

Business segment operating performance



Natural gas transportation

Key performance indicators

(€ million)	First half		Change	% Change
	2017	2018		
Total revenue (a)	1,008	1,059	51	5.1
- of which from regulated activities (a)	993	1,019	26	2.6
Total revenue net of pass-through items (a)	918	992	74	8.1
Operating costs (a)	206	211	5	2.4
Operating costs net of pass-through items (a)	116	144	28	24.1
EBIT	536	569	33	6.2
Technical investments	378	314	(64)	(16.9)
- of which with a greater return	173	132	(41)	(23.7)
- of which with a basic rate of return (b)	205	182	(23)	(11.2)
Natural gas injected into the national gas transportation network (billions of cubic metres) (c)	38.08	37.93	(0.15)	(0.4)
Transportation network (kilometres in use) (d)	32,497	32,609	112	0.3
- of which national network	9,589	9,705	116	1.2
- of which regional network	22,908	22,904	(4)	
Installed power in the compression stations (MW)	922	922		
Employees in service at end of period (number) (e)	1,725	1,914	189	11.0

(a) Before consolidation adjustments.

(b) At a pre-tax real basic WACC of 5.4% for 2017 and for 2018.

(c) The data for the first half of 2018 were updated at 10 July 2018. The figures for the first half of 2017 are definitively up to date and consistent with those published by the Ministry of Economic Development.

(d) The figure relating to the first half of 2018 includes Infrastrutture Trasporto Gas, which was consolidated as of October 2017.

(e) The change includes the transfer of 227 resources, effective as of 1 July 2017, essentially against the disposal of the "Technical Plants and Services" business unit from Stogit S.p.A.

Results

Total revenue amounted to €1,059 million, up by €51 million, or 5.1%, compared with the first half of 2017 (€1,008 million). Net of components offset in costs¹⁰, total revenue amounted to €992 million, up by €74 million, or 8.1%, compared with the corresponding period of the previous year.

Revenue from regulated activities amounted to €1,019 million, largely related to fees for the natural gas transportation service (€1,012 million) and incentives recognised to the Balancing Manager (€6 million) following actions taken as set forth in Resolution 554/2016/R/gas. Revenue from regulated activities, net of components that are offset in costs, amounted to €952 million, up by €49 million, or 5.4%, on the first half of 2017. The increase was essentially due to higher transportation revenue (+€46 million), against the update of the invested capital recognised for regulatory purposes - RAB (+€37 million) and the effects of the consolidation of ITG (+€9 million), as well as higher incentives recognised to the Balancing Manager (+€2 million).

Non-regulated revenue (€40 million) increased by €25 million compared with the first half of 2017. This growth can basically be attributed to chargebacks of services provided to the affiliate Stogit (+€23 million) following the transfer of the "Technical Plants and Services" business unit from Stogit to Snam Rete Gas effective as of 1 July 2017 as part of the Integra Project. The increase in revenue is offset by the higher cost of labour in relation to the transferred resources.

EBIT totalled €569 million, up by €33 million, or 6.2%, compared with the corresponding period of 2017. This growth is attributable to higher regulated revenue (+€49 million), partially offset by higher amortisation and depreciation due to the entry into operation of new assets (-€13 million).

¹⁰ The main revenue items offset in costs relate to sales of natural gas carried out for the purposes of balancing the gas system, modulation and interconnection.

Operating costs (€121 million, net of components offset in revenue and the effects of the business reorganisation as part of the Integra Project) marked an increase of €5 million, or 4.3%, attributable to in part to trends in provisions for risks and charges.

Technical investments

Type of investment	First half 2017		Type of investment	First half 2018	
	Greater return (%) (*)	€ million		Greater return (%) (**)	€ million
Development of new import capacity	2.0%	127	Development	1.0%	132
Development of the national network	1.0%	1			
Development of the regional network	1.0%	45			
Replacement and other		205	Replacement and other		182
		378			314

(*) With respect to a pre-tax real basic WACC of 5.4%.

(**) With respect to a pre-tax real basic WACC of 5.4%, applied to investments in new transportation capacity and with a cost-benefit analysis higher than 1.5 pursuant to Resolution 575/2017/R/Gas.

Technical investments in the first half of 2018 amounted to €314 million, a reduction of €64 million, or 16.9%, compared with the same period of the previous year (€378 million). The investments were classified in accordance with Resolution 575/2017/R/gas with reference to the first half of 2018 and 514/2013/R/gas for investments in the first half of 2017 whereby the Energy, Networks and Environment Regulatory Authority (hereinafter “the Authority”) identified different categories of projects with different rates of return.

