



Dear Mrs. Fay Geitona

EREG - European Regulators' Group for
Electricity and Gas

Milano, 15th October 2010

**EDISON'S COMMENTS ON ERGEG PUBLIC CONSULTATION ON
ASSESSMENT OF CAPACITY ALLOCATION MECHANISMS AND
CONGESTION MANAGEMENT PROCEDURES FOR EFFECTIVE ACCESS TO
STORAGE AND PROPOSALS FOR THE AMENDMENT OF THE GGSSO**

WHO WE ARE

Born in 1881, Edison is one of Europe's oldest energy companies. In 2009, it reported sales revenues of 8.867 mIn €, and is carrying out an ambitious investment plan in the electricity and gas sectors. Edison had to diversify its business, when the national monopoly on electricity was established in Italy in 1963. Thanks to the first wave of EU Directives in 1996, it could re-focus its business on energy once again, this becoming the largest new entrant on the Italian market.

With 50,3 TWh produced in 2009, it is now Italy's second largest electricity generator. 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 12.500 MW. In the hydrocarbons business, Edison has an integrated presence in the natural gas chain, from production to importation, distribution and selling, with sales of 13.2 billion cubic meters in 2009.

In 2009 the new LNG terminal in Rovigo started to contribute to the diversification of Italy's supply sources with its regasification capacity of 8 bcm of natural gas a year, equal to 10% of Italy's demand for natural gas. The start up of Galsi and ITGI



pipelines will further connect Italy to Algeria and Caspian Sea, two areas rich in hydrocarbons.

GENERAL REMARKS

Edison welcomes the opportunity to send her comments on ERGEG public consultation aiming to enhance the existing Guidelines of Good Practice of Storage System Operators (GGPSSOs).

We share ERGEG remarks on the important role played by storage for the development of efficient and well-functioning gas markets. Storage is indeed a crucial (if not the only) flexibility tool in most European countries and in our opinion, its importance is bound to increase, given the progressive adoption of market-based balancing mechanisms, as required by the 3rd package.

In such a balancing system, where shippers are the main responsible for the balance of their own position, the possibility for market players to fairly access storage capacity is vital. This is mainly true for suppliers serving power generators, which have a special need to access withdrawal and injection capacity to face the swings of CCGTs, whose consumption patterns will probably become more unpredictable given the role that will be played by gas-fired electricity generation to make up for the intermittency of generation from renewable sources, whose quota is bound to increase during next years.

For the above listed reasons, Edison agrees with ERGEG that existing GGPSSOs should be enhanced, in order to ensure all market participants a market-based and non discriminatory access to storage. Furthermore, it is paramount fostering the development of market-based mechanisms through which facilitating access to unused capacity, thus coping (at least on a short term basis) with the scarcity of storage capacity. In this framework, Edison strongly supports the introduction (or improvement, where they already exist) of storage capacity secondary markets.



The development of a well functioning capacity market would also contribute to highlight the real economic value of storage capacity, providing storage operators with efficient investment signals to develop new capacity.

On the basis of these considerations, we think that ERGEG proposed amendments would positively contribute to ensure shippers an efficient and non-discriminatory access to storage capacity, besides allowing for a more efficient allocation of unused capacity.

Nonetheless, Edison understands that the differences characterizing the national gas systems are the main obstacle for the process of harmonization of CAM and CMP in storage throughout Europe. These differences should be taken into consideration by Regulators when deciding about the implementation of CAM and CMP measures, which could result to be distorted as a consequence of contextual market and regulatory conditions.

An example could be represented by the system of regulated charges currently existing in Italy to punish shippers whose used storage off-take exceeds its contracted storage limits (space, peak, etc). The presence of administrative charges to define the cost of additional storage capacity would probably work as a reference, having the effect to distort the outcomes of auctions.

COMMENTS TO THE QUESTIONS

1. To what extent do you agree that auction is the best allocation mechanism for storage and what will be the implications?

In principle, we agree that auction is the most efficient and less discriminatory allocation mechanism. Auctions, if adequately designed, allow users to access storage capacity according to their willingness to pay and, by highlighting the real



economic value of capacity, they provide storage operators with reliable investment signals.

