



European Gas Conference 2016 Vienna

Snam: Developing the European Energy Corridors

Distinguished guests and delegates of the European Gas Conference,

Mr. Stern,

Ladies and Gentlemen,

Good morning to you all. I am honoured to be here today to share with this outstanding audience Snam's view on the European energy and natural gas context. I would especially like to thank Mr. Seele for introducing this panel and to Mr. Zubkov for his considerable contribution to the debate.

First of all, let me provide you with a brief introduction to the scenario we are facing today.

The gas industry in Europe is currently being challenged by several factors that go beyond the mere global economic growth outlook. These include decreasing demand visibility, due to uncertainties in the role of gas in the emerging EU and national environmental policies; growing supply volatility and the perception of potential supply shortages; and an increased dependence on imports and competition — especially with Asian countries — for attracting LNG supplies.

All these elements constrain European gas industry's ability to maintain stable long-term perspectives. Moreover, the current supply situation with progressive reduction of the share covered by take-or-pay contracts and the increasing liquidity of spot markets is pushing market players to take a shorter-term perspective, increasing the share of spot supply and reducing their long term-commitments.

In this fast-evolving framework, not only is the traditional support for TSO's investment decisions (which means long term commitment by shippers) not as significant as it was just a few years ago, but more importantly the lack of demand visibility negatively affects the appetite of producers to invest and increase their deliveries to Europe.

Getting to the heart of the issue, demand growth seems to have reached its full potential in the EU and long-term perspectives are quite uncertain. In this scenario, the natural gas industry is compelled to find new, shared solutions to re-establish a full industrial and political confidence between EU consumers and non-EU producers. This is the real building block for the development of a secure gas supply to Europe and for sustaining long-term gas demand.

All these facts highlight the need, in addition to fostering stable relationships with long-term supply partners, for a common and integrated European gas market, where global demand may result in

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much more attractive demand than national volatile demands. In this regard, it is mandatory, among other things, to ensure the EU has both the necessary transportation interconnections and the storage flexibility to achieve a fully integrated EU gas system supporting market dynamics and enhancing natural gas competitiveness.

Taking a look at the possible evolution of the gas infrastructure network, the effective integration of European gas networks, fostered by the development of new Energy corridors, is a key factor to guarantee security of supply and to enhance gas competitiveness versus other, even more polluting, energy sources. It would also significantly increase competition in the gas market and promote a smooth transition towards an efficient and sustainable low carbon economy.

The European gas infrastructure market has already undergone a significant transformation in the last 10 years, following a progressive ownership unbundling of TSOs from vertically integrated companies - which significantly changed their role from being pure "Asset Owners" that realize, operate and maintain the infrastructures - to "Market Facilitators" which provide market-oriented services and focus on the quality of their outputs to the benefit of shippers and final customers.

In other words, national infrastructure companies have rapidly become pan-European players with significant business development opportunities beyond their single domestic borders and with the challenging aim of fostering gas market integration and promoting the creation of common rules and supranational coordination.

In the near future, an acceleration of the completion of European energy corridors and infrastructure development projects is required to guarantee an enhanced security of supply, to increase availability of multiple gas sources in any EU national state, to further promote the integration of domestic markets, and to provide efficient services enhancing the competitiveness of gas prices.

Also, Europe needs to fully accomplish a close link between European energy corridors and import routes. Today, for example, some corridors may be fully developed only if new South-North and East-West flows are activated as the result of the connection of North-African countries, of new



Mediterranean, Middle East and Caspian gas sources, and of LNG terminals to the European market, whose import needs will steadily increase in the coming years.

In the light of this, the EU investment priority has to focus on selected investments needed to create additional flexibility and diversification of supplies, as well as to provide more efficient and fluid interconnectivity, capitalising on the key-competitive advantage of natural gas: a well-developed European gas infrastructure which, to serve the integrated EU market, only needs better interconnections with marginal costs with respect to the investment already in place. Moreover, I think it has been so far underestimated how the coupling of gas and renewables would be the most immediate combination to build the most efficient path towards a progressively less decarbonized economy.

