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Contents

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Italy LNG: Regas challenges call for new solutions

The future of LNG in Italy seems more uncertain than ever. With the exception of Adriatic LNG, the country's import terminals are markedly underutilised, while evolving legislation, historical opposition from local communities and – most crucially – challenging market conditions are calling into question the need for new regas projects in Trieste and Sicily. Keen to pull Italy's LNG import market out of its rut, operators are weighing new options, which include LNG bunkering and the introduction of natural gas to Sardinia – the Mediterranean's second largest island. LNG Business Review takes a look at the latest developments in Italian LNG and what the future may hold for it.

Those wishing to see new regas terminals in Italy were dealt a major setback on 2 February when Debora Serracchiani, president of the Friuli Venezia Giulia region in the northeast of the country, issued a statement announcing her plan to formalise the region's opposition to the proposed 6 mtpa Zaule terminal in Trieste, being developed by Spain's Gas Natural Fenosa.

Serracchiani said she will formalise her region's position in an upcoming Conference of Services – a meeting between national and local administrations, summoned when decisions need to be reached on the authorisation of complex projects affecting different interests in Italy.

Serracchiani also called for industry minister Carlo Calenda to clarify the government's position on the project. According to her statement, Calenda has acknowledged the region's rejection of the terminal in a letter to Serracchiani, saying that if this position is made official in the upcoming Conference of Services meeting, the ministry will “make subsequent evaluations” of the situation “in order to close the procedure” for the project.

An evaluation will take into account the presence in Italy of other, already approved, regas projects, Calenda's letter was quoted as saying. In all likelihood, the evaluation will end the chances of a regas terminal being built in Trieste, Serracchiani said.

Contacted by LNG Business Review, the industry ministry was not immediately available to confirm the date of the Conference of Services meeting.

Gas Natural Fenosa also was not immediately available to comment on these political developments and whether it was willing to ahead with the project.

Long-suffering Zaule

It has been a bumpy road for the 6 mtpa Zaule terminal, which began its permitting process in 2004. It obtained its environmental impact evaluation (EIA) from the environment ministry in 2009 and has since been waiting for further authorisation from Italy's industry ministry and the local administration.

However, Zaule – located next to the Adriatic port city of Trieste – has struggled with opposition from local authorities. In 2013, the EIA was temporarily suspended, as the terminal was found to be incompatible with maritime traffic and port development in the area. Gas Natural was asked to find an alternative location, or work with the Trieste port authority to find a solution on how to fit the project in the port's development plans.

Despite this, Italy's environment ministry reconfirmed the EIA in 2015.

A fair amount of confusion was created in March 2015 when, in a written response to a query on the status of Zaule by a group of Italian MPs, the industry ministry said the project was of “strategic importance”.

The ministry said Zaule formed part of Italy's national energy strategy, approved by the industry and environment ministries in 2013, partly because of its value as a cross-border asset, as it would supply, among others, the Austrian gas market.

Also, the industry ministry said there was no legal basis for it to reject authorisation of the project, but acknowledged that a final decision was still dependent on the opinion of the local regional authorities.

[1]

Shifting attitudes

This recent development suggests a change in attitude on a national level when it comes to plans for new regas capacity in Italy.

“There is now a tendency towards reducing the use of fossil fuels in the long term in Italy,” Andrea Wehrenfennig, transport and environment coordinator at Legambiente Friuli Venezia Giulia, the regional branch of Italian environmentalist association Legambiente, told LNG Business Review.

Italy's energy strategy, published in 2013, envisaged the further development of domestic hydrocarbons extraction, as well as the construction of new LNG terminals, in order to further diversify Italy's supply sources.

“ *If Italy wants to become a gas hub, it will need to expand its regas capacity* ”

However, the strategy was “rather outdated in its configuration,” while forecasts of future demand and gas import trends have turned out to be “overstated”, Wehrenfennig said.

On top of that, the fact that Italy has other LNG projects that have already received approval may have led to the conclusion that, on a national level, the Zaule terminal is not needed, Wehrenfennig said.

Legambiente claims Zaule is too big when measured against the actual gas needs of the region and goes against plans for the development of the port of Trieste, traditionally geared for the transiting of oil and oil products, rather than LNG.

Challenging market conditions

Besides the political struggle between national and local authorities, Zaule, like other LNG import terminal projects in Italy, is faced with challenging market conditions and an evolving regulatory framework.

In recent years, Nuove Energie – a joint venture between Italian gas distributors Enel (90%) and SI Gas (10%) – has been developing a 6 mtpa LNG import terminal in Porto Empedocle in the southern coast of Sicily, the Mediterranean's largest island.

