

Edison Spa

Sede Legale
Foro Buonaparte, 31
20121 Milano
Tel. +39 02 6222.1



To: ERGEG European Regulator's
group for electricity and gas

e-mail: 10-year-plan@ergereg.org

Milano, 29 maggio 2009

OBJECT: answer to public consultation “ERGEG recommendations on the 10-year gas network development plan”.

Edison is today the second largest electricity company in Italy and the third player for natural gas in Italy. In the future, Edison aims at continuous growth, international expansion (its joint venture with Hellenic Petroleum have made the second electricity player in Greece) and at becoming the second player for natural gas in the Italian market.

As shown by the recently presented business plan, the company will keep on investing in the years to come: in the next four years more than 7.2 billions Euro will be devoted to investments for both natural gas (exploration and production activities, as well as some major import infrastructures, including the Rovigo LNG, and the IGI and GALSI pipelines) and for power generation, with a particular focus on renewable energy sources (~1 billion Euro of capital expenditure) and strategic overseas developments in fastgrowing markets, such as Greece, Romania and Turkey.

Edison is also active in developing projects in the field of renewable power generation (especially wind farms) and merchant electricity transmission, such as the AC Tirano-Campocologno.

GENERAL COMMENTS

Edison shares ERGEG view on the importance of the 10-year gas network development plan (10-ygndp) as a key tool to improve competition and security of supply. Providing all the relevant stakeholders with a clear picture of future investments, focusing on congestion at cross-border entry-exit points and on internal bottlenecks with a cross border impact, is of great



importance in order for the natural gas undertakings to define their strategies and orientate their investments.

For those reasons Edison welcomes the opportunity to comment on the present consultation.

A clear overview of the transmission network provides a valuable contribution to the creation of a single and integrated European gas market. Gas network users, as well as other relevant stakeholders, would indeed face less risks and uncertainties when planning their investments and their strategies of breaking into other Member States' markets. Moreover, Edison believes that the 10-ygndp could represent an useful tool to further develop coordination and cooperation among different TSOs.

However, Edison thinks that some issues included within ERGEG recommendations should be better clarified.

Firstly, ERGEG document needs to be updated with the final version of the agreed 3rd Package. For example, the role of the new Agency is now decided and the text of ERGEG consultation should be amended accordingly. Furthermore, the final version of the Regulation amending Reg. No 1775/2005, Article 2c (5) does not include anymore the obligation for TSOs to implement the published investment plan.

Secondly, Edison believes that ERGEG recommendations should remain within the framework proposed by the 3rd Package, without introducing more prescriptive obligations, such as the obligation for TSOs and relevant stakeholders to provide the information requested by ENTSOG. On the contrary, data collection should be completed on a voluntary basis, in the context of an open and transparent consultation process, as foreseen within the revised Regulation 1775/2005. The publication of some sensitive information in addition to current transparency requirements, such as the level of booking by shippers and duration of allocation, could result in damages to gas users' competitiveness.

Furthermore, the plan should recognize the difference between projects that have reached a final investment decision (FID) and all other projects, thus giving due evidence to the different level of maturity reached by planned infrastructures. This will reduce the risk for network users but also potential network developers to plan strategies and investment without the reasonable certainty that the infrastructure contained in the 10-ygndp would be completed.



A very important issue to be clarified is the relation between TPA exempted infrastructures and the scope of the 10-ygndp. Infrastructures under such regime shall be part of the 10-ygndp, insofar as they are physically deployed as a part of the European network, but still their regulatory framework and operation are subject to case specific standards and obligations which do not compel them to share relevant information with NRAs and the competent authorities. Therefore the commercially sensitive information related to TPA exempted capacity shall not be communicate for any reason to ENTSOG¹.

Finally, Edison believes that the detection of alternative projects could be useful, but an assessment of technical and economical feasibility of the investments and a ranking among alternative projects would be out of the scope of the 10-ygndp.

ANSWERS TO ERGEG DISCUSSION POINTS

1. What would be for you the benefits of the 10-year gas network development plan?

Edison thinks that many benefits can result from the drafting of the 10-ygndp, in particular by further developing and fostering integration within the internal market and thus fostering the level of interconnection and security of supply. Within this framework, the 10-ygndp could contribute to provide higher visibility to gas network projects, facilitating and possibly shortening permitting procedures for new infrastructure. Further positive effects could derive from the probable harmonisation in planning between different TSOs, with potential extension to used terminology, booking operations, etc. Nevertheless, the plan should be coupled in the short and medium term with measures aimed at increasing capacity flexibility and liquidity (i.e. effective allocation and congestion management mechanisms) in order to address contractual (not physical) congestions and market inefficiencies, being well functioning secondary markets a prerequisite for congestion management procedures to work properly.

