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

Gas

G1. Do stakeholders agree with our view of the gas specific strategic context and in particular with our views on:

- ***Declining demand for gas, and in which sectors such decline is seen;***
- ***Increasing role of imported gas and uncertainty surrounding unconventional gas supplies in Europe; and***
- ***Increasing role for a flexible gas supply to support growth of renewable electricity generation.***

The gas strategic context provided in the analysis is certainly one of the potential scenarios for the future European gas market. However, current uncertainties (e.g. level of future demand of gas) might lead to different outcomes.

Therefore, in order to be comprehensive, the regulatory framework needs to recognize these uncertainties and avoid that regulatory actions are taken on the basis of one single scenario.

Regarding the declining demand for gas, we acknowledge that the current situation might put at risk, in an irreversible way, the role that this energy source will play in the European (future) energy mix.

Given the contribution that gas can bring to the European energy system, in terms of competitiveness, security of supply and sustainability, a long term policy support to the source is of foremost importance.

This includes also the support to the European indigenous gas production (both conventional and unconventional) since it would mitigate the increase in gas imports foreseen in ACER's assessment.

Finally, we welcome ACER's recognition of gas-fired plants as the tool to provide flexibility to the electricity market to support the growth of renewable electricity generation. In this framework the use of coherent and harmonized capacity remuneration mechanisms should be considered.

G2. Are concerns about competition in gas markets and concerns that liquidity at most hubs is insufficient to achieve functioning wholesale markets sufficient to warrant some form of intervention?

G3. Should increased market integration be sought to address issues of non-competitive markets and a lack of liquidity? Are there other more effective measures to be sought in this respect?

The focus of the current work should be on the implementation of the Third Energy Package and the network codes elaborated so far. Before having clear evidence of the results of this process it may be not the case to warrant some further form of regulatory intervention.

However, it is important to ensure that the implementation of these rules is carried out in a consistent way by Member States and NRAs. Indeed, situations where different implementation of European rules leads to barriers and complexities for market players have to be avoided.



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Moreover, any inconsistency of these rules that appears during the implementation phase and that might affect market players should be addressed at an early stage in order to allow for the development of a coherent regulatory framework.

G4. Would efficient use of existing infrastructure and the building of efficient new infrastructure facilitate competition between gas producers?

G5. Can upstream competition be improved with physical infrastructure redundancy or is it an issue of market structure (oligopoly)?

G6. Should regulatory incentives be placed on TSOs to improve the efficient use of existing gas infrastructure?

The efficient use of existing infrastructure is key for the development of a competitive gas market. If consistently implemented in all systems, the CMP Guidelines and the CAM Network Code would already help to increase the efficient use of infrastructure. It is better to let these rules be implemented (in an harmonized way) before considering new regulatory incentives for TSOs.

Moreover, in order to improve the efficient use of gas infrastructure it is necessary to guarantee full access to information about infrastructure's utilization and availability as provided by the Third Energy Package. The development of ENTSOG's transparency platform is certainly a first important step in this direction. However, further work and actions are needed on this topic.

Regarding the building of new infrastructure, it highly depends on the outcome of the specific cost benefit analysis of each project. Where the benefits for the systems are recognized to be higher of the relative costs the development of new infrastructure should be considered. On the contrary, stranded investment should be avoided since they would impact on gas prices, contributing to the "declining demand vicious circle" noticed by ACER.

In this context we welcome the work currently undergoing for the elaboration of a market-based mechanism for the development of incremental capacity, where positive externalities of each project are required to be taken into consideration and carefully assessed.

G7. What are your views on the future investment climate for new gas infrastructure in Europe? What are the major challenges ahead?

The future investment climate for new gas infrastructure depends on the uncertainties facing the market. For instance, if demand further declines we do not see room for big infrastructure investments in the future. In this context we agree with the vicious circle concept noticed by ACER in its first assessment: "*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*".

From a regulatory point of view, one of the challenges to be faced is, certainly, to develop a 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).



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Finally, we believe that in identifying those projects that will contribute the most to European market objectives, special support should be given to the development of reverse flow investments aimed at better integrating the European markets.

G8. Should regulatory frameworks recognise externalities in order to improve investment decision making?

We support that regulatory frameworks recognize externalities, in particular in investments needed to improve security of supply and market integration like reverse flows.

It is important however that fully transparency on how these externalities are calculated is provided and explained upfront.

G9. Are cross-border market zones or regional trading zones practical ways to integrate market zones?

G10. Are there other ways one may envisage to enhance the liquidity of European markets? G11. What actions could be taken to further integrate market zones, given the uncertainty regarding costs and benefits of integrating market zones?

We share ACER's concerns deriving from the assessment of market liquidity (and "competitive concerns arising from upstream concentration") and we believe that this has to be further explored and carefully considered. However, at this stage we do not see the need for more regulatory intervention on this topic. As highlighted in answer to Q3 the current focus should be on the implementation of European, already adopted, rules.

We see the potential value of the merge of balancing zones. However, this has to be carried out only when benefits outweigh costs.

Moreover, we consider the development of reverse flow projects as a useful tool to further integrate market zones.

G12. Does a lack of coordination between intra-day gas and electricity markets expose gas-fired generators to significant imbalance risks?

G13. Does the level of risk exposure create sufficient concern that it could hamper efficient market operation to warrant intervention?

G14. How should coordination of intra-day / balancing gas and electricity markets be improved?

We welcome the recognition of the role that gas-fired plants can play in meeting the sustainability objectives. As mentioned in our answer to Q1, the qualities of gas and the technical characteristics of gas-fired plants allow this source to be the ideal back-up to power generation from renewable sources.

In this context, if there is evidence that the regulatory framework does not allow sufficient flexibility for the gas market to play this role, further assessments should be carried out. For instance, if further analysis show that re-nomination lead times are not justified from a technical perspective, and might create limits to the flexibility of gas-fired generation, this has to be questioned and addressed.



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Finally, coordinated interaction between gas and electricity TSOs is desirable with particular regard to within-day information provision. For instance, this would allow more precise forecasting of the off-takes from gas power plants.

However, we believe that this might not be sufficient in order for gas to play such a role if no actions regarding its competitiveness on the market are taken.

G15. What concrete possibilities for demand response in gas do you envisage?

We support work to develop demand response in gas, however we believe that pilot projects might be necessary to assess the real costs and potentials of this tool.