

The Fairytale That Wasn't: The Iași-Ungheni Gas Interconnector¹

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The Iași-Ungheni Interconnector – the pipeline designed to connect the Republic of Moldova to the European gas markets – seems to have reached a rough patch in its way to finally becoming fully operational. Though it was finalized and officially inaugurated this August, gas volumes are yet to be transported through the pipeline, mostly due to regulatory conundrums within the Republic of Moldova.

The Iași-Ungheni interconnector is a 43 km long pipeline meant to transport up to 1.5 bcm of gas per year from Romania to the Republic of Moldova, under the Prut River that constitutes the border between the two countries. Construction works only took one year, but they followed three years of talks between the two parties. Costs reached a total of €26.4m, most of which was covered by Brussels and Bucharest.

Romania produces around 11 bcm of natural gas per year through two main companies, OMV Petrom and Romgaz Mediaș. This covers about three quarters of Romania's annual consumption, with the rest being imported from Russia. The Iași-Ungheni Interconnector is the first export route for Romanian gas before reverse flow is implemented on the Szeged-Arad interconnector and construction of the Bulgaria-Romania interconnector is finished.

For the Republic of Moldova, the pipeline finally connects it physically with European gas markets, which means that this is a first step towards reducing its dependence on Russian gas. Since 2010, the Republic of Moldova has been a member of the Energy

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Community, which aims at extending the European Union energy rules and infrastructure to neighboring countries.

The Republic of Moldova uses about 3-3.5 bcm of gas per year, but only around 1 bcm is used in the Chişinău-controlled portion of the territory. The rest is used up by the separatist region of Transnistria. The entire volumes have up to now been imported from Russia, with the Republic of Moldova neither producing gas of its own, nor owning any gas storage facilities. Gas imports have until 2011 been agreed upon through a four-year contract between Chişinău and Gazprom, at an oil-indexed price of around \$400 per thousand cubic meters. When the contract expired in 2011, Gazprom refused to sign a new one, agreeing instead only to several extensions, the most recent of which will last until December 2015.

Gazprom is refusing to sign a new contract in order to pressure Chişinău into exiting the Energy Community, whose norms represent a threat to the Gazprom monopoly in the Republic of Moldova. This is because the legislation of the Energy Community, which Chişinău is to transpose domestically by 2020, requires the implementation of the European Union's Third Energy Package, adamantly opposed by Gazprom. Under this Package, Chişinău would have to make sure that production, transport and distribution of gas are not made by the same company.

Currently, transport and distribution of gas are both undertaken by Moldovagaz, which is jointly owned by Gazprom (51%), the Moldovan state (36.6%) the Property Management Committee of Transnistria (13.4%) and some individual investors (Moldovagaz, 2014). This distribution of shares gives Gazprom control over all pipelines in the Republic of Moldova. This control is to stop only after Moldovagaz is unbundled, as envisaged by the Third Energy Package.

However, in order to hold its monopoly over the pipelines, Gazprom is also conditioning the signing of a new gas contract on Chişinău paying the \$4bn debt that Transnistria has acquired by not paying for the Russian gas it had consumed. Gazprom considers Chişinău liable for this debt, on account of a 2006 Protocol between Gazprom and the Republic of Moldova, which makes Chişinău the guarantor of Moldovagaz' debts. Pressure so far paid off for Moscow, which has persuaded Chişinău to postpone the

implementation of the Third Energy Package by five years – implementation that was supposed to start in 2015.

In order to bypass Moldovagaz in transporting gas through the newly built interconnector, Chişinău has built a new Transmission System Operator (TSO), Vestmoldtransgaz. Several obstacles, however, lie in its path to becoming fully operational. First, it has yet to acquire its license in order to legally operate on the Moldovan market, though documentation has already been submitted to the Regulatory Authority for Energy (ANRE). Tariffs for the use of Moldovagaz' pipeline system, too, are yet to be set by the ANRE.

In addition, Vestmoldtransgaz needs to hire competent personnel to operate the 11 km segment of the pipeline that crosses the territory of the Republic of Moldova, as well as its measuring station, which is at present handled by Romanian experts.

Access to consumers also needs to be sorted out. Although the ANRE Administrative Council has approved the necessary regulation regarding the procedure for changing the gas supplier by final consumers (thus creating the necessary premises for free competition on the gas market), the document is yet to enter into force.

Moreover, consumers are now being serviced solely by Moldovagaz, through its regional branch Unghenigaz, which is unlikely to willingly give up its clients in favor of Vestmoldtransgaz, once the latter is authorized. Quite the opposite, pressure from Moldovagaz is expected on consumers who want to change their gas supplier. With many industrial consumers owing money to Moldovagaz for the gas they purchased, it is expected that Moldovagaz will condition the termination of their contracts on the payment of these debts.

Furthermore, the gas price is still being negotiated between Romanian gas producers on one side, and Energocom, a state-owned supply company designated to handle the deal, on the other side. Though Romanian producers proposed a delivery price that is 20% lower than the one paid for Russian gas (Economica.net, 2014) a deal is yet to be reached.

All these show that the rushed inauguration of the pipeline, undertaken symbolically on the Day of Independence of the Republic of Moldova (27 August), was rather a political

event arranged by the Romanian and Moldovan prime ministers. Both were then in the midst of electoral campaigns in their respective countries.

Furthermore, even after all of these obstacles will have been surpassed, another more expensive and longer-term one is to take center stage. In order to work at full capacity, the pipeline must be extended on Moldovan territory by 130 km, all the way to Chişinău, the capital city, where most gas consumption takes place. In addition, a compressor station needs to be built on Romanian territory (in Oneşti County) in order to ensure adequate gas pressure in the pipeline.

In its current form, the pipeline can only service up to 3% of the Moldovan population – the approximately 35,000 people living in the small town of Ungheni. According to the Moldovan Economy Minister, the feasibility study for the new section of the pipeline is to be concluded in spring 2015 (Ursu, 2014), with construction approximated to last another four or five years after that.

However, the total construction cost of the pipeline is estimated at €70m, with the European Union pledging just €10m (Ministry of Economy of the Republic of Moldova, 2014). Another €150m will have to be paid for the construction of the gas compressor station in Romania along with the necessary infrastructure to pump the gas into the Interconnector – the Leţcani-Gherăeşti-Oneşti pipeline (Romanian Ministry of Economy, Department for Energy, 2014).

Yet another variable is the result of the elections that will take place on 30 November in the Republic of Moldova. Should the current center-right governing coalition fail to secure another mandate, the future of the pipeline looks bleak, as does Chişinău's status within the Energy Community. Gazprom would find a much more flexible partner in the Moldovan Communists, now in opposition, who could easily find means of stalling construction plans for the pipeline for the next four years, should they be in office.

In conclusion, the future of real diversification from Russian gas looks rather uncertain for Moldova, at least until the end of the decade. A possible lack of political will on the Moldovan side, combined with a need for expensive investments, as well as pressure from Moscow are all factors that the European Union will have to consider when dealing with Chişinău and its energy sector in the years to come. Though promising, the Iaşi-

Ungheni Interconnector is only a first step that the European Union has made towards helping the Republic of Moldova exit Russia's sphere of influence.

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