The main **Development** investments in new transportation capacity subject to a greater return of 1% (€132 million) concern primarily:

- investments in the **development of new transportation capacity on the National Network to bolster import and export capacity** (€82 million) as part of the initiative to support the market in the north-west of the country and to make it possible to reverse the physical transportation flows at the interconnection points with northern Europe in the Pianura Padana area, referring essentially to the continuation of Cervignano-Mortara methane pipeline construction works;
- investments in the **development of new transportation capacity in the Regional Network and the National Network** (€50 million), including: (i) the continuation of works relating to the Italgas Storage S.r.l. Cornegliano Laudense connection; (ii) the continuation of construction and connection works associated with the natural gas conversion project in Calabria, including the Montebello Jonico diversion.

Replacement investments and other investments with a **basic rate of return** (€182 million) relate mainly to: (i) works aimed at maintaining security and quality levels at plants (€132 million), including the continuation of construction works for the overhaul of the Pontremoli – Cortemaggiore methane pipeline, DPR151 maintenance work, plant adjustments / improvements; (ii) projects relating to the development of information systems and the implementation of existing ones (€26 million); (iii) upgrading projects on redelivery plants (€14 million); (iv) works relating to compensation for third parties (€4 million); (v) the acquisition of key operating assets (€4 million); and (vi) real estate projects (€2 million).

Operating review

Injections and withdrawals of gas in the transportation network

Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10.572 Kwh/SCM). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

In the first half of 2018, 37.93 billion cubic metres of natural gas were injected into the national transportation network, a slight reduction (-0.15 billion cubic metres, or 0.4%) compared with the first half of 2017 (38.08 billion cubic metres) essentially following the reduction of natural gas demand in Italy (38.78 billion cubic metres; -0.63 billion cubic metres compared with the first half of 2017; -1.6%), offset in part by the net storage balance (+0.36 billion cubic metres).

The reduction in gas demand can be attributed primarily to lower consumption in the thermoelectric sector (-1.69 billion cubic metres; -13.9%) following the resumption of normal electricity imports, which were down in 2017 as some French nuclear plants were not operating in the first two months of the year, and the increase in hydroelectric production, compared to a first half of 2017 characterized by reduced rainfall. These effects were partially offset by increased consumption in the residential and services sectors (+0.91 billion cubic metres; +5.3%) as a result of colder climate trends than in the same period of 2017, and the industrial sector¹¹ (+0.16 billion cubic metres; +1.7%) thanks to the continuous recovery in industrial production.

Adjusted for the weather effect, gas demand was estimated at 38.49 billion cubic metres, down by 1.52 billion cubic metres (-3.8%) compared with the first half of 2017 (40.01 billion cubic metres).

Injections into the network from domestic production fields or their collection and treatment centres totalled 2.61 billion cubic metres, up by 0.04 billion cubic metres (+1.6%) compared with the first half of 2017.

Volumes of gas injected into the network for entry points interconnected with foreign countries or with LNG regasification terminals amounted to 35.32 billion cubic metres, a slight decrease compared with the first half of 2017 (-0.19 billion cubic metres; -0.5%) The higher volumes injected at the entry points of Passo Gries (+0.76 billion cubic metres; +19.5%) and Tarvisio (+0.63 billion cubic metres; +4.2%) were more than offset by the reduction in volumes injected at the Mazara del Vallo (-0.79 billion cubic metres; -7.8%) and Gela (-0.55 billion cubic metres; -23.7%) entry points, as well as the LNG regasification terminals (-0.26 billion cubic metres; -6.4%).

Gas injected into the network (*)

(billions of m3)	First half		Change	% Change (**)
	2017	2018		
Domestic output	2.57	2.61	0.04	1.6
Entry points (***)	35.51	35.32	(0.19)	(0.5)
Tarvisio	15.17	15.80	0.63	4.2
Mazara del Vallo	10.08	9.29	(0.79)	(7.8)
Gries Pass	3.89	4.65	0.76	19.5
Cavarzere (LNG)	3.34	3.23	(0.11)	(3.3)
Gela	2.32	1.77	(0.55)	(23.7)
Panigaglia (LNG)	0.17	0.37	0.20	
Livorno (LNG)	0.54	0.19	(0.35)	(64.8)
GORIZIA		0.02	0.02	
	38.08	37.93	(0.15)	(0.4)

(*) The data for the first half of 2018 were updated at 10 July 2018. The figures for the first half of 2017 are definitively up to date and consistent with those published by the Ministry of Economic Development.

