Autorità per l'energia elettrica il gas
e il sistema idrico

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ANNUAL REPORT
TO THE AGENCY FOR THE COOPERATION OF ENERGY REGULATORS
AND TO THE EUROPEAN COMMISSION
ON THE REGULATORY ACTIVITIES AND THE FULFILMENT OF DUTIES
OF THE ITALIAN REGULATORY AUTHORITY
FOR ELECTRICITY, GAS AND WATER

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31 July 2015

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This document, from the Authority for electricity, gas and water, provides the European Commission and the Agency for the Cooperation of Energy Regulators (ACER) with a report on its activities and the carrying out of its duties under Articles 37.1.e and 41.1.e respectively, in accordance with Directives nos. 2009/72/EC and 2009/73/EC.

The structure of this report, consistent with what was defined by the Council of European Energy Regulators (CEER), was shared with the ACER and the Directorate General for Energy of the European Commission.

This report analyses the main aspects of the structural improvement of the two markets — electricity and natural gas — be it regulatory activities or the status of the competition. This report also includes a description of recent developments in legislation and regulatory expertise in the energy market, the actions implemented in terms of consumer protection and security and continuity of the supply; the latter concerning aspects pertaining to the national regulator.

The Authority has long believed that we can achieve a real guarantee concerning the topic of the continental future of energy and the environment, by building lasting relationships of solidarity and cohesion between the various national policies in Europe, channelling this into a single market. All this can be achieved by a European energy management system that is no longer hampered by bureaucracies and technocracies, but by concrete and effective policy choices, which consistently move towards market integration.

Earlier this year, the newly established Commission announced its mandate with the publication of the Communication on the EU Energy Package, to unveil its renewed vision for Europeans everywhere. The strategic framework outlined herein aims towards a resilient Europe, guaranteeing safe, competitive, sustainable and accessible energy, repeatedly underscoring the concept of solidarity and trust between countries.

Therefore, precisely because of this “idem sentire” [same feeling] on both the national and European level, the Italian regulation will do its part by supporting the transition through individual reforms, consistent with one another, that encourage integration in the market place and the stability of efficient investments in renewable sources and energy efficiency, as well as growth factors, which are environmentally and economically sustainable for businesses and the average person in today’s society, without placing unnecessary burdens on future generations.

This basic framework symbolizes the cooperation between regulatory institutions and energy policy. It is in this manner that the Authority, which I govern, continues to work intensely with the ACER and the CEER, and other European regulators, towards the completion of the internal energy market for which a framework of coordinated regulations is needed. This current report clearly highlights that fact.

Milan, 31 July 2015

THE PRESIDENT

Guido Bortoni

2 SUMMARY/MAJOR DEVELOPMENTS IN THE ELECTRICITY AND NATURAL GAS MARKETS IN 2014

Main novelties as regards energy legislation

From April 2014 until March 2015, many relevant regulatory actions were enacted relating to the electricity energy and gas sectors. Some, however, dealt with governmental controls and, in particular, **independent regulatory authorities**.

In this particular regard, Decree Law[1] no. 66, dated 24 April 2014, should be highlighted, as it has affected interventions relating to the **revision and rationalization of public spending**, for which the independent authorities are also responsible. Among the various provisions reported on, in particular, is the obligation to publish institutional budget data on their own websites, including the final budget for each year, in summary form, both comprehensive and simplified. This law also requires the establishment (effective 01 May 2014), of a ceiling [cap] on the annual inclusive salaries for civil servants; the obligation of an Authority of any financially independent body and organization, which does not receive transfers from the State Budget, to implement measures to reduce spending on intermediate disbursements, and to ensure a corresponding savings of 5%. Resuming the discussion regarding governments, Decree Law[2] no. 90, dated, 24 June 2014, must be mentioned, in which certain provisions are stipulated relating to the independent authorities including: the incompatibility of members and managers; the selection procedures for staff recruitment; the reduction of expenses for consulting fees and corporate bodies; the unified management of services and centralized purchasing; the consolidation of head offices.

Regarding the issue of incompatibility, this decree excludes the possibility that members of an independent authority may be appointed to another authority position, for a period of five years, upon the expiration of their mandate. Moreover, these conflicts of interest[3] extend to regulatory managers of public utility services. Members are still prohibited, for at least two years after their mandates have expired, from maintaining business relationships, either directly or indirectly, as consultants or employees of any company in their field of expertise.

To ensure the necessary budget cuts, it was agreed that, as of 01 July 2014, the authorities must implement, within their own jurisdictions, a decrease of at least 20% of the salaries of accessory employees (including management staff) and as of 01 October 2014, a spending cut for consulting fees, consulting rooms, research, as well as those corporate entities not covered under this law, by a minimum of 50% compared to what was maintained in 2013. It was also stipulated that these authorities needed to move toward the unified management of not only essential services, by entering into agreements or the establishment of joint offices (at least between two authorities), but also the selection procedures for staff recruitment. Additionally, some independent authorities (including AEEGSI) must manage their logistical services in such a manner as to ensure that the head office is established in a public building or a rent-free[4] facility (excluding the use of

[1] Converted, with amendments, into Law no. 89, dated 23 June 2014.
[2] Converted, with amendments, into Law no. 114, dated 11 August 2014.
[3] Already provided to the members of those authorities by Art. 2, paragraph 9, of Law n. 481, dated 14 November 1995.

administrative expenditures) or facilities leased on terms more favourable than those of other available state-owned buildings.

Multiple locations can be provided for each authority, on the condition that the majority of the offices are located at their respective headquarters, guaranteeing a 70% minimal presence of qualified personnel, on a total annual basis. Ultimately, spending limits were also imposed. More specifically, spending limits for branch offices, agencies, and official travel expenses (which may not exceed more than 20% of the total expenditures); total expenditures for consulting fees, case studies and research costs should not exceed 2% of the authority's total expenditures. In order that these criteria are met, within one year of the decree coming into force, the Ministry of Economy and Finance will act as a watchdog organization, in the event that certain of these limits are violated, within the following calendar year. This Ministry will also be responsible for identifying one or more buildings to use as a headquarters, where appropriate, and relevant to authorities.

Extremely important for the areas of competence of this Authority, it appears also the measures contained in articles 23 to 30-d, of Decree Law [5] no. 91, dated 24 June 2014, laying down *urgent Measures for Agriculture, environmental protection and the energy efficiency of schools and universities, the revival and development of businesses, cost containments imposed on electricity tariffs, and the classification of immediate obligations under European Union regulations.* The common thread of the measures cited is the **provision** set forth in Article 23, **to allocate to the reduction of electricity tariffs** for customers in medium voltage and low voltage categories with available power higher than 16.5 kW, **minor user charges** arising from subsequent articles and the provisions of Decree Law no. 145, dated 23 December 2013 (so-called "Destinazione Italia" [Destination Italy]), that with the so-called "spalma incentivi volontario" [voluntary incentive spread] it guarantees the right to reduce, over a longer period of time, the incentives granted for renewable sources. **This reduction in electricity rates**, **provided to small and medium-sized businesses** must be divided proportionally among those entitled to it, and should not be combined with incentives already provided for companies in energy-intensive areas. In addition, the decree ordered that the Sicilian and Sardinian macro zones (**all Sicilian plants generating power in excess of 50 MW**) be defined as "**essential** to the security of the power system" until the Sorgente-Rizziconi power line has been officially completed. In this regard, the Authority must define the formalities of the bidding procedures for these facilities in reference to the fair compensation of the residual capital invested attributable to those units.

Articles 24 and 25-bis also provide additional interventions by the Authority. In fact, Article 24 **subjects certain forms of self-consumption of energy** (Internal user networks - RIU, efficient user systems and their equivalent) **to be paid for**, as of 01 January 2015, **of a share of the general expenses** in relation to the energy consumed and not supplied by the network. That is to say, that the Authority is required to take the necessary steps to measure the energy consumed, as a transitional measure for the year 2015. However, in the event this is not feasible, these articles provide a system of increases of fixed rate of payments to cover the general system expenses or the estimated equivalent. The application of the provisions does not include renewable sources of power less than 20 kW.

Article 25-bis requires the Authority **to review** the **rules of on-the-spot trading**, extending it to all plants using renewable sources with power ratings up to 500 kW, effective as of 01 January 2015.

[5] Converted, with amendments, into Law n. 116, dated 11 August 2014.

In terms of **renewable energy sources and energy efficiency**, Art. 25 stipulates that the Energy Services Operator (**Gestore dei Servizi Energetici** (GSE))[6] **operation charges**, relating to incentive mechanisms and support for companies, **no longer fall under general tax A_3**, paid by consumers, companies and families, but revert back to the beneficiaries of said GSE, excluding self-consumption plants within the 3 kW range. Still on the subject of incentives for renewable sources, the next Art. 26 consists of the following:

- in the first part (the so-called "spalma incentivi obbligatorio" [mandatory incentive spread]), it aims to **generate savings by encouraging large photovoltaic (PV) plants** with power greater than 200 kW, while providing three options for the period of granting incentives;
- and in the second part it provides that **all producers of electricity from renewable sources,** which benefit from long-term incentives, **may sell a stake of up to 80% of the incentives** for renewable sources to international financial operators, selected through the competitive bidding process.

Based on the efficiency criteria and to stimulate energy efficiency, Article 28 requires the **review of the regulation and the payment of the electricity systems located on Italy's smaller islands**, which are not interconnected with the national energy transmission grid, operating in smaller electricity companies established within the tariff integration scheme, establishing that, pending the issuance of a ministerial decree for the process of increasing the electricity requirements of the smaller islands, not yet interconnected, through renewable energy sources, the Authority should review the regulations of these electric systems based solely on criteria of cost efficiency and the stimulation of energy efficiency regarding the distribution and final consumption of energy. Article 29 **limits the application of the preferential reduced electricity tariffs enjoyed by the Italian Railway Network (Rete Ferroviaria Italiana)** for the sole consumption related to the universal rail services, including rail freight services. It also contains a provision of a transitory nature, valid until the entry into operation of the procedures for identifying consumption, as mentioned above, which aims to reduce the annual compensatory tariff component, recognized in application of special tariff treatment, of an excess of 3,300 GWh, at the cost of €80 million euro.

In terms of natural **gas distribution**, Article 30-bis highlights the fact that the further **extension** — between four to eight months — t**he terms established for the start of the territorial tenders** and setting of the deadline date for the validity of the agreements between the operator and local authority for the purposes of calculating the value of reimbursements received by the outgoing operator.

Legislative Decree n. 102 of 04 July 2014, concerning *implementation of Directive 2012/27/EU on energy efficiency, amending Directives 2009/125/EC and 2010/30/EC and repealing Directives 2004/8/EC and 2006/32/EC,* **updates the National regulatory framework on energy efficiency**. Among its provisions is the **allocation of new tasks to the Authority** concerning regulation, monitoring and enforcement in the **district heating sector**, **cooling and hot water for domestic use**. The same decree, implements, assigning other tasks to the Authority, for provisions relating to the measurement of energy consumption, billing, cost and access to consumption information. The Authority is also called upon to accomplish a number of additional tasks, such as implement **an evaluation of the potential of energy-efficient facilities for gas and electricity**, by 30 June 2015, as well as those of the regulating access and participation in demand in balancing markets,

[6] GSE is the public controlled company in charge of incentivising and developing renewable sources and energy efficiency in Italy.

reserve and other system services. The Authority is also charged with the task of **adapting the components of the electricity tariff**, with the aim of **overcoming the progressive structure with respect to consumption** and to adapt the components to the costs of the actual service, according to criteria of gradualness. In addition, the same decree authorizes the Authority to make proposals to the Government regarding **any new criteria for the definition of the electricity bonus**, the discount on the bill for families in conditions of economic hardship, large families and customers in very poor health.

It is also worth mentioning that Decree[7] n. 133, dated 12 September 2014, implements *urgent measures for opening construction sites, the implementation of public works, the digitization of the nation, bureaucratic streamlining, the emergence of the hydrogeological disturbances and the resumption of production activities.* In addition to many provisions relating to water services, the decree also intervenes in the field of **natural gas.** In order to **increase security of supply**, the decree establishes that the import pipelines, LNG regasification terminals, storage facilities and the national transport network facilities, including the necessary preliminary steps for the preparation of projects and associated works, are **of strategic importance**. It also states that these facilities have to be considered a national security priority, as well as being declared a public utility; of urgent necessity which cannot be postponed. For these purposes and, in particular, to increase the response of the national storage system in terms of the delivery point and the injection, it is expected that beginning from the regulatory period 2015, the Authority will establish **incentive regulatory mechanisms and incentive investments for the development of additional peak performance** implemented as of 2015, also asymmetric, favouring developments characterized by a high ratio of peak performance and storage volume, and minimizing the charges falling on the national gas system. Finally, another important provision of the measure in question is the **definition of efficient district heating or cooling**, including the cogeneration heat between the energy sources that can be used in combination with each other in order to achieve the required rate of heat production.

Law no. 161, dated 30 October 2014, *implemented rules for fulfilling obligations arising from Italy's membership in the European Union,* **integrates the powers of investigation and enforcement of the Authority,** in order to implement the EU Regulation 1227/2011 concerning the integrity and transparency of wholesale energy market (the so-called "REMIT"). The Law transposes into national law, known as Article 13 of REMIT, which requires Member States to ensure that their national regulatory authorities are granted the powers of investigation and enforcement as necessary. This, in turn, prevents abusive practices in relation to the manipulation (or attempted manipulation) of the market and insider trading. This measure also provides **specific powers to impose sanctions** in cases of any violations of the restrictions mentioned above.

Law n. 154, dated 07 October 2014, rendered *Delegation to the Government for implementation of European directives and the execution of other European Union acts*, dictates then the principles and criteria specific to the transposition of EU Directive 2013/11/EU of the European Parliament and of the Council on **Alternative Resolution on Consumer Arbitration**. In particular, it is binding on the Government to apply the Directive to procedures before arbitration entities where the actual persons in charge of arbitration are employed or paid exclusively by the trader, providing criteria of certain guarantees of impartiality and independence.

[7] Converted, with amendments, from Law no. 164, dated 11 November 2014.

Finally, it is also worth mentioning the fact that Law n. 190, dated 23 December 2014*, implements provisions for the formation of the annual and multi-annual state budget* (Stability Law 2015), which in relation to the electricity sector, establishes the **transfer to Terna the ownership of the Italian Railway's (Ferrovie dello Stato) high and extra high voltage power lines**. The Authority defines a return on net capital invested of the depreciation and operating costs (current and emerging), taking into account the potential benefits to the national electricity system. For the purposes of the effective allocation of the cost of the facilities of their respective sectors, regarding the definition of net capital, the Authority shall not deduct the value of government grants used for investments in the network portion transferred. In terms of **local public services**, the law introduces mechanisms aimed at **rationalizing the local subsidiaries**, with the goal of promoting the aggregation processes and the strengthening of the industrial management of local public services in the network. In conclusion, Law no. 190/2014 **extends the application of the reverse charge even in cases of transfers of greenhouse gas shares**, as defined by Art. 3 of Directive 203/87/EC, governing transfers to other units that may be used by operators to comply with the directive, as well as certificates relating to gas and electricity, and the sale of gas and electricity to a taxable dealer.

The first measure to be highlighted, for 2015, is Law[8] no. 11, dated 27 February 2015, requiring that the material regarding **territorial tenders for the distribution of natural gas**, be extended:

- to 31 December 2015, the date after which the remove of 20% of the sums paid to the local authorities applies, following then tendering framework for the distribution of natural gas, where local authorities granting the concession have not yet complied with the terms regarding the choice of the contracting authority (commissioning body), relative to the first and second grouping of districts;
- to the 11 July 2015 deadline for the replacement of the regional intervention in the event of the failure by the municipalities to publish the notice of the tender, for the various districts of the first group.

The extension excludes areas where at least 15% of the delivery points are located in the municipalities affected by the earthquakes of 20 and 29 May 2012. In relation to only the plants powered by renewable sources, located in areas affected by the earthquake, the law extends the deadline for their entry into service, to 31 December 2015.

In the same measure also, there is a further provision relevant to the areas affected by natural disasters which occurred between 2012 and 2013: the deadline by which they will become operational, is in fact, extended to 30 September 2015, to be admitted to the incentive rates, photovoltaic systems found in the GSE Register, in such a position, as to meet the additional volumes for the category V (5th) Energy Account incentives to be implemented in these territories.

Finally, in relation to the **legislation bills still before Parliament**, it should be noted the bill on *Enabling Governments, with respect to streamlining public administrations*, which provides a Government mandate requiring the simplification of the organizational structure of public administrations, specifically providing for the elimination of those departments whose functions overlap with those of independent authorities. It also contains a Government mandate to adopt, within 12 months, the legislative decrees of simplification in the area of government equity

[8] Conversion, with amendments, of Decree Law no. 192, dated 31 December 2014.

investments and local public services; ultimately aimed at clearing up ambiguities regarding local public services, in accordance with guiding criteria specifically identified, and also directed to streamline management.

Another regulatory action relevant to the Authority, still before the Senate, is the bill containing the delegation to the Government for the implementation of the three Directives reforming the procurement and concessions: EU Directive 2014/25/EU procurement in so-called "Special Sectors" (water, energy, transport and postal services), EU Directive 2014/24/EU regarding public contracts in ordinary sectors and EU Directive 2014/23/EU awarding the concession contracts. The directives, which came into force on 18 April 2014, will have to be transposed by Member States into national law by 18 April 2016.

Finally, it should be noted that the legislative bill on the *Annual Law on the market and the competition* has been assigned to the House of Representative joint Committees for Finances and Production Activities, Trade and Tourism. This bill establishes the **repeal, scheduled for 01 January 2018, of the transitional provisions of natural gas prices and electricity, in order to defeat the so-called "protection schemes"**, referring to a Ministry of Economic Development decree, upon consultation with the Authority, to adopt all appropriate measures to ensure the gradual repealing of the protection regime, with particular reference to the price monitoring in the previous phases and subsequent to the termination of the transitional provision of reference prices and the introduction of disclosure requirements on behalf of consumers, while taking the necessary steps to avoid elements potentially damaging to the competition.

Developments in the electricity market

Major changes in the regulation

During 2014, the Authority adopted numerous measures for the electricity sector. The major ones are summarized below.

The proceedings initiated in 2012, concerning the **revision of the rules of separate accounting (unbundling)** for companies operating in the electricity and natural gas, as well as related reporting obligations, came to an end. The new *Integrated Text of accounting unbundling*, which replaces the regulation previously in force in the field, provides among other things, a number of technical provisions regarding the separation of accounts, designed to make it a more transparent and uniform process for unbundled annual reports from companies, and starts a technical discussion table for the preparation of a regulatory accounting manual that aims to provide detailed technical specifications for the preparation of unbundled annual accounts.

Once again, referring to the issue of separation, in 2014, the Authority made a **consultation regarding the reform of their own guidelines on functional unbundling requirements** for electricity and natural gas operators, now in force. Among other things, the Authority has proposed to: amend the definition of a vertically integrated company by referring to a broader interpretation based on the concept of a corporate group, also including the question of the control exercised by an individual and by a public body, also non-economic; modify the measures adopted for the certification of transmission system and electricity transmission system operators of natural gas transportation, by ensuring that the obligations imposed regarding the decision of certification, adopted by the Authority, to permanently replace the other obligations of unbundling; introduce specific requirements with regard to policies of communication and branding for the **majority of distributors of electricity and natural gas - regardless of their size or**

the type of company - setting detailed criteria for a complete separation, with no risk of confusion between the sales and the distribution, as well as between the business of selling electricity in the free market and the standard offer market; review the obligations imposed on the operators of distribution systems to protect the confidentiality of the treatment of commercially sensitive information.

In the fall of 2014, after a period of consultation, the Authority intervened on the **criteria for the allocation of tools to hedge the risk of volatility of the amount of transport capacity fee** (CCC). The new regulation has provided harmonization of the profile of the CCC peak load profile with the peak load of normal use in the energy forward market; the updating of the rules for the calculation of the production capacity of the thermoelectric unit, in order to take into account the seasonal nature of such units; the publication of the transit limits used in the algorithm of selection of offers and the offers submitted by operators in the last round of monthly and annual selection procedures.

In order to implement the Target Model defined at the European level for the Day-Ahead Market (MGP), which provides for the allocation of the rights of cross-border interconnection capacity through market coupling mechanism, it was necessary to **harmonize the timing and the resolution algorithm of the Italian MGP (Day-Ahead Market) with those of neighbouring countries**. As regards to timing, the need has arisen to delay the closing of the MGP (gate closure) at 12:00 noon and, consequently, to reorganize, in a contextual manner, the timing of conducting the sessions of the intra-day market (MI) and the Market for Dispatching Services (MSD). Consequently, the Authority has also approved changes to the Grid Code proposed by Terna for the reorganization of the timing of the markets.

In June 2014, the Authority issued the **rules for the supply of services of immediate interruption and emergency** (interruptibility services), effective as of 01 January 2015. This final regulation establishes the procedures and criteria for the allocation of interruptibility services, to be applied starting 01 January 2015 and onwards. The maximum outage, defined by the Ministry of Economic Development, is supplied by 75% through a multi-year auction, and the remaining 25% through an annual auction. The possibility exists to reacquire this right to interruptible power, originally sold to Terna (the national network operator), either on permanent or temporary basis. Both and annual and monthly ceiling have been established for the hours of unavailability.

The issue of Legislative Decree n. 102, dated 04 July 2014, which implements the European directive on energy efficiency, has given new momentum to the process of the **revision of tariffs for electricity transmission, distribution and metering for domestic users**, which began in 2013. The decree, in fact, requested the Authority to adjust the components of the electricity tariff, in order to overcome both the progressive structure, with respect to consumption (with the identification of cost-reflective tariff components of the service), to stimulate and encourage good conduct, and last but not least, the achievement of efficiency objectives. The legislative decree also authorizes the Authority to issue proposals for the establishment of any new criteria for the determination of compensation expenses to recognize portions of the population who are economically disadvantaged (social bonus). With this in mind, as of February 2015, there was a consultation, taking its cue from a preliminary analysis of the current domestic electricity consumption and possible development scenarios of the current structure of residential rates, remaining broadly unchanged for forty years in the face of consumption trends, technologies and market energy. This structure, based on two strongly progressive rates, differentiated according to the condition of registered residence and the value of the power engaged, is no longer able to effectively satisfy the original requirements of social fairness and, at the same time, does not stimulate the adoption of good conduct, or the installation of energy efficient equipment.

Aspects where reform is possible will be: the structure of unit charges; the distinction between tariff customers with and without registered residence; gradualness of the transition; the redefinition of contractually contracted power levels; the limit of available power; the amount of change in the power level used; the new criteria for the social bonus.

International Coordination

During 2014, the Authority for Electricity, Gas and Water continued to work with other European regulators both at multilateral level - through the Agency for the Cooperation of Energy Regulators (ACER), the Council of European Energy Regulators (CEER) and the Regional initiatives and by means of bilateral meetings organized specifically to deepen the discussion on issues of common interest. This activity is aimed at establishing transparent and effective rules for the promotion of an integrated European energy market, competitive and efficient, as required by the Third Energy Package. As regards the electricity sector, for the past year, the particular involvement in the activity of the Authority for the definition of European network codes has been noted, implemented by ACER working groups, which has led to the definition of documents: ACER recommendation (May 2014) to the European Commission for the adoption of the Network Code on forward capacity allocation; ACER recommendation (July 2014) to the European Commission on the Network Code on High Voltage Direct Current Connections and DC-connected Power Park Modules; ACER opinion (March 2014) on the Network Code on Electricity Balancing proposed by ENTSO.

While still on the subject of ACER, in 2014, this agency saw intense activity related to the implementation of Regulation (EC) 347/2013 for energy infrastructure. In particular, the preparation of the list of Projects of Common Interest (PCIs) initiated in the autumn of 2014, and for the evaluation of the criteria for the cost/benefit analysis proposed by ENTSO rules concerning the cross-border allocation of charges of facility projects.

During 2014, the Authority also took a leading role in the ACER working group, aimed at encouraging the development of a coordinated approach in the implementation of the REMIT regulation. Finally, the Italian Authority has actively participated in the preparation of the ACER recommendations, shared with the CEER, *Energy regulation "A Bridge to 2025" (Bridge 2025)*, published after proceedings of extensive consultation with stakeholders, on 19 September 2014.

As in previous years, the Authority has maintained constant dialogue and institutional cooperation, in order to promote the harmonization of European rules with those of countries which, although not part of the Union, represent key partners in the energy field, thus reinforcing its role as a regulator of reference, in particular, in the Balkans and in the Mediterranean basin. In this area, it has contributed to the work of implementation of the Treaty establishing the Energy Community of Southeast Europe. On 26 November 2014, MEDREG organized the first *Forum* on energy regulation for the Mediterranean, in Barcelona, Spain. The *Forum* focused on the debate regarding energy regulation as a major instrument of development (including investments) and market integration.

Wholesale and Retail Markets

Faced with a reduction in GDP of -0.4%, during 2014 the demand for electricity has, according to provisional data released by Terna, incurred a further decline of around 3%, slightly lower than the -3.4% last year. Consumption of electricity fell, in fact, from 318.5 TWh in 2013, to 309 TWh in 2014. Domestic production has covered a share of the national total requirement of 86% (against

87% in 2013). Conversely, compared to 2013, net imports have increased their share by one point. This in effect, results from an increase in imports, which however, was accompanied also by a significant increase in exports (+ 37.3%). As for uses, the further decline in electricity consumption in all sectors is duly noted. Industrial and domestic consumption have, however, recorded lower reductions with respect to those of last year.

More precisely, the **gross domestic production** was at 278 TWh, down 4.2% from last year, after -3.2% in last year. This is the third consecutive decline since 2011. Thermoelectric production, suffered a further reduction of 11% from last year, in 2014, and was reduced by about a third compared to 2010. In terms of contribution to the total production, it dropped from 73% in 2010; to 56% in 2014 (it was still 61% in 2013). The natural gas share, equal to 60%, remains dominant among the thermoelectric sources, but was significantly reduced compared with 70%, five years ago. Thanks also to the reduction of Italy's energy demand, the share of domestic needs covered by the foreign balance rose nearly one percentage point to 14.1% (it was 13.2% in 2013). Looking to the contribution of major groups to the gross generation in 2013 and 2014, Enel stands out as, after years of steady decline, and basic stability of 2013, its electricity production for 2014 was increased by two percentage points, to the value of 27.2%, compared to 25.2% last year. It was prior to 2010 that Enel shares did not reach a comparable level. Unlike in recent years, the Herfindahal-Hirschman Index regarding gross generation increased slightly, with a value of 908 for 2014 (it was 821 in 2013).

In 2014, the amount of electricity purchased in the Italian Power Exchange amounted to 282 TWh, down 2.5% compared to 2013 (289.2 TWh). Thus extending downward, the trend that began in 2010 reached a record low from the start of the market. Also down on the **Spot Market**, the volume fell to 186 TWh compared to 207 TWh achieved in 2013 (-10%). The decline in the volume on the spot market dragged market liquidity, increasing from 71.6% in 2013 and now down to 65.9% in 2014. The Italian Power Exchange recorded an average purchase price of energy (single national price or PUN) equal to €52.08/MWh in 2014, a decrease compared, in 2013, by 17.3%. The decline was particularly significant in all period groups, with the PUN falling to historic lows - or close to the same - in almost every hourly block, amounting respectively to €59.52/MWh and €49.69/MWh at peak and off-peak hours (-16% in both period groups) and reaching €46.51/MWh in the holiday hours (-19.8%). The year 2014 does not seem to present any major changes in terms of market concentration. The improvement in competitiveness observed over the last few years, favoured, among other things, by the transformations of the generating and the structural decline in demand, seems to have been assimilated in the main indicators, whose modest changes appear as a result of further consolidation of the dynamics in place or purely local phenomena. There remains, however, the strong diversification of the level of concentration at zonal level: the HHI below the threshold of competitiveness has been confirmed only in the North, and was always maintained at superior values than in other areas, with a notable decrease in Sicily. The marginal operator index, calculated by reference to volume, has shown a return to the previous values of to 2013, with a percentage of the total volumes traded by the first operator (Enel) equal to 21% in 2014 (it was 14% in 2013), also by virtue of the corresponding decrease in the matter of E.On (-3 percentage points compared to 2013).

The **number of electricity suppliers to end markets** grew in 2014 to 64 units (all on the free market). Therefore, once again, the market is experiencing growth in the business sales group, despite the narrowing of the market is going on since 2008 almost without interruption. In 2014, the data still show a substantial **shift of domestic consumers to the free market** (the standard offer regime has lost a million domestic withdrawal points compared to 2013, while the free market will record 1.4 million more). In both markets, the standard offer regime and the free, it

should be noted that there is a **further decline of about 100 kWh, in average consumption per unit**, compared to 2013. As of last year, in fact, families - who are increasingly sensitive to environmental issues - endeavour to reduce energy charges, in part by reducing fuel consumption, but also moving in the open market, in search of more favourable price conditions.

In 2014, just less than 58 TWh were sold in the **standard offer regime**, to around 25 million delivery points (calculated on a *pro die* criterion). Compared to 2013, consumption fell by about 6 TWh (-9.2%), while the delivery points served fell by 4.5%. Even **safeguarded categories** was severely restricted: electricity sales decreased by 26% (-1.2 TWh), while the number of customers decreased by almost 19% (-17,500 delivery points). The electricity supplied in 2014 in the **free market** has tapered by 3.6%, despite the considerable increase in customers served (+ 13.8%). The fall in volumes sold on the free market would have been much greater if the growth in this market, registered in the domestic, had not mitigated the reduction of over 5 TWh of electricity sold to non-residential customers (-3.2%). Even in 2014, in fact, non-domestic consumption was down in all markets: -8.7% in the standard offer regime, -30.2% in the safeguarded categories and -1.2% in the free market. Altogether, in 2014 the standard offer regime acquired 23.4% of all energy sold to end markets (24.7% in 2013). The safeguarded categories have absorbed 1.3% (against 1.7% in 2013) and the free market has bought 75.2% (against 73.5% in 2013).

Switching in the overall electricity market remained substantial. Altogether, more than 3.5 million customers, (i.e. 9.6%), have switched suppliers at least once during 2014. In terms of volume, they represent almost a quarter (24.2%) of the total energy distributed. As had occurred in 2013, switching is also increased this year, when evaluated in terms of delivery points, but is decreased when measured in terms of volume. This is probably due to the fact that in recent years, among customers switching suppliers, more and more of them are characterized by low levels of consumption.

In the entire retail market the **dominant operator** remains the Enel group, although its share is (slowly) shrinking over time: in 2014 it dropped to 34.1%, against 34.8% in 2013. Its importance, however, is somewhat differentiated in the various segments of the retail market. In the domestic and non-domestic, low voltage connections, in fact, the Enel group holds a very wide lead and, above all, is far removed from the groups it left behind. On the contrary, in selling to non-residential customers in medium and high/extra-high voltage, from 2013, Enel is no longer the first operator and, of course, its market shares are now quite close to those of its competitors. In 2014 the **level of concentration of the retail market was slightly increased**: the top ten operators (corporate groups) account for 66.6% of total sales (the figure was 66.1% in 2013 and 70% in 2012). Sixteen groups would be needed (similar to last year) to exceed 75%. Half of the market (46.2%) is supplied by the first three groups.

In 2014, **complaints, reports and requests for information** relating to the electricity sector were 29,840 (64% of the total), with a slight increase compared to 2013. Very slight changes concerning the proportions between the complaints and requests of information, which in absolute terms have doubled. The most frequent topics of the communications received, in 2014, were received in the following order: contracts (27%), billing (26%), bonuses (18%) and the market (15%).

Based on the provisional figures collected by the Authority, in 2014, the **average price** on the free market **for the supply of electricity** amounted to € 103.41/MWh. However, with regards to sales under the standard offer regime, the average price (including the components referred to energy purchase and dispatching, sale commercialization charges and components of equalization) stood at €99.48/MWh. Overall, in 2014 there were customers served in low voltage at a higher price in the free market, as there were in the three previous years. Just as in 2013, there was a clear

distinction between domestic and non-domestic customers. When considering this data, one must always keep in mind that the offers on the free market are usually more complex and often include additional services not included in the standard offer regime.

Developments in the gas market

Main regulatory developments

In 2014, the Authority approved the ***new regulation for the quality of service of natural gas storage, for the regulatory period 2015-2018 (RQSG from 2015 to 2018)***. The major innovations introduced by the new RQSG concern the improvement of the security of storage facilities (and in particular of the flow line); the most attention paid with regard to service continuity, the regulation of continuity actually delivered to users; the streamlining of commercial quality regulations and disclosure requirements to the Authority in all aspects (security, continuity and commercial quality).

At the end of 2014, the Authority **initiated a proceeding for the comprehensive review** of procedures used for determining and updating the **rate of return on invested capital (WACC)** for regulated services of the electricity and natural gas sectors. This revision is intended to ensure uniformity of criteria for determining the rates of return on invested capital and to prevent differences in the rates of payment of individual regulated services, which may depend on the specific conditions of the financial markets in the period used as a reference for setting the rate of return on risk-free assets. The Authority has proposed that this review will lead to the unification of all the parameters used for determining the WACC for regulated services of the electricity and natural gas sectors, with the exception of those specific to individual services, including, primarily, the β parameter, which expresses the level of specific risk of the individual service and the influence of equity and debt capital employed to influence ratio (D / E).

Last year, the Authority also **reformed the requirements for access to the transport service and the criteria for granting transport capacity at points interconnected with foreign countries** in order to implement well in advance the provisions of the *Network code on capacity allocation mechanisms in natural gas transmission systems*, referred to in Regulation (EU) 984/2013 and (Regulation CAM) respectively. Such measures have allowed the date of entry into force of implementation of the provisions of the CAM Regulation to be effective one year earlier than originally planned. On the issue of access to transport services, the Authority also **approved the mechanisms** proposed by the TSO for the implementation of **the provisions on the management of contractual congestion** (congestion management procedures, regulation CMP). Regulation CMP defines the European rules for the management of so-called "Contractual Congestion" a situation in which the transmission capacity is poor as entirely conferred - often over several years - even in the face of physical capacity (technically) available.

Still on the subject of transport, it should be noted that in 2014, the necessary activities were **initiated for the implementation of Regulation (EU) 312/2014**, dated 26 March 2014, which introduced some substantial changes to the current system of balancing for natural gas. In particular, the essential elements of the market design that will be implemented from the first start-up of the new mechanism (suggested to start by 01 October 2015), have been tracked. The major changes, to be introduced in the implementation of this Regulation cover the following: the identification of balance resources; the configuration of the different roles assigned to the responsible for balancing, Snam Rete Gas, for the purpose of gas supply for the same balancing; renewed tasks, to the Authority, of verification and monitoring the responsible for balancing. In

order to promote efficient behaviours, the Authority will include an introduction of specific mechanisms of rewards/penalties. Given the difficulties in obtaining short-term liquid resources of gas for the balancing, taking into account that this need will persist in the future regime, the Code of GNL Adriatico was amended to increase the flexibility of the terminal (variation of the send-out at short notice). The approval of this change starts a trial period which will last until the end of 2015.

On the issue of **access to the storage services**, it should be noted that the natural gas year 2014-2015, in Italy, has represented the first experience of almost total storage capacity allocated **according to market criteria**. This coincided with a market situation, in Italy and in Europe, characterized by seasonal price differentials among the lowest in recent years and these, at least in the first part of the summer semester of 2014, as to make the purchase of storage capacity an opportunity for the operators and not a necessity. This is due to the availability of slightly higher winter gas prices in comparison to summer gas prices. The auctions carried out in sequence, with allocations distributed throughout the year (and not with a one-shot auction), made it possible to enhance the storage capacity to reflect market trends (summer rates) and its expectations (forward prices in winter).

Between the end of 2014 and beginning of 2015, the Authority implemented the **reform for the rules of the flexible use of the regasification capacity of the LNG and congestion resolution** for access to the terminals. The criteria used to give users access to the regasification of LNG, and to ensure the impartiality and neutrality of the infrastructure management, were defined in 2005, in the context of the natural gas system, which was very different from today, as it was characterized by a shortage of available regasification capacity and the lack of suitable tools to effectively deal with cases of hoarding in the same capacity. Even the regulatory framework of the gas system has improved greatly in respect of the legislative framework within which the provisions were defined in 2005. In particular, with the transposition of European directives and the introduction of a the balancing market, the regasification terminals are required even more so to provide users with flexible access, both by offering services like spot, by providing ways to use adequate capacity under contract in a dynamic environment, consistent with the management of short-term supply and logistics of shipping that is emerging in the LNG market and that, therefore, does not require programming decisions to made too early.

The criteria for setting the price of natural gas storage service for the period 2015-2018 have been defined in October 2014. The Authority considered appropriate, among other things: to establish the rate of return on invested capital, equal to 6%; to provide the updating of the Weighted Average Cost of Capital (WACC) with reference to the value of the risk-free rate; in order to align the timing of updating the rate of return on invested capital with other regulated services (the upgrade must be made by reference to revenues for the year 2016); to apply, for the estimation of allowed operating costs, the criterion of the so-called “profit sharing” period-end, allowing companies, in the first year of the new regulatory period, to keep the 50% of the major productivity gains, made during the third period of adjustment; to determine, if companies have not reached the efficiency goals set by the Authority for the third regulatory period (the recognized operating costs), the allowed operating costs so as provide for the economic-financial balance needs of companies with an adequate incentive to recover efficiencies, in analogy with that provided for the transport service; to secure the recovery factor of productivity, differentiated for enterprise. In implementing the provisions of Decree Law no. 133/2014 (see above), the Authority has also initiated other proceedings to integrate the tariff criteria for the service of natural gas storage defined above, to introduce regulatory incentive mechanisms, also

asymmetrical, for the development of additional peak performance from storage, applicable to investments made during 2015.

Downstream from the consultation process in February 2014, the Authority **redefined the regulation of tariffs for distribution services and natural gas metering** for the regulatory period 2014-2019, incorporating provisions relating to supra-municipal management and with those relative to the district area of the concession. In relation to fees covering operating costs for the distribution and management of the network infrastructure, the Authority has introduced a differentiation according to the size of the scope, distinguishing between areas with up to 300,000 delivery points and areas with more than 300,000 supply points.

Finally, in 2014, the Authority worked intensively **to implement the provisions** relating to the **granting of concessions for the distribution service**, stipulated in Art. 4, paragraph 5, of Decree Law no. 69, dated 21 June 2013.

International Coordination

The regional gas initiatives have been in place since 2012. The first cross-regional activity was the voluntarily earlier implementation (i.e. prior to entering into force) of the network code on capacity allocation mechanisms (*Capacity Allocation Mechanisms - CAM NC*) by network operators and regulatory authorities. This activity, coordinated at European level by the Italian Regulatory Authority on behalf of ACER, in 2013, and for the first half of 2014, involved the development of pilot projects on a regional-bilateral level. To promote the consistent development of the various pilot projects, ACER and ENTSO-G have jointly approved the *Roadmap for the Early Implementation of the Capacity Allocation Mechanisms Network Code*, which was later updated in October 2014, with the planned activities until the mandatory entry into force, expected for the month of November 2015.

As part of the early implementation of the Regulation CAM, some European TSOs have formed the platform Prisma for the allocation of capacity at points of cross-border interconnection. Prisma is constituted by 31 European TSOs, including Snam Rete Gas, and which offers capacity in 12 countries, held about 97,000 auctions in the past year, for the allocation of primary capacity for over 8,600 GWh/h. In 2015, allocation of capacity is also expected on an intra-day basis and based on adherence by other TSOs.

The Forum in Madrid, in May 2014, also on the basis of the positive experience of the CAM *Roadmap for the Early Implementation*, has asked ACER and ENTSO-G to extend it to the network code on balancing. This activity, coordinated by the Italian Authority as well, was confirmed in a first round of monitoring of schedules for implementation in different European countries, presented in October 2014. Nine countries, including Italy, will provide implementation by 01 October 2015.

The Italian Authority, while confirming its commitment to participation in regional ACER initiatives, in May 2014, ceded regulator co-leadership in heading the activities of Natural Gas Region South-East to the Romanian Authority.

During 2014, the Authority continued to work with other European regulators, at the multilateral level, through the Agency for the Cooperation of Energy Regulators (ACER).

In relation to the natural gas sector, the Authority has been actively involved in the ACER working groups responsible for analysing the European network codes, prepared by ENTSO-G, as well as the Gas Target Model revision process, initiated at the beginning of the year.

Finally, in 2014, the Authority contributed to the work of implementation regarding the Treaty establishing the Energy Community of South East Europe (ENCT) by participation in meetings of the Energy Community Regulatory Board (ECRB) and its working groups, as well as electricity and gas forums, which are intended to share the decision making process at the institutional level, with the industry stakeholders and lead the regional integration process.

Wholesale and retail Markets In Italy, in 2014, the GDP registered a decrease of -0.4%. In addition to that, the winter months (the beginning and the end of the year) of 2014 recorded particularly mild weather conditions, thereby reducing the demand for natural gas, not to mention the drive from heating fuel consumption. It's no wonder, then, that last year, according to preliminary figures released by the Ministry of Economic Development, the **gross domestic consumption** of natural gas has fallen a further 8 billion cubic meters, down to 61.9 G(m^3), recording a decline of 11.6% compared to 2013. With it, the fourth in a row, the levels of gross consumption returned to values measured between 1997 and 1998.

The final decline in demand was consistently accompanied by the reduction in domestic production (-7.6%) and in net imports (-10.1%). As in the past, about 85% of all **national production** was extracted from the Eni Group Company, which remains the dominant player in this segment, with an absolute majority of the market share and far above the second group of companies, such as Royal Dutch Shell with only 8.3%.

According to preliminary data from the Ministry of Economic Development, the quantities of **imported** gas in 2014 fell to 55.7 G (m^3). Since the decline in imports was lower than consumption, in 2014, the level of foreign dependence (measured as the ratio of gross imports and gross domestic consumption) rose to 90.1% from 88.4% recorded in 2013.

The subsequent collapse of natural gas imports from Algeria has given other countries that, despite the general decline in import levels, showed an increase in volumes. Imports from Algeria, which last year had recorded a substantial reduction in 2014, have substantially been cut in half (down 5.8 billion, or -45%), halting at 6.8 G(m^3). Penalized by high prices as those of Algeria, the Qatar LNG also decreased by 16%. In 2014, the lower natural gas imports from Algeria and Qatar, along with those from other countries (including Trinidad and Tobago), have collectively brought to in Italy 7 G(m^3) less than in 2013. This was compensated, but only by half of the minor Italian gas needs, by an increase in the quantities imported from other sources.
Despite the ongoing turmoil in that politically unstable nation, imports from Libya, in fact rose by 14%, but most have more increased competitive procurement markets in Northern Europe, favoured by moderate prices occurring especially during the summer months. As a result of these changes, in 2014, the importance of the Russian Federation, among the countries exporting to Italy, grew once again, accounting for almost half (47%) of the Italian supply from abroad. With a share of 12.3% of the total imported natural gas, Algeria has remained in second place, followed by Libya, which nearly reached (11.7%).

As in previous years, the groups which have a share of more than 5% of the natural gas procured (i.e. produced or imported) are Eni, Edison and Enel. Together, these top three importers have imported 85.3% of the natural gas entering the Italian market. Considering the quantities produced within national boundaries, these three groups account for 85.9% of all the natural gas supplied. As in the past, this share is increasing (it was 82.5% in 2013), thereby increasing the share of Eni, not offset by the reduction of shares of Edison and Enel. The same three groups also hold more than 5% of the available natural gas, with a share (81.8%) of slightly less than that of the natural gas supplied.

In 2014 the **total demand of the natural gas sector**, understood as the sum of the volumes of natural gas sold in the wholesale market (including reselling) as well as retail plus self-consumption, grew by 15.6%, having reached 209 G(m^3). The wholesale market has moved 145.6 G(m^3) in significant increase compared to 2013; 53.3 G(m^3) was handled in the retail market, recording a marked decrease compared to 2013, while self-consumption amounted to 10,1 G(m^3). There are only five operators who have a 5% share of this market. More specifically, the industrial groups and their respective shares are shown in brackets: Eni (29.1%), GDF Suez (13.5%), Edison (9.2%), Enel (5.9%) and Royal Dutch Shell (5.8%). The first three groups, account for 51.8% of the total demand, a proportion much higher than that of last year.

As is the case, over many years, in 2014, the number of companies that operating in the **wholesale market** has increased, as well as the volumes they sold. In fact, 179 suppliers, eight more than the previous year, sold a total of 36 G(m^3) more than they did in 2013. In 2014, the level of concentration in this market rose again, after the decreases observed until 2012 (although there have been changes in the top positions of companies). The share of the top three companies Eni, Eni Trading & Shipping, GDF Suez Trading Italy, in fact, rose to 36.3% from 29.3% calculated in 2013. Obviously the Herfindahl-Hirschmann Index, calculated only on the wholesale market, grew in comparison to 2013 (from 507 to 653), thus remaining below the 1,000 considered as a symptom of low concentration. In 2014 the average sum in the wholesale market was 27.95 €c/m^3, much lower than the 24.58 €c/m^3 of the Platts data source and a decrease (-14.4%) compared to the value observed in 2013, amounting to 32.67 €c/m^3.

The major trading platform in Italy's wholesale market is still the **Virtual Trading Point** (VTP), managed by the main operator of the transport network - Snam Rete Gas - and allowing the exchange of capacity and volumes of natural gas, based on over-the-counter contracts. Only since 2010, as further explained in the following paragraphs, a regulated and transparent Stock Market for the Exchange of Natural Gas was created. Due to the changes still in progress and, above all, the remarkable growth recorded by the platform for natural gas balancing, the Gas Exchange also recorded, in 2014, an extremely low level of liquidity. In 2014, 118 subjects underwent exchange, transfer and acquisition of gas at the VTP; about a third of these (48) were pure traders, as non-users of the transport system.

Regarding to **Natural Gas Exchange** trend**,** it should be noted that, during 2014, on the day before market (MGP-GAS) the negotiation phase, in continuous mode, had not reported any combination. The intra-day market (MI-GAS) was characterized by a small number of exchanges with four useful sessions, all concentrated in the month of December. The average price recorded amounted to €25.41/MWh, down 8% from a year earlier compared with transition volumes totalling 102,130 MWh, compared to 3,820 MWh in 2013. However, even in 2014 the **Platform for balancing gas** (PB-GAS) underlining its leading and central role in natural gas markets, confirming the positive indications that had already emerged in 2012-2013, in terms of both registered and active traders (86 and 77) and overall volumes traded, equal to 39 TWh (down 5% in 2013), or about 6% of those delivered by Snam. The volumes traded on this platform represent 92.6% of the total traded gas markets managed by GME. The average price recorded on the PB-GAS in 2014 decreased compared to 2013, reaching €23.61/MWh (-15%), broadly in line with the average PSV which amounted to € 23.28 / MWh, compared with 17% 2013. In the last several months the prices were, in fact, substantially in line with those at PSV where, it has to be recalled, the trading are bilateral and private, in the sense that Snam Rete Gas, which manages the PSV, did not act as central counterparty. With regard to the operation of the forward market (MT-GAS), the starting date from 02 September 2013, to the present, had shown no transactions with reference to the various types of products traded.

