



The Greek-Turkish natural gas pipeline. Photo: Simela Pantartzis/EPA

The developing Greek natural gas market

The investment of sufficient capital could transform Greece from an avid consumer of lignite and oil to a faithful user of natural gas - a dramatic change in its energy history.

| by Ioannis Michaletos

The Greek natural gas market is developing fast. The government wants to turn the country into an important gas transportation hub. Currently Greece meets approximately 50% of its energy consumption with lignite, whereas natural gas is good for only 10%. According to recent figures from the Ministry of Development, the present day annual consumption of 4 billion cubic metres is expected to exceed 8 billion cubic metres in 2015. Between 2003 and 2007, natural gas consumption grew by no less than 61%.

The Greek government wants to diversify the energy consumption in order to overcome the problems associated with the depletion of the lignite deposits and the increase of CO₂ emissions. It also wants to create the necessary framework upon which the country could become a regional energy hub transferring gas to Europe. This could lead to substantial international investments in the Greek gas networks.

For the moment the natural gas market in Greece is controlled by the state, via multiple ownerships, albeit that market developments will eventually lead to foreign and private players investing more and more in the commercial, network and storage sectors.

Russian influence |

The first agreement for an international transportation pipeline for natural gas between Greece and Russia was signed in 1987 and expires in 2016. It covers the transfer of gas through the Greek-Bulgarian pipeline. Russia supplies 80% of Greece's needs with the rest coming from Algerian imports. The pipeline mentioned was constructed by the Greek state in the '90s and for the moment it has two branches; one towards Athens and the second to the northern industrial site of Komotini.

Athens and Moscow are currently negotiating a new bilateral agreement by which the gas flow from Russia will be secured until 2040. The Greek Ministry of Development notes that 'a special

technical committee has been set up to deal with the issue'.

All of the gas flowing from Russia through Bulgaria is sold by Gazprom and imported by the Greek state owned company Depa. The negotiations are carried out by the representatives of the two governments.

Key players |

Depa sells its gas to 13 other peripheral enterprises, which are owned both by Depa and by private investors. The company was established in 1988 and had sales €1.1 billion in 2007 and €80 million in profit after taxes.

The Greek government recently made known its desire to introduce Depa to the stock exchange. The government owns 65% of the company while the remainder belongs to the semi-state oil company. The value is estimated at over €1.5 billion.



Greek Prime Minister Costas Karamanlis and his Turkish counterpart Recep Tayyip Erdogan.
Photo: Simela Pantzartzi/EPA

Ioannis Soukiouoglou, independent energy consultant, says to EER that the privatisation of Depa is a complex issue. 'First and foremost, many financial, legal and technical matters still need to be addressed before the company becomes truly ready for flotation on the stock exchange. Additionally, the public electricity company has an option of purchasing 30% of the state-owned shares according to a 1996 agreement, based on the support it provided to the natural gas project. However, the Regulatory Authority for Energy will not consent to this and there is a very serious possibility that such a sale would trigger monopoly sanctions from the EU. The electricity company already buys 70% of all natural gas entering the country.'

Depa's press office declined to comment,

stating merely that 'We are examining the viability of stock-marketing flotation in the immediate future.'

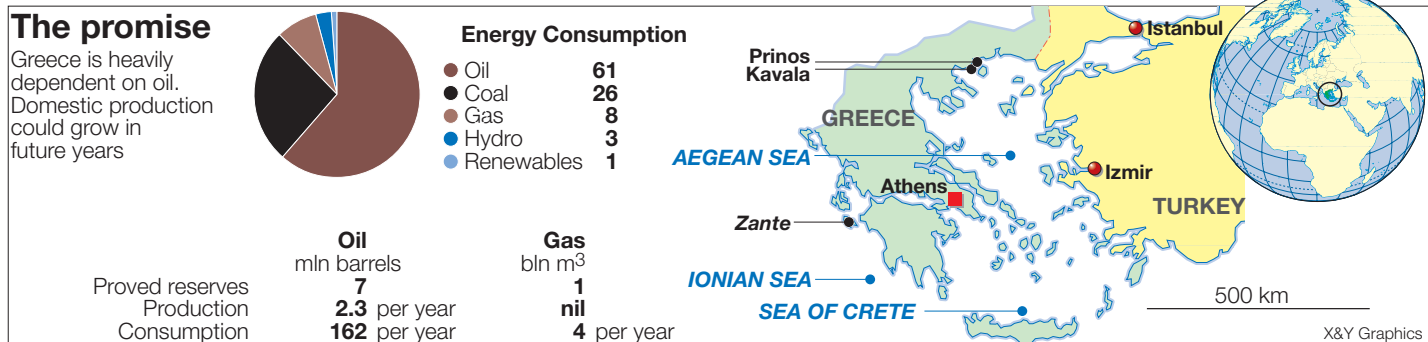
Network |

Desfa, a 100% subsidiary of Depa, was founded in 2007 to take care of the gas networks as a separate entity. It had sales of €188 million and profits of €38 million for 2007.

