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**EDISON RESPONSE - CONSULTATION ON THE "DRAFT ADVICE ON
THE COMMUNITY WIDE TEN-YEAR ELECTRICITY NETWORK
DEVELOPMENT PLAN**

GENERAL REMARKS

Edison shares ERGEG view on the importance of the EU-wide 10-year Electricity Network Development Plan (10-yendp) as a key tool to orientate and coordinate TSOs and electricity undertakings in their investment planning. The Plan can actually help to identify and address both the major congestions on interconnectors which hinder the development of cross-border trade and market integration and the most relevant bottlenecks affecting the transmission grid within a single TSO. Moreover, a network planning developed in three levels (i.e. national, regional and European) is of paramount importance in this process, since an adequate and secure level of cross-border trade and electricity flows at a European-wide level can be guaranteed only as a consequence of the improvement in dispatching and transmission capacity within national and regional systems.

As this planning process aims to provide all the relevant stakeholders with a clear picture of future investments, by focusing on congestion at cross border interconnections and on internal bottlenecks with cross-border implications, a high level of transparency is much needed. Edison therefore welcomes ERGEG's reference to the stakeholders' request for a greater transparency in the process, mainly with regard to the market scenarios and models underpinning the 10-yendp and the national and regional plans. These scenarios and models must be designed on the basis of broadly acknowledged methodologies and sources of data in order to avoid any inconsistency between the deployment of infrastructural investments under the plans and the actual macroeconomic trends affecting demand for electricity.

However, Edison believes that some issues included in ERGEG draft advice should be better defined:

- a clarification about the treatment of private investments (i.e. exempted investments) versus regulated investments carried out by TSOs;
- the choice of universally recognized sources of data for the elaboration of the European scenarios to be used to build the 10 -yendp;



- the focus of the plan on the identification of investment gaps and congestions rather than the selection of specific projects;
- the attention to national network investment plans in order to strengthen internal dispatching capacity as a fundamental step towards an efficient usage of local generation facilities.

In the following more details about the above mentioned issues are given.

Private (i.e. exempted) investments vs regulated investments

Among the requirements provided in the draft advice, the national and Community ten-year network development plans shall include both regulated and exempted investment projects as well as ensure a sufficient level of cross-border interconnection open to TPA. Exempted investments, therefore, seem to be allowed, providing that they do not exceed a fixed amount of cross border capacity. Edison asks ERGEG to better clarify this issue in the final document since privates may play a relevant role in future transmission grid development.

As for example, more infrastructures are often envisaged to increase cross border capacity, but not realized by the relevant TSOs due to both the lack of money and the focalization on more prioritized investments within national territory. The contribution of private investors may allow to overcome this impasse, being the only requirement the presence of an adequate remuneration: exemption from TPA may be a solution, but some other instruments (as bilateral agreement with the local TSOs allowing an infrastructure remuneration) are as welcomed.

In particular it is worth noticing that different drivers undergo private investments (fostered by business and opportunities in cross – border trade) and regulated ones (associated to security of supply and system adequacy): in our opinion both these categories of investment are needed in order to guarantee the sound development of an internal electricity market able to address competition and security of supply issues.

Moreover if a TSO has not enough cash to bear all the investments yet included in the 10-yendp, selecting private investors (for example by the mean of a public call and opportune remuneration) may be a solution to achieve in a short term all the planned infrastructures.

Data for scenarios

ENTSO-E shall base his activity on scenarios expressly built to take into account both the medium (up to five years) and long (from 5 to 15 years) term.

All these scenarios address issues related to energy policy, security of supply, competition and market integration. Since a sound and accurate macroeconomic analysis is required, in our opinion TSOs are not the most appropriate players to completely fulfil this task. It should be in fact recognized a difference between



network information, easily provided by ENTSO-E through national TSOs, and economic forecasts whose development needs a specific expertise out of ENTSO-E's field of action.

For this reason we suggest to involve reliable international institutions and organizations (e.g. Eurostat, IEA etc.), whose scenarios should be duly taken into account by ENTSO-E and national TSOs as a term of reference while fixing the demand and generation level to be used for the planning process; this will allow to guarantee the neutrality and reliability of the resulting generation adequacy outlook and energy market scenarios and their consistency with the forecasts of macroeconomic development of Europe on medium and long term.

Scope of the plan

Regulation 714/2009 states that the 10-yendp shall identify the investment gaps in order to address the requirement for new investments.

The draft advice falls out from the 3rd package provisions specifying that the plan shall include a detailed analysis aiming to choose the specific investment to be promoted.

