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ENI RESPONSE TO DISCUSSION PAPER ON ENERGY REGULATION: A BRIDGE TO 2025

The Overarching Paper

Q1: Do you agree with this overall approach? Would your emphasis be any different?

We share the overall approach to remain focused on the continued development and implementation of the current legislative framework (e.g. Third Energy Package and the associated framework guidelines and network codes).

This should be aimed to deliver a framework that:

- gives confidence and certainties to investors in the gas sector for the next decades;
- provides flexibility to face the overcoming future challenges and reach EU environmental and competition goals without contradictory outcomes;
- does not discriminate among different types of market players.

As highlighted by ACER *"it's very difficult if not impossible to predict beyond few years"* due to the quick changes that might occur in the energy sector. However we recognize the value of the "bridge to 2025" strategic policy initiative that, in our opinion, should be aimed at assessing and addressing the market developments occurred in the past years in a mid-term perspective.

We particularly share the assessment carried out by ACER in the Gas Paper on (i) the possible implications of the "declining demand vicious circle" and (ii) the concerns regarding how liquidity developed at some Western European hubs and potential *"upstream concentration"*. These aspects should be further explored and assessed.

Finally, we believe that, if considered to be the case, any action taken to address recent market developments should follow an "holistic" cross-sectoral approach that provides for coherence between the three EU pillars: competitiveness, security of supply and sustainability.

Q2: Do you agree with this broad analysis and/or do you have further suggestions?

We agree, in particular, with the challenges identified by ACER for the electricity market brought by the rapid development of RES-based generation in the past years.

On this topic, the Overarching Paper correctly highlights the need "to invite policy makers to limit the use of subsidies (particularly for renewable energy sources) to the extent to which they are necessary to facilitate market entry of innovative/immature technologies and to ensure that any use of subsidies does not hamper cross-border competition". In the past this has not been done and, in some cases, the market has been significantly distorted.

In the context of the electricity market we also acknowledge that there is a reduction of competitiveness of gas-fired power generation in most of Europe. Indeed, less environmental friendly coal generation is taking benefit from (i) the US shale gas revolution that is increasing coal availability, with the consequence of



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a price reduction of this source in Europe (ii) the current outcomes of the ETS market, which today is unable to express a sound price signal towards coal-to-gas generation switch.

If no actions are taken this might result in a further decrease in gas demand and, consequently, an increase (as preliminary data already shows for 2013 regarding emission factors) in CO₂ emissions.

In this framework, a third point that needs to be highlighted is the need for stability. Indeed, in order to provide for the necessary stability of the electricity system, the establishment of coherent and harmonized capacity remuneration mechanisms for gas-fired generation should be considered. This would allow investments in gas-fired plants playing the role of back-up for the intermittent generation of renewable energy sources.

Furthermore, it is important to mention the need to support other than traditional utilizations for gas in order to mitigate the negative effects (e.g. stranded costs) that a low demand scenario might have on the energy market.

In particular we are referring to the role that gas can play in transport. For instance:

- CNG for small and medium vehicles and
- LNG in shipping (as for lorries and inland waterway) and heavy duty vehicles.

Besides their importance in terms of gas demand, both technologies might further contribute to the reduction of CO₂ emissions and the improvement of air quality.

Finally, we consider necessary to re-assess the process of electrification of the residential sector because it might be the case that it does not imply *per se* a reduction of the environmental foot print and it could originate consequences in terms of and less efficiency and more costs in the European energy system.

Q3: Do you think the list of suggested measures is complete or do you have further suggestions?

- **Do you think that the requirements for infrastructure investment in gas are the same as in electricity?**
- **What further ideas do you have on the future role of consumers?**

In general terms, efforts to better integrate electricity and gas markets are welcome. Indeed, as mentioned in answer to Q2, gas can play an important role with regards to the need of flexibility of energy markets imposed by the increase of RES in the power generation.

This, added to the contribute that gas can bring to the achievement of environmental goals, should prompt policy makers and regulators to support the role of gas in the European energy mix.

Regarding the requirement for infrastructure investment, we welcome the current work in the gas sector to define market-based mechanisms for the development of new and incremental transmission capacity, where positive externalities of each project are duly taken into consideration.

However, we highlight that this work has to be accompanied by the set-up of a regulatory framework that does not disincentive to invest (e.g. it is important to avoid applying rules that would reduce shippers' willingness to share the investment risk by booking long-term capacity).