The total value of the various projects Desfa is currently developing amounts to €1.5 billion. The most important of these projects are the construction of new branches of the high pressure pipelines to southern Greece in order to supply the industrial zone of Corinth and the construction of another branch of the network for the national electricity company in the town of Aliveri. These are in essence extensions of the pipeline entering from Bulgaria.

As for Depa, there are also plans for the privatisation of Desfa. The Greek analyst and natural gas expert Theodoros Panagoulis believes that instead of Depa, it is Desfa's stock market flotation that is imminent. He says that 'Desfa has guaranteed revenues because use of its network is obligatory for all natural gas trading companies in the country. At the same time, it also has an immediate need for capital to maintain its network and, finally, it actually competes with its parent company Depa. It is quite possible for some part of the company to be introduced to the stock exchange in the near future and for the rest to be separated from the parent company and to be taken over by the state.'

A third important player on the Greek market is EPA - the largest of the so-called peripheral companies. EPA was created in 2001 and is owned by Depa (51%), Cinergy Global Power and Shell Gas (each 24.5%). The company operates mainly within the Attika district of Athens. It had sales of €99 million and made a loss of €6 million in 2007. EPA is currently working to extend its network. It is planning to invest some €100 million in this. The company expects that by 2012, 680,000 households (50% of Attica's total) will be using natural gas.



But there are also new players waiting in the wings. The Greek Power Corporation, owned 50% by the state is currently in negotiation with the German RWE for the creation of a joint natural gas trading company in Greece and production units in the Balkan states. A big private corporation named Mytilineos has expressed its interest in joining ranks with Spanish Endesa. Neither of these joint ventures has been officially confirmed yet. According to unconfirmed media reports, Gazprom too is said to be interested in becoming a strategic partner of a large Greek gas company once South Stream is completed.

signed an agreement with Russia on cooperation in the construction and operation of the Greek section of the South Stream pipeline. The agreement holds for 30 years. South Stream will traverse Northern Greece and end up in Southern Italy carrying 30 billion bcm of gas per year, according to present day announcements by the governmental authorities involved. They include Russia, Bulgaria, Greece, Italy and the two shareholders (50-50), ENI and Gazprom. The exact date for the commencement of construction is not yet known and unofficial estimations by industry analysts project around 2010 the earliest.

be built by Desfa in Greece. The remaining section of about 200 kilometers, which will run under the sea between Greece and Italy, will be handled by Poseidon, a 50-50 project joint venture of Edison and Depa. According to a statement by the Ministry of Development, the pipeline will be 'comprised of two parts: the land and the underwater sections, and will transport natural gas produced in Azerbaijan from Turkey to Greece and from there to Italy. The underwater section to Italy will be 212 km in length and 32 inches in diameter, crossing the Ionian Sea at a maximum depth of 1,450 m.

Depa and Edison (the Italian energy company) each have a 50% share in 'Poseidon' and the whole of the project is estimated to cost about €1 billion.

Pipelines |

On 29 April 2008, the Greek government

Another project is the IGI - "Poseidon" pipeline. It has length of about 800 kilometers, 590 kilometers of which will



Inauguration of the Greek-Turkish natural gas pipeline, in Ipsala, Turkey. Photo: Simela Pantzartzi/EPA

Soukiourogrou notes that there are still many uncertainties surrounding the future development of the Greek gas market. 'Greece has agreed to the construction of the South Stream pipeline, but we have not yet heard any further details of the Greek participation in the project', he says. 'It is not clear whether natural gas storage facilities will be constructed in the country, or who will manage these. Even the supply of gas from Azerbaijan through the IGI-Poseidon pipeline is as yet uncertain; it depends on whether Turkey will accept the role of retailer or transporter. For political reasons the Greek government would strongly object to Turkey becoming the seller'

Only one thing is certain, Soukiourogrou says: 'The Greek gas market will change dramatically in the next few years.' ■