In our opinion, instead, the Community Plan has to limit to address lacks in transmission grids and to propose new infrastructure to be built to release congestions. The choice of the specific investment is eventually made by the relevant TSOs (which may also rely on private investors or promoting projects presented by private entities) under the strict monitor and control of the NRAs and included in the national or regional investment plans.

Moreover we would like to stress that the investment evaluation provides ENTSO-E with excessive discretionary powers: in particular TSOs are entitled to evaluate the same specific investments on European Level they are contemporary called to bear. This issue may be relevant when evaluating proposals made by private investors. We suggest that ERGEG clarifies this issue in the final advice, stressing the role of the Agency in evaluating the Community and regional investment plans published by TSOs. Moreover, it should be explicitly mentioned the role of NRAs in monitoring TSOs' efforts towards the realization of all the projects included in the Plans, being they sponsored by TSOs themselves or carried out by private investors.

Internal dispatching capacity vs cross border capacity

As for the ERGEG draft advice, the 10-yendp will focus on congestions at cross border interconnections and on internal bottlenecks with cross-border implications. Investments regarding bottlenecks relevant only for the national market won't therefore be included in the Community plan.



This issue is consistent with the main scope of the plan, i.e. to provide a clear picture about the weakness of interconnection capacity in order to address investments towards a European integrated market.

Moreover the draft advice stated that regional and national investment plans shall be defined according with the choices described in the Community plan: this provision seems to assign the highest priority to cross border infrastructures, thus limiting the TSOs investments on internal bottlenecks not involved in cross border trades.

In particular we'd like to underline the peculiar situation characterizing some European regions, where an efficient use of the local generation capacity is not allowed due to relevant congestions which have no impact on cross border trade at all. These are obvious cases in which the national transmission grid shall be developed to accommodate the growth in generation facilities. Within the new perspective drawn in the draft advice regarding the Community plan, TSOs seem to be fostered mainly towards cross-border development, while internal investments are less incentivated.

Nonetheless Edison thinks that national investments are as important as cross border ones, in order to promote an efficient energy market: clarifications from ERGEG about these points are thus welcomed.

WHO WE ARE

Born in 1881, Edison, one of the oldest energy companies in Europe. When the national monopoly on electricity was established in Italy in 1963, Edison had to diversify its business, but thanks to the first wave of EU Directives in 1996, it could re-focus its business on energy once again. Today Edison is the leading new entrant in the Italian energy market, with 50,2 billions kWh produced in 2008 and a market share of 16,4% of national output. Thanks to 7.000 MW of new highly efficient and low emission plants (CCGT thermo plants, as well as hydro and wind power plants), the Company has now a total installed capacity of more than 12.000 MW. In 2008, Edison reported revenues of 11.066 mln €.

Thanks to one of the most ambitious investment plans in Europe, Edison aims at becoming the second largest electricity company in Greece through the recently established joint venture with Hellenic Petroleum. As shown by the recently approved Business Plan (2009 – 2014), Edison will invest 7.2 billion euro in natural gas (exploration and production activities, in major gas import infrastructures, such as the Rovigo LNG offshore re-gasification terminal and the ITGI-Poseidon and GALSI pipelines) and in power generation sector, with a particular focus on renewable energy sources (hydro and wind power allow the Group to cover over 40% of the green certificate requirement with its own production). Other investments will constitute strategic developments in fast-growing markets, such as Greece, Romania and Turkey. As from 2009 the new offshore LNG terminal in Rovigo will contribute to the diversification of the country's supply sources with its



re-gasification capacity of 8 bcm of natural gas a year, equal to 10% of Italy's demand for natural gas. In 2012 there will be the start up of Galsi and ITGI pipelines, which will connect Italy and European markets to Algeria and Caspian Sea, two areas rich in hydrocarbons.

ANSWERS TO ERGEG DISCUSSION POINTS

- 1. The document presents the regulators' view on the planning process to achieve a non-binding Community-wide network development plan. Does this view contribute to the objectives set in the Section 2 and especially transparency of planning? What should be added / deleted within the planning process in this respect?**

In Edison view, the combined top-down and bottom-up approaches defined in the document allow to deliver both the information about investment gaps and infrastructural projects coming from national and regional stakeholders and the coordination between the national, regional and European levels granted by ENTSO-E. Edison welcomes ERGEG's call for the elaboration of a standardized consultation process of all relevant parties in the drafting of network plans (10-yendp, regional and national) which shall be based on clearly defined rules, whose definition should involve the stakeholder themselves.