Provisional results from the annual survey on the electricity and gas show that in 2014, 53.3 G (m^3) were sold to **retail market**, ten fewer than in 2013. As a consequence of the economic crisis, still very much present, two other unfavourable factors have compounded the situation regarding natural gas consumption: the climate, first of all, and competition from renewable energy sources that have reduced the use of natural gas in power production. The decline was, therefore, very marked (15.9%), higher than those registered in recent years. The number of active vendors in this segment of the industry has actually increased, though only by four units: with 335 operators in 2013, the number rose to 339. The level of concentration in the market's final sale, slightly decreased compared to 2013. However, it remains fairly high: the first three groups control 46.2%, while the previous year the figure was 46.9%. The Herfindahl-Hirshman Index, calculated on the sales market came to 940 (it was 996 in 2013), a level still very close to the threshold of 1,000, just above the concentration which is usually considered too weak. Compared to 2013, the share of Eni declined by about one percentage point, but remains more than double compared to that of Edison, that - as in 2013 - is the second operator.

In a context of such strong reduction of consumption, there is the further collapse, -27% in volume terms and 9.1% in terms of customers, recorded by the **market with a reference price**, following the one already marked in 2013 (-18% in terms of volume). For this segment of the market, to the general reasons mentioned above, there are two others: the displacement of domestic customers on the free market, in an attempt to find prices and more favourable purchasing conditions and, especially, the effects still present from the gradual expulsion - *ope legis* - of all categories of non-domestic customers from the market with a reference price. On the contrary, this explains the further significant growth in the **free market**, increased by a total of over 1.2 million delivery points (+ 22,78%), following the already significant (+1.4 million redelivery points) recorded in 2013. In the categories of non-domestic consumption, forced to transition to the free market, there are, in fact, rates of increase in the number of customers and higher - conversely - observing very strong reduction rates for the same in the reference price market. The augmentation of the number of customers in the free market does not match increases in purchase volumes for the previously mentioned reasons of general contraction in consumption. The only exceptions being domestic customers for whom there has been a slight increase of 1.1% in consumption compared to 2013. The entities are certainly not comparable to the expansion of customers (+ 25%). In fact, the average consumption per unit of families shopping in the free market decreased from 925 to 748 m^3/year. The portion of volume purchased on average on the open market rose to 79.8% from 76.7% observed in 2013. Naturally, it becomes more important as the numbers gradually move away from domestic use to the areas in which natural gas is an input of the production process and where the use of natural gas is more intense.

Based on data provided by the transmission and distribution natural gas operators, the rate of **switching**, that is, the number of customers who have switched suppliers in the calendar year of 2014, was a total of 6.5%, or 45. 8% when measured according to the meters of customers who have made the switch. As always, both percentages are higher than those observed in the previous year, although the data from 2014, for non-residential customers, such as those of the previous year, were probably affected by the likely move toward the free market, driven by regulatory changes that have already been stated above.

The provisional analysis of the Survey conducted by the Authority, on data collected in 2013, shows that last year the **average natural gas price** (based on the quantities sold), net taxes, used by the retail suppliers or wholesalers operating in the end market, totalled €42.3 c/m^3. This price in 2013 was equalled to €44 c/m^3. Overall, therefore, the average cost of natural gas in Italy showed a decrease of 4%. Reference prices for vulnerable customers have paid, on average, €55,3

c/m^3, while €39 c/m^3 was the average price paid by on open market; the overall price differential between the two markets is, therefore, about €16.30 c/m^{3,} a decrease of €3.30 c/m^3 compared to that recorded in the previous year. This price differential is affected, of course, by the allocation of sales volumes in each of the two markets among different classes of consumption. As we have already seen, the average number of customers on the free market is much higher. So what is evident, in this market, it the increased presence of customers directly connected to the transport network, who do not pay the components of the distribution and storage, as well as the presence of a more flexible price system, in which the indexing formulas respond more rapidly with structural variations in international markets, even if the amendments made, beginning in 2012. The updated prices established by the Authority, tended to go in the same direction.

There have been about 15,884 **complaints, reports and requests for information** (about 34%)**,** relating to the natural gas sector. Compared to 2013, the number of communications is therefore substantially the same. By comparison to the previous period, there were no significant differences in the relationship between the number of requests for information and complaints. The most frequent topics regarding natural gas were received by the facility, in 2014, and are classified as follows: the bonus, billing, the market and contracts. Compared with 2013, it has been noted, in particular, a further - albeit slight - decrease of complaints on the natural gas bonus and an increase, more than proportional to the general escalation of complaints, be it those relating to contracts, be it to connections and work.

Consumer protection

The regulation of the Italian Authority regarding consumer protection, as already highlighted in the Annual Reports of previous years, is particularly highly developed according to the specific protection duties already granted to the regulator by the founding law (Law no. 481/95) and subsequent additions that cover most of the measures provided for by said directives.

Some of the major changes introduced in 2014 have been implemented as a result of changes in the regulatory framework.

With Legislative Decree no. 21, dated 21 February 2014, Directive 2011/83/EU regarding consumer rights was transposed into Italian Law, leading to the amendment of certain provisions of the **Consumer code** with respect to the conclusion phase of making contracts. Consequently, the Authority updated the regulation dealing with contracts concluded between the retailer/suppliers and end customers, and has intervened, albeit minimally, concerning the right to withdraw and reconsider. More specifically, the Authority introduced changes to the **Code of Business Conduct**, relating to additional information to be transmitted to the domestic end customer prior to the conclusion of the contract, the method utilized to transmit the information to the domestic end user, as well as modify the maximum time allowed to exercise the right to reconsider (from ten working days to 14 calendar days).

Due to the changes made to the Code of Consumption, the Authority has also updated the regulation concerning **unsolicited contracts**. In particular, the preventive measures and the complaints procedures have been changed, so that these measures fall in line with the new requirements imposed by the pre-contractual section of the Code of Consumption.

Legislative Decree no. 102, dated 04 July 2014, which implements the European directive on energy efficiency, provides among other things, that the Authority will also formulate proposals regarding the establishment of new criteria for compensation expense determination in the identification of those who are economically disadvantaged, otherwise known as the **Social Bonus**.

On this specific issue, the Authority placed under consultation several hypotheses aimed at: increasing the range of beneficiaries and the percentage of savings for the owners (from 20% of the expenditures, after taxes, to 30% or 40% for all beneficiaries); subdivide the bonuses and the rate of savings in function of the customer's consumption profile and the number of family members, to ensure that even in the presence of reforms, a higher level than the actual expenditures is introduced; reduce the tax components (excise) or general charges, according to the cost increases related to the reform of electricity tariffs.

In 2014, the Authority intervened for the purpose of defining the method of determining the economic conditions of the protection service of Natural Gas for the natural gas year 2014-2015, with specific reference to the **components covering procurement costs in wholesale markets** ($C_{MEM,t}$), related activities (CCR) and charges of gradualness (GRAD). At the beginning of 2015, they [the Authority] received consultations regarding its guidelines for the definition of the calculation methods of the same components, starting from the natural gas year 2015-2016, proposing, in particular, a roadmap that would allow it to change the reference market with the transition from Dutch TTF prices to Italian prices, in order to create conditions for the development of commodities trading in Italy.

However, it was decided that, for the natural gas year 2015-2016, the $C_{MEM,t}$ component should remain defined under the current update formula with the Dutch TTF Hub as the target market and, as a reference contract, the quarterly product relative to the term being updated. For the subsequent natural gas years 2015-2016, however, it was postponed to a later resolution that a precise definition of the procedures for assessing the existence of conditions allowed the transition to national prices, in consideration of the broader regulatory and legislative process in progress, aimed at a progressive overhaul of the price safeguards.

During the year 2014, the utility bill review project ended (aka Project **Utility Bill 2.0**) which had begun in 2013. Under the new Utility Bill 2.0, approved in October of the same year, the customer will receive his or her bill (also in electronic format) a sort of a snap shot of energy consumption and the prices charged for the service. Far more understandable than what is currently available, as per individual request, this document provides customers with detailed information on their utility bills. The terminology used will correspond to the Glossary provided, which will be updated and posted on the Authority's website and on that of individual retailer. The part of the utility bill containing the detailed information will furnish analytical information for all items billed to the customer, while also providing the indicated unit prices and quantities which are applied, as well as the individual categories and the amount of kWh/S (m^3) allocated to each type.

In terms of **information**, the Authority's website has been improved by the use of a specific tutorial (operational as of February 2015) to assist customers in using the arbitration service's on-line platform, including a section dealing with semi-annual data trends of the Service itself. Throughout 2014, around 50,000 people visited the Authority's mediation website (about 13,000 in the first quarter of 2015), with reference to viewing the appropriate page of the Authority's website, including the ADR list (*Atlas of Energy Consumers' Rights*); while 18,286 requests, alone, regarding mediation information were made to the call centre (4,722 in the first quarter 2015).

In regards to mediation, the **Arbitration Service for Electricity Customers** has been up and running since 2012, and is currently in its experimental phase, as of 01 April 2013. Managed by the Single Buyer, full operation is expected to begin by 01 January 2016.

In the second year of experimentation, the Authority continued to prepare specific interventions to improve the efficiency of its Arbitration Service, also based upon feedback received from the

stakeholders regarding how well the program functioned, and also considering the gradual popularity of this tool among consumers.

In the first two years of experimentation (01 April 2012 – 31 March 2015), the Arbitration Service received a total of 2,506 requests for activation. The primary access source was the residential area customers' associations (45%). Other delegate sources, different from the various associations, made up 33% of the requests; with the end user having directly activated the Arbitration Service in 22% of the cases.

Security of supply

In order to implement the Third Energy Package, Legislative Decree no. 93/11 allocates tasks and responsibilities relating to the security and continuity of the electricity supply, as set forth by the Ministry of Economic Development.

3 THE ELECTRICITY MARKET

3.1 Network regulation

3.1.1 Unbundling

In 2014 the Italian Regulatory Authority for Electricity Gas and Water continued its activities regarding the revision and simplification of the rules governing the unbundling, functional separation and the certification of transmission systems and transport, providing procedures and common standards for the electricity and gas. These activities are in compliance with Directives 2009/72/EC and 2009/73/EC which, in line with what has already been introduced by the previous directives on the internal market for electricity and gas, have set specific regulations for the unbundling and transparency of operators' accounts.

In particular, the Authority ended[9] the procedure initiated[10] in 2012, to review its provisions on accounting separation (unbundling) for companies operating in the electricity and natural gas sector and their reporting requirements, by the approval of the *Integrated Text on Accounting Separation* (TIUC). The new TIUC, which replaces the regulation that was previously in force[11], provides some important new features, including:

- the streamlining of the reporting requirements of the separate accounting information for operators in the electricity and natural gas industry, providing for the exemption of the preparation and sending of this information to the smaller companies, to those that are not involved in the activities subject to tariff regulations, and foreign companies. There is also an exemption from the requirement to prepare and send separate annual accounts for companies operating exclusively in the distribution and sale of other gas (different from natural one);
- the initiation of an operators' technical committee, for the preparation of a regulatory accounting manual, intended to provide detailed technical specifications for the preparation of annual separate accounting;
- the review of a number of technical provisions regarding unbundling, intended to make the process of drafting annual separate accounting reports by operators more transparent and uniform;
- the effect of new provisions on the separation of accounts for the electricity and natural gas sectors, already since 2014, the base year for the future determination of tariffs by the Authority. The new TIUC (*Integrated Text attached to unbundling*) has mandated some exceptions to the principles of separate accounting for those activities that have experienced a significant change in their scope, such as the sale to end users of electricity and natural gas;
- the effect of the provisions of the streamlining of the reporting requirements for separate accounting information for the operators of the electricity and gas sectors, already starting from the data pertaining to 2013.

[9] With Resolution No. 231/2014/R/com, dated 22 May 2014.
[10] With Resolution No. 266/2012/R/com, dated 28 June 2012.
[11] Contained in Resolution No. 11, dated 18 January 2007.

Once again, regarding the issue of functional separation, in 2014 the Authority had outlined[12] its guidelines on the reform of the functional unbundling requirements for the operators of the electricity and gas, now in force[13]. In this document, among other things, the Authority has proposed to:

- modify the definition of a vertically integrated company operating in the electricity and natural gas sectors, in the light of both definitions contained in Directives 2009/72/EC and 2009/73/EC, as well as Legislative Decree n. 93, date 1 June 2011, which was required to refine the scope of the vertically integrated company, referring to a broader interpretation based on the concept of corporate group referred to in said decree, also including the control exercised by an individual and a public institution, as well as a non-profit public body;
- link the measures taken by the Authority regarding the certification of the operator of the transmission system of electricity and the system operators of natural gas transportation, with the rules of functional separation for the other companies operating within the services facilities, providing that for said operators, the requirements imposed by the adopted certification decisions, permanently replace the other requirements of functional separation;
- maintain the specific requirements of separation, at least the functional type, for regional transport companies of regional gas exempted from certification procedures by Legislative Decree n. 93/11, adopted by those provided by the managers of the natural gas distribution with more than 100,000 connected customers;
- integrate the requirements of functional separation imposed on the operators of natural gas distribution systems with more than 100,000 connected customers, in the case of operators of electricity distribution systems, regardless of their size, in accordance with the rules outlined in stipulated in Legislative Decree n. 93/11 of the Third Energy Package implementation;
- review the functional unbundling imposed on the operators of natural gas distribution systems with less than 100,000 connected customers, in accordance with Legislative Decree n. 93/11;
- introduce specific requirements regarding communication and branding policies for the majority of electricity and natural gas distributors — regardless of their size or the type of company — establishing detailed criteria detail for a complete separation, with no risk of confusion between the sales and the distribution of electricity and natural gas and between electricity sales in the free market and in the standard offer regime;
- review the requirements imposed on the operators of distribution systems, both in the electricity and in the natural gas sector, to protect the confidentiality of commercially sensitive information.

Certification of the Transmission System Operator

Earlier this year, the Authority initiated[14] the procedure for the certification of Terna, as operator of the electricity transmission system, and Snam Rete Gas, as an operator of the transport system for natural gas under the Directives 2009/72/EC and 2009/73/EC, as well as Legislative Decree n. 93/11.

[12] With Consultation Document No. 346/2014/R/com, dated July 17, 2014.
[13] Which are governed by Resolution No. 11/07.
[14] With Resolution No. 20/2015/R/com, dated 29 January 2015.

The two companies (already certified according to the model of ownership unbundling provided by the aforementioned European Directives), were again subject to the certification process given the change in ownership of said companies, and due to the sale initiated by *Cassa Depositi & Prestiti*, of a significant proportion of its share capital of said Fund (the parent company of the two operators), to Italian and foreign institutional investors. This process was aimed at assessing the existence of the requirements already considered by the Authority for the adoption of the above certifications, paying particular attention to the existence, for relevant shareholders, of the rights of production or supply companies of electricity or natural gas, as defined in Article 9 of the above stated directives.

3.1.2 Technical Functioning

Balancing services

During 2014 the action of the Authority continued toward the goal of increasing the efficiency of the dispatching service. In this context, these measures are ranked:

- concerning the regulation of imbalances;
- regarding the amendment of the criteria for the allocation of tools to hedge the risk of volatility of the transport capacity fee hedges (CCC);
- the examination and approval of amendments and integrations to the Network Code proposed by Terna, concerning the adjustment of the timetable of the markets for the integration of the Italian Day-ahead market (MGP) with that of neighbouring countries.

Revision of the Regulations regarding effective imbalances

Article 23, paragraph 3-bis, of Legislative Decree n. 91, of 24 June 2014, provides that: "Pending a reform of the rules governing the imbalances in the Dispatching Services Market (MSD), the Authority shall, within 60 days, remove the macro zones located in Sicily and Sardinia."

The rules for imbalances, as defined by the Authority, until the implementation of the provisions of the above decree are in force, establishes that the network is split into four major macro zones for the calculation of the imbalance prices:

- Macro-Zone A, which coincides with the North (or the Macro-Zone North);
- Macro-Zone B, which coincides with the aggregate zone of Sicily and the areas of limited production at Priolo (or the Macro-Zone Macrosicily);
- Macro-Zone C, which coincides with the zone of Sardinia (or the Macro-Zone Sardinia);
- Macro-Zone D, which coincides with the set of all the other zones and the areas of limited production not already included in macro zones A, B and C, and other than the foreign areas (or the Macro-Zone South).

Since the Sardinia and Sicily macro zones are only interconnected with the Macro-Zone South, in order to implement the provision of the law, the Authority has identified [15] two macro zones of balance:

- the Macro-Zone North that coincides with the Northern Zone;
- the Macro-Zone South that coincides with the set of all the other zones, areas of limited production not already included in the Macro-Zone North.

Modifications and additions to the regulations governing the utilization of transport capacity fees

In the fall of 2014, after the consultation[16] on their guidelines, the Authority intervened[17] concerning the criteria for the allocation of instruments to hedge the risk of volatility of the transport capacity (CCC) utilization component.

In particular, during the consultation, the Authority had illustrated the opportunity to mitigate the limitations of the amount of CCC transferable to each operator, eliminating the α parameter (related to the value of the distribution percentage in the different zones of the quantity of electric energy withdrawn) the mechanism for calculating the maximum amount of the overall CCC transferable to individual operators during the annual auction process.

That proposal was not followed, as the comments received from almost all operators have highlighted potential problems arising from the elimination of the above parameters, including:

- the risk that the larger players might be able to exercise its market power, resulting in greater difficulties for smaller operators to adequately hedge their position;
- the possibility that its removal could lead to an increase in demand for CCC during the annual auction process, resulting in a higher cost and complexity for operators, in the implementation of appropriate hedging strategies.

In view of this, the final measure has foreseen that the annual allocation of the CCC be carried out, retaining the mechanism for calculating the maximum total amount assigned to the single market operator in place.

To solve these problems related to the possible bypassing of the restrictions imposed by current regulations, the Authority and Terna will proceed by performing the necessary in-depth studies, aimed at verifying the possibility of using (starting next year), the registry established under REMIT to define the maximum amount of total transferable CCC to the individual operator, on the basis of the distribution of the production capacity obtained by aggregating all the installations relevant to operators belonging to the same corporate group.

The new regulation has, however, provided for the introduction of the following changes to the existing rules:

- the coordination of the profile of the CCC types (*peak load)* with a *peak load* profile of normal use in the energy futures markets;

[15] With Resolution No. 525/2014/R/eel, dated 29 October 2014.
[16] Consultation Document No. 430/2014/R/eel, dated 7 August 2014.
[17] With Resolution No. 487/2014/R/eel, dated 9 October 2014.

- the updating of the rules for the calculation of the production capacity of the non-thermoelectric unit, in order to take into account the seasonal nature of such units;
- the inclusion in the adjacent area of the production capacity located in the production areas of Brindisi, Foggia and Priolo, for the application of the limitations provided during the annual auction process;
- the publication of the transit limits used in the selection algorithm of the offers and of all of the offers submitted by operators in the last *round* of the annual selection procedures.

Modifications and integrations to the Network Code

In order to implement the *Target Model* defined at the European level for the Day-Ahead Market (*Mercato del Giorno Prima* → MGP), which provides for the allocation of rights of use of cross-border interconnection capacity through *market coupling* mechanism, it was necessary to synchronize the timetable and the resolution algorithm of the Italian MGP Italian with those of neighbouring countries. Regarding the timetable: the need has arisen to delay the closing of the Italian MGP (*gate closure*) to 12:00 p.m. and, consequently, to contextually reorganize the timetable of the sessions of the intraday market (MI) and the Market for Dispatching Services (MSD).

In light of the above mentioned, the Energy Markets Operator (GME) and Terna submitted their scheme for assessment by the stakeholders, proposing a modification of spot market timetable, with the goal of extending the *market coupling* to all shared borders with EU member states by the end of 2014. In particular:

- The GME has launched a special consultation[18], for the purpose of reviewing the available technical operation of the spot markets, and the timetable of activities related to the sessions of MGP, MI and MSD;
- Terna submitted a consultation for a proposed amendment of the Network Code, relating to Chapter 4, outlining the rules for dispatching, and Annex A22, regarding the procedure for the selection of resources for MSD planning phase.

In addition to changing the timetable of the markets, the proposal of the GME and Terna provides for the introduction of a new intra-day session of MI (for a total of five sessions of MI, including three intra-day sessions) and, consequently, a new and subsequent intraday MSD (for a total of four sub-phases of MSD, three of which are intraday).

The Authority has approved[19] the amendments to the Network Code proposed by Terna for the reorganization of the timetable of the markets.

Regulation of the security and reliability of electric energy networks

The facilities essential to the security of the electricity system are plants that are technically and structurally crucial to resolving network congestion or maintaining adequate levels of security of

[18] With document No. 1/2014.
[19] With Resolution No. 265/2014/R/eel.

the national electricity system for significant periods of time. These systems are basically paid by the ordinary scheme (that is, through the tariff system), or by the reintegration of variable costs (in this case, the company which owns the plant can also request a deposit).

With exclusive reference to the Macro-Zone Macrosicily, Article 23, paragraph 3-bis of Decree Law n. 91/14,-provides that:

- the production units of electricity, with the exception of non-programmable renewable ones, power greater than 50 MW, be considered essential resources for system security and should be offered on the MGP;
- The Authority defines the bid procedures and payment of the aforementioned units within 90 days of the date of entry into force of the law that converts Decree Law n. 91/14, following the criterion of punctual recognition, for each production unit, of variable costs and fixed charges of an operational nature, as well as of an equitable return on invested capital remaining due to the same unit, so as to ensure a reduced burden on the electricity system;
- the production units of electricity, with the exception of non-programmable renewable ones, power greater than 50 MW, be considered essential resources for system security of the power system until the entry into operation of the Sorgente-Rizziconi power line 380 kV, between Sicily and the Continent, along with other interventions aimed at the significant increase in interconnection capacity between the Sicilian electric grid and the Italian peninsula.

With Resolution n. 521/2014/R/eel, dated 23 October 2014, the Authority has therefore established for the Macro-Zone Sicily (that):

- the criteria of supply and payment of the production unit is subject to the regulation adopted for the facilities essential to the security of the electricity system— Article 23, paragraph 3-bis of Decree Law n. 91/14 (91/14 scheme);
- the rules of reconciliation between the 91/14 scheme and the schemes covered under former Resolution n. 111 (111/06 schemes), of 9 June 2006, in the case of capacity applied in 2015, both under Decree Law n. 91/14, and the rules established by the above mentioned resolution regarding the necessity.

The 91/14 scheme follows, in general, the implementation of the reinstatement costs regulation, in Article 65 of Resolution n. 111/06. In fact, that piece of legislation — unlike the schemes under Articles 64 (ordinary scheme) and 65 bis (alternative schemes) of the aforementioned resolution — provides for the payment of charges, including the fair compensation of capital, for each production unit, based on the specific characteristics of the same one.

At the end of the year, therefore, the Authority has arranged[20] to:

- integrate the provisions of the scheme 91/14, in light of the comments and suggestions made by stakeholders after the publication of Resolution n. 521/2014/R/eel;
- exclude the Eni Gela Refinery Unit from the list of essential units covered under former Decree Law n. 91/14.

[20] With Resolution No. 667/2014/R/eel, dated 29 December 2014.

In order to take into account the comments and proposals received following the entry into force of Resolution n. 521/2014/R/eel, scheme 91/14 has been amended and integrated in a manner that:

- applies to the amount of offers accepted by the MI, what is absolutely necessary to enable the technical implementation — according to the typical parameters of the unit considered — programs in the MGP outcome, the evaluation criterion of the amount that is absolutely necessary to make viable, indispensable programs for the energy markets (paragraph 65.2 under Resolution n. 111/06), instead of the criterion adopted for offers accepted by MI which are not requested by Terna (paragraph 65.3.2 former Resolution n. 111/06). On the condition, however, that the bids accepted by MGP were presented at a price equal to the variable cost recognized. That the requirement is aimed at maintaining the effectiveness of the rules in force concerning the offers by MGP, which discourage bids at prices lower than the variable cost recognized;
- regarding the programmable renewable units:
  - creates a specific component to cover the imbalance charges that exclusively detects for the purposes of reintegration (component dispatching); the latter shall be defined using a concept similar to that used for thermoelectric power units, yet taking into consideration that the price of tenders relating to programmable renewable units is determined in accordance with the principle of averted cost;
  - sets percentage standards for the enhancement of the dispatching component, distinct from those already established for the thermoelectric power units, so as to consider the differences that distinguish the programmable renewable units in comparison to thermoelectric power units in terms of the imbalance;
  - establishes that the object capacity offered for sale (purchase) by the MGP of each unit is equal to the product of the maximum power input (usage) and the daily load, typical of the same unit, the operating hours for entry (usage) to maximum power; in this way, by internalising the offer, in statistical form, the technical constraints of input and usage, allows the unit to implement the programs of production (pumping) with high probability, regardless of the market outcome, and for Terna to minimize the changes in the Dispatching Services Market (MSD), with systemic benefits in terms of safety and efficiency;
  - for the two essential programmable renewable units covered under former Decree Law n. 91/14, which is in the availability of Enel Production, approves the values of the typical load of the daily hours of operation at maximum power, proposed by the above mentioned owner;
  - changes the criterion for determining the price for preparing tenders, establishing whether the price of the offers for sale is equal to the higher one, between the average zonal market price recorded by MGP in peak hours (average price peak) and the variable cost of thermoelectric power units, typically characterized by a higher variable cost (i.e. open cycle gas turbine units), whether the price offered for purchase is equal to the product of the affected standard performance (standard performance) and the minimum of the average zonal prices by the MGP registered in off-peak hours (average price during off-peak hours) and the aforementioned variable cost of open cycle gas turbine units; This amendment is intended to ensure that the differential between the selling price and the purchase price is

sufficient to cover the charges of the cycle-generation pumping, as well as to give a representation of the value of the unit in question, in terms of averted cost, compared to the approximate value of the more expensive thermoelectric resource;

- provides that the determination of the price for the submission of tenders, relating to the programmable renewable units, the variable representative cost of the open cycle gas turbine units is calculated according to the methodology applied within the alternative scheme of essential equipment, as per paragraph 65-*bis*.2 of Resolution n. 111/06;
- establishes that the standard performance of a given unit is equal to the ratio between the amount of energy input and the amount of energy withdrawn considering the quantities related to the period from the month of June 2013 and May 2014 (including extreme cases), being units with production and pumping cycles not lasting longer than a week;
- predicts that the on-peak hours (off-peak) to calculate the average on-peak (off peak) are part of the seven hours a day, during the reference period, identified by the higher zonal price (content) by MGP, so as to intercept, with an *ex post* approach, the peak on-price signals (off peak) expressed by the market;

- considering the importance of the Sorgente-Rizziconi intervention for the dynamics of the electricity market, ensures that Terna provides updates concerning the date and the Sorgente-Rizziconi intervention procedures for entry into operation, with much earlier and higher frequency than stipulated by the regulations in force; and that Terna publishes those updates;
- clarifies that, notwithstanding the effects of any independent interventions by the Authority and attributable, for example, to judicial or legislative decisions, the reference period shall consist of the combined total hours of the period between 1 January 2015 and the day of entry into operation of the Sorgente-Rizziconi intervention (including extreme cases);
- for the relevant units that, during the period between June 2013 and May 2014, generated energy flows different from the electricity fed into the grid and consumed by production, clarifies that revenues and fixed costs relevant to reintegration are the net costs, respectively of any proceeds from the sale of the aforementioned energy flows and the share of fixed costs related to the flows themselves.

Immediate interruptibility and emergency dispatching utility services

In 2010, the Authority had regulated[21] the interruptible services instantaneous and emergency (the so-called "servizi di interrompibilità") for the period of 2011-2013.

In June 2014, the Authority[22]:

- issued the regulations for the supply of immediate interruptibility and emergency dispatching services (servizi di interrompibilità), taking effect on 1 January 2015;
- extended, until 31 December 2014, the expiry of existing multi-month contracts, subject to the right of the holder to a unilateral withdrawal, no later than 24 June 2014;

[21] With Resolution No. ARG/elt 187/10. of 28 October 2010.
[22] With Resolution No. 301/2014/R/eel, dated 20 June 2014.

- planned to commission monthly auctions for the months of July, August, September, October, November and December of 2014.

Subsequently, the Authority incorporated[23] a supply system for immediate interruptibility and emergency dispatching services, taking into account the guidelines issued by the Ministry of Economic Development.

Additionally, the Authority has[24]:

- introduced the latest innovation for the regulation of the supply of interruptibility services;
- approved the draft regulation of the supply procedures of interruptibility services during the period of 2015 to 2017 (Regulation) and the framework of the standard contract for the provision of such services (standard contract).

The final regulation establishes the procedures and criteria for assigning interruptibility services, to be applied starting from 1 January 2015 onwards (i.e. without time limits for the new guidelines), which can be summarized as follows:

a) the 75% of the maximum amount of interruptibility services, defined by the Ministry of Economic Development, is supplied by a multiannual auction, organized in December, for a product with duration of 36 months and profiled using the monthly coefficients published by Terna. If the aggregate supply exceeds 100% of the maximum amount established by the ministry, the entire maximum quantity shall be supplied by a multiannual auction;

b) twenty-five percent of the maximum amount of interruptibility services defined by the Ministry if necessary is supplied through an annual auction, held in December, for a product with a duration of 12 months and profiled using the monthly coefficients published by Terna;

c) may permanently repurchase (i.e. for a period equal to the months of the term of the contract) the interruptible power originally sold to Terna through a multiannual auction, on the condition that it has already spent at least one third of the month of the duration of the contract prior to exercising this right;

d) the reallocation of interruptibility services on the power reacquired by Terna, pursuant to paragraph C, through annual auctions referred to in paragraph B, and interim auctions outlined in paragraph F;

e) may permanently repurchase (i.e. for a period equal to the months of the term of the contract) the interruptible power originally sold to Terna through an annual auction, on the condition that it has already spent at least one third of the month of the duration of the contract prior to exercising this right;

f) the reallocation of interruptibility services on the power reacquired by Terna pursuant to paragraph E, through interim auctions, organized from January to November (11 interim auctions) for products of a duration equal to the remaining 12-*n* months of the year while conducting the auction (where *n* signifies the month of the auction) and profiles according to the monthly coefficients published by Terna;

[23] With Resolution No. 566/2014/R/eel, dated 13 November 2014.
[24] With Resolution No. 578/2014/R/eel, dated 20 November 2014.

g) may permanently repurchase (i.e. for a period equal to the months of the term of the contract) the interruptible power originally sold to Terna through interim auctions, on the condition that it has already spent at least one third of the month of the duration of the contract prior to exercising this right;

h) the reallocation of interruptibility services on the power reacquired by Terna, pursuant to paragraph G, through the remaining interim auctions outlined in paragraph F;

i) the requirement to pay to Terna, for each MW of power reacquired by the same, with a higher value between:

   – the monthly unit price fixed at the auction where the MW was originally assigned;

   – the monthly unit price fixed at the auction (annual or interim) where the MW was reassigned;

j) the temporary right to reacquire (i.e. for a period of one month) the interruptible power originally sold to Terna, on the condition that it has already spent at least one third of the month of the duration of the contract prior to exercising this right, and the same right has not already been exercised for a sixth consecutive month for duration of the contract, or has not already been exercised for a total of one third of the month of duration of the contract;

k) any reallocation, partial or complete, interruptibility services on the power reacquired by Terna in accordance with paragraph J, through monthly auctions;

l) the requirement to pay to Terna, for each MW of power released to the same, at a higher value between:

   – the monthly unit price fixed at the auction where the MW was originally assigned;

   – the monthly unit price fixed at the auction where the MW was reassigned;

m) the down payment of a monthly fee equal to one-twelfth of the net annual premium (that is, minus the product of the unit price for interruption and ten standard interruptions);

n) the down payment of a monthly supplemental fee equal to the product of the number of interruptions detected by Terna in the month and the unit price for each interruption;

o) setting both an annual and a monthly ceiling to hours of unavailability.

Connection time for transmission and distribution networks

The *Integrated Text of the regulation of the quality of distribution services and metering* (TIQE)[25], currently in place for the regulatory period 2012-2015, sets specific standards for connections with networks of electricity distribution in MV and LV. In particular, the framework provides:

- a maximum time for estimating the completion of jobs on the LV network equal to 20 working days, and on the MV network equal to 40 working days;
- a maximum completion time of simple jobs equal to 15 working days for the LV network and 30 working days for the MV network;
- a maximum activation time of the supply equal to 5 working days;

[25] Approved by Resolution No. ARG/elt 198/11, dated 29 December 2011.

- a maximum deactivation time of the supply at the request of the consumer equal to 5 working days for the LV network and 7 working days for MV network;
- a maximum reactivating time of the supply following a suspension for default of 1 weekday.

Shown below are the data relating to connections of active and passive users. The first are of those required by plants producing electricity to the transmission or distribution networks, mainly to allow such plants to feed power into the electricity system; the latter, however, are those required by consumers for the transmission or distribution system, to allow the usage of energy from the electric system. The data relating to the connection of active users to the transmission grid, reported here, relates only to activities that have been implemented by Terna, while the connection details of active users with distribution networks only relate to activities which were implemented by distribution companies with more than 100,000 customers.

Finally, data on passive user connections were collected by Terna and the distribution companies as part of its regular survey on regulated sectors, conducted annually by the Authority.

In 2014, Terna received 81 connection requests for installations for electricity production, corresponding to a total capacity of about 3.6 GW, and with reference to those 60 estimates were made available, corresponding to a total capacity of about 2.4 GW, with average times for an estimate of net interruptions allowed, equal to 41 working days. As part of the estimates provided, 49 of them were received in 2014, corresponding to a total capacity of about 2 GW; for one of these, corresponding to 20 MW, a request was submitted for the terms of STMD (*Soluzioni Tecniche Minime di Dettaglio* — Eng: Technical Solutions of Minimum Detail), which has not yet been accepted by the installation requesting the connection.

With reference to the connection of the installations for the generation of electric energy for the distribution networks, in 2014[26], the distribution companies received little more than 59,400 connection requests for the low and medium voltage networks for the production of electricity, corresponding to a total capacity of just under 1.9 GW; which in that same year offered little more than 55,200 estimates, corresponding to a total capacity of about 1.6 GW, with average times for providing estimates of net interruptions allowed, equal to:

- 14 working days involving requests for capacities up to 100 kW;
- 25 working days involving requests for capacities in excess of 100 kW and up to 1,000 kW;
- 43 working days for involving requests for capacities exceeding 1,000 kW.

About 49,500 of the total budgets of those available have been accepted in 2014, corresponding to a total capacity of just over 1 GW.

In 2014, in relation to requests received in that same year, there were just over 32,000 connections made, corresponding to approximately 200 MW, with the average time of implementation of net interruptions allowed, and equal to:

- 2 working days, involving simple jobs [27];

[26]

[27] The simple jobs consist of the complete implementation, modification or replacement of the operator's electrical network, performed with limited intervention of the socket and eventually to the measurement group.

- 53 days working involving more complex jobs[28].

In 2014, the only distribution company that received the required connection to high-voltage networks for plants producing electricity was Enel Distribuzione, with 20 connection requests, corresponding to a total capacity of just over 450 MW. In that same year, Enel Distribuzione provided 11 estimates, corresponding to a total capacity of 320 MW, with average times for the provision of estimates of net interruptions allowed, equal to 30 working days. Nine of the estimates made available were accepted in 2014, corresponding to a total capacity of just over 200 MW, and none of these resulted in requests for the STMD service. Consequently, in 2014, there was no connection to high-voltage networks for installations producing electric energy that had submitted a request in that same year.

Regarding the progress of passive user connections in 2014, based on preliminary estimates collected, the data shows that approximately 323,000 connections were made to the distribution networks, almost all low voltage. The average time to make such connections was 11.4 days. In particular, the average time for making the connections to low voltage was equal to 7.9 days. A bit longer and equal to nearly 22 days, was the average time it took to get a connection for medium voltage. Compared to 2013, the data showed fewer requests and a slight increase in the time it took to make a connection. However, in this regard, it should be noted that these days do not include the time spent to obtain eventual authorizations.

In 2014, Terna did not make any connections to passive clients.

Table 3.1 Number of connections of passive users with distribution grids and the average connection time during 2014(A)

VOLTAGE LEVELS	NUMBER OF CONNECTIONS	AVERAGE TIME (WORKING DAYS)(A)
Low Voltage	321,143	7.9
Medium Voltage	1,487	21.6
TOTAL	322,630	11.4

(A) Value calculated without taking into account who does not have connections, excluding the time required to obtain eventual authorization permits and/or the time required for the fulfilment of the end user's requirements.

Source: Annual survey on regulated sectors.

Regulation of the technical quality of distribution service

The TIQE promotes improvements in the quality and continuity of service for the distribution of electricity by the following primary mechanisms:

- incentive regulation reducing the duration and the number of outages;
- individual standards for Medium Voltage users, distinguished by the type of network and incentives to reduce those networks with an excessive number of interruptions;

[28] Complex jobs consist of the complete implementation, modification or replacement the operator's network, concerning in all instances which are not covered by the definition of "simple jobs".

- individual standards regarding the maximum limit for restoring power to Medium Voltage and Low Voltage users;
- a system start-up for monitoring the drops in voltage.

In February of 2015, the Authority highlighted[29] from a technical point of view, intervention lines exposed in a previous consultation[30] regarding the regulation of the quality of electricity transmission, distribution and metering services for the fifth regulatory period (2016- 2021), and outlined the criteria at the base of the major interventions, which are mainly:

- overcoming the distinction between the historical national transmission grid and the former Telat national transmission grid as part of the incentive regulation reducing energy not needed;
- the development of an individual adjustment of the service continuity and voltage quality for high voltage users.

With regard to distribution, the guidelines of the Authority are mainly:

- the application of the premium adjustments/penalties for the duration of outages with reference to the long-term target levels of set for 2015;
- confirmation of the premium adjustments/penalties for the number of outages, by introducing a special incentive for those areas with a greater number of interruptions;
- the introduction of the first elements of the regulation aimed at reducing interruptions due to force majeure and pre-advised interruptions;
- the introduction of the first elements for adjusting voltage gaps and transitional interruptions for medium voltage networks, as well as changes in the voltage supply regarding the low voltage networks;
- upgrading certain aspects of the commercial quality regulation.

Particular attention will be paid to the issue of the vulnerability of the electricity system, through the evaluation of the sustainability of mechanisms used to decrease the impact of the "out of service" periods of large portions of high and medium voltage networks, in particular, following significant and extended adverse weather conditions that cause disruptions, largely attributable to force majeure, such as:

- an acceleration exceeding the *gap* between existing high and medium voltage above-ground power lines and project criteria established by CEI 11-4 for new lines;
- a strengthening of the meshing of the high voltage grid in the areas overly exposed to adverse weather conditions of particular severity;
- the removal of the ceiling cap for refunds granted to medium and low voltage users from the Exceptional Events Fund, by requiring distribution companies and Terna the use the surplus from the current ceiling;

[29] With Consultation Document No. 48/2015/R/eel, dated 12 February 2015.
[30] Consultation Document No. 5/2015/R/eel of, 15 January 2015.

- the introduction of incentive regulations aimed at reducing the duration of outages attributable to force majeure, through the introduction of adjustment elements to stimulate both the distributors and Terna toward a rapid resumption of service.

With regard to the measurement service, the Authority's guidelines mainly apply to the comparative publications of the performance of such services and the introduction of any form of penalty against less virtuous distribution companies. Specific considerations will also cover the development of the second generation of *smart meters*, in relation to what the Authority considers as essential to the development of the system's advanced capabilities. The topic of this measure takes into account, in fact, the crucial factors regarding the increase in capacity of end users to participate in the market and, therefore, for the proper functioning of the market.

Regulation of commercial quality of the distribution service

The Service Quality Code (TIQE) also regulates the commercial quality of distribution and measurement regarding the services required by the users. These provisions provide quality standards, both general and specific, with automatic compensation, which is mandatory for the distribution companies and designed to protect users, as well as promote an average overall improvement of services offered nationwide.

As mentioned above, the consultation in February of 2015[31], also involved the renovation of some aspects of the commercial quality regulation.

Safeguard measures for the electricity system

Concerning electricity system safeguard measures please refer to those indicated in the section covering the security and reliability of networks.

Regulatory framework for renewable energy

With regard to the regulatory framework for renewable energy, please refer to the section on security and reliability of networks.

3.1.3 Network tariffs for connection and access

The state of incentives for renewable and assimilated sources

Even in 2014 there was a steady deterioration of the economic requirements of the Account for new plants from renewable and assimilated sources (Ownership Account A_3), with respect to the previous year. This negative trend for the demand of electricity continued, which had already been

[31] Consultation Document No. 48/2015/R/eel, dated 12 February 2015.

highlighted in 2012 and 2013, along with the consequent reduction in revenue from the tariff components specifically applied to the consumer.

The procedures for purchasing Green Certificates have also created significant financing needs for the GSE (Gestore Servizi Energetici — Eng: Energy Services Manager) in the final months of the year. At first, to deal with these needs, the GSE resorted to the financial management of other ownership accounts (to the possible extent of €1.2 million[32]) and once it had exceeded this limit, the GSE then borrowed from the banking system.

In the second half of 2014, the Authority had, therefore, considered it appropriate to provide for an adjustment of the A_3 tariff component, both in the third and the fourth quarter of 2014. In total, during 2014, the rate of the A_3 tariff component was increased to about 3% (the fourth quarter rate for 2014 compared to that of 2013). Table 3.2 summarizes the charges placed on the lead A_3 Account in 2014 (preliminary figures), compared with those of 2013.

Table 3.2 Evolution of expenses for plants using renewable sources and assimilated

EXPENSES	2013		2014(A)	
	VALUE	% SHARE	VALUE	% SHARE
Trading of renewable electricity CIP6	382	3.3	334	2.5
Purchase of green certificates	1,409	12.0	3,218	23.9
Photovoltaic	6,502	55.4	6,577	48.9
Dedicated withdrawal	324	2.8	43	0.3
All-inclusive tariff	1,550	13.2	1,912	14.2
RES incentives administrated pursuant to Legislative Decree no. 28/11	5	0.0	81	0.6
Functioning GSE (energy services manager) and other	20	0.2	10	0.1
On-the-spot-trading	105	0.9	91	0.7
TOTAL RENEWABLE SOURCES	10,297	87.8	12,266	91.3
Trading of assimilated electricity CIP6	627	5.3	413	3.1
Expenses for CO_2 of assimilated	80	0.7	38	0.3
Coverage for assimilated green certificates	55	0.5	57	0.4
Resolution of CIP6	450	3.8	633	4.7
TOTAL ASSIMILATED SOURCES	1,430	12.2	1,173	8.7
TOTAL CHARGES A_3	11,727	100.0	13,439	100.0

(A) Preliminary results.

Source: AEEGSI's elaboration from GME data.

Proceedings relating to the new tariff period

In October 2014, the Authority initiated proceedings[33] for reviewing the rates and quality of transmission, distribution and metering of electricity, as well as the technical and economic conditions of the connection service for the regulatory period which will commence on 1 January 2016.

[32] Provided for under paragraph 2 of Resolution No. 114/2012/R/com, dated 30 March 2012.
[33] With Resolution No. 483/2014/R/eel, dated 9 October 2014.

This procedure occurs:

- taking into account developments related to the proceedings[34] regarding the implementation of Legislative Decree n. 102, dated 4 July 2014, which applies the European directive on energy efficiency, with respect to reform of tariffs for transmission, distribution and metering of electricity, as well as components to cover general system charges for domestic users at low voltage;
- parallel to the proceedings initiated[35] for review of the procedures for determining and updating the *Weighted Average Cost of Capital* (WACC), with the unification of all the parameters used for determining the WACC itself for regulated services in the electricity and gas sectors, with the exception of those specific to individual services, including the β parameter, which expresses the level of specific risk of the individual service and the load of equity and debt capital used for the load ratio (ratio D/E);

At the beginning of 2015, the Authority presented[36] the general framework and set out the criteria on the basis of the principal course of action that would develop during the procedure.

With reference to the general framework, the provisions must take into account certain phenomenon that significantly affects the management and use of the networks. Among these, in particular:

- the evolution of the electricity demand, in recent years, has experienced a significant decline due to the current economic situation, the development of distributed generation and self-consumption, the development of efficient electro technologies, as well as improving energy efficiency;
- the impact on the network connected to the development of renewable generation and distributed generation.

During the course of 2015, there are specific consultation documents regarding the issues of the proceedings and thematic study meetings for *stakeholders*, in order to define the final measure by the end of the year.

Tariff and investment incentives for the transmission services

At the end of 2014, the Authority updated[37] the prices for 2015, regarding the supply of electricity transmission services, based on the criteria of the tariff regulation in force for the regulatory period of 2012-2015[38], providing in particular the:

[34] With Resolution No. 412/2014/R/efr, dated 7 August 2014.
[35] With Resolution No. 597/2014/R/com, dated 4 December 2014.
[36] In the Consultation Document No. 5/2015/R/eel, dated 15 January 2015.
[37] With Resolution No. , dated 23 December 2014, 653/2014/R/eel.
[38] Approved by resolution No. ARG/elt 199/11, dated 29 December 2011, *Integrated Text provisions of the Authority for the supply of electricity transmission and distribution of electricity* (TIT).

- re-determining of reference volumes for the calculation of the CTR component (the fee charged to distribution companies for the transmission of electricity on the national transmission grid (RTN)), taking the final data for the last twelve months as the best estimate available for the volumes of the transmission service provided for 2015;
- granting of refund tariff for investments linked to implementation of the interconnection between Italy and the Balkans, which is also relative to jobs located outside the national borders, covered by the Intergovernmental Agreement between Italy and Montenegro.

In 2013, the Authority identified[39] the strategic RTN development projects for the national electricity system for the period 2012-2015. This included category I = 3[40], along with related *milestones* and target dates, consistent with the principle of selectivity, with particular reference to actions aimed at solving the main bottlenecks in the Italian electricity system. In June of last year, the Authority, therefore, determined[41] the achievement status of the strategic investment *milestones* to develop the RTN for the second half of 2014 and, exceeding the verification threshold for accessing the incentive [42], ordered the transmission system operator to recognize the incentives to accelerate investment on fixed assets under construction as of 31 December 2013, related to investments included in the category I = 3, from the transmission fees of 2015.

Moreover, at the end of 2014, the Authority updated[43] the I = 3 investment perimeters, its relative *milestones* and target dates[44] based on the proposal made by Terna, including a temporary suspension from the I = 3 interventions list:

- the intervention known as "380 kV Rationalization between Venice and Padua", taking into account the need, represented by the transmission system operator, to implement a new maximum intervention schedule due to the critical nature of the authorization encountered;
- the intervention known as "HVDC interconnection Italy — Balkans", in order to take into consideration the critical issues, the authorization uncertainties expressed by the transmission system operator. Moreover, the Authority has provided the expected readmission intervention for the handling incentive, following a positive evaluation of the technical configuration, economic and the necessity of the intervention itself, updated in response to the resolution of these critical issues, including the best definition for the opportunity to reduce the tariff intervention (such as the scheme for *interconnectors* or access to financial support from the European Union).

Tariff for distribution services

With reference to the distribution service, the Authority established[45] toward the end of 2011, in accordance with the tariff regulation for access and use of electricity distribution networks for the

[39] With Resolution No. 40/2013/R/eel, dated 31 January 2013.
[40] Category I = 3 includes investments in development of transport capacity to reduce congestion between market zones, congestion between zones and investments to increase the *Net Transfer Capacity* (NTC) on electric energy borders.
[41] With Resolution No. 259/2014/R/eel, dated 6 June 2014.
[42] Defined in paragraph 27.3 of the *Integrated Transport Text* (TIT), consistent with the provisions established in article 29 of the same TIT.
[43] With Resolution No. 654/2014/R/eel, dated 23 December 2014.
[44] Approved by Resolution No. 40/2013/R/eel.
[45] With Resolution No. ARG/elt 199/11.

regulatory period of 2012 to 2015, confirming, in line with previous regulatory periods, the "decoupling" between the flat rate paid by end users (so-called "mandatory tariff") and fees earned by distributors to cover the costs of the service (the "reference rates").

