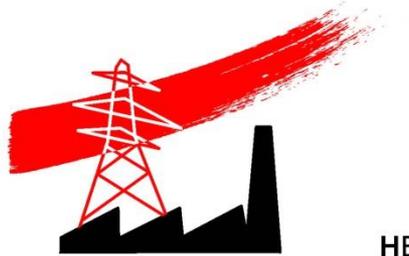


UNICEN



HELLENIC UNION OF INDUSTRIAL CONSUMERS OF ENERGY

23 September 2014

**Is the NATURAL GAS MARKET in
GREECE COMPETITIVE
for the MANUFACTURING
INDUSTRY?**

Agenda



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- Energy cost & Competitiveness
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- The Greek Natural Gas Market
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UNICEN at a glance



- UNICEN represents Greek industries for which energy costs are key factor of competitiveness at international level .
- UNICEN's 26 member companies are the backbone of the domestic industry and represent various sectors (cement , steel , non-ferrous metals , paper , fertilizers and other) with a common characteristic high energy intensity , ie high energy consumption per unit of output.
- UNICEN represents approximately 50 % of domestic industrial energy consumption .
- Since 2011 , UNICEN is a member of IFIEC Europe, the European Confederation of Industrial Energy Consumers (www.ifieceurope.org) .

Energy cost & Competitiveness (1)



- **Competitive Energy Costs are paramount for a manufacturing industry to survive and retain employment, to grow and invest**, to boost employment and increase exports and to contribute to the macro-economic stability and social cohesion of any country. This is especially true for Greece in the present economic downturn.
- **Access to competitive energy prices is the most transparent and fair way to sustainably support** the domestic **industry** and the National Economy without subsidies or controversial tax breaks.
- **For the energy intensive industry, in particular, energy costs are the most important cost element and a key component of international competitiveness**, as they represent up to 50% of manufacturing costs while exceeding (by far) labor cost.

Energy cost & Competitiveness (2)

