



## Hearing of the Tenth Senate Committee on the “National Energy Strategy”

October 10, 2012, Rome

Address by Bruno Lescoeur, Chief Executive Officer, Edison

On the first occasion when I spoke before this Committee, the restructuring of Edison’s stock ownership was still in progress and I was unable to present a definitive position on the challenges entailed by the company’s development. The occasion for providing some comments on the National Energy Strategy is thus an opportunity to confirm that Edison, with its development, can contribute to the achievement of the objectives that Italy has chosen.

Edison, as an integrated **Italian company** in the energy sector, **views favorably the National Energy Strategy Document**, finding that it contains many of the proposals submitted to this Committee at the hearing of October 26, 2011.

Edison’s hope is that this strategy can truly become a guideline for Italy, making it possible to define the statutory and regulatory framework needed to implement and direct highly capital intensive, long-term investments, such as those of the energy sector.

**Edison, as an Italian operator with a steadily growing international commitment**, also hopes that this strategy can be implemented within the framework of a supranational energy context, with objectives that Italy can share at the European level. **Italy’s strategy should thus be projected beyond its borders, towards the European Union’s target markets and countries that are hydrocarbon producers and with a development potential in the energy sector.**

Lastly, we view favorably and with a sense of responsibility **the central role assigned to the energy sector for the country’s growth** at a time when Italy is striving to emerge from the deep crisis that affected the global economy.

I shall comment the National Energy Strategy based on the priorities highlighted in the document itself and will take this opportunity to concurrently underscore the key points of Edison’s strategy.

**Let’s begin with energy efficiency.**

The objectives proposed in the National Energy Strategy go beyond the European Union’s targets for 2020. Noting that most of the **reduction** in consumption would be achieved **on the back of the electrical and thermal sectors**, already significantly weakened by the crisis, I would like to make two points:

1. The first one is **the need to create the conditions for a more virtuous energy use**: when we speak of energy efficiency, knowledge of the consumption profiles is essential

and access to this information by consumers and distributor companies is the first step towards promoting virtuous behaviors and a services market. Therefore, **the role of distributors must be reframed within the scope of regulations designed to foster this evolution for the benefit of consumers.**

2. **The second point is the need for greater involvement on the demand side in the energy sector** through the implementation of the **Voluntary Agreements** provided for in the European Directive, an adequate system of **tax incentives** for investments and services and easier **access to credit** to foster the implementation of priority efficiency projects identified thanks to a campaign of energy audits.

**Let's now turn to the gas market:**

**Edison views this chapter of the Strategy as one of the cornerstones of the country's competitiveness and security.** The objective of making Italy Southern Europe's gas hub can help the country achieve both objectives.

**Edison agrees that it would be opportune to develop Italy's system with an approach aimed at exporting gas to Europe on competitive terms,** through the optimized use of the **existing infrastructures** and the **selective development of new infrastructures** for the importation of gas using **alternative sources and routes.** In this area, **Edison** has been engaged for some time in the development of new strategic infrastructures for the importation of gas from the Southern Corridor and, consequently, **continues to emphasize the importance of the IGI project.**

We are convinced that **long-term relationships** with the producing countries represent the **strategic element** in this area. **The strength of these relationships enables long-term procurement arrangements to coexist with fully liquid markets.** Moreover, it allows the efficient management of contract renegotiation processes, when market conditions require it. In this regard, I would like to point out that Edison recently renegotiated its gas contracts, using international arbitration proceedings in some cases.

It is necessary to develop all of the **tools needed** to support Italian and European buyers **in negotiations pursued to make contracts consistent with actual market terms,** in order to make them competitive with the conditions existing in the Italian market and the future integrated European market.

To that effect, the Energy Authority is developing an official wholesale gas procurement index: it is **an important first step.**

Three additional elements must complete the framework that the Italian government is proposing for its strategy in the gas sector:

1. The first element is **the full implementation of the reverse flow** and is the natural consequence of the improved competitiveness of the gas procurement system. All obstacles to the access by all operators to the transmission capacity on the North-South route must be removed. In addition, greater coordination is required with the regulators in the neighboring countries in order to avoid discrepancies that, in practice, could hamper the exporting of gas from Italy to Northern Europe.
2. The second element is **the development of storage capacity** needed to ensure the reliability and flexibility of the gas delivery system. **Edison** is particularly sensitive to this issue, since it is **one of the few operators who are developing new storage**

**fields** and, in this area, **it expects** a consistent regulatory framework that **confirms the current remuneration system**, ensuring the sustainability of these investments.

