EDISON COMMENTS – CONSULTATION PAPER ON THE FUTURE EU 2020 STRATEGY

Edison welcomes the consultation paper on the future EU2020 strategy, a document opening the discussion on a much needed perspective ahead of the Lisbon strategy for the European agenda, economy and society. The entry into force of the Lisbon Treaty will further provide the EU with the necessary tools to make its action timely and effective in those areas where guidance and pro-activity are now more needed than ever.

Edison shares the vision expressed in the EU2020 of a strategy building upon new synergies between social, economical and industrial forces for a more sustainable development. In this perspective the role of the energy sector and power generation will be crucial to define this new model of growth from an economic, social and environmental point of view. Being also aware that the years to come will be crucial to address the challenges faced by EU economy and energy sector, Edison firmly believes that securing EU supplies and promoting de-carbonisation and technological breakthrough will be two key drivers for this change to happen. Within today and 2020 it will be vital to ensure a conducive framework for energy generation and energy consumption to be dealt with in the most efficient way and to facilitate the highest possible penetration of available RES (as set by the EU to a demanding level). In addition to this, securing competitive and robust gas supplies and enabling significant fuel switching towards less polluting fuels will further reduce the carbon impact of the necessary thermal share of power generation. In the meantime, huge investments will have to be carried out in R&D and in deploying low carbon technologies on the market, both leveraging on the role of existing nuclear technologies and investing on new breakthrough technologies in the field of nuclear, of CCS and of second generation RES.

Throughout the consultation paper several topics and issues are extremely relevant for the energy sector and for the economic environment in which energy companies happen to operate. Being fully aware of the relevance attached to energy goods and energy markets for the overall performance, as a matter of fact, of any economic system – no matter its political or social organization - we do believe that the definition of a long term and consistent strategy for the EU, having in mind the development of a sound and efficient energy sector, will be beneficial for the economy as a whole. The potential for the energy sector to positively contribute to growth and employment in Europe has been already publicly recognised in several occasions by European institutions, and especially in a time of financial and economical distress, energy should be regarded as a decisive and crucial sector. The European Commission has already proven to be well aware of this, as shown by the approach endorsed to address the drawbacks of the financial crisis on the EU economy. A smooth implementation of the European Economic Recovery Plan will substantially contribute to boost the economy, and financial support to key strategic economic sectors, including energy, will substantially contribute to provide stability to the investment framework and will foster a much needed confidence for investors and market operators. Furthermore, this approach will create a conducive framework for all external counterparts involved, by highlighting the strategic priorities supported by the European Union.
For all these reasons, and being an active player in this crucial sector, Edison would like to share with you few elements that we believe should be duly taken into account when defining European strategies ahead of the Lisbon Strategy for the years to come.

WHO WE ARE

Born in 1881, Edison, one of the oldest energy companies in Europe. When the national monopoly on electricity was established in Italy in 1963, Edison had to diversify its business, but thanks to the first wave of EU Directives in 1996, it could re-focus its business on energy once again. Today Edison is the leading new entrant in the Italian energy market, with 50,2 billions kWh produced in 2008 and a market share of 16,4% of national output. 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 more than 12.000 MW In 2008, Edison reported revenues of 11.066 mln €.
Thanks to one of the most ambitious investment plans in Europe, Edison aims at becoming the second largest electricity company in Greece through the recently established joint venture with Hellenic Petroleum. As shown by the recently approved Business Plan (2009 – 2014), Edison will invest 7.2 billion euro in natural gas (exploration and production activities, in major gas import infrastructures, such as the Rovigo LNG offshore re-gasification terminal and the ITGI-Poseidon and GALSI pipelines) and in power generation sector, with a particular focus on renewable energy sources (hydro and wind power, allow the Group to cover

over 40% of the green certificate requirement with its own production). Other investments will constitute strategic developments in fast-growing markets, such as Greece, Romania and Turkey. As from 2009 the new offshore LNG terminal in Rovigo will contribute to the diversification of the country's supply sources with its re-gasification capacity of 8 bcm of natural gas a year, equal to 10% of Italy's demand for natural gas. In 2012 there will be the start up of Galsi and ITGI pipelines, which will connect Italy and European markets to Algeria and Caspian Sea, two areas rich in hydrocarbons.

ENERGY SECURITY AND THE SUPPORT TO NATURAL GAS NETWORK INFRASTRUCTURES - THE SOUTHERN CORRIDOR

Energy security is today at the core of European institutions agendas, and European energy policies are today a decisive element that market operators have to take into account when operating and carrying out their business activities. Still, for both, the **common goal is to provide European consumers with secure, reliable and affordable energy supplies**. Energy security, on the other hand, requires a pragmatic approach to enable key initiatives and EU priorities to deliver their benefits to the market in the shortest possible time. The development of the Southern Corridor and of the energy infrastructures encompassed in its scope, among which ITGI, South Stream and Nabucco, can offer a substantial contribution to this goal, provided that efficiency and a market oriented approach are the principles underneath EU support actions. The liberalisation and the introduction of a higher degree of competition and transparency are in fact the backbone of a profound reform of the energy sector which has indeed led to a more favourable environment for investments, integration and cooperation between market operators. Efficiency and cost effectiveness have been so far the major drivers of European decision making. As regards energy security, even considering the high dependency of European markets on external supplies and the strategic and geopolitical dimensions which should be duly accounted for, still Edison believes that a neutral and balanced political approach should be at the core of EU energy security policies.
For this reason we welcome and appreciate the fact that the consultation correctly identifies the need to match the upgrade of network infrastructures with a need to rely on robust competition and functioning liberalised energy markets within the single European market.

