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Legal measures to tackle gas shortages in Italy

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The natural gas demand in Europe is steadily increasing in line with the global trend whereas the internal European gas production is declining. This scenario is due to the following facts

- ! General increase of power consumption due to economic growth and residential utilization
- ! Increase of natural gas as fuel for power generation because less CO2 emission intensive than coal or oil
- ! Natural gas is cost competitive with respect to renewable energy
- ! Decline of natural gas resources in Europe

As a consequence thereof Europe faces the following challenges

- ! Procurement of natural gas from regions outside Europe
- ! Security of natural gas supply

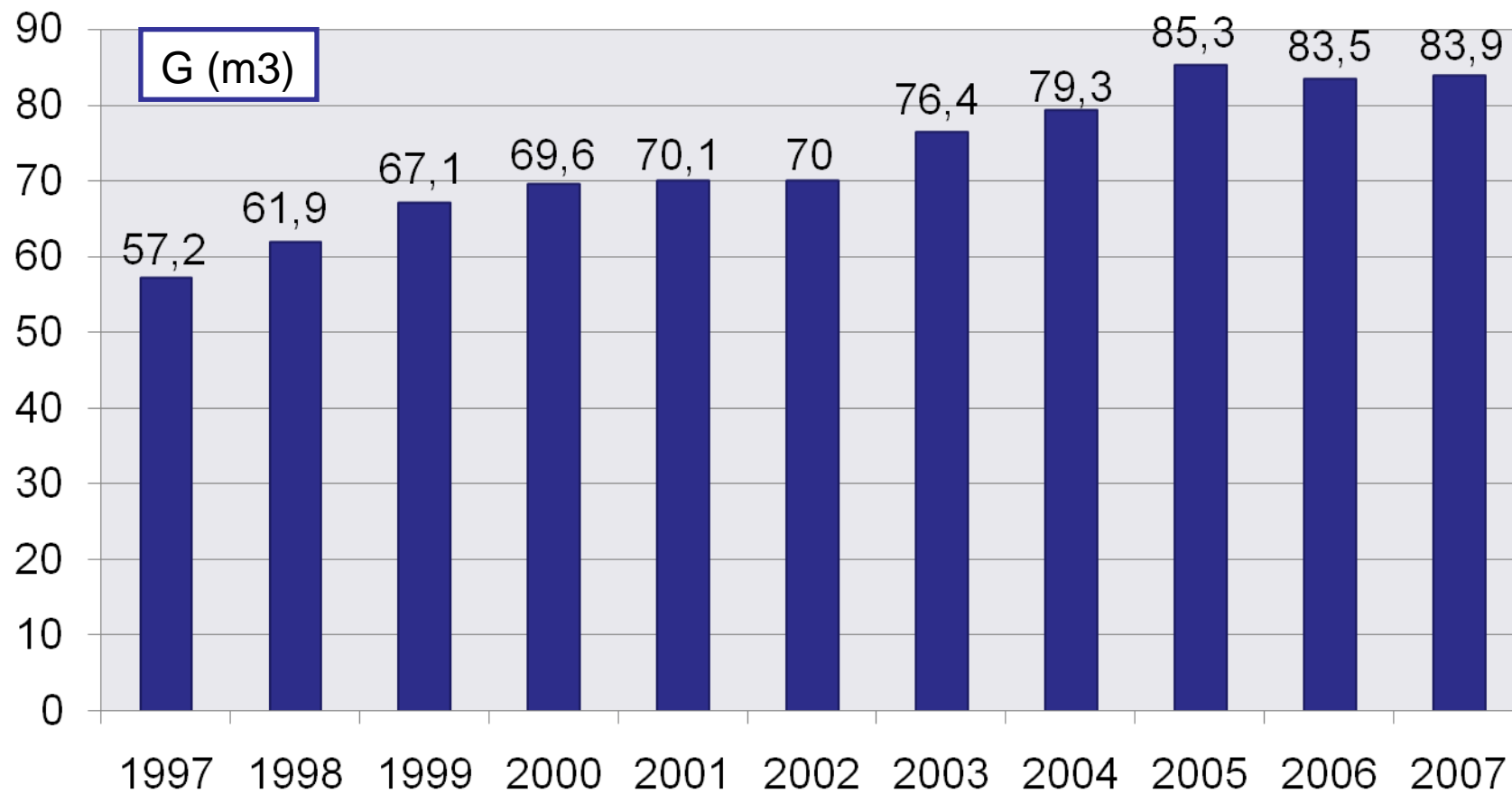
Council directive 2004/67EC establishes measures for security of supply of natural gas and encourages Member States to adopt national emergency provisions

Suggested instruments to enhance security of gas supply are:

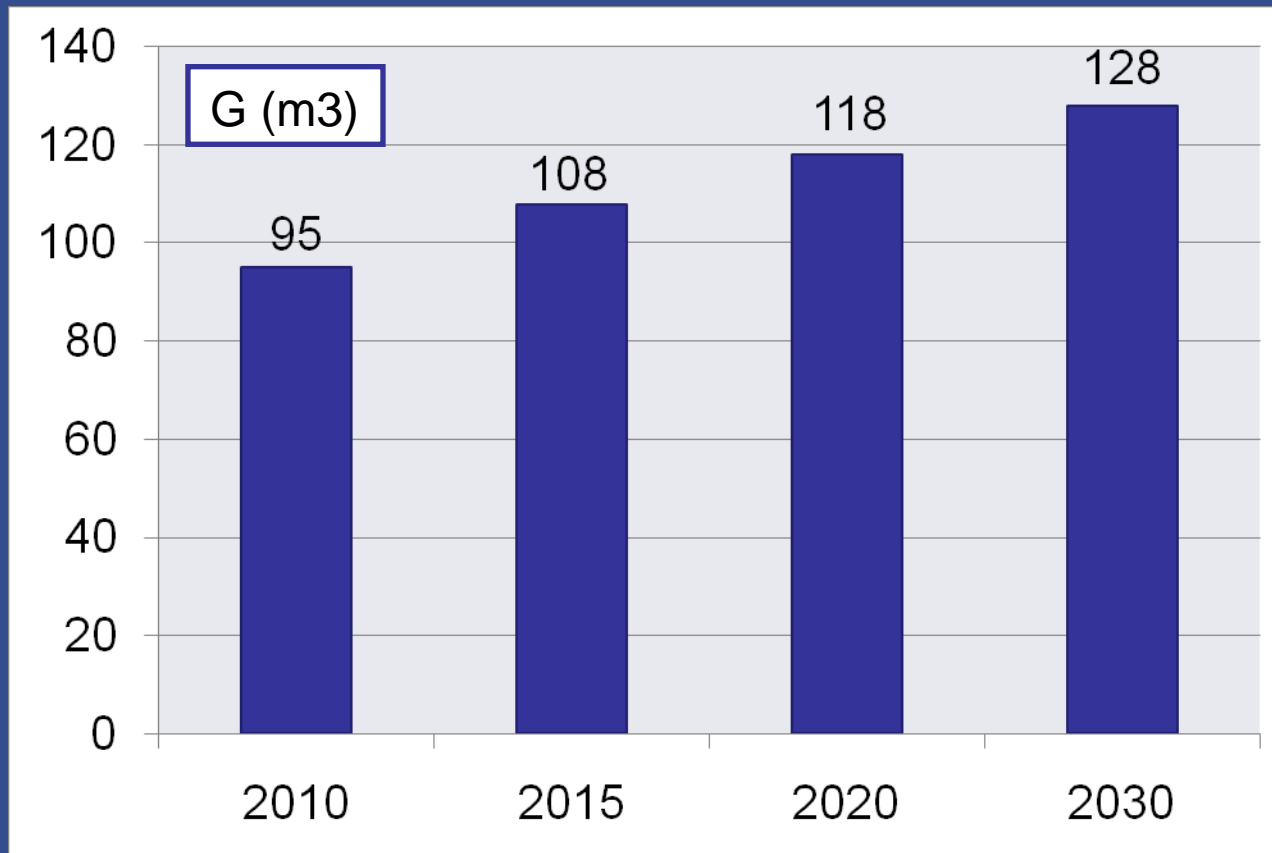
- ! Domestic production of gas
- ! Long term import contracts
- ! Investments in infrastructure for gas import via regasification terminals and pipelines
- ! Geographical diversification of sources of gas supply
- ! Liquid tradable gas markets
- ! Development of interruptible demand
- ! Use of alternative back-up fuels in industrial and power generation plants