In April 2014, the Authority first established[46] the reference tariffs for the distribution service for 2014. Then, at the end of that same year, the Authority ordered an update for 2015: the tariffs for non-domestic consumers, the economic conditions for the provision of the connection service[47], as well as the fees for the services of transmission, distribution and metering of electricity for domestic customers[48].

Revision of domestic tariff rates

In 2013, the Authority initiated[49] proceedings for the creation of measures in the area of tariffs regarding the electricity transmission supply, distribution and metering for households in the low voltage category, as well as a revision of the joint component tariffs for the coverage of general charges of the electricity system. Following the enactment of Legislative Decree n. 102, of 4 July 2014, which implements the European directive on energy efficiency, the proceedings were, however, absorbed by a new and broader process[50], initiated in August 2014, with the precise intent of implementing the provisions of said decree.

Among the provisions of the decree, Article 11, paragraph 3 being particularly important, under which the Authority is required to adapt the components of the electricity tariff, in order to overcome the progressive structure with respect to consumption (with the identification of the tariff components adhering to the service charges), and stimulate and encourage good behaviour, and finally, the achievement of efficiency targets. The decree also requires the Authority to issue proposals for the establishment of any new criteria for the determination of compensation expenses to be granted to economically disadvantaged groups of citizens (social bonus).

The process of tariff reform has already provided for:

- conducting a seminar (6 October 2014) aimed at consumer associations, environmental groups and operators, designed to share a common information framework, to illustrate the key elements of the reform and to gather ideas and suggestions;
- the publication of the first consultation document[51] that outlines the possible regulatory options (following the analysis methodology of regulatory impact — AIR) for the reform of network tariffs and tariff components to cover general system charges levied on domestic electricity customers;
- the meeting with representatives of consumer associations to clarify the contents of the document and gather first impressions about it.

[46] With Resolution No. 154/2014/R/eel, dated 3 April 2014.
[47] With Resolution No. 610/2014/R/eel, dated 11 December 2014.
[48] With Resolution No. 655/2014/R/eel, dated 23 December 2014.
[49] With Resolution No. 204/2013/R/eel, dated 16 May 2013.
[50] Initiated by Resolution No. 412/2014/R/efr, dated 7 August 2014.
[51] Consultation Document No. 34/2015/R/eel, dated 5 February 2015.

The consultation in February of 2015 builds on a preliminary analysis of the current domestic electricity consumption and possible development scenarios of the current structure of residential rates, which remained broadly unchanged for forty years, in the face of an evolution of consumption of technology and the energy market. This structure, based on two highly progressive rates, differentiated according to the status of an individual's permanent residence and the value of the power used, is no longer able to effectively meet the original requirements of social equity, and at the same time, and neither stimulates the adoption of virtuous behaviour nor the installation of energy efficient equipment.

The reform is divided into the following aspects:

- the structure of unit rates;
- the definition of new *benchmark* indicators for overcoming the standard customer;
- the distinction between tariff customers with and without a permanent residence;
- the gradual transition;
- redefining the contractually committed power levels;
- the available power limits;
- the amount of change in the power level used;
- the new criteria for social bonuses.

With reference to the definition of new *benchmark* indicators, instead of the standard customer used for years to assess the tariff impacts on domestic consumption of electricity, the Authority proposed the establishment of six new *benchmarks*, to enable screening of domestic spending for electricity usage in different conditions of consumption and power contractually committed, also in order to promote awareness of the various cost elements that make up the overall expenditure.

Regarding the structure of unit rates and price differentiation between customers with and without permanent residence, this document presents four alternative options, all characterized by the complete elimination of progressiveness, as required by the law.

The different options vary, given the structure of the tariff on service networks (to reflect the costs), the structure of the tariff to cover general system charges and of the possible continuation of a differentiation between customers with and without permanent residence. For each option, this document provides an assessment of the benefits in accordance with the multi-objective methodology AIR, considering, for each option the following: compliance with Legislative Decree n. 102/14, which established the criteria for the European Directive on energy efficiency, the widespread acceptability (i.e. the change in resulting expenditures), the achievement of energy efficiency targets, the incentive to good behaviour, simplification, predictability and the effects of redistribution of general charges.

With regard to the gradual transition, which is an important buffer effect for all domestic customers, the levers available to the Authority leading to an identifiable path — which will be the subject of a second consultation before the Summer of 2015 — which, starting from 1 January 2016, will develop gradually over a period of two years, allowing the interested parties to be brought up to speed regarding the new tariff structure, that will take effect on 1 January 2018.

Special attention is also paid to the issue of the contractually committed power. Today, about 90% of Italian families have concluded an electric energy contract with 3 kW of power, either because

an higher contracted power would result in the application of the tariff applied to non-residential customers (higher than residential ones), and because, following a voluntary agreement signed, in 2003, between Enel and the main consumer groups, the actual power usage for three hours can increase up to 4.2 kW, unless there is a capacity limiter present.

The Authority considers it desirable to have homogeneity regarding the treatment of consumers with the same contractually committed capacity, regardless of the network distributor to which they are connected, paying particular attention to the consumer's awareness, so that the latter can easily choose the capacity level that best suits his or her needs. In this respect, the consultation outlines the possible increase in the unit cost attributed to the power used, also due to the fact that it is the main factor that determines the network cost. Therefore, the choice of the optimal contractually committed capacity level becomes a significant element, also for the purposes of possible adjustments to the level itself, be it an increase (to allow the simultaneous use of new electrical appliances), be it a decrease (with the advantage of reducing annual expenditures for those who do not require contemporary usage).

In order for this to occur, it is necessary: for consumers to have the availability of significant information on true power usage, greater granularity of contractually committed capacity levels and a minimization of transition costs from one contractually committed capacity level to another . With regard to these aspects, this document presents and evaluates, according to the AIR methodology, three options designed to favour an informed choice by consumers in relation to the most appropriate capacity level for their needs.

Regard to the social bonus: the consultation document proposed a range of possible corrective regulations, which complement the proposals already made by the Authority by reporting on this subject to the Government and Parliament in June of 2014[52].

The various hypotheses are aimed at increasing the range of beneficiaries of the percentage savings for owners (20% of net tax expenditures at a rate of 30% or 40% for all beneficiaries), to articulate the bonus and the percentage of savings, depending on the consumption profile of the customer and the number of family members (to ensure that even when the reform is implemented, a spending level greater than the actual is introduced), and to reduce the tax components (excise) or parafiscal (general charges) as a function of the increase in costs related to the reform of electricity tariffs.

Experimental pricing for heat pumps used as single heating system

As of 1 July 2014, the Authority had fully implemented[53] the experimentation tariff for households that use electric heating pumps as the sole source of home heating. The trial provides that these customers pay non progressive electricity rates (the so-called "D1 rate" with regard to the tariff components that cover transmission, distribution and metering).

During the trial, other terms were also defined, such as access requirements for customers, the economic conditions applicable to participating customers and operating procedures that companies must follow to inform customers, to collect and analyze the request applications and to monitor electricity consumption of the participating customers. Facsimiles of the forms were then published, for use by interested customers along with standard formats for gathering data and

[52] Notification No. 273/2014/I/com, dated 12 June 2014, in which the Authority made proposals regarding the criteria to access special benefits of those eligible recipients and the criteria for defining compensation.
[53] With Resolution No. 205/2014/R/eel, dated 8 May 2014.

monitoring. Finally, by creating a special section on its website, the Authority provided maximum visibility for this initiative, making available practical explanations and answers to frequently asked questions by consumers.

During December 2014 and January 2015, the first collection of data and electricity withdrawal relating to customers who had joined the trial was held. Domestic customer access during the trial tariff phase will be possible until 31 December 2015, while the monitoring will continue throughout 2016. In particular, the future evolution of the group's members and their customers regarding electricity usage will be monitored through four additional data collections, to be held in June and December 2015, June 2016 and February 2017.

After 31 December 2015, where the D1 rate will no longer be applied to domestic customers in general, as it will then be applied to customers participating in the economic condition trials which guarantee a minimum offset compared to the simple update of the D1 rate.

Exclusion of cross-subsidies between activities in the supply chain

The administrative requirements and unbundling accounting for companies operating in the electricity and gas sectors were introduced, among other things, with the goal of excluding businesses operating in the electricity and gas sectors from having to implement cross-subsidies between activities of the supply chain. During 2014, the Authority neither initiated nor concluded the proceedings regarding the investigation of rules violations concerning the functional and unbundling requirements in the electricity sector.

3.1.4 Cross border Issues

Access to facilities and congestion management - Regional Initiatives

During 2014, the Authority continued to actively participate in regional initiatives, whose ultimate goal remained helping to achieve integration of the European internal energy market, in particular through the coordination and promotion of *early implementation* projects for network codes, for use on a voluntary basis.

On 5 December 2014, the Member States of the European Union approved, through the comitology procedure, the European regulation establishing the European Network Code regarding the mechanisms for capacity allocation and congestion management in the electric energy transport systems, drafted by ENTSO-E.

The so-called *Electricity Target Model* contained therein, describes the principles on which cross-border transmission capacity in different hourly bands should be calculated and allocated: long-term allocations (annual and monthly), and intraday. In parallel to its definition, initiated in 2011, ACER has set up projects of a supra-regional dimension, coordinated by national regulators, and for each one of them (relating to the different hourly bands above), has been defined as a *Cross-Regional Roadmap*. In particular:

- implementation of *market coupling* for the Day-Ahead Market;
- continuous market trading for the implicit allocation of intraday capacity;
- European Platform for the allocation of long-term transmission rights;

- use of the *flow-based* method for the calculating capacity;
- pilot projects for the integration of balancing markets.

During 2014, important goals have been achieved, with reference to the integration of the day-ahead markets, through the *market coupling* (implicit allocation of cross-border capacity). On 4 February, in fact, a successful market coupling of the North West region was launched (comprising France, the Benelux Union (i.e. the Netherlands, Belgium and Luxembourg), Germany, the United Kingdom and Scandinavia), which was joined by the South-West region (Spain and Portugal), in May. The *coupling* project, redefined *multi-regional coupling* (MRC), in May of 2014, involving a total of 17 countries and 70% of European electricity demand.

In July of 2014, the Italian Authority published a consultation document that provided for an implementation regarding the northern border of the country, thus enabling the Centre-South Region (coordinated by the same Italian Authority and consisting of Italy, Austria, France, Germany, Slovenia, Greece and Switzerland as an observer) joining the European *coupling*. On 24 February 2015, the project was launched on the Italian-French, Italian-Austrian and Italian-Slovenian borders.

Another important result achieved in December 2014, was when the stakeholders of the two major European platforms active in the allocation rights for long-term transport capacity (CASC, in which Terna and CAO participated) agreed to a corporate merger, transforming the two companies into one single company (called the *Joint Auction Office*), which will manage the allocation of long-term rights to almost all European borders. ACER is promoting, as much as possible, on behalf of ENTSO-E, the development of standardized auction rules concerning the different national boundaries; rules, which are subject to consultation with the operators, representing a further transition towards a truly integrated European market.

With reference to the balance — which has not yet been defined as a target market model — ACER promoted the implementation of a series of pilot projects that will permit the acquisition of a wealth of experience and *know-how* useful for the implementation of a truly integrated balancing market, at the supra-national level. In particular, Terna participated in the Project TERRE, along with managers from France, Spain, Portugal and the United Kingdom, for an exchange of service industries products (tertiary reserve). In 2014, a *Balancing pilot projects stakeholders group* was launched by ENTSO-E, for the purpose of monitoring the progress of the various initiatives.

Investment in new network facilities and consistency with the EU Development Plans

Under Article 36 of Legislative Decree n. 93/11, which transformed Directive 2009/72/EC into national law, by 31 January of each year, the operator of the transmission system must draw up a ten-year development plan of the RTN. The Authority is required to implement a public consultation on this plan, making the results public by forwarding them to the Minister of Economic Development.

The Authority adopted[54] specific provisions in relation to the procedures of the public consultation concerning ten-year development plan of the RTN, pursuant to Article 36 of Legislative Decree n. 93/11; in view of the fact that the thematic subject of the consultation presented a high level of complexity and strategic importance for the development of the electricity system.

In July of 2014, the Authority made available on its website, for the purpose of consultation, the ten-year development plan of the national transmission grid for 2013 and 2014. As part of the consultation process, the network operators organized a public presentation session of the schematics of Plan 2013 and 2014, on behalf of Terna, to brief stakeholders, electricity system representatives on the clarifications and information regarding specific issues.

The process of evaluation of the schemes is currently in progress.

International coordination with other Regulators and the ACER

During 2014, the Authority for Electricity, Gas and Water continued to work with other European regulators, be it multilaterally, through the Agency for the Cooperation of Energy Regulators (ACER), the Council of European Energy Regulators (CEER) and the regional initiatives, or bilaterally, through *ad hoc* meetings specifically organized to further discuss issues of common interest. This activity is aimed at establishing transparent and effective rules for the promotion of an integrated European energy market, competitive and efficient, as required by the Third Energy Package[55].

European Agency for the Cooperation of Energy Regulators (ACER)

Since the establishment of ACER, in accordance with Regulation (EC) 713/2009, the Authority has always actively participated in debates, inside the same institution, on the main issues related to the integration of energy markets and the definition of new European rules, be it working groups or the Committee of Regulators.

With reference to the electricity sector: it has been noted, for the past year, the Authority's particular involvement in defining European network codes[56] implemented by ACER working groups, which has resulted in the definition of the following documents:

- ACER recommendation (May of 2014) to the European Commission for the adoption of the Network Code on Forward Capacity Allocation, which also provides for the medium and long-term standardized framework, consistent with the allocation rules of European day-ahead and in relation to real-time [rules] being finalized;
- ACER recommendation (July of 2014) to the European Commission for the adoption of the Network Code on High Voltage Direct Current Connections and DC-connected Power Park Modules, which specifies the requirements for long-distance connections between different synchronized zones and DC generation parks, such as *offshore* wind farms;

[54] Resolution No. 102/2012/R/eel, dated 22 March 2012.

[56] Available on the ACER website at the following link:
http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Activities/FG_code_development/Electricity.

- ACER opinion (March of 2014) Network Code on Electricity Balancing proposed by ENTSO, that defines the procedure for balancing the resources of the electricity network, available at European level, which can be pooled according to market rules, once the technical feasibility has been ascertained, to ensure the physical balance between the demand and supply of energy and, consequently, network security management.

In view of the approval by the member States, under the comitology procedure, the offices of the Authority continued to work on the development of network codes, relative to what ACER had already provided in 2013. The recommendation to the European Commission (please see the Annual Report of 2014). Reference is made to the *Guidelines for capacity allocation and congestion management*, the code for connecting to the distribution or transmission network by consumers or producers of energy and the code for electricity system security management.

Still regarding ACER: during 2014, it saw intense activity related to the implementation of Regulation (EC) 347/2013 for energy infrastructure, in particular, for the preparation of the list of projects of Community interest (PIC) initiated in the autumn of 2014, and for the evaluation of the criteria for the cost/benefit analysis proposed by ENTSO rules of cross-border allocation of infrastructure project costs. Most of all, regulators have also supported the ACER issuance of:

- an opinion on the January 2014 *Guidelines for cost/benefit analysis of Grid Development Projects* proposed by ENTSO-E;
- ACER recommendation of 27 June 2014, on incentives for the PIC and a common methodology for assessing the risks of these investments.

During 2014, the Authority also took the lead role in the ACER working group aimed at encouraging the development of a coordinated approach in the implementation of the REMIT regulation. This made the development of a memorandum of cooperation between ACER and national regulators possible; the definition of protocols for data sharing fundamental reference for monitoring; the definition of *Guidelines* relating to the transaction logs and monitoring procedures in Europe. The group, led jointly by the Italian and German Authorities, has also worked closely with the European Commission for the finalization of the *Acts of implementation of the regulation*, approved on 17 December 2014, which led to the start, in 2015, of surveillance activities. To promote operational cooperation between ACER and regulators in this second phase of the implementation process, the ACER has set up a coordination group consisting of representatives from individual National Authorities.

The Italian Authority has, in the end, actively participated in the work for the preparation of the ACER recommendation, shared with the CEER, *Energy regulation a Bridge to 2025* (*Bridge 2025*), published on 19 September 2014, after proceedings of extensive consultation with *stakeholders* .

Beyond this immediate priority, given the need to complete the implementation of the Third Energy Package measures, the *Bridge to 2025* document identifies the major challenges posed by both the technological change and the structural change of the energy and wholesale European retail markets and the necessary regulatory responses in the mid-term. These 16 specific defined proposals for action, concerning the wholesale electricity and natural gas market, the respective retail market, the adjustment of the distribution networks and consumer protection, and constitute the driving strategies for European regulators, meant to be implemented in the ACER and CEER work programs. Finally, this document also addresses the issue of *governance* of the

European regulation defined by the Third Energy Package which identifies eight proposals, primarily aimed at the European Commission, to strengthen the cooperation of national regulators, while strengthening the supervisory task of ACER network operators and balancing both the European and national interests.

Council of European Energy Regulators (CEER)

CEER, the independent association of national regulatory authorities of energy, includes among its members not only the representatives of European Union countries but also those of Norway and Iceland (as *observers*), Switzerland, Montenegro and FYROM (former Yugoslav Republic of Macedonia). The Italian Authority received confirmation in March 2015 as the Vice President of CEER, and therefore occupying a prominent position on the Board, the association's governing body.

Following the establishment of the ACER, the CEER reorganized its area of work making it complementary to that of the ACER, while focusing on the most relevant issues to ensure the proper integration of national energy markets that, at present, are not covered by the institutional mandate entrusted to the ACER. The strategic priorities identified in CEER's work schedule involve developing:

- energy markets consistent with the objectives of the internal market of 2014;
- contributions to the debate on renewable energy and on European institutional energy policies;
- a vision for the future role of the distribution operators in the context of a radical technological and structural change;
- contributions to the development of networks, consumers and *smart* markets;
- European energy markets that place the needs of the consumers on centre stage;
- international cooperation and dialogue between regulators.

As for the development of markets in line with the objectives of the internal energy market, the Authority contributed to the ACER-CEER third *Annual Report* (the monitoring of electricity and gas markets), presented to the European Parliament on 22 October 2014.

The Authority also participated, as far as the electricity sector goes, in the activities related to the recommendations on the adequacy evaluation of power generation, the definition of regulatory tools to promote flexibility on the demand side and the examination of the schematics for the promotion of renewable energy sources and energy efficiency in Europe.

The development of networks, meters and "smart" markets are part of CEER's priorities, for which this Authority has always provided a significant contribution, in particular, this year with support provided by the Office reporting on regulatory approaches for the development of *smart grids* and electric storage systems. Of particular importance in this past year, was the specific duty of the Authority in the leadership role of the working group regarding the future role of distributors, which led to the publication of the consultation document *The Future Role of DSOs — A CEER Public Consultation Paper*, published in December of 2014. The document starts from the consideration, clearly formulated in the conclusions of the aforementioned *Bridge to 2025*, that distributors must gradually take on a role as neutral facilitators of the market. It also analyzes the

different activities, from the traditional ones, in which distributor involvement may either be necessary or appropriate, with particular reference to flexibility on the demand side. Taking note of the extraordinary diversity present in the distribution of electricity and natural gas, in terms of number, size, structure of distribution companies, profile of the activities and also regulatory design, it is assumed that there should be a unique approach, and that it is necessary to develop a guidance method for a reference framework, adaptable to different situations.

In the past year, the Italian Authority also contributed to the consolidation of CEER's international position in collaboration with the authorities of those countries outside of the European Union. Additionally, in the exchange of information and *best* regulatory *practices*, including the meetings organized by CEER in 2014, with MEDREG (*Association of Mediterranean Energy Regulators*) and NARUC (*National Association of Regulatory Utility Commissioners* — the USA). In January of 2015, the Authority assumed the role as co-chair of the team responsible for the strategic international relations of CEER.

Relationships and initiatives with countries outside the European Union

As in previous years, the Authority has continued to boost his commitment, in an international context, maintaining a constant dialogue and institutional cooperation at both multilateral and bilateral levels, in order to promote the standardization of European rules with those of countries which, despite not having membership in the EU, represent the key partners in the energy field, thus reinforcing their own roles as reference regulators, particularly in the Balkans and the Mediterranean basin.

Energy market of the Countries of South-East Europe

Also in 2014, the Authority contributed to the implementation of the Treaty that established the Energy Community of South East Europe (ENCT)[57] through participation in meetings of the *Energy Community Regulatory Board* (ECRB) and its working groups: *Electricity Working Group* (EWG), the *Gas Working Group* (GWG) and *Customer and Retail Market Working Group* (CRWG), as well as forums[58] on electricity and natural gas, which are intended to share in the decisions making process at the institutional level with *stakeholders* in the sector and guide the process of regional integration. In such contexts, the Authority took part in ECRB's plenary meetings, and the forums and meetings of the three Working Groups.

The Treaty establishing the *Energy Community* of South-East Europe was signed on 25 October 2005, in Athens, Greece, and came into force on 1 July 2006. The overall purpose of the EnCT is the creation of a macro-regional regulatory framework, stable and synchronized with a view to a full implementation of the *Community acquis* [that which has been acquired or obtained by the community] on energy, the creation of a regional energy market and its integration into the EU internal market. To this end, the EnCT identifies the primary objectives: attracting investment, facilitating the exchange of energy, increase competition between the operators, ensuring the security and continuity of the energy supply and improving environmental conditions in member countries. The parties of the EnCT Treaty are: Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Moldova, Montenegro, Serbia and the Ukraine. The main institutions governed by the Treaty are: the *Council of Ministers* (MC), *Permanent High Level Group* (PHLG) — both of which are government organizations — and the ECRB. The latter, in particular, brings together representatives of the Regulatory Authorities of the eight signatory countries (*Contracting Parties*) of the EnCT, a representative of the European Commission (in the role of Vice-President), a representative of the ACER and the member nations of the European Union, that adhere to the EnCT on a voluntary basis (*Participants*), which to date number 16 in all (including Italy). The main task of the ECRB is to provide advice and recommendations to the *stakeholders* and the political institutions of the Treaty regarding relative regulatory aspects and other issues related to it. Additionally, the ECRB performs regulatory role in the energy market in the Balkans.

[58] The forums of electricity and gas are the annual meetings of all the institutions of the *Energy Community*, promoted in cooperation with the European Commission, with the participation of regulators, interest groups, industry and consumers, financiers and academics. The conclusions of the forum, adopted by consensus, are transmitted to the ministers of the adhering States.

This past year was particularly significant for the start of the reform process of the *Energy Community* Treaty [59]. The institutional reform process, initiated in December of 2013, by the expert group (*High Level Reflection Group* - HLRG), appointed by the Council of Ministers of the *Energy Community*, led to the drafting of the report *An Energy Community for the Future*, officially presented at the annual meeting Council of Ministers of the *Energy Community*, in Kiev, on 23 September 2014. the report provides the political and regulatory *Guidelines* to render the Treaty more effective between the Member States of the *Energy Community*, in the following five areas:

- full implementation of the Community acquis;
- creating a stable regulatory and legislative environment for investments;
- possible reform of regulated prices by governments;
- possible reforms for the electricity and natural gas wholesale markets;
- creation of a pan-European energy market.

At the same meeting in Kiev, the Council of Ministers also decided to extend the reform process in 2015, asking the European Commission and the Secretariat of the *Energy Community* to analyze, in detail, the individual proposals contained in the HLRG report and initiate a public consultation between all *stakeholders* in the region, including the regulators of the European Union countries, by March 2015. During this consultation process, the Authority repeatedly expressed a favourable position regarding the institutional strengthening of the ECRB, providing it with expertise and the most effective methods of promoting the implementation of the Community's *acquis* in the Member States, to fashion it into a reference institution of independent regulation in the region and to promote cooperation with the ACER.

In addition, the Secretariat of the *Energy Community*, which is based in Vienna, continued monitoring of the EnCT Treaty, on the state of implementation of the requirements contained in the Third Energy Package[60]. In this regard, the countries of the region committed themselves to transpose into their national law the guidelines and network codes for the electricity and natural gas sectors, that will be adopted by the EU. The Authority also acted as a link between the EWG and ACER group releasing the information required on the progress of European regional initiatives.

The EWG, which as of December of 2014, has been chaired by Italian regulators and Serbia, have seen major progress in the creation of a single auction office for the Eighth Region (South East Europe Coordinated Auction Office – SEE-CAO)[61]. In fact, the SEE-CAO, which currently brings

[59] The *Energy Community Treaty* (EnCT) has a ten-year duration (01/07/2006 to 30/06/2016), which was extended by the decision of the *Council of Ministers*, during a meeting in October 2013, for an additional ten years (until 2026). At the same time, the *Council of Ministers* has appointed a group of independent experts (HLRG) to study possible reforms for the improvement of the Treaty. The HLRG, chaired by MEP (Member of the European Parliament) Jerzy Buzek, and five technicians, met for the first time in December of 2013, and then June of 2014. They presented the representatives of the ministries gathered in PHLG (the governing body of the *Energy Community*) called *An Energy Community for the Future*.

[60] The Energy Community's extension of the requirements for the Third Energy Package was decided by the *Council of Ministers* during its meeting on 6 October 2011, with Decision No. D/2011/02/MC-ECT, *the Decision on the implementation of Directive No. 2009/72/EC, Directive No. 2009/73/EC, Regulation (EC) No. 714/2009 and Regulation (EC) No. 715/2009 and Amending Articles 11 and 59 of the Energy Community Treaty*. The adhering member countries of the *Energy Community* must converted into national law, the rules of the Third Energy Package by 1 January 2015.

[61] In order to implement its commitments under said Treaty, establishing the *Energy Community*, relative to the implementation of the Second Energy Package of the European Union, and in particular, Regulation (EC) No. 1228/2003 which regulates the conditions of access to networks for cross-border exchanges of electricity, the *Council of Ministers*, under Decision No. 2008/02/MC-ECT, established the creation of the Eighth Region in line with European Regional initiatives. This was to establish a common procedure among the nine Contracting Parties of the Treaty and some of its European neighbors, for the purpose of congestion management and capacity allocation of cross-border transmission. The Eighth Region will be

together operators of electricity transmission system from Croatia, Bosnia and Herzegovina and Montenegro (and, in the near future, even those from other Member States of the *Energy Community*), organized, in November 2014, the first common auction for the allocation of cross-border capacity[62]. Among the expected benefits, the SEE-CAO would increase the level of standardization of the markets in the region, simplify management by market participants and improve price transparency. As for the actual state of integration of electricity markets in the *Energy Community*, which currently is not present in any of the Balkan countries, is operating a day-ahead market, mainly due to the lack of specific provisions in primary legislation on the national level. The Secretariat of the *Energy Community* has repeatedly stated that the first step towards the integration of the market is to establish power exchanges in the region.

Energy market in the Mediterranean Area

During 2014, the Authority maintained its international commitment in the Mediterranean, in particular, through the MEDREG (Mediterranean Energy Regulators). The central theme of the 17th General Assembly, held on 4 June 2014, in Amman (Jordan), was the strategy for 2020 to 2030. It focused on the definition of the role of regulators in the process that will lead to the creation of an energy community in the Mediterranean. The strategy focuses on a solid regulatory framework conducive to new investments in institutional infrastructure, intensifying regional cooperation and support for the development of a competitive and sustainable electricity and gas market.

During the 18th General Assembly, held in Barcelona (Spain) on 27 November 2014, the MEDREG position of President and the two positions of Vice President were renewed for the next two years. The Managing Director of the Egyptian Regulator (Egyptera) was elected President. The President of the Albanian regulator (ERE) and a member of the Board of the Portuguese regulator (ERSE) were elected as the two new Vice-Presidents. The Authority has since reconfirmed its role as Permanent Vice-President, by virtue of its support for MEDREG, whose headquarters, in Milan, is housed in the building of the Authority, in Piazza Cavour. The President of MEDREG delegated jurisdiction to the Italian Authority regarding administrative support, financial and legal accountability on behalf of the Secretariat of the *Energy Community*.

The role of MEDREG is also recognized by the European Commission. A service contract is operational from October 2013 until September 2016. It is a service contract worth around 3 million euro. The structure of MEDREG is organized as follows: The Presidency (the President and Vice-Presidents, including Italy), the General Assembly, the *Steering Committee*, the Permanent Secretariat, five *Working Groups* (WG) and a *Task Force* (TF) regarding the MEDREG's daily operations:

- Institutional affairs (INS WG): the group has drawn up a list of parameters common to all regulators (*checklist*) in order to identify the *best* regulatory *practices*. During 2014, the following studies were approved: *Guidelines for MEDREG's Dialogue with External Partners,*

governed by a *Board of Governors* of the *Energy Community* and includes the territories of Austria, Bulgaria, Greece, Italy, Romania and Slovenia. The SEE-CAO project is based on a *Memorandum of Understanding* signed by nine operators of the transmission system: CGES (Montenegro), ADMIE TSO (Greece), HEP-OPS (Croatia), KOSTT (Kosovo), MEPSO (former Yugoslav Republic of Macedonia), NOS BiH (Bosnia and Herzegovina), OST (Albania), Transelectrica (Romania) and TEIAS (Turkey). Terna was not among the signatories. Based on the *Memorandum of Understanding*, a company (equally shared venture) was formed in 2012, based in Montenegro. It goal was the founding the SEE-CAO, with the support of international financial institutions.

[62] The allocation of the available capacity only covers the physical transmission rights and will follow the method of net transfer capacity (NTC).

Promotion of the Dialogue with External Partners and Good Regulatory Principles in the Mediterranean Countries.

- Electricity (ELE WG): it favoured the strengthening of cooperation between the group and electric Med-TSO (TSO Association of the Mediterranean), in order to facilitate the integration of electricity markets in the Mediterranean, especially in light of the cooperation protocol signed between the two organizations in October 2013. On 12 February 2015, in Brussels, a meeting was held between the two organizations to facilitate coordination within the framework of the *Memorandum of Understanding* signed in conjunction with the European Commission as part of the Euro-Mediterranean Conference last 19 November 2014, in Rome. In particular, they discussed cooperation to promote investment, the largest contribution to the activities of the ELE-MEDREG *working group*, cooperation with Med-TSO's *Technical Committee Regulation & Institutions*, exchange information on a regular basis, institutions of *ad hoc task forces* made up of experts.
- Renewable Energy Sources (RES WG): it oversaw the development of *net-metering* in Mediterranean countries and the development of a new *benchmark* for the use of renewable energy sources in MEDREG countries. In 2014, the following studies were approved: *RES Assessment and Benchmarking Study to evaluate net metering systems in the Mediterranean Countries*.
- Consumers (CUS WG): Italian-led, from the very beginning, the group has identified and promoted best practices for the protection of consumers, including vulnerable customers, and the quality of service for electricity and gas. In 2014, the *Good practice guidance for energy consumers' information and education* study was approved.
- ICER TF (*International Confederation of Energy Regulators* TF): coordinated by the Turkish regulator (EMRA) and the Secretariat, MEDREG actively participates in the preparation of the next *World Forum on Energy Regulation*, to be held in Istanbul, in May of 2015.

The issue of investment is strategic to enabling the development and integration of markets. For this reason, through a joint working group and the ELE GAS group, under the supervision of the General Coordinator of MEDREG, a report was written, titled *Interconnection Infrastructures in the Mediterranean*: *A Challenging Environment for Investments*, which presents a detailed mapping of cross-border energy infrastructure, both existing and planned, subject to adjustment and relevant to the proper functioning and development of the Mediterranean energy market. The report also contains an analysis of the major forms of financing for new energy facilities, highlighting the chief obstacles to be addressed, as a priority by national regulators.

On 26 November 2014, MEDREG organized in Barcelona (Spain) the first forum on energy regulation in the Mediterranean. The intent of the *Forum* was to focus on the debate regarding regulation as a major instrument of development (including investments) and market integration.

On 19 November 2014, in Rome, during the Italian Presidency of the EU Council, the Italian Government and the European Commission held the conference *Costruire un ponte energetico sul Mediterraneo: l'importanza strategica delle reti del gas e dell'energia elettrica nel contesto della sicurezza energetica* (*Building an Energy Bridge over the Mediterranean: the strategic importance of the gas and electricity networks in the context of energy security*), which brought together the Energy Ministers of the European Union Member States and the Mediterranean countries; representatives of financial institutions, associations of regulators (MEDREG) and of transmission system (Med-TSO). The Conference was to strengthen cooperation between the Euro-

Mediterranean partners in the face of energy challenges and concerns about energy security. In order to identify the most appropriate action, as the final declaration of the conference, it was decided to initiate the establishment of three thematic platforms (electricity, gas and renewable sources with energy efficiency) on the part of the Union for the Mediterranean (UpM) and in close coordination with the European Commission. This decision was subsequently confirmed by the Secretary General of the Union for the Mediterranean in Italy, Ambassador Sijilmassi, who, during a visit to Italy earlier this year, pointed out that by the first half of 2015 these the three platforms will be launched.

The Conference also represented an opportunity for the signing of a *Memorandum of Understanding* between MEDREG, Med-Tso and the Directorate General for Energy of the European Commission, with the goal of strengthening the relationship between the two main regulatory bodies for energy in the Mediterranean and the European Commission. The integration of regional power markets of the north and south shores is defined as a long-term objective to be pursued in a common manner.

The parties have, therefore, agreed to strengthen their cooperation through the platform dedicated to the Euro-Mediterranean electricity markets, to be developed in the framework of the activities of the Union for the Mediterranean (UpM), with the goal of creating a *Forum* for dialogue between all *stakeholders* to identify concrete actions for the progressive integration of markets. The Authority has actively supported the signing of this agreement during the Italian Presidency of the EU Council.

In addition, the first coordination meeting for the start of work on the establishment of the platforms were held, which took place in February and March of 2015.

Finally, the Authority participated in the work of the UpM, established in 2008 by the Heads of State and Government of 43 countries, with headquarters in Barcelona, Spain. In fact, on 29 April 2014, in Barcelona, the *Extended Technical Committee* was initiated to revive the activities of the UpM in the energy sector, for the purpose of identifying specific projects to promote the development of investments. It was decided, during that occasion, to assign these tasks to five working groups regarding specific topics: *Policy and Regulatory, Interconnections and Infrastructures, Job Creation and Local Value Chain, Financial Issues, Public Awareness Program*. The coordination of the *Policy and Regulation* Working Group has been entrusted to MEDREG, which in turn has appointed a representative from the Authority.

In order to strengthen the role of MEDREG in the Mediterranean and to encourage both cooperation on regulation, be it the accreditation of MEDREG as a reference institution for the energy sector in the Mediterranean, the Authority met with *Deputy Secretary General for Energy* Mrs. Teresa de Ribeiro, on 26 June 2014, in Rome.

3.1.5 Compliance

In the past year, no legally binding decisions were adopted by the Agency or the Commission, which the Authority had to implement in accordance with Article 37.1.d of Directive n. 72/2009/EC. As for the responsibilities and powers of the regulator under current legislation, please refer to the 2013 Report and the new regulations contained in paragraph 2.

3.2 Promoting Competition

3.2.1 Wholesale markets

Faced with a reduction in GDP of -0.4%, over the course of 2014, the demand for electricity has, according to provisional data released by Terna, experienced a further decline of around 3%, slightly lower than the 3.4% from last year. In fact, electricity consumption fell from 318.5 TWh, in 2013, to 309 TWh in 2014.
Table 3.3 shows the electricity balance in Italy, indicating its availability and uses in 2014, compared to 2013. The data from Terna show the provisional figures for 2014. In that year, domestic production covered a share of the total national requirement of 86% (against 87% in 2013). Conversely, compared to 2013, net imports increased their share by one point. This result represents the effect of an increase in imports, which, however, was also accompanied by a significant increase in exports (+ 37.3%).
As for uses, there was a noticeable further decline in electricity consumption in all sectors. Industry and domestic have, however, recorded lower reductions to those of last year.

Table 3.3 Aggregated Balance of Electric Energy in Italy in 2013 and in 2014

GWh

	2013	2014(A)	VARIATION %
Gross Production	289,803	277,696	-4.2%
Ancillary Services	10,971	10,139	-7.6%
Net Production	278,833	267,557	-4.0%
Received from Foreign Suppliers	44,338	46,724	5.4%
Provided to Foreign Customers	2,200	3,021	37.3%
Destined for Pumping	2,495	2,254	-9.7%
Availability for Consumption	318,475	309,006	-3.0%
Losses	21.2	20.2	
Consumption Net of Losses	297,287	288,800	-2.9%

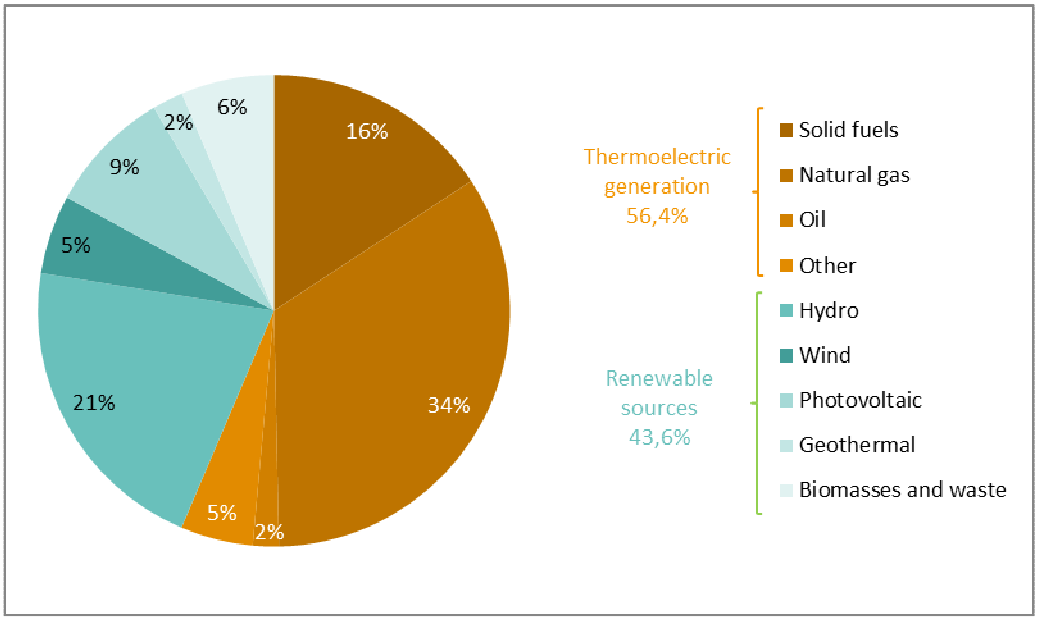
(A) Provisional Data.

Source: AEEGI's elaboration from Terna data.

As always, based on the provisional data from Terna, in 2014, the gross domestic production was at 278 TWh, down 4.2% from last year, after a -3.2% in the final balance of last year. This is the third consecutive decline since 2011. In fact, except for the modest growth in 2010, the gross production has been in decline since 2008.

With a further reduction of 11% from last year, in 2014, thermoelectric production was reduced by about a third compared to 2010. In terms of contribution to the total production, it increased from 73% in 2010 to 56% in 2014 (it was still 61% in 2013).
The production of gas still showed a heavy negative results (-16.6%) compared to 2013, and declined by just under 40% compared to 2010. The share of gas, equal to 60%, remains dominant among the thermoelectric sources. However, it was significantly reduced compared to 70% five years ago.

Figure 3.1 Gross Electricity Generation by Source in 2014



Source: Provisional data from Terna.

Coal recorded a -3%, down for the second consecutive year, however, due to the increases of the previous years, its share on thermal power generation increased from 18% in 2010 to 28% in 2014, while in terms of overall production it rose from 13% to 16%. Petroleum products, at -9.4%, continuing their trend of gradual downsizing and confirmed in a share of all residuals, both thermal generation (3%), and total (1.8%).
The decrease in natural gas absorbed much of the decline in total production, and above all, it recorded a displacement effect due to increased production from renewable sources, equal to +7%. This increase was significantly lower than the 18% in last two years, but indicates significant growth that this source continues to register. In particular, the increase regarding photovoltaic production (+ 10% against + 14% in 2013) and hydroelectric production (+8 compared to + 26% in 2013). Lower growth rates occurred for geothermal and biomass (+ 4% respectively against the +1% and +37% in 2013), while the contribution of wind power is stable (+ 1% vs. + 11 % of 2013). Basically unchanged compared to 2013, while shares of different sources on renewable energy production remain to the same; the latter, as a whole, came to 43% of the total gross output of the country, while 1% is covered by pumped hydroelectric power. Altogether, natural gas and renewable sources continue, as in recent years, to ensure 76% of the production.

As always, according to provisional data from operations at Terna, in 2014, net imports of electricity to Italy grew about 1.5 TWh. In fact, regarding the 42.1 TWh imported in 2013, the balance of trade, last year, reached 43.7 TWh. The difference between imports was at 46.7 TWh, and exports came to 3 TWh.
The modest growth of the foreign balance, 3.7%, was lower than the energy received from foreign suppliers, which increased by 5.4% compared to 2013, due to the offset by a significant increase (37.3%) of 'electricity sold to foreign customers. Contrary to what happened in 2013, as well as last year, both items of the net balance recorded an increase.
Also through the reduction of the energy demand in Italy, which as seen on the preceding pages, decreased by 3% in 2014, the share of domestic needs covered by the foreign balance rose by

almost a percentage point, reaching 14.1 % (it was at 13.2% in 2013). The increase in imports in 2014 occurred due to the increase of energy from the North, and energy from the South declined sharply.

In retrospect, the contribution of the major groups to the gross generation of electricity, in 2013 and 2014, stood out after years of a steady decrease, and also after the basic stability of 2013. The share of Enel electricity production for 2014 increased by two percentage points to a value of 27.2% compared to 25.2% last year. It was from before 2010 that Enel did not reach comparable shares. Among the major players, only Edison, A2A and Saras maintained their shares. The shares of other producers of limited size went from 35% to 37%, yet still on the rise, as in 2000. In contrast to recent years, the Herfindahal-Hirschman index of gross generation increased slightly, valued at 908 for 2014 (it was 821 in 2013).

Table 3.4 Development of the Wholesale Electricity Market

	REQUESTS[A] (TWh)	PEAK DEMAND (GW)	NET CAPACITY INSTALLED (GW)	NO. COMPANIES WITH SHARE > 5% IN NET GENERATION	% SHARE OF THE 3 MAJOR COMPANIES IN NET GENERATION
2001	304.8	52.0	76.2	4	70.7
2002	310.7	52.6	76.6	3	66.7
2003	320.7	53.4	78.2	4	65.9
2004	325.4	53.6	81.5	5	64.4
2005	330.4	55.0	85.5	5	59.4
2006	337.5	55.6	89.8	5	57.1
2007	339.9	56.8	93.6	5	54.7
2008	339.5	55.3	98.6	5	52.0
2009	320.3	51.9	101.4	5	50.6
2010	326.2	56.4	106.9	5	48.2
2011	332.3	56.5	118.4	4	43.6
2012	325.5	54.1	124.2	3	41.2
2013	316.0	53.9	124.7	3	39.1
2014[B]	306.8	51.6	121.8	3	41.5

(A) Net electric energy for pumping and before network leakage.
(B) Provisional Data.

Source: AEEGSI's elaboration from Terna data and Annual survey on regulated sectors.

The maximum net installed generation capacity of 31 December 2014 came to 121.8 GW (Table 3.4), while the net available capacity (at least 50% of the hours) was at 97.5 GW.

With reference to the net installed capacity, there are two operators with a market share above 5%: Enel (29.9%) and Edison (5.5%). The percentage of capacity held by the top three operators was 40.2%, down by almost 1 percentage point as of 2013. The HHI index relative to the net installed capacity showed a decrease in concentration on the market. In fact, the value for 2014 came to 1,034, while it was equal to 1.093 in the previous year.

As for the available net capacity (at least 50% of the time): in 2014, operators with a market share above 5% are down to only three: Enel (31.7%), Edison (6.2%) and Eni (5.7%). Based on these

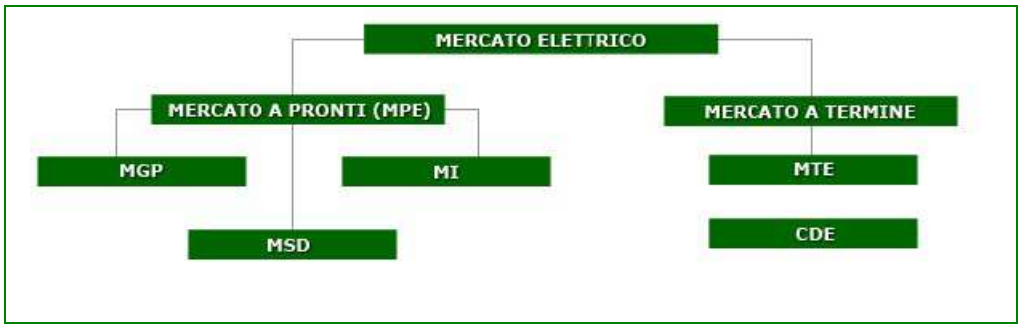
figures, the share held by the top three operators was 43.7%. The HHI index on the available net capacity with respect to 2014, came to 1,179, with a slight decline compared to 2013 (1,205).

Taking a look at the composition of the share capital, the provisional data[63] relating to the corporate composition of the production operators show the prevalence of different companies (30%), individuals (56.5%), public entities 5%, while the share of energy of the foreign companies was at 1.5%. Ninety-three percent of these capital shares were held by members of national Italian origin, the rest at 2% was German, while 1.8% was from Luxembourg[64].

The structure of the electricity market

The Manager of the energy markets (GME) deals with the administration of the energy markets, split between Spot trading of Energy (MPE) and the electricity futures market (MTE) (Figure 3.2). The spot market is, in turn, divided into three segments: Day-Ahead Market (MGP), Intra-Day Market (MI) and the Market for Dispatching Utilities (MSD). The futures market requires the mandatory physical delivery of energy. GME also manages the platform for physical delivery of financial contracts concluded (the delivery platform for energy derivatives — CDE), a segment of the derivatives market on the Italian Stock Exchange for the trading of financial *futures* energy contracts.

Figure 3.2 Structure of the Italian Wholesale Market



Source: GME.

The MGP's primary objective is the negotiation of energy with reference to around-the-clock delivery (24 hours a day or 24/7). The bargaining is managed through hourly auctions at a clearing price (*system marginal price*) and bids can be made from the 9th day before the day of delivery. While the sales are valued every hour on the hour, at a relevant zonal price, offers to buy are valued each hour at a single national purchase price (PUN) defined as the average zonal prices considered by the value of total purchases. In this market, GME acts as a central counterparty.

The MI takes place between the opening and closing of the MGP and the opening of the MSD, allowing operators to update selling offers and purchases as well as their trading positions with respect to the MGP negotiations. There are five sessions (MI1-MI3-MI2-MI4-MI5), with different closing times and in succession. The MI is an auction market with price balances where, unlike the MGP, be it the selling offers or the purchases, they are valued at the zonal price. Even in this market, GME acts as a central counterparty.