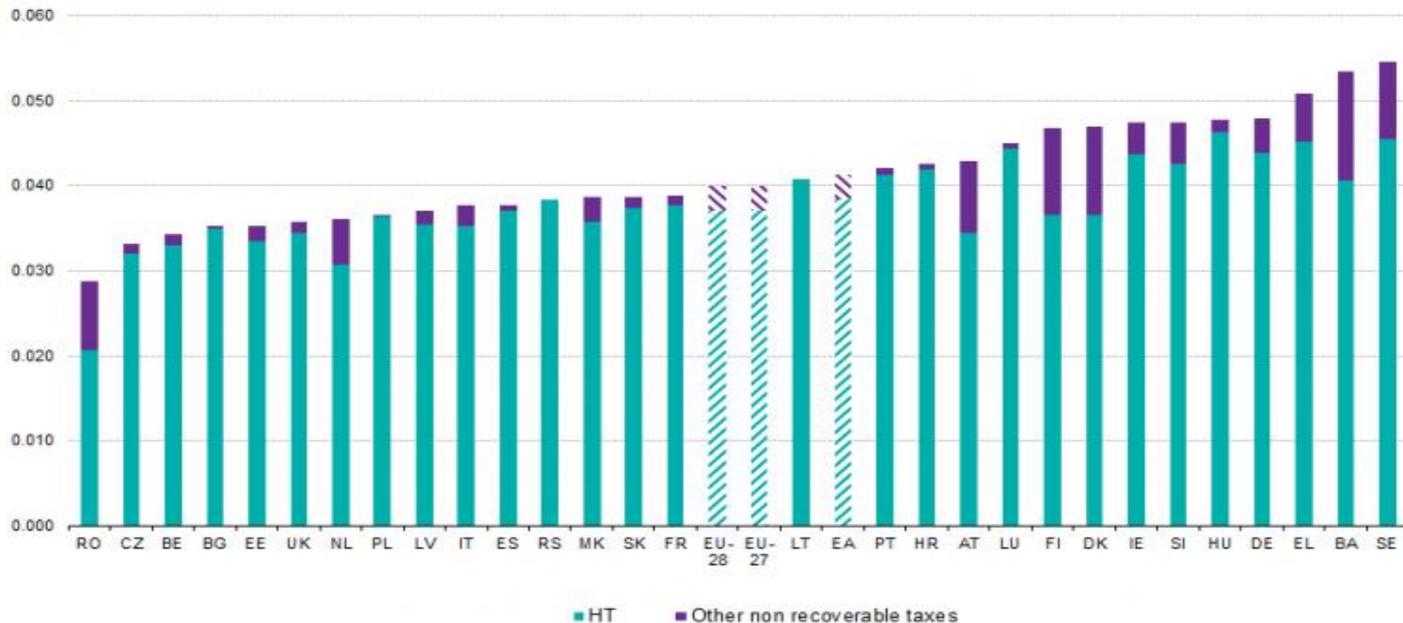


- **Greek industry has been shrinking for the last five years and has now reached a critical point.** With unemployment in Greece at the highest EU level, tens of thousands of jobs are under threat, while young people and skilled workers are immigrating, seeking employment abroad. Sizable capital investment is being idled and devalued, factories are closing down and production capacity is under-utilized in the remaining industrial facilities still in operation.
- At the same time, **in some energy intensive sectors (cement/steel/aluminium transformation) domestic sales are down by more than 80%, while the rising energy costs are putting “emergency exports” at risk resulting in 40% or more of industrial production capacity in the country being idled.** At the same time, other traditional sectors (e.g. ceramics) have closed down completely mainly due to high gas prices.
- **In this extremely worrisome environment, the situation in the energy markets (electricity & natural gas) is far from being efficient,** remains oligopolistic, highly regulated and loaded with distortions.

Natural Gas prices for industrial consumers 2013s2



- As a result, final energy prices, particularly for industrial consumers are among the highest in the E.U. with **industrial Natural Gas prices being the 3rd highest** and electricity prices being among the most expensive in Europe. On top of that, excise duties on energy (electricity and gas) are effectively the highest paid by energy intensive industries within the EU:



THE GREEK NATURAL GAS MARKET

Present Situation (1)



- The Natural Gas market in Greece is a special case in the EU, as **65% of the volume is consumed by the gas-fired power plants and no more than 15% by industry (large/ medium/small), with the remainder being consumed by households.**
- **DEPA**, the national Gas Utility currently going through a privatization process, **supplies 90% of the market directly or indirectly through 3 affiliates that are local distribution monopolies (EPAs).**
- A consequence of DEPA's dominant position is that **prices to industrial customers and power producers are the highest (before and after excise duties) in the EU-27 and 40% more expensive than the EU-27 average.**
- Gas prices have increased in Greece more than 80% since 2009 (against 9% in EU-27 average). Burdensome **take-or-pay terms in DEPA's contracts with eligible industrial customers also prevent them from accepting low price spot offers, or fully participating in the quarterly gas-release programs that DEPA has launched in 2013.**

THE GREEK NATURAL GAS MARKET

Present Situation (2)

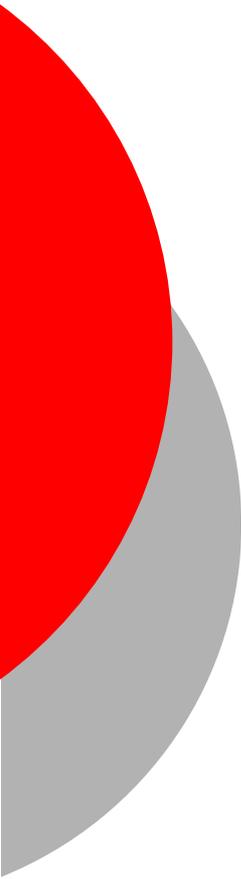


- **It is practically impossible for eligible industrial customers to import gas** from neighboring countries **through the existing pipelines**, mainly because there is no available free capacity in the pipelines in the neighboring countries.
- **They cannot either import LNG gas through DESFA's Revythousa gasification facility**, as in the absence of sufficient storage facility they are unable to consume a shipload that may correspond to their annual gas needs in just 18 days.
- In addition on the basis of EU derogations, **all medium and small sized industries with annual consumption of less than 10 million NM³ are considered "non-eligible"** customers and are thus supplied by the local gas distributors at prices 15-20% higher than large customers.
- The derogations allow the creation of 3 more local distribution monopolies (EPAs) to be added to the 3 existing EPAs that will cover much extended areas in Northern and Central Greece. The new EPAs have not been created and as a result DEPA retains a monopoly in these areas for more than 20 years.

Recent developments



- Since January 2014 eligible customers can sign separate (unbundled) supply contracts with natural gas suppliers and separate transportation contracts with DESFA and distribution contracts with the local distributors (EPAs). Thus, gas traders and eligible customers can pool together the quantities consumed by a number of eligible customers, been delivered at a virtual consumption point and transport the purchased quantities through DESFA to their final consumption point.
- In the context of the Second Adjustment Programme for Greece, the Greek Government committed to adopt legislation so that by 1 October 2014 all gas industrial consumers will be fully eligible to choose their supplier.
- Although they are delays in the adoption of this new legislation, we expect that all industrial customers will become eligible by the end of 2014 and **the elimination of restrictions and free choice of supplier will improve significantly their competitiveness.**



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Thank you
for you attention