(**) The percentage changes were calculated with reference to the figures in cubic metres.

(***) Entry points connected with other countries or with LNG regasification plants.

¹¹ Including consumption in the agricultural and fishing, non-energy uses and automotive sectors.

Regulation

Resolution 280/2018/R/gas - “Approval of the revenue recognised for the natural gas transportation and dispatching service for 2019”

By means of Resolution 280/2018/R/gas, published on 11 May 2018, the Authority approved the revenue recognised for the natural gas transportation, dispatching and metering service for 2019, which totalled €1,964 million. The RAB used to calculate 2019 revenue for transportation, dispatching and metering amounts to €16.2 billion and includes estimated investments for the year 2018.

By means of subsequent Resolution 306/2018/R/gas, published on 1 June 2018, the Authority approved the proposed tariffs for the natural gas transportation and dispatching service for 2019.

Consultation no. 347/2018/R/gas - “Criteria for determining revenue recognised relating to the natural gas transportation service for the fifth regulatory period - Initial guidelines”

By means of consultation document 347/2018/R/gas, published on 22 June 2018, the Authority launched a consultation on criteria for the determination of revenues recognised for the natural gas transportation service for the fifth regulatory period, starting in 2020. In particular, the Authority proposes:

- the confirmation of a 4-year regulatory period (2020-2023);
- the revision of the value of the β asset parameter to determine the rate of return (WACC);
- the confirmation of the revalued historical cost methodology to determine the RAB, as well as the use of the gross fixed investments deflator reported by ISTAT for the revaluation;
- the confirmation of the lump-sum recognition of Net Working Capital, proposing a range of between 0.5% and 0.7% of gross non-current assets, compared with the current 0.8%;
- inclusion of contract work in progress (WIP) in the calculation of the RAB, also recognising a return equal to the WACC calculated with a D/E ratio of 4;
- the confirmation of the useful lives of the assets of the current regulatory period;
- the determination of operating costs recognised on the basis of preliminary costs for the year 2018, plus greater efficiencies achieved in the current period (50% profit-sharing), calling for subsequent adjustments due to any variances, with the efficiency factor (X-factor) sized so as to return to users, over a 4-year period, the greater efficiencies achieved in the fourth regulatory period;
- the annual update of the variable fee (CV) on the basis of volumes recorded in year t-2;
- the maintenance for the years 2020-21 of the incentive equal to the increase in WACC of 1% for 10 years (in place of the current 12) and the introduction for the years 2022-23 of output-based incentives based on the benefits contributed to the system;
- the abolition of the excess of $\pm 4\%$ of revenue correlated with the volumes transported, as a result of the annual update of reference volumes;
- the procurement of gas quantities to cover consumption, losses and UFG within the centralised market, with the relative costs covered through monetary consideration (in place of the current recognition in kind) and a price risk hedging mechanism;
- the experimentation of several mechanisms to cover costs based on total expenses (“Totex”), deferring a more complete application of the mechanism to the subsequent regulatory period;
- the definition of regulatory criteria for the metering service in a subsequent consultation document.

After observations are sent in by stakeholders by 23 July, in the first half of September 2018 a consultation document is expected to be published with the final guidelines, so the final measure can be adopted by the end of February 2019.

Liquefied natural gas (LNG) regasification

Key performance indicators

(€ million)	First half		Change	% Change
	2017	2018		
Total revenue (*)	12	11	(1)	(8.3)
- of which from regulated activities (*)	11	11		
Total revenue net of pass-through items (*)	11	9	(2)	(18.2)
Operating costs (*)	7	7		
Operating costs net of pass-through items (*)	6	5	(1)	(16.7)
EBIT	3	2	(1)	(33.3)
Technical investments (**)	1	2	1	100.0
Volumes of LNG regasified (billions of cubic metres) (***)	0.169	0.356	0.187	
Tanker loads (number)	4	9	5	
Employees in service at end of period(number)	68	63	(5)	(7.4)

(*) Before consolidation adjustments.

(**) At a pre-tax real basic WACC of 6.6% for 2017 and for 2018.

(***) Quantities regasified are shown gross of the share of self-consumption and losses (Qcp component), equal to 1.7% for the Panigaglia terminal. Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10.572 Kwh/SCM).

Results

Total revenue amounted to €11 million, down by €1 million, or 8.3%, compared with the first half of 2017. Total revenue, net of components offset in costs¹², was down by €2 million, or 18.2%, compared with the same period of the previous year.