[63] Collected during the *annual survey on the evolution of the regulated sectors*, conducted by the Italian Authority.
[64] The quotas were calculated without any bias.

The scope of the MSD is supplying the necessary resources, on behalf of Terna, necessary for the management and control system for the resolution of intra-zonal congestion, the creation of energy reserves and the real-time balance. Unlike other markets, Terna, in this case, is acting as a central counterparty. The MSD is articulated in the planning stage (*ex ante* MSD) and the Balancing Market (MB). The *ex-ante* MSD and the MB are held in more than one session, as outlined in the Dispatching Rules. The *ex-ante* MSD, in particular, is divided into four sub-phases of programming (MSD1-MSD2-MSD3-MSD4), while the MB is organized into five sessions. The method of contracting is a discriminatory auction or offers accepted are each evaluated by its own offering price (*pay-as-bid*), reflecting therefore a nodal pattern (and not as zonal like the MGP and MI) of the network.

The MTE is the venue for trading of futures contracts with energy delivery requirements and usage. Trading shall take place in a continuous mode and deals with two types of contracts, *base-load* and *peak-load*, with tradable delivery periods on a monthly, quarterly and annual basis. There may be OTC registered contracts concluded on the MTE.

In November 2008, the Italian Stock Exchange launched the Italian Derivatives Energy Exchange (IDEX), dedicated to the trading of derivative financial instruments, underlying the average purchase price (PUN). The GME has entered into a collaboration agreement with the Italian Stock Exchange in order to allow participating operators, in both markets to adjust using physical delivery, the financial contracts concluded on the IDEX. Finally it should be noted that traders can buy and sell energy, not only through the market organized by GME, but also by entering into sales contracts outside the bidding system. Starting in May of 2007, the Accounts Energy Platform (PCE) came into force as a further element of flexibility. The platform registers bilateral quantitative underlying futures contracts (mostly traded on brokerage platforms) and the quantities traded on the CDE platform.

On the border between Italy and Slovenia, between Italy and France and between Italy and Austria, the interconnection capacities are allocated daily through the mechanism of *market coupling*. This mechanism makes simultaneous allocations of physical daily transmission rights and a *clearing* of offers to buy and sell energy.

Regarding market participation, in 2014, there was a further significant increase in the number of operators enrolled in the GME electricity markets during the previous year. In particular, those enrolled have gone from 223 units in 2013 to 254 in 2014. The increase concerned spot markets: in particular, operators whose bid rose to 194 in the MGP (+35 compared to 2013) and 149 on MI (+27 compared to 2013). Instead, market participants (MTE) still recorded a slight decline, having fallen from 22 operators in 2013 to 19 in 2014. Also on the rise was the participation on the registration platform of bilateral contracts (PCE), where subscribers increased from 287 in 2013 to 317 in 2014.

Power Exchange and bilateral trading

In 2014, the amount of electricity purchased in the Italian system came to 282 TWh, down by 2.5% compared to 2013 (289.2 TWh), thus extending the downward trend that began in 2010 and reached record low from the starting point of the market.

At a zonal level, this decrease is particularly significant in the Central North (-9.3%), the South-Central (-8.3%) and Sicily (6.6%), offset by the recovery of Sardinia (+ 4.8%) and the basic stability of Southern and Northern Italy.

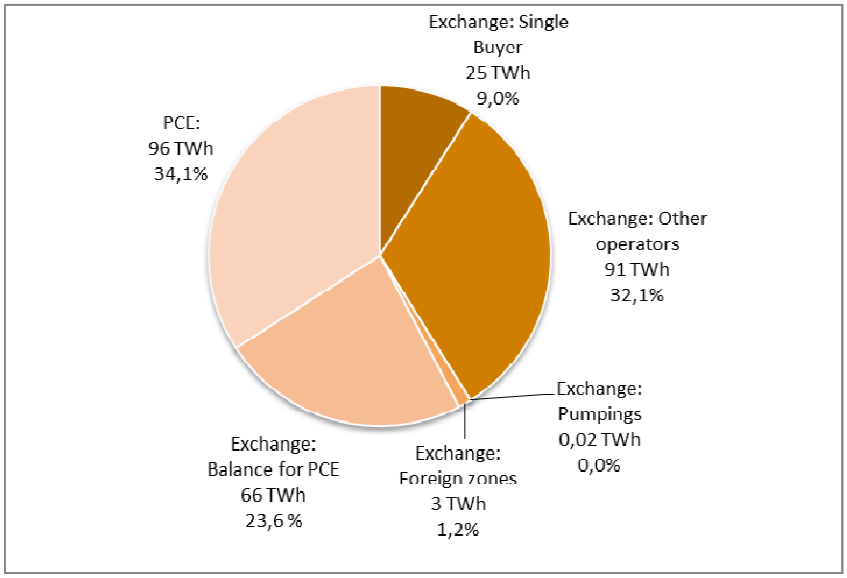
Table 3.5 Electricity Market

TWh

YEAR	Total	NEGOTIATIONS ON THE MGP	
		From the Stock Exchange	*From Bilateral Trading*
2004	231.6	*67.3*	*164.3*
2005	323.2	*203.0*	*120.2*
2006	329.8	*196.5*	*133.3*
2007	330.0	*221.3*	*108.7*
2008	337.0	*232.6*	*104.3*
2009	313.4	*213.0*	*100.4*
2010	318.6	*199.5*	*119.1*
2011	311.5	*180.4*	*131.1*
2012	298.7	*178.7*	*120.0*
2013	289.2	*206.9*	*82.3*
2014	282.0	*185.8*	*96.1*

Source: AEEGSI's elaboration from GME data.

Figure 3.3 Composition of the Electricity Demand in 2014

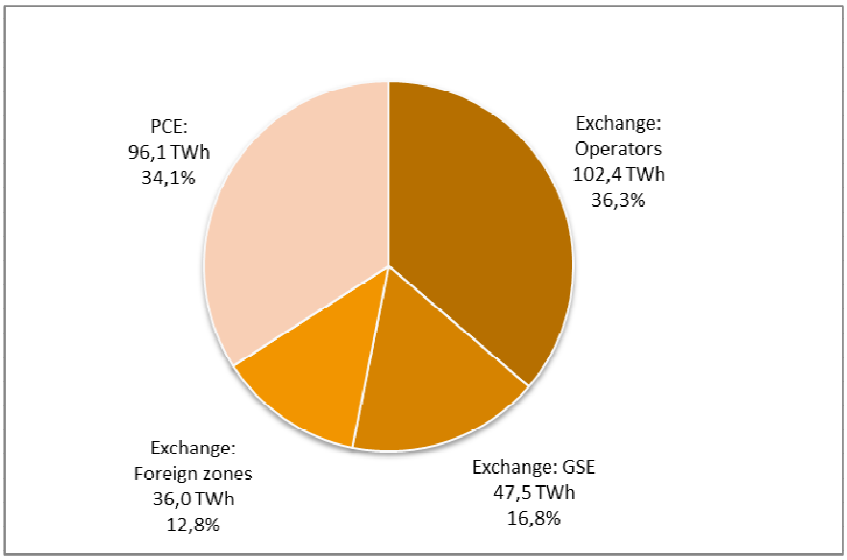


Source: AEEGSI's elaboration from GME data.

Shares were also lower on the Stock Exchange, dropping to 186 TWh, compared to the 207 TWh attained in 2013 (-10%). The decline in the volume dragged the market liquidity, which had increased to 71.6% in 2013, but now down to 65.9% in 2014. The reduction in stock purchases on the exchange reflected both a further reduction in purchases of Single Buyer (25 TWh, -6%), and a more intense reduction of the same stock by companies other than the operator (91 TWh, -11%). In the second half, on the other hand, the underlying demand of bilateral shares rose to 96 TWh (+ 17%).

On the supply side (Figure 3.4), the decrease in volumes sold on the stock market in 2014, was due mainly to the lower bids from non-institutional operators, whose sales came to 102.4 TWh, representing a decrease of 15.5%. The sales of the Stock Exchange Energy Utilities Manager (GSE) were also down, which replicated at 47.5 TWh (5.5%). In contrast, sales listed on the Foreign Exchanges climbed to 36 TWh (+ 1.5%).

Figure 3.4 Composition of the Electric Energy Supply for 2014



Source: AEEGSI's elaboration from GME data.

Table 3.6 Bilateral Contracts for the MGP

TWh

CONTRACTS	2011	2012	2013	2014
Bilateral Contracts	131.1	120.0	82.3	96.1
National	148.8	146.9	156.8	162.5
of which Single Buyer was	*36.8*	*38.8*	*43.9*	*37.9*
of which other operators were	*112.0*	*108.1*	*112.9*	*124.6*
Foreign	0.4	0.5	0.1	28.5
Balance PCE programs (A)	-18.1	-27.4	-74.6	-66.5

(A) In each relevant period, the difference between the input schedules sum and the amount of the withdrawal schedules sums is shown from the Energy Accounts Platform, registered to MGP. The PCE balance programs were also equal to the sum of the balances for the physical energy accounts (injection and withdrawal).

(B) Source: AEEGSI's elaboration from GME data.

Concentration of operations in the electricity sector in 2014

In 2014, the main corporate operations within electricity generation focused on three groups that reorganized their operations through the sale of in-house systems.

In particular, since January, ASPM Soresina Servizi [Utilities] incorporated Soresina Networks and Installations.

In February, Edison S.p.A. sold the Porcari Plant to DS Smith Paper Italia [Italy], another company that is part of the same group. Moreover, in October, Edison Energie Speciali built three plants: the San Francesco Wind Farm, Fri-El Campania S.r.l. and Gargano Energy.

Finally, also within the Sorgenia Group activities continued for the reorganization regarding statements made last year: for a long time, in fact, the group has been selling its non-strategic assets in order to focus more of its activities on wind power generation. In this area, in February, there was a divestment of "Vibo Valentia" by Sorgenia Solar to PVP 3, another generator from this group.

Several other transactions involved smaller-sized electricity generation companies.

3.2.1.1 Monitoring the level of prices

The Day-Ahead Market

In 2014, the Italian Power Exchange (IPEX) recorded an average purchase price of energy equal to €52.08/MWh, a decrease compared to 2013, by 17.3%.

The decline was particularly significant in all hourly periods, with the PUN/SNP having fallen to historic lows — or close to the same — in almost every hourly block, respectively coming to €59.52/MWh and €49.69/MWh at on-peak and off-peak (-16% in both hourly periods) and reaching €46.51/MWh during the holiday hours (-19.8%). The higher average monthly price was detected in October (€62.23/MWh), while the peak monthly demand, as repeatedly noted in recent years, was recorded in July with 25.8 TWh traded , down by 3.1% from the same month in 2013.

Specifically, there was a general decline in prices for a zonal level, which fell on the mainland and in Sardinia at around €47.00 to €52.00/MWh, with declines of between 15% and 18%. In Sicily, there was slightly a more moderate price decrease than in the rest of the country, falling back to €81.00/MWh (-12%). Against this general decline in zonal share prices, in 2014, it reduced the spread between the price in the North and the South (increased from €4.36/MWh to €2.97/MWh), thus interrupting an in-place dynamic by 2011. Looking to the islands, the differential between Sicily and the mainland was confirmed at around €30.00/MWh, reaching €34.00/MWh if the comparison is made with the low-priced area in the South. In 2014, Sardinia consolidated the substantial alignment between the island and the mainland, with a Sardinian quotation fixed at €52.00/MWh, showing an appreciation of only €2.00/MWh compared to the North, and about €5.00/MWh in relation to the South.

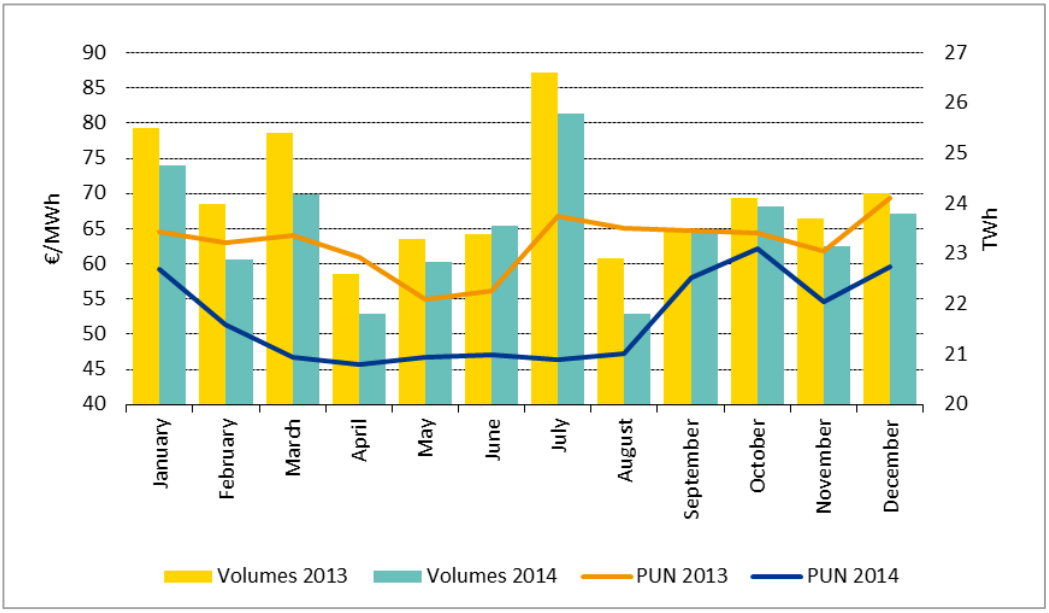
The year 2014 does not seem to present any major changes in terms of market concentration. The improvement in competitiveness observed over the last few years, favoured, among other things, by the transformations of the generating and the structural decline in demand seems to have absorbed the main indicators, whose modest changes appear due to further consolidation of the in-place dynamics or purely local phenomena.

There remains, however, the strong diversification in the level of concentration in the zonal level, shown by the Herfindahl-Hirschmann Index (HHI), calculated in relation to the sales of energy. The northern area is confirmed as the most competitive (HHI 1,456), followed by the southern zone (HHI 2,095) and from the Sicily zone (HHI 2,628). The other zones show all concentration levels on average in excess of 3,000, with the highest value recorded in Sardinia and coming to 4,311. In fact, the HHI below the threshold of competitiveness has been confirmed only in the North, and

was always maintained at higher values than in other areas, with a notable decrease in Sicily (-577 points).

Figure 3.5 Performance of the National Single Price (PUN/NSP) and Trading Volumes in 2013 and 2014

€/MWh; TWh



Source: AEEGSI's elaboration from GME data.

The marginal market participant index (IOM), calculated by reference to volume, has shown a return to the previous values in 2013, with a percentage of the total volumes traded by the number one operator (Enel) equal to 21% in 2014 (it was 14% in 2013). Similar developments have been observed in all areas, with the exception of Sicily, where the value of the IOM has dropped to 65% from 72.2% in 2013.

Intraday Market

Even in 2014, the four MI sessions confirmed their traditional anchoring of price quotations for the MGP, albeit in the presence of major volatility. In particular, after the increases that characterized the first years of activity, in 2014, the purchase prices on the MI showed the second consecutive sharp drop, with declines ranging from 16% to 18%, by all-time-lows. The average price in the four sessions varied between €51.03/MWh and €59.46 MI2/MWh of MI4. In 2014, prices in the MI four sessions were also lower or in line with the PUN/NSP calculated in the same hours, which is consistent with the general downward tendency expected in a long market.

The total volume of electricity traded in the four sessions of MI, in 2014, recorded a further reduction (-2.4%), rising to 22.8 TWh.

The Energy Accounts Platform for trading in electricity

In the Platform Forward Electricity Account (PCE) the recorded transactions with delivery/pick up in 2014, were totalled at 383.8 TWh, an increase of 3.5% in the previous year. The growth rate, although it has also highlighted a further slowdown this year, confirmed the steady rise of the transactions recorded on the platform, which every year since 2007, hit a new record.

In 2014 transactions arising from contracts concluded on the MTE (*Mercato Elettrico a Termine* — Eng: *Forward Electricity Market*), for the first time since it began, registered a decrease on an annual basis (-13.9%) coming in at 39.5 TWh, accounting for 10.3% of the total registered (12.4% in 2013). However, no transaction was recorded on the CDE (*Consegna Derivati Energia* — Eng: *Energy Derivatives Delivery Platform*), as well as in the three previous years. The remaining 89.7% of the transactions recorded originated from contracts concluded by the operators outside the organized market (bilateral contracts) coming to 344.3 TWh, up 6.0% in 2013. Of these, *non standard* contracts, coming in at 229.0 TWh, were the most used by the operators (59.7% of the total), showing a growth rate of 7.2%; following the *baseload* with 93.7 TWh (-2.4%).

Forward electricity market

MTE, managed by GME, was established in November 2008, to allow operators more flexible management of its energy portfolio. At MTE, 16 products are negotiable; *base-load* and *peak-load* contracts with delivery periods equal to the month (three products), the quarter (four products) and the year (one product). After the negotiation phase, contracts with monthly delivery times are recorded in corresponding transactions on the PCE, after the values of assets are checked, which are outlined in the Platform Regulation. For contracts with a delivery period equal to the quarterly and the annual, it will be based on the "waterfall" mechanism[65].

In 2014, 32.3 TWh of energy were traded versus 41.1 TWh in 2013, showing an annual decline of close to 9 TWh. This reflects a decrease in volumes from bilateral contracts registered for clearing (13.9 TWh, -58.1%), only partially offset by the recovery in the volume of the Stock Exchange (18.4 TWh, + 130.1%), again representing the largest share of trade passed on the platform. The fall in MTE's volumes affected both *baseload* products (32.2 TWh, down 4.5 TWh) — with particular reference to the annual — and *peak-load* products, that fell behind zero (0.1 TWh, -4, 3 TWh).
The lack of liquidity in the MTE market, in terms of contracts and lapse of time between different pairings, complicates the analysis on price signals provided in 2014 for 2015. By focusing, however, attention on the annual *baseload* product — that alone accounts for almost 72% of pairings — the trend observed in 2014 on the MTE reveals a sharp drop in price earlier in the year, at a significant drop highlighted by the *spot* price of the MGP, close to the delivery time, when the likely expectations of the operators was also impacted by the sharp drop in oil prices.

Table 3.7 Trading Volumes on the Forward Market in 2014

MWh

DURATION	BASE-LOAD PRODUCTS	PEAK-LOAD PRODUCTS
Monthly	447	28
Quarterly	503	23
Annual	31,256	16
TOTAL	32,205	65

Source: AEEGSI's elaboration from GME data.

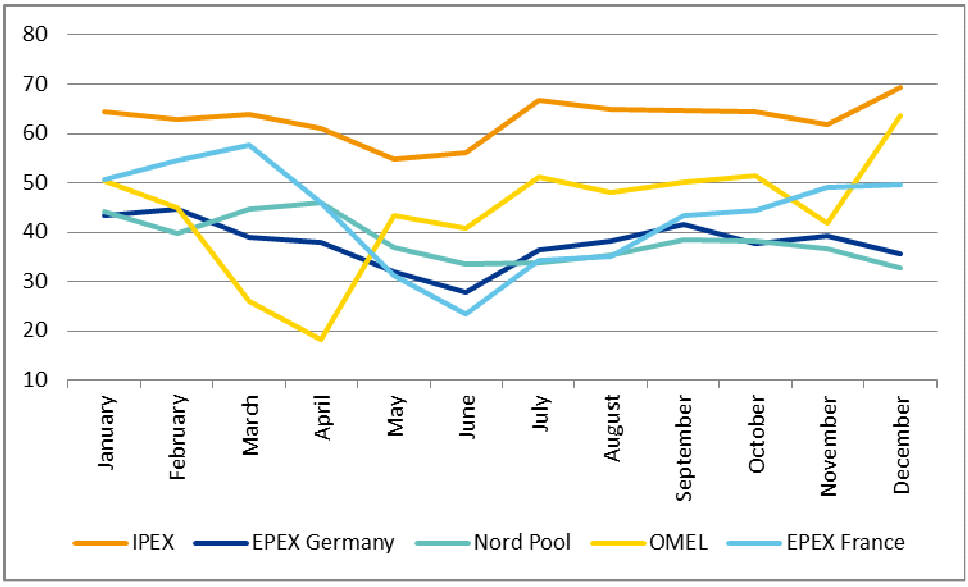
[65] Procedure by which the quarterly and annual contracts (*futures contracts, forward* currency contracts and contracts for differences) at the time of expiry are replaced with an equivalent number of contracts with a shorter duration. The new positions are opened at a price equal to that of final settlement of the original contracts.

The degree of integration of the Italian market in the European context

At the European level, the continuing economic crisis during 2014 confirmed some trends already identified on the major stock exchanges during 2013. The annual average prices fell everywhere and stood between €30.00 per MWh (Scandinavian Area) and €42.00 per MWh (Spain), as shown in Figure 3.6. In this context, the Italian Power Exchange, while remaining a dynamic market, recorded the second consecutive significant decrease (-17.3%). This decline has resulted in a growing convergence between prices in Italy and those of the other major exchanges, albeit a significant gap between the corresponding price levels still persists.

Figure 3.6 Performance of the average monthly price in the major European markets in 2014

Average values *baseload*; €/MWh



Source: AEEGSI's elaboration from European Power Exchange data.

In detail: the price differential between Germany and Italy fell to €19.32/MWh (-23%). Along with that of France at €17.45/MWh (-12%) and the one with Spain at €9.95/MWh (-47%), as shown in Figure 2.5. Once again referring to 2014, the lowest average price was recorded in Scandinavia (NordPool) with €29.61/MWh, down by 23% compared to 2013. The dynamic interaction between the stock spot, favoured by the increasingly significant experiences of *market coupling*, produced a reduction in Germany's price differential (€32.76/MWh, down by 13% in 2013) with that of France (€34.63 per MWh, at -20% in 2013) that returns to rally at €1.87 per MWh, as a result of an easing of the seasonal spread distinguishing the two countries during periods of high demand. On the Spanish Stock Exchange (Omel), the average price for 2014 came to €42.13 per MWh, down by 5% compared to last year.

3.2.1.2 Monitoring the level of transparency, the level and effectiveness of market opening and competition

The spot monitoring of forward electricity markets by the Authority is carried out periodically (weekly or monthly), with support from the GME Offices and Terna. This activity[66] is focused on the analysis of reporting weekly/monthly, prepared by the above mentioned offices, using the methods defined by the Authority itself, which allows the detection of any anomalies that might trigger further investigations, in preparation for the possible opening of special inquest.

Moreover, by law [*ex lege*], some reports, mainly technical, the Authority shall prepare and send them to the competent parliamentary committees and the Ministry of Economic Development, in order to provide information on the status of the markets.

In particular, the confidential report to the Ministry of Economic Development of 7 August 2014[67], provided for in Article 11, paragraph 1 of the Ministry of Economic Development Decree, of 29 April 2009, the Authority investigated many issues related to the electricity market. Specifically, a quantitative analysis was carried out on the basis of monitoring data for 2013 regarding:

- changes in the national portfolio of power, with particular reference to levels of adequacy of the electricity system on the mainland and the two major Islands;
- evolution of the RTN, with particular reference to the infrastructural projects needed to reduce congestion on the relevant network;
- the evolution of the market structure, with particular reference to the level of competitiveness present in the different market zones;
- the price trend in the day-ahead market and the dispatching services market, with particular reference to the situation of the two main Islands and the effect of the increasing penetration of non dispatchable resources on the results of market activity and dispatching.

In terms of monitoring the wholesale markets, the report deals with the implementation of Regulation (EU) 1227/2011 of the European Parliament and the Council, dated 25 October 2011, regarding the integrity and transparency of the wholesale energy market (REMIT). REMIT defined European rules to prevent abusive practices in the wholesale markets for electricity and natural gas that:

- prohibit market abuses, in cases of market manipulation and insider trading;
- in order to detect and prevent these abuses, establish a system for monitoring wholesale energy markets by the Agency for the Cooperation of Energy Regulators (ACER) in close cooperation with the National Regulatory Authorities;
- require that each Member State provides their own regulatory Authority with the necessary investigative and enforcement powers to monitor the implementation of anti-abuse procedures for the protection of the market.

[66] Introduced in Resolution No. ARG/elt 115/08, dated 5 August 2008.
[67] Report No. 428/2014/I/eel, dated 7 August 2014.

The approval of the Implementing Acts of REMIT, dated 17 December 2014, has initiated the execution phase of the actual regulation. With the entry into force of the Implementing Acts, on 7 January 2015, it has defined the latest deadline for the full operation of the regulations, ordered by REMIT, for monitoring: the opening of market operator registries by 17 March 2015, and initiating operations reporting for contracts allowed on the exchange platforms and to gather fundamental data through an ENTSO platform, organized by 7 October 2015. The start of the reporting for all other types of contracts is expected commence 15 months after the entry into force of the Implementing Acts (April of 2016).

In order to comply with REMIT requirements, after forming a special managerial work team, the Authority initiated a consultation[68] with its own guidelines regarding the criteria and rules for the application of the requirements for publication of privileged information.

Article 22 of Law n. 161, dated 30 October 2014, has assigned to the Authority's the powers of investigation, under REMIT, necessary to perform its task of verifying and monitoring compliance in cases of market manipulation and *insider trading*. This law also grants the Authority the power to define the general principles of the system of penalties and impose administrative fines for violations of the regulation, unless a crime has been committed.

Therefore, the Authority has established the National Register of market operators [69]. The establishment of the national registers is the first step toward the effectiveness of the European monitoring system planned, as mentioned, to go into effect on 7 October 2015. In fact, market operators, who are required to report market transactions to the ACER (mandatory reporting) should receive a preliminary identification code, which is issued once they have been entered into the Register.

The Authority has chosen to develop its own National Register through an appropriate extension the already existing operators' register. This choice has the dual advantage of avoiding the administrative charges for operators due to an additional accreditation process and the loading of data, and allows greater flexibility for any changes or updates to the system. Since 17 March 2015, the Register is available for recording operator subscriptions.

3.2.2 Retail market

According to provisional figures published by Terna, the total consumption (net losses), in 2014, were approximately 289 TWh, just over 8 TWh, less than those consumed in 2013 (-2.9%). Table 3.8 describes the distribution of the latter to the end-use sector.

Table 3.8 Distribution of final electricity consumption by sector

TWh

PRODUCTIVE SECTOR	2013	2014(A)	VARIATION. %
Domestic	66,983	64,700	-3.4
Agriculture	5,677	5,500	-3.1
Industry	124,871	121,500	-2.7
Service Sector	99,757	97,100	-2.7
TOTAL	307,220	296,750	-3.4

[68] Consultation Document No. 101/2014/E/com, dated 13 March 2014.
[69] With Resolution No. 86/2015/E/com, dated 5 March 2015.

(A) Provisional Data.

Source: AEEGSI's elaboration from Terna provisional data.

As part of the Authority's operator register, the report states that, in 2014, they had done (also for a limited period of said year) actively sold electricity to 136 subjects in the enhanced protection market, 2 in the safeguard service, and 450 in the free market. In 2013, the number of suppliers was equal to 136 in the enhanced protection market, 3 in the safeguard service, and 386 in the free market. The number of suppliers of electricity increased in 2014 to 64 units, all on the free market, for the entry of new players from adjacent sectors (notably the sale of natural gas), but also from other sectors. Therefore, once again, the market experienced growth within the group of business sales, despite the narrowing of the market, it will endure, having nearly delivered seamlessly since 2008.

Out of the 450 total companies, only 375 responded to the Authority's annual survey. Of these, 54 said they were remaining inactive for the entire year. As a result, 321 companies remaining active in the free market, responded to the Annual Survey.

Almost half of them, 48.9% to be exact, sell energy in a number of regions between 1 and 5; 46 companies, or 14.3%, have been selling electricity across the country. The remaining 118 companies have operated in a number of regions between 6 and 19.

The stakeholder structure of the share capital of the suppliers of electricity, up until 31 December 2013, was limited to first level direct holdings, displaying a scarce foreign presence: only 9 companies (of the 299 which provided this information) have a non-Italian majority shareholder. The participants are mostly foreign companies located in Luxembourg or Switzerland.

Table 3.9 shows the breakdown of total sales and the total number of customers (approximated by the number of withdrawal points) by type of market, determined based on annual data from the Authority's Annual Survey, provided by electricity operators: producers, operators working in the standard offer market and safeguard service, wholesalers and suppliers in the free market[70]. The sales figures gathered by the Authority (considered together with the self-consumption) are representative of a population that reflects 93%[71] of the end consumption estimated by Terna, the manager of the electricity grid.

The results of the annual survey (provisional for 2014) show that last year, just over 247 TWh were sold on the end market, to about 37 million customers. Total energy consumption fell by 4.1% compared to 2013, while the number of consumers rose by 0.5%.

In 2014, the data still showed a substantial shift of domestic consumers to the free market (the standard offer regime had lost one million domestic withdrawal points compared to 2013, while the free market recorded 1.4 million more). In both markets, the free and standard offer, there should be noted a further decline of about 100 kWh in the average consumption per unit, compared to 2013. In fact, as of last year, families — who are increasingly conscious of environmental issues — try to reduce energy costs, in part by reducing consumption, but also moving toward the open market, in search of more favourable price conditions.

[70] This year the vendors that responded to the Survey were equal to: 134 for the standard offer regime and 2 for the safeguard service, in addition to 375 for the free market, of which is referred to in this text.

[71] To achieve the stated percentage, it was necessary to add the end consumption from the Survey shown Table 3.10. The Survey data collected from those categorized as self-consumption and its group, as well as sales to end-users that are not connected to the distribution networks, are not included in this table.

Table 3.9 Final electricity sale market

Net Figures of Self-Consumption and Losses

	VOLUMES (GWh)			WITHDRAWAL POINTS (thousands)[A]		
	2013	2014	VAR. % 2014/2013	2013	2014	VAR. % 2014/2013
Standard Offer Market	63,832	57,968	-9.2%	26,608	25,408	-4.5%
Domestic	42,657	38,624	-9.5%	22,204	21,202	-4.5%
Non-Domestic	21,176	19,343	-8.7%	4,404	4,206	-4.5%
Safeguarded Categories	4,407	3,253	-26.2%	93	75	-18.9%
Free Market	189,707	186,132	-1.9%	10,232	11,648	13.8%
Domestic	16,881	18,768	11.2%	7,105	8,398	18.2%
Non-Domestic	172,826	167,364	-3.2%	3,127	3,250	3.9%
FINAL MARKET	257,947	247,352	-4.1%	36,932	37,131	0.5%

(A) The withdrawal points were calculated with the criterion of pro die (per day).

Source: Annual survey on regulated sectors.

Also in 2014, safeguarded categories were severely restricted: electricity sales decreased by 26% (-1.2 TWh), while the number of customers decreased by almost 19% (-17 500 withdrawal points). In 2014, they also changed service operators: for the three-year period of 2014 to 2016, Enel Energia and Hera Comm were awarded the safeguard service (until 2013 the service was managed by these companies, plus Exergia). The reduction of the number of customers served and the consequent reduction of withdrawals confirm that after absorbing spikes due to the economic crisis among companies, the segment of the safeguard service is returning to levels more physiological. Although, as will be explained on the following pages, a more detailed analysis of the data at the local level seems to support the hypothesis that, before losing customers served in safeguard services, the outgoing operator had encouraged them to transfer to the free market by offering them a lower price.

As mentioned above, the electricity supplied in 2014, on the free market, suffered a reduction by 3.6%, despite the considerable increase in customers served (+ 13.8%). The fall in volumes sold on the free market would have been much greater if the growth in this market, recorded in the domestic sector, had not mitigated a reduction of more than 5 TWh of electricity sold to non-domestic customers (-3.2%). In fact, also in 2014, non-domestic consumption was down in all markets: 8.7% in the standard offer regime, 30.2% to safeguarded categories and -1.2% in the free markets.

Therefore, altogether, in 2014, the standard offer market acquired 23.4% of all energy sold to end-users (24.7% in 2013), the safeguarded categories absorbed 1.3% (against '1.7% in 2013) and the free market bought 75.2% (against 73.5% in 2013).

With the exception of the top five (provisional) of the first 20 groups for overall sales to end-users in 2014 (Table 3.10) there is some news from last year regarding the turnover of sales staff in various positions.

Table 3.10 The Top 20 Groups for Sales to the end market in 2014

GWh

GROUP	DOMESTIC CUSTOMERS	NON DOMESTIC CUSTOMERS			TOTAL	POSITION IN 2014
		LV	MV	HV/EHV		
Enel	42,765	29,458	8,597	3.426	84,247	1°
Edison	1,525	3.867	10.447	4,199	20.038	2°
Eni	3.043	2,418	3.444	1,053	9,958	3°
Acea	2,234	2,273	3.403	1,745	9,654	4°
Hera	890	2,895	4,499	297	8,582	5°
Gala	44	1,993	5,073	191	7,301	11°
Sorgenia	555	1,870	4,040	433	6,898	8°
E.On	162	1,426	3.598	1,084	6,269	9°
A2A	1,434	2,042	2,422	295	6,192	7°
Axpo Group	1	991	2,241	2,457	5,690	10°
Green Network Luce & Gas	56	552	2,227	1,851	4,685	6°
C.V.A.	128	1,656	2,660	1	4,445	13°
Iren	1,019	1,078	1,734	453	4,282	12°
Energetic Source	2	1,454	1,950	262	3.669	14°
Dolomiti Energia	511	1,183	1,572	168	3.434	17°
Repower AG	0	1,774	1,634	5	3.414	15°
Egea	32	402	2,623	307	3.366	16°
Metaenergia	14	364	2,619	100	3.097	20°
Gruppo Duferco	12	308	553	2,080	2,954	32°
GdF Suez	423	124	673	1,697	2,917	18°
Other Operators	2,543	12,850	26,506	4,362	46,261	-
TOTAL OPERATORS	57,393	70.980	92,515	26,465	247,352	-

Source: Annual survey on regulated sectors.

In the entire market of end sales, the Enel Group remained the dominant operator, although its share went (slowly), shrinking over time: in 2014, the load dropped to 34.1%, against 34.8% in 2013, however, its significance is somewhat differentiated by the various segments of the retail market. In fact, the domestic and non-domestic sector connected to low voltage, the group held a very wide margin, and above all, far removed from those groups following close behind. On the contrary, in selling to non-domestic customers connected to medium and high/extra-high voltage, since 2013. Enel is no longer the number-one operator, and apparently, its market shares are quite close to those of its competitors.

In 2014, the level of concentration of the total market climbed slightly higher: the top ten operators (corporate groups) covering 66.6% of total sales (the figure was 66.1% in 2013 and 70% in 2012). Sixteen groups are still needed (similar to last year) to exceed 75%. Half of the market (46.2%) was supplied from the top three groups.

In 2014, 74.5% of the energy consumed by the domestic sector was sold by the Enel Group (76.4% in 2013); with a share of 5.3%, the second group was Eni, which exceeded Acea. This year it fell to third place, although its share rose to 3.9% from 3.7% last year. Overall, the top five players (Edison and A2A along with those already mentioned) hold 88.9% of the domestic sector (89.0% in 2013).

With reference to sales to non-domestic customers connected to low voltage, the share of the Enel Group, accounting for 41.5%, remained well ahead of the one in the second group (Edison with 5.4%), but certainly to a lesser extent compared to that of the domestic segment. Hera followed behind with 4.1%, Eni with 3.4% and Acea with 3.2%. The top three groups occupy the same positions earned in the ranking of 2013, while A2A and Sorgenia were in fourth place.
In 2014, the Edison Group consolidated the top position reached during the previous year, sales to non-domestic customers connected to medium voltage. If in 2013, the group showed a share slightly higher than that of Enel (9.9% and 9.7% were the respective portions), this year the gap between the two groups increased since Edison reached 11.3 %, while Enel fell to 9.3%. Gala, Hera and Sorgenia were the next three groups in the ranking, with shares of at least four percentage points lower than the top three.
In 2014, Edison was ranked number one in sales to customers connected at high or extra high voltage, providing 15.9% of the energy they acquired. In that respect, Edison was followed closely by Enel, Axpo Group and the Duferco Group. Green Network Luce & Gas has dropped down to fifth place (7%), which in 2013, was at the top of the vendors in this segment.

Standard offer regime

The standard offer regime is targeted at domestic customers and small businesses[72] connected to low voltage that have not signed a contract of sale in the free market. The service is guaranteed by special sales companies or distributors with fewer than 100,000 customers connected to their network, based on economic conditions and commercial quality specified by the Authority.

Analysis of the first results of the Annual Survey showed that in 2014, just under 58 TWh to around 25 million withdrawal points (calculated on a *pro die*) were sold in this market. Compared to 2013, consumption fell by about 6 TWh (-9.2%), while the provided withdrawal points fell by 4.5%.
As had happened in 2013, the reductions in the volumes were very high in all uses: over nine percentage points lower than for the domestic (-9.5%), almost as many for the other uses (-8.5%), while the drop in consumption for public lighting, in percentage terms, was almost double (18.9%). The drop in sales was left virtually unchanged, compared to 2013, the shares of the various uses of the total consumption. Sixty-seven percent of the volume was purchased by domestic users (38.6 TWh), in terms of numbers (21 million withdrawal points), it represents 83% of the total market of enhanced protection (down to a total of just over 25 million withdrawal points). The 88.6% of the domestic market served by standard offer regime concerns residential customers; of these, 87.1% are customers with capacity up to 3 kW. Instead, the percentages corresponding to the withdrawal points are respectively 77.5% and 92.9%.

[72] Pursuant to Decree Law No. 73, dated 18 June 2007 (with amendments from Law No. 125, dated 3 August 2007) there are "small businesses" end-customers other than domestic customers with less than 50 employees and annual sales or a total balance sheet not exceeding €10 million.

Table 3.11 Domestic customers in the standard offer regime by typology and consumption class in 2014

Volumes in GWh; number of withdrawal points in the thousands; average consumption in kWh

TYPE OF CUSTOMER AND ANNUAL CONSUMPTION CATEGORIES	VOLUMES	% SHARE	WITHDRAWAL POINTS (A)	% SHARE	AVERAGE CONSUMPTION
0-1,000 kWh	2,709	7.0%	6,527	30.8%	415
1,000-1,800 kWh	7,151	18.5%	5,079	24.0%	1,408
1,800-2,500 kWh	8,739	22.6%	4,085	19.3%	2,139
2,500-3,500 kWh	10.035	26.0%	3.416	16.1%	2,938
3.500-5,000 kWh	6,434	16.7%	1,580	7.5%	4,071
5,000-15,000 kWh	3.245	8.4%	503	2.4%	6,456
> 15,000 kWh	311	0.8%	12	0.1%	25,465
DOMESTIC TOTAL	38,624	100.0%	21,202	100.0%	1,822
OF WHICH					
Domestic up to 3 kW	29,801	77.2%	15,276	72.1%	1,951
Domestic above 3 kW	4,401	11.4%	1,162	5.5%	3,788
Domestic non-residents	4,422	11.4%	4,764	22.5%	928

(A) The withdrawal points were calculated with the criterion of pro die (per day).

Source: Annual survey on regulated sectors.

As usual, the contractual conditions prevailing in the standard offer regime are the bi-hourly rate required and the multi-hour, which together account for 95.4% of the withdrawal points. Almost all domestic customers (95.3%) pay the mandatory bi-hourly rate, in other words, that economic status varies by hourly band during the day, and since 1 July 2010, it has been applied automatically to customers with reprogrammable electronic meters; a very small share of 2.2% pay the bi-hourly rate voluntarily. In other words, it was explicitly requested by customers even before 1 July 2010; the remainder 2.5% of the domestic withdrawal points was still applied to the old hourly rate. The portion of the mandatory bi-hourly rate customers grew by 0.6% over the past year, the customers with voluntary bi-hourly rates rose 0.3% while those customers with hourly rates fell by one percentage point (in 2013 it stood at 3.4%).

Also in 2014, the average consumption of domestic customers declined further, for several years now. From the 2,014 kWh registered in 2012, it fell to 1,921 kWh in 2013, to reach 1,822 kWh/year (Table 3.11).

Considering that 72% of the domestic withdrawal points in the standard offer regime have a capacity system of up to 3 kW, the average consumption of Italian families was estimated at 1,951 kWh/year, a value around 100 kWh less than that observed in 2013. Even higher, amounting to 3,788 kWh, but still down from previous years, is the average consumption of domestic customers with capacity exceeding 3 kW, up last year to 4,025 kWh; yet slightly down compared to 2013. Also the average consumption of non-domestic customers, which fell to 928 kWh in 2014, compared with 982 kWh in the previous year.

It is also noted, that 100 was the number of domestic withdrawal points with capacity of up to 3 kW, that as it has just been said, represent the majority (72%) of domestic customers served in the standard offer market, as many as 72 belong to the top three consumption categories: that is, they purchase them at a maximum of 2,500 kWh/year. Seventy percent of domestic consumers with

capacity exceeding 3 kW belong to categories of higher consumption (2,500 to 15,000 kWh/year); these same three categories, however, represent 3.9% of all domestic customers with enhanced protection. With regards, however, to the withdrawal points of non-domestic customers (mostly second homes), the 70.6% fall in the first category (consuming less than 1,000 kWh/year) and the 85% consumption of these customers did not exceed 1,800 kWh/year.

Table 3.12 Non-domestic customers in the standard offer regime by typology and consumption class in 2014

Volumes in GWh; number of withdrawal points in the thousands; average consumption in kWh

TYPE OF CUSTOMER AND ANNUAL CONSUMPTION CATEGORIES	VOLUMES	% SHARE	WITHDRAWAL POINTS (A))	% SHARE	AVERAGE CONSUMPTION
0-5 MWh	3.893	20.1%	3.413	81.1%	1,140
5 – 10 MWh	2,557	13.2%	366	8.7%	6,995
10 - 15 MWh	1,724	8.9%	141	3.4%	12,201
15 - 20 MWh	1,371	7.1%	79	1.9%	17,283
20 - 50 MWh	4,618	23.9%	152	3.6%	30.342
50 - 100 MWh	2,691	13.9%	40	0.9%	67,764
100 - 500 MWh	2,357	12.2%	15	0.3%	160.111
500 – 2,000 MWh	124	0.6%	0	0.0%	706,776
2,000 – 20,000 MWh	8	0.0%	0	0.0%	2,431,506
20,000 – 50,000 MWh	0.3	0.0%	0	0.0%	22,992,091
NON DOMESTIC TOTAL	19,343	100.0%	4,206	100.0%	4,599
OF WHICH					
Non-Domestic up to16.5 kW	10.234	52.9%	3.908	92.9%	2,618
Non-Domestic above 16.5 kW	8,787	45.4%	279	6.6%	31,532
Public Lighting	323	1.7%	19	0.5%	16,578

(A) The withdrawal points were calculated with the criterion of pro die (per day).

Source: Annual survey on regulated sectors.

Table 3.12 proposes the allocation of volumes (19.3 TWh) and withdrawal points (4.2 million) relating to non-domestic uses served in the standard offer market for the consumption class. Eighty-one percent of customers fell into the first category of consumption for a volume corresponding to one-fifth of total consumption. In the second category, the customers with an annual consumption ranging between 5 and 10 MWh, included another 8.7% of the withdrawal points from non-domestic customers and absorbs 13.2% of electricity sold for non-domestic uses. Practically, 90% of non-domestic customers showed an annual consumption of no more than 10 MWh.

The withdrawal points with an output exceeding 16.5 kW represent only 6.6% of non-domestic consumers with standard offer, yet absorb 45% of the total sales. These customers are obviously categorized by higher annual consumption rates: half of the points with an output exceeding 16.5 kW fell in categories with consumption of between 20 and 500 MWh.

Safeguarded categories

All customers who were even temporarily without a contract for the sale of electricity in the free market, but who were not entitled to access to the standard offer regime, were allowed to safeguarded categories. Since 1 May 2008, the service has been provided by suppliers selected through the auction process[73], who received the right to exercise the service for three consecutive years. In November of 2013, insolvency proceedings were held regarding the exercise of the safeguard service from 2014 to 2016. Only two companies were granted the right to do so:

- Enel Energia for the territories of eight regions: Veneto, Emilia Romagna, Friuli Venezia Giulia, Sardinia, Campania, Abruzzo, Calabria and Sicily;
- Hera Comm for the territories of the remaining 12 regions, namely: Liguria, Piedmont, Valle d'Aosta, Trentino Alto Adige, Lombardy, Tuscany, Marche, Umbria, Lazio, Puglia, Molise and Basilicata.

Also in 2014, as it had happened in 2013, the maintenance scheme narrowed: last year, in fact, a little more than 75,000 supply points had been served in this market (calculated on a *pro die* and counted fractionally for the years for which they were served), which together used about 3.3 TWh. Practically, the safeguarded categories was then reduced by 18.9% in terms of the withdrawal points and 26.2% in terms of energy consumed compared to 2013. The reduction of points served and volumes of consumption occurred with all types of customers, the only exception being the other uses related to high voltage, for which it showed a sharp decline in withdrawal points, but substantially no change in energy usage.

Safeguarded categories almost exclusively concerns industrial or commercial customers, which picked up 91.3% of all energy sold in this market. For the most part, these customers are connected to medium voltage (61.7%), but a small share of them (26%) was connected to low voltage. The remaining 8.7% of the energy was used for public lighting.

A more detailed analysis, at the local level provides some interesting insights. During 2014, in fact, it was the first year of the three-year period, from 2014 to 2016, under the new management of the service. In the previous three years (2011-2013) the operators for the safeguarded categories were the top three: Enel Energy, Hera Comm and Exergy. Based on the results of the insolvency proceedings, the territories previously served by the Exergy were divided up into equal parts and awarded to Enel Energy and Hera Comm. The first company received three of the regions formerly served by Exergy, while the second company was awarded the remaining four. As part of the auction, however, four other regions have seen the changing of the operator for safeguarded categories.

From a geographic point of view, it is known as the national average observed in reducing withdrawal points provided in this regime, or 18.9%, showing a very strong territorial variability: it went from regions where the reductions were close to or above 40%, to others where the number of safeguarded customers also went up. On average, in regions where there was a shift in the service management, the number of withdrawal points decreased by 24.4%, while in those where the operator did not change, the decline was only 9.5%. This evidence, analyzed together with other data from the monthly market monitoring seemed to support the hypothesis that the

[73] As established by the decree issued by the Ministry of Economic Development, dated 23 November 2007.

outgoing operator, before losing customers which served in the safeguarded categories, encouraged them to move to the free market, by offering a lower price. In this case, the regime acted as a stimulus for the competition. More generally, however, it had always been observed in recent years that the decrease in the scope of this market was (be it consumption or the buyers), in some respects, a positive trend for the economy, because safeguarded categories is also the scheme in which end-users of the free market persisted in a state of default.
As in 2013, the share of Hera Comm was superior to that of Enel Energia, but the gap between the two has increased. The share of Exergia, which in 2013 served 19.5% of this market, and has mainly benefited Hera, increased from 42.9% to 57.5%, while Enel Energia rose from 37.6% to 42.5%.

Free market

As seen on the preceding pages, in 2014 the free electricity market once again expanded in terms of customers and number of operators, despite the simultaneous decline in sales volumes. According to what has surfaced from the annual survey regarding the regulated sectors (the results of which are from 2014, and it is worth repeating that they are still preliminary), last year the number of active suppliers rose to 46 units, however, the electricity sold decreased by 3.6 TWh. Therefore, the average unit sales volume of the companies operating in this market decreased by 16% and stood at 580 GWh, with an all-time-low recorded to date, 43% of that in 2007, the year the market was completely open and functional.