However, the project's future is unclear. There is lingering uncertainty over its getting listed as a strategic asset, which would guarantee part of its revenues. Such was the case for other terminals, such as the 2.75 mtpa Offshore LNG Toscana (OLT) project, off the Tuscan coast in Livorno, which has at its core the FSRU Toscana, a 137,500 cm floating storage and regasification unit.

In recent years, Italian media has reported that Enel is wishing to sell down Port Empedocle.

"Enel is monitoring the evolution of the sector in Italy, both from an economic and regulatory standpoint, before taking a decision on the future of Porto Empedocle", a spokesman for the company told LNG Business Review.

Also, OLT shareholder Uniper has hired Goldman Sachs to sell its stake in the terminal, Reuters reported on 3 February.



[2]

Fading interest

An expected update of the national energy strategy, which could be issued as early as this spring, may shed new light on the Italian government’s plans for additional LNG capacity in the country. But according to Roberta d’Alessandro, a gas expert at Ref-E, a Milan-based energy market research company, interest in new LNG regas projects in Italy, such as Zaule and Port Empedocle, has faded, “given current market conditions and the fact we’ve also seen demand disruption.”

To build new LNG terminals looks “challenging in the medium term,” d’Alessandro told LNG Business Review, as “the Italian [gas] market is already in overcapacity” in relation to its gas

needs.

“Existing LNG terminals are currently underutilised, and even the Passo Gries [pipeline] entry point is underutilised, apart from peak demand needs,” d’Alessandro said.

According to data by grid operator SNAM, at around 4.4 mt, Italy’s LNG imports in 2016 were flat year on year, with the vast majority imported through the Adriatic LNG terminal.

“Between the Adriatic LNG and Livorno OLT terminals, there’s some 4 Bcm (3 mtpa) of capacity already left unused,” d’Alessandro said, which suggests that new capacity is not needed.

Meanwhile, the Trans Adriatic Pipeline (TAP) link, due to come on stream in 2019-20, will add some 8-9 Bcm of gas to the system, further contributing to overcapacity and providing a further challenge to LNG terminal development.

But according to Davide Tabarelli, president of Bologna-based research company Nomisma Energia, “if Italy still wants to become a gas hub,” it will need to expand its regasification capacity.

Currently, Italy imports 60 Bcm of pipeline gas each year, compared to just 6 Bcm of gas – or 4.5 mtpa – imported as LNG.

“Spain has done much more, the UK and Japan, too,” in terms of developing import capacity, Tabarelli said, but acknowledged that current LNG market conditions are discouraging the construction of new terminals.

Italian gas imports by entry point (Bcm)					
	2013	2014	2015	change (Bcm) 2014-15	% change 2014-15
Tarvisio	30.26	26.16	29.92	3.76	14.4
Passo Gries	7.49	11.43	10.63	0.8	7
Mazara del Vallo	12.46	6.77	7.24	0.47	6.9
Gela	5.7	6.51	7.11	0.6	9.2
Cavarzere (LNG)	5.35	4.47	5.8	1.33	29.8
Panigaglia (LNG)	0.06	0.02	0.05	0.03	
Livorno (LNG)	0.21		0.04	0.04	
Gorizia	0.01		0.03	0.03	
Total	61.54	55.36	60.82	5.46	9.9

Source: SNAM

[3]

Strategic storage

Speaking to LNG Business Review, a spokesman for the OLT project in Livorno agreed that the reduction in Italian import volumes is due to the general market context for LNG in Europe, which sees an overall underutilisation of regas capacity offered by European terminals.

Nevertheless, a fair amount of LNG has been imported through OLT since it began operating in 2013, partly due to its contribution to Italy’s peak shaving gas service.

Peak shaving complies with rules introduced by Italy’s industry ministry as a means of preparing the country’s gas system for a potential peak in demand during the winter period. As part of this

service, OLT received 105,000 cm of LNG at the end of 2016. Kept in storage, it will be regasified and injected into the grid in April 2017 – provided that a shortfall of gas does not materialise before that.

In addition, a new offering for bundled regas and storage capacity launched recently by the industry ministry and AEEGSI – Italy’s energy authority – has seen “a very positive response” from market players since 2016, the OLT spokesman said. Also, as part of the peak shaving and bundled capacity services, OLT received cargoes last year for the first time from the US and Peru.