Nonetheless, as also ERGEG correctly pointed out, different conditions are required for auctions to work properly. First of all, it should be further explored how allocation via auction could be adapted to regimes where suppliers are obliged to comply with public service obligations. If, for instance, the most of storage is reserved to ensure the modulation of residential customers and therefore allocated through a CGWC mechanism, the application of auctions on the remaining capacity which is not subject to PSOs, could drive to discrimination towards suppliers serving non-residential customers, who will probably pay higher storage prices.

2. In your opinion, what are the most important aspects regarding transparency that should minimally be addressed by SSOs for both CAM and CMP?

Firstly, Edison regards positively ERGEG proposal to publish relevant storage information both in the local language as well as in English, because this would remove one of the obstacle (i.e. the language) faced by shippers when trying to access foreign markets of storage capacity.

As concerns transparency requirements, we think that SSOs should provide, in a timely manner, at least the following information:

- Available storage capacity (technical and commercial available capacity, availability on daily and longer term basis);
- Maximum injection and withdrawal rate;
- Maintenance programmes;
- Nomination lead times for different capacity products (yearly, monthly and daily).

Moreover, SSOs should provide within their codes, detailed information on how their CAM and CMP work.



3. In your opinion, what is most important when designing UIOLI (including products and contracts) as to leave a storage user the flexibility to use its storage capacity when needed?

In Edison opinion, interruptible UIOLI might be further explored, since it could represent a valuable tool to deter hoarding behaviours and to satisfy the demand for modulation of operators who often, given the presence of PSOs, have only a limited access to storage capacity. This could be the case of power generators, whose demand is generally characterised by the necessity of withdrawal/injection capacity for a limited number of days.

With reference to the design of UIOLI, we share ERGEG remarks on the importance of applying UIOLI only on an interruptible basis. Indeed, being storage the main balancing tool, shippers should be able to exploit it with a high degree of flexibility.

As a consequence, we believe that:

- when applying interruptible UIOLI particular attention should be paid to the reasons for capacity underuse. Edison therefore claims for a clear definition of “underuse”, striking a proper balance between the necessity of preventing hoarding and shippers’ flexibility requirements,
- no firm UIOLI shall apply to storage capacity.

4. In your opinion, to what extent should offered services and terms & conditions on secondary markets be standardised as to improve secondary trade of storage capacity? Is standardisation a way forward to enhance liquidity of secondary markets? What aspects of secondary markets (products, contracts, etc.) are the priorities to be harmonised?

Edison recognises the positive impact that standardisation of services and products would have on the liquidity of secondary markets. A higher level of standardisation



would surely foster market integration and prevent the creation of customized products, designed in order to fit the needs of a few customers. The driver of standardisation should be the ability of products to satisfy the balancing needs of shippers.

Nonetheless, if the adoption of standard agreements templates should not cause major troubles and could be rapidly implemented, the design of standard products across different Member States could be more problematic, given the necessity to take into account the different physical characteristics of storage sites, which could widely differ.

With reference to the type of products available on secondary markets, Edison believes that the offer should foresees a mix of bundled and unbundled (i.e. withdrawal and injection services separated from the related space) storage services. Unbundled products may be useful due to the fact that they leave to shippers the maximum level of flexibility.

It should be left to SSOs the task to evaluate, according to the physical characteristics of the storage sites, the share of bundled and unbundled products in the mix.

Finally, Edison believes that the design of standardised products should follow a process of consultation with all stakeholders.

5. To what extent do you agree that (next to probability of interruption) pay-as-used can be applied as a pricing strategy for storage prices that are not regulated and what other pricing strategies would be suitable? How can pricing strategies incentivise new investment in storage and efficient Use of storage?

First of all, Edison would like to express her support to the principle that the price of interruptible capacity should reflect, via a discount, the probability of interruption.



As concerns the application of “pay-as-used”, we think that this pricing strategy could contribute to optimizing the use of storage capacity. The possibility to pay only for used storage capacity would make products more attractive for shippers and would incentivise storage operators to maximise the capacity offered to the market.

That said, in order to incentivise the development of additional storage capacity, it is crucial for SSOs to be ensured that they can recover the costs of the provided services.

