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ENI RESPONSE TO PUBLIC CONSULTATION PAPER ON “EUROPEAN ENERGY REGULATION: A BRIDGE TO 2025”

We welcome the opportunity to contribute to the work ACER is carrying out on the “Bridge to 2025”. We would focus hereafter on the key priorities with regard to the regulatory actions identified by ACER among the ones already represented by eni in the pre-consultation process.

Starting with the gas sector, we acknowledge that several uncertainties (both on the demand and on the supply side) are affecting the future of the European gas market and, at the end, might put at risk the key role that this energy source plays in terms of competitiveness, security of supply and sustainability. In light of that, we believe it is extremely important that all the possible scenarios on how such uncertainties could play out are carefully taken into consideration by the regulatory framework, thus providing confidence and certainties to investors for the next decades. It is crucial that the regulatory approach does not discriminate against gas by supporting other fuels (i.e. RES subsidies).

Beyond that, in our view, there are key priorities to focus on in shaping the future gas regulatory framework, such as:

- the full implementation of the Third Energy Package and the network codes (carried out in a consistent and harmonized way by Member States and NRAs in order to avoid market distortions as well as barriers and complexities) should be the main priority for the regulators before drafting further regulatory interventions. In this framework, the TSO’s compliance with transparency obligations constitutes a key element towards the establishment of a ‘single’ gas market in Europe;



- the risk related to stranded assets in the energy infrastructure system has to be carefully examined, in particular while considering new investments, in order not to feed the declining demand vicious circle that, as identified by ACER, reduce the attractiveness of gas for remaining users (declining demand would mean that gas infrastructure costs would need to be recovered over a smaller consumption base, leading to higher end-user gas prices and possibly a further reduction in demand);
- the change in the structure of the power generation sector, which has seen a massive growth of non-dispatchable renewable energy generation capacity in the last few years, a high availability of cheap coal and the reduction of competitiveness of gas-fired power generation in most of Europe. In this context, the issue of stability of the electricity system becomes a key priority that regulators need to address. In this regard, a capacity remuneration mechanism should help meeting the target of a flexible and safe electricity market. To this end, gas-fired plants enjoy technical and operating features that make them an excellent match for highly-intermittent RES and, at the same time, could help in achieving de-carbonisation goals.

Furthermore, it is important in our opinion that regulation will support:

- European indigenous gas production, in order to mitigate the increasing dependency on gas imports foreseen in ACER's assessment;
- non-traditional uses 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 the transport sector.

It is worth mentioning that the Gas Target Model update process could represent the instrument to consider some of the most urgent priorities for the sector regulation.



In Eni's view, the electricity section of ACER's Paper represents a fair and organic approach to the main challenges that the electricity wholesale markets will face in the future.

Eni agrees on the most relevant trends identified in the document and recognizes that these markets are undergoing fundamental changes driving the generation portfolio towards smaller, more distributed and less predictable generation plants. All these changes have a relevant impact on generation adequacy, system flexibility requirements and the need of provisions of grid support services.

In this framework, the priority is to continue the implementation of an integrated electricity market, an efficient and consistent cross border trading in all time frames, maximizing the transmission capacity allocation across zonal borders. Particular attention should be addressed to fill the existing gaps, such as the intraday market, where a continuous trading model has to be developed, and the balancing market. Moreover, the final achievement of any change of the market structure (such as a review of the bidding zone configuration) must be an increase in market efficiency and liquidity.

However, given ACER's position concerning the challenges posed by RES development – a view Eni fully agrees upon – we believe that the main focus should be on flexibility issues. Thus, in the short term and as a first step, balancing requirements should be extended to RES generators and major market distortions related to subsidy schemes to RES should be avoided.

In this respect, Eni would like to emphasize that organic interventions on the market rules and design require a careful analysis and can usually be implemented in the mid-term. That is why NRAs should be allowed to define short-term transitory measures in order to deal with current issues as in the case of the introduction of targeted capacity remuneration mechanisms to ensure the ability of the power system to flexibly cope with RES intermittency, i.e. with sudden and often relevant changes in their forecast output.



Last but not least, in the long term, a structural reform of the EU Emissions Trading Scheme is also viewed as a potential measure to re-establish the competitiveness of the low carbon generations unit.

With regard to infrastructure investments, Eni shares ACER's view on the importance of infrastructures in achieving the target of an integrated energy market. Key priorities are:

- to focus on a consistent implementation in all the systems of the existing CMP Guidelines and the CAM Network Code, that would help to increase the efficient use of existing infrastructure;
- to avoid stranded investments that would impact on gas prices and feed the “declining demand vicious circle” noticed by ACER while, at the same time, to consider new infrastructure where the benefit for the systems are recognized to be higher than the relative costs of development. In this respect we believe that e.g. special consideration should be given to the development of reverse flow investments, given their importance for further market integration;
- to avoid discrimination between short and long term capacity and avoid applying rules that would reduce shippers' willingness to share the investment risk by booking long-term capacity. In general, from a regulatory point of view, it is important to develop a framework that does not create disincentives to invest.

Regarding governance issues, Eni thinks that regulatory stability and predictability are the main targets to be pursued and that Network Codes should represent a reference model that markets need time to implement completely and correctly.



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