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Consultation Questionnaire

WHO WE ARE

Established in 1881, Edison is one of Europe's oldest energy companies. In 2009, it reported sales revenues of 8.867 mln €, and is carrying out an ambitious investment plan in the electricity and gas sectors. Edison had to diversify its business, when the national monopoly on electricity was established in Italy in 1963. Thanks to the first wave of EU Directives in 1996, it could re-focus its business on energy once again, thus becoming the largest new entrant on the Italian market.

With 41,8 TWh produced in 2010, equal to 14.6% of the entire national production. Thanks to 7.000 MW of new highly efficient and low emission plants (CCGT thermo plants, as well as hydro and wind power plants), the Company has now a total installed capacity of 12.500 MW. In the hydrocarbons business, Edison has an integrated presence in the natural gas chain, from production to importation, distribution and selling, with sales of 15,8 billion cubic meters in 2010.

In 2009 the new LNG terminal in Rovigo started to contribute to the diversification of Italy's supply sources with its regasification capacity of 8 bcm of natural gas a year, equal to 10% of Italy's demand for natural gas. The start-up of Galsi and ITGI pipelines will further connect Italy to Algeria and Caspian Sea, two areas rich in hydrocarbons



GENERAL REMARKS

Edison welcomes the opportunity to answer the ACER public consultation on Framework Guidelines on System Operation as a valuable step in the improvement of the operation of the increasingly interconnected European network.

As general remarks, we wish to highlight some critical issues to be considered in the finalization of these Framework Guidelines and in the drafting of the European Network Code by ENTSO-E.

- The **existing international standards and regulations** already provide a good level of security and coordination of system operation at least at synchronous area level. Thus, the implementation of new standards and requirements going beyond the existing ones should be duly justified through an adequate Cost-Benefit Analysis.
- Clear benefits should be demonstrated when applying new standards and requirements to **existing significant grid users**, whereas fair cost allocation principles should be set by NRAs avoiding to impose excessive burdens to those grid users.
- The general **methodology principles for the Cost-Benefit Analysis** necessary to define the scope of the new rules for system operation and their application to grid users should be common to most European network code(s). ACER should play a primary role in the definition of these principles.
- The **involvement of grid users** will be of paramount importance in the elaboration of the European network code(s). Therefore, the creation within ENTSO-E of a user group, together with seminars/workshop on specific topics, would enhance stakeholders' contribution to the drafting of the code.



General Issues

- 1. The Initial Impact Assessment (IIA) identifies the following challenges (i) growing amount of distributed generation and variable generation (ii) increasing interdependence of control areas. Are there additional key cross-border challenges that the Framework Guidelines (FGs) and Network Code(s) on System Operation should address?**

Edison agrees on the cross-border challenges identified by ACER in the Initial Impact Assessment as the major driver for the harmonization to be addressed by the FGs and the NCs on System Operation. The increasing integration of the European electricity market and the growing amount of distributed generation are leading to a growth in cross-border exchanges which need to be addressed through a stronger coordination in the management of the power systems.

In our opinion, these Framework Guidelines and the subsequent network codes should limit the new requirements to the areas where cross-border seems to benefit the most, by clearly defining the roles and responsibilities of the actors involved (TSOs, DSOs and generators) and not going beyond what is provided for by the Third Energy Package.

- 2. The Framework Guidelines identify a number of actions and requirements to be included in the Network Code(s) as a solution to these challenges. Are the actions and requirements identified in the Framework Guidelines appropriate to solve these challenges?**

We generally agree with the actions and requirements to be included in the network code(s), nevertheless we wish to highlight some specific issues which should be further clarified.

- Existing standards. The requirements set by the European network code(s) (common rules, information exchange requirements etc.) should be as close as possible to existing international and national technical regulations and standards (e.g. Operational Handbook of UCTE etc.). When the new requirements go beyond the existing ones, they should be justified through an accurate cost-benefit analysis whose methodology and principles have to be defined in the network code(s) itself on the basis of widely accepted principles.



- Information exchange. These FGs should clearly precise that only items proved to be essential for system security have to be requested to market participants by system operators. On the contrary, information requirements that go beyond what is strictly necessary to guarantee system security risk to impose excessive burdens to market participants active in the free market (e.g. generation and consumption units) without clear benefits for the whole system.
- Significant grid users. When the new standards defined in the network code require new functionalities, we believe that their application to existing significant grid users should be approved by NRAs on the basis of a proposal from the national TSOs as provided for in the FGs on grid connections.
- Cost-Benefit Analysis. We believe that the methodology principles for the Cost-Benefit Analysis aimed at assessing the applicability of new standards to grid users should be common to most European network code(s). Therefore, ENTSO-E should be provided with specific guidelines on this issue which may be defined in the expected ACER governance guidelines.
- Cost allocation. The respective costs connected to new functionalities and grid services should be defined and fairly allocated by NRAs, once proved that benefits are spread at system level.