Still, it is of utmost importance that the active contribution of all relevant stakeholders is effective and **duly taken into consideration** by ENTSO-E and TSOs, particularly in the elaboration of market scenarios and models for the integrated networks. We agree with ERGEG on the importance of including scenarios within the 10-yendp. Yet, since the TSOs are not the only subjects involved in the interconnection projects, the plan shall include the contribution of all the actors potentially or actually involved in such projects. The development of market scenarios and network models based on criteria as shared as possible are thus essential for the correct functioning of the internal market, avoiding any biased approach to the selection of the projects to be included in the plan. For this reason, as stated in the General Remarks, we underline the importance to assign the developing of macroeconomic scenarios to third parties (as, for example, institutions like Eurostat or IEA) more competent on such analysis: given these scenarios TSOs and ENTSO-E will forecast the associated demand and generation level.

Moreover, in order to achieve an adequate level of transparency and to avoid any biased evaluation, a common shared network model has to be adopted and made available to either public and private investors. Private investment, if adequately remunerated (granting the TPA exemption or in another manner) in fact, may play a relevant role: not regulated parties may, in fact, foster cross border trade, contemporary allowing TSOs to mainly focus on investments of national relevance. For this reason we think that TSOs shall include in the regional investments plans



already private investments whose feasibility will be further evaluated by the Agency and by NRAs.

2. The document describes the contents of the Community-wide network development plan. Does it reflect the topics needed for the plan? What should be added / deleted within the contents of the plan?

Edison believes that the contents of the 10-yendp included in the document are generally respondent to the objectives set out by ERGEG, first of all the need to provide all the stakeholders with a clear picture of future investments aimed at increasing cross-border exchanges of electricity. Nevertheless, some shortcomings have been detected in the planning process, in the elaboration procedure of the European generation adequacy outlook and in the specific content of the assessment of the resilience of the system: these issues are specifically addressed in the answers to the following questions.

3. The document addresses European generation adequacy outlook. What should be added / deleted in this respect when ERGEG gives its advice?

Edison argues that the generation adequacy outlook, as outlined in the consultation paper, is an essential tool in order to evaluate the actual need of infrastructural investments with respect to the projected demand for electricity. However, as stated in the General Remarks, we would like to stress the need to involve the expertise of reliable international institutions and organizations (e.g Eurostat, IEA etc.) while defining the macroeconomic scenarios.

4. The document describes the topics (existing and decided infrastructure, identification of future bottlenecks in the network, identified investment projects, technical and economic description of the investment projects) for the assessment of resilience of the system. Is this description appropriate? Should it be changed and if so, how?

Edison believes that the assessment of the resilience of the system should be limited to the identification of future bottlenecks and investment gaps in transmission capacity, providing stakeholders with a clear overview of the existing and projected transmission facilities. In particular the estimation of infrastructures costs is quite difficult on planning stage, since the effective investment amount depends also on the technological modifications and compensative measures asked for during the authorization process.

Moreover the identification of specific projects falls out of the prescriptions of the 3rd package and, along with the evaluation of technical and economical feasibility of the projects, could result in a discretionary judgement. Therefore, the identification



of alternative investments should be left to the interaction of the market participants, both TSOs and private entities, according to the price signals given by the market. ENTSO-E intervention could indeed result in distortions, providing investors with misleading information.

For this reason we suggest to leave the relevant TSOs the choice of the specific investment to be borne, even with the help of private entities.

5. The document sets out criteria for regulatory opinion. Are these criteria clear and unambiguous? If not, how they should be amended?

Edison thinks that, according to the 3rd package provisions, in the final advice ERGEG has to deal in an equal manner with ownership-unbundled TSOs as well as ISOs and ITOs. In particular regulators should ensure that the collective benefits are duly taken into account while evaluating the investment needs and selecting the projects list.

Moreover, Edison thinks that regulatory assessment shouldn't be limited to procedural issues, as it comes out from the consultation document, but it should be extended also to the contents of the plan. For instance, an evaluation of reliability and accuracy of the market scenarios and models included in the 10-yendp would be useful in order to detect inconsistencies which can be detrimental to the correct assessment of investment needs.

6. Compatibility between the national, regional and Community-wide ten-year network development plans shall be ensured. How can this compatibility be measured and evaluated? How may inconsistencies be identified?

Edison strongly believes that the 10-yendp should be consistent with the plans developed at a regional and national level, being national and regional infrastructural investments a prerequisite for the development of cross-border interconnections at a European level.

Thus regulators must ensure that national and regional network plans are able to maximize the local dispatching capacity which is essential both to avoid bottlenecks downstream of cross-border interconnections and to allow an efficient use of the local generation facilities.

7. The Agency monitors the implementation of the Community-wide ten-year network development plan. Are there any specific issues to be taken into account in monitoring besides those described in the document?

The presence of a monitoring report to identify deviations from the precedent plans is a very useful tool, providing a high degree of dynamicity to the plan.



Nevertheless Edison thinks that roles and responsibilities of ENTSO-E, the Agency and NRAs should be further clarified.