In Table 13.3, the data gathered by the Authority are broken down by type of customer and voltage; customers served in the free market have mostly increased, in some cases with very high rates of change.

The domestic sector stands out, in particular, in which withdrawal points were up by 18.2% compared to 2013, since it is even more remarkable when you consider that it followed the +22.5% recorded in 2013. However, even the demand for public lighting grew by 3.1% according to the withdrawal points (growth that is even higher, coming to 10.7%, when measured only taking into consideration the average voltage). Instead, the withdrawal points of the category "other uses" only increased for low voltage, while recording a decline in medium-voltage and even more in the high/extra-high voltage category.

The same thing happened to the sales volume: in this case it highlights very positive rates of change only for domestic customers, to which sales increased by 11.2%, or almost 2 TWh, and for public lighting connected to medium voltage power lines. The largest quantities of energy sold to these customers, however, were not enough to offset the decline of 5.5 TWh recorded in the consumption category of Other Uses (-3.3%).

Table 3.13 Free market according to customer type

TYPE OF CUSTOMERS	VOLUMES (GWh)			WITHDRAWAL POINTS (thousands)[(A)]		
	2013	2014	VAR. % 2014/2013	2013	2014	VAR. % 2014/2013
LV	68,037	69,296	1.9%	10.127	11,548	14.0%
Domestic	16,881	18,768	11.2%	7,105	8,398	18.2%
Public Lighting	4,857	4,877	0.4%	218	224	3.0%
Other Uses	46,299	45,651	-1.4%	2,805	2,926	4.3%
MV	91,587	90.488	-1.2%	103	99	-4.4%
Public Lighting	339	373	10.0%	0.90	1.00	10.7%
Other Uses	91,248	90,115	-1.2%	102	98	-4.5%
HV and EHV	30,084	26,348	-12.4%	1.04	0.97	-6.9%
Other Uses	30,084	26,348	-12.4%	1.04	0.97	-6.9%
TOTALS	189,707	186,132	-1.9%	10,232	11,648	13.8%

(A) The withdrawal points were calculated with the criterion of *pro die* (per day).

Source: Annual survey on regulated sectors.

From a relative point of view it can be observed that 37.2% of the volume has been acquired by consumers connected to low voltage power lines (it was 35.9% in 2013), 48.6% from medium voltage (it was 48.3 % in 2013) and 14.2% to high and extra high voltage power lines (it was 15.9% in 2013). Consequently, the share of "other uses" (other than domestic use and public lighting), which in 2013 was 88.4% on the free market, fell to 87.1% in terms of energy and 26% in terms of withdrawal points (it was 28.4% in 2013).

Among **domestic customers**, the most important category in terms of withdrawal points, have a consumption rate between 1,000 and 1,800 kWh, and is the category that contains 23.7% of customers. However, even the two subsequent categories possess a similar load. However, when looking at the purchase volumes, the most important category deals with consumption between 2,500 and 3,500 kWh/year, which sold at 28.4% of all the energy acquired by the domestic sector in the free market. In fact, 85% of the withdrawal points showed a power consumption level that did not exceed 3.500 kWh/year. In each class, the average consumption that emerges from the data relating to the free market was very similar to those of domestic customers with greater protection.

In 2014, 16% of households (about 1.3 million) signed a *dual fuel* contract. The portion of domestic customers with this type of contract rose by one percentage point compared to that recorded in 2013. The total consumption of these customers came to 2.9 TWh, more than 15% of all energy sold to domestic customers on the free market. These customers also show an average fuel economy similar to those in general. The breakdown, also available for the free market, of the customers for which this tariff was applied, there appears to be a preference for the bi-hourly (*bioraria*) contractual rate, which has been chosen in over half (55%) of cases. Thirty-six percent of respondents chose the hourly (*monoraria*) mode and only 9% for the multi-hourly (multioraria).

As for **non-domestic** customers, sales in terms of volumes are concentrated in the high consumption categories: half of the total energy purchased from the non-domestic sector was sold to customers consuming more than 2,000 MWh/per year. The 55% of customers, however, resulted as having consumed less than 5 MWh per year.

Among the non-domestic customers, *dual fuel* contracts were not as widespread: the withdrawal points showed that they preferred this type of supply were about 76,000 of the more than 3 million total, and almost all connected to the low voltage service; the energy acquired was approximately equal to 1.8 TWh to a total of 167.

Concentration in the electricity retail market

Analyzing the market share in sales to consumers, the concentration in **the standard offer regime** shows that it has remained unchanged since 2013. Enel Electric Service remains the major operator with a market share of 85.4 % (three tenths of a percentage point lower than the previous year); followed by Acea Energy (5%), A2A Energia (3.6%) and Iren Mercato (1.2%). Other operators have shares of less than 1%

The Enel Group, which as we have already seen dominating the standard offer segment of the retail electric market, is much less important in the **free segment**, although here it also maintains first position. In fact, in 2014, its share of sales to free customers was 17.9%, seven points higher than that of the Edison Group. The distance from the second group was further shortened when compared to 2013, considering that Edison won out over Enel. The Enel Group's share increased less than what had been originally expected (this year up to 10.8% against 9.9% a year earlier). On the other hand, the Eni Group continued to maintain third position, although it demonstrated a slight reduction in percentage compared to that of 2013 (5.3% instead of 5.5%).
The degree of national concentration in the free market climbed slightly: the share of the top three groups rose from 33% to 34%; one of the top ten rose to 57.6% from 56.8% in 2013.

In the **entire retail market**, the dominant player is the Enel Group, although its share will (slowly) shrink over time: in 2014 its importance dropped to 34.1%, against 34.8% in 2013. Its importance, however, is somewhat differentiated in the various segments of the retail market. In the domestic and non-domestic sector, connected to low voltage service, in fact, the group holds a very wide and, above all, is far removed from those groups following close behind. On the other hand, sales to non-domestic customers (in medium and high/extra-high voltage), as of 2013 Enel is no longer the number one operator and, of course, its market shares are now quite close to those of its competitors

Table 3.14 Retail Market: Market Shares of the Top Three Operators for Voltage Levels in 2014

VOLTAGE LEVELS	N. OPERATORS WITH SHARE >5%	CUMULATED SHARE FIRST 3 OPERATORS
Low Voltage (Domestic)	2	83.7%
Low Voltage (Non-Domestic)	2	52.1%
Medium Voltage	4	26.6%
High and Extra-High Voltage	7	38.5%
MARKET TOTALS	2	46.9%

Source: Annual survey on regulated sectors.

The groups in 2014 that have reached a market share of more than 5% were 2: Enel with 34.6% (it had 34.8% in 2013) and Edison with 8.2% (7.3% in 2013). They are followed the Eni Group, with a market share of 4.1%, and Acea (4.0%). The top ten operators (corporate groups) cover 67.6% of total sales (compared to 66.1% last year). Table 14.3 shows the breakdown by voltage level.

3.2.2.1 Monitoring the level of prices, the level of transparency, the level and effectiveness of market opening and competition

Monitoring the level of prices in the retail market

With regard to supervision of sales prices in the retail market, the Authority made two surveys:

- the one carried out in accordance with Resolution n. ARG/elt 167/08, date 20 November 2008, in which quarterly data, collected on a monthly basis, were relative to the prices charged by suppliers to domestic and non-domestic customers, divided into categories and consumption by the type of market (the free and standard offer);
- the one performed during the annual survey on the regulated sectors, in which data are collected pertaining to the previous year and broken down according to various detailed categories (type of market, industry and consumption categories, type of contract applied).

In late 2011, the Authority approved[74] the *Testo integrato del monitoraggio dei mercati della vendita al dettaglio dell'energia elettrica e del gas naturale (Eng: the Integrated Text for monitoring the retail electricity and natural gas market* (TMR)), which required operators involved in the end-sale of electricity (with a number of withdrawal points above 50,000) to submit a quarterly report to the Authority containing the data relative to the monthly price average of electricity charged in the end market, along with numerous other indicators (please see the next paragraph). In fact, since January of 2012, the average prices compiled by the Authority, pursuant to Resolution n. ARG/elt 167/08, narrowly converged to vendors, obligated by the TMR (the retail monitoring system). However, by virtue of an institutional arrangement, all the data compiled, pursuant to Resolution n. ARG/elt 167/08, were given six months by the Ministry of Economic Development to send them to the Eurostat, thereby fulfilling its requirements under Directive n. 2008/92/EC, dated 22 October 2008, concerning the EU procedure to improve the transparency of prices for end industrial users of natural gas and electricity.

Instead, data from the second survey were used for the statistical analysis carried out by the Authority, especially those that were the basis of the Annual Report.

Regarding the monitoring of the application of bi-hourly prices, Article 6-ter, of the Testo Integrato vendita (Eng: Integrated Text for Sales ("TIV")) required each enhanced protection operator to send Single Buyer (AU) a quarterly report (with respect to each month of the relevant quarter) the PED applied to each customer served, distinguishing between withdrawal points for which a fee was applied for different hourly bands and instances in which the fee is applied at an hourly rate. Disclosure was also required concerning the customers for which the operator had carried out enhanced protection services, prior to the application of PED fees differentiated by hourly bands, reporting consumption differentiated by hourly band and months or groupings of months. This information was used by the Authority for control purposes, during the first implementation phase of the bi-hourly prices for domestic customers.

Based on the provisional data compiled by the Authority, in 2014, the average price in the free market for the supply of electricity came to €103.41/MWh. This price was found by requiring the free market to include only those components related to energy, dispatching, pipeline leaks, imbalance and marketing costs of the sale. The data refers to, as early as 2013, the total bidding of the free market, considering all types of customers connected to low voltage.

[74] With Resolution No. ARG/com 151/11, dated 3 November 2011.

However, regarding the sales under the standard offer regime, the average price stood at about €99.48/MWh. This price was pointed out by asking companies, working in standard offer market to include only the following components (already including of network losses): PED (PE + PD), PCV, DISPBT and EPP, or items related to purchase and electricity dispatching, marketing costs for sales and equalization components.

Overall, it came to light, therefore, that also in 2014, customers used low voltage at a higher price in the open market, analogous to the three previous years. Similar to 2013, there was a clear differentiation between domestic customers and non-domestic. While for domestic customers the free market was more expensive, with an appreciable difference (€19.30/MWh, equal to + 19.7%), for non-domestic customers using low voltage, the free market was convenient (-4 66 €/ kWh, -4.5%). Although it should be mentioned, that on average, non-domestic customers using low voltage in the free market had a consumption of 15,900 kWh/year, while those with standard offer showed an average consumption of 4,600 kWh/year. When considering the data, one must always consider that offers on the free market are usually more complex and often include additional services (for example, insurance policies or energy efficiency devices) which are not present in the standard offer. Also, they are sometimes characterized by price structures, such as fixed price, which involve updating mechanisms for fees that differ from that of standard offer regime, which moves on a quarterly basis.

Shown in Tables 3.15, 3.16, 3.17 and 3.18 were the average prices recorded on the free market for the separate category of consumption and voltage levels of the electricity supply, both for the domestic and non-domestic customers.

Table 3.15 Prices for domestic customers in the free market broken down per consumption class in 2014[A] — procurement costs

€/MWh

CATEGORY OF CONSUMPTION	TOTAL OF DOMESTIC CUSTOMERS		OF WHICH WITH DUAL FUEL SUPPLY	
	VOLUMES (GWh)	PRICE[B]	VOLUMES (GWh)	PRICE[B]
< 1,000 kWh	749	144.39	119	101.00
1,000-1,800 kWh	2,824	120.75	498	102.38
1,800-2,500 kWh	3.986	117.02	657	104.56
2,500-3.500 kWh	5,325	114.93	768	106.55
3.500-5,000 kWh	3.703	114.61	498	110.05
5,000-15,000 kWh	1,998	113.28	290	113.88
> 15,000 kWh	181	105,83	38	116.21
DOMESTIC CUSTOMER TOTALS	18,765	117.00	2,868	106.62

(A) Provisional data.
(B) The price was calculated including components relating to energy, dispatching, pipeline leaks, imbalance and marketing costs.

Source: Annual survey on regulated sectors.

Table 3.16 Prices for domestic customers in the free market by hourly rate type in 2014(A) — procurement costs

€/MWh

HOURLY RATE	VOLUMES (GWh)	PRICE(B)
Hourly	10,440	116.41
Bi-Hourly	6,632	118.07
Multi Hour	1,696	116.86
DOMESTIC CUSTOMER TOTALS	18,768	117.38

(A) Provisional data.
(B) The price is calculated including components relating to energy, dispatching, pipeline leaks, imbalance, marketing costs.

Source: Annual survey on regulated sectors.

Table 3.17 Prices for non-domestic customers in the free market by voltage levels in 2014(A) — procurement costs

€/MWh

VOLTAGE LEVELS	NON-DOMESTIC CUSTOMERS		OF WHICH WITH DUAL FUEL SUPPLY	
	VOLUMES (GWh)	PRICE(B)	VOLUMES (GWh)	PRICE(B)
Low Voltage	49,047	98.17	1,226	93.29
Medium Voltage	88,536	79.53	527	79.11
High and Extra High Voltage	26,086	67.19	36	79.12
NON DOMESTIC CUSTOMERS TOTALS	163.670	83.15	1,789	88.83

(A) Provisional data.
(B) The price was calculated including components relating to energy, dispatching, pipeline leaks, imbalance, marketing costs.

Source: Annual survey on regulated sectors.

Table 3.18 Prices for non-domestic customers in the free market by hourly rate type in 2014(A) — procurement costs

€/MWh

HOURLY RATE	VOLUMES (GWh)	PRICE (B)
Hourly	50,527	104.32
Bi-Hourly	90,488	79.60
Multi Hour	26,348	67.23
NON DOMESTIC CUSTOMERS TOTALS	167,364	85.12

(C) Provisional data.
(D) The price was calculated including components relating to energy, dispatching, pipeline leaks, imbalance, marketing costs.

Source: Annual survey on regulated sectors.

For domestic consumers comparing prices for a *dual fuel* supply, and those making comparisons only for electric energy (Table 3.15) shows, on the whole, a benefit for the first choices. This means a consumption of up to 5,000 kWh/year. The gap between the two prices appears very diverse depending on the category of consumer, probably due to the different trade policies made by those selling *dual fuel*. Likewise, for non-domestic customers (Table 3.17) the convenience of

the *dual fuel* supply exists only for those with low voltage, therefore, characterized by annual consumption levels that are much lower and similar to domestic usage. Regarding this specific matter, it is necessary, however, to highlight the incompleteness of the available data, since many suppliers have not responded appropriately to the Survey questionnaire.

Monitoring the level of transparency, the level and effectiveness of market opening and competition

The **retail market monitoring system** is a tool used by the Authority to perform regular and systematic observations of the operating conditions of the retail market, including the degree of openness, fair competition and transparency in the market and the level of participation of consumers and their level of satisfaction.

As mentioned on the previous pages, the Authority defined the parties responsible for monitoring, (i.e. the suppliers or distributors) possessing the necessary characteristics (in terms of number of points served) required to send the basic data necessary for the calculation of the indicators[75] by the Authority, as well as the minimum set of market indicators and the method of calculation. In addition, the activities of gathering basic data have been defined (such as data collection, with what frequency and how) and the manner of publishing and updating the results of the monitoring of retail sales.

As part of the monitoring *retail* system, included as of January 2012, along with the collections made by the Authority in relation to the development of the schemes for end customers, as defined according to Law n. 125, dated 3 August 2007, and as confirmed by Legislative Decree n. 93/11 (the enhanced protection and safeguard marketing services) regarding information for the delinquency phenomenon. In January of 2012, the Authority began the systematic collection of basic data, which was then continued in the following years. This collection is useful for publication, by the Authority, be it the *Rapporto sul monitoraggio retail* (Eng: *Retail Market Monitoring Report* showing the indexes measured, or the development analysis of the of the operating conditions of the retail markets, with particular reference to the degree of opening and levels of competitiveness and transparency, along with the degree of participation and satisfaction of end users.

For 2014, the Authority identified the parties required to transmit data being monitored by publishing on its own website the list of these people. Specifically, they are a total of 119 people on that list. With reference only to the electricity sector, they are 13 electricity distributors and 52 suppliers of electricity. Of the latter, only three are *single sourcing*, while the remaining ones sell both electricity and natural gas. The collected data refers to the relevant information as of 1 January 2014, which began being collected in April of 2014. On 12 February 2015, the Authority published a report on the *retail* monitoring. The Annual Reports for 2012 and 2013, summarize the monitoring results[76].

The Authority shall publish on its website the development of the customers signed up for the enhanced protection service on the basis of monthly data sent by the enhanced protection service operators. The published data, aggregated by quarter and by geographical area, will show the

[75] The indicators are synthetic formulas representative of the retail market monitoring phenomena.
[76] Please see Report on. 42/2015/I/com, dated 5 February 2015, available here: http://www.autorita.energia.it/it/docs/15/042-15.htm.

number of withdrawal points served in the enhanced protection service, transition to the free market (which is also refers to the details of the transitions of companies linked to the enhanced protection operator) and eventual changeovers from the free market to the enhanced protection one. These transitions are not considered as customers switching between the operators of the free market.

In terms of the measures taken to promote effective competition, **Trova Offerte** (a price calculator) must be mentioned as a search engine for commercial offers listing companies that sell electricity and gas to domestic customers.

From the first publication of the system data, there has been an average of about 1,150 hits per day on the home page for this Internet link, with numerous peaks of higher than 5,000 daily hits. In particular, in 2014, the overall hits for the home page came to 367,952, while estimates were at 442,580. Research carried out in March of 2015, using the profile of average consumption of the typical domestic customer[77], major Italian cities showed evidence for the electricity service of around 35 offers, mainly fixed price, with the cheapest deals offering potential savings, estimated by annual expenditures before taxes, for residential areas in Rome, just under €30.00/year (5.7%) compared to the supply conditions for greater protection in force for the first quarter of 2015, and €110.00/year (19%) compared to the less economic offers.

The search for joint offers (electricity and gas) displayed up to six/seven results; annual expenditure associated with the cheaper joint offers substantially equivalent to that obtained by adding the expense associated with cheaper deals for the supply of single source electricity and natural gas available at the same location (in March of 2014, there was a shortfall of more than €35.00 to the detriment of the combined offer), less than about €160.00/year (-9%) compared to spending obtained by adding the expense associated with the standard offer (in March of 2014 was lower by about €150.00/year, equal to -8.2 %). For both electricity and gas services, the cheapest deals were based on those search engine results of suppliers offering a fixed price, the conclusion of the contract on the Internet, standing payment orders and electronic billing and customer support.

Finally, it must be mentioned, in terms of measures taken to promote effective competition, that in 2008, the Authority created the **Integrated Information System** (SII) for information management flows related to the electricity and natural gas market, which began in 2012.

The purpose of SII, created by Single Buyer (AU) under Law n. 129/10, dated 13 August 2010, is to manage the flow of information between the parties involved in the electricity and natural gas markets, in accordance with the rules and procedures set forth by the Authority. It is based on a database containing the list of all of the withdrawal points and the national core data for the processes management of agreements called the Registro Centrale Ufficiale (Eng: Official Central Registry) or simply RCU, shared among all stakeholders. For example, in the case of the electricity sector, data is shared between Terna, the distribution companies and dispatching users who are titleholders of consumption units and the suppliers.

In reference to the electricity sector, since July of 2013, the SII has become the official channel for supplying dispatching users with relevant data relevant for the purposes of the *settlement*. The pre-check process is currently being implemented (i.e. the active verification of the withdrawal point POD code and the identification data of the end customer of that point) and transfer of

[77] Electricity Service: home of permanent residence with a committed capacity of 3 kW and a consumption of 2,700 kWh/year, broken down by 33.4% in Band F1 and 66.6% in Band F23; Gas Service: consumption rate of 1,400 m^3/year.

contract. In relation to the gas sector, the functional accreditation of System Members and the stocking of the RCU, which had to be completed in December of 2014, was regulated instead.

Switching

The annual survey carried out by the operators of the electricity distribution, also asked them some questions on *switching* (i.e. the number of customers that changed their supplier during the calendar year of 2014)[78].

Based on the collected data, the total *switching* in the electricity market has remained consistent (Table 3.19). Altogether, more than 3.5 million customers, (i.e. 9.6%), have switched suppliers at least once during 2014. In terms of volume, they represented almost a quarter (24.2%) of the total energy distributed. Similar to what happened in 2013, also this year *switching* was on the rise when evaluated in terms of withdrawal points, and decreased, when measured in terms of volume. This was probably because, in recent years, among the customers switching suppliers, there are more and more who are characterized by low levels of consumption.

Table 3.19 *Switching* rates for consumers

TYPE OF CUSTOMERS	2013		2014	
	VOLUMES	WITHDRAWAL POINTS	VOLUMES	WITHDRAWAL POINTS
Domestic	9.7%	7.4%	10.3%	8.1%
Non-Domestic	32.2%	15.3%	28.0%	15.8%
di cui:				
- Low Voltage	29.5%	15.1%	28.5%	15.6%
- Medium Voltage	39.0%	27.5%	32.3%	28.7%
- High and Extra High Voltage	21.1%	14.5%	17.1%	11.9%
TOTALS	27.2%	9.0%	24.2%	9.6%

Source: Annual survey on regulated sectors.

As further confirmation, it is possible to monitor the composition of the total figure: the rates of *switching* by non-domestic users was distinct for voltage levels which were more balanced than in the past. Historically, when there were volumes of consumers connected to medium and mostly high or extra high voltage to adjust the *switching* rates higher, and therefore push the total value upward. Also, in 2014, there continued to be an ever greater participation of the domestic sector, whose *switching* rates increase year to year.
After the 7.4% recorded in 2013, in fact, the percentage of domestic customers who switched suppliers rose to 8.1%, corresponding to a share of energy that exceeded 10%. Among the non-domestic customers, who were also connected to low voltage (at that level of consumption they are much closer to domestic usage) have recorded higher rates of *switching* (withdrawal points and volume) than those of large consumers connected to high or extra high voltage. However, once again, among the non-domestic customers the most dynamic segment that remained were

[78] The questions asked were meant to identify this phenomenon according to the definition provided by the European Commission. It then mirrored the questionnaire that had already proposed in recent years. For further details, see the previous Annual Report.

those customers connected to the medium voltage: 28.7% of them (about 31,000 withdrawal points) changed suppliers in 2014. This share is, however, represents slight decrease compared to 2013.

Complaints and reports

The Authority must ensure the efficient handling of complaints and conciliation procedures of consumers regarding the suppliers and distributors of natural gas and electricity, through Single Buyer, and ensuring that principles of consumer protection are applied, outlined in Annex I of the Directives from the European Parliament and the Council Nos. 2009/72/EC and 2009/73/EC, in accordance with Article 44, paragraph 4, of Legislative Decree n. 93/11.

The **Energy Consumer Help Desk** is the means by which the Authority guarantees (since the end of 2009), the effective handling of complaints, including those of the *prosumer* (producer-consumer), requiring operators to provide customers, their representative associations and operators the necessary information for the resolution of problems reported. the Energy Consumer Help Desk only sends fully investigated complaints to the Authority, which will be subject to thorough evaluation by the selfsame Authority.

In the first quarter of 2014, there was a peak in new claims filed by end users and so-called "Returns" (i.e. customer responses to requests for regularization (integration of complaints irregular and/or incomplete)), especially the responses of operators to inquiries to the Help Desk. Therefore, these have become, however, appropriate interventions aimed at improving the timeliness and effectiveness of the handling of complaints, even taking into consideration some issues raised by associations representing end-users, as well as by operators. Along with the effectiveness, the economic goal was also pursued because although sending a complaint to the Help Desk up until today, did not involve any direct cost to the calling customers. However, an indirect charge for covering the costs of the Help Desk is assured/insured by the “Conti Qualità”(Eng: Quality Accounts), funded by penalties received or from operators who pay with respect to quality levels achieved, which is not identical to those services provided by the Authority, or through some of the components of distribution tariffs[79].

The Authority, therefore, submitted for consultation its own guidelines[80] for improving the effectiveness and the cost-effectiveness of activities related to the handling of complaints by the Energy Consumer Help Desk, even using incentives/deterrents to ensure the quality of the actions of various stakeholders. The consultation closed in March of 2014, with the adoption[81] of some amendments to the operating rules of the Energy Consumer Help Desk, as well as some provisions regarding complaints and requests for information about the application of overdue payments (C^{MOR})[82].

[79] Dealing, in particular, with the UC_6component for electric energy and the RS component for gas.
[80] Consultation Document No. 115/2014/E/com, dated 20 March 2014.
[81] Resolution No. 19 June 2014, 286/2014/R/com.
[82] With the aim of ensuring the outgoing sale operator compensation for the non-collection of receivables related to the invoices for the last three months preceding the consumer *switching* date the regulations of the defaulting indemnity system provides compensation equal —- at most — to the estimate of the cost of two months’ delivery of the supply, which is charged to the consumer in arrears through the application of an additional fee in the form of a distribution tariff, the C^{MOR} fee, on behalf of the operator entering the sale.

With reference, in particular, to the procedures for filing complaints and contact channels used to reach the Energy Consumer Help Desk, as of 1 January 2015, it was expected that non-domestic consumer associations, for professional delegates of the end user or the *prosumer* and consumer groups, the requirement to submit complaints via a standard form provided by the Help Desk, and using electronic methods for forwarding said forms. For all those who file a complaint using IT systems, you can check the progress of the handling of your claim, *on-line*, with the Help Desk.

With reference to the timetable, the method of operator response, the Energy Services Manager (GSE), and inquiries to the Help Desk: they have been provided for, among others:

- compulsory participation in an ad hoc portal for all operators and for the GSE;
- the possibility for the Help Desk, in some cases, to submit their requests directly to the distributor, including in the absence of a prior complaint to the distributor himself;
- the performance indicator calculation for the quality of the operators' response to inquiries from the Energy Consumer Help Desk dividing the types of responses and the resulting score with respect to the timeliness, the thoroughness, and when the problems of the customer or *prosumer* are finally resolved as indicated by the operator (in relation to comments made by the consultation and the need to study the possible effects of the introduction of additional reputational tools, publishing the comparative performance indicator, has been postponed to a later date).

With regard to the quality of the answers provided by the Energy Consumer Help Desk and its *accountability*, it has been made compulsory, at least once every six months, to publish on the Help Desk website, the level of quality expected and achieved, along with the results of *customer satisfaction* surveys. Moreover, in case of non-compliance with the level of service relative to the quality of reports sent by the Help Desk, it has to publish the penalty payable from the costs acknowledged for supporting the activities related to the handling of complaints.

At the end of 2014, further changes were made to the Energy Consumer Help Desk regulation (effective 1 July 2015)[83]. In particular, there was a modification of the definition of the *prosumer*, for the purposes of standardization with the approval process of the regulations for the handling of complaints by traders against a transmission system manager, transport, storage, LNG or a distribution system[84].

Also during 2014, the Energy Consumer Help Desk operated two special complaint procedures, in relation to that which the Authority had provided a certain response timetable: it had to do, in particular, with complaints related to unsolicited contracts[85] and the procedure for requesting information relating to the indemnity system[86]. The complaints procedure concerning unsolicited contracts has also been modified[87] to adapt it to the new provisions of the Code of consumption [88]. This procedure is aimed at the voluntary conciliation between an apparently "unwanted"

[83] With Resolution No. 11 December 2014, 605/2014/E/com.
[84] Under Resolution No. 188/2012/E/com, dated 18 May 2012.
[85] Referring to Part III of Annex A, of the Authority's Resolution No. 153/2012/R/com.
[86] Pursuant to Resolution No. 99/2012/R/eel.
[87] With Resolution No. , dated 6 June 2014, 266/2014/R/com.
[88] With the Legislative Decree No. 21, dated 21 February 2014. It was converted into Italian Law Directive 2011/83/EU regarding consumer rights, which led to the amendment of certain provisions of the Code of consumption with respect to the phase of concluding contracts between traders and consumers, even if these contracts are concluded off-site (from long-distance or away from business' premises, as of 13 June 2014, including the contracts for the supply of electricity, gas and water.

supplier and the consumers through *switching* back (restore the contract still pending with the previous vendor). It is applied on a voluntary basis and is free of charge for the customer. There is no requirement to double-check the contracts and neither is it comparable nor an alternative to judicial protection or an appeal to the Authority, the guarantor of fair competition and the market. The special procedure for the active consideration of overdue payments confirmed a growth in demand in 2014, presumably due to the increase of the overdue payment [being in arrears] phenomenon, which is still affecting the energy market in Italy.

Also in view of the amendments made by the Regulation, from the beginning of January 2015, the Help Desk is required to manage an additional special procedure for complaints regarding social bonuses, in cases of failure to validate or failure to deliver, in the presence of all requirements by law.

Finally, following the adoption of the new provisions aimed at the acquisition of ownership of a withdrawal point activated by an end-user, during 2014, the Help Desk was assigned the new task of information support for the consumer[89]. In fact, the consumer, who is not in a position to access the information needed to identify an existing trading partner, can contact the Help Desk by submitting a request, accompanied by a declaration in lieu of affidavit, related to the possession of the title deed of the real property that requires the supply (be it electricity or gas).

During the period between 1 January 2014 and 31 December 2014, phone calls — that is, the set of complaints, reports and requests for information — related to the electricity sector number about 29,840 (64% of the total), with a slight increase compared to 2013. There were very slight changes in the proportions of complaints and requests for information, which in absolute terms have doubled.

From the analysis of data in Table 3.20, it shows that the most frequent topics of the reports received in 2014, are listed in the following order: contracts, customer billing, bonuses and the market. Compared to 2013, we have seen growth of reports related to customer billing and bonuses, which, however, appears to be due to the increase of general reports to the Help Desk. There has been, however, a significant increase in reports related to contracts and a decrease of the topic "market".

The reports concerning customer billings mainly concern issues relating to the quantification of consumption, the frequency of the issuance of bills and adjustments. However, the reports relative to the "market" issue, especially the problems concerning the effective enforcement of the Commercial Code of Conduct approved by the Authority, the double billing and regularity of switching. The theme "market" includes complaints handled according to the special procedures for unsolicited contracts.

Reports relating to the electricity bonus have focused on the non-payment of the bonus itself and the problems caused by the misalignment of databases, with the decline in those relating to the validation of the demand from distributors.

With regard to reports dealing with contracts, the main issues raised concerned contract transfers, especially those in arrears, including, in particular, the issue of overdue payments (C^{MOR}) under the indemnity system, which had a significant increase in 2014, as mentioned above. Finally, with reference to the subject of connections and repair jobs, the reports received mainly concerned the takeover, the activation and the power variation

[89] With Resolution No. 398/2014/R/eel, dated 31 July 2014.

Table 3.20 The Subjects of the Reports received by Energy Consumer Help Desk

SUBJECTS	2013		2014	
	NUMBER	SHARE	NUMBER	SHARE
Customer Billing	7,163	26%	7,813	26%
Market	5,507	20%	4,619	15%
Bonuses	4,791	17%	5,425	18%
Contracts	5,710	21%	7,909	27%
Connections/Repair Jobs	1,388	5%	1,199	4%
Prices and Tariffs	438	2%	591	2%
Technical Quality	700	3%	478	2%
Metering	568	2%	516	2%
Commercial Quality	426	1%	321	1%
Prosumers	575	2%	573	2%
Non-competence	258	1%	396	1%
TOTALE	27,524	100%	29,840	100%

Source: AEEGSI's elaboration from Energy Consumer Help Desk data.

3.2.2.2 Recommendations on supply prices, investigations and measures to promote effective competition

Supply prices

During the hearing held on 22 April 2015, at the 10th Commission on Industry, Trade and Tourism, of the Italian Senate, the Authority, as part of the Survey findings on electricity and gas prices, as a strategic factor for growth of the country's productive system, made a number of remarks relating to:

- The main items that make up the final price, in relation to the respective fundamentals, with particular reference to domestic customers;
- measures in support of energy expenditures to families undergoing financial difficulties, including large families;
- international comparison between final prices and domestic customers, and those consumers of that country's productive system.

In the Report prepared for this hearing [90], the Authority first examined the main components of the final price, with respect to their fundamental [pertinence], stressing that, in spite of a favourable trend in wholesale electricity *commodities* prices, the final prices continue to suffer significantly from the impact of the general system charges.

[90] Memorandum No. 174/2015/I/com, dated 21 April 2015.

The situation of general charges continues to be a major concern, not only with regard to the high levels of these charges, which weigh on the competitiveness of the economy of our country and on the budget of Italian families. Also, however, in relation to the considerable complexity that has been created by overlapping several mechanisms originating from various sources of Italian law, in particular the favourable benefits of energy-intensive businesses and redistribution for small non-domestic consumers regarding certain charges ordered by a recent piece of legislation[91].

While recognizing that the approach adopted by the new regulations are on the right path, although often difficult to follow, reducing the burden rather than their redistribution, the Authority however stressed that in 2011, it is continuing to take action, with the necessary tools at its disposal, to limit the explosion of general system charges, which have tripled from 2009 to 2012. In this context the Authority pointed out that there are still some problems which have been reported to the Italian Parliament.

In particular, with reference to non-domestic customers, it was pointed out that the criteria for proportional distribution of lower charges, imposed by law, have allowed them only a partial redistribution, without solving the imbalance between the burden imposed on producers connected to low voltage (also with a supply contract exceeding 16.5 kW) and those connected to medium voltage with the same power usage. After the conclusion of the proceedings of the European Commission, on the verification of the compatibility of subsidies in favour of energy-intensive businesses, with the new European regulations regarding State Aid for energy and the environment, the Authority believes that this will eliminate the present today uncertainties. This could also represent an opportunity for rationalization and simplification of this legislation.

In reference to domestic customers, the Authority reportedly launched a consultation aimed at reform of overcoming the progressivity of the tariff components covering network services and general system charges[92]. For network services, the criterion to strive for is to tack to the charges; for general expenses — however, there are several possible solutions, always in view of the modernization of the tariff system. In this regard, it was noted that the document under consultation included the assessment of the most appropriate options for a broader reform of general charges, and in particular, for its completion at specific times and for a wider review of the redistribution of costs between the different categories of customers. This reform will also address the uniform issue of reducing the tax base for energy due to consumption, with a shift to fixed components (proportional to the capacity) of the revenue, so as to be less sensitive to fluctuations in demand. This would also avoid overloading other consumers with charges, so regardless of their choices they would see their bills increase due to the effects of the levies.

Investigations, inspections and enforcement of measures to promote effective competition

In reference to the work done in 2014, and the electricity sector, there continued to be some surveys, and as usual, the Authority carried out an intensive program of surveillance and control through visits to companies and inquiries.

[91] In particular, it deals with Decree Law No. 91, dated 24 June 2014, converted with amendments into Law No. 116, dated 11 August 2014 (so-called Competitiveness DL).
[92] Consultation Document No. 34/2015/R/eel

As shown in last year's Annual Report, at the end of 2013, the Authority initiated [93] an **in-depth investigation regarding the methods of customer billing practices** applied in the sales service departments of electricity and natural gas to smaller size customers, be it those served under the protection scheme or in the free market.

The activity was necessary for the many complaints received by consumers at the Energy Consumer Help Desk in terms of:

- failure to comply with customer billing frequency as provided by the rules of the Authority or by the contractual clauses;
- delayed or failure to issue the final bill following the termination of the contract for the purpose of switching supplier;
- billing of estimated consumption despite the fact the distributor has already made the actual meter readings available to the consumer;
- use of so-called "stime di coda": the billing of a share of estimated consumption for the period ranging between the date of the last meter reading incorporated in the bill, and the issue date of the same bill.

That investigation was still on-going as of the preparation date of this report. In 2014, however, as part of this investigation, many operations were carried out. Firstly, the comparison with numerous *stakeholders* (including associations of consumers and businesses), secondly, the definition phase of the questionnaires for gathering data. Then the administration of questionnaires and processing the data collected. In parallel, the performance of eight audits carried out during the period between November 2014 and March 2015, with the cooperation of the Special Operations Unit (protection markets) of the Guardia di Finanza [Tax Police], against companies that sell electricity or natural gas, regarding customer billing to smaller consumers. The results of the investigation will be announced in the second half of 2015.

In the second half of 2015, the results of the other **preliminary investigation, also related to service delivery of electricity metering**, which had been mentioned in the Annual Report 2014, initiated in October of 2013[94], will be announced. Among its objectives, the verification of compliance with some crucial items for the proper functioning of the entire electricity supply chain, such as the acquisition of remote measurement data, the accuracy and the compliance with the deadlines for sending data measurement, the proper management of measurement data.

As part of the inquiry, the Authority requested that distribution companies complete a questionnaire containing a wealth of information related to the measurement of electricity. Distribution companies with fewer than 50,000 withdrawal points have disclosed the information regarding the number and type of gas meters; the accuracy and timeliness in delivery of the measures to the target population of the regulation; the performance of the remote management system for low voltage meters.

The 13 distribution companies, with more than 50,000 supply points have passed on, in addition to the information required to small distributors, including more information on the capabilities of

[93] With Resolution No. 542/2013/E/com, dated 28 November 2013.
[94] With Resolution No. 475/2013/E/eel, dated 31 October 2013.

the remote readings; the economic regulation of the services provided; a census of all the points of interconnection with other distribution networks.

Of all distribution companies surveyed only (138) responded to the request for information. Also as part of the inquiry, that was carried out, in 2014, five distribution companies were audited by inspectors.

3.3 Security of Supply

3.3.1 Monitoring balance of supply and demand

Monitoring the balance between demand and supply of electricity does not fall within the purview of the Authority: pursuant to Article 1 of Legislative Decree n. 93/11, that falls under the jurisdiction of the Ministry for Economic Development (MSE).

3.3.2 Monitoring investment in generation capacity in relation to security of supply

In accordance with Legislative Decree n. 93/11, the following functions in the monitoring of capacity investments have been attributed to the MSE:

- operational security of the networks (Article 7, Directive n. 89/2005/EC);
- investments in interconnection capacity in the next five years or more (Article 7, Directive n. 89/2005/EC);
- demand and supply expected in the next five years and 1 to 15 years (Article 7, Directive n. 89/2005/EC).

Market capacity

Legislative Decree n. 379, dated 19 December 2003, introduced a new system of payment for production capacity of electricity (Capacity Market) — aimed at increasing the level of coordination between the investment choices regarding productive capacity and transmission capacity, the various players (Terna and the operators) — reducing the risks, and at the same time increasing the contestability of the market. The same decree established that the Authority must be the one who defines the criteria and conditions under which Terna is required to draft the outline of the regulations for the new payment system regarding the production capacity of electricity, and that the scheme be approved by a Ministry of Economic Development decree, in consultation with the Authority.

After the positive opinion expressed by the Authority[95], the Ministry of Economic Development, has approved the draft regulation of the market capacity with the Decree of 30 June 2014. Where were all complied with the calendar for the development of the systems needed to boot the new market, it would be reasonable to expect that the first auction would be called by Terna by the end of 2015.

Finally, in March of 2015, the Authority made a proposal[96] to the Ministry of Economic Development, in anticipation of the implementation of the full phase the Capacity Market, with the goal of accelerating the pro-competitive effects and to guarantee the security of the system, by defining a phase of initial implementation, with the first delivery period beginning on 1 January 2017, and with implementation of the first auction proposed by Terna for 30 September 2015.

[95] Measure No. 319/2014/I/eel, dated 30 June 2014.
[96] With Resolution No. 95/2015/I/eel, dated 10 March 2015.

Integration of the regulation for payment schemes of production capacity to meet the flexible needs of the electricity system

During December of 2013, the Italian Parliament approved the Law n. 147, on 27 December 2013, (legge di stabilità —Eng: Stability Law), that Article 1, Paragraph 153, provides that "*the Minister of Economic Development defines within 90 days from the date of entry into force of this Act, proposed by the Authority for Electricity and Gas and heard by the Minister of the Environment Land and Sea conditions and methods for the definition of a system of compensation for production capacity that can provide the appropriate flexibility services, strictly to the extent necessary, to ensure the security of the electricity system and coverage of requirements related thereto by network operators, and without rising prices and electricity tariffs for end users, under the regulations of the electricity market, taking into account the development of the selfsame and in coordination with the measures envisioned by the Legislative Decree n. 379, dated 19 December 2003*."

At the beginning of 2014, the Authority therefore initiated[97] proceedings aimed at formulating a proposal providing for:

a) the formation of a segment of the capacity market dedicated to the trading of capacity adequate enough to provide the necessary flexibility of services in order to cover the long-term needs of estimated by Terna, for the integration scheme of the new market capacity already provided to the Ministry of Economic Development by Terna;

b) the reshaping of the transitional mechanism, in Article 5 of Legislative Decree n. 379/03, in order to make it consistent with the mechanism objectives of the scheme, namely the provision or the "appropriate flexibility services, to absolutely ensure, to the extent necessary, the security of the electricity system".

In May of 2014, the Authority submitted a consultation[98] of its own guidelines on the issues described above. Then, in June, he made a proposal[99] to the Ministry of Economic Development for the integration of the transitional mechanism, deferring to subsequent rulings the integration of the mechanism scheme.

With reference to item A, during the consultation with the Authority, he proposed the establishment of one or more segments of the capacity market dedicated to the negotiation of appropriate flexibility services necessary to cover the long-term needs estimated by Terna. The rules provided for new segments of the capacity market will be designed based on the same criteria currently in force[100]. The only significant exception will cover the characteristics of the products contracted by Terna through these new segments and corresponding requirements of contract underwriters. In particular, these products must absolutely reflect the requirements imposed by Terna for the spot tradable services of the MSD. The operators, in their observations regarding the consultation document, have expressed the desire to respect the following logical sequence: firstly, reforming the MSD, clearly specifying the flexibility characteristics of spot tradable services; secondly, consistently integrating the mechanism of the payment system for trading at the end of negotiations for the same services. In agreement with the operator's well

[97] With Resolution No. 6/2014/R/eel, dated 16 January 2014.
[98] With Consultation Document No. 234/2014/R/eel, dated 22 May 2014.
[99] With Resolution No. 320/2014/R/eel, dated 30 June 2014.
[100] Established by Resolution No. ARG/elt 98/11, dated 21 July 2011.

thought out conclusions, the Authority considered it to be a wise decision to proceed with the priority reforms of the MSD[101] and only after the possible integration of the criteria and conditions established in 2011.

With reference to paragraph B, the Authority has submitted[102] a proposal to the Ministry of Economic Development aimed at reshaping the transitional mechanism. This proposal provides for the supply, by Terna, of the adequate production capacity to ensure the appropriate flexibility over a three-year period. The general criteria of the mechanism proposed by the Authority shall take into account, on the one hand, the flexibility analysis conducted by Terna and, on the other hand, the need for the transitional mechanism to be connected as soon as possible to the mechanism scheme (capacity market), so as to perform in the role of a "bridge" to the latter.

3.3.3 Measures to cover peak demand or shortfalls of suppliers

The measures to cover peak demand and shortages of one or more suppliers do not fall within the purview of the Authority: under Article 1 of Legislative Decree n. 93/11. Only the Ministry for Economic Development has that jurisdiction.

[101] Outlined in Consultation Document No. 557/2013/R/eel, dated 5 December 2013.
[102] Always with Resolution No. 320/2014/R/eel.

4 THE GAS MARKET

4.1 Network regulation

4.1.1 Unbundling

Unbundling

The unbundling regulations (functional and accounting) is common to the field of electricity and natural gas. Therefore, for this part, please see paragraph 3.1.1 for the electricity sector.

Certification of the Transmission System Operator

For this part, please see paragraph 3.1.1 regarding the electricity sector.

4.1.2 Technical functioning

Balancing the economic value of natural gas

In 2014, the balancing regulation din't undergo significant changes regarding the structure outlined in 2013, with the introduction of the locational market session. The measures approved concerned the detailed aspects of the market framework (or its implementation) already covered by previous resolutions. In particular, these measures included improvements and enhancements aimed at transparency and the efficiency of the balancing system for gas, also in line with the development in progress at European level:

- changes were approved to the network codes, the code storage, conditions for access to the Virtual Trading Point (PSV) and the agreement between Snam Rete Gas and the Manager of the energy markets (GME)[103];
- the terms of use of the imbalance price were clarified[104] in case the different resources provided as part of the locational market session are compensated at different prices. It was pointed out, moreover, as Snam Rete Gas is required to consider the quantity of gas being reintegrated for the *line-pack* and storage in order to define the quantities to be purchased in the *locational* market session. Finally, noting the lack of liquidity that has characterized the *locational* market until then and also recognizing that the difficulties the users experience with the flexible gas supply for the balance are all due to structural causes of the market, therefore, it has extended the transitional scheme[105]. Limits are also foreseen regarding the offer price at the *locational* market session l by the Snam Rete Gas balance manager;

[103] With Resolutions No. 12/2014/R/gas, dated 23 January 2014; No. 27/2014/R/gas, dated 31 January 2014; No. 57/2014/R/gas, dated 13 February 2014; No. 97/2014/R/gas, dated 6 March 2014 and No. 159/2014/R/gas, dated 3 April 2014.
[104] With Resolution No. 27/2014/R/gas, dated 31 January 2014.
[105] Introduced by Resolution No. 552/2013/R/gas, dated 28 November 2013.

- certain functional changes were introduced[106] to improve the transparency of information regarding the intervention of Snam Rete Gas in the *locational* market, by requiring Snam to post it on its own website along with the criteria adopted to determine the resources of *line-packs* and storage capacity, which can be made available in the *locational* market sessions, and the value determined as a result of these criteria;
- there have been some modifications[107] in the method of supply in the *locational* market resources, subject to the reinstatement of *line-pack* and the storage available of the carrier. According to the new method, users can make one offer (instead of two), and regardless of the destination of reintegration (*line-pack* or storage), it becomes a single *merit-order* of tenders (rather than two distinct ones).

In 2014, the necessary activities were initiated for the implementation of Regulation n. (EU) 312/2014, dated 26 March 2014, which introduced some substantial changes to the model implemented until now. Coordination activities were carried out with system operators (Snam Rete Gas, Stogit and GME) and a first public consultation with *stakeholders* regarding the options left to the Member States by this regulation. In particular, the essential elements of the design of the market have been drafted[108] , in particular, those to be implemented from the first start-up of the new mechanism. Concerning a proposal from Snam, the Authority identified 1 October 2015 as the start date for the new balancing scheme.

The main innovations which will be introduced during the implementation of this regulation cover:

- the identification of balance resources: the regulation identifies specific standardized short-term products that the balancing manager buys or sells on a platform (in Italy this practice is managed by GME), based on the offers of operators, without making additional reference to the physical origin of the gas covered products (storage or otherwise);
- the configuration of the different roles assigned to Snam Rete Gas, responsible for the balancing supply of the same resources (and thus the adoption of the relevant balance shares). Snam is not limited to taking action regarding the supply of resources quantitatively determined on the basis of detailed provisions from the Authority (for example, the overall imbalance of the system[109]), but it is assigned a role of active responsibility in providing price signals in the market, including the use of intraday markets, in order to guide and encourage operators to balance between their respective positions;
- the role played by the Authority regarding balancing actions, what the manager is required to do. The Authority carries out the task of the verification and the monitoring of the balance manager, in order to promote efficient pipelines, including by the introduction of specific mechanisms, such as rewards/penalties.

