



Autorità per l'energia elettrica e il gas



**E-CONTROL**

**Press conference**

**Gas transit system congestion  
and implications**

**Brussels, 6 December 2005**

The following persons will be available to answer your questions during the Press Conference:

**Alessandro Ortis**

President, Autorità per l'energia elettrica e il gas, the Italian regulatory authority

**DI Walter Boltz**

Chief Executive, E-Control GmbH, the Austrian regulatory authority

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## **Congestion on Trans Austria Gasleitung (TAG) gas transit system poses threat to competition development and electricity and gas supply security**

**Growing gas demand in southern Austria, Slovenia and Italy can no longer be adequately met – Operator delaying adequate TAG transit pipeline expansion – Regulators suspect inadequate unbundling of ENI SpA as one of the reasons – Italian and Austrian regulators in joint call for action**

It is widely recognised that effective competition can only take place in presence of a slight excess of supply. Currently, supply in the Austrian and Italian gas markets, as well as in the Slovenian gas market, is tight. Due to strong projected demand growth, it is expected to become even tighter in years ahead. As in most other EU Member States, domestic production is on the decline. Thus, the only way to boost supply is via additional imports. Expanding the capacity of the heavily congested TAG pipeline, a major import route connecting Russia to Austria, Slovenia, Croatia and Italy, would be one way to do this.

Boosting supply via an expansion of the TAG pipeline would not only help ensure competition; it would also reinforce the flexibility of the entire European gas system, by allowing gas to flow from one area to another in response of price signals. Such flexibility is essential in order to help avoiding situations such as the recent price surge in the UK, where poor interconnections within continental Europe and absence of flexibility played a role in preventing additional gas from reaching the market. Furthermore, and most importantly, expanding the TAG pipeline would strengthen security of supply, an issue of great and pressing concern in the region.

As a result, the Austrian and Italian regulators have strongly supported the project. Unfortunately, results in terms of the timeliness and size of the expansion have so far been poor.

Such results can be explained by a combination of problems in Austria and Italy's gas markets also common to other EU gas markets. The European Commission identified these problems on November 15, when it released the preliminary results of its sector inquiry into European gas and electricity markets. The findings, which

were quite critical of EU gas markets, covered issues such as market concentration, inadequate unbundling, long-term supply contracts and barriers to access to transport capacity.

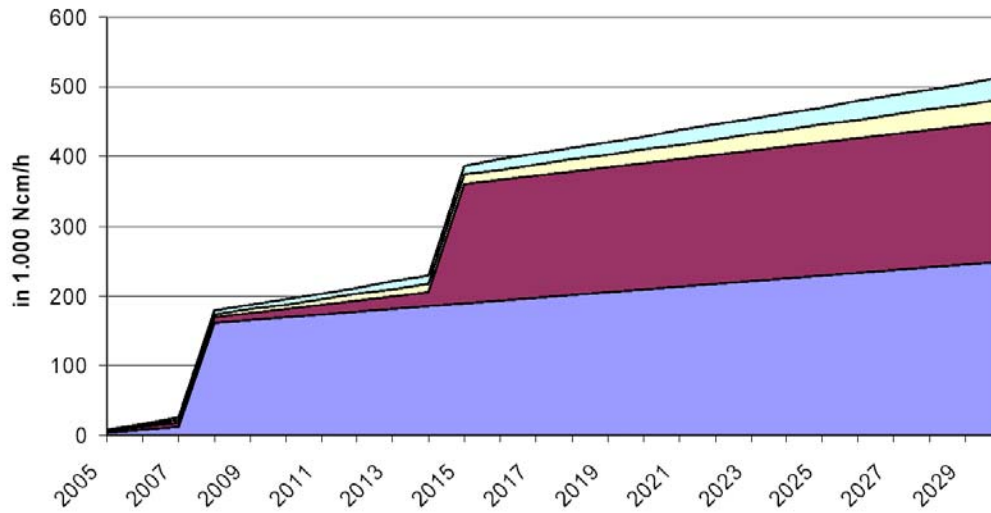
In a joint press conference today, the chief executives of the Italian and Austrian regulatory authorities, Alessandro Ortis and Walter Boltz, explained how such problems are concretely affecting competition and security of supply in their countries. Due to its importance, Ortis and Boltz chose to hold this conference in Brussels, headquarter of EU institutions. The conference coincides with the last annual meeting of the Council of European Energy Regulators.