Situation Of The Italian Gas Market

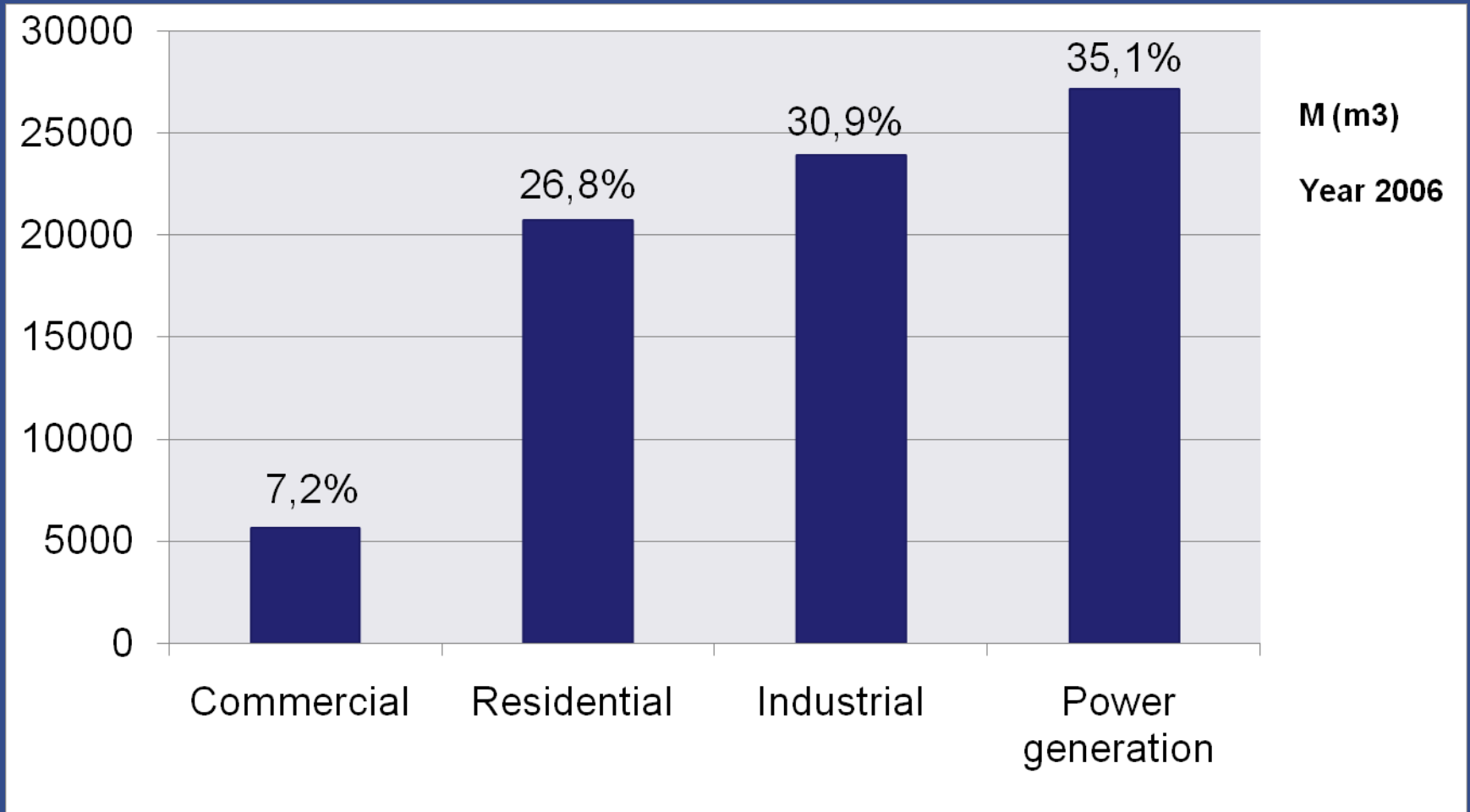
Natural gas consumption in Italy



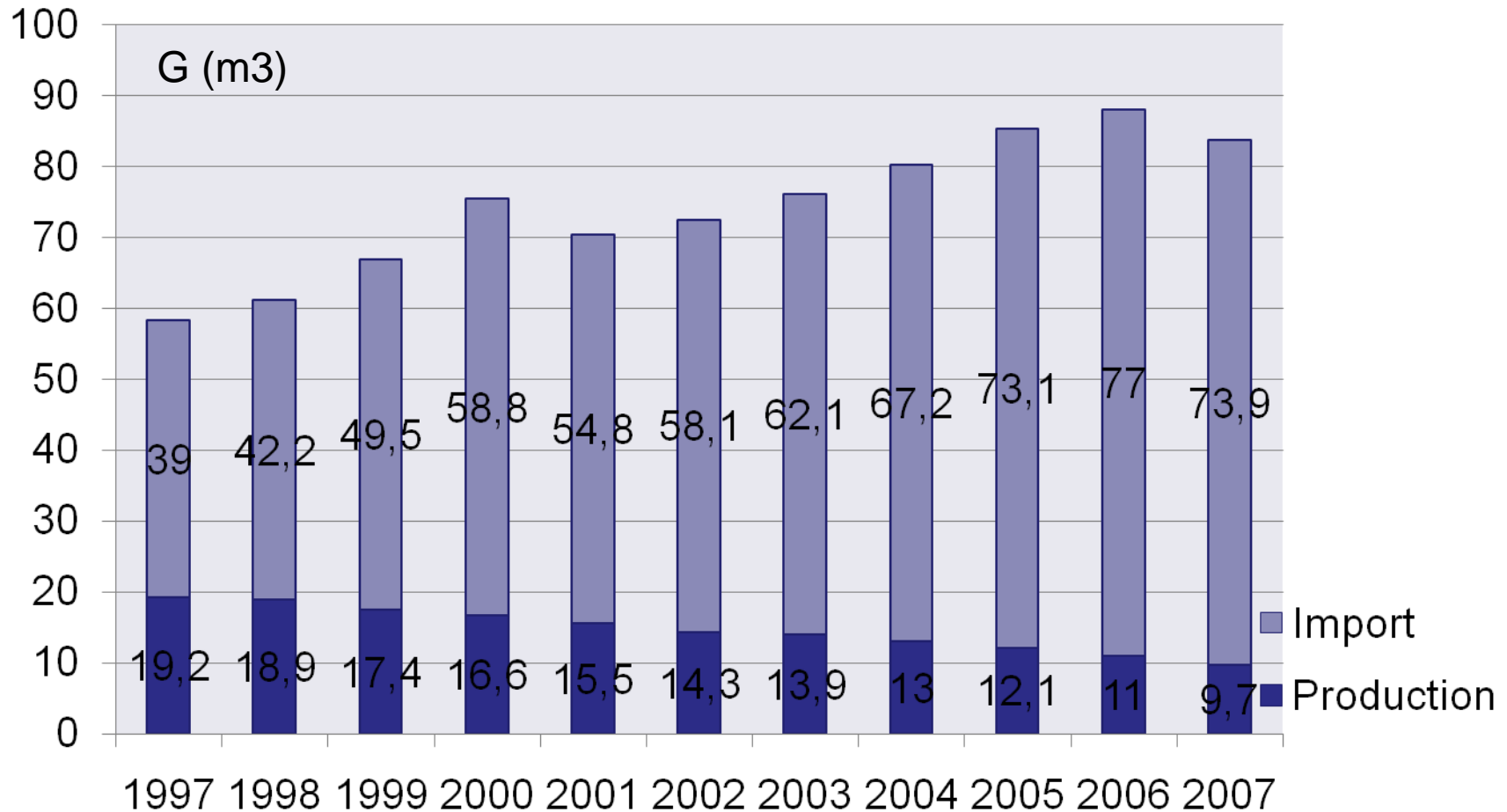
Natural gas consumption in Italy: forecast