Given the difficulties in obtaining liquid resources of natural gas in the short-term for the balance, and taking into account that this need will persist in the future scheme, the amendment to the

[106] With Resolution No. 422/2014/R/gas, dated 7 August 2014.
[107] With Resolution No. 485/2014/R/gas, dated 9 October 2014.
[108] Consultation Document No. 373/2014/R/gas, dated 27 July 2014.
[109] As determined by paragraph 1.1 of Resolution No. ARG/gas 45/11, dated 14 April 2011.

Code of the GNL Adriatico Company was approved[110], in order to increase flexible gas resources. This change increases the flexibility of the terminal (a variation of the *send-out* on short notice) and also establishes the fees applicable to access and initiation of this service. The approval of this Code commences a trial period, which runs until the end of 2015. The information and the results gathered will be essential for the evaluation of the appropriateness and effectiveness of additional amendments, which could form the basis for providing this service in the next period.

Quality of gas transport service

The adjustment of the quality of the transport service of natural gas for the regulatory period 2014 to 2017 (RQTG 2014 to 2017) was approved in December of 2013[111].

In April of 2014, the Authority intervened[112] In April of 2014, the Authority intervened to clarify some applicative aspects and correct a number of factual errors.

In June of this year, the Authority executed[113] an administrative court order[114] dealing with the legal appeal brought by Snam Rete Gas against the RQTG 2014-2017, in reference to the topic of the odorization of the gas delivered to end users connected directly to the transport network. With this measure, the Authority confirmed the application methods for identifying end-use of gas subject to the requirement of odorization by the transport companies, namely the uses of technology not covered by the *Integrated Text settlement gas*[115].

Also in reference to RQTG 2014-2017, the regulation of automatic compensation was integrated [116] in reference to the standards of continuity of the transport service (maximum number of interruptions and maximum number of days of interruption/reduction of transmission capacity), identified recipients will automatically receive compensation. Specifically, the transport undertaking is obliged to provide automatic compensation to end users connected directly to the network of transport involved with service users, while for automatic compensation at the *city gate* was expected, pending a later decision by the Authority, regarding the temporary set-aside of the amounts on behalf of the transport company.

Quality of gas storage service

Tariff reform and the rules regarding the quality of service of natural gas storage for the fourth regulatory period, started in February of 2014[117]. In the month of July, the Authority presented[118] its guidelines aimed at:

- improve some security aspects of the storage infrastructure (and the *flow line* in particular) in analogy with the provisions concerning the security of the natural gas transportation service;

[110] With Resolution No. 448/2014/R/gas, dated 18 September 2014.
[111] Resolution No. 602/2013/R/gas, dated 19 December 2013.
[112] With Resolution No. , dated 17 April 2014, 177/2014/R/gas.
[113] With Resolution No. , dated 12 June 2014, 282/2014/R/gas.
[114] Ordinance No. 301/2014 of the Lombardy Region TAR.
[115] Annex A of Resolution , dated 31 May 2012, 229/2012/R/gas.
[116] With Resolution No. , dated 18 December 2014, 636/2014/R/gas.
[117] With Resolution No. 79/2014/R/gas, dated 27 February 2014.
[118] Consultation Document No. 336/2014/R/gas, dated 10 July 2014.

- focus, with regard to service continuity, the adjustment of the continuity effectively supplied to service users;
- simplify the regulation of commercial quality;
- simplify, for all regulated three areas, reporting requirements to the Authority.

At the end of the year, the Authority approved[119] *the new regulation for the quality of service of natural gas storage for the regulatory period 2015 to 2018* (RQSG 2015-2018). The major innovative items introduced by the RQSG concern:

- any reference to the security of the storage service:
  - the requirement for the storage company, by 31 December 2016, and with reference to the steel nets (be it the 100% efficient implementation of the cathodic protection of the *flow line*, be it the 100% connection and remote monitoring of the impressed current cathodic protection systems (ICCP);
  - the requirement for the storage company, since 2015, to perform the inspection of each section of *flow line* connection, made from steel, with no cathodic protection using a *smart pig* [120], wherever technically possible, every three years;
  - the requirement for the storage company to equip itself with instruments to ensure the voice recording of telephone calls received and report any service emergency to the Italian Gas Committee (CIG), which in turn will promptly inform the Authority;
- any reference to the continuity of the storage service:
  - the introduction of a specific standard for the maximum number of days of capacity reduction/interruption as a result of unplanned repair work, whose entry into force is 1 January 2016. The value of the specific standard, on an annual basis, is placed at a two-day equivalent of the entire capacity interruptions/reductions allocated as a result of unplanned repair work by the storage company responsible for the impact on the allocated capacity;
  - eliminating service requirements related to the peaking capacity for the supply of the modulation service, in order to avoid overlapping with the supervening regulatory environment;
- any reference to the commercial quality of the storage service:
  - eliminating service requirements related to the handling time of submitted requests for access to the service during the calendar year; at the time of the users' report of monthly allocations; at the time of the users' report for the review of the capacity allocated as a result of transfers;
  - the transformation into a specific requirement standard regarding the timeliness, relative to the reporting time to the users accepting requests for the transfer of capacity, and its amendment in minimal reporting time to the users accepting applications for the sale of capacity;

[119] With Resolution No. 596/2014/R/gas, dated 4 December 2014.
[120] Device used to check the integrity of pipelines or the presence of any physical defects, such as cracks and thickness reductions as the "smart pig" passes through the selected pipeline.

- the transformation into a specific standard of the general standard concerning the time of reasoned response to written complaints or written requests for information;
- the introduction of a specific standard relating to the recovery time of a computer software application as a result of a malfunction;
- the automatic raising the €2,500.00 base indemnity value that the storage company is required to pay the user in the event of failure to comply with specific standards.

Regarding the obligations contained in the Authority's report, with the exception of the emergency service, the report data related to security, continuity and commercial quality, can be provided only by special request to the Authority itself.

By 31 May 2015, the Storage Codes must be updated in accordance with the provisions of new RQSG.

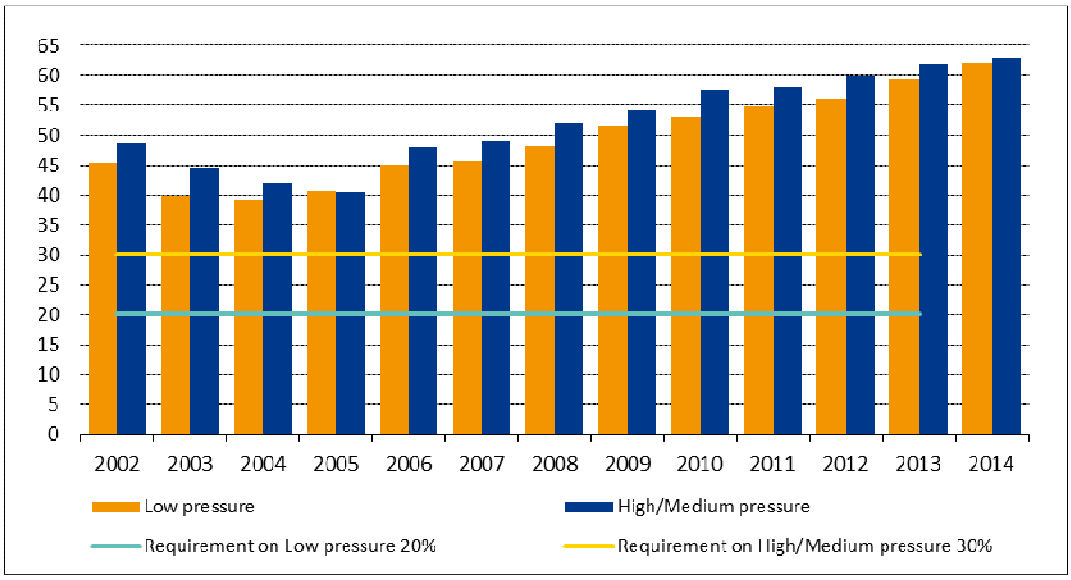
Quality of gas distribution and metering services

At the end of 2013, the Regulation for *the quality of distribution services and gas metering* was approved[121] *for the regulatory period 2014-2019 — Part I of the Consolidated act on the regulation of the quality and tariffs of distribution services and gas metering for regulatory period 2014-2019* (RQDG). In connection with the previous regulatory period, this resolution regulates some activities relevant to the safety of the gas distribution service. Among these are the emergency response, the distribution network inspection, the task of locating leaks as a result of inspection or by recommendation paper from third parties, and odorized gas. The new regulation confirms and reinforces the previous goal: to minimize the risk of accidents caused by gas distribution; therefore, its goal is the protection of people and property from damage due to explosions, blasts and fires caused by the distributed natural gas. Among the new features is the revision of the frequency of inspections of networks that distribute natural gas, went from the four to three-year period for the high and medium pressure networks, as was confirmed the four-year period for the low pressure network. The four-year period is also confirmed for the frequency of facilities inspection for of the distribution of gas other than natural gas.

Figure 4.1 shows the amount of the network inspected since 2002, compared with the minimum annual requirement. The new regulation, which began in 2014, provides for compulsory inspections of 100% of the network within the three-year period (high/medium pressure) in the four-year period (low pressure) mobile. For 2014, the increasing trend recorded for several years now has been confirmed. The inspection of the network, generally, with the aim of intercepting the phenomenon of leaks in said network, in fact, increased the personal security of citizens and consumers of natural gas.

[121] With Resolution No. 574/2013/R/gas, dated 12 December 2013.

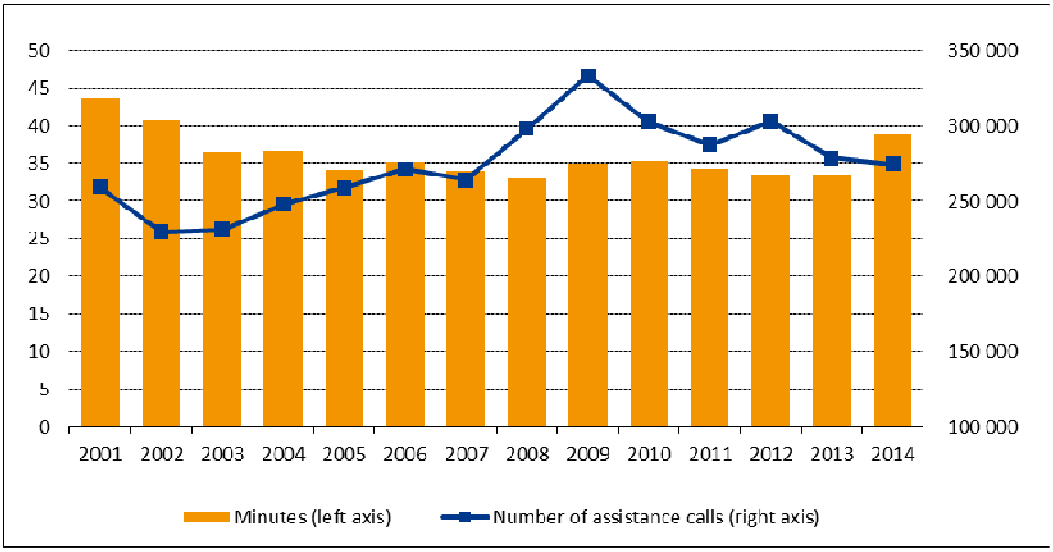
Figure 4.1 Percentage of Network Inspected since 2002



Source: Distributors declarations to AEEGSI.

Figure 4.2 Emergency Services for the Distribution during the years from 2001 to 2014

Number of calls and time of arrival to the call location (in minutes)



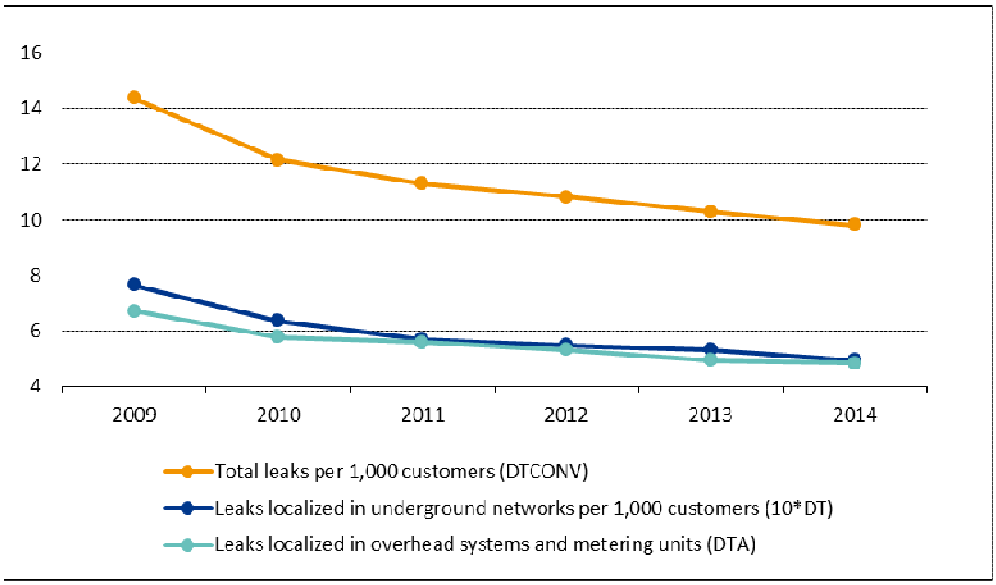
Source: Distributors declarations to AEEGSI.

Referring to the theme of the obligations relating to emergency response, the Authority confirmed the same obligation (annual minimum percentage of 90% of all calls with arrival time at the call location for emergency services within a maximum of 60 minutes) and has updated the provisions on emergency service explaining the necessary resources to deal with the timeliness required emergency such as, for example, the methods of traceability of the personnel involved in emergency services (providing a multi-week schedule in which they are registered and made available to the staff members of the emergency structure who work on-call shifts and information relating to shift work and the telephone numbers of available staff)) or the need to also enable the ability to receive emergency calls from a mobile phone network. The graph in Figure 4.2 shows, that in 2014, the arrival time at a call location came to a national average of less than 39 minutes, significantly less than the maximum time provided by RQDG (60 minutes). In

relation to calls for emergency intervention, compared to 2013, there was a further decline. The requirement for voice recording of calls, introduced by RQDG, starting from 1 July 2009, accompanied by the usual monitoring campaign regarding emergency service gas companies implemented with the help of the Tax Police (Guardia di Finanza), encourages companies to register data in a precise manner. It should also be added that the employees of the companies obliged to participate in the recovery of increased security and respect for the emergency regulations is a prerequisite for the recognition of premiums and penalties related to incentive adjustments is the reduction of losses reported by third parties, both the increase in the number of measures of the degree of gas odorization. Despite the signs of improvement, the Authority's attention on the subject of emergency response remains high. In fact, the gas emergency service is an essential service for the safety of citizens and end users of gas. Only through this service, if done promptly and in accordance with the provisions established in this matter by the Authority in RQDG, gas accidents can be prevented. Accidents that could have very serious repercussions to both human life and property.

Figure 4.3 Number of Gas Leaks Located upon Notification by Third Parties for every 1,000 Customers

Provincial Areas subject to Incentive Regulation— Period from 2009 to 2014



Source: Distributors declarations to AEEGSI.

Figure 4.3 shows the number of leaks located following notifications from third parties for every 1,000 customers for distribution facilities subject to the penalty/awards regulation. There was a significant downward trend, nearly constant for leaks located in the underground network (10*DT), and for those of the above-ground power line contact system (DTA). In 2014, both parameters, 10*DT and DTA totalled just under five thousand dispersions for consumers, recording, however, a further decrease compared to 2013.

The quality adjustment provides for a mechanism of rewards and penalties of distribution security for natural gas (safety improvements) which provide two independent components: the first promotes the reduction of gas leaks located upon notification by third parties, with reference to a improvement path fixed *ex ante* (annual improvement targets), while the second recognizes a greater number of checks on the degree of gas odorization, compared to the annual minimum mandatory defined by the adjustment. The mechanism, with reference to component dispersion, *ex post* rewards the virtuous behaviour of distributors who provide a service with security levels

greater than the annual improvement targets set forth by the Authority with the appropriate provisions.

In implementation of this regulation, for the total year of 2012, awards up to €35.9 million were granted and penalties up to €7.5 million were imposed, half of which were deferred to 2013. During 2014[122] the Authority ordered to about 20 distribution companies to comply with requirements to report quality data for natural gas distribution. These data are instrumental in the determination of annual targets for improvement (starting levels and trend levels) relative to component dispersions for each natural gas distribution system, and subsequently, for the definition of awards/penalties related to secure data recoveries for the period of 2014 to 2019.

Regulation of the quality of gas distribution and metering services

Every four years, the Authority shall review the overall regulations of the quality of services. In December of 2013, the regulation of the quality of distribution services and gas metering for the regulatory period from 2014 to 2019 (RQDG) was approved[123].

In 2014, it was necessary to modify[124] a portion of the RQDG 2014-2019 concerning the estimation of the activation time of the on-demand supply for the end user, therefore, consistent with the provisions of the RQDG 2014-2019 and with the safety assessment regulations for natural gas plant customers[125]. In fact, for the benefit of the consumer, that the activation time of delivery is counted from the moment of receipt by the distribution company, all the documentation prepared by the consumer, and no longer by the time the documents are cleared during the investigative process of the distribution company.

Additionally, at the end of 2014, the Authority initiated[126] a course of action for the comprehensive review of the procedures for determining and updating the rate of return on invested capital (WACC) for regulated services of the electricity and gas sectors. This revision was intended to guarantee uniformity of criteria for determining the rates of return on invested capital and to prevent differences in tax payments on individual regulated services, depending on the specific conditions of the financial markets in the period used as a reference for setting the rate of return on risk-free assets.

The Authority has estimated that this review will lead to the unification of all the parameters used for determining the WACC for the regulated services of the electricity and gas sectors, with the exception of those specific to individual services, including, primarily, the β parameter, which expresses the level of specific risk to the individual service and the weight of equity and debt capital employed to the weight ratio (D/E).

[122] With Resolution nos. 386/2014/E/gas, dated 31 July 2014 and 443/2014/E/gas, dated 11 September 2014.
[123] Resolution No. , dated 12 December 2013, 574/2013/R/gas.
[124] Introduced as Resolution No. 261/2014/R/gas, dated 6 June 2014.
[125] Regulated by Resolution No. 40/2014/R/gas, dated 6 February 2014.
[126] With Resolution No. 597/2014/R/com, dated 4 December 2014.

Regulation of the commercial quality of distribution services

With reference to the maximum time for the completion of tasks by the distribution companies, during the period of 2014 to 2019, the RQDG reported the news, as early as 2014, that other provisions, such as the introduction the specific level of the maximum recovery value according to the supply pressure, that distribution companies must comply with as of 1 January 2015. Among the new features are the elimination of the diversification of standards against the class measurement group (performing simple jobs, enabling and disabling the supply), introducing the practice of lowering the maximum time estimated for the completion of complex jobs, the transition from general to specific standards concerning the replacement time of the faulty metering device, the introduction of a specific level on the time of measuring devices verification at the request of the consumer and the updating of the amounts relating to the automatic compensation scheme. In some cases, the measures introduced have generated an expected increase in non-standard service, but also an increase in the total amount of payments made.

Apart from the changes mentioned above, the new regulation for commercial quality has confirmed the same regulations of the previous regulatory period. In particular, the regulation provides for a combination of business performance, a maximum time within which to provide the benefit, and for specific levels, automatic compensation that the company provides to the consumer in the event of non-compliance with the time established by the Authority. Compensation is payable for related causes regarding distribution and for each service provided beyond the maximum time limit. Unlike in the past, the specific levels of commercial quality are identical for all types of users (differentiated by size of metering). Conversely, the automatic compensation paid in the event of failure to comply with the time limit, are differentiated by type of user. The application of the mechanism of automatic compensation also provides for the increase in the basic amount, based on the reason for the time delay in the performance of said service, except for the punctuality band, for which there is no *escalation*.

The year 2014 reported an increase in cases of non-compliance, as well as an increase in paid compensations. In the face of 21,358 cases of non-compliance with specific standards, 21,144 consumers received automatic indemnity payments, for a total amount of over €1 million.

The percentage of non-compliance, in most cases of services subject to automatic compensation, has increased. With the exception of recent changes (verification of measuring devices and replacement of metering units) and those relating to postponed appointments, the verification of the pressure supply and the decommissioning of said supply, the others have reported an increase in non-standard service. A significant rise in the percentage of non-standard registers for the provision of reactivating the supply for potential danger to public safety, and conversely, there was a decrease for checking the supply pressure. The performance verification of the measurement group and replacement of faulty metering devices is subject to specific standards as of 2014. The service that has the highest number of cases is the punctuality band for appointments. The incidence of non-standard service with respect to the service total, equal to 0.59%, is slightly higher compared to 2013 (0.56%).

Connection times for transport and distribution networks

The connection data are different depending on whether it deals with connections to pipelines or transport connections to distribution pipelines. Inside each type of plant, data relating to the number and the average time it took to be connected was shown, being understood as a period

for the implementation as provided by the connection contract concluded with the network operator. In detail, the average waiting time for connections with the transport network were typical time estimated by Snam Rete Gas in response to the connection request for each type of plant.

In 2014, they were 65 connections made to the national transmission grid, of which 46 were high pressure and 19 were medium pressure (Table 4.1). On average, they required a waiting time of 48.1 days (59 days for the high pressure pipelines and 36 days to the medium pressure ones). Compared to 2013, the number of high pressure connections required on the network decreased, while requests for medium pressure connection to the transport networks increased. The average time of construction of the connections, however, decreased in both cases.

Table 4.1 Connections to Transport Networks and the Average Connection Time

Number and average time in work days

PRESSURE	2013		2014	
	NUMBER	AVERAGE TIME (A)	NUMBER	AVERAGE TIME (A)
High Pressure	54	69.0	46	59.0
Medium Pressure	17	38.0	19	36.0
TOTALS	71	50.4	65	48.1

(A) Excludes the time spent to obtain eventual authorizations.

Source: Annual survey on regulated sectors.

Table 4.2 Connections to Distribution Networks and Average Connection Time

Number and average time in working days

PRESSURE	2013		2014	
	NUMBER	AVERAGE TIME (A)	NUMBER	AVERAGE TIME (A)
Low Pressure	4	8.5	5	2
High Pressure	3,852	15.7	4,204	18.8
Medium Pressure	172,088	7.4	169,505	6.8
TOTALS	175,944	10.5	173,714	9.2

(A) Excludes the time spent to obtain eventual authorizations and those necessary for any eventual charges to the consumer.

Source: Annual survey on regulated sectors.

The number of connections to the distribution network, in 2014, came to 173,714 (Table 4.2). Similar to requests for connection to the transport network, these have decreased compared to approximately 176,000 requests in 2013. Equally for transportation, there was, however, a further reduction in waiting times: an average of 9.2 days versus 10.5 in 2013. The average decrease, however, was the result of a varied situation: in fact, the average time for connections to high and low pressure distribution networks using decreased, while those for medium pressure saw an increase.

Approval and updating of Network Codes

The access regulation access and the transport service delivery, storage and regasification of natural gas, contained in Legislative Decree n. 164, dated 23 May 2000, provides that the companies that supply these services define their own codes of compliance within the criteria

established by the Authority, which will approve them upon verification of their consistency with the selfsame criteria.

During 2014, some of the Codes for transport services, storage and regasification, previously approved were updated, in order to implement the new legislation, the provisions of the Authority or functional management methods for the improvement of services[127].

In particular:

- there has been a change to the Adriatic LNG Terminal's regasification code in order to implement the provisions of the regasification tariffs for the regulatory period of 2014 to 2017;
- it was determined that the storage companies and the major transport company should put forth a proposal for integration, adapting their own codes, in order to allow the establishment of legitimate rights regarding the gas stored by third-party guarantee, according to the case lien. This primary object is to facilitate access to storage, reduce costs for the immobilization of gas, and improve the cost-effectiveness of the collateral framework, which can also benefit from the liquidity of the wholesale market;
- the Network Code of Snam Rete Gas were updated, adapting it to the regulation pertaining to cross-border capacity allocation and congestion management (please see next paragraph).

Access to transport service

Last year, the Authority reformed[128] the requirements for access to the transport service and the criteria for granting transport capacity at points interconnected to foreign countries, in order to implement the provisions of the earlier *Network code on capacity allocation mechanisms in gas transmission systems*, referred to in Regulation (EU) 984/2013 (Regulation CAM).

As seen above, the Authority subsequently approved updates of the Code for Snam Rete Gas, which is necessary to start the common European platform for cross-border allocation (a.k.a. "Prism"), established by the major European transport companies, and the auction for the allocation of capacity under the new rules.

The intervention of the Authority , therefore, allowed the forwarding, by more than a year, of the date of entry into force, for the implementation of the provisions of Regulation CAM, promoting the transfer of joint cross-border capacity, fostering greater liquidity and flexibility of markets and stimulating the convergence of gas prices to the European level. In fact, the CAM Regulation defines non-discriminatory and transparent rules for capacity booking that all EU member states are bound to respect. Among other things, the rules are defined for the standardization of procedures of transfer between interconnected systems, making it mandatory to hold an auction for products, granting the ability to pass directly from one system to another, without necessarily acquiring the output capacity from a system and the injection capability of the bordering system (so-called "*bundled*").

Then, the Authority approved the mechanisms proposed by Snam Rete Gas for the implementation of the provisions[129] on the management of contractual congestion (*Congestion*

[127] With Resolution nos. 209/2014/R/gas, dated 8 May 2014; 423/2014/R/gas, dated 7 August 2014; 419/2014/R/gas, dated 7 August 2014; 552/2014/R/gas, dated 7 November 2014, and 36/2015/R/gas, dated 5 February 2015.
[128] With Resolution No. 137/2014/R/gas, dated 27 March 2014.
[129] As per the Resolution No. 411/2013/R/gas, dated 26 September 2013.

management procedures, CMP regulation). The CMP Regulation defines the European rules for the management of CD "Contractual Congestion", defined as a situation in which the transmission capacity is poor because it is fully placed — often over several years — even in the face of physical available capacity (technical). The CMP Regulation provides that operators of transport systems provide users any capacity resulting from the application of specific procedures for congestion management, to be implemented as of 1 October 2013.

Access to storage service

Thermal year 2014 to 2015 represented Italy's first experience of almost total storage capacity according to market criteria. This coincided with a market situation, in both Italy and throughout Europe, characterized — at the time of the first auction in March of 2014 — from seasonal differentials among the lowest in recent years. At least in the first part of the summer of 2014, the purchase of storage capacity offers was an opportunity for players, instead of a necessity. This was due to the availability of winter gas prices that were slightly higher than the summer prices.

In this situation, the organization methodology, according to a fixed[130] timetable of monthly auctions for the allocation of storage capacity, from March to September, has sought to pursue three objectives:

- maximizing the filling of storage for security of supply in winter and cost-effectiveness of the selfsame; for this reason, a reserve price for zero capacity (offered as a product with a monthly injection) has been provided, which if granted, would no longer be available for replenishment;
- minimizing the burden on the system corresponding to the reintegration of revenues from storage companies until revenues are assured by the tariff regulation;
- identification of a uniform value of storage to be considered in defining the economic supply conditions for customers in the protection scheme. In fact, the first auction in March of 2014, trading at marginal price, also included a reserve for those suppliers of small customers.

The Authority has determined[131] the method of calculating the reserves for each storage company, taking into account:

- the difference, pending on the basis of the *forward* prices at the TTF *hub* during the days prior to each procedure, including the price attributed to the PSV gas for delivery during the winter time and the price of gas delivery during the previous summer;
- costs associated with the allocation and use of the storage capacity, such as the costs related to the transport capacity at the entry and exit points interconnected with storage and consumption of injection and supply;
- financial charges arising from the immobilization of gas in storage.

On the basis of subsequent auctions to 16 May 2014[132], the products listed on the TTF *hub* have

[130] On the basis of Resolution No. 85/2014/R/gas, dated 27 February 2014.
[131] With Resolution nos. 108/2014/R/gas and 109/2014/R/gas, on the same date of 13 March 2014.
[132] Or by Resolution No. 220/2014/R/gas, dated 16 May 2014.

been integrated with similar products listed at PSV, so as to take account any unexpected expansion in April of 2014 — the difference between the summer prices of the two *hubs*.

The sequential auction system, with allocations distributed throughout the year (and not with a *one shot* auction), made it possible to enhance the storage capacity to reflect market trends (summer rates) and its expectations (winter forward prices). This system has also enabled operators to program the wholesale supply and related flexibility instruments in a progressive manner, according to their own needs. The first auction, held in March of 2014, for the transition of the necessary services to fit the tone of typical customers civil and/or protected, has allocated more than 60% of its capacity for the rush service. All the available capacity, at the beginning of this year, from the thermal storage operators is allocated through a single auction held by Edison Storage and 16 Stogit auctions. Of the latter, four auctions were characterized by the transfer of insignificant amounts with respect to the offer, also because of the stock price levels. Nevertheless, the auction process was concluded, more than two months ahead of the scheduled deadline, set for September of 2014.

Subsequently, they defined[133] the mode of operation for the mechanism of sterilization (with credit balances or debt) of financial impacts on storage companies resulting from tender procedures for the allocation of storage capacity for gas year 2014 to 2015. In particular, it is expected that the Compensation Fund for the electricity sector will balance the monthly difference in favour of the storage companies, including the revenues that would be received by those companies applying the previously applicable tariff payments of the Authority, and what was actually invoiced based on the results of auctions. The mechanism, covering the period 1 April 2014 to 30 March 2015, was substantially similar to that triggered last year[134].

Earlier this year, the Authority defined[135] the criteria for the allocation of storage capacity for the thermal year 2015 to 2016 downstream of a consultation process in which, in advance of the provisions defined by the Decree of 6 February 2015, the Minister of Economic Development, the Authority presented[136] its own guidelines for storage capacity allocation through market procedures, confirming both the general structure of the storage services, defined as early as 2013[137] (rush service and uniform service) as well as the organizational method of the procedures introduced in February of 2014[138] (sequential monthly auctions).

Also for thermal year 2015 to 2016, the intervention will be part of a market environment that presents differential seasonal gas prices, placing levels lower than the associated charges regarding the purchase of storage capacity and its utilization. Additionally, the consumption levels were significantly reduced compared to historic highs, with the consequent reduction of quotas that must be covered by the storage service.

In particular, also for 2015, during each allocation procedure, participants are asked to submit their bids for the storage capacity, for uniform and peak services, divided into two different products:

- one that provides for the availability of the injection capacity of the month following the month of transfer until the end of the injection phase (produced by seasonal injections);

[133] With Resolution No. 295/2014/R/gas, dated 19 June 2014.
[134] With Resolution No. 121/2013/R/gas, dated 28 March 2013.
[135] With Resolution No. 49/2015/R/gas, dated 12 February 2015.
[136] With Consultation Document No. 661/2014/R/gas, dated 23 December 2014.
[137] With Resolution No. 75/2013/R/gas, dated 21 February 2013.
[138] By Resolution No. 85/2014/R/gas.

- and another that considers the availability of injection capacity in the month following the allocation (produced by monthly injection).

Finally, in February of 2015 percentages were defined[139] for the natural gas applied to users in order to cover technical storage consumption for the period of 1 April 2015 to 31 March 2016. The terms of allocation[140] of technical consumption, take account of the fact that user storage services help create the related costs, where its position is aligned to that of the system flow (flow), while assisting in their reduction where this is the opposite to the system flow (counterflow). Shortly thereafter, the Authority defined[141] the criteria for calculating auction reserves for the allocation of storage capacity. These reserve prices were not disclosed to the system, and then published, in accordance with Decree of 6 February 2015, of the Minister of Economic Development.

Access and supply of the regasification service

At the end of 2014, the Authority initiated[142] the reform of the rules of the flexible use of the regasification capacity of the LNG and congestion resolution for access to the terminals.

The criteria used to provide users with access to the LNG regasification and ensure the impartiality and neutrality of the infrastructure management, were defined[143] in 2005, in a context characterized by a shortage of the gas system of available regasification capacity and lack of suitable tools to effectively deal with potential cases of hoarding of the selfsame capacity. However, this current context is characterized by the abundance of the availability of non-allocated regasification capacity at all Italian terminals, compared to a decline in demand for gas Europe-wide. Even the regulatory framework of the gas system has significantly expanded respective of the legislative framework in which the provisions were originally defined in 2005. In particular, the implementation of European directives in the field of cross-border capacity allocation and congestion management, and introducing a system for market balancing, making it easier and more flexible to access the cross-border interconnection infrastructure, resulting in the emergence of solid reference markets for identifying the value of various system resources.

Regasification terminals are continually required to willingly provide users with flexible access, both by offering services such as *spot*, either by providing ways to use adequate capacity under contract to adjusting for a dynamic environment. Consequently, the need has arisen from the users, to take advantage of the rules for using a more flexible allocated capacity — consistent with the management of short-term supply and transport logistics consolidating in the LNG market place — and therefore, does not require anticipated programming decisions compared to the current market environment, in which operators typically establish destination loads, at most, one or two months prior to the delivery date.

In line with the guidelines contained in the *Quadro strategico per il quadriennio 2015-2018 (Eng: Strategic Framework for the four-year period of 2015 to 2018*), the Authority proposed during the

[139] With Resolution No. 64/2015/R/gas, dated 19 February 2015.
[140] Introduced by Resolution No. 152/2012/R/gas, dated 19 April 2012.
[141] With Resolution nos. 80/2015/R/gas and 81/2015/R/gas, dated 26 February 2015.
[142] With Consultation Document No. 617/2014/R/gas, dated 11 December 2014.
[143] With Resolution No. 167, dated 1 August 2005.

consultation, some interventions designed to promote flexible use of regasification terminals, including:

- the introduction of the possibility of bilateral transfer between users of allocated capacity;
- the integration of the existing provisions on the release of allocated capacity, regulating the possibility for the user to revoke any provision to the regasification capacity allocation to third parties in the event it becomes unusable;
- the provision that the regasification company makes itself available, for spot allocation, based on a criterion of *first come/first served*, and any capacity not requested within the term defined in the Regasification Code;
- reduction from M-2 (two months) to M-1 (one month before) the deadline for the issue of capacity; terminates after which the same capabilities, if not used, can contribute to the implementation of the provisions outlined in cases of failure to use the allocated capacity.

Following the consultation process, the proposed interventions, in which there surfaced a general sharing by *stakeholders*, it was confirmed[144] that there was also progression in toward an operation to reorganize the structure of the regulation issued in 2005. In particular, the Authority, in addition to confirming the possibility of introducing a bilateral transfer between users of allocated capacity, also it stated that the transfer of bilateral capacity by users can occur even between third parties who are not yet members. To complement the findings as part of the consultation process, the Authority has aligned the postponement cited (from M-2 to M-1) also on schedule with respect to the regulation of fines for non-observance of the LNG delivery programming. Finally, once again regarding what was originally proposed by the regulator, clarification was also expected concerning a priority policy for the allocation of primary capacity compared to that made available by users.

Supervision concerning safeguards measures for the natural gas system

Articles 4 and 8 of Legislative Decree n. 93/11 define the measures and plans to safeguard that the Ministry of Economic Development must be implemented in the event of a sudden crisis in the energy market, and when the physical safety or security of people is threatened, as required by Article 46 of Directive 2009/73/EC. Article 43.3, letter. C of the same decree gives the Italian regulator the authority to enforce the application of these measures and plans by the operators, in accordance with Article 41.1, letter “t” of Directive 2009/73/EC.

For the preservation of the natural gas system, during the current thermal year, the Authority implemented the provisions of the Decree issued by the Minister of Economic Development, on 18 October 2013, relating to the management and procurement, by regasification terminals, regarding the quantities the LNG should maintain in storage to be made available as part of the so-called "*peak shaving*" service. This allows the LNG to deal with any emergency situations in the system, determining the base price of the auction, due to the opportunity cost for an owner to supply the gas to be immobilize inside the tanks of LNG terminals and for use in case of a system crisis.

[144] With Resolution No. 118/2015/R/gas, dated 19 March 2015.

4.1.3 Network and LNG tariffs for connection and access

Transport

In November 2013, the criteria were defined[145] for determining the tariffs for transporting and dispatching natural gas for the period of 2014-2017. In Italy, the rate of transport is divided into three parts:

- payment of the transport service on the national network of an *entry-exit* category, with a matrix cost allocation (*matrix cost allocation*) and with a 50/50 cost split between entry and exit fees, along with an 85/15 split between *capacity* and *commodities*;
- payment for the transport service on the regional network, for which a one-time, so-called "Postage stamp" fee is applied;
- a variable tariff component dependent upon the volumes transported.

For the part of the tariff regarding the payment of the service provided for the regional network, proportional discounts are included for the distance to regional pipelines that are less than 15 km from the national grid; given the congruity of the same rate on the regional network, for which there are specific equalization mechanisms. For continuous service based on a lower rate for less than one year, the rate is subject to a modification, on a monthly basis of unit capacity, for the national grid, while interruptible service for the same amount is reduced, taking into account the risk of outages. The methods for calculating the reduction of this fee is determined by the major transport company and approved by the Authority.

Following the verification of tariff proposals, submitted by transport companies, the Authority approved these tariff proposals for the revenue cap for 2015[146], fees for the transport and dispatching of natural gas and the transitory payment for the measurement service for gas transportation for 2015[147].

Furthermore, the Authority ensured[148] the achievement of the objectives for implementing the interventions for the development of the National Gas Pipeline Networks (*milestones*) for 2013 and repealed the provisions in force on stimulating accelerate investment[149]. The incentive mechanism for investment acceleration of was based on the application of a higher rate of return on assets under construction and did not allow the possibility to differentiate the amount of the incentive based on a cost benefit. Therefore it could not be maintained without significant changes, as part of the tariff regulation for the period of 2014-2017, which includes a differential of the incentive based on the actual contribution of the infrastructure to the security of the national gas system and the promotion of fair competition, with a view to greater selectivity.

[145] Resolution No. 514/2013/R/gas, dated 14 November 2013.
[146] With Resolution No. 584/2014/R/gas, dated 27 November 2014.
[147] With subsequent Resolution No. 608/2014/R/gas, dated 11 December 2014.
[148] With Resolution No. 245/2014/R/gas, dated 29 May 2014.
[149] Under Resolution No. ARG/gas 156/11, dated 10 November 2011.

Regasification

The definition[150] of the criteria for the regulation of tariffs for the regasification of LNG, for the fourth regulatory period (2014-2017) took place in October 2013. At that time, the Authority had decided to postpone this action until 2015 (the introduction of a constant rate over time), in order to perform a further analysis and an assessment, possibly also as a result of a specific consultation. This topic, in the form of a consultation document[151], published in early 2014, contained the Authority's insights and the guidance.

By virtue of the findings raised during the consultation, the Authority has decided[152] not to pursue the proposal regarding the application of a stabilized rate for the regasification service and to adopt (the approval of tariff proposals for 2015) the same criteria used for the tariff proposals for 2014. Concurrently, the Authority planned to initiate, beginning in 2015 (for allocations relating to 2016), competitive procedures for the capacity allocation, to ensure a more efficient appropriation of the regasification capacity and an improved functioning of the market, by removing the potential distortionary effects of a rate decrease over time.

At the same time, by following the verification of tariff proposals submitted by regasification companies, the Authority has:

- approved the tariff proposals for the regasification covered by Article 22.1 of the RTRG and the transitory metering fees, for 2015, for the Italian companies: GNL Italia and the Adriatic GNL (LNG) Terminal;
- included, for the Adriatic LNG Terminal, an exemption from the definition of the fee to cover the cost of repairing, disposing. The company must present an estimate of such charges by 30 April 2015;
- approved the payment for maritime towage and mooring services, offered by the company Adriatic LNG Terminal for 2015;
- suspended the proceedings for the approval of the tariffs for 2015, for the company OLT Offshore LNG Toscana, until the completion of certain ongoing proceedings that were initiated in December of 2013[153].

In August 2014, the Authority ordered[154], definitively, the official closing of any further examinations, regarding the rates for regasification services for the OLT Offshore LNG Toscana for the transitional period 2012-2013, and 2014. Concurrently, the Authority had determined that for this same company, up until a different decision could be made by another competent authority, the fees specific to the maritime towing and mooring services would be on the basis of the charges underlying such services. With an additional measure, the Authority determined the rate, relative to 2015, the regasification service and the consideration of the maritime towing and mooring services for the OLT Offshore LNG Toscana[155].

[150] Resolution No. 438/2013/R/gas, dated 8 October 2013.
[151] Consultation No. 80/2014/R/gas, dated 27 February 2014.
[152] With Resolution No. 335/2014/R/gas, dated 10 July 2014.
[153] Initiated by Resolution No. 575/2013/R/gas, dated 12 December 2013 and Resolution No. 604/2013/R/gas, dated 19 December 2013.
[154] With Resolution No. , dated 7 August 2014, 415/2014/R/gas.
[155] Or by Resolution No. 652/2014/R/gas, dated 23 December 2014.

Natural gas storage

The rate for storage *capacity* consists of three types of fees:

- a fee paid for the space assigned to the user;
- a fee to cover injection and delivery capacity;
- a fee to cover the strategic space.

The variable portion tied to volumes traded (the commodities) must be added to these components. Also for the storage tariff, there are specific equalization mechanisms needed for the congruity of the rate on a national level.

In February of 2014, the Authority initiated[156] a proceeding for tariff regulation and quality of the natural gas storage service for the fourth regulatory quarter, beginning on 1 January 2015. In this context, the Authority held two consultations regarding the methods used for determining recognized revenues[157], as well as regarding criteria incentives for new investments, the institution of a correction factor for revenue reference guarantees and the methods of determining the fees to be applied to the assigned capacity per share [*pro quota*][158].

The criteria for the regulation of the natural gas storage service, for the period of 2015 to 2018, have therefore been defined [159] in October 2014, in which the Authority deemed it appropriate to:

- fix the rate of return on invested capital, equal to 6%;
- provide the review of the *Weighted Average Cost of Capital* (WACC) by arranging update with reference to the value of the *risk-free* rate; in order to align the timetable of updating the rate of return on invested capital with other regulated services, the upgrade must be made referencing revenues for the year 2016;
- exclude fixed assets in progress by the determination of the value of the invested capital, simultaneously providing a safeguard clause for construction in progress made by 31 December 2014;
- provide for the increases in capital related to investments that will start operations in the new period of adjustment, including capitalized financial expenses during construction, within a predetermined limit;
- exclude fixed assets in progress by determining the value of the invested capital in the calculation of the portion of revenue attributable to the additional compensation for investment incentives in operation during previous periods of adjustment;
- provide for the determining of provisional revenues on the basis of pre-final values of new investments and the definitive reassessment of these revenues, based on the final values, analogous to the provisions of the gas distribution service;

[156] Resolution No. 79/2014/R/gas, dated 27 February 2014.
[157] With Consultation Document No. 189/2014/R/gas, dated 24 April 2014.
[158] With subsequent Consultation Document No. 417/2014/R/gas, dated 7 August 2014.
[159] With Resolution No. 531/2014/R/gas, dated 30 October 2014.

- adopt mechanisms to encourage new investments serving to adjust any higher compensation paid for the value of the service provided;
- apply for determining the permitted operating costs, the criterion of the so-called "*profit sharing*" period-end, so that in the first year of the new regulatory period, companies receive 50% of the major productivity gains, they made during the third period of adjustment;
- determine, in cases where companies have not reached the goals of efficiency set by the Authority for the third regulatory period, the acceptable operating costs, so as to mitigate the needs of economic and financial balance for companies with an adequate incentive for efficiency gains, analogous to the transport service provided;
- establish the recovery coefficient of productivity, differentiated for a companies;
- provide a corrective factor aimed, inter alia, to ensure the partial coverage of recognized costs also in case of non use of the infrastructure, or of one of its enhancement through the procedures of competitive allocation of capacity, below the revenue allowed by tariffs; and that said correction factor is applied to the storage at the end of the year (31 December 2014), as well as storage sites that will be put into service even after that date, but developed in the implementation of primary legislation, including sites identified as strategic infrastructure in Article 3 of Legislative Decree n. 93, of 1 June 2011;
- provide partial coverage of operating expenses in the correction factor, in order to provide a stronger incentive to contain the same costs;
- to provide a mechanism that allows incumbents to cover the incremental operating costs arising from the creation of new sites/storage levels, consistent with the provisions for storage sites supplied by new operators.

At the same time, the Authority also initiated proceedings for the determination of the level of cover that portion of attributable revenue to the additional payment of the net capital investment incentives in operation during the previous regulatory periods.

In implementing the provisions of Decree Law n. 133, of 12 September 2014, converted into Law n. 164, on 11 November 2014, the Authority also initiated[160] another proceeding to integrate the tariff criteria for the natural gas storage service set for a month earlier. This was to introduce regulatory incentive mechanisms (in an asymmetrical form), for the development of additional peak performance from storage points, applicable to investments as of 2015. Of these incentive mechanisms, the Authority submitted a consultation of its own guidelines[161] concern the methods of determining the incentives for the creation of increased peak capacity, and the procedures by which interested parties can have access to them.

Following the verification of tariff proposals submitted by regasification companies, the Authority approved [162]:

[160] With Resolution No. 586/2014/R/gas, dated 27 November 2014.
[161] With Consultation Document No. 656/2014/R/gas, dated 23 December 2014.
[162] With Resolution No. 51/2015/R/gas, dated 15 February 2015.

- reference company revenues for storage services, under Article 14 of the RTSG presented by Stogit (part of the Snam Group) for 2015;
- provisional reference company revenues under Article 14 of the RTSG, presented by Edison Storage;
- the percentages of distribution for the total amount of the compensatory contribution[163], relative to 2014, between the regions where operational storage plants were established, on the basis of the storage capacity offered in transfer, including the strategic storage capability, for the thermal year of 2014 to 2015.

Distribution

At the end of 2013, the tariff regulation for distribution and gas metering services was defined[164] for the regulatory period of 2014 to 2019, related to concessions or supra-municipal governments, deferring to a subsequent decision, the adoption of measures concerning tariff regulation for area management.

With reference to these latest issues, downstream of a consultation process[165] in February of 2014, the Authority revised[166] the regulation regarding tariffs for distribution services and metering for the regulatory period of 2014 to 2019, incorporating provisions relating to supra-municipal management with those pertaining to the management framework for the concession.

The measure reflects the basic approach and guidelines set forth during the consultation, concerning the determination of:

- fees to cover operating costs for the distribution and management of the network infrastructure;
- fees to cover the costs of the invitation to tender (*una tantum or one lump sum*, outlined in paragraph 8.1 of the Decree of the Minister of Economic Development, in conjunction with the Minister for Relations with the Regions and Territorial Cohesion, n. 226, dated 12 November 2011,) and the annual fee, referred to in paragraph 8.2 of said Decree;
- value of net fixed assets of the location as a result of loans for scope and criteria pertaining to the recognition of the difference between Industrial Residual Value (VIR) and Value recognized for tariff purposes (Regulatory Asset Base, RAB);
- components of the mandatory tariff respectively reflecting the burden of the recognition of the difference between the VIR and the RAB and the discount tariff offered during the tender;
- criteria for revaluating the RAB is not aligned with the average sector (so-called "depressed RAB") also to be applied to the assets owned by local landlords and not subject to transfer during the tender.

[163] Approved by Resolution No. 350/2013/R/gas dated 1 August 2013.
[164] With Resolution No. 573/2013/R/gas dated 12 December 2013.
[165] Consultation Document No. 53/2014/R/gas dated 13 February 2014.
[166] With Resolution No. 367/2014/R/gas dated 24 July 2014.