¹ In case of partially TPA exempted infrastructures, the protection of commercially sensitive information on the non-regulated part of the investment should be preserved.



2. What is the most important information you expect from the 10-year gas network development plan?

The most important contribution that Edison expects from the European plan is identifying the existing congestions, thus highlighting the risks for security of supply and providing the market with correct investment signals. Moreover, the inclusion of demand/supply scenarios and a regular update of the projects will contribute to adopt a dynamic approach, which is useful for gas users who have to orient their strategies according to the development of transmission infrastructures.

3. Do you consider that the 10-year gas network development plan, as proposed by ERGEG, will be beneficial to security of supply?

As explained (see answer to point 1), Edison believes that security of supply will be positively addressed by the 10-ygndp, as proposed within the 3rd Package, which will help to identify the existing bottlenecks and to give investment signals to the market.

Nevertheless, some of the aspects proposed by ERGEG (such as the obligations for gas undertakings to make data available to ENTSOG, the assessment of technical and economical feasibility of projects, the selection of the most efficient options and the identification of alternative projects), and not present in the 3rd Package text, should be better analysed (see answers to next points).

4. Do you consider that the scope proposed by ERGEG is appropriate? Should it be enlarged?

In general, Edison thinks that the scope proposed by ERGEG *“investments of a broader European dimension requiring a high level of coordination between two or more TSOs”* is appropriate and agrees on the exclusion of secondary transmission network, of which evidence will be found in national investment plans.

Nevertheless, it should be carefully assessed the possibility to include non-regulated (TPA exempted) investments. Even if it is understandable that a certain degree of visibility should be given also to TPA exempted infrastructures, Edison believes that a minor degree of details should characterise the information requested (and to be provided on voluntary basis) to this kind of infrastructures. Indeed, TPA exempted infrastructures



are not subject to TPA rules, such as the obligation to provide the National Regulator and the competent authorities with evidence of the incurred investment costs².

5. Do you agree with the combined bottom-up / top down methodology proposed in the document? What would be the most efficient process to achieve the top down approach?

As a whole, Edison agrees with the combined bottom-up/top-down methodology proposed by ERGEG, which could contribute to the creation of a coherent approach among national, regional and European plans. For instance, it is very important to have a common understanding of Security of Supply definitions, going beyond the single national definitions and referring to Directive 2004/67/EC.

With reference to the top-down approach, we believe that the process should not lead single TSOs to be influenced by ENTSOG's recommendations on the identification of priority projects, when making their investment decisions. As expressed in the General Comments, the identification of priorities and the selection of the most efficient option could be discretionary.

6. Would you agree with putting an obligation on market participants to communicate all the relevant information about their future projects?

Edison believes that the approach proposed by the 3rd Package, which foresees a non binding consultation process among all the interested parties, should be preserved. Nevertheless, we underline that the communication of data/information on a voluntary basis shall be guaranteed overall to TPA exempted projects. Project sponsors should remain free to decide whether some information about their TPA exempted infrastructures should be published, also according to the degree of development of the project.

² In Italy, this is foreseen in AEEG Regulation 166/05, art. 42



7. What would be the best way for ENTSOG (including its members) to collect data from stakeholders? Should that be carried out at a national, regional or European level?

Edison agrees with ERGEG proposal to have stakeholders to complete a questionnaire prepared by ENTSOG. This could indeed be an efficient way to organize the consultation and it allows to easily summarize and compare the information. The circulation of a draft of questionnaires would be appreciable, to allow stakeholders to contribute with suggestions to the design of questionnaires.

Moreover, in order to avoid duplication and non-homogeneity between data provided on a national, regional and European level, Edison suggests that the subjects in charge (TSOs, TSOs coordinated on a regional level, ENTSOG³) co-operate on the elaboration of the questionnaires, with the aim to create a common EU format, based on common definitions and methodologies. This will also allow to meet ERGEG objective to “ensure consistency between national, regional and Community-wide plans”.

8. Are the scenarios mentioned appropriate? Would you have other proposals?

We agree with ERGEG on the importance of including scenarios within the 10-ygndp.

The proposed scenarios seem to be reasonable, even if they are only one of the possible approaches to evaluate demand/supply dynamics.

Nevertheless, more attention should be paid to the impact that national energy and environmental policies have on the development of gas markets within the EU. For this reason, national competent authorities (Ministry of Energy and/or Environment) should be involved in the draft of the scenarios, giving an overview of the trends that will define their policies in the following years.

Moreover, consistent scenarios are already provided by recognised international Organisation (such as IEA etc.) and could be valuable terms of reference to assess the scenarios that ENTSOG intends to include in the 10-ygndp.