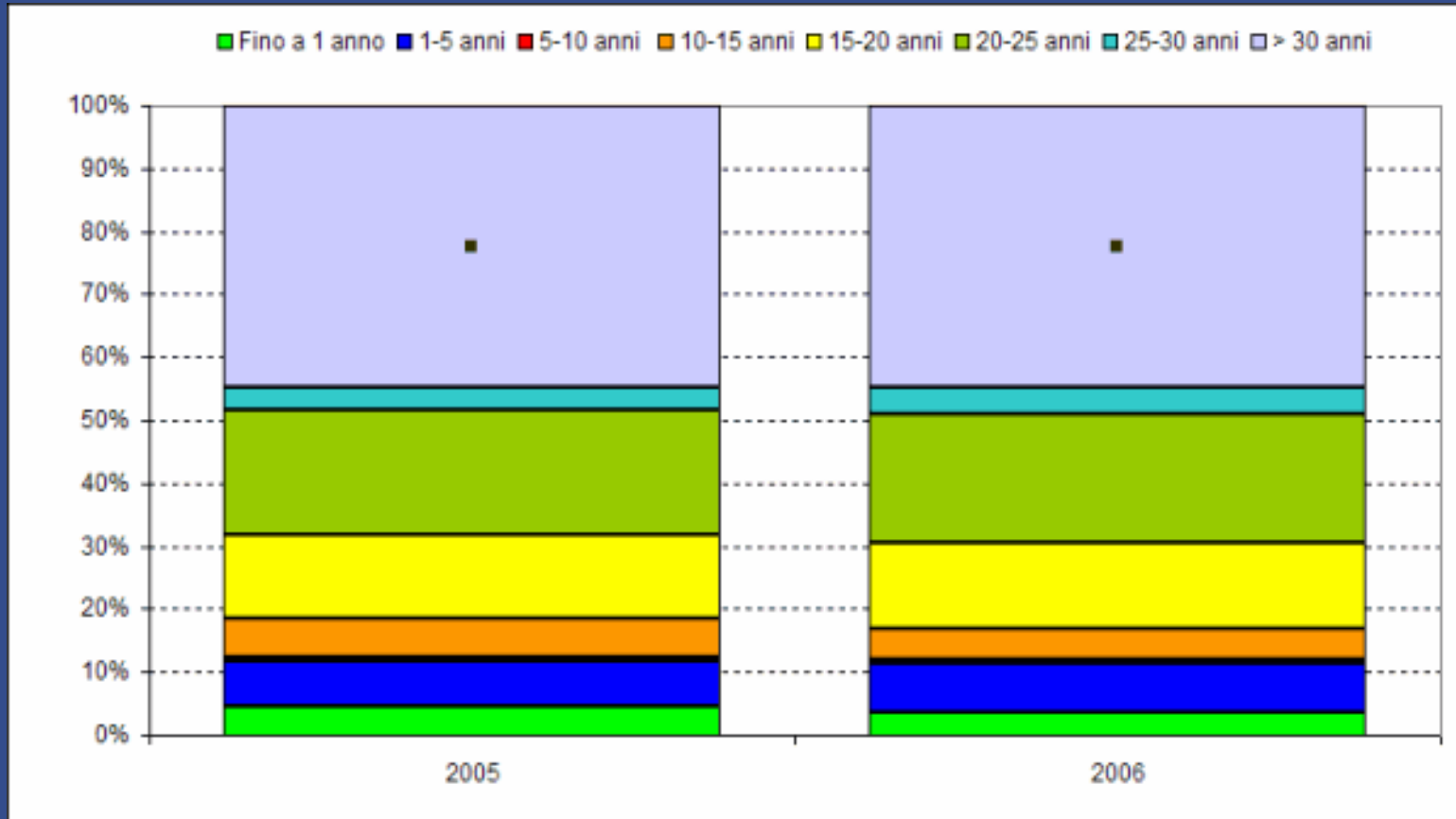
Natural gas consumption by sector



Natural gas supply by source

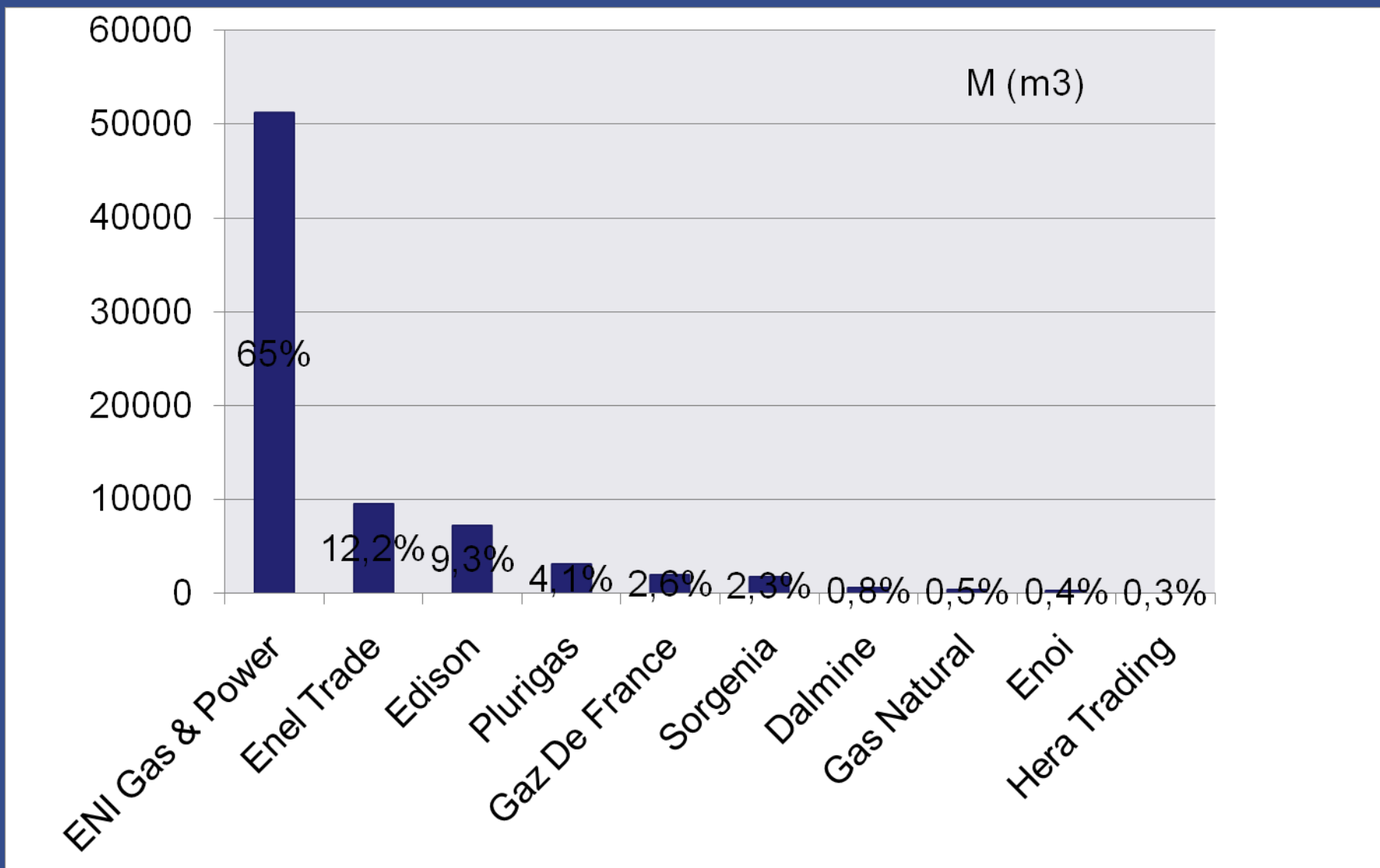


Duration of existing gas import contracts



Classification of natural gas shippers by means of import capacity

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Natural gas situation in Italy

- Highly dependent on gas imports due to declining national gas production, lack of nuclear power generation, difficulties in construction of power generation plants fired with coal and delay in development of an attractive market for renewable energies
- The natural gas available in Italy is inadequate to guarantee coverage of the national gas demand in case of adverse climatic conditions