With this perspective in mind, any future revision of the legal and political instruments aimed at supporting the infrastructural development in the gas sector should be based on the **effectiveness** and the ability of projects to promptly and timely deliver results (in terms of start-up timing, consistency with the availability of sources/volumes and degree of integration of the internal market at the entry point of the Community) and also on their **efficiency** (in terms of both investments/purchases ratio and public/private financial support ratio).
The Southern Corridor for the supply of gas from Caspian and Middle East sources is currently considered one of the highest energy security priorities which will require, however, a close collaboration and an open dialogue with European counterparts in order to guarantee favourable conditions for investment in supply and transport infrastructure. **A stable and predictable legislative and regulatory framework and a sound and consistent European energy policy should therefore be at the core of any further development. Energy investments are the core means to address the challenge of energy security and of the decarbonisation of the energy system; such industrial initiatives can be only developed is a sound market approach is safeguarded and an investment-friendly regulatory framework is fostered.**

CLIMATE PROTECTION AND THE ROLE OF ENERGY

Climate Protection will be one of the objectives of the EU as clearly stated by the new Lisbon Treaty. The EU has been so far an active player in the fight of climate change and in the pursuit of Kyoto emission reduction targets by setting up as from 2005 a cap and trade system (EU ETS) to comply with its obligation. The decision to **rely on market based mechanism to reduce emissions in the most cost-efficient way** (including CDM and JI mechanisms) has proven to be a viable and efficient instrument to meet the environmental policy objectives set for the EU and its Member States during the first two phases of the scheme. As from 2013 the EU has unilaterally set **new ambitious emission reduction targets** ahead of the revision of the Kyoto Protocol, and the framework for the carbon market as from 2013 has been defined in the revised ETS Directive (29/2009EC) adopted after an intense negotiation which has involved European Institutions and stakeholders. Besides this, the Climate Energy Package of January 2008 has set ambitious targets and policy instruments also to promote **renewable energy** in Europe and **energy efficiency**. The role of electricity and power generation will be crucial for these targets to be met, and the more efficiently and effectively the energy sector will face these challenges, the more the overall economic system will be able to go through this change in a smooth and swift way. Edison has proven in the past and is still proving today with its ambitious investment plans that being frontrunners in investing in new technologies can lead to

gains in competitiveness and efficiency. Its early renovation of the power generation portfolio towards less polluting and more efficient tecnologies – among which especially CCGTs, has given a substantial contribution to emission reduction and energy efficiency in power generation. Still we do envisage an enormous potential for energy and electricity to contribute to reduce carbon emissions, especially in those sectors where the potential has not been fully exploited such as transport, buildings and agriculture.

In order to meet their targets Member States and market operators will need clarity and stability in two key areas: a clear legislative framework for the medium term, in order to decide which actions and strategies must be put in place up to 2020 and 2050 to reduce carbon emissions (entity of the reduction target, use of CDM and JI mechanisms) and a clear set of incentives for investments. For the energy sector, which is in the forefront of these important changes, and for market operators, who are concretely contributing to reduction efforts, it is of the utmost importance to rely on a stable and predictable framework in order to address climate change in the most efficient way, especially in a phase of economic downturn when the economic externalities must be addressed in the most careful way in order to limit as much as possible any distress to overall economy.

Carbon markets will thus be a key tool to address climate change, provided that the EU will pursue its carbon emission reduction strategy through market based mechanisms. Along this strategy **energy efficiency** and **fiscal policies** will be key instruments that will contribute to a large extent in reducing carbon emission. All these instruments will need an **integrated and consistent framework** in order to avoid double burdens for operators, overlaps of policy instruments and possible distorting effects on competitiveness and the functioning of the internal market.

In order to meet the 2020 target, the energy sector will have to rely heavily on available and **cost effective measures which will be able to deliver concrete emission reductions in the shortest possible term, namely fuel switch to cleaner fuels (coal to natural gas), energy efficiency and the development of renewable energy and nuclear.** Still R&D – RD&D will be needed to develop and deploy new technologies and timely trigger new investments in IV generation nuclear and CCS to contribute to a greater extent to emission reduction **after 2020.** All these developments will require long term stability and predictability in the legislative framework and clear and consistent set of incentives to promote low carbon investments.

THE ENERGY SECTOR AND THE ROLE OF INVESTMENTS

As shown by the latest IEA World Energy Outlook the financial crisis has led in 2009 – for the first time since the late ‘90s - to a global fall in energy use, with forecasts predicting a rise in demand (of around 2,5%) only during the 2010-2015 period. These **effects of the financial crisis** are likely produce **severe consequences for the energy sector in terms of capital investment (and as regards low carbon investments in terms of chances to reach the CO2 reduction targets).** Consequences alike would then follow for the whole economic system. A lack of investment now will in fact constrain energy supply, so that prices will be forced up once demand picks up again. Coupled with a growing global energy demand to 2030, these developments are likely to lead to even more severe drawbacks.

Another consequence of financial crisis can also be envisaged in a **growing and intensified international competition on energy sources**. More than ever, the role of EU is fundamental to face these challenges, acting in a quick and determined way to assure in the future competitive energy resources for the internal market and its competitiveness.