In relation to fees to cover operating costs for the distribution and management of the network infrastructure, it has introduced a differentiation according to the size of the scope, distinguishing between the areas up to 300,000 delivery points and the areas with more than 300,000 delivery points.

For areas up to 300,000 delivery points the fee to cover the operating costs is calculated as the arithmetic average of the unit values applied to both municipal and supra-municipal management, reported to the medium and large sized companies belonging to the class of corresponding density. In the two tariff adjustments following the commencement of service management by area, the fee is updated by putting the productivity recovery factor (*X-factor*) at zero. Then the criteria of gradualness in updates for the third successive concession year were introduced.

For areas with more than 300,000 delivery points, the fee to cover the operating costs is equal to the unit values applied to both municipal and supra-municipal regarding large companies belonging to the class of corresponding density. Concerning the two tariff adjustments following the initiation of service management by area, the fee is updated by putting the *X-factor* at zero. From the fourth year of the area management, the unit values of the applicable fees for the municipal and supra-municipal management are fixed for the class of corresponding density of the large-scale companies. These unit values are updated annually, based on the *X-factor* for the expected large-scale companies/corporations.

The same measure considered the recognition of charges in Decree Law n. 159, dated 1 October 2007, ratified with amendments by Law n. 222, dated 29 November 2007, to cover:

- the charges related to the payment to the contracting of the *one lump sum*, outlined in Article 8, paragraph 1 of the Decree;
- the charges related to the payment to the contracting of the annual fee, outlined in Article 8, paragraph 2 of the Decree, or 1% of the amount of the payment, as capital on the location of its distribution services and measurement and its annual depreciation.

Regarding the value of net fixed assets of the locality as a result of granting concessions, the Authority, according to Legislative Decree n. 93, dated 1 June 1993, drew a distinction between cases where the incoming operator is different from the outgoing operator and those in where the incoming operator coincides with the outgoing one.

In particular, for the period of granting, the initial value of the net fixed assets of the locality being transferred for consideration to the incoming operator, as of 31 December of the year preceding year to the awarding of the contract by tender, will be calculated on the basis of:

- the reimbursement value outlined in Article 5 of the Decree of the Minister of Economic Development n. 226, dated 12 November 2011, recognized the outgoing operator, when the incoming operator is different from the outgoing operator;
- the value of net fixed assets of the locality recognized for regulatory purposes in other cases.

The criteria for the revaluation of the so-called "depressed RAB" were then identified, compared to the average values recognized to apply to the assets owned by local landlords, and are not to be transferred during the tender. In particular, situations in which the level of the RAB is less than 75% of the parametric evaluation are considered to be depressed, and the level which shows the depressed RAB is equal to 75% of the parametric analysis. Regarding the assumptions made during

the consultation, be it the increase of both groups of possible beneficiaries, be it the target level which realigns the depressed RAB.

In March of 2014, the approval[167] of the provisional reference tariffs for distribution services and measurement of natural gas, for 2014, was confirmed, calculated on the basis of the capital of the pre-final balance sheet for 2013. The same decree ordered the redetermination of tariff options for 2014.

A change in the formula was later introduced[168] for calculating the permitted revenues to cover costs related to systems for remote reading/remote management, including concentrators, in order to define the amounts of costs equalization regarding metering services for 2013. In particular, it was expected that this constraint should be calculated as the depreciation sum and a return on declared investment capital in relation to data collection for the determination of tariffs in 2013, in order to allow coverage of the investment costs actually incurred by the companies.

Following the review of the useful lives of the meters required by Law n. 99, dated of 23 July 2009, the Authority regulated[169] tariff restatements concerning reference tariffs for the distribution services and measurement of natural gas for the period of 2009 to 2013.

Given the decoupling between the rate applied only to consumers (so-called "mandatory tariff") and tariffs established for securing the permitted bond revenues for each distribution company (the "reference rates"), a determination was made[170] regarding the tariffs for distribution services and measurement of natural gas, and the different gases tariff options, for 2015. In particular, the fixed components of a mandatory tariff related to the distribution and metering services have been divided[171] into three branches, on the basis of metering categories.

Metering

In December of 2013, a determination was made to fix[172] installation requirements and commissioning of electronic meters for remote reading/remote management of the delivery points of gas distribution (*smart meter gas*). Smaller customers in metering categories G4 and G6, there will be a differential mandatory introduction according to the size of the distribution companies. Businesses with more than 200,000 end users are required to:

- install 3% of smart meters (compared to active delivery points) by 31 December 2014;
- commission 3% of smart meters by 31 December 2014;
- install 10% of smart meters by 31 December 2014;
- commission 60% of smart meters by 31 December 2018.

Companies with more than 100,000 end users are required to install 3% of *smart meters* by 31 December 2015.

[167] With Resolution No. 132/2014/R/gas, dated 27 March 2014.
[168] With Resolution No. 456/2014/R/gas, dated 25 September 2014.
[169] With Resolution No. 633/2014/R/gas, dated 18 December 2014.
[170] With Resolution No. 634/2014/R/gas, dated 18 December 2014.
[171] Consistent with the provisions of Article 40, paragraph 9 of the RTDG.
[172] Resolution No. 631/2013/R/gas, dated 27 December 2013.

The right used to exist to be able to install Class G4 and G6 (the traditional type) of metering equipment, but only until 31 December 2014. After that date, the metering equipment installed had to be exclusively *smart*.

The requirement to installation and commissioning of smart meters for gas, were then updated[173] by providing the distribution companies with the possibility to adopt criteria for planning *roll-outs* that allow them to overcome the potential inefficiencies resulting from the installation of insulated smart meters.

Provisions concerning tenders for the concession area

During 2014, the Authority worked diligently to implement the provisions relating to the awarding of concessions for the distribution, outlined in Article 4, paragraph 5, of Decree Law n. 69, dated 21 June 2013. In this context, it is worth mentioning that the related activities[174] for the assessment of reimbursement amounts, greater than 10% of the value of net fixed assets of the locality, are calculated using the tariff regulation, and an advance of the contracting fee, equivalent to *one lump sum* to cover the costs of the tender[175].

In March, the Authority made the contracting[176] data available relating to the value of *assets* used for the purpose of fixing charges in 2013. In reference to all the localities belonging to each tariff; it was then ordered [177] that the formal procedures related to the analysis of tender documentation that contracting authorities had to be sent to the Authority[178]. In particular, it shall be submitted at least 60 days before the expiration of the deadline for publication of the notice to the Authority, who in turn, will publish them on its own website, in a special dashboard that reports, in summary form, information on the status of the procedure with the formalities required.

In Consultation Document n. 178/2014/R/gas, dated 17 April 2014, the Authority's directives were featured, defining the procedures and methods of analysis and parametric indices, for the assessment of any deviations between the VIR and the RAB

Downstream of the necessary consultation phase[179], the Authority ordered[180] that the methodological aspects for identifying cases with deviations between the VIR and the RAB more than 10%, the operating procedures for the acquisition of data relating to the VIR is necessary for the verification of the role the Authority must play and the procedures for verifying the deviations. In relation to the verification procedure of the deviations between the VIR and the RAB, the Authority arranged for it to be conducted according to a multistage logic which provides, in succession, a parametric test of consistency of the VIR; analysis for indices (which uses the

[173] With Resolution No. 651/2014/R/gas, dated 23 December 2014.
[174] Related to the implementation of the provisions of Article 1, paragraph 16 and 16 *quarter*.
[175] Provided for by Decree Law No. 145, dated 23 December 2013, as converted, with amendments by Law No. 9, dated 21 February 2014.
[176] The "Contracting Authority" is the person who, delegated by the local Authorities belonging to the sector, has the responsibility to ban, manage and award tender for service distribution in all the municipalities of the assigned scope.
Ministry of Economic Development Decree No. 226/11, in fact, established that, for an effective and efficient process of awarding concessions for distribution by geographical area, it is essential that local authorities belonging to a sector, identify an administration or an already established organization to delegate the completion of the tender procedure (contracting authority).
[177] With Resolution No. 155/2014/R/gas, dated 3 April 2014.
[178] Under Article 9, paragraph 2, Ministerial Decree No. 226/11
[179] Please see Consultation Document No. 178/2014/R/gas, dated 17 April 2014.
[180] With Resolution No. 310/2014/R/gas, dated 26 June 2014, implementing Article 1, paragraph 16, dated Decree Law No. 145/13.

reference values for the determination of *benchmark* unit costs[181]; and the examination of the evidence submitted by local landlords.

In July of 2014, after consultation[182], the Authority thus defined[183] the rules for reimbursement to the outgoing managers of amounts equivalent to the *one lump sum* payment to cover the costs of the tender[184]. In particular, there has been provided both the application of an interest rate equal to the rate of return on debt used for the determination of the WACC relative to the distribution services and gas metering in the fourth regulatory period, and the adoption of the scheme for the determination of the compounded interest rate.

In that same month, the contracting authorities made the data relating to the value of the *assets* as of 31 December 2012, available on the Authority's website:

- the RAB data relating to all the localities belonging to each tariff mode aggregated regardless of the owner;
- the RAB data owned by the operator and subject to transfer for consideration, for the localities belonging to each tariff category and for which the operator has provided such detail.

Then, in November, there was a modification[185] of the standard contract scheme[186], for approval by the Ministry of Economic Development. With this change, the right of grantors and/or any of their holding companies has been expressly recognized to be able to obtain, at the end of the contract period of service, an amount equal to the value of depreciation on investment for networks and systems.

Exclusion of cross-subsidies between activities in the supply chain

The requirements of administrative and accounting unbundling for companies operating in the electricity and gas sector have been introduced, among other things, with the goal of excluding businesses, operating in the electricity and gas sector, from having to carry out cross-subsidies between various aspects of operations. During 2014, the Authority neither initiated nor concluded, in the natural gas sector, proceedings for the investigation of rules violations concerning the requirements of functional and unbundling.

4.1.4 Cross-border issues

Investment in new network facilities and consistency with the EU Development Plans

The Decree of the Ministry of Economic Development n. 65, dated 27 February 2013, has defined, in accordance with Article 16.1 of Legislative Decree n. 93/11, a **mechanism for the evaluation and monitoring of the Plan of development for gas transport networks** . According to this decree,

[181] Outlined in Resolution No. 414/2014/R/gas, dated 7 August 2014.
[182] Please see Consultation Document No. 190/2014/R/gas, dated 24 April 2014.
[183] With Resolution No. 326/2014/R/gas, 3 July 2014.
[184] Implementing Article 1, paragraph 16-quarter, Decree Law No. 145/13.
[185] With Resolution No. , dated 20 November 2014, 571/2014/R/gas.
[186] Fully approved by Resolution No. 514/2012/R/gas, dated 6 December 2012.

network managers must convey this plan to the regions, the Authority and the Ministry of Economic Development; the Ministry and the Authority will then evaluate it, each according to their own expertise, also for its consistency with the national energy strategy. The Ministry should also consider, after consulting the Authority, whether or not the plan contains a reasonable estimate of needs in terms of investment and if it is consistent with the ten-year network development plan at the EU level. Following activity monitoring, should it emerge that the network operator has not made an investment, which under the Plan, was to be executed, then the Ministry and the Authority may require the operator to implement said investment within a defined period. In the event of non-compliance with the provisions issued as a result of the monitoring, the Authority may finally impose sanctions.

Operators for the natural gas transportation system have sent the Authority their *Plans for the ten-year network development of natural gas transport*, as required by the Decree. Rating reports, as well as those relating to compliance with the provisions of Article 16 of Legislative Decree n. 93/11, and with the regulation adopted by the Minister of Economic Development with Decree n. 65, dated 27 February 2013, and are still ongoing.

Regional Gas Initiatives

In 2012, the regional gas initiatives launched the first cross-regional activities, which was implemented voluntarily and early (i.e. before it entered into force) the network code on capacity allocation mechanisms (CAM NC) for network operators and the regulatory Authorities. The above-mentioned activities, coordinated at the European level, in 2013, by the Italian Authority, on behalf of ACER, and for the first half of 2014, were part of the development for pilot projects on a regional-bilateral level, with the goal of testing the application of the rules provided by CAM NC for the organization of auctions, definition of *bundled* products and the development of platforms for the allocation of cross-border capacity, before the same become binding. To promote harmonious development of several pilot projects, ACER and ENTSO-G have jointly approved the *Roadmap for the early implementation of the Capacity Allocation Mechanisms Network Code*[187], with activities planned until the entry into force scheduled for November 2015.

As part of that early implementation of the CAM Regulation, some European TSOs have formed the Prism Platform for the allocation of capacity at points of cross-border interconnection. Prism, with the participation of 31 European TSOs, including Snam Rete Gas, offers capacity in 12 different countries, and held in the past year about 97,000 auctions for the allocation of primary capacity for over 8,600 GWh/h. In 2015, it is also provided allocation of capacity on an intraday basis and joining in with other TSOs.

The Forum in Madrid, in May of 2014, also on the basis of the positive experience of the CAM early *Roadmap implementation*, had requested the ACER and the ENTSO-G to extend this activity to the Network Code on balancing. This activity, well-coordinated by the Italian Authority, was substantiated in a first round of monitoring of the implementation schedule for different European countries, presented in October of 2014, in which 9 countries, including Italy, require implementation prior to 1 October 2015.

[187] Available at the following link: http://www.acer.europa.eu/Gas/Regional_%20Intiatives/CAM_roadmap/Pages/default.aspx.

The Italian Authority, while confirming its commitment to participate in ACER's regional initiatives, in May of 2014, transferred *co-leadership* to the Romanian regulator, allowing it to partially take over the helm regarding the activities of natural gas in the South-East Region[188]. The main activities that have affected the region, in 2014, in addition to the implementation of the Code of advance allocation of network capacity (CAM NC), concerned three projects for market integration, the development of a protocol for interoperability and security supplies.

International coordination with ACER

During 2014, the Authority for Electricity Gas and Water continued to work with other European regulators at the multilateral level, through the Agency for the Cooperation of Energy Regulators (ACER).

In relation to the gas sector, the Authority has been actively involved in ACER working groups responsible for analyzing European network codes prepared by ENTSO-G, as well as the review of the *Gas Target Model* process that started at the beginning of the year. These results of these documents are:

- the preliminary opinion of the ACER, in July of 2014, regarding the Network Code proposed by ENTSO-G for the standardization of tariff structures for transport networks and the following discussions with the Commission and ENTSO-G to finalize the preparation of the final recommendation for adoption expected by the summer of 2015;
- the proposed amendment for the capacity allocation Grid Code for, approved in 2013 (CAM NC), for the rules relating to the development of new capabilities, highlighted during a consultation with the ACER, in February of 2015, based on a proposal by ENTSO-G in December of 2014;
- revision of the *Gas Target Model* (GTM II CEER of 2011), presented by ACER in January of 2015, primarily aimed at conveying the message that efficient and well-connected wholesale markets are key to achieving a European gas market. The GTM II contains: an examination of future scenarios for demand and supply of gas in the global context; a review of the parameters to evaluate the security and continuity of supply for individual countries, and identifies the need to invest in new infrastructure projects, *reverse flow* and diversification of supply sources; analysis of the functioning of the wholesale gas markets, which identifies a list of ideal criteria, inspired by the operation of the most liquid asset *hub* in Europe (NBP and TTF), which each system should be used to measure the degree of development of these markets. Finally, the GTM II describes the adjustments to the regulatory framework that are required to foster the development of gas as a backup source for renewable energy and new uses of natural gas.

[188] In addition to Italy and Poland, this region includes Austria, Bulgaria, Cyprus, Croatia (since July of 2013), Greece, the Czech Republic, Romania, Slovakia, Slovenia and Hungary.

Energy market of the countries of South-East Europe

Also in 2014, the Authority contributed to the work of implementing the Treaty establishing the Energy Community of South East Europe (ECSEE)[189] through participation in meetings of the *Energy Community Regulatory Board* (ECRB) and its working groups: *Electricity Working Group* (EWG), the *Gas Working Group* (GWG) and *Customer and Retail Market Working Group* (CRWG), as well as forums[190] on electricity and gas, which are intended to share the decisions made at the institutional level with the *stakeholders* of the sector, and guide the process of regional integration.

With regard to the gas sector, the GWG, which from December of 2014 has been chaired by the the Authority and by the Croatian regulator, have had some insights regarding the different tariff systems and gas quality. With the support of ACER experts, a project to monitor the wholesale markets was initiated and the first evaluation report on the standards of the gas quality in the region was approved. The three *task forces* related to the regulation of new sources of gas affecting the countries of the Balkans, the development of storage and usage in a regional approach, as well as analysis of network codes already in place or under development on the part of ACER, have produced several studies and developed in-depth *workshops*. Particular attention was devoted to two issues: the possible extension of the *Gas Regional Initiative of the South East Region* of ACER to the *Contracting Parties* that are part of the *Energy Community*; the interpretation method or amendment of regulations in place to manage the interconnections between EU member states and Countries of the *Energy Community*.

4.1.5 Compliance

In the past year, the decisions adopted by the Agency or the Commission, which the Authority had to implement in accordance with Article 41.1.d of Directive 73/2009/EC, were not legally binding.

Compliance with the tasks entrusted to the Authority under the Gas Directive

For an illustration of the main responsibilities and powers conferred on the Authority by law please refer to the Annual Report of 2013 and the new regulations contained in paragraph 2

[189] The Treaty establishing the Energy Community of South-East Europe was signed on 25 October 2005, in Athens, Greece, and came into force on 1 July 2006. The overall purpose of the ECT is the creation of a macro-regional regulatory framework, stable and synchronized with a view to a full implementation of the *Community acquis* [that which has been acquired or obtained by the community] on energy, the creation of a regional energy market and its integration into the EU internal market. To this end, the ECT identifies the main objectives: attracting investment, facilitating the exchange of energy, increase competition between the operators, ensuring the security and continuity of the energy supply and improving environmental conditions in member countries. The parties of the EnCT Treaty are: Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Moldova, Montenegro, Serbia and the Ukraine. The main institutions governed by the Treaty are: *Council of Ministers* (MC), *Permanent High Level Group* (PHLG) — both of which are government organizations — and the ECRB. The latter, in particular, brings together representatives of the Regulatory Authorities of the eight signatory countries (*Contracting Parties*) of the ECT, a representative of the European Commission (in the role of Vice-President), a representative of ACER and the member nations of the European Union, that adhere to the ECT on a voluntary basis (*Participants*), which to date number 16 in all (including Italy). The main task of ECRB is to provide advice and recommendations to the *stakeholders* and the political institutions of the Treaty regarding relative regulatory aspects and other issues related to it. Additionally, the ECRB performs regulatory role in the energy market in the Balkans.

[190] The forums of electricity and gas are the annual meetings of all the institutions of the Energy Community, promoted in cooperation with the European Commission, with the participation of regulators, interest groups, industry and consumers, financiers and academics. The conclusions of the forum, adopted by consensus, are transmitted to the ministers of the adhering States.

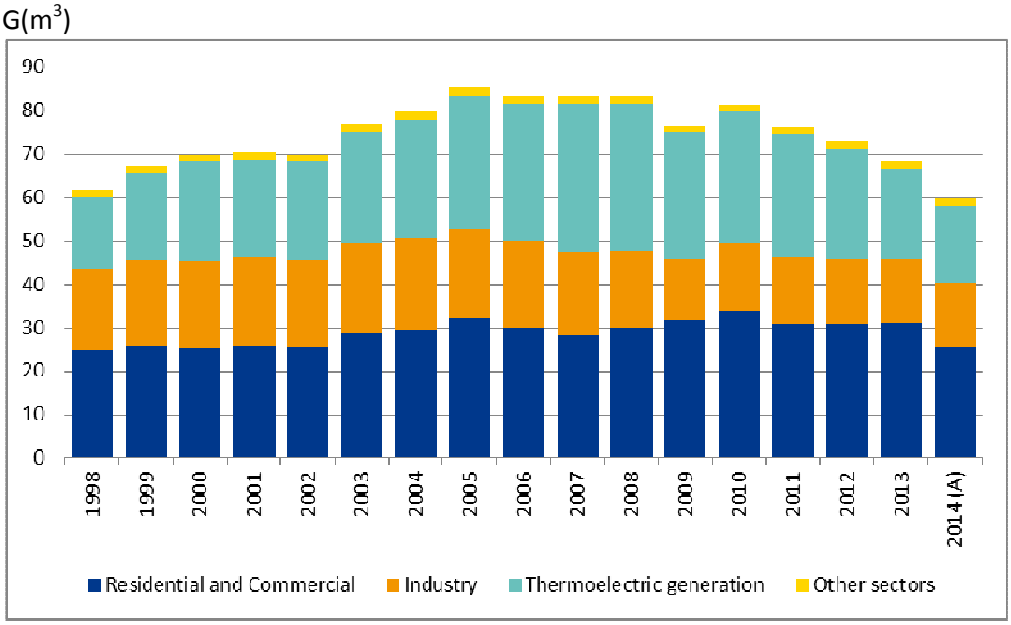
4.2 Promoting competition

4.2.1 Wholesale market

The year 2014 was a disappointing year for the euro area: the prospects of a period of significant growth, the positive trend of the major economic indicators predicted the beginning of the year, weakened with each passing month, for the persistent reduction of domestic demand and the slowdown in foreign demand. The disappointment was even more significant for Italy. Despite the first signs of improvement highlighted last year in these pages, our economy was the only one, among those of the Eurozone, to close with a negative shift in the GDP. On a yearly average, the turnover index of industrial products recorded a decrease in 2014 (-1.2%) for the third consecutive year, albeit much smaller than that obtained in the two previous years (7% in 2012 and -3.8% in 2013). In addition to that, the winter months (both the beginning and the end of the year) of 2014 recorded particularly mild weather conditions, by curtailing the demand for gas and the momentum from fuel consumption for heating.

It was no wonder, then, that last year, according to preliminary figures released by the Ministry of Economic Development, the gross domestic consumption of natural gas had fallen a further 8 billion cubic meters, down to 61.9 G(m^3) from 70.1 G(m^3) of 2013. Percentage-wise, the gross consumption decreased by 11.6% compared to 2013. With this decrease, the fourth in a row, the levels of gross consumption returned to values measured between that of 1997 and 1998.

Figure 4.4 Consumption of Natural Gas by Sector



(A) Provisional Data.

Source: Ministry of Economic Development, National Energy Balance for various years.

In line with the economic developments and the above mentioned climate, in 2014 (Figure 4.4.) a marked decrease (-16.9%) in demand from domestics (residential and service industries), in particular, were recorded. A drop in the consumption of thermoelectric generation — where gas is increasingly displaced by renewable sources — is still quite relevant (-14.1%) and a further retreat in industrial uses (-2.1%). After several years now, the only sector with an increase was the

automotive industry. In 2014, the use of gas for transport increased by 6%, exceeding for the first time, one billion cubic meters.

From the maximum point reached in 2005, in 2014, the total end demand fell by 28%, but the decline had a profound effect on the productive uses (-30% in industry, -43% in power generation) as opposed to the civilian sector where consumption remained constant at least until 2013. The collapse of 2014 (-17%), in fact, was largely attributed to this climatic factor.

The still relevant fall of the end demand in 2014 was consistently accompanied by the reduction in domestic production (-7.6%) and in net imports (-10.1%).

As in the past, about 85% of all national production was extracted from the Eni Group company, which remains the dominant player in this segment, with an absolutely majority market share, remaining in pole position above the second group of companies: Royal Dutch Shell with 8.3%. In third place, the Edison Group with 4.3%, and in fourth place, Gas Plus, this year with a share of 1.8%

According to the preliminary data from the Ministry of Economic Development, the quantities of imported gas in 2014, were reduced by another 10%, to 55,757, down from 61,966 M (m^3) a year earlier. The decline, the fourth in a row, was also the most prominent, much higher than those of the three previous years (-8.5% in 2013, -3.8% in 2012 and -6.6% in 2011). In a downward turn that shows no signs of halting, as of 2010 imports of gas in Italy fell by a quarter, equal to about 20 G(m^3). As exports increased slightly from 228 to 237 M (m^3), in other words, by 3.9%. The rate of reduction in net imports was slightly stronger, equal to -10.1%, with volumes from 62 G(m^3) poor, coming to 55.5 G(m^3).

Consistent with a gross demand and the final continuing to fall, also another meagre billion cubic meters went to into storage: the entries, in fact, exceeded extractions, therefore at the end, the quantities of gas in storage were higher than 757 M (m^3) compared to those found at the end of 2013.

Since domestic production fell to 7,149 M (m^3) and whereas the estimated ministerial consumption of network and system losses, totalling 2,070 M (m^3), the quantities of gas delivered to the network in 2014 were evaluated at 59,842 M (m^3), 12.3 percentage points below those of 2013. Due to the decline in imports being lower than consumption in 2014, the level of foreign dependence (measured as the ratio of gross imports and GDP consumption) rose to 90.1% from 88.4% recorded in 2013.

Figure 4.5 displays the quantities of gas supplied in the last two years from the country of origin[191] of the natural gas itself. Despite the overall decrease in consumption (and therefore affecting imports in Italy) the subsequent collapse of import gas from Algeria has given the green light to other countries, showing an increase in volumes.
Imports from Algeria, which last year had recorded a substantial reduction in 2014, have substantially been cut in half (down 5.9 billion, or -46%), halting at 8.8 G(m^3). The new failure is certainly linked to the production difficulties of the North African nation, but also to reducing the quantities that importers have imposed, waiting for the prices of long-term gas contracts, signed with Sonatrach, they would start falling to reflect the drop in oil prices which they are indexed.

[191] Imports are broken down by country of origin of the physical gas and not contractual. The imported gas under the *swap* scheme is reported in function of the physical origin of the gas itself.

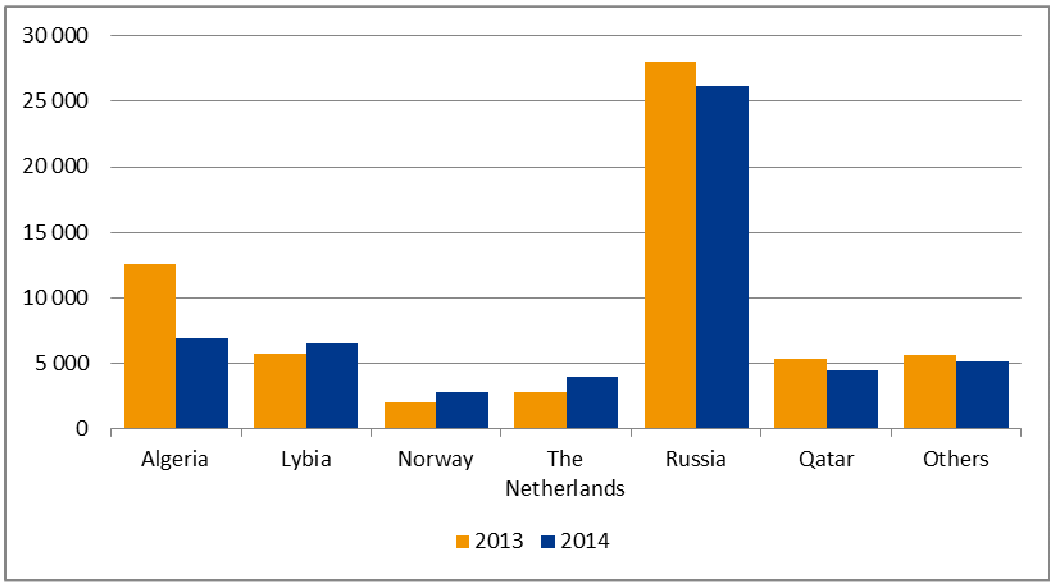
Penalized by high prices such as Algeria, also the Qatari LNG was reduced by another 16% (that follows the -14% recorded in 2013), namely of 875 M(m^3). A significant drop has also affected imports from Russia, which in the provisional data of the Ministry appear to have declined by nearly 2 G(m^3), thanks to the renegotiation of the take or pay contracts. In 2014 the lower gas imports from Algeria and Qatar, along with those from Russia and other countries (including Trinidad and Tobago), have collectively conducted in Italy 8.9 G(m^3) less than in 2013. This gap was offset by only one third of the minor needs of natural gas in Italy, with an increase in the quantities imported from other sources.

Despite the still ongoing turmoil in that country, imports from Libya have in fact increased by 14% (+807 million), but most have developed more competitive procurement markets in Northern Europe, favoured by moderate prices that occurred especially during the summer months. Imports from the Netherlands increased by 1.12 G(m^3), in other words, by 40%, and those from Norway increased by 796 M(m^3).

As a result of these changes in 2014, the influence of Russia among those countries exporting to Italy grew again, garnering almost half (47%) of the Italian foreign supply. With a share of 12.3% of the total imported gas, Algeria has maintained the second position, followed by Libya and nearly reached (11.7%).

Figure 4.5 Gross Imports of Natural Gas according to it source

M(m^3); Estimates are based on the entry point of the gas.



Source: Ministry of Economic Development.

Also with reference to the data (provisional) collected by the Annual Survey pertaining to the regulated sectors of the Authority, the quantities of imported gas in Italy in 2014, were down from 61.3 G(m^3) achieved in 2013[192] and have passed, in fact to 53.6 G(m^3). The decrease was, therefore, 12.6% larger than that evaluated form the data of the Ministry of Economic

[192] Consistently taken from an Annual survey regarding regulated sectors.

Development [193]. The 5.5% of the total gas supplied to foreign countries, in other words, around 3 G(m^3), was purchased from European stocks.

As in previous years the groups [194] have a share of more than 5% of the gas procured (i.e. produced or imported) are Eni, Enel and Edison. Together, the top three importers have imported 45.7 of the 53.6 G(m^3), in other words 85.3% of the gas that entered the Italian market. Considering the quantities produced within national borders, the top three groups account for 85.9% of all the natural gas supplied. As in the past, this share is increasing (it was 82.5% in 2013), to augment the share of Eni not offset by the reduction of shares of Edison and Enel. The same three groups also hold more than 5% of the available gas, with a share of (81.8%) slightly less than that of the natural gas supplied.

As always, the first place in the ranking of importing companies is held by Eni, which even in 2014 — in contrast with the national average — has not diminished the quantities purchased abroad. In fact, the supply volumes, amounting to 31.05 G(m^3), are slightly higher (0.9%) than those in 2013, equal to 30.8 G(m^3). The small increase in imports by Eni, compared with an overall base (the total national imports) which has decreased substantially, did jump the market share of the company at 58% (55.7% if calculated on the value of imports of ministerial source), much higher, therefore, to 50% in 2013. The incidence of Eni in natural gas supplies reached its lowest level in 2010, with the value at 39.2%.

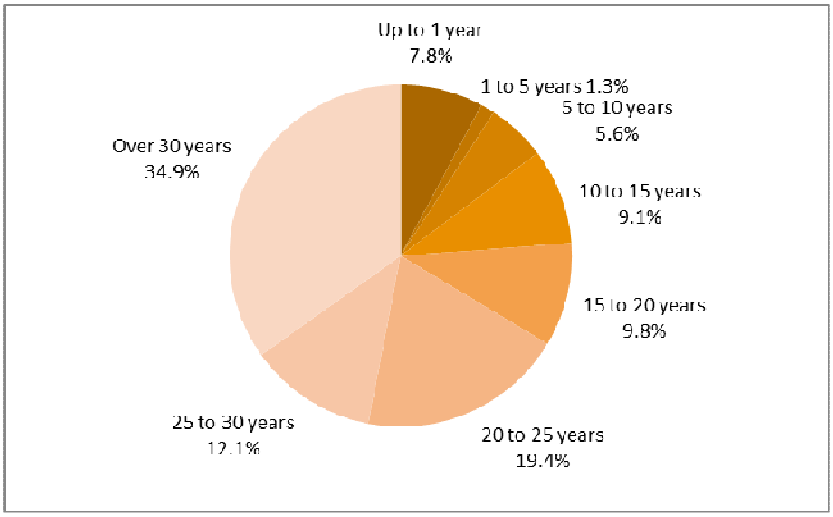
With some (few) exceptions in addition to Eni in 2014, all importers have reduced the quantities they purchase abroad. Edison, in second place, has supplied almost 3 G(m^3) less than in 2013. Therefore, its share in the import market has fallen to 18.2% and the gap between Eni and other importers was extended further, almost to 40 percentage points. In 2014, imports of Enel Trade had fallen nearly a third, having dropped to 4.9 G(m^3) from 7 G(m^3) purchased in 2013. However, Enel Trade has remained in third place, although with a share of 9.2%, two points less than 11.3% achieved the previous year.

The analysis of *Annual Contract Quantity* agreed to for import contracts (annual and multi-year) income in 2014, by total duration (Figure 4.6) shows a rather long structure. The share of long-term contracts, that is, those whose whole life is over after 20 years, is in fact equal to 66.4% and remained stable over the past five years. The proportion of imports in short, that is, those with less than five years, decreased slightly (9.2% in 2014 against 11.2% in 2010), while that of medium-term contracts (5 to 20 years) has remained more or less constant at around 25%. It must be said, however, that the market is shrinking. With the passage of time, the *Annual Contract Quantity* underlying dimensions expressed in the figure show an increasingly lower total: from about 125 G(m^3) agreed to five years ago, in 2014, the volumes exchanged have declined altogether to about 86 G(m^3). Finally, to emphasize that the impact of imports *spot*[195], in other words, those with less than one year, also declined slightly in 2014, from 8.8% to 7.8%.

[193] Differences from the Ministerial data depend in part on the number of businesses responding to the Authority's Annual Survey, and partly by differences in the classification of the import data. In other words, it is likely that certain quantities that the ministry ranks as imports, the Authority's Survey might consider as "Purchases at the Italian Border" in view of customs clearance.
[194] The survey for gas market participation in a group of companies is defined base on what is specified in Article 7, Law No. 287, dated 10 October 1990. In a nutshell, the group membership can be established even by de facto control of the investor in the subsidiary.
[195] It is worth mentioning that this was assessed, as in previous years, excluding the *Annual Contract Quantity* in *spot contracts* which did not give rise to imports into Italy, because the gas was sold directly abroad by an active Italian operator who had made the purchase.

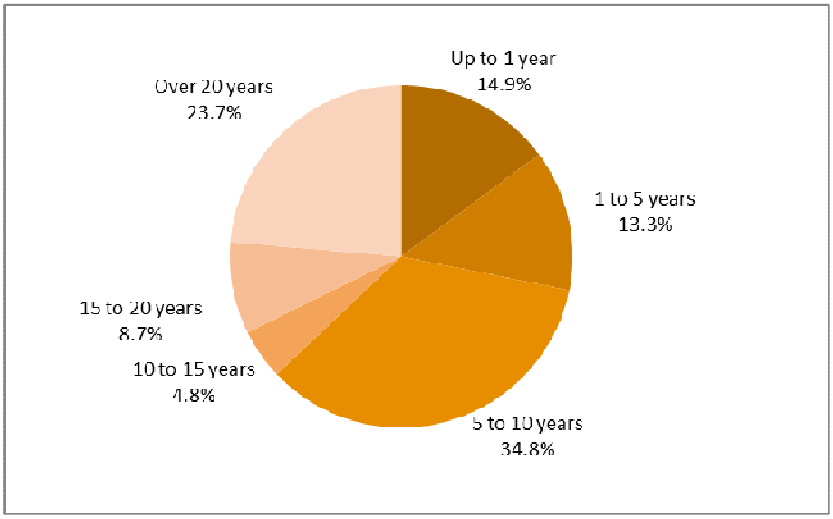
In terms of residual life, the import contracts in 2014 (Figure 4.7) revealed overall to be still quite long, however, the contract structure is incorrect, albeit very slow, curbing 63% of the contracts (60% in 2013) which will expire within the next ten years, and 28% of them (27% in 2013) and their effects will weaken within the next five years. Thirty-two percent of the contracts currently in force with a residual maturity greater than 15 years is still equal to 32%.

Figure 4.6 Structure of Contracts (annual and multi-year) active in 2014, according to the total duration



Source: Annual survey on regulated sectors.

Figure 4.7 Structure of contracts (annual and multi-year) active in 2014, according to the remaining term



Source: Annual survey on regulated sectors.

In 2014, the total demand in the natural gas sector, understood as the sum of the volumes of gas sold in the wholesale market (including resales) and retail, which is more self-consumption, grew by 15.6%, having reached 209 G(m^3). The wholesale market moved 145.6 G(m^3) the substantial rise in compared to 2013, 53.3 G(m^3) moved retail market, recording a marked decrease compared to 2013, while self-consumption came to 10.1 G(m^3). There were only 5 operators who had a share of this market that surpassed 5%.

More precisely, industry groups and their respective shares are shown in brackets: Eni (29.1%), GdF Suez (13.5%), Edison (9.2%), Enel (5.9%) and Royal Dutch Shell (5.8%). The top three groups combined account for 51.8% of the total demand, a proportion much higher than that of last year.

The following paragraph provides a detailed description of the sales and prices of the wholesale market.

Table 4.3 Development of the wholesale market

Year	Total Demand(A) G(m³)	Peak Demand(B) M(m³)/per day	Production G(m³)	Import Capacity G(m³)/per year				No. of companies with a share of production and import capacity >5%	No. of companies with a market share of gas available >5%	Share of the three largest groups on the total demand
				Total	Priority Access for Transit (C)	Priority access to contracts LT	Unreserved Access			
2001	125.1	N.D.	15.5	N.D.	N.D.	N.D.	N.D.	N.D.	2	68.2%
2002	111.8	N.D.	14.3	84.0	0.5	77.3	4.2	3	3	67.4%
2003	123.6	N.D.	13.9	84.8	0.5	78.8	3.1	3	3	63.8%
2004	127.3	386	12.9	88.7	0.5	84.6	2.1	3	3	62.4%
2005	138.3	421	12.0	90.6	0.5	73.5	16.7	3	3	66.7%
2006	134.3	443	11.0	92.3	0.5	74.5	17.3	3	3	66.5%
2007	136.1	429	9.7	98.4	0.5	86.1	11.8	3	3	63.8%
2008	151.5	410	9.3	100.3	0.5	96.1	3.7	3	3	57.1%
2009	147.2	436	8.0	110.9	0.3	102.6	8.0	3	4	49.2%
2010	173.5	459	8.3	116.0	0.3	103.1	12.6	3	5	42.3%
2011	178.9	401	8.4	116.3	0.2	103.0	13.0	3	3	42.1%
2012	178.3	464	8.6	116.9	0.2	102.5	14.2	3	3	40.5%
2013	180.8	360	7.7	122.1	0	102.6	19.5	3	3	42.7%
2104	209.0	330	7.1	121.7	0	95.5	26.1	3	3	51.8%

(A) Volumes of natural gas sold in the domestic market, both wholesale and retail trade; including resales.

(B) Peak input reached on the following days: 26/01/2004, 19/12/2005, 25/01/2006, 18/12/2007, 18/02/2008, 21/12/2009, 17/12/2010. 25/01/2011, 7/02/2012, 11/02/2013, 29/01/2014; the volume indicated includes injections, deliveries from storage, losses and domestic consumption network.

(C) In Italy there is no such thing as differential handling for transits, which are treated as normal transport. The value indicated in the table refers to a transit contract that received priority access as part of a multi-year contract.

Source: AEEGSI's elaboration from Snam Rete Gas data.

The following paragraph provides a detailed description of the sales and prices of the wholesale market.

4.2.1.1 Monitoring the level of prices of the wholesale gas market

Data on the wholesale gas market come, as usual, from the first and provisional calculations of the Survey Data collected yearly, that the Authority carries out regarding the status of the markets for electricity and gas during the previous year. As for sales in the natural gas sector, the survey was given to 541 accredited companies in the Authority's Registry of operators, who declared their sales of gas on the wholesale or retail markets in 2014. Of these, 446 companies that responded, 36 said they had remained inactive during the year. Of the 410 active, 71 sold gas exclusively to

the wholesale market and are classified as exclusive wholesalers, while only 231 sold gas to consumers and have been classified as exclusive suppliers. The remaining 108, who worked in both the wholesale and the consumer market, have been classified as mixed operators.

The wholesale market, which together handled 145.6 G(m3), was fuelled by the 47.6% by pure wholesalers and the remaining 52.4% from mixed operators. The 53.3 G(m3) sold to end users were supplied 21.1% exclusive suppliers and for 78.9% of mixed operators. As is this case, for many years, in 2014, the number of companies that operated in the wholesale market has grown, as well as gases which have a total intermediated fact, 179 suppliers, and eight more than the previous year, sold a total of 36 G(m3) in most of 2013. As a percentage, the increase in the number of operators had been lower than the volume of gas traded, so the average unit volume grew 30%, from 636 to 813 M(m3) in the overall market, an event that has not repeated itself for several years.

In 2014 the level of concentration in this market rose again, after the decreases observed until 2012, although there have been changes in the top positions of the companies. The share of the top three companies Eni, Eni Trading & Shipping, GDF Suez Trading Italy, in fact rose to 36.3% from 29.3% estimated in 2013. Likewise, there was also an increased in the combined share of the top five companies (the three already cited plus Edison and Shell Energy Europe Limited) which rose from 42% to 48.4%. Obviously, also the Herfindahl Hirschmann Index computed only on the wholesale market, has increased compared to 2013, from 507 to 653, thus remaining below the 1,000 value, considered a symptom of low concentration.

In 2014, the average sum in the wholesale market was €27.95 C/m^3, much lower than the 24.58 €c/m^3 PSV (Platts was the data source) and a decrease of (-14,4%) compared to the value observed in 2013, coming to 32.67 €c/m^3.

The price charged by operators was mixed at 28.95 €c/m^3, or 2.10 €c/m^3 higher than that charged by exclusive wholesalers.

Table 4.4 Sales and Prices on the Wholesale Market in 2014

M(m^3); €c/m^3

Operator	Number	Sales	Price
Pure Wholesalers	71	69,231	26.85
Mixed Operators	108	76,359	28.95
Totals	179	145,590	27.95

Source: Annual survey on regulated sectors.

The main trading platform in the wholesale market in Italy is still the Virtual Trading Point (PSV), managed by the major operator of the transport network -— Snam Rete Gas — and that permits the exchange of expertise and volumes of gas, according to *over the counter* contracts.

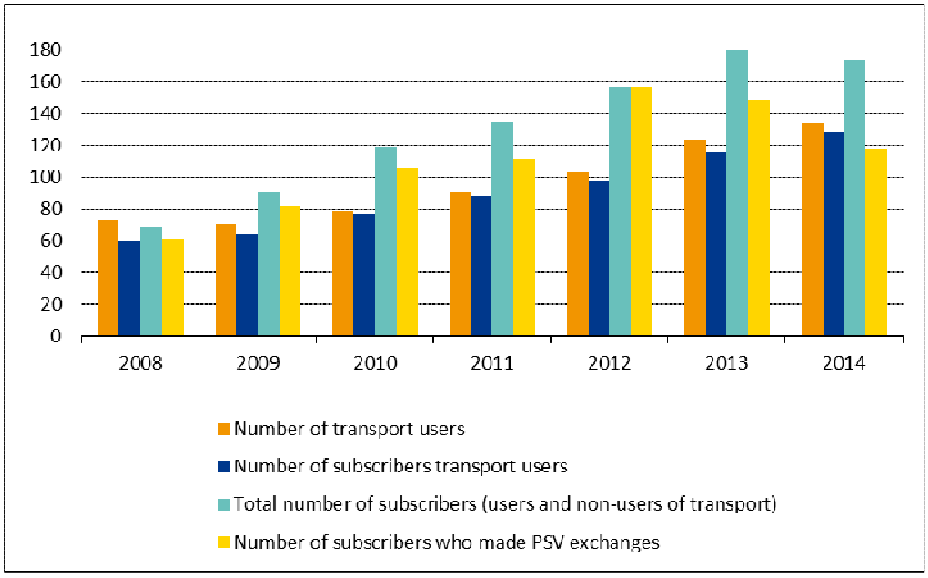
Only since 2010, as best shown in the following paragraphs, a regulated and transparent stock market for the exchange of gases was created. Due to the changes still in progress, and above all, the remarkable growth recorded by the platform for balancing gas, the Gas Exchange also recorded, in 2014, an extremely low level of liquidity.

Virtual Trading Point

In 2014, 118 subjects underwent exchange, transfer and acquisition of gas at the PSV; about a third of these (48) were pure traders, as non-users of the transport system.

For the second time in several years, the number of subscribers who made exchanges at PSV fell sharply (Figure 4.8). Already in 2013, there had been at first, a slight decline in the number of subscribers, from 157 units in 2012, they had fallen to 148 (-5.7%). This year, however, the reduction was more significant, coming to -20.3%, as the number of subscribers dropped to 118, more or less the same number in 2011. The number of exclusive traders (i.e. non-users of the transport system) there was a decline, increasing from 46 to 33 units.

Figure 4.8 Users of PSV since 2008



Source: Annual survey on regulated sectors.

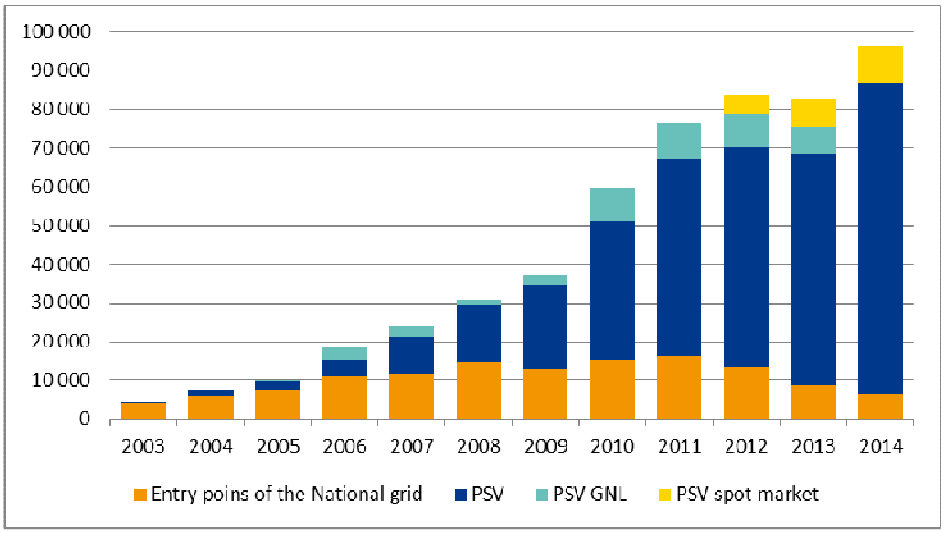
Figure 4.9 shows the transaction history of gas occurred at the *entry points* of the national gas system and exchanges recorded at PSV. In the graph imports at entry points are grouped, the returns of liquefied gas at PSV and exchanges registered at PSV arising from trading on the *spot* market and OTC. Imports at *entry points*, including all transactions (trade and customs), are grouped into a single item, which included the sales recorded at Tarvisio, Gries Pass, Mazara, Gorizia, Gela and Panigaglia, the latter until November 2005, because it was then registered under PSV LNG. Until November 2013 the latter category included the returns of gas that occurred at the Panigaglia LNG, in Italy by the company. Those that occurred at the Porto Viro Terminal (Rovigo) by the Adriatic LNG Terminal (October 2009) and, most recently, only for the month of October 2013, they were added to the returns of gas at the Livorno Terminal, managed by OLT *Offshore* LNG Toscana. Under the provisions of the Authority[196], however, by November 2013, the returns of gas at regasification terminals occurring in the transport network at the point of

[196]Resolution No. 297/2012/R/gas, dated 19 July 2012, has removed the requirement of returning the gas of the regasification terminals to PSV, postponing the regulation of the methods of application of the new rule to the regasification codes. The new modalities were, therefore, entered into force with Resolution No. 556/2013/R/gas, dated 5 December 2013, with which the Authority approved codes presented by Adriatic LNG Regasification and LNG Italia, modified by Resolution No. 297/2012/R/gas.

interconnection with the regasification terminal and no longer at PSV. Therefore, for 2014 voice LNG PSV no more volumes and transactions..

