OVERVIEW OF THE SPANISH GAS MARKET IN YEAR 2005

CONSUMPTION

♦ **NATURAL GAS:**

- During 2005 initial reports suggest a total natural gas sales in Spain of 376 034 GWh (319 492 sold in 2004) with a 17.6% growth rate comparing with 2004.
- 258 467 GWh were sold in the industrial/households/commercial market, 10 754 GWh more than previous year (4.3 % growth rate), and the rest was sold to power plants and to fertilizer companies as raw material.
- Again, during year 2005, power generation was the market with the strongest growth, with a consumption of 111 673 GWh, 68.2% more comparing with 2004 (66.092 GWh), driving its share in the total consumption from 21% in year 2004 to 30%.
- For the year 2006 six new combined cycle power plants are expected to be put into service, raising the installed power generation capacity in 3880 MW.

INFRASTRUCTURE & BUSINESS DEVELOPMENT

♦ In year 2005 investment efforts from transmission companies have continued, reinforcing the internal grid and expanding the emission capacity of LNG terminals.

♦ During year 2005, 600 km of new gas pipelines were put into service, mainly to reinforce the supply of the South and East of the country. The most remarkable of them are the new 107 km from Castellnou to Tamarite and the Arboc-Tivissa gas pipeline (89 km) that has been duplicated. Other gas pipelines such as the Cartagena-Lorca and Málaga-Estepona ones have been enlarged in 90 and 52 km respectively.

♦ During the first quarter of 2006 the new LNG terminal of Sagunto (located in the Mediterranean East coast, near the town of Valencia) will be completely operational and at the beginning of 2007 the LNG terminal of Mugardos will be put into service.

♦ During 2005 new investments have been carried out in order to expand the capacity of existing LNG terminals:

- o Since October 2005, a new 127 000 m^3 LNG tank has entered into operation in the Cartagena terminal completing 187 000 m^3 with three tanks.
- o The emission capacity of Barcelona, Huelva and Cartagena terminals, has been increased reaching a total emission capacity of 1 500 000, 1 050 000 and 900 000 m^3/h, respectively.

♦ Four compression stations have been upgraded increasing their compression power up to 90 000 HP.

- Also during 2005 new investments in future underground storages have been carried out in the centre of the country.
- The fifth tank of 150 000 m^3 will be put into service in the Barcelona terminal in the first quarter of 2006 and a new one in 2007. Another tank of the same capacity will be operating in the Huelva terminal at the end of 2006.
- In June 2005 the Medgaz Pipeline has been considered a priority project in the planning document of gas facilities in Spain. The project current shareholders are Cepsa, Sonatrach, Gaz de France, BP, Endesa, Iberdrola and Total. The maximum deep which this pipeline will lie on the Mediterranean floor is 2 100 m. This pipeline (200 km) will join the North of Algeria and Almeria at the Spanish south west coast, without passing through any other country. It is expected to be in operation in 2009.

MARKET OPENING

The complete opening of the Spanish Gas Market took place in January 1st 2003 (industrial, residential and commercial sectors), in accordance with Royal Decree 6/2000. This regulation set the aperture schedule, lowering gradually the threshold to become eligible customer: From three Million m^3 in August 2000, one Million in January 2002 and fully aperture in January 1st 2003.

This calendar was followed by a set of regulatory measures: The core was the new Royal Decree 949/2001, that settled in January 2002 the economic framework, including a postal TPA tariff, and Royal Decree 1434/2002 which regulated the activities of transmission, distribution and supply of natural gas.

The effects of all these regulatory measures, complemented with several reductions in the level of TPA tariff have lead to an impressive growth of the market share of new suppliers and to significant discounts in the price paid for final consumers.

In year 2005 provisional consumption in the TPA market amounted to 314 043 GWh, with 2 092 144 customers while total market reached 376 034 GWh and 6 100 171 customers. That means 83.5% share of total market. Along year 2006 around 212 194 residential customers are expected to choose a new supplier.

SUPPLIES

- Total natural gas imports (LNG + NG) in 2005 were increased more than 20%, amounting to 385 966 GWh (315 513 GWh during year 2004). This growth was mainly based on LNG purchases (251 210 GWh, 24% more than year 2004) while NG acquisitions rose by 14% reaching 134 756 GWh (113 287 GWh in year 2004).
- During year 2005, Algeria with 169 143 GWh continued as the main supplier of natural gas to Spain with 44% of total imports, but its weight in the imports basket has decreased comparing to year 2004 with 49%.

- LNG from Gulf countries (United Arab Emirates, Qatar and Oman) has highly risen scaling from 71 206 GWh in 2004 to 76 278 in year 2005. These countries are the second suppliers of Spain, being the amount in the imports basket 20%.

- Nigeria is still the third supplier of Spain after Algeria and Gulf countries, LNG from this country has risen by 1%, rising from 55 964 GWh in year 2004 to 55 269 GWh in 2005.

DOMESTIC PRODUCTION

- The domestic production in the year 2005 has diminish to 1 870 GWh from 3 713 GWh produced in 2004 (50% decrease). In year 2004 it only covered 0.5% of the consumption, the small significance of Spanish domestic production justify its high variability.