3. The last element concerns the **essential facilities**. These infrastructures should be **identified in terms of capacity and timing, based on a cost-benefit analysis** that takes into account the volumes and characteristics of long-term contracts, the geographic location and the related logistics costs, so as to minimize the risk of excessive costs for consumers vis-à-vis the expected benefits. **Essential facilities must be fully dedicated to the regulated market so as to avoid creating distortions and asymmetric competitive advantage.**

Also in the hydrocarbon area, it is important to point out that **Edison views as a priority the development of the national production of gas and oil.**

Edison agrees that the **exploitation of domestic resources is essential for the competitiveness and reliability of the supply system**, because it contributes to increasing the availability of gas for the internal market and produces indirect industrial benefits at the national level.

The objectives of the National Energy Strategy are challenging and entail concrete investment possibilities for the country, with obvious economic benefits at the national level.

**Edison, in its role as the gas platform for the EDF Group, will continue to serve as a hub of competencies and development in the hydrocarbon sector** and many of its future investments will continue to be in this area.

Despite these benefits, **in Italy, local acceptability and the presence of multiple counterparties with different degrees of responsibility** at the local level constitute **obstacles that should not be overlooked, on the solution of which the government and business can collaborate.**

The **level of information of the communities** affected by investments in this sector must be **adequate to facilitate a constructive dialog** and not exploitable. In the same vein, **a reform of Title Five of the Constitution would be helpful by simplifying the identification of the counterparties.**

Lastly, in dealing with topics in the **electric power sector** I would like to divide the issues into three different areas of interest: renewable sources, infrastructures and end market.

1. The **objectives outlined in the National Energy Strategy for renewable sources**, as well as for energy efficiency, go **beyond** the requirements of the **European Union's objectives** for Italy by 2020. The development of renewables in recent years had a profound impact on the makeup of the electric power market, significantly **increasing** the share of **incentivized production, to the detriment of producers exposed to competition**. The critical conditions reached by the market **risk jeopardizing** the ability to maintain **in operation the flexible and efficient generating capacity** needed for a complete integration of the production from renewables.

In addition, if these ambitious objectives are confirmed, **Italy will no longer need imports from renewable sources** and, on the contrary, will be able to **contribute to the achievement of the European Union's targets by other member countries** through the use of the tools already provided in the European Directive. The exploitation of production from renewables in excess of Italy's target through the Statistical Transfer to other member countries could help lower costs for consumers.

Moreover, thanks to its efficient and flexible facilities, Italy could supply modulation services to customers beyond its borders.

2. With regard to the infrastructural development of the power grid, Edison believes that, at the national level, **action must be taken to rebalance the system, avoiding costly congestions** due in part to the disorganized development of renewables.

As for **international interconnections, the implementation timing should be reconsidered. It must be consistent with the overall interest of national system**, meaning with the achievement of the competitiveness of Italy's production facilities and with a system of rules and regulations homogeneous with those of neighboring countries.

3. The third and last point that I would like to bring to your attention is that of the **end market**. This issue is perhaps the **great omission** in the discussions about the National Energy Strategy. **However, for Edison**, which confirms its ambition to grow in this market, both in the electric power and gas segments, **it plays a fundamental role with regard to competitiveness**.

It is necessary to understand **which role Italy intends to assign over the long term to the deregulated market**. It is a **strategic choice** for the country and the companies, which have to allocate their financial resources and focus their long-term targets.

**The deregulated market is at a turning point: both operators and consumers need clear signals to understand whether the country will continue to believe in the deregulated market** as a tool to relaunch competition and competitiveness.

In conclusion, honorable Senators, I would like to sum up the main messages that Edison would like to convey to you with regard to the National Energy Strategy:

- The national strategy **needs a long-term vision** that extends beyond 2020. Decisions about investments in the energy sector, which are highly capital intensive and provide returns over multi-year periods, need such a reference horizon.
- **Italy's energy strategy must take into account the interaction with the neighboring countries and with those of Southeast Europe and the Mediterranean Basin**, be they target markets for its exports, hydrocarbon producers or simply markets with development potential in the energy sector.
- **Edison supports Italy's role as Southern Europe's gas hub and believes that strengthening long-term relationships with gas producing countries is of fundamental importance**, but without precluding the option of renegotiating contracts and making them competitive.
- **Edison agrees that the exploitation of domestic hydrocarbon resources is essential for the competitiveness and reliability of Italy's supply sources**. The Italian government and the private sector can collaborate in improving local acceptability of these investments.
- **We believe that the deregulation of the energy market has reached a turning point**. It is now time to pursue a further development of incentivized production from renewable sources within a European framework, so as to limit as much as possible the burden for end consumers. **In addition, it is urgent to understand the role the Italy intends to assign over the long term to the deregulated market**, through clear signals for operators and consumers. **What is needed is flexibility and innovation for the deregulated market and greater concern for the efficiency and regulatory framework of the regulated sectors**.