### **TAG expansion essential**

The cheapest and simplest way to ensure competition, flexibility and help defuse the threat of gas shortages in Italy, Austria and Slovenia would be a rapid increase in the capacity of the TAG transit system. However, Ortis and Boltz noted with regret that adequate action had not been taken, even though the Austrian and Italian regulators had repeatedly drawn attention to rising gas demand in southern Austria, Slovenia and Italy, and had called on the operator, Trans Austria Gasleitungen GmbH (TAG GmbH), to adequately expand its system, via an increase in capacity of at least 6.5 bcm/year by 2008. A gas demand estimate for the 2006–2010 period by Austrian Gas Grid Management (AGGM) shows that the TAG's capacity needs to be raised by 0,5 million cubic metres per hour (cm/h) by 2010 to meet projected Austrian demand. AGGM, which manages Austria's Eastern control area, forecasts 34% consumption growth up to 2010, mainly because of rising industrial demand and planned power station projects in the south of the country.

Strong demand growth is also expected in Italy for the years ahead. Demand is expected to increase from 80 bcm/year in 2004 to 92-96 bcm/year in 2010. This data reinforces the need to enhance import infrastructure.

## Additional Capacity Demand for Austria until 2030 - 1



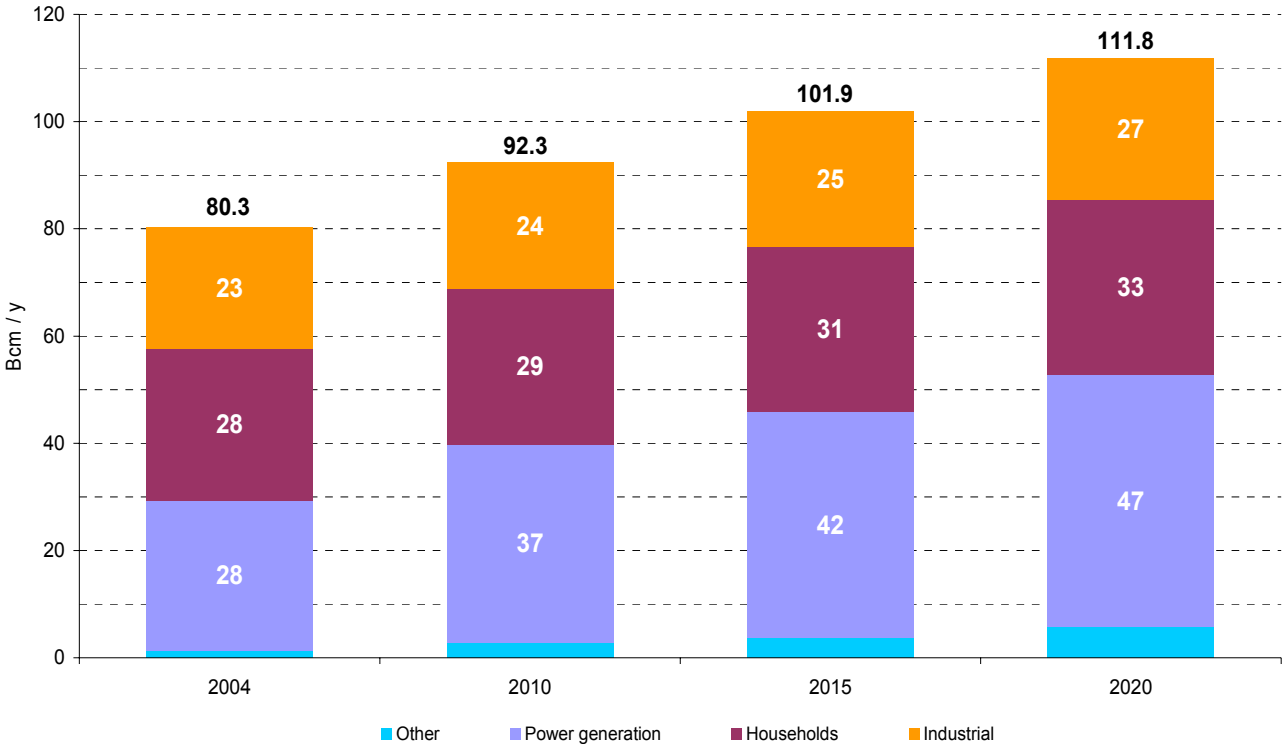
Source: AGGM, 2006–2010 long-term planning, 2005