Revenue from regulated activities, totalling €9 million net of components that are offset in costs (-€1 million; equal to 10% compared with the first half of 2017) refers primarily to the applicable share of the guarantee factor for the year 2018 set forth in art. 18 of Appendix A to Resolution 438/2013/R/gas¹³.

EBIT totalled €2 million, down by €1 million on the first half of 2017. This decrease was due to lower revenue, offset in part by a reduction in operating costs (-€1 million, net of components offset in revenue: -16.7%).

Technical investments

Technical investments in the first half of the year totalled €2 million (€1 million in the first half of 2017) and concerned maintenance investments aimed at guaranteeing plant system safety.

Operating review

In the first half of 2018 the Panigaglia (SP) LNG terminal regasified 0.356 billion cubic metres of natural gas, representing an increase of 0.187 billion cubic metres compared with the first half of 2017 (0.169 billion cubic metres). In the first half of 2018, 9 tankers were unloaded, of which 2 spot loads (4 loads in the first half of 2017, of which 2 spot loads).

¹² Revenue offset in costs relates to the chargeback to customers of charges for the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, within GNL Italia S.p.A. in order to represent the substance of the operation.

¹³ The guarantee factor ensures the coverage of a specific share of revenue to the regasification company on the basis of a parameter applied to reference revenue. By means of Resolution 653/2017/R/gas of the Regulatory Authority, this parameter has been confirmed as 64% for the 1 January 2018-31 December 2019 transition period.

Natural gas storage

Key performance indicators

(€ million)	First half		Change	% Change
	2017	2018		
Total revenue (a)	297	296	(1)	(0.3)
- of which from regulated activities (a)	295	295		
Total revenue net of pass-through items (a)	254	252	(2)	(0.8)
Operating costs (a)	75	77	2	2.7
Operating costs net of pass-through items (a)	32	33	1	3.1
EBIT	173	169	(4)	(2.3)
Technical investments	42	31	(11)	(26.2)
Concessions (number)	10	10		
- of which operational (b)	9	9		
Natural gas moved through the storage system (billions of cubic metres) (c)	11.28	11.82	0.54	4.8
- of which injected	5.09	5.14	0.05	1.0
- of which withdrawn	6.19	6.68	0.49	7.9
Total storage capacity (billions of cubic metres)	16.7	16.9	0.2	1.2
- of which available (d)	12.2	12.4	0.2	1.6
- of which strategic	4.5	4.5		
Employees in service at end of period (number) (e)	302	60	(242)	(80.1)

(a) Before consolidation adjustments.

(b) Working gas capacity for modulation services.

(c) Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 39.29 MJ/SCM (10.914 Kwh/SCM) for the 2018-2019 thermal year (39.4 MJ/SCM, 10.930 Kwh/SCM for the 2017-2018 thermal year).

(d) Working gas capacity for modulation, mining and balancing services. The figure shown represents the maximum available capacity and may not be in line with the maximum levels achieved.

(e) The change includes the transfer of 247 resources, effective as of 1 July 2017, essentially against the disposal of the "Technical Plants and Services" business unit to the associated company Snam Rete Gas S.p.A. (221 resources) as well as the transfer to the parent company Snam S.p.A. of resources belonging to staff functions.

Results

Total revenue amounted to €296 million, substantially aligned with the first half of 2017 (-€1 million; or 0.3%). Total revenue, net of components offset in costs¹⁴, amounted to €252 million, down by €2 million, or 0.8%, compared with the same period in the previous year.

Regulated revenue (€295 million), unchanged with respect to the first half of 2017, comprised fees for the natural gas storage service (€254 million) and the fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€40 million)¹⁵. Revenue from regulated activities, net of components that are offset in costs, amounted to €251 million, substantially in line with the first half of 2017 (-€1 million; -0.4%).

EBIT totalled €169 million, down by €4 million, or 2.3%, compared with the first half of 2017. The reduction was due to lower revenue (-€2 million, or 0.8%) as well as higher amortisation, depreciation and write-downs (-€1 million; equal to 2.0%), as a result of higher amortisation and depreciation (-€3 million, or 6.4%) deriving from the entry into operation of new assets referring in particular to the Bordolano site, absorbed in part by lower write-downs (+€2 million).

¹⁴ These components refer mainly to revenue from the chargeback to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A., pursuant to Resolution 297/2012/R/gas of the Authority. For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation.

¹⁵ Resolution 64/2017/R/gas of 16 February 2017 established that nearly all costs relating to the natural gas transportation service should no longer be charged to storage service users as of 1 April 2017, but will be settled directly by CSEA.

