EDISON COMMENTS ON ERGEG CONSULTATION ON INCENTIVE SCHEMES TO PROMOTE CROSS-BORDER TRADE IN ELECTRICITY

WHO WE ARE

Born in 1881, Edison is one of Europe's oldest energy companies. In 2008, it reported sales revenues of 8.867 mln €, 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 Call for Evidence launched by ERGEG on incentive schemes to promote cross border trade in the electricity sector. The creation of a fully integrated European electricity market requires an improvement in cross-border trade and congestion management, already among the objectives set out in the Third Energy Package[1]. Moreover, NRAs are in charge of reducing the restrictions still hampering electricity trade among Member States by improving the level of regulatory harmonization with a broader European coordination power guaranteed by ACER.

Edison supports the process towards the integration of European national markets set up by the Third Package. Hence, we strongly believe that the harmonization of national legal and regulatory frameworks should be prioritized in order to guarantee a level playing field to all the stakeholders. An adequate degree of harmonization is therefore a prerequisite to enable national incentive schemes to cross border trade to be effective and non-distortive of market functioning. Instead, the implementation of measures, such as the ones proposed in ERGEG's call for evidence, risks to prove self-defeating when applied to cross-border trade between two markets having different regulatory regimes (e.g. regarding network access tariffs, ATC calculation etc.).

Moreover, Edison whishes to bring to ERGEG's attention the primary role which Switzerland plays in the process of European electricity market integration, especially for the Central-South Region's

[1] Art. 16 Regulation 714/2009 EC.

market. Any further progress in market integration of this area actually depends on the outcome of negotiations between European Union and this country with regard to complex issues such as regulatory framework, price regulation and unbundling. Thus, national incentive schemes introduced in electricity cross-border trade with Switzerland would turn out to be detrimental to market functioning without a previous understanding on the application of the EU legislative framework.

As regards the incentive schemes based on a single indicator of performance proposed in Ch. 2, we would like to stress that indicators based on price differentials (i.e. number of congested hours etc.) are not always fully indicative of interconnection bottlenecks which hamper cross border flows. Indeed, electricity prices are mainly exogenous with respect to network related issues[2] and are often subject to a considerable level of volatility. For these reasons other indicators, such as the energy intensity in the two markets concerned, should be duly taken into consideration in order to define a target for an incentive schemes that is reflective of actual market conditions. Furthermore, the indicators at issue don't take into consideration the difference between physical and commercial flows that is of paramount importance in order to detect which cross-border interconnections are really congested, regardless of location of the counterparts involved in electricity trading.

In Edison's view, provisions on congestion management included in Regulation 1228/2003 EC (by March 2011 Regulation 714/2009 EC) are still to be fully implemented, especially as regards the maximization of cross-border capacity[3] and the definition of transmission charges. Therefore, we strongly believe that a full transposition in each member States and relevant third countries of the relevant EU legislation on cross-border exchanges in electricity is a prerequisite for a sound integration of European electricity markets and for guaranteeing the effectiveness of any possible incentive scheme.

Hence, though recognizing the central role of TSOs in electricity markets integration, we above all suggest to fully implement the Third Package provisions aimed at harmonizing regulatory framework and TSOs practices (capacity calculation methodology etc.), also through the elaboration of framework guidelines and network codes. TSOs shall be therefore provided with the legal tools and obligations to foster cross-border trade through an improvement of interconnection capacity on existing infrastructures and of capacity allocation mechanisms.

Thus, Edison welcomes the identification by the ERGEG Project Coordination Group (PCG) of target models for cross border trade, balancing market and capacity calculation as a common reference for the development and the harmonization of regulatory frameworks at regional and European level. Only once a level playing field across different EU electricity markets will be granted to market players, correct incentive schemes both based on performance indicators and on a system of benchmarks and targets linked to financial mechanisms will be able not to distort the correct functioning of the electricity market.

[2] Other factors are more relevant such as generation costs, bileteral cross-border contracts (concluded out of PXs) etc..
[3] For instance, in several occasions a positive differential between the sum of monthly ATC (calculated on a monthly basis) and annually calculated ATC shows the tendency of TSOs to undervalue NTC.