

LIBERALISATION AND COMPETITION ON THE ITALIAN ENERGY MARKET

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Let me start presenting you a testimony of how the opening of the Italian energy market has totally changed the way we manage our company :

- In 2001, 70% of the EBITDA of EDISON was coming from CIP 6 contracts, and less than 10% from the market. The objective was to run the power plants for more than 7.000 hours a year, at full load, with maximum regularity and efficiency. A little like a F1 car in one of the races of the World F1 championship.
- Today, it's totally another job. The incentivised production doesn't represent more than 15% of our EBITDA and will progressively disappear. Our plants run 4.000 hours. We have to shut them out all weekends, ramp up at full load at 6.30 in the morning, go down to the minimum stable generation at 8 o'clock in the evening. It's no more a F1 race, it's a sort of rally with the objective to catch all opportunities of peak prices and avoid to loose money operating during off peak hours.

To a certain extent the same happened in the gas sector where, due to the increasing competition and to the lack of gas infrastructures, mainly on storages, the operational complexity has dramatically increased.

So, few years after the publication of the Bersani's and Letta's Decrees, change was radical, but has it been a successful story?

I - Looking at the power generation business:

- We all still remember the several brownouts occurred in June 2003, when the installed capacity was unable to meet the summer peak.
- In five years we have witnessed a wave of investments in new capacity which has no precedents in Europe. 14 GW of CCGTs were built, great part of them by Edison and, at the same time, Enel was forced by law to dispose more than 14 GWs of existing capacity which were revamped by the buyers.
- The introduction of the Italian Power Exchange in April 2004 also created the level playing field necessary for new players to enter the market and to invest in new power stations.
- Now the capacity margin is back to normal and safe level.

So the liberalised market has been able to modernise the power sector and to assure one of the main objective of a power policy, the security of supply.

Nevertheless, two difficulties are remaining :

First of all, the new entrants, who have massively invested in CCGTs are strongly exposed to gas price evolution and volatility while the incumbent, with 80% of the coal-fired capacity and 80% of the hydro capacity of the country has a much more balanced energy mix, which confers him an evident advantage.

Secondly, I said that investment in modernisation had been a great success. Perhaps too big is the success. In the coming years electricity demand is forecasted to grow at 2% a year and however, additional 10 GWs of new capacity are expected to enter the market. Even if new opportunities can be exploited in providing peaking reserve to the European continental markets, the risk of an over-capacity is real. Unfortunately the present market does not provide medium term price signals which could help the generators to plan their investment more efficiently thus favouring a steady development of the system. I am not a specialist of regulation, so I am happy to turn the question to the experts.

II - Switching to the gas sector :

I should say that with a time lag a little longer, we could potentially face the same scenario.

- Italy is dramatically short of gas this year and let's hope that this winter will not be too cold.
- But in 2008, the upgrading of the TTPC gas pipeline and the entrance in operation of Rovigo regas terminal will allow to receive around 13 billion cubic meters/y of new gas volumes which will re-equilibrate the demand. The revamping of TAG pipeline should give additional comfort to the system.

In the medium term with the further arrival of one or two regassificators and with the realization of the IGI and GALSI projects are we preparing for a gas bubble in Italy?

I don't think so. Northwest Europe needs a huge quantity of additional gas. Demand is increasing rapidly, drawn by the needs for new gas-fired power generation and, at the same time, the gas reserves in the North Sea are depleting. Italy can become the southern hub from where gas converging from diversified routes, could be re-exported to France and Germany.

So in the case of gas, the free movement of the liberalised system could bring to Italy, not only the security of supply, but a huge opportunity to play a major role on a unified and competitive European market.

III – On the retail market :

Unfortunately, the development of competition is a different story.

From the 1st of July, the power residential customer became eligible and the market is now completely open. These customers, presently served by the Single Buyer (Acquirente Unico) and accounting for more than 40% of the total power demand, will progressively switch to free market offers. In that respect measures have to be taken to stimulate this switching, and the barriers to entry for new players should effectively be addressed and managed.

- First of all, if today, we propose to a customer to switch from tariff to free

market, he doesn't see a significant economical advantage because the supply component in the tariffs is not priced at its true cost. **This supply component should be increased, this increase being compensated by a reduction in other regulated tariff components.**

- The customers do not have today a clear information. **There should be a great campaign of communication launched by the Regulator to inform the customers of their new possibilities in the newly open power market.**
- Furthermore, there is a great confusion between free market and administrated market, between distributors and suppliers belonging to the same group.
- Last but not least, technical measures are required to make the system more efficient : **The regulator should impose IT standardisation to all distributors for the data transmission to the suppliers concerning metering and an obligation for the distributors to transfer the data accurately and in due time.**

The new operators on the retail market, who have already proved their capacity to invest in new capacities, to manage efficiently energy and express clearly their will to supply all types of customers, must be put in situation to do it, in the frame of a fair competition, equal for all.

Conclusion : Proposals for a further development of competition

For the future, one of the main challenges of the power and gas sector will be the climate change and the preservation of energetic depleting resources.. But in setting up the relevant regulatory framework, three main principles should be considered :

First of all it's necessary to progress towards **harmonisation** both at the EU level and in the different Member States in order to avoid that competitive advantages be improperly allocated to some players.

Secondly, general objectives of efficiency must be safeguarded. I'm referring for example to the decisions concerning the CO2 problem. Europe is leading the way towards a less carbon-intensive economy. Keeping the pace requires **a sound shift in the EU energy mixes, leading to halting nuclear decommissioning and further coal developments, unless cleaner coal technologies and CCS be available on the market.**

Thirdly, coming back to a very operational point of view, I'd like to say to the Commission : please, make it simple! As I exposed at the beginning of my speech, we have learned how to run our plants consistently with market volatility and it's not an easy sport. But, on the top of that, we have had to deal with the CO2 market which volatility from one year to the other has been incredible, unpredictable, then unmanageable. And in the future with markets of green certificates, of white certificates,... It seems to me evident that there is a great deal of correlation among the values of all these environmental certificates. **So, why not try to make a unique market, a unique product to replace CO2, green and white certificates ?** I hope the experts will find efficient and simple solutions.

...because an open market, to be really competitive, needs consistency and transparency, but also stability and simplicity.