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Italy trapped in a fog of confusion

By Guy Dinmore in Rome

Negotiations: Enel

High and rising electricity bills for consumers, over-reliance on imports of hydrocarbons, bottlenecks on the grid and near paralysis at the political level – Italy's energy sector faces a legion of problems that risk stifling recovery from the country's longest recession since the second world war.

"There is great confusion in this country," says Davide Tabarelli, head of the Nomisma Energia think-tank, noting that Italy seems unable to match bold strategic decisions taken in the UK on nuclear power and in Germany on coal and renewables.

Six years ago, at the peak of economic output before a double-dip recession ensued, Italy's utility executives fretted that electricity capacity would not keep up with demand.

Investments in power stations were stepped up, mainly in gas. Bold plans for new gas pipelines were hatched to expand supplies from Algeria, Russia and central Asia. Incentives for renewables were increased to the highest levels in Europe, with the cost passed on to consumers.

Since then recession has cut industrial output by 25 per cent and GDP has fallen by 5 per cent. Renewables have boomed while utilities have been locked into high long-term contract prices for gas, which still accounts for some 50 per cent of electricity output.

Nomisma Energia estimates that electricity demand this year will fall a further three per cent, with total capacity close to 130GW while peak demand will not exceed 54GW. Gas powered plants are idling. Some utilities find it cheaper to import electricity than produce their own.

Italy is left importing over 90 per cent of its gas and oil needs. Potential development of its own resources – it has the largest onshore oilfield in western Europe – is blocked by environmentalists and local governments.

The central government in Rome has said no to exploitation of Italy's modest reserves of shale gas.

Italy's small and medium-sized companies, the backbone of the economy, paid some 40 per cent more for their power last year than the EU average. Enel, Italy's largest utility, says energy bills for industry rose 14.8 per cent in 2012.

Germany is moving away from nuclear power and towards more renewables and greater exploitation of coal, its price driven down by the shale gas boom in the US.

Italy's reliance on gas has limited the uptake of coal, with plants running at close to full capacity. Enel last year said its use of coal as a percentage of thermal output rose by about 11 per cent to a total of 70 per cent, while use of gas fell by 26 per cent. Its worldwide CO_2 emissions rose slightly as a result.

This was in part because a lack of rain cut hydroelectric output. This year the contribution of coal to total output, including renewables, has fallen by about four percentage points.

Other utilities remain much more reliant on gas and, like Enel, are renegotiating long-term contracts.

Assocarboni, the coal industry lobby, has said Italy's imports of steam coal are expected to be 19m tonnes this year, little changed from 2012.

"If Italy continues to ignore the contribution of coal to the production of competitive electricity, its envied industrial base will soon be at risk," commented Andrea Clavarino, Assocarboni chairman. "Italy is the second biggest manufacturing country in Europe but it also holds the negative record for having the highest electricity bills."

Charting a way forward, Mario Monti's former technocratic government launched a detailed national energy strategy, the country's fourth.

Its first priority was to reduce the cost of energy, with an emphasis on energy savings, developing domestic resources of oil and gas, pursuing renewables with reduced but still considerable incentives, shunning nuclear power and limiting coal use.

Italy's future is seen as a gas hub, importing from north Africa, Russia and Azerbaijan and re-exporting to Europe.

With Italy led by Enrico Letta's fragile coalition government, analysts question how much of the national energy strategy will be realised in legislation and investment.

Nicolo Sartori, researcher at Istituto Affari Internazionali, a Rome think-tank, says the strategy is ambitious because of the combination of unbalanced generation towards gas and the incentives scheme for renewables.

"The [national energy strategy] and energy policy in general completely disappeared from the Letta government's radar," says Mr Sartori. "It is clear that the government is strongly concerned by its own survival," he adds, and energy "remains out of the debate".

But, he continues, recent disruptions to supplies from Libya could put the debate back on the table.

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