Actions to be taken

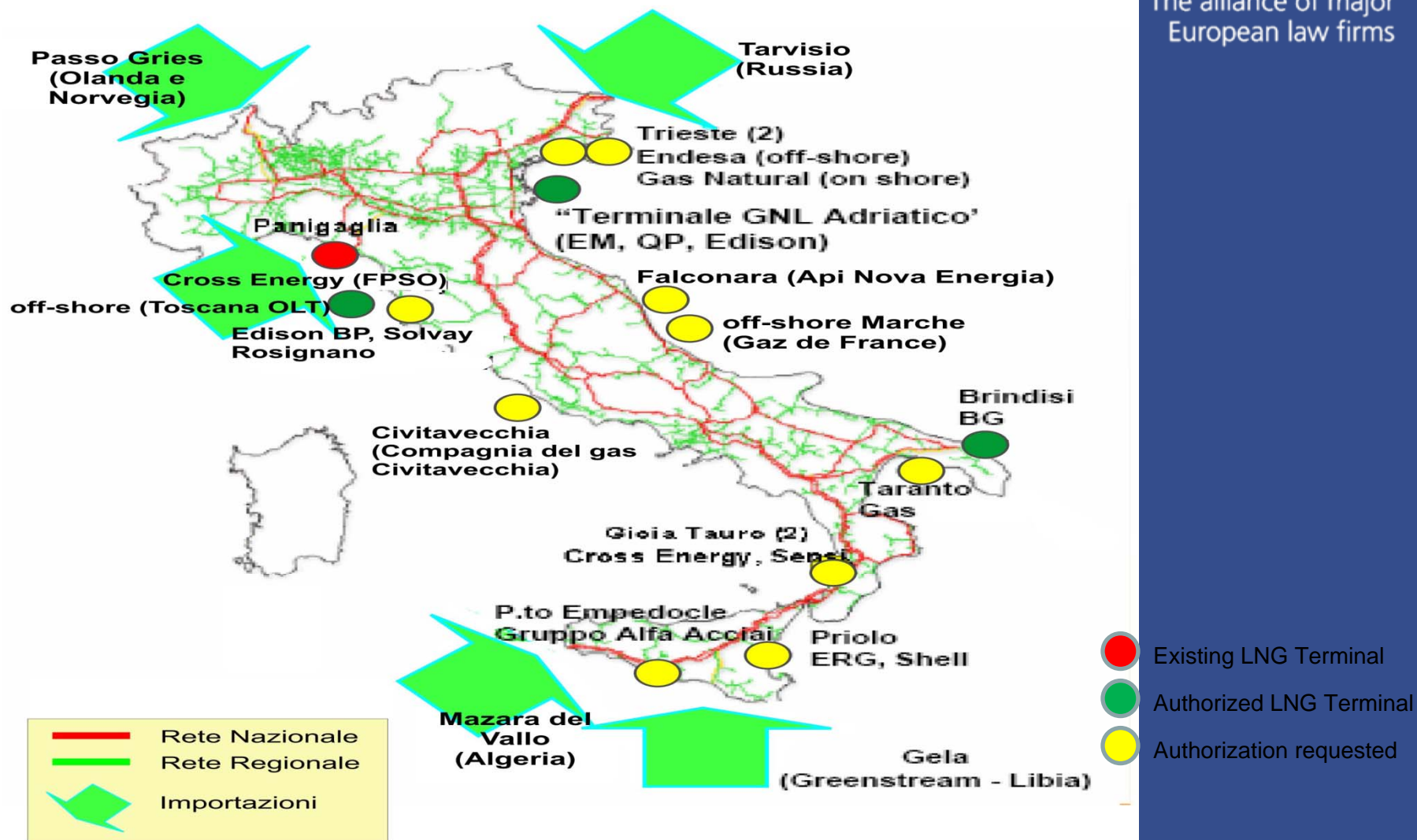
- Medium term measures include new infrastructure projects in order to guarantee security of natural gas supply
- Short term measures such as a national emergency plan in case of adverse climatic conditions have been enacted

