



To: **CEER – Council of European
Energy Regulators**

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**OBJECT: Edison comments on CEER Call for Evidence on
Generation Adequacy Treatment in Electricity**

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.

GENERAL REMARKS

Edison welcomes the opportunity to answer to CEER consultation on Generation Adequacy Treatment in Electricity, being this issue a precondition for the correct functioning of the electricity market with the view to ensure security of electricity supply through an adequate level of investment. We believe that an adequate level of generation capacity able to meet the demand requirements should be addressed by efficient and liquid electricity wholesale markets with clear price signals capable of leading to demand response mechanisms. Nevertheless, there are barriers to investments still preventing the development of new generation capacity. Those barriers consist of regulatory uncertainties and inconsistencies, the underdevelopment of interconnections to the existing network and commercial restrictions to cross-border physical flows.

As correctly highlighted in the consultation document, the provisions set out in the European legislation¹ limit the implementation of measures supporting generation adequacy to the case of markets failure to deliver security of supply and investments in generation facilities. Nevertheless, it should be highlighted that the high price volatility of electricity markets, mainly due to fixed costs of peak-mid merit plants, often makes the financing of new capacity excessively burdensome. Thus, a capacity payment mechanism, able to remunerate fixed costs and limiting price volatility to variable costs, could be extremely beneficial to the electricity sector. Such a measure shall improve the financiability of investments in new capacity and reduce the financial burdens beard by the whole electricity sector with a clear benefit for final customers. Still, we believe that this kind of measures requires an adequate level of harmonization in market design across Member States in order to avoid possible negative externalities affecting neighbouring markets. Therefore, any of these mechanisms should be harmonized at least in their general objectives, thus avoiding dangerous market distortions and possible penalizations directed to customers and generators in certain markets. We finally want to stress that incentives to investments in new generation capacity should not be cyclical, i.e. implemented only when there is a risk of shortages with high prices. These incentives should, instead, be adopted also when adequacy is guaranteed, being this of paramount

¹ Art. 7 and 8 Directive 2009/72 EC and Directive 1005/89 EC.



importance in order to successfully achieve environmental objectives and security of supply.

Moreover, in our view, full attention should be given to avoid discrimination against existing generators through measures which incentivize new investments in areas where generation turns out to be less efficient (e.g. due to lack of interconnections ecc.) than in already producing locations.

ANSWER TO QUESTIONS

Since CEER's consultation questions are strictly interrelated, we prefer to give a single answer rather than three separate ones, focusing the analysis on the key elements for ensuring generation adequacy given the main barriers still persisting in European electricity markets.

We strongly believe that debottlenecking the existing electricity grid should be set as a clear priority when developing a generation facility in a certain area. An adequate network is therefore a prerequisite in order to avoid that incentives to investments in electricity generation bring about distortions in price signals, preventing the further development of the most efficient plants already well interconnected. Therefore, measures aimed at supporting generation adequacy should clearly take into account whether a parallel development of the electricity network has been already provided. Otherwise, it would be necessary to trigger further interventions in the electricity grid before installing new capacity.

The development of cross-border trade with a balancing market extended beyond national boundaries could represent a strong incentive for the development of an adequate level of generation capacity located where it is more cost effective. Nevertheless, the harmonization of the regulatory framework related to allocation of cross-border transmission costs between TSOs and traders should be aimed at avoiding excessive burdens beard by final customers. We think that commercial restrictions to cross-border electricity flows are particularly harmful in terms of optimal allocation of generation capacity and consequently for security of electricity supply. For these reasons, we believe that a coordination between TSOs on some relevant issues (e.g. security margin calculation etc.) can be beneficial as a point of reference for the development of an efficient electricity generation system open to cross border trade.

We finally wish to stress the need for coordination and streamlining of authorization procedures at a European level as a mean to guarantee the level playing field to market players operating in different markets and to



favour the prompt realization of investments in generation capacity, together with grid upgrade.