

ITALY: IS IT AT “GAS SUNRISE”?

The new and emerging gas market scenario, not anymore characterized by clear established separated market areas, driven by strict regional dynamics, highlights some significant implications for Italy in the European energy context. The strategic geographical location of the Italian country in the Mediterranean, as well as established commercial alliances, are attracting new global market players (such as the US LNG exporters who are looking for modern outlets) and contribute to reinforce the old energy "partnership", such as those with Algeria and Qatar.

In addition to that, new and stronger interests also powered by the new commercial way-outs, (Sardinia conversion to Natural Gas, Corsica CCGT investment approval) and market based access to regasification terminals, until now characterized by low load factor, are reinforced by the new Italian NES (National Energy Strategy), which is actually in consultation process.

WHY SO MANY EYES ON ITALY AND SOUTH EUROPE?

From a purely market view, the collapse of international gas prices, seen since last year, marks the beginning of a new energy paradigm. In particular the market premium, historically consolidated, among Asian spot prices - of which the Japanese Korean LNG Market (JKM) prices are the main reference - and northern European prices - well represented by Dutch TTF hub - has declined significantly. This was the first significant effect of the new Australian liquefaction capacity, which currently supplies a significant portion of the Asian demand.

The new balance of the Asian markets pushes traditional LNG producers - like Qatar - and new exporters - such as the US - to gain or strengthen their market shares in the Mediterranean basin.

Both are looking with interest at the Italian market, also attracted by the opportunities opened by market-based access to the regasification capacity. The integrated regasification service (which allows the purchase of bundled products for regasification capacity associated to storage for the winter withdrawal) configured by NRA (National Regulatory Authority) during the last two storage auctions was the first signal in this direction, with the main goal to increase the diversification of the supply sources

In order to provide a complete picture of the new evolution of the Italian gas market, it is crucial take into consideration also the project of the Trans Adriatic Pipeline (TAP) gas pipeline that should deliver Azerbaijani Shah Deniz gas in Italy, via the South Corridor, and the East-Med that should bring gas from the Eastern Mediterranean basin to Europe. That adds a further hint to focus on opportunities of the Italian market that typically importing country could become the first exporter and transit country to the North European markets. The pipeline, with a potential capacity of 16 Bcm/year, provides for the delivery of about 10 Bcm/year in South of Italy from 2020, which could serve the Italian market, reducing reliance on the North-European flows, or even in transit across Italy to reach the northern markets which have, historically been exporters.

This scenario is also part of the South-North Gas Corridor, completion recently confirmed by the CEO of SNAM and ENTSOG as **vital** infrastructure for European gas system , could topple old logistic axes (East-West) and the outdated energy assets. The main players of the Italian market recognize that the realization of all these projects, in conjuncture to the recent evolution of the global market, would enable Italy to develop a relevant potential in terms in the European energy context, by enabling also African and new exporters to develop new commercial opportunities meeting the Italian gas demand, expecting to grow thanks to the rise of gas to power demand, and eventually to export to the North in reverse flow.

That would promote Italy as a bridge-country between new exporters (East Mediterranean, US) or historical competitor of Gazprom and the North-European markets (Germany in particular) and Eastern Europe (the Balkans and Austria Triangle - Slovakia-Czech Republic).

Therefore the new supply scenario in addition to the new commercial alliances could support a new LNG demand in Italy and South-Europe, especially in the transportation and in the small scale services, which are recently under discussion in Italy with several projects.

So the prospects for Italy are manifold in this new market and regulatory environment, first of all as new exchange point. and promoter of Small and Medium Scale LNG throughout the Mediterranean.

However, such opportunities could be exploited by other Mediterranean countries which have already begun to establish new outlets for the growing global gas supply. Spain has started to promote itself at European level as leader in the Small Scale LNG projects, France plans an FSRU project in Corsica to support new CCGT plants, Greece seeks to establish itself as a focal point for maritime transport powered by LNG (cfr. POSEIDON MED project).

LNG : A KEY ELEMENT IN THE NES

Nevertheless Italy states in its new NES the relevance of the LNG in the Italian energy mix, even currently really marginal, supporting a new regasification terminal and consolidating the gas development project in Sardinia through government and regional agreements.

Regarding this last point, the current focus of many operators in the gas sector, were interested to develop the Sardinia' energy mix. The PEARS (Environmental and Energy Regional Plan approved by Sardinia Region in August 2016) sets the methane target of the region addressing NG as "transitional fossil energy carrier". The energy mix in Sardinia currently consists of oil, coal and renewable sources while it is almost absent natural gas, considered key to relaunch the socioeconomic status of the island. The advantages for the region would be in terms of increased energy security and the reduction of energy costs for households and businesses, as well as employment and consequent environmental benefits. This project, which will also accompany the construction of a backbone system for the distribution of gas throughout the region, is a viable alternative to the Galsi project (pipeline started in 2003 that would link the Algerian production with Italy through Sardinia).

The interruption of the project has not therefore annulled the hopes of methane in the region and a diversification of supply.

Anyway, the expected growth of the natural gas demand in the Mediterranean is not strictly limited to the Sardinian perimeter. The SSLNG projects potentiality is much more extended both on a geographical scale, being able to penetrate more in the Balkan region, for example, and in several sectors, typically characterized by interfuel competition, such as in maritime transport.

TIME TO COMPETITION

The uncertainty and the economic difficulties of the Italian economy, as well as a lack of coordination between regulators and business entities may serve on a silver platter this chance to neighboring countries.

ENAGAS and DEPA have already initiated projects that could set them up in a leadership position. DEPA, Greek dominant energy investor, has decided to invest in the project co-financed by the EU Poseidon Med II who, despite being born in 2011 with the aim to encourage and facilitate the use of LNG as a bunkering fuel in the Mediterranean, up to now has not taken off yet. ENAGAS is enforcing the reloading services but still suffer for some geographical and infrastructural limitations to position itself as core European hub.

So timely and clear lines of policy and energy strategy, both at national and European level, are the key drivers that will define, whether or not, the Italian market position in the European energy context.

For any comment/ clarification please contact:

Roberta d'Alessandro
Gas & LNG Market Expert
roberta.dalessandro@ref-e.com
tel. + 39 0243441064
fax + 39 0243441027
mob. +39 3386331558

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