

# ENEL

## Background

Enel (*Ente Nazionale per l'Energia Elettrica*) was founded in 1962 as a means of partially nationalising, rationalising and consolidating Italy's electric power sector, which was characterised by a combination of oligopoly and municipal ownership. The nationalisation drive of the 1960s left Enel in charge of nearly 1,300 utilities, though some independents and over 150 municipal utilities remained outside it. Consolidation of the transmission system and construction of much capacity followed in the 1970s, while in the 1980s Enel made a brief foray into nuclear energy—withdrawing after a referendum in the wake of the Chernobyl disaster. From 1992 onwards, liberalisation was in vogue, progressively undermining Enel's position in the generation and distribution spheres—and most recently in transmission as well (see below). Enel has reacted partly by foreign expansion, partly by becoming a multi-utility concern. In early 2003, Paolo Scaroni took over as Enel's CEO. An outsider with a background in UK glassmaker Pilkington, he joined Enel in 2002 and was appointed to the top job after corruption scandals had hit Enel, and is expected to continue as he started—with a “new broom” approach to Enel's affairs.

## Legal/ownership status

Converted into a joint stock company in 1992, Enel was 100% owned by the Italian state till November 1999, when 32% of it was offered in what was then the world's largest ever IPO, raising Euro16bn. A second tranche is to be offered at some stage, but the state says it will wait till general market conditions improve. Enel's policy since has been one of high dividends (which has suited the Italian treasury as well as private shareholders).

## Financial Performance

In dollar terms, Enel's sales amounted to \$31.4bn in 2002, up from \$25.7bn in 2001, respective profit margins being 6.7% and 14.7%. Of 2001 sales, 41% came from electric distribution and regulated sales, 25% from generation, 4% from non-regulated sales and 2% from transmission. The largest non-power category was telecoms, which yielded 7% of 2001 sales. Enel has an Italian workforce of around 71,000—generally assumed to be too high—and generating capacity at home of roughly 40GW.

## Areas of activity

- **Electricity:** Given the ban on nuclear power in Italy, Enel has had no **nuclear** capacity since 1987 and, so far, no experience in the field in other countries. The majority of its present capacity in Italy is **thermal**, though the share of oil in the fossil fuels in question is generally reckoned to be too high, one of Scaroni's aims being to carry out a shift towards cheaper coal. **Hydroelectric** power accounts for a substantial minority of capacity at home, however, and—since the 1980s—Enel has been vigorously developing **renewable** sources of power, in which it has become a world leader. It claims current global capacity of 15.3GW in hydroelectric power, 700MW of geothermal, 150MW of wind power and 30MW of photovoltaic and biomass combined. Its plans include Euro1bn investment by 2005, to raise renewables capacity by a further 900MW.

- **Other:** Liberalisation in the energy sphere—and the spare cash generated by asset sales—has pushed Enel to enter several other areas apart from its traditional sphere of electricity. Acquisitions in the last few years have made it Italy's second largest **gas** distributor and an important project—which may or may not be implemented—is an LNG terminal at Brindisi. Enel has also gone into **water** distribution. Its **telecoms** activity dates back to 1998, when it established the confusingly named Wind JV with France Telecom and Deutsche Telekom: the latter dropped out in 2000, Vodafone's Infrastrada was added to the company in 2001, and Enel has recently bought France Telecom's 26.6% tranche, thus taking complete control—a step admittedly now regarded as a means to enhance Wind's value prior to eventual sale. The new philosophy at Enel looks more sternly than before on non-core activities, with real estate an area where asset sales are expected.

## Position on home market

Though Enel is still the dominant player on the Italian market, its position has been radically affected by liberalisation in its various forms. Market opening has been taking place since 1992, with independents and new entrants benefitting. The Bersani Decree of 1999 was a crucial step, imposing two requirements on Enel. First, it had to reduce its generating capacity by one quarter: this it has done by selling 15GW of its 55GW capacity, notably to Spain's Endesa and to consortia including France's EdF and Belgium's Electrabel. Second, it was obliged to transfer municipal distribution networks to municipalities, a process which has made some progress but which has been contentious because of disputes over price. The grid still owned by Enel's company Terna carries around 95% of the high-voltage power transmitted in Italy, though since 2000 it has been run, in the interests of fairness, by a state-owned grid operator GRTN. Enel says it hopes to float 30-40% of Terna in an IPO in 2004, preferably after bundling it with GRTN. Enel's general position will come under further pressure as the EU-driven process of liberalisation intensifies in the years leading up to 2007.