3. Are the proposed levels of harmonisation sufficient to solve these challenges?

We agree with the levels of harmonization proposed by ACER in the Initial Impact Assessment and summarized in Table 1 (p. 6) of the Draft Framework Guidelines.

4. Should the Framework Guidelines be more specific with regard to areas that need to be harmonised, both across and within synchronous areas?

We believe that these Framework Guidelines are sufficiently specific as regards the definition of the areas to be harmonized. ENTSO-E, in the elaboration of the European Network Code, will be in charge of defining standards and requirements whose scope of application (e.g. synchronous area, control system etc.) depends on the specific characteristics of different systems.



5. Should the Framework Guidelines require the development of common rules for System Operation between synchronous areas?

Yes, since the level of interconnection between synchronous areas is increasing, these FGs and the subsequent code(s) should set common rules for operating the interconnection lines, addressing the most relevant issues in order to guarantee their correct functioning. Possible additional costs related to these rules should be fairly allocated among market participants.

6. Considering the current arrangements of the system operation rules and procedures throughout the EU, what would be an appropriate level of detail for the Network Code(s) on System Operation?

We believe that the European network code(s) should define common minimum standards and requirements to be applied at European scale in order to ensure an adequate level of system security while addressing the problems connected to the increasing interconnection between control areas. The NCs should mostly be based on the existing international regulations and standards, e.g. the non-binding interoperability and international security rules of the EU synchronous areas (Operational Handbook of UCTE etc.).

As mentioned above, Edison thinks that all the rules going beyond what is currently in force should be duly justified through an accurate Cost-Benefit Analysis whose principles should be defined at ACER level. Therefore, ENTSO-E has to clearly demonstrate in the Impact Assessment of the code(s) that the benefits introduced by the new standards clearly exceed the adaptation costs.

7. What key benefits and types of cost would you expect for compliance with these requirements? Please quantify from your point of view.

We believe that the key benefit of this harmonization process is the improvement of operational security of the network through a better coordination among operators (e.g. TSOs, DSOs, generators etc.) and, where needed, through the introduction of new functionalities.

The main costs will be related to the adaptation of existing equipment, organizational changes, IT updates etc.. As highlighted in the previous answers, cost allocation and identification of the subjects who benefit from the new provisions are paramount issues to be addressed.



8. Should the Framework Guidelines be more precise on organisational aspects of operational security, in particular with regard to security assessment?

We believe that the scope of these Framework Guidelines would require a higher level of detail as regards the roles and responsibilities of different market actors (TSOs, DSOs, generators etc.) in addressing each significant issue. Furthermore, FGs should make clear that, when increased requirements (load frequency control, reactive power etc.) are imposed to existing grid users, those should have the possibility to be adequately remunerated, also through the participation to the market for ancillary services.

These FGs should state that an adequate monitoring of NRAs and ACER has to be ensured to assess the methodology used by TSOs to define security criteria and reliability margins. Furthermore, these provisions should be consistent with the ones included in the FGs for grid connection, balancing, reserve power market and capacity allocation and congestion management (e.g. as regards cross-border capacity calculation).

Specific Issues

9. Are the implications for *significant grid users* clear and relevant?

The implications for significant grid users of these Framework Guidelines mostly depend on the specific provisions which will be included in the network code(s). Still, we think that the definition of *significant grid users* should be consistent in all the ACER Framework Guidelines and, for this reason, the criteria for the *significance test*, mentioned in the FGs for grid connections, should be the reference to define the scope of application of the NC on System Operation.

In our view, generation and consumption units should be considered significant in terms of impact on the transmission network if their injections/withdrawals are significant for system operators in forecasting their needs of ancillary services.

10. Are the roles and responsibilities sufficiently addressed?

These FGs should be more specific as regards the roles and responsibilities of DSOs in their coordination with TSOs. Given the increasing amount of distributed generation in the European grid, we believe that the active participation of distributors in the definition of the new set of rules is much needed in order to guarantee the operational security.

The FGs should also establish that the roles and responsibilities of significant grid users, market participants and regulatory authorities be defined in the European network



code(s). Notably, the role of NRAs has to be clarified as they should ensure an adequate regulatory framework for new investments and the allocation of costs related to the implementation of the new rules.

11. Are the individual provisions under Scope & Objectives, Criteria, Methodology & Tools, Roles & Responsibilities, Information Exchange and Implementation Issues, associated to the particular topic, adequate? Should there be any additional elements?

As already mentioned, the identification of significant grid users and the principles for Cost-Benefit Analysis should be homogenously treated across the different topics. In this respect the highest level of consistency with the other Framework Guidelines should be ensured.

Edison believes that these FGs should explicitly mention that all the requirements necessary to improve system security and performance should be procured to a largest possible extent through market mechanisms. In particular, an adequate remuneration should be ensured for the procurement of ancillary services (reactive power management, primary control etc.).

12. Could you foresee any other relevant New Applications which should be mentioned in these Framework Guidelines?

See answer to question n.2.

Confidentiality

Edison agrees that this contribution can be treated as non-confidential