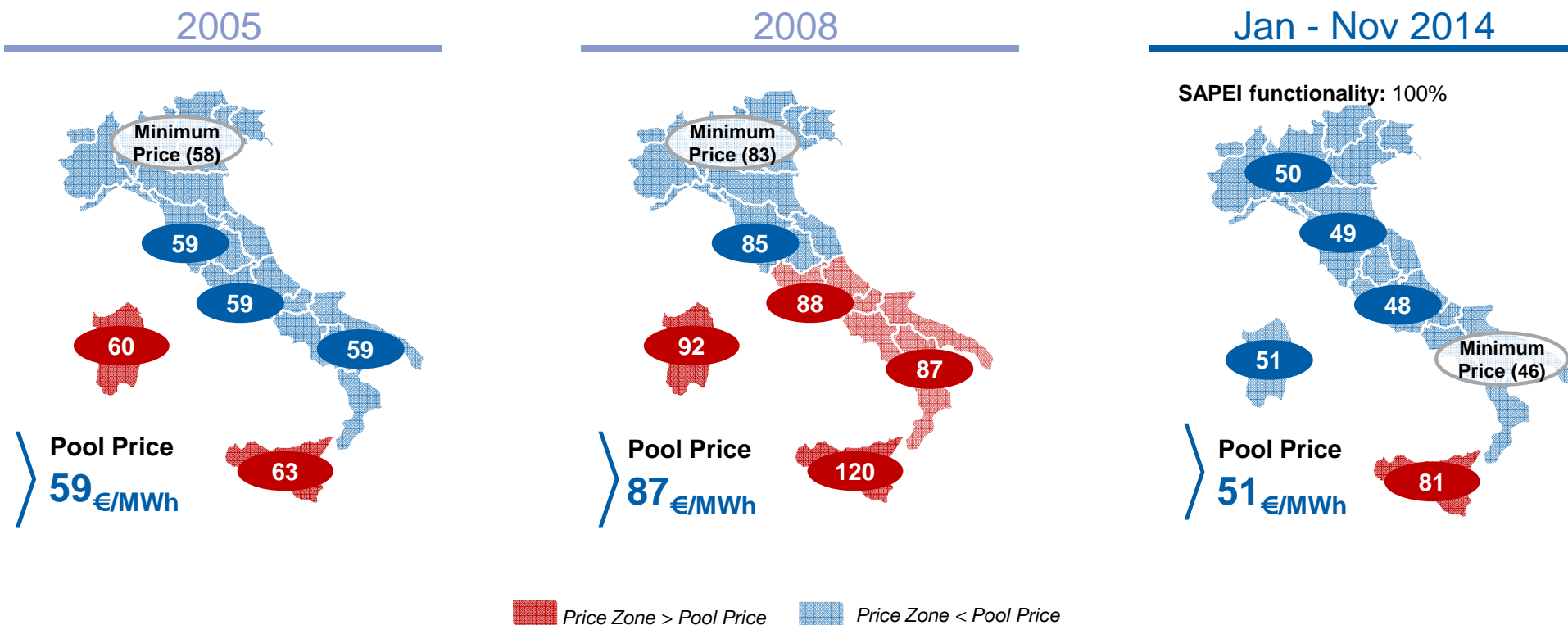

INVESTING IN LONG-TERM EUROPE: *RE-LAUNCHING FIXED, NETWORK AND SOCIAL INFRASTRUCTURE*

Conference Organized In Association With The Italian EU Presidency

ROMA, 12 Dicembre 2014

Financing energy infrastructure in Europe

Italian Energy Price Evolution since 2005

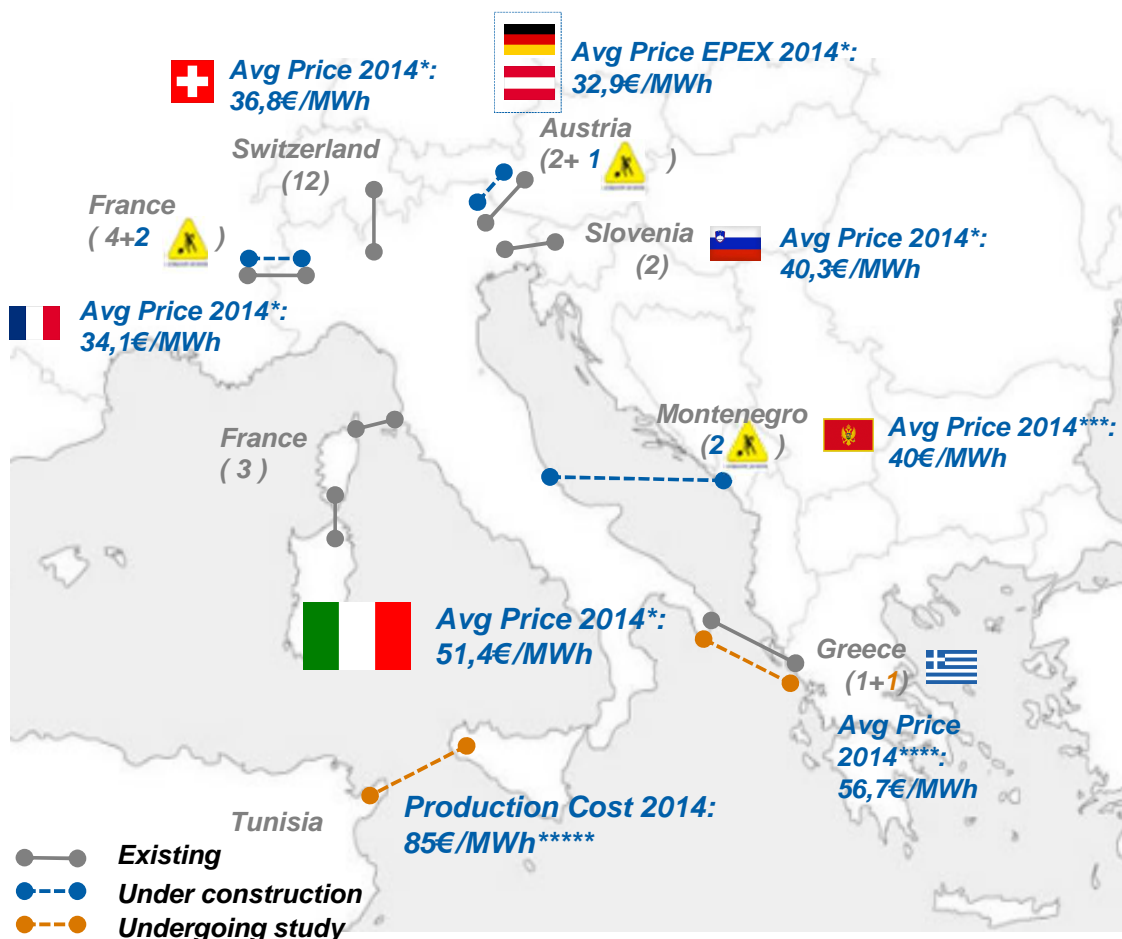


Congestions have been gradually reduced, and price differential among zones has been significantly reduced, thanks to an intensive investment plan put in place by Terna during these years.

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European Scenario and Terna Interconnections

The geographical position makes Italy the natural **hub** in the Mediterranean Sea. Italy can also rely on a **strong** electrical frontier with **24**** interconnections already in operation and further **5** under construction.



Opportunities from interconnection development:

- Achieve **pricing convergence** and the **integration of markets** for the resources optimization (grid integration, coordination among TSOs, creation of a Single European Grid and, progressively, a single EU market);
- **Increase** the **huge potential** resources and create **synergies** and fruitful **cooperation** with neighboring countries.

* Average Price Period Jan - Nov 2014

** 21 owned by Terna + 3 merchant lines operated (but not owned) by Terna; double circuit transmission lines are accounted twice

*** Average Price HUPX - Hungarian Stock Exchange

**** Average Price Period Jan - Oct 2014

***** Internal valuation

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Overview

- ❖ **Europe needs infrastructure investments** to ensure **security of supply** or to **support large-scale deployment of energy from renewable sources**;
- ❖ The new **infrastructures** represent a ***conditio sine qua non*** for the **Single Market implementation**;
- ❖ The development of the European energy infrastructure is also urgently required to **comply with the European targets of increasing energetic independency**;
- ❖ **315 bn€** foreseen in the **Junker's Investment Plan** will be a significant driver for EU economic recovery;
- ❖ It's crucial the **full commitment** of all the interested parties: **European Commission, Governments, Regulators, TSOs, IFIs**, etc.;