Technical investments

(€ million)	First half		Change	% Change
	2017	2018		
Type of investment				
Development of new fields and upgrading of capacity	12	8	(4)	(33.3)
Maintenance and other	30	23	(7)	(23.3)
	42	31	(11)	(26.2)

Technical investments in the first half of 2018 amounted to €31 million, a reduction of €11 million, or 26.2%, compared with the first half of 2017 (€42 million).

The main investments in the **development of new fields and upgrading of capacity** (€8 million) regard construction activities linked to the installation of the new Minerbio TC7 compression unit (€5 million).

Maintenance investments and others (€23 million) mainly concerned: (i) the supply of materials and the intervention correlated with the restoration of the functions of the gas generator, the power turbine and the outlet plenum of the Ripalta TC2 unit; (ii) engineering activities linked to the streamlining of the Cortemaggiore treatment plant; (iii) IT related projects.

Operating review

Gas moved through the storage system

During the first half of 2018, 11.82 billion cubic metres of natural gas was moved through the storage system, growth of 0.54 billion cubic metres (4.8%) on the corresponding period of 2017 (11.28 billion cubic metres). The increase is basically due to higher amounts provided from storage (+0.49 billion cubic metres; +7.9%) due primarily to climate trends as well as the behaviour of shippers in relation to different market conditions.

To once again confirm the importance of the service provided by the storage plants managed by Snam for the security and reliability of the energy system, in the withdrawal campaign launched on 1 November 2017 and completed on 31 March 2018 roughly 10.6 billion cubic metres of natural gas were withdrawn, marking an increase of 0.8 billion cubic metres against the previous all-time high of roughly 9.8 billion cubic metres in winter 2014-2015.

Total storage capacity as at 30 June 2018, including strategic storage, was 16.7 billion cubic metres (+0.2 billion cubic metres compared with 30 June 2017, or 1.2%, thanks to the progressive entry into operation of the Bordolano site), of which 12.4 billion cubic metres related to available storage capacity (11.6 billion cubic metres contributed as at 30 June 2018, equal to 94.1% of the available capacity for the 2018-2019 thermal year¹⁶), and 4.5 billion cubic metres related to strategic storage (unchanged compared with the 2017-2018 thermal year, as established by the Ministry of Economic Development in its circular of 6 February 2018).

Regulation

Incentivising mechanisms for the storage service

Consultation 15 March 2018 155/2018/R/gas - Introduction of incentivising mechanisms for the provision of storage services

By means of consultation document 155/2018/R/gas, published on 19 March 2018, the Authority outlined the introduction of a mechanism incentivising storage companies to make additional flexibility available with respect to that set forth for “basic” storage services. These products will be supplemental to those currently provided on a monthly, weekly and daily basis, and will make it possible to complete the offer of “forward” storage services, allowing users to make use of additional services within a pre-established term or to transfer part of their services over time.

The premium for the storage company, in addition to revenue recognised, will be equal to a percentage of income deriving from the contribution of such products, with an average expected value of around 40% of such income.

Observations were sent in until the deadline of 20 April 2018.

¹⁶At the date of this Report, the transferred capacity is equal to about 99% of the available capacity.

Resolution 350/2018/R/gas - “Provisions on settlement relating to storage services for the 2018-2019 thermal year”

By means of Resolution 350/2018/R/gas, published on 22 June 2018, the Authority laid out, in continuity with the 2017-2018 thermal year, provisions on the mitigation of the effects of contributions of storage capacity at fees lower than the regulated tariff to ensure to storage companies a revenue flow substantially equivalent to that which may be obtained with the application of tariff charges to the capacities assigned via auction. The resolution calls for compensation through the Energy and Environmental Services Fund (CSEA) of the price difference between the storage tariff and the auction assignment price applied to the capacity contributed, as well as the compensation of costs for the acquisition of transportation capacity incurred by storage companies.

In addition, with reference to the income deriving from the sale of capacity released on a day-ahead basis by transportation operators, the resolution establishes that as of 1 April 2018 storage companies must deposit such income with CSEA (currently it is returned to the TSOs), and that the TSOs must transfer to CSEA the income collected relating to the 2017-2018 thermal year.

Resolution 360/2018/R/gas - “Definitive approval of company storage service revenue for 2018, for the companies Stogit S.p.A. and Edison Stocaggio S.p.A.”

By means of Resolution 360/2018/R/gas, published on 29 June 2018, the Authority approved the definitive base revenue for the storage service for 2018 for the company Stogit. The revenue recognised totalled €500.5 million. The RAB for storage activities was €4.0 billion.