## Demand Scenario for Austria – 2

Gas Year	demand prognosis for Austria	
	volume [mcm]	increase
<b>2004</b>	7.892	
<b>2005</b>	7.937	0,6%
<b>2006</b>	7.973	0,5%
<b>2007</b>	8.219	3,1%
<b>2008</b>	8.786	6,9%
<b>2009</b>	9.623	9,5%
<b>2010</b>	10.577	9,9%
	<b>+ 2.685</b>	<b>+ 34%</b>

Source: AGGM, 2006–2010 long-term planning, 2005

**Additional capacity demand for Italy until 2020**



Source: AIEE (Associazione italiana economisti dell'energia), 2005

**Competition and security of supply at risk**

Ortis and Boltz warned that there will be serious competition and electricity and gas supply security problems unless TAG GmbH moves fast to expand the capacity of its transit system to the necessary level. The regulators regard reliable and adequate electricity and gas supplies for all consumers as essential, and the chief executives therefore appealed to TAG to take urgent action. Prompt action is particularly crucial in Italy in light of the following factors: the exceptionally strong demand growth witnessed over the last three years; negative developments currently affecting the construction of new LNG terminals, the emergency situation which Italy experienced last winter, when it was forced to cut supplies to interruptible users and call upon its strategic storage to ensure security of supply and an emerging scarcity of storage capacity.

### **Expansion a legal obligation**

At present, access to transit pipelines is not regulated in Austria. Nevertheless, in its capacity as a transmission system operator TAG GmbH has a legal obligation under EU Directive 2003/55/EC to expand capacity. The Directive defines transmission system operators as "... responsible for developing the transmission system ... and for ensuring the long-term ability of the system to meet reasonable demands for the transportation of gas" and states that they must "operate, maintain and develop under economic conditions secure, reliable and efficient transmission facilities". According to the Directive, regulatory authorities are in charge of monitoring the extent to which transmission system operators fulfill their tasks.

Mr Boltz pointed out that in the case of Austria there was no doubt as to the reasonableness of the demands or the urgency of expansion of the transit system in question. He said, "I cannot imagine how TAG GmbH will explain to consumers in Austria, Italy and Slovenia that they face inadequate supplies purely because of its failure to upgrade the capacity of the pipeline to the necessary levels."

He said that an expansion project would not represent a financial burden for TAG GmbH because construction would not begin until the long-term capacity had been auctioned, and the financing would thus be assured.

Even if TAG GmbH is unable to raise the €130 million (m) in investment costs itself, despite a reported profit for 2004 of almost €30m, according to E-Control's information there are already other potential investors interested in doing so provided that the company agrees.

### **Planned expansion inadequate**

TAG GmbH announced 10 days ago a "voluntary" capacity increase of only 3.2 billion cubic metres per year (bcm/y) by 2008. The Austrian and Italian regulators believe that the size and timing of the increase are inadequate. They feel that the best way to assess the size of the capacity increase needed is to ask the market via an open season procedure how much capacity it wants and what it would be willing to pay for it before starting the capacity expansion. Unfortunately, TAG GmbH has repeatedly refused to initiate such a procedure. TAG GmbH insists on determining the timing and size of the expansion autonomously, independently from market demand and investment profitability.