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Market Integration (1/3)

The European Electric Energy Union will be realized through

«**HARDWARE**»

physical electric connections



«**SOFTWARE**»

market integration and agreement among TSO's



EUROPEAN POWER MARKETS

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Market Integration (2/3)

Hardware

The new **infrastructures** represent a ***conditio sine qua non*** for the **Single Market implementation**, useful to remove barriers to long term investment and to create the optimal framework conditions for investments

Performing a critical review of the regulation on Projects of Common Interest in order to guarantee:

- *faster and harmonised permitting procedures*
- *financeability*
- *assessment of the effectiveness of their implementation*
- *eligibility as PCIs also for the projects between EU and non EU countries (ie. Italy-Tunisia)*

Financial support: by European Commission (i.e. CEF, Juncker's Plan, other financial facilities) especially for such project not bankable under pure market conditions

Nowadays the procedures set for project funding are very complicated, unstable and uncertain, especially with reference to financial support to works;

Regulatory framework: clear, harmonized, stable & predictable PLUS incentive regulation such as the Italian regulation recognized as "best practice"

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Market Integration (3/3)

Software

The European Commission has a stated goal of **harmonising the European power markets**. The aim is to create a **pan-European market** with closer connecting of power markets to improve the efficient use of capacities across national borders, the **European Target Model for electricity market integration**.

Examples of a successful experience in Market Integration:



Is the largest market for electrical energy in Europe



Is the central auction office for cross-border transmission capacity allocation for Central Western Europe



Regional projects have been launched with the support of the European Commission and in accordance with ACER's roadmap for the integration of the European internal energy market.