6. In your opinion, to what extent do you consider that combined products (i.e. storage services offered at virtual hubs) of storage and transport capacities are a useful and efficient service?

Though recognizing that currently the organization of transport from/to storage hubs does not represent a problem in Italy, given the relative abundance of transport capacity if compared to storage scarcity, Edison agrees with ERGEG that the introduction of combined products could help market operators, reducing their transactional costs. For this reason we think that, in systems where it is not like that yet, transport capacity from/to the storage hub should be allocated to the SSOs, who could then manage it in the most efficient way through the introduction of combined products.

Besides the alignment of duration and lead time for regular allocation of transport and storage capacity, it is paramount that shippers are always allocated an amount of transport capacity which corresponds to the storage capacity actually available for them day-by-day and according to the evolution of adequacy factors¹.

¹ In case this should not happen, for the whole duration of the service, shippers would pay for a level of transport capacity corresponding to the maximum level of corresponding storage capacity, even if they would use a progressively lower quota.



7. In your opinion, what market mechanism (incentive) should be in place to stimulate a storage user to offer any unused capacity on the secondary market?

The existence of anonymous and well functioning exchange platforms, requiring low levels of effort by market operators, would represent a first incentive to use secondary markets. Moreover, designing products in a way that makes them suitable for balancing needs would further increase the attractiveness of secondary markets, especially concerning the possibility of accessing short-term withdrawal/injection capacity.

The presence of interruptible UIOLI, whose application should be subject to further investigations, would then work as a deterrent for operators who do not offer unused capacity to the market.

8. In your opinion, to what extent is the (cross-border) offering of storage products/combined transport-storage products useful to market parties and what should these products (e.g. minimum requirements) look like?

Edison believes that the development of cross-border storage/combined products would represent an important step towards the integration of European gas markets.

Nevertheless, we recognize that the development of well-functioning and fairly accessible storage markets on a national level should be the priority; cross-border products could then derive as a consequence.

9. To what extent do you consider the proposals will facilitate allocation and congestion management of storage capacity? What other measures should be in place?

In principle, Edison supports ERGEG proposals to amend the existing GGPSSOs, as they could contribute to the efficient functioning of gas markets. Auctions are a



non-discriminatory market-based CAM and, if properly designed, they should bring efficient outputs. In addition, the introduction of interruptible UIOLI, together with the possibility for shippers to send unused capacity on secondary markets, could prevent hoarding and ensure an optimal use of storage, making capacity available on a short term basis.

However, when turning the attention to the practical application of the amended GGPSSOs, we believe that the different characteristics and requirements of national gas systems (number of bidders in the auction, existence of PSOs, etc) should be taken into account, given that they could impact on the outcomes of these measures.

9.1. In particular, what possibilities do you see to enhance efficient use of storage, reserved for public service obligations like e.g. strategic storage or other reserved storage? Under which conditions would additional use of such storage as (interruptible) short-term product or remarketing on secondary market be acceptable? Could you give examples from your day-day experience?

Even if ideally the market might provide efficient responses to security of supply requirements, Edison believes that in systems where storage is scarce, national authorities should ensure that the demand for seasonal modulation of residential customers is satisfied. That said, it could be further investigated in each country the possibility to:

- frequently re-calculate if the reserved for residential customers or strategic storage is sufficient to ensure the satisfaction of forecasted consumption of residential customers (their demand being regularly updated following weather and temperature changes, etc)
- re-allocate on a short-term interruptible basis the capacity that, according to the above-mentioned calculations, could be freed-up without hindering the security of supply of domestic customers.



Furthermore, in Edison opinion, a considerable amount of storage capacity could be freed up as a consequence of the introduction of completely market-based balancing regimes. This mechanism will indeed place the main responsibility of balancing on shippers and, consequently, the amount of storage capacity which is reserved to TSOs for their balancing requirements could be reduced and offered to the market.

10. To what extent would you agree NRAs should be endowed with additional competences in developing CAM and CMP?

In principle, any additional competences of NRAs should be in line with the prescriptions of 3rd Package and not exceed tasks and powers there attributed to National Regulators.

Nonetheless, we understand that NRAs, thanks to their deep knowledge of the rules characterising different gas systems, could positively contribute to the correct implementation of the proposed measures on a national level.