



gas & power division  
Piazzale Ezio Vanoni 1  
20097 San Donato Milanese  
Tel. +39 02.520.1  
www.eni.it

Office of Gas and Electricity  
Markets  
9 Millbank, London, SW1P 3GE

[project.discovery@ofgem.gov.uk](mailto:project.discovery@ofgem.gov.uk)

Prot. 2087/PORF

San Donato Milanese, 31st March 2010

**Subject: Consultation on Project Discovery. Option for delivering  
secure and sustainable energy supplies.**

By means of this non confidential letter **eni** reply with pleasure to the consultation on Project Discovery, dated 3rd February 2010, on options for delivering secure and sustainable energy supplies.

On the whole Project Discovery we appreciate your study and we agree with your approach to modeling uncertainty through scenarios and stress tests. About the document in subject, hereinafter you can find our answers to the consultation.

Should you require any clarification or further information, please do not hesitate to contact us.

Yours sincerely,

**eni spa**  
**gas & power division**  
**Regulatory Affairs**  
**Vice President**  
**Michele Pizzolato**

eni spa  
Company share capital Euro 4,005,358,876.00 full paid up  
Rome Company Register, Tax Identification Number 048496058  
VAT number 00905811006, R.E.A. Rome n. 756453  
Branches:  
Via Emilia, 1 and Piazza Ezio Vanoni, 1  
20097 San Donato Milanese (Milan) - Italy



**Eni's response:**

**Question 1:** *Do you agree with our assessment of the current arrangements?*

**Question 2:** *Are there other aspects of the current arrangements which could have a negative impact on secure and sustainable energy supplies, or costs to customers?*

**Question 3:** *Do you agree that the five issues we have highlighted are the most important?*

**Question 4:** *Do you have any comments on our description of what might happen if no changes are made to the current arrangements?*

We agree with your analysis and we believe that the points you have highlighted are among the most relevant.

In our opinion investment in energy infrastructures should be market-driven and self-financing. For this reason we think that, especially when there are some difficulties on credit markets like in this period, the regulatory regime has to provide financial returns conducive to incentivise investment.

Business entities will not engage in investments, if return on the invested capital is not assured, planning procedures present too many difficulties and the legislative – regulatory framework isn't clear and stable.

Consequently, regarding the current arrangements, we also think that the existing situation in the financial market can increase the importance of the "Big 6" in the development of energy infrastructure. In our opinion, to promote and support investment by other players, the granting of an exemption from third party access is the proper regulatory tool that can be used without being detrimental to competition in the UK gas market. On the side of the measure that can be implemented with the engagement of the Government, we believe that appropriate fiscal stimuli could be implemented.

**Question 5:** *Do you believe that our policy packages cover a sufficient range of possible policy measures?*



**Question 6:** *Do you have suggestions for variants to these policy packages?*

**Question 7:** *What other policy measures do you believe should be considered, and why?*

In our opinion some of the policy measures you have indicated as possible alternatives could be really useful to obtain some of the key objectives. We refer, in particular, to:

- regulated returns or prices for capital intensive investment;
- government loans for strategic projects;
- progressively tightening restrictions on carbon dioxide emissions from generating plant.

**Question 8:** *Do you agree with the assessment criteria that we have used to evaluate the policy packages?*

Yes, we generally agree.

**Question 9:** *Do you have any comments on our initial assessment of each of the packages?*

No, we haven't.

**Question 10:** *Do you agree with our summary of the key benefits and key risks of each policy package?*

Overall we agree with your summary about benefits and risks of each policy package.

However we believe that *Targeted Reforms* isn't proper to increase the level of investments. The extension and expansion of the gas infrastructure will require companies to implement very costly and long-term investments. As we have said in responding to question n° 4, business entities don't take on



new investments, if return on capital is not assured and planning procedures present too many difficulties. For these reasons we believe that setting a minimum carbon price and improving short term price signals aren't sufficient measures.

Regarding *Central Energy Buyer* we believe that leaving away from the competitive market isn't a real option to obtain the development of new infrastructure and security of supply.

About the *Capacity Tender* we think that this policy package could generate improper and unnecessary costs to customers. In order to avoid this risk, it's important that the proposed tender for the build and operation of new gas storage capacity determined by a "central entity" is organized as to determine both the actual market capacity needs and the availability by each interested stakeholder (sale operators, storage system operator, other sponsors) to support economically and financially the necessary investments.

**Question 11:** *Do you have a view on which package is preferable, or alternative policy measures or packages that you would advocate? We are particularly interested any analysis you may have to support your views.*

See answers to questions 6 and 7.

**Question 12:** *Do you agree with our assessment of the timing for important investment decisions?*

Regarding the storage projects we believe that using a tree year lead time is unrealistic because it's based on best case and do not consider probable delays.

**Question 13:** *Do you believe that early actions should be considered?*

Given the current summer/winter gas price differentials, we think that adequate measure should be adopted to avoid a stop in storage investment.



**Question 14:** *Do you think that the issues are such that policy measures should be considered as a package or should they be considered on a case by case basis?*

In our opinion it could be a good solution to consider each policy measures independently. By this way it should be easier to manage the different tools in relation with the development of the energy market.