Finally, ERGEG says that “scenarios must clearly address technical and economical feasibility of expansion projects”, but Edison believes that the

³ New major project sponsors, who are not entitled to participate to ENTSOG, should be as well involved in the elaboration of questionnaires.



evaluation of feasibility is an extremely difficult task, due to the huge amount of variables that could impact on the realization of a project. Furthermore, it could also result in a discretionary assessment of the projects and thus mislead the investment strategies of network users. For these reasons, Edison recommends that technical and economical feasibility evaluation is not considered when developing the scenarios.

9. What are your views on the proposed EU network modelling and simulation of supply disruption?

Edison believes that the provision of a map of existing and decided infrastructure, including interconnections with LNG terminals, adjacent transmission operators, and storage facilities is the most important tool included in the 10-ygndp. Indeed, it allows users to orientate in advance their investments and their strategies. Nonetheless, we confirm that sponsors of TPA exempted infrastructures should not be in any case obliged to communicate to ENTSOG or publish all the capacity information as stated in ERGEG consultation, such as the level of booking by shippers and duration of allocation.

Concerning simulation of supply disruption, Edison suggests the introduction of a model similar to “N-1” present in the electricity.

The main principle of the N-1 rule is that, the failure of the largest gas infrastructure and/or supply source into a Member State (entry point, production field, LNG terminal, storage etc.) should be compensated by the capacity of the remaining gas infrastructure (for at least the domestic consumption). This is a principle that is applied in electricity where TSOs must ensure that the network is able to maintain system stability in case of a default of the main element of the infrastructure. The compensation of disrupted supply should come from a different source (a different producing country for supply from outside EU or a different route with guaranteed supply), or a back-up source of domestic supply (domestic production or storage).

Nonetheless, given the different structure which characterizes gas market, the introduction of “N-1” should be better investigated and however this kind of model should be applied in a loose sense, for instance taking into account the possibility to switch to other type of fuels for power generation and reverse flows feasibility.



Finally, security of supply parameters and possible solidarity mechanism, should be introduced with a dynamic approach, following the new prescriptions present within the forthcoming revision of Directive 2004/67/EC. Security of supply simulations should be implemented not only on an European level, but should start at regional-level, given the current tendency to start to cope with supply disruptions on a regional basis and only afterwards moving to an European dimension.

10. Do you consider the drafting methodology and content relevant? In your view, should ERGEG be more or less prescriptive?

With reference to the drafting methodology, see answer to point 5 concerning the introduction of top-down and bottom-up approach.

As concerns the proposed contents of the plan, Edison thinks that ERGEG should be less prescriptive and comply with the provisions present in the 3rd Package, where no obligation for TSOs and stakeholders to communicate data and information is foreseen.

It follows comments on the specific points:

a) Scenarios development

As stated at answer to point 8, Edison disagrees with the introduction of technical and economical feasibility as a main item to be addressed by the scenarios.

b) Description and analysis of the functioning of the integrated network

Edison confirms what stated at answer to point 9, which is that TPA exempted infrastructures should not be obliged to publish all the capacity information as foreseen within ERGEG consultation, such as the level of booking by shippers and duration of allocation.

c) Technical and economic description of the projects

While the technical description of the projects (such as data on transport capacity, date of operation, etc) is fundamental to draft the plan and to identify the existing and potential bottlenecks, Edison does not understand the necessity to introduce also an economic description, mainly based on sensitive data, such as cost components. This problem arises in particular



with reference to TPA exempted infrastructures, which are not subject to the obligation to communicate capital value information to NRAs.

d) Identification of alternative projects

The identification of alternative projects falls out of the prescriptions of the 3rd Package and, similarly to the evaluation of technical and economical feasibility of projects, could result in a discretionary judgement. Moreover, Edison believes that the role of the 10-ygndp should be providing natural gas undertakings with a clear overview of the existing and projected transmission network. On the contrary, the identification of alternative investments should be left to the interaction of market participants, according to the price signals given by the market. ENTSOG intervention in this sense could indeed result in distortions, providing the investors and the producers with misleading information.

11. Do you consider it important to have a monitoring report assessing and explaining deviations from the previous plan?

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

Nevertheless, Edison thinks that TSOs shall not be obliged to publish reasons for not proceeding with certain investments. The communication of causes which led to delays in the development of projects should be left on a voluntary basis, since it could deal with sensitive information, which could not be published without causing damages to the project sponsors.

12. Is the consultation procedure for the EU-wide 10-year gas network development plan proposed in section 3.5 appropriate?

The consultation process proposed by ERGEG seems to be appropriate, since it follows the prescription contained in the 3rd Package. The circulation of the 10-ygndp among the representatives of traders, shippers, gas suppliers, customers and other relevant stakeholders, as well as the discussion within the Madrid Forum and among representative organisations is appreciable, but it is not clear if it is designed as to be a further consultation round or simply an informative circulation.