These developments have left Enel looking for other activities to compensate for loss of its traditional position. Diversification is one possibility, foreign investment another. It also has the means to expand. Despite falling profits and high dividends, asset sales have also left Enel with large amounts of spare cash, capable of serving as a "war chest" for expansion. This could grow. The four year strategy unveiled by Scaroni in March 2003 set a target of generating Euro14bn in free cash from business operations by 2007, while pointing out that sales of assets including real estate and Terna could yield another Euro6bn. It also envisaged a drastic cut in investments in non-core activities. The new CEO said that acquisitions would be "opportunistic", defined by the opportunity for profitable investment rather than undertaken for acquisition's sake. But where opportunities exist, Enel would appear to be well placed.

The hot summer of 2003 revealed weaknesses in the situation of the Italian power sector and of Enel in particular. Peak consumption is uncomfortably near to maximum production plus import (largely from France), and a combination of high airconditioner use and low hydroelectric output made the system vulnerable to a reduction of imports—which Enel's contract with EdF makes quite permissible for a limited number of days per year. The resultant power cuts have prompted an acceleration of new capacity construction, much of it by Enel. This will no doubt pre-empt some of Enel's resources. Alternative sources of imports may also be welcome, though emergency supplies from Enel's Spanish subsidiary are a reminder that South East Europe is not the only possibility.

## Activities in South East Europe

Enel has shown most active interest in **Bulgaria**: here it is participating in the Maritsa Iztok 3 TPP rehabilitation project; has expressed interest in the project for replacement capacity at the Maritsa Iztok 1 TPP; and, via its subsidiary Enelpower, has carried out a feasibility study for the Gorna Arda Hydroelectric project. Whether it will participate in either of the last two seems very doubtful, as of September 2003. In addition, it has expressed some interest in Bulgaria's coming disco privatisation and in the possibility of exporting Bulgarian power to Italy, though has not been very forthcoming on either topic recently. In **Romania** Enel has bid for the Electrica Banat and Electrica Dobrogea discos. Consulting work for **Albania**'s KESH has not yet led to anything more substantive.

## Activities on other foreign markets

- The foreign market on which Enel has most substantial presence is **Spain**, a relatively liberalised market on which expansion is not too difficult. There it owns Viesgo, the country's fifth-largest utility with around 2.3GW of generating capacity, which it acquired in early 2002 from national market leader Endesa. In August 2003, it bought stakes in two units from Spain's Union Fenosa—80% in the renewables firm Union Fenosa Energias Especiales (UFEE) for Euro168m and 50% in a 1.2GW combined-cycle gas fired turbine still under construction, for Euro158.5m. The move has led to speculation that Enel might try to acquire Union Fenosa itself. With 281MW of capacity in operation, 157MW under construction, 324MW of new projects under development for 2004-2007, and 874MW in 2008-2012, UFEE represents a considerable addition to Enel's already impressive renewables activity. A move into gas distribution has

- As noted above, Enel's renewables arm has been active in **US and Latin American** markets. Company officials have indicated that, with many US energy firms disposing of assets at present, a vigorous renewables acquisition programme there is possible. Enel bought the renewables firm CHI Energy—California-based but producing in 16 US States—in late 2000 for \$312m. Preference is to be given to acquisitions in the West and Northeast, where CHI Energy is strongest and where Enel is therefore familiar with laws and regulators. Other areas, like Florida, could be attractive as well, according to a New York Times report in May 2003.
- As noted below, Enel is discussing cooperation with EdF with a view to accessing the **French** market and investment in third markets. Enel also depends on EdF for imports of electricity—a dependence which complicated Enel's situation at home in summer 2003.
- Enel was the first to respond to UES's invitation to large foreign firms to invest in the **Russian** power sector in June 2003. Its declared aim is to manage one of the 10 wholesale generating companies that make up UES, in consortium with ESN-Energo, an investment firm which manages the Kolaenergo utility in Russia's far north. A tender has yet to be launched.

### **Alliances**

Cooperation of Enel with **Electricite de France (EdF)** is under discussion as of September, mainly to allow the two former monopolists to access each other's national markets. EdF hopes to persuade the Italian authorities to lift restrictions on EdF's voting rights in Italenergia Bis, owner of Enel's main competitor Edison: EdF owns an 18% stake that could become 100% in 2005, but at present is limited to a voting share of 2%, on the grounds that EdF could be too strong a competitor for the smaller players on the market. Enel hopes to buy EdF's 18.5% stake in SNET—one of EdF's own main competitors in France—and in addition to gain access to EdF production capacity, with a view to selling the power on the French market. As far as third markets are concerned, the main idea that has emerged is that of a JV between EdF and Enel concerned with NPPs in EU accession or candidate countries.