and the last submitted bid shall be valid.
2. More than Bid may be submitted at a time in the auction: Bidder may submit more than one bid for the offered capacity bundles per auction. During the Submission of Bids, Bidder may subscribe and cancel a number of bids - previously specified by the Auctioneer in the auction notice - an indefinite number of times. Following the

closure of the period, no further modifications are possible, and the last submitted bids shall be valid.

d. Evaluation

The Auction System verifies the validity of the bids submitted. Auction Status: Under evaluation.

The bid shall be valid if it meets the conditions set out in the Auction Notice regarding the bid.

After the stage of bid submission is closed during the submission of bids, Bidders cannot modify or withdraw any bid recorded and not withdrawn.

Bidders shall be committed to their submitted Bids for 15 business days.

If the bid price of bids received fails to reach the Minimum Price, the auction shall be invalid and no Natural Gas Storage Contract is concluded. In this case the submitted bid shall be considered as invalid.

If at least one submitted valid bid (Bid Price) reaches the Minimum Price and meets the conditions set forth in the auction notice, the auction shall be successful and the Auctioneer concludes a Natural Gas Storage Contract with the relevant (awarded) Bidder having submitted a valid and successful bid.

If several submitted valid bids contain a bid price reaching the Minimum Price and the bid prices are different, the Auctioneer concludes the Natural Gas Storage Contract with the awarded Bidder submitting the highest bid price first, then with the awarded Bidder submitting the second highest price up to the extent of the offered capacity bundles. In this case it may occur that the Auctioneer satisfies a successful Bidder's or several successful Bidders capacity request only partially (Partial Delivery).

In case of oversubscription, if several submitted valid bids contain a bid price reaching the Minimum Price and the bid prices are the same, the Auctioneer distributes the still available capacity bundles pro rata (in the ratio of requests received) in accordance with capacity bundles requested by the successful Bidders.

e. Announcement of Results

Following the evaluation stage, the Auction system publishes the results of the auction. There are three types of result announcement:

1. Anonymous: Bidders can see the bids submitted by any of the entities, but not the name of such entities.
2. Private (default): Bidders can see the bids submitted by their own entities only.
3. Public: Bidders can see the bids submitted by any of the entities, each specified.

Auctioneer shall inform the Bidders in advance with regard to the applied type.

Auctioneer notifies the awarded Bidder with regard to the result of the auction relevant to the given Bidder, together with information on the steps to be taken in relation to concluding the contract.

In as far as the Bidder's bid is valid, the Bidder shall be bound by the obligation to conclude a contract on the bundles according to the bid under the exclusive contractual terms set forth in the annex of this Regulation – and adopted by the Bidder in the auction statement –, defaulting on which shall entitle the Auctioneer to use the Bid bond.

Following the auction – provided the Bidder submitted a valid bid –, the Auctioneer and the awarded Bidder shall conclude the "Natural Gas Storage Contract" contained in the annex to the Auction Notice on the awarded quantity within 5 business days from the auction.

The Natural Gas Storage Contract specifies the payment conditions for the capacity quantities awarded to the successful Bidder.

Auction Status: Evaluated.

f. Archiving

Following the announcement of results, the auction is automatically archived in a form accessible by System Users with valid registration.

Auction Status: Archived.

5.4 Invalid Auction

Auctioneer shall be entitled to declare the capacity auction invalid if:

- during the auction, unforeseeable technical problems arise which the Auctioneer is unable to control. In this case, the auction will be held at a later announced date. Auctioneer publishes information on its website regarding the rules of such auction.
- any of the Bidders acts improperly at the auction, or gains or makes an attempt to gain undue advantage by applying demonstrably unfair methods damaging the interests of other Bidders. In this case, the auction is to be held at a later announced date, excluding the Bidder rendering the auction invalid. Auctioneer publishes information on its website regarding the rules of such auction.

Auctioneer reserves the right to revoke the capacity auction notice without any justification at any stage, simultaneously notifying the Participants thereof. In the event of revocation, the Auctioneer shall return by transfer the bid bond within 8 days, but shall not pay any damages or cost reimbursement whatsoever. HEPURA may examine the reasons for revocation.

Auctioneer reserves the right to announce auctions from time to time under conditions other than those set out in this auction regulation.

6 ANNEXES

Annex No. 1: IT Platform (SMCS) Registration Datasheet and Power of Attorney