Moreover, an increase in terminal utilisation could result from new measures introduced by Italy’s industry ministry, which allocated some 1.5 Bcm of storage capacity for the April 2017-March 2018 storage year to industrial users, in a bundle with regasification capacity.

The aim of this is to encourage these players to start sourcing gas supplies directly on the global LNG market, the OLT spokesman said.

Regas tariffs system shift

Nevertheless, the issue of subsidies to new regas capacity under strategic asset regulations, which facilitated the construction of new LNG terminals such as OLT, remains.

“Italy currently awards a remuneration for investments in [new] terminals, of some EUR 3/MWh, even for capacity that is unused,” explained d’Alessandro, adding that this has led to an underutilisation of capacity, as these often higher-than-market levels discourage interest from market players.

For that reason, the Italian energy authority started a consultation in January in order to change the system for regas capacity allocation, from the current tariffs system to a market-based auction system.

The market-based system will mostly concern available long-term capacity at regulated LNG terminals. An auction system could help increase the load factor of these assets by rekindling interest in regas capacity in the country, while easing the burden that currently weighs on consumers’ gas bills.

If regas capacity had been allocated on market-based principles, “LNG could have, at least partially, displaced some gas volumes imported via pipeline in 2016,” d’Alessandro said. She added that, as the Italian PSV trading gas hub has traditionally been a premium market, “if players could get access to regasification capacity at a relatively low cost and bought LNG, for example from the US, at competitive prices, then LNG could compete against, for example, pipeline imports from Northern Europe.”

Asked about the proposed changes in tariffs calculation, OLT said it felt “great satisfaction,” adding that it believes they can bring benefits for the Italian gas system.

Small-scale solutions

But despite current negative market signals, technological developments and changing trends in the LNG market may lead to brighter days for the Italian LNG market in the future. For example, new liquefaction capacity due to come on stream at a global level by 2020 may lead to a surplus of LNG in global markets, leading to potentially more attractive price levels for European importers, such as Italy.

At the same time, existing regas terminals in Italy are looking to expand into the LNG bunkering market by adopting small-scale LNG technology.

“ *Small-scale terminals for bunkering looks more challenging, as there is no guaranteed customer base* ”

GNL Italia, the SNAM subsidiary that operates the 2.6 mtpa Panigaglia LNG terminal, is concluding a feasibility study to verify the possibility of extending to small scale activities at the terminal, a SNAM spokesman told LNG Business Review.

As part of that, SNAM is looking at developing new activities within the LNG market, “which don’t, however, require an increase in the current capacity of the terminal,” the spokesman said.

Panigaglia – which compared to other terminals in Italy is further limited by its ability to only receive small vessels, mostly of Algerian origin – also suffered a drop in deliveries recently, on the back of an increase in demand in France and issues with LNG send-outs in Algeria.

Meanwhile, OLT has conducted a feasibility study in order for the terminal to start, following small modifications, reloading LNG on small vessels that could supply storage facilities located at the main ports in the Mediterranean.

According to OLT, as the study returned “positive results”, in February 2015 the terminal joined the Gas Innovation Network Mediterranean (GAINN-MED) project, which involves a number of local partners and aims at creating a LNG supply and distribution chain for bunkering in Italy.

The company has applied for funding in order to conduct further studies on the necessary permitting ahead of the potential start of LNG bunkering at OLT.

“Small-scale LNG terminals are coming in focus for the bunkering market in Italy, although this looks more challenging, as there is no guaranteed customer base,” d’Alessandro said.

An area where LNG and small-scale LNG could play an increasing role is another major Italian island, Sardinia, the Mediterranean’s second largest, thanks to the political goal to introduce natural gas to it. For that purpose, the Italian ministry of economic development has already included in its plans a new pipeline in Sardinia as part of the national pipeline system.

According to d’Alessandro, there are plans for shipping LNG to Sardinia either through a single regas terminal or a number of small-scale LNG terminals, which could import cargoes from terminals located elsewhere in the Mediterranean, such as Spain.

Looking ahead

Against the background of low utilisation rates at two out of Italy's three LNG terminals, it is not hard to understand why it is becoming difficult for developers to justify the country's next regas projects.

Pushing for small-scale LNG solutions, such as bunkering and shipping cargoes to Sardinia, could be a way of boosting Italy's LNG imports, but both may take a while to take off.

In the short term, assuming that global LNG supply enters a period of surplus, Italian buyers may respond positively to low LNG prices, increasing the utilisation rate of Italy's terminals, before the arrival of gas from the Caspian Sea through TAP provides a new challenge to the growth of its regas capacity.



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