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

Electricity

E1. Although adequacy issues are not likely to disappear completely, do you agree that the current primary focus on levels of adequacy will likely be expanded to emphasise a later priority focus on flexibility?

Yes, in eni's view flexibility represents, in the 2025 perspective, the most relevant issue for the evolution of the European power systems - characterized by a still growing share of intermittent and unpredictable RES generation - and should therefore be prioritized. However, adequacy and flexibility issues show a significant degree of interrelation and, in this sense, it is of utmost importance that already existent flexible assets - such as CCGT power plants - and their potential contribution to the set goals are correctly taken into account and valorized in the process of redesigning the electricity markets.

E2. Should we seek to further define, measure and develop flexibility in addition to the initiatives that are underway? If so, how could this best be done and in which market time periods?

The policy options described in the paper contain a complete listing of the possible ways to deal with the flexibility issues. Eni wishes to underline that, in the short term, radical interventions such as relevant changes in the market design could be unfeasible and therefore advocates the introduction of quickly implementable policies such as a capacity payment scheme to temporarily support flexible generation.

Among the options presented, eni believes that, in the short term, balancing requirements should be extended to RES generators as imbalance prices (penalties) are a powerful incentive to improve power output forecast and, with respect to the principle of cost reflectivity, represent an efficient way to optimally allocate the costs of maintaining the system safe and guaranteeing the full matching of the required loads.

Moreover, the ancillary services markets should be improved and enabled to correctly reward all the services provided by generators which are currently required to provide certain services (often including primary LF regulation) without being remunerated for them.

E3. What are the market-based routes for flexible 'tools' to participate?

Regarding the participation of flexible tools in the market, eni deems necessary to carefully evaluate each option in a CBA perspective. Most of the "new" flexible tools that are currently taken in consideration, such as DSR policies or storage facilities, can still be seen as infant technologies or tools that would require substantial investments in the mid-term, before they are able to positively contribute to the market.

Eni supports the development of new technologies and tools to improve the power systems but wishes to recall that investments should be carefully evaluated in their mid/long term perspective, in order to avoid imposing unnecessary and inefficient costs to the final customers. A paradoxical outcome



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could be envisaged if final customers were to bear the costs of the integration of RES in the power market while already bearing the costs of the RES support schemes.

E4. What measures may be required to ensure that the market receives the most appropriate signal for the value of flexibility?

Besides the views presented in E2 and E3, eni deems necessary to remove unneeded constraints in the market, such as bidding price caps, and to gradually phase-out end-users regulated tariffs. A stress should also be put on a redesign of the current ancillary services markets in order to promote strong and transparent price signals on the economic value of the flexibility services provided by programmable generators.

E5. Do you think that other, for example institutional arrangements should be considered? Is greater TSO and DSO coordination required? If so, what should NRAs do to facilitate this?

Generally speaking, a better coordination between TSOs and DSOs is welcome as it could help avoid extra costs or duplications and help to operate the power system in a more efficient way. In that sense, NRAs should play a role in steering their investments, for example by introducing a strong "output based" regulation to remunerate new investments.

E6. How should regulators facilitate demand side participation (including demand side response and electricity storage)?

See answers E3 and E5. Eni wishes to recall that, with respect to the principles set forth by the Third Energy Package, the direct operation of electricity storage facilities by TSOs and DSOs should be carefully regulated when not completely avoided.

E7. How can NRAs support, or incentivise TSOs and DSOs to invest in 'smart networks'. What actions are needed, in particular from regulators, to promote more active distribution networks? Do we sufficiently reward avoiding 'dumb' investments?

See answers E3 and E5. Specifically, in order to avoid dumb or unneeded investments, their regulation should gradually turn into an "output based" evaluation that rewards the actual contribution of an investment to the system (in terms, for example, of increased efficiency or a reduced amount of loss loads) instead of just financially remunerating the invested capital.

E8. How should NRAs influence the competition debate, for example on support schemes, regulated tariffs, capacity remuneration mechanisms, etc.?

NRAs should first and foremost ensure, through a transparent engagement of the relevant stakeholders, a level playing field for all market operators, promoting



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appropriate regulations, fostering the efficiency of the energy markets and applying the principle that costs should primarily be borne by the subjects that cause them. However, if the market is not able to provide sound price signals to correctly steer investments related to system safety and security of supply, specific interventions should be carried out by the regulators. The current debate on CRMs is a valid example for that.

Moreover, as highlighted in our response to the Overarching Paper, we welcome the need identified by ACER *"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"*

E9. To what extent should the relationship between competition in electricity and gas markets influence regulators' activities? Could regulatory action on the gas market, help solving the flexibility problem of the electricity market?

Given the fundamental role that gas-fired power plants play in providing flexibility services to the power systems, the regulation of gas markets is itself a critical factor in ensuring that power systems are able to cope in real time with the challenges posed by RES intermittency and to guarantee the full matching of the required loads. In this sense, the gas market regulation should adequately take into consideration the specific role that highly flexible gas-fired plants have in the market, given the low load factors that currently characterize those plants.

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. 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.

E10. How should regulators remove barriers to entry for new supply sources?

Existing implicit barriers to the entry of new supply sources should be removed by promoting an efficient market design that guarantees that sound price signals are transferred to consumers and producers so that they can influence consumption patterns and investment decisions. As noted in answer E3 direct subsidy schemes should be limited to infant technologies and should be linked as much as possible to actual market outcomes and conditions.

E11. What actions, identified in these papers, should regulators prioritise

Summarizing the views expressed in the answers above, eni deems necessary to adopt an organic approach in redesigning energy markets to deal with the challenges posed by RES intermittent output and to gradually include new technologies and new operating paradigms. Given the persistent weakness of energy demand and the competitive issues posed by the cost of energy in Europe,



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a special focus should be put on the cost-efficiency of the proposed interventions, implementing detailed CBAs and innovative output based regulations for new investments. Moreover, certain technologies such as energy storages or DSR tools, which can still be considered as infant technologies that cannot therefore be massively deployed in the short term, call for specific regulations that ensure market competition and avoid distorting outcomes.

However, given that organic interventions on the market rules and design require a careful analysis and can usually be implemented in the mid-term, 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 payment schemes to ensure the ability of the power system to flexibly cope with RES intermittency.