Medium Term Measures To Guarantee Coverage Of The National Gas Demand

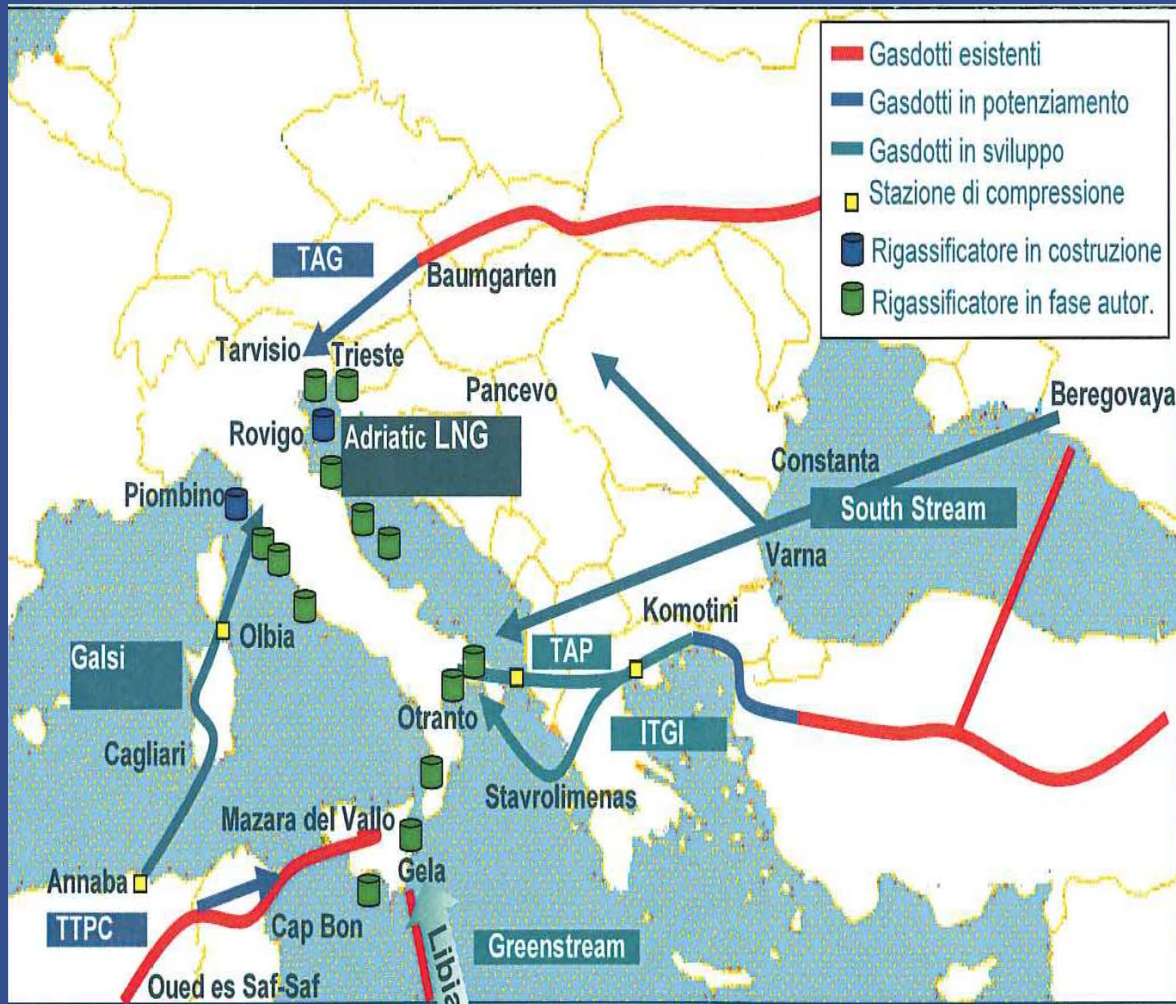
Investments in infrastructure for gas import: overview of planned LNG terminals

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Investments in infrastructure for gas import: overview of planned gas pipelines



Third party access exemption for new LNG and interconnector infrastructure projects according to article 22 Council directive 2003/55EC provided the following requirements are met:

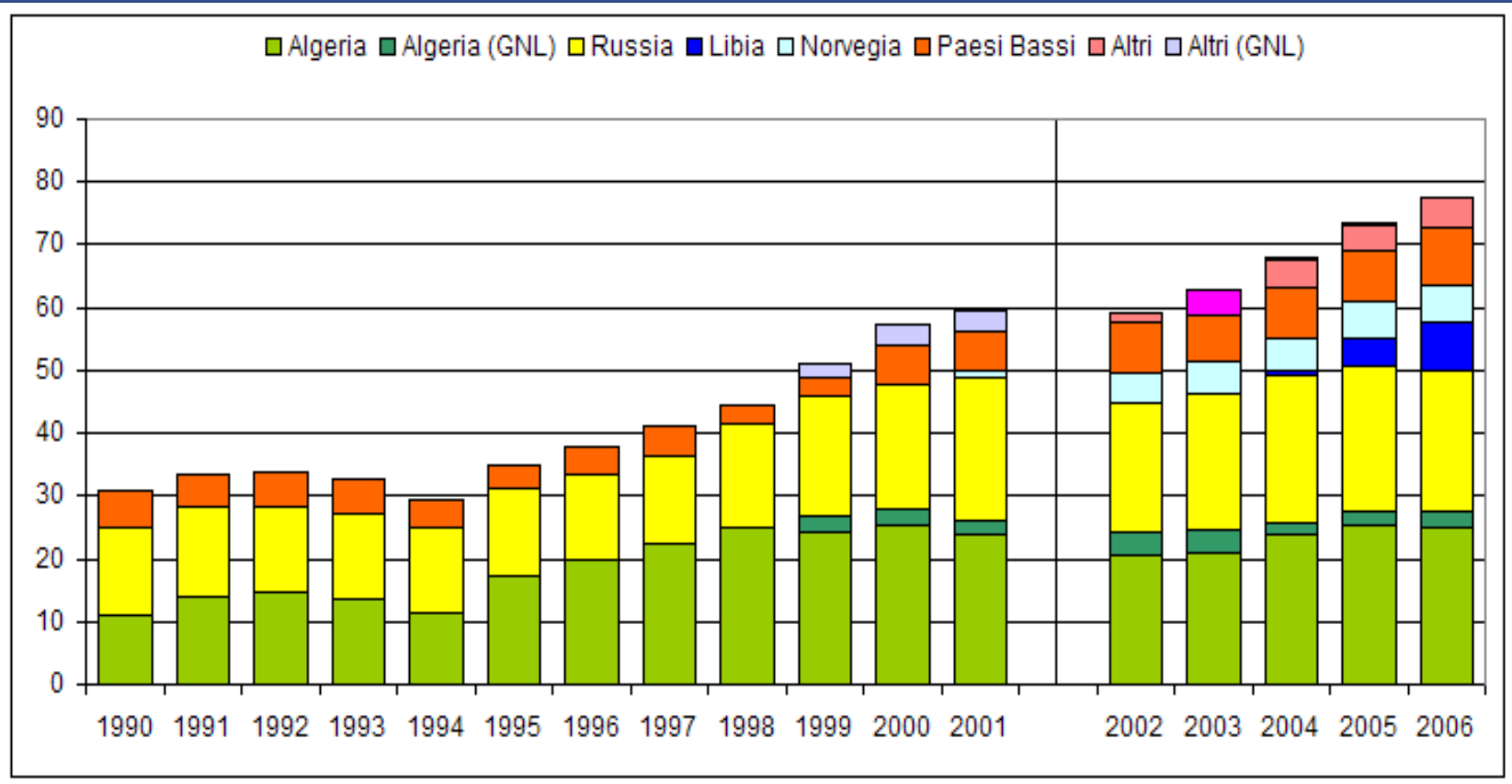
- ! The investment must enhance competition in gas supply and enhance security of supply (also by means of geographical diversification of supply sources)
- ! The level of risk attached to the investment is such that the investment would not take place unless an exemption was granted
- ! The infrastructure must be owned by a natural or legal person separate from the country's system operators where the infrastructure is build
- ! Charges are levied on the users of such infrastructure
- ! The exemption is not harmful to competition of the internal gas market