These investment priorities may be better articulated in three sets of action.

Firstly, improvement of interconnections among domestic markets, removing cross country infrastructural bottlenecks for both pipelines and LNG and promoting an effective cross-border regulatory alignment. The aim is to eventually identify a grid of backbone European trunklines, with dedicated harmonized regulation, enabling an effective cost sharing among all consumers who would benefit from a more diversified and competitive offer.

Secondly, the realisation of new import projects (e.g. Tap and a Southern route for Russian gas) which are necessary to increase the diversification of gas sources and routing and are essential for supporting not only security of supply, but also offering diversification for regions where today gas shortages may happen, such as the South-East European and Balkan states.

Finally, the identification and promotion of the most effective ways to make storage capacities always available in a framework where market and/or seasonal gas spreads could not be sufficient to cover infrastructural costs, and where storage will increasingly be even more essential for the gas market due to the reduced flexibility and increased volatility in imports.

To achieve all this, infrastructure development alone is not enough. New services and rules are necessary to promote the efficient functioning of the market and to foster its liquidity, allowing for optimal access and utilization of the gas system by traders and shippers.



These activities are of the utmost importance for the creation of a single European gas market. But to complete the transition, it will be necessary for infrastructure operators, as key players in this rapidly changing scenario, to rely on the clear and coherent investment signals needed to efficiently finance long term assets. In this context, the stability and the long-term visibility of the European regulatory frameworks play a pivotal role.

In this context, EU policy makers have to clearly define a common and shared set of rules, with a fair balance between energy and climate issues, to be implemented via realistic and economically sustainable actions.

Last, but not least, the largest infrastructure operators also need to design sustainable cross-border investment strategies fitting with a rapidly-changing business environment, providing market-oriented services and focusing on quality of the output to meet the evolving needs of shippers and final customers.

But in addition, stretching their business boundaries, they shall sustain the development of gas demand, investing in the facilities needed to develop emerging uses of natural gas capable of compensating the decreasing trends in traditional NG uses. Good examples of this are: the transformation of biogas into biomethane, power-to-gas facilities, logistics for LNG and CNG for transportation.

Coming to the role that Snam is playing and is willing to continue playing in the future, we have taken up the challenge set by a rapidly evolving European market and embraced it both in terms of investments and of development of its international development.

Even if Italy is already connected to a high number of external sources and benefits from a diversification of supply like no other country in Europe, Snam is working to further support supply diversification for the whole regional market area connected to its grids. We are looking with high interest at the connection of the existing grid to all the new sources that will be available in the



Mediterranean Sea and in the Caspian region and to the new routes through which existing sources may enter Europe more safely and effectively.

Moreover, through the realization of reverse-flows capacity at the cross-border interconnection points in Northern Italy and investing in new long-range import pipelines diversifying gas sourcing and routing, Snam is paving the way towards connecting the integrated European Market to the North-African countries, the Caspian area (through the TAP pipeline), the eastern Mediterranean gas sources, and also to some emerging EU domestic production in Eastern EU such as Romania, and to the potential Russian Southern deliveries.

The strengthening of cross-border interconnectivities and transits, in line with the principles of the Third European Energy Package, would enable not only Italy but the whole South Eastern EU market area at large to fully exploit its strategic geographic position with respect to the emerging gas import routes and to develop a gas hub for Southern Europe complementing the more mature hubs operating in North West Europe.

Thanks to its history, its dimensions, its expertise and its resources, Snam aims to be a reference partner for European Institutions and Non-European producers, facilitating, with its proactive approach and investment readiness in the development of gas infrastructures in Europe, the achievement of a mutually satisfactory equilibrium between the policies underlying the Third Energy package and the needs of gas producers to have certainty over their transportation and storage capacities at efficient costs to reach any corner of the Integrated European Gas Market .

Thank you.