REGULATORY POLICIES

- Royal Decree Law 5/2005, of March 11th, of urgent reforms to impulse the productivity and to improve public contracts, included new measures to promote the liberalized market among the industrial consumers.

- Royal Decree 942/2005, of July 29th, which modifies some regulations related to oil and gas sector in order to increase the market transparency and to help the change of supplier.

- Order ITC/3126/2005, of 5th October, which approved the Technical Rules for the Management of the Gas System (similar to the Network Code) that set the requirements for all the stages of the gas market like scheduling or balancing. In order to guarantee the security of supply, an auction system has been created in order to cover the shipper’s imbalances.

  In addition to this, it includes a committee of agents (customers, shippers, transport system operators and local distribution companies) to assess and propose amendments and improvements, although the final authority to approve the changes remains in the Ministry.

- Order ITC/3321/2005, of October 26th, which updated the formula of the natural gas price charged to the regulated tariff, which had been initially settled in January 28th by means of the Order ITC/104/2005. The new one highlighted the increasing purchase cost of natural gas because of unexpected growth in the regulated market that requires to purchase additional LNG shipments in the spot market.

- Instruction of November 28th, from the Energy Department, which published the so-called “Winter Scheme” that, in order to avoid any supply shortage, established four transitory requirements, mandatory for all the shippers, from December 1st to March 31st: 1.- A maximum daily variation for each shipper own gas stock equivalent to three days of consumption, 2.- A ceiling on natural gas re-exports to third countries, 3.- A minimum LNG stock equal to three-days of consumption, 4.- A reserve of certain emission capacity from the subterranean storages to be used in case of a cold spell.

- In December the 27th, the Ministry published the following orders:

- Order ITC 4099/2005 that set the revenues for the companies who carry out regulated activities in the gas market (transport and distribution).

- Order ITC 4100/2005, which set the TPA tariff for the year 2006. It included a 1.5% rebate in the existing transport tariff while it kept unchanged the LNG terminal and subterranean storage tariffs and it increased the LNG storage tariff by a 5%.
  It introduced for the first time a short-term TPA tariff (on daily, monthly and seasonal basis), an interruptible transport tariff and an entry-exit transit tariff devoted to natural gas re-exported to third countries.

- Order ITC 4001/2005, which set the regulated end-users tariffs. Taking into consideration the important market share that is already supplied by independents shippers, the Ministry decided to remove all high pressure tariffs (over 60 bar) and some of the medium pressure ones (4-60 bar), while low pressure tariffs applied to households and small businesses remains untouched.

MINISTERIO
DE INDUSTRIA, TURISMO
Y COMERCIO

DIRECCIÓN GENERAL
DE POLITICA
ENERGETICA Y MINAS

SUBDIRECCION GENERAL
DE HIDROCARBUROS

SPANISH NATURAL GAS CONSUMPTION

	1997	1998	1999	2000	2001	2002	2003	2004	2005 (*)
HOUSEHOLD-COMMERCIAL	21 648	26 488	31 979	34 253	40 183	42 855	47 300	51 483	62 046
INDUSTRIAL	93 938	111 309	128 825	144 993	152 933	167 006	181 914	196 230	196 421
RAW MATERIAL FOR FERTILIZER	6 825	6 807	6 103	6 130	6 087	5 752	6 086	5 687	6 400
POWER PLANTS	20 425	7 206	7 673	10 378	12 730	27 375	40 045	66 092	111 167
TOTAL	**142 836**	**151 810**	**174 580**	**195 754**	**211 933**	**243 525**	**275 345**	**319 492**	**376 034**

Unit: GWh (*) Provisional

TOTAL NUMBER OF NATURAL GAS CUSTOMERS

1997	1998	1999	2000	2001	2002	2003	2004	2005 (*)
3 219 280	3 492 660	3 845 653	4 203 385	4 606 335	4 935 784	5 305 297	5 661 057	6 100 171

(*) Provisional

SPANISH NATURAL GAS SUPPLIES

IMPORTS	1997	1998	1999	2000	2001	2002	2003	2004	2005 (*)
ALGERIA LNG	37 842	41 169	45 618	48 512	50 603	69 144	87 049	67 770	58 820
ALGERIA NG	54 990	59 921	70 209	71 576	62 265	72 669	74 509	87 540	110 323
LIBYA	12 980	10 561	11 201	9 293	9 228	7 341	8 768	7 286	10 158
NORWAY NG	20 045	26 719	26 773	26 856	26 833	26 433	26 640	25 747	24433
AUSTRALIA	0	0	0	0	0	835	0	0	918
GULF COUNTRIES	15 774	12 966	13 397	8 752	20 601	40 226	29 227	71 206	76 278
OTHERS	7 198	4 309	3 460	3 518	0	2 244	0	0	45 639
TRINIDAD Y TOBAGO	0	0	8 687	9 157	6 806	5 342	977	0	4 129
NIGERIA	0	0	888	21 822	28 209	18 695	49 070	55 964	55269
TOTAL IMPORTED	**148 829**	**155 645**	**180 233**	**199 486**	**204 545**	**242 929**	**276 240**	**315 513**	**385 966**

Unit: GWh (*) Provisional