Third party access exemption according to Italian law for new LNG terminal and interconnector projects or significant capacity enhancement of existing infrastructure granted by the Ministry of Economical Development:

- ! To companies which construct new LNG terminals or interconnectors or
- ! To companies which invest by means of long term import contracts and by entering into the relevant transport contracts in the construction of LNG terminals or interconnectors
- ! For a period of at least 20 years
- ! For at least 80% of the new capacity build

The exemption granted by the Italian Ministry has to be notified to and ratified by the European Commission

Structure of existing natural gas import contracts classified by geographical supply source



Emergency Measures In Case Of A National Gas Contingency

Liquid tradable gas markets

- Since 2004 has been established a virtual market for the exchange of gas and respective transport capacities (Punto Virtuale di Scambio)
- In order to enhance the liquidity of the PSV the title holders of production concessions have to sell the gas amount established by law as royalties for the concessions granted at the PSV and transfer the obtained price to the government
- In order to enhance the liquidity of the PSV shippers which import natural gas from non EU member states are obliged to sell from 5% up to 10% of the gas quantities imported at the PSV. The percentage depends on the geographical source of supply (new sources – lower percentage) and on the duration of the import contracts (short term – lower percentage)

Maximization of import capacities

- ! As a yearly preemptive measure shippers are obliged by law to import their maximum daily contract quantities in order to make sure that the assigned transport capacities are fully used
- ! The beginning and the end of this obligation is established each year by the Ministry of economical development according to the forecast of gas demand for the winter period (for the last winter: November 2007 – March 2008)
- ! Shippers which are not using the maximum transport capacity are fined by the system operator Snam Rete Gas S.p.A.
- ! Shippers may transfer not used transport capacities to others
- ! This provision sometimes produces illogical effects because shippers may not enter into additional short term import contracts because of the risk that due to warm winters not all quantities may be sold and thus import capacities could physically not be maximized and shippers would be fined by Snam Rete Gas S.p.A.

Development of interruptible demand

- ! In case the gas shortage can not be covered by maximization of import capacities or by utilization of gas storages the consumption of natural gas has to be limited in order to balance the system
- ! All final gas customers are obliged to participate in the limitation of gas consumption in case of gas shortage whether by physical reduction of gas quantities consumed (industrial customers with direct access to the gas grid) or by monetary contribution (all other gas consumers such as power plants and residential customers)
- ! Industrial customers may participate in a first intervention group and receive a financial bonus but being also subjected to penalties in case of non compliance with the reduction commitments undertaken
- ! If the decrease of gas consumption due to the reduction of the first intervention group is not sufficient to balance the system all industrial customers are obliged to participate in the gas reduction in proportion to their average consumption of the last 30 days

Use of alternative back-up fuels in industrial and power generation plants

- ! Snam Rete Gas S.p.A. elaborates a list of industrial clients with dual fuel production plants and power plants which are dual fuel fired
- ! The power grid operator TERNA communicates daily to Snam Rete Gas the forecast of output of power generation
- ! In case the maximization of import capacities and the limitation of gas consumption is not sufficient to cover the gas demand dual fuel industrial plants and dual fuel power generation plants are required to switch to the alternative back-up fuel (normally oil)
- ! The limits of carbon dioxide emissions remain in place and have to be met by the power plants and industrial customers
- ! Only in case of a crisis status emission limits for carbon dioxide are suspended for power plants using oil or coal

Reduction of heating temperature

- ! The measures mentioned are aimed to guarantee the gas supply for residential customers also in case of adverse climatic conditions
- ! Should said measures not be sufficient to balance the system heating temperatures and heating time for residential customers who use natural gas will be reduced as extreme emergency measure
- ! In the winter 2005/2006 heating temperatures in public buildings and for residential customers has been reduced by 1 degree Celsius (hospitals and schools where exempted)

While waiting that Italy becomes a natural gas hub Italians
have to hope for mild winters

Thank your for your attention