An additional concern is that TAG intends on allocating capacity (under 20 years contracts) and setting transport fees itself. This is not in the spirit of the new Directive in force since 2004, which introduces non discriminatory regulated access and unbundling provisions and exceptions to this regime only in a very limited number of cases.

Mr Ortis stressed the delicate nature of the situation at hand. Indeed, decisions concerning the pipeline will directly and profoundly affect how much gas arrives on the EU gas market in the short and medium term, and according to what modalities. In the view of Ortis and Boltz, ENI's persistence in retaining an influence over such outcome, which have a clear impact on its downstream activities, points towards a potential conflict of interest with enormous potential repercussions on consumers at national and continental level (ENI serves approximately 20% of the EU market and ensures 70% of Italian supplies).

### **Alternatives**

In the event that TAG GmbH continues to refuse to provide sufficient transport capacity, thought will have to be given to alternatives, Ortis and Boltz said. The only remaining option would be the construction of new pipeline infrastructures, resulting in considerable additional expense and delays in planned power station projects, to the detriment of consumers.

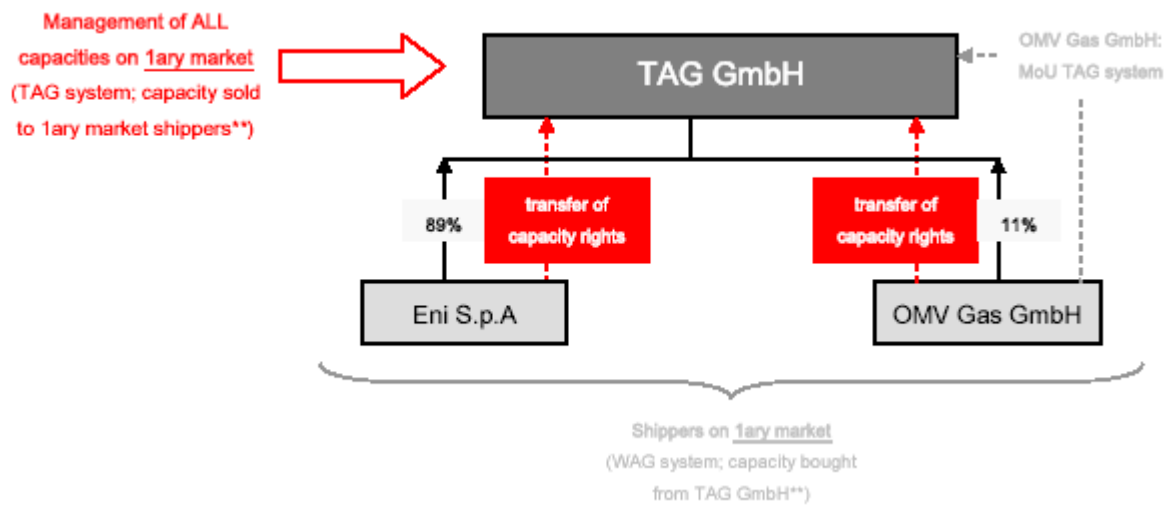
Ortis and Boltz appealed to TAG GmbH to fulfil its responsibilities with regard to consumers, and to take rapid steps to expand its pipeline system sufficiently to meet demand.



## Facts and figures

### Results of TAG GmbH for 2004

- Revenue: €186.7 million
- EBIT: €56.7 million
- POA: €43.8 million
- Profit for the financial year according to the Austrian commercial code: €28.9 million
- Shareholder Structure of TAG GmbH:



### Trans Austria Gasleitung

- Current maximum rated capacity 4.2 million cm/h
- Annual amount transported: approx. 30 billion cm/year
- At present no free capacity offered on a long-term basis
- Construction of an additional compressor station to increase capacity by 3.2 billion cm/year, i.e. approx. 400,000 cm/h. Construction of an additional compressor station technically feasible.
- Additional demand in Austria alone approx. 500,000 cm/h
- Austrian demand growth up to 2010 projected at 34% or an increase from 8 billion cm/y to 10.5 billion cm/year

Trans Austria Gasleitung

