

EDISON'S RESPONSE TO THE SECOND MONITORING REPORT ON COMPLIANCE WITH THE REGULATION (EC) 1228/2003 AND ANNEXED CONGESTION MANAGEMENT GUIDELINES (CM GUIDELINES).

1. Edison: who we are

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 will soon make it 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 6.2 billions Euro will be devoted to investments for both natural gas (exploration and production activities, as well as some major import infrastructures, such as the Rovigo and Rosignano LNG re-gasification terminal 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 fast-growing markets, such as Greece, Romania and Turkey.

Edison, an historical energy company (one of the oldest energy companies in Europe, active since 1881), had to diversify its activities, 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, thus developing one of the most modern and efficient gas-fuelled CCGT generation portfolios in Europe.

Today, through one of the most ambitious investment plans in Europe, Edison is the leading new entrant in the Italian energy market. In the electricity sector, Edison runs more than 12.500 MW of generation capacity; it has massively extended its thermal power generation portfolio, with the recently developed high-efficiency CCGT gas-fired power plants of Altomonte, Candela, Torviscosa and Simeri Crichi. 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 and the HVDC Bovisio-Magadino lines, with the latter been awarded TEN-E financing.

2. Edison's comments on ERGEG's Reg.1228/2003 Compliance Monitoring Second Report

Edison appreciates ERGEG's effort to analyse the positive and negative aspects of implementation of Regulation 1228/2003 and Annexed Congestion Management Guidelines, throughout the EU Member States. This second report shows interesting sets of data, both in terms of regulation compliance and the ways cross-border regulation has been practically implemented (e.g. different congestion management methods or the use of congestion income in the various Member States).

Edison would like to share its views on Reg. 1228/2003 compliance as both an electricity trading company (making use of interconnected networks) as well as transmission project developer. In general, Edison agrees with most of the findings of ERGEG's Report and with the proposed solutions. Furthermore, when analysing Reg. 1228/2003 compliance as well as the general functioning of cross-border electricity trade, Edison believes great attention

should be devoted to the need for correct and harmonized implementation, and the ways for national legislative and regulatory frameworks on electricity interconnection to converge.

2.a Inter-TSO compensation

Edison is agree with ERGEG about the need to develop an Inter-TSO compensation system able to determine really TSOs responsible for origin and end of flows in the meshed network and suggests the creation of a common and shared update database to address it (see point 2.b above).

Such a data base would solve the problem to quantify and attribute the network losses, mitigating possibility of discriminative behaviours.

It must be emphasised further that the cost of losses should be equally charged to the operators really assigners of the exporting and importing cross border transit capacity.

2.b The creation of a common and shared update database

In order to promote a larger integration, it seems key that a common and shared updated database describing the real physical network of large and consistent parts of the European system should be used as a joint model by all involved TSOs to calculate more precisely the cross influence of transactions and/or network conditions on physical power flow (coordinated load flow calculations).

A preliminary necessity (also before market coupling introducing) is to identify the existing loop flows and maximised allocated capacity thought a state estimation with real data (productions, lines availability, loads, etc) and in real time.

Only starting from the “as it is” scenario it seems possible to avoid distortions in the market and to guarantee the coordinated planning of the key European investments.

2.c Insufficient level of harmonisation on cross-border electricity flows

Edison’s experience with regard to interaction with different TSOs has shown that specific rules as well as general market structure still differ to a very large extent, and that these differences impede a full development of cross-border electricity trading.

For instance, network losses related to electricity traded across borders are treated differently by the different TSOs in the Member States. Some TSOs provide for procurement of electricity due to network losses themselves, while others deem energy trading companies responsible for procurement of the losses related to their own flows.

Another example of lack of harmonisation Edison would like to draw the attention on is the different level of network utilisation fees applied in the different Member States: harmonisation and convergence of these fees is a pre-requisite in order to allow for enhanced cross-border flows of electricity, and to a more integrated European market.

To this extent, Edison expresses the need for further coordination among Regulators and TSOs at European level, in order to develop a consistent or at least harmonised set of rules related to cross-border electricity flows between neighbouring States and, eventually, at regional and European level.

2.d Cross-border investment incentives

TSO’s main task is to guarantee a sufficient level of security and reliability of the national grids, and to improve internal as well as cross-border transmission capacity. Both tasks, but in particular the latter, involve investing in order to increase

transmission capacity: in various Member States, TSOs have their investment incentivised by the Energy Regulators, through different systems.

Differences in these incentive systems often result in very different investments carried out by TSOs, both on internal and cross-border lines. This leads to lack of coordination of investments occurring in different States, resulting in inefficiencies. This is particularly severe for cross-border investment, since lack of coordination between neighbouring TSOs on investment may lead to development of network only on one side of the border, without being able to increase actual interconnection capacity due to congestion on the other side of the border.

To address this problem, Edison suggests to start working on a system of harmonisation of incentives given to TSOs carrying out investments, especially when these investment have an impact on cross-border transmission capacities.