Figure 4.9 Transaction Volumes at the Entry Points of the National Grid

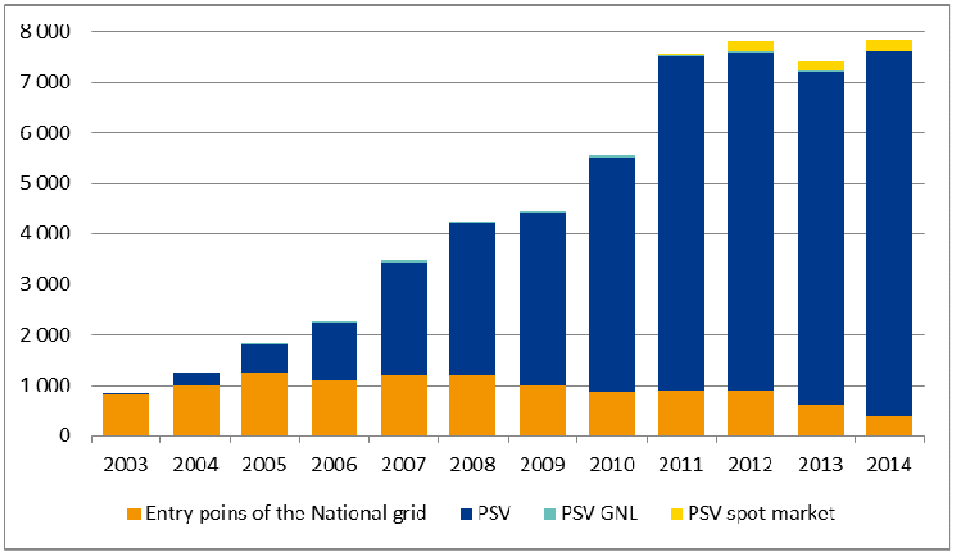
M(m^3) standard from 38.1 MJ; transactions relating to injected gas into the network by the outgoing user



(A) All transactions, trade and customs are included in the RTN.

Source: AEEGSI's elaboration from Snam Rete Gas data.

Figure 4.10 Number of Transactions at the National Grid Entry Points



(A) The RTN includes all transactions, both commercial and customs.

Source: AEEGSI's elaboration from Snam Rete Gas data.

As can be seen, the PSV has been growing significantly over the course of time, both in terms of number of transactions and in volumes traded. In contrast, for three years it consistently reduced its share of trading to the entry points of the RTN, which was eroded in part by the decrease in imports, and partly from other available purchases: the PSV and the LNG spot market.

In fact, with the "PSV spot market" indication, volumes traded on the platforms managed by GME for spot markets are highlighted, including the PB-GAS, which is the balance platform in the gas market through which the manager of the Balancer (in other words, Snam Rete Gas) and users can

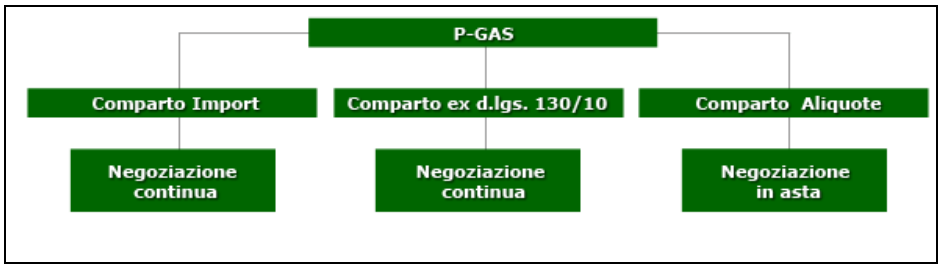
procure the necessary resources to implement the balancing system. The platform has been active since December of 2011, but only since 1 April 2012, were shippers able to submit bids. The platform, which is divided into two segments, and with sessions taking place on a daily basis, will be described in detail in the next section.

Gas Exchange

The creation of a Gas Exchange in Italy was the starting point in 2007, with Decree n. 7, dated 31 January 2007, converted into Law n. 40 , dated 2 April 2007, which established the requirement for holders of the exploitation of natural gas concessions, to yield the rates of gas produced in Italy due to the State, and to importers, offering a share of imported gas at the regulated capacity market. With Law n. 99, dated 23 July 2009, the economic management of the gas market was exclusively entrusted to the GME, which, under the same law and within six months after its entry into force, it took over management of the offers of purchase and sale (and all related services) according to the economic merit criteria.

The creation of the nucleus of the Stock Exchange, however, was actually carried out with the enactment of the Decree of the Ministry of Economic Development, dated 18 March 2010, which set up the trading platform for the trading of imported gas, known as P-GAS. The decree, in particular, established that, as of 10 May 2010, the mandatory quotas for the sale of natural gas imported are to be offered exclusively in the context of the new Trading Platform (the so-called "import sector"). but also offers of additional volumes of gas, carried out by individuals other than those subject to the requirements imposed by Decree Law n. 7/07, may be admitted to the platform. Only those authorized to operate on the P-GAS may be granted entrance to the PSV. The products traded are contracts with a delivery period of one month or one thermal year. The GME simply plays the role of platform manager and not of the CCP: collateral management, billing and payments is then carried out directly by the operators who sell gas. The method of trading in units of import sold compulsorily on the P-GAS still continues.

Figure 4.11 Articulation of the P-GAS



Source: GME.

Since 10 August 2010. Shares of imported gas were added to those of the gas rates produced in Italy due to the State, which are traded in the rates sector of P-GAS. Again, GME is the central counterparty and operates exclusively as an organizer and operator of the platform, but the negotiation method is the auction.

The start of the actual natural gas *spot* market with GME, which acts as a central counterparty, finally occurred in October of 2010, with the birth of the **M GAS**. On that market, operators, who

had been authorized to make transactions on PSV, can now buy and sell quantities of *spot* natural gas. At that time it was divided into:

- MGP-GAS (day-ahead gas market), where the trading takes place with offers of sale and purchase relative to the following gas-day. The bargaining method is continuous until the closing of the auction;
- MI-GAS (intraday gas market), in an allocation of the gas on the gas-day itself. The negotiation method is continuous.

In May of 2012, a further segment of the P-GAS called "sector was started, pursuant to Legislative Decree n. 130/10," referring to the Legislative Decree created to implement measures to make the gas market more competitive, thanks to the strengthening of the storage infrastructure. Legislative Decree n. 130/10 was established in place of the so-called "Antitrust Ceilings" which, by now, have expired and seek to introduce new incentives to develop competition in the wholesale market through the development of storage capacities.

In particular, the decree provides the possibility for those investors[197] to ask the manager of energy services (GSE), up to the progressive entry into operation, for new storage capacity and for a period not to exceed five years, to deliver gas in the summer and have it returned in the winter to a maximum, corresponding to the shares of the new storage capacity that has not yet come into active service and assigned to them through the procedures described in Article 7 of the selfsame decree. In order to increase the liquidity of the wholesale market for natural gas, the Decree provides for the obligation, on the part of those who make use of the incentives described above, to use the trading systems organized by GME for offers, selling the quantities of natural gas for which they requested the return in the winter.

In March of 2012, the Authority approved[198] the proposals submitted by the GME and the GSE regarding the method in which participating investors can fulfil their obligation to supply the quantity of gas made available by the virtual combined storage, for the shares of the above, finally providing what is individually or cumulatively offered on the following platforms:

- platform for the supply of natural gas (P-GAS), by setting up a special fund called "ex Legislative Decree n. 130/10";;
- spot market gas (MGP-GAS, please see below).

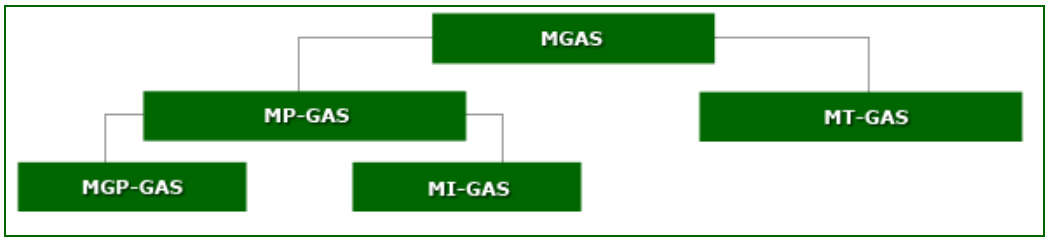
By order of the Decree 9 August 2013, the Ministry of Economic Development has set the date of 2 September 2013, to start the futures market managed by the GME (MT-GAS), in implementation of the provisions of Article 32, paragraph 2, of Legislative Decree n. 93, dated 1 June 2011. This market, which was joined to the existing spot markets, takes place in a manner of continuous trading with many trading *books*, each one for each negotiable product type and related to different delivery periods, which are selected offers to buy and sell gas. Pertaining to the operation of the MT-GAS, from the initial starting date of 2 September 2013 up to the present, there have been no transactions with reference to the various types of negotiable products:

[197] In particular, the subjects in Article 5, paragraph 1, letter B, numbers 1 and 3, dated Legislative Decree No. 130/10.
[198] With Resolution No. 1 March 2012, 67/2012/R/gas.

thermal years and calendar year, semi-annual, quarterly, monthly, *Balance of Month* (products including the days of the current month not yet delivered).

Therefore, as of September of 2013, the spot market for natural gas (M-GAS) consisted of MGP GAS, GAS and MI-GAS MT, as shown in Figure 4.12.

Figure 4.12 Articulation of the M-GAS



Source: GME.

GME also organizes and manages the platform for the balance of natural gas **(PB-GAS).** Becoming operational in late 2011[199], it began the transition from a system of balance "in storage", based on a tariff scheme established and updated by the Authority, the balancer "in the market", in which the price of the resource is determined by the intersection of supply and demand related to the gas stored. The mechanism implemented provides for the mandatory participation of all holders of storage capacity. Therefore, on the PB-GAS, users of the transportation service can procure resources for the improvement of their balance equation, thereby allowing the development of their physical imbalance. The mandatory involvement of the storage holders' capacity, combined with the presence of Snam Rete Gas as Manager of the Balance (RDB), has permitted a movement of gas, significantly higher than the other markets managed by GME.

PB-GAS is divided into compartments:

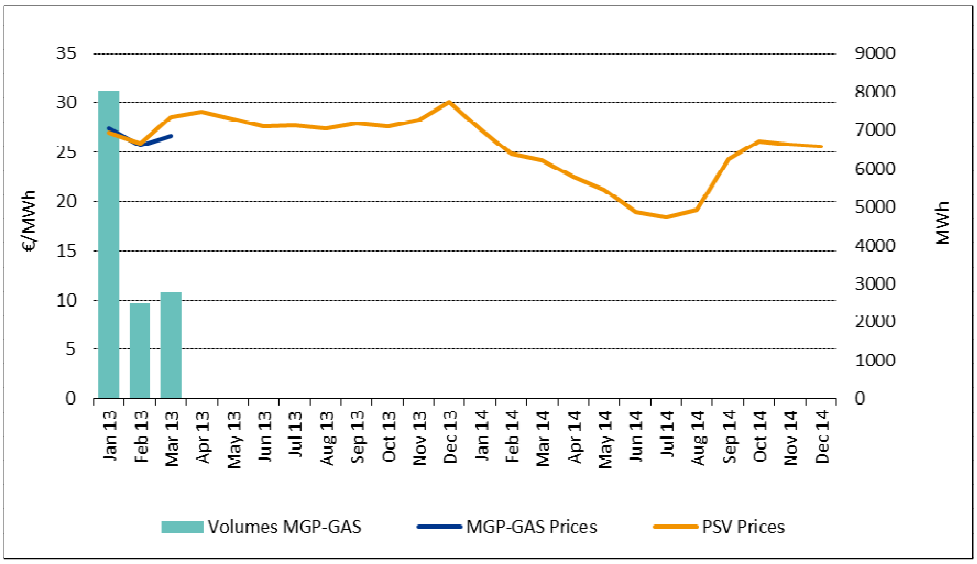
- G + 1, in which authorized users (users of storage services, with the exception of transport companies and only users of the strategic storage service) who have assumed the status of PB-GAS market operator, offer daily, purchase and sale, available storage resources. Similarly, Snam Rete Gas, as the party responsible for balancing, provides the G + 1 Fund, purchase or sale, an amount of gas corresponding to the overall system imbalance, in order to procure the resources offered by operators who may be needed to maintain the system in balance gas.
- G-1, in which Snam Rete Gas may obtain supplies, as manager of the balance, the gas resources necessary to cover the imbalance forecasting system, presenting at each session a single offer to buy or a single offer to sell.

Introduced in late 2014, the G-1 sector is truly a real day-ahead market. On a voluntary basis, different flexible resources, including LNG and Edison storage may be contacted to respond to possible Snam offers.

[199] With Resolution No. 14 April 2011, ARG/gas 45/11.

Figure 4.13 Prices for the Daily Contract at PSV and the MGP-GAS and volumes traded on the MGP-GAS

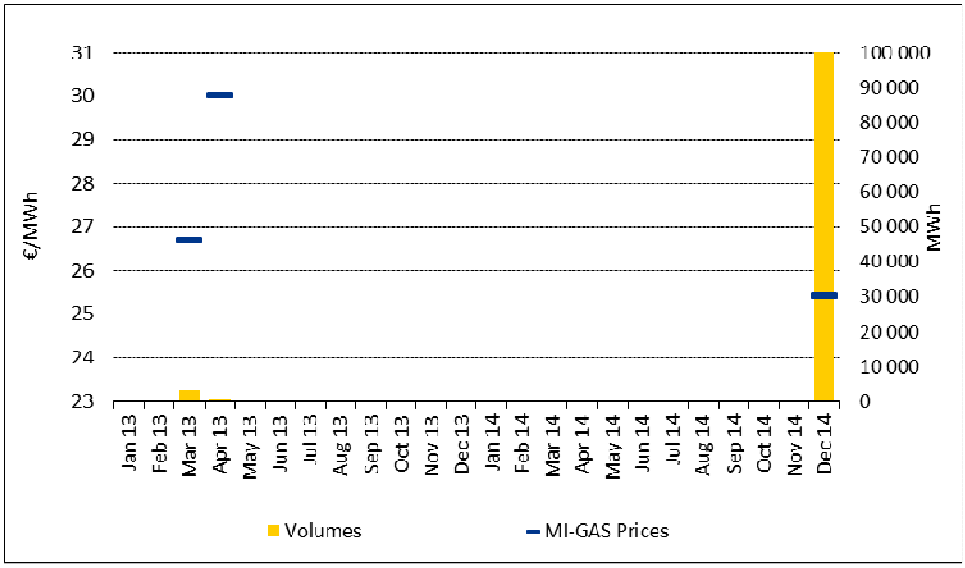
€/MWh, MWh



Source: Platts for PSV, GME for the MGP-GAS.

Figure 4.14 Prices and Volumes for the Daily Contract with MI-GAS

€/MWh; MWh



Source: AEEGSI's elaboration from GME data.

During the negotiation phase in continuous mode in 2014, MGP-GAS had never reported any combination (Figure 4.13).

Regarding the Intraday Market (MI-GAS), 2014 was, instead, characterized by a small number of exchanges with four useful sessions, all concentrated in December (Figure 4.14). The average price recorded came to €25.41/MWh, down by 8% from a year earlier compared with transited volumes equal to 102,130 MWh, compared to 3,820 MWh in 2013.

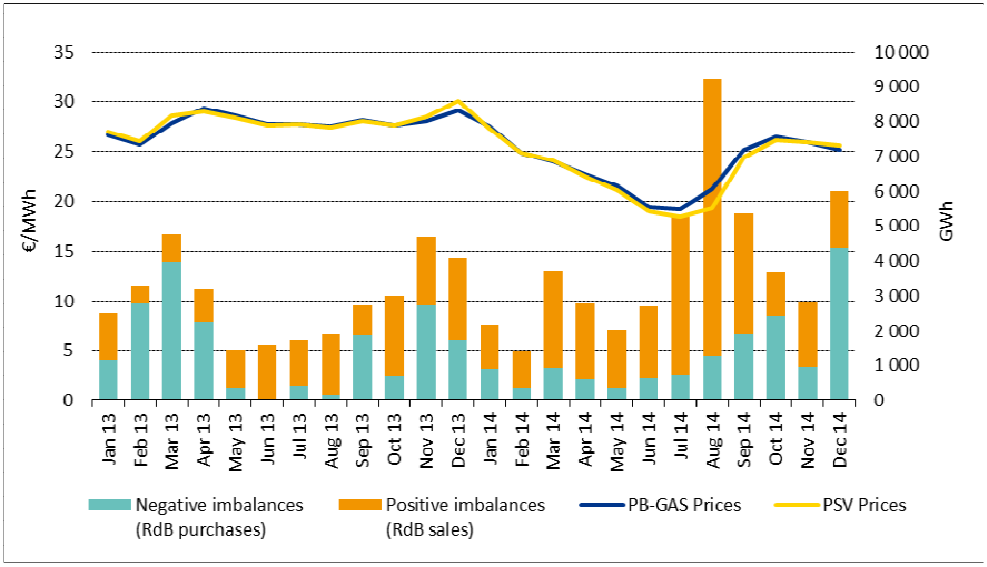
Figure 15.4 shows the prices and volumes on the platform for balancing gas, operated by the GME.

Also in 2014, the PB-GAS highlighted its leading and central role in gas markets, confirming the already positive indications that had emerged between 2012 and 2013, in terms of both registered and active operators (86 and 77), total volumes traded equal at 39 TWh (down 5% on 2013), which was equal to about 6% of the Snam delivery. The volumes traded on this platform represent 92.6% of the total traded in the gas markets managed by GME.

Notwithstanding the requirement of operator participation, it should be noted that a certain dynamism on the part of the latter, as evidenced by the growth in volumes combined outside the need for balance (10 TWh, up 67% on 2013, approximately 27 % of total traded). The remaining volumes, coming to 28 TWh, are those offered by Snam, sale or purchase, to correct the defect or excess recorded during the previous gas day. In particular, in 2014, they came to 12,882 GWh in the negative imbalance (purchases by the RDB) and 15,319 GWh in the positive imbalance (sales by the RDB).

Figure 4.15 Prices and Volumes on the PB-GAS

€/MWh; MWh



Source: AEEGSI's elaboration from GME data.

The average price recorded on the PB-GAS, in 2014, decreased compared to 2013, reaching €23.61/MWh (-15%), broadly in line with the average PSV coming to €23.28/MWh, compared with 17% in 2013. As can be seen from the graph in Figure 3.14, during several months the prices were, in fact, substantially in line with those at PSV where, remember, the negotiations are bilateral and private, in the sense that Snam Rete Gas, which operates the PSV, does not act as central counterparty.

In 2014, the fund balance *ex ante* G-1 was activated in 45 sessions of 365 potential ones (about 12%), for a total of 3 TWh (equal to about 8% of the volume traded on D + 1). According to the Network Code, Snam Rete Gas only operates as a supplier during the injection period (April to October) and only purchases during the discharge period (November-March), enabling the sector with its own bid whenever the imbalance forecast system appears, respectively, negative (system down, Snam Rete Gas in selling mode) or positive (short system, Snam Rete Gas in buying mode). Specifically, Snam Rete Gas, during the injection period, has operated for 43 sessions, mainly concentrated in the months of July (ten sessions) and August (16 sessions), for a total volume of

2.6 TWh, while in the discharge period operated for only two sessions in December, for a cumulative volume of 0.4 TWh.

With regard to the operation of the MT-GAS, from the initial starting date of 2 September 2013 up to the present, there have been no transactions with reference to the various types of negotiable products: thermal years and calendar year, semi-annual, quarterly, monthly, *Balance of Month* (products including the days of the current month not yet delivered).

4.2.1.2 Monitoring the level of transparency, the level and effectiveness of market opening and competition

Measures for the development of competition in the wholesale market

Earlier this year, the Authority reformed[200] the criteria for applying the tariff components to cover the expenses of a general nature for the system. Since 1 October 2015, most of the additional components to the transportation tariff, now applied to the quantities of injected gas into upstream PSV, will be applied to the quantities of gas returned downstream of the regional transport network. In other words, the volumes removed. This reform will free up the value of the wholesale PSV gas from foreign elements in the market, which today represent an obstacle to its development, especially in the futures market. Exchanges at the end, in fact, taking place at PSV, will benefit from greater certainty regarding the cost of items to be considered for negotiating the gas.

According to these new criteria, in particular, it defined the value of the component to cover the costs of applying the adjustment factor of the reference revenue for storage services. This factor ensures a partial covering costs recognized for this service, even if its evaluation is below the allowable tariff revenue.

In 2014, work continued under Legislative Decree n. 130, dated 13 August 2010, which introduced, in place of the so-called "Antitrust Ceilings" [201], new measures to increase competition in the natural gas market through the development of storage infrastructure in favour of the industrial and the thermoelectric sectors.

More precisely, Decree n. 130/10 has introduced some measures to stimulate the development of new storage capacity to be allocated to the industrial and thermoelectric sectors. In 2010, Eni was, therefore, committed to developing, through specific agreements with Stogit (Snam Rete Gas), four billion cubic meters of new storage capacity for natural gas. Such capacity is intended for the three billion cubic meters, subject to investment by investors (industrial consumers of natural gas, small and medium companies, either individual or groups), and a billion cubic meters, intended for electricity producers with plants powered by natural gas.

Today, with the changed economic climate, which is also necessarily reflects the progress of the gas market, the development in Italy of new space capacity for gas storage is less urgent, for two main factors: the market demand is lower to that already available today and the *spread* between

[200] With Resolution No. 60/2015/R/gas, dated 19 February 2015, which is followed by Consultation Document No. 553/2014/R/gas, dated 7 November 2014.
[201] Namely, the emission caps of the network and sales to consumers, referred to by Legislative Decree No. 164/00.

the domestic prices of gas and those of the most liquid North European markets decreased significantly. It is, however, still relevant to the question of the development of the ability of the delivery point. Under these conditions, it is less convenient to have storage capacity (instrumental gas storage in the summer for later use in the winter season) that, in the current market, represents a cost to the industry, since the value of the consideration to be paid to the operator tariff is higher than the benefit derived from the availability of said capacity.

In order not to penalize those investors, it was determined[202] that in a declaration to the Ministry of Economic Development and Stogit, they should confirm their interest in the development of storage capacities yet to be implemented. Furthermore, under that provision, there has been a competitive auction procedure for the allocation of storage capacity — yet to be implemented — reserved for those electricity producers. Stogit is only obliged to construct the new storage capacity equal to the quantities confirmed by industrial investors and the quantity allocated, with the auction system, subject to electricity producers.

With the same purpose to balance the cost of financed capacity by the very industries with respect to the generality of the capabilities offered by Stogit, the Authority established[203] the criteria for the recalculation of the access fee per unit for the storage thermal year of 2013 to 2014.

Subsequently, the Authority has fixed[204] the reserve price for the procedure of competitive bidding for the allocation of capacity for creating entities under the said Decree n. 130/10.

Referring to the power generation sector, the results of the competitive auction procedure performed by Stogit have not given rise to any request for storage capacity by power generators; while one industrial investor has expressed his willingness to maintain participation in the development of physical storage capacity for the additional quantity of 3.7 million standard cubic meters. This reduces the amount of capacity to be reached: the planned 4 billion cubic meters instead of the current 2.6 billion cubic meters. Finally, in March of 2015, the so-called "Procedure on the Market" took place, provided for by the Legislative Decree n. 130/10, relative to the storage capacity for the period of 2015 to 2016. The 95,692 GJ were sold, compared to 12,840,990 GJ offered at an average price of €0.1920/GJ.

Monitoring of wholesale gas markets

In terms of monitoring the wholesale market, in July of 2014, the Authority submitted for consultation[205] le *Integrazioni alla disciplina del bilanciamento di merito economico(Eng: the Integrations to the regulations of balancing economic merit*), suggesting that, in line with the experience in the electricity sector, the GME collect information, assuming the responsibility for calculating the appropriate market indices and signal any anomalies to the Authority in anticipation of the appropriate guidance.

In October, following the consultation, it was established[206] that the GME would send the Authority a proposal to outline the monitoring activities of the natural gas markets and thus identify the possible criteria and the methods of implementation of these activities, by the selfsame GME, and to provide the Authority with the functional elements of assessment for the

[202] Article 1, paragraph 16-bis of Decree Law No. 145/13, converted with amendments by Law No. 97/14 (the so-called " Destinazione Italia").
[203] With Resolution No. 144/2014/R/gas, dated 27 March 2014.
[204] With Resolution No. 208/2014/R/gas, dated 8 May 2014.
[205] Consultation Document No. 373/2014/R/gas, 24 July 2014.
[206] With Resolution No. 485/2014/R/gas, dated 09 October 2014.

good performance of the said markets. That proposal should be coordinated with the requirements established for the collection of data, in accordance with Regulation n. (EU) 1227/2011, regarding the integrity and transparency of wholesale energy market (REMIT).

4.2.2 Retail market

Provisional results from the Annual Survey on electricity and gas show that in 2014, 53.3 G(m3) were sold to end users, ten fewer than in 2013. The decline was, therefore, very strong (-15.9%), higher than those realized in recent years.
The number of active vendors in this segment of the industry has actually increased, though only four units: the 335 operators in 2013, rose to 339[207]. Similar to the electricity market, and also in the gas, the number of suppliers is on the rise. Although, by now, since 2006, the market has not expanded.

Table 4.5 Sales and Prices for the End Market in 2014

M(m^3); €C/m^3

Operators	Number	Sales	Price
Only Retailers	231	11,260	51.73
Mixed Operators	108	42,062	39.74
Total	339	53,322	42.27

Source: Annual survey on regulated sectors.

Of the just over 53 G(m^3) of gas sold in the retail market, about 11 were sold by exclusive retail vendors, while the remaining 42 were brokered by vendors who also operate in the wholesale market. The average sum to consumers came to 42.27 €c/m^3, and fell by 1.84 €c (-4.2%) compared to 2013. As usual, the average price charged by exclusive vendors is 51.73 €c/m^3, a significantly higher value than that offered by mixed operators, equal to 39.74 €c/m^3 (Table 4.5). The reason for this difference deals mainly in the type of customers served and related features. Companies operating mainly in the retail market are turning, in fact, mostly to domestic customers who are connected to distribution networks, and although numerous, are characterized by very high consumption. Conversely, customers served by wholesalers are primarily that of the large-size consumer, industrial or thermal power, which, thanks to the high levels of consumption, will surely able to push more favourable prices, and moreover, is often directly connected to the transport network, and therefore does not pay the cost of distribution.

As already noted, in 2014, the number of operators in the end sale has increased, in contrast to the total quantity sold, which fell from 63.4 to 53.3 G(m^3). The average volume unit sales subsequently fell by 16.9%, from 189 to 157 M(m^3).

[207] As seen in the paragraph dedicated to the wholesale market, this year's response to the Annual Survey regarding the core business sectors of electricity and gas, 446 of the 541 active companies, included in the Authority's directory of operators, declared to have sold gas during 2014 (although only for a limited period during the year). Apart from the 36 companies that said they remained inactive, dated the remaining 410, only 71 said that they had exclusively sold natural gas on the wholesale market. Therefore, those who worked in the retail market numbered 339.

Changes in the number of suppliers are also due to the policies of mergers and acquisitions that occur between companies, each year. Among the major corporate transactions that were implemented in 2014, are:

- the acquisition by Erg Power Generation, for sales to end users by Erg, in the month of July;
- the merger between Acea Energia Holding and Acea Energy, as of the beginning of 2014, and the merger of the AII company and the Green Fuel Company, which took place in early December;
- the entry of Eni Acam Customers into the Group at the beginning of the year;
- the partial sale of the activity, which took place in November, involving Gascom to SGP Trading, through the execution of a business lease, excluding past debts and credits;
- the launch of sales to end users by 11 companies (Energy Only, XTrade Gas & Power and Energy Time Retail in the first quarter of 2014. Industrial Energy TI in the third quarter; Metamer, Europe Energy, Sgp Trading, Eurofox Italy and Steca Energy in the fourth quarter, along with Antonio Rettagliata Tradenergia in the first quarter of 2015).

The 7.4% (i.e. 25 subjects) of the 339 active vendors who responded to the Annual Survey served customers on a national level. All in all that comes to 19 Italian regions using methane gas[208]; 28% of the companies (95) sold electricity in a number of regions of between 6 and 18; the remaining 205 companies (60.5%) operated in a number of regions between 1 and 5.

The stakeholder structure of the share capital for natural gas vendors shows little foreign presence: only 12 companies (over 318 of them provided this information) are non-Italian majority shareholders. The participants are mostly foreign companies located in Luxembourg or Switzerland, however, there are also a fair amount of German and Austrian companies in the mix.

To properly estimate the market share and the level of market concentration for the end sale the work of individual companies must be analyzed, and not that of corporate groups (Table 4.6).

In 2014, the level of concentration in the end sale market decreased slightly compared to 2013, but remained fairly high: the top three groups controlled 46.2%, while the previous year the figure was at 46.9%. Considering the top five groups, the portion of the market served rose to 54.3% (against 56.4% in 2013).

The Herfindahl-Hirshman index calculated on the sales market came to 940 (it was 996 in 2013), a level still very close to the threshold of 1,000, by which the concentration was usually considered too weak.

Compared to 2013, the influence of Eni declined by about one percentage point, but remained more than double compared to that of Edison. In 2013, Edison was the number two operator nation-wide. Regarding the gap between the second and third groups, Enel shortened the gap due to the simultaneous increase in its own shares (increasing from 9.2% to 9.9%) and the decrease in the Edison share (went from 11.9 % to 11.4%). Sales for both groups, however, were down compared to 2013: nearly 1.5 billion of those belonging to Edison and half a billion for those belonging to Enel.

[208] The natural gas service is not present in on the island of Sardinia.

Table 4.6 The Top 20 Groups for End Market Sales in 2014

Volumes in M(m^3)

GRUOP	VOLUME	SHARE	POSITION IN 2014
Eni	13.270	24.9%	1°
Edison	6,095	11.4%	2°
Enel	5,270	9.9%	3°
Gdf Suez	2,290	4.3%	4°
E.On	2,049	3.8%	6°
Iren	1,992	3.7%	5°
Hera	1,879	3.5%	7°
Royal Dutch Shell	1,588	3.0%	8°
A2A	1,221	2.3%	9°
Sorgenia	919	1.7%	10°
Ascopiave	788	1.5%	11°
E.S.TR.A.	668	1.3%	12°
Erogasmet	512	1.0%	13°
Dolomiti Energia	510	1.0%	14°
Unogas	494	0.9%	15°
Linea Group Holding	426	0.8%	16°
Erg	402	0.8%	17°
Suisse Power & Gas	398	0.7%	18°
Agsm Verona	358	0.7%	19°
Enerxenia	351	0.7%	20°
Others	11,844	22.2%	-
TOTALS	53,322	100.0%	-

Source: Annual survey on regulated sectors.

Pertaining to the turnover of the groups in the various ranking positions, there was nothing to point out, given that they all virtually occupy the same position reached in 2013. The only exception was the exchange of positions between the companies E.On and Iren.

Table 4.7 provides a summary of data regarding the retail market for natural gas according to the type of market and the consumer sector, for over the past two years. Please remember that the data is provisional, and was collected by means of the Annual Survey for 2014.

Last year, 63.4 G(m^3) were sold, 10.1 of which were for self-consumption, and as we have already seen, 53.3 were sold. The number of customers in the retail market came to 21.4 million (delivery points).

The quantities of gas decreased compared to 2013, on virtually every type of market and sector: self-consumption, which primarily belongs to the thermoelectric power generation sector, were down by 3.4%, while the loss in sales was much greater, equal to 15.9%. The number of customers who bought natural gas for self-consumption decreased by 0.6%, conversely, sales market customers decreased by 0.9% (in total about 195,000 units).

Table 4.7 Final market for the consumer sector

Number of customers represented in thousands and volumes M(m^3)

MARKET AND SECTOR TYPE OF CONSUMPTION	VOLUMES			WITHDRAWAL POINTS		
	2013	2014	VAR. % 2014/2013	2013	2014	VAR. % 2014/2013
Reference Price Market(A)	14,782	10,794	-27.0%	16,023	14,569	-9.1%
Domestic Customers	12,572	9,606	-23.6%	15,593	14,389	-7.7%
Apartment Block/Domestic Use	1,309	968	-26.0%	128	112	-12.8%
Commercial and Services	609	145	-76.1%	239	53	-77.7%
Industry	157	41	-74.2%	45	10	-77.9%
Electricity Generation	1	2	302.5%	0	0	-63.1%
Public Service Activities	135	31	-76.7%	18	5	-73.0%
Free Market	48,621	42,528	-12.5%	5,556	6,815	22.7%
Domestic Customers	4,056	4,100	1.1%	4,384	5,481	25.0%
Apartment Block/Domestic Use	1,518	1,337	-11.9%	70	80	14.4%
Commercial and Services	6,867	6,261	-8.8%	851	994	16.8%
Industry	20,231	18,779	-7.2%	180	189	5.0%
Electricity Generation	14,790	10,892	-26.4%	1	1	23.2%
Public Service Activities	1,158	1,159	0.1%	70	70	0.2%
Total Gas Sold	63.403	53.322	-15.9%	21,578	21,384	-0.9%
Domestic Customers	16,628	13.706	-17.6%	19,977	19,870	-0.5%
Apartment Block/Domestic Use	2,827	2,305	-18.5%	199	192	-3.2%
Commercial and Services	7,475	6,406	-14.3%	1,089	1,047	-3.9%
Industry	20,389	18,820	-7.7%	225	199	-11.6%
Electricity Generation	14,791	10,894	-26.3%	1	1	17.6%
Public Service Activities	1,293	1,191	-7.9%	88	75	-14.7%
Self-Consumption	10,466	10,114	-3.4%	2	2	-0.6%
FINAL MARKET TOTALS	73.869	63.436	-14.1%	21,580	21,385	-0.9%

(A) It includes supply of last resort and default supplier customers.

Source: Annual survey on regulated sectors.

As mentioned on the previous pages, 2014 was a year in which the consequences of the economic crisis, still very present, two other unfavourable factors were added to gas consumption: the climate, first of all, and competition from renewable sources in generation of electricity. The climate was mild during the winter months, reducing the need for heating, and relatively cool during the summer months. Also in this case, contributing to the limited electricity consumptions, and thus the use of gas for thermoelectric generation. In addition, 2014 was quite rainy year, which showed an increase in hydroelectric production and therefore, once again, a lower demand for gas in energy use. Generally speaking, the strong competition for natural gas comes in the form of renewable energy sources that are gaining popularity through incentives and by meeting environmentally friendly goals.

In a similar context concerning the considerable reduction of consumption, there was the further collapse, -27% in terms of volume and 9.1% in terms of customers, recorded by the reference price market, following the already very prominent one in 2013 (- 18% in terms of volume). For this

segment of the market, pertaining to the general reasons mentioned above, there are two others reasons: the displacement of domestic customers in the free market, in an attempt to find more favourable prices and terms of purchase, and especially the effects still present from the gradual expulsion — ope legis (power of law/strength of rule) — from the protection service in all categories of non-domestic customers[209].

In this regard, it should be noted that the presence of sales volumes and non-domestic customers (or, rather, delivery points accounted for according to the *pro die*), in the columns of the tables titled "standard price market", this was due to the that the process for leaving the protection market, (given the choices exercised by customers and respecting the timeframe of notice provided for by the Code of Business Conduct), which had persisted into the early months of 2014. Additionally, concerning the instructions given in the data collection, customers of the last resort supply service and customers supplied by the default supplier were counted among those in the standard price market.

In connection with what has already been stated, also explains the further significant growth in the free market, increased by a total of over 1.2 million delivery points (+ 22,78%), following the already significant (+1.4 million delivery points) recorded in 2013. In the categories of non-domestic consumption, forced to transition towards the free market, there are, in fact, high rates of increase in the number of customers and, conversely, very strong reduction rates for the same categories in the protection service have been observed.

The surge in the number of customers in the free market did not match increases in purchase volumes for the previously mentioned reasons of a general decline in consumer spending. The only exceptions were domestic customers for which there was a slight increase by 1.1%, in consumption compared to 2013, of individuals who were certainly not comparable to the increase in the customer base (+ 25%). In fact, the average consumption per unit of families shopping in the free market decreased from 925 to 748 m^3/year.

The portion of volume purchased, on average, in the free market rose to 79.8% from 76.7% observed in 2013. Of course, it becomes more important as we move from the domestic sector to the areas which gas is an input production process and where the use of gas is more intense. Thus, the share of volumes purchased in the free market is 30% on the domestic side, 58% for central heating, 98% in trade and services, to 100% in industry (91.2% including self-consumption) and thermoelectric (57% including self-consumption) and 97% in the use of public services.

[209] As you recall, according to Decree Law of No. 69, dated 21 June 2013, from the second half of 2013, the requirement to offer the economic conditions of protection relates only to domestic customers and no longer to users in the "different uses" and "low power consumption" categories, or those operating public service activities. Given that the new contracts provided to non-domestic customers can no longer benefit from the terms of protection, for those, who at that time were in the protected market without actually being eligible, the methods for terminating the protection service request application were established by the Authority in order to allow the end user to have the adequate information and a reasonable timeframe for evaluating the different offers on the market. Therefore, as of the second half of 2013, the non-domestic customers were actually leaving, in significant numbers, the protection service and the data collected bears witness to that effect.

Table 4.8 Final Market by Type and Size of Customers in 2014

M(m^3)

SECTORS	CUSTOMERS DIVIDED BY ANNUAL CONSUMPTION CATEGORIES (m^3)						TOTALS
	< 5,000	5,000-50,000	50,000-200,000	200,000-2,000,000	2,000,000-20,000,000	> 20,000,000	
STANDARD PRICE MARKET(A)	9,512	1,070	182	23	7	0	10,794
Domestic Customers	9,330	276	0	0	0	0	9,606
Central Heating	108	702	157	2	0	0	968
Commercial and Services	57	59	12	13	5	0	145
Industry	12	18	4	4	2	0	41
Electricity Generation	0	0	0	2	0	0	2
Public Service Activities	6	18	6	0	0	0	31
FREE MARKET	5,261	4,446	2,969	6,931	9,174	13.748	42,528
Domestic Customers	3.981	108	6	5	0	0	4,100
Central Heating	51	930	286	61	9	0	1,337
Commercial and Services	985	2,214	1,248	1,242	535	37	6,261
Industry	177	837	1,196	5,164	7,155	4,249	18,779
Electricity Generation	0	3	11	159	1,282	9,437	10,892
Public Service Activities	67	354	223	299	192	25	1,159
TOTALE	14,773	5,516	3.151	6,954	9,181	13.748	53.322

(A) This also includes customers of the last resort supply service and customers supplied by the default supplier.

Source: Annual survey on regulated sectors.

The breakdown of sales to end users (net of self-consumption) for the consumer sector and customer size (Table 4.8) confirms the analysis that has often been provided in the past. To increase the size of the customer base, the free market gradually acquired greater influence. Thus, the share of consumption covered by the free market total was, on average 9% for customers of the first two categories of consumption (less than 5,000 m^3/year and from 5,000 to 50,000 m^3/year), 5.6% for the third class (50,000 to 200,000 m^3/year), 13% for the fourth (200 thousand to 2 million m^3/year), to 17.2% for the second to the last (2 to 20 million m^3/year) and 25.8 % for the last (over 20 million m^3/year).

The presence of volumes in the consumption categories of protected non-domestic (and in excess of 200,000 m^3/year in the case of condominiums or 50,000 m^3/year in other non-public service) as already stated on the preceding pages, occurs in part because the data also included customers using the services provided by the supply of last resort and default, and partly because the figures included customers who had never chosen the free market, despite the fact that the new measures are about to end.

4.2.2.1 Monitoring level of prices, the level of transparency, the level and effectiveness of market opening and competition

Please note that the Authority made two surveys regarding the supervision of sales prices in the retail market:

- that of the average conditions regarding the supply of natural gas, done in accordance with Resolution n. ARG/gas 64/09, dated 28 May 2009, in which quarterly data was collected on a monthly basis pertaining to the prices charged by suppliers to domestic and non-domestic customers, divided into categories and consumer sectors;
- that the annual survey performed regarding the regulated sectors, in which the data was collected dealing with the previous year and broken down according to the various detailed categories (type of market, industry and consumption categories, type of connection).

As already mentioned in Chapter 3 (please see section 3.2.2.1), the Authority also defined the system of monitoring the retail markets of both electricity and natural gas (TMR), which provides operation requirements for the end sale of electricity and natural gas (with a number of withdrawal points of more than 50,000) submitting to the Authority, on a quarterly basis, the monthly data for the average price charged for electricity in the end market, along with numerous other indicators (please see the next paragraph). In fact, as of January of 2012, the average prices collected by the Authority pursuant to Resolution n. ARG/gas that converge with n. 64/09, only for the suppliers who are required by TMR, to use that the monitoring system. Under an institutional arrangement, however, all the data collected pursuant to Resolution n. ARG/gas 64/09 will be sent to the Ministry of Economic Development, every six month, who in turn, will send them to the Eurostat, thereby fulfilling its own obligations under Directive n. 2008/92/EC, dated 22 October 2008, concerning the EU procedure to improve the transparency of prices for end industrial users of natural gas and electricity.
Instead, data from the second survey were used for the statistical analysis carried out by the Authority, especially those at were the basis of the Annual Report.

The provisional analysis of the Survey conducted by the Authority on the data collected, in 2013, showed that last year the average natural gas price (weighted by the quantities sold), net taxes, exercised by the suppliers or wholesalers operating in the end market, totalled 42.30 €c/m^3 (Table 4.9). In 2013, this price was equal to 44.00 €c/m^3. Therefore, the overall average cost of gas in Italy showed a decrease of 4%

On average, customer subscribers to the protection services have paid 55.30 €c/m^3 for natural gas, while 39.00 €c/m^3 was the average price paid by those in the free market; therefore, the overall price differential between the two markets came to 16.30 €c/m^3, a decrease of 3.30 €c/m^3 compared to that recorded in the previous year. This price differential is affected, of course, by the allocation of sales volumes in each of the two markets among different categories of consumption. As we have already seen, the average size of customers on the free market is much higher (Table 4.8); to what was matched. In this market, the increased presence of customers directly connected to the transport network[210], who do not pay the components for distribution and storage, as well as the presence of a more flexible price system, in which the index formulas respond more rapidly and more intensely to structural changes in international markets, even if the amendments made, as of 2012, in the updates of prices established by the Authority, tend to go in the same direction. Going further into the details of each category of consumer, the benefit from the best conditions of the free market, especially for medium-large customers, can be seen. It was also noted that, as

[210] Over 95% of the consumption in the "domestic use + central heating + trade and services" is taken from the distribution networks, while in the case of "industry + electricity generation" about 80% of the consumption is taken directly from the national or regional transport networks.

of 2010, for smaller customers (consumption of up to 5, 000 m^3 annually) the free market offers less favourable terms regarding the protection service. In general, we can say that the ability to obtain more affordable supply conditions is directly proportional to the size of the customer, in relation to a greater knowledge of the market and greater attention to its conditions. Additionally, as mentioned earlier, there are strong structural changes in international markets; some types of offers on the open market might have [adversely] affected those customers who subscribed.

Table 4.9 Pre-tax prices in the retail market

€c/m^3; annual consumption categories expressed in m^3

TYPE OF CONTRACT AND CUSTOMER BY ANNUAL CONSUMPTION CATEGORIES	2010	2011	2012	2013	2014
STANDARD PRICE SERVICE (A)	44.6	50.4	57.7	59.0	55.3
Less than 5,000	46.4	52.5	60.1	60.2	56.8
Between 5,000 and 50,000(A)	–	43.1	48.2	52.2	44.1
Between 50,000 and 200,000(A)	–	42.6	48.1	50.5	41.9
Between 5,000 and 200,000(A)	38.3	43.1	48.2	51.9	43.7
Between 200,000 and 2,000,000	34.7	37.9	40.6	48.8	60.3
Between 2,000,000 and 20,000,000	29.0	30.4	45.9	–	75.7
Over 20,000,000	–	–	–	–	–
FREE MARKET	30.6	34.9	40.7	39.4	39.0
Less than 5,000	47.0	53.6	61.3	63.8	62.5
Between 5,000 and 50,000(A)	–	44.9	51.5	50.9	47.6
Between 50,000 and 200,000(A)	–	40.6	48.4	43.9	41.4
Between 5,000 and 200,000(A)	38.7	43.1	50.3	47.9	45.1
Between 200,000 and 2,000,000	31.2	34.5	41.1	36.6	34.9
Between 2,000,000 and 20,000,000	27.6	30.8	36.9	33.8	34.0
Over 20,000,000	29.0	33.1	36.8	32.7	32.0
TOTAL	34.8	39.3	45.5	44.0	42.3

(A) This also includes customers of the last resort supply service and customers supplied by the default supplier.
(B) Until 2010 the price was recorded for a single category of customers with consumption between 5,000 and 200,000 m^3

Source: Annual survey on regulated sectors.

The smaller customers' standard price services, consuming less than 5,000 m^3/year, are paid on an average of 56.80 €c/m^3. This price is comparable with the national average in the economic conditions of the calculated supply for a domestic customer consuming 1,400 m^3/year, which in 2014 amounted to 52.50 €c/m^3 (82.30 €c/m^3 including taxes). With increasing consumption, the price naturally tends to fall. The presence of volumes and prices in the categories of consumption is higher due to the existence of customers who were once part of the contractual conditions established by the Authority.

In the free market, the range of customer has even more of an influence on the bidding price: smaller customers, in fact, tend to pay about 30.50 €c/m^3 more than larger consumers. The highest levels of consumption generally allow a reduction in fixed costs per unit. In particular, the incidence of distribution rates are much higher for smaller consumption (in 2014, on the average, the cost to cover distribution was approximately 12.00 €c/m^3 for the standard consumer with 1,400 m^3, who paid according to the conditions set by the Authority). Conversely, for larger customers who were not connected to the distribution network, this component was not even present. In addition, small consumption is characterized by a greater correlation with the climatic trend, involving storage charges and higher transport rates.

Table 4.10 Pre-tax prices in the retail market, consumer sector and customer size in 2014

€C/m^3; annual consumption categories expressed in m^3

TYPE OF CONTRACT AND SECTOR	CUSTOMERS SUBDIVIDED BY ANNUAL CONSUMPTION CATEGORY						TOTAL
	< 5,000	5,000-50,000	50,000-200,000	200,000-2,000,000	2,000,000-20,000,000	> 20,000,000	
STANDARD PRICE SERVICE (A)	56.8	44.1	41.9	60.3	75.7	-	55.3
Domestic Customers	56.9	42.6	-	-	-	-	56.4
Central Heating	48.1	43.7	40.4	40.6	-	-	43.6
Public Service Activities	58.9	51.6	48.4	46.0	-	-	52.4
Commercial and Services	59.4	51.2	55.1	73.3	79.5	-	57.6
Industry	57.3	51.3	59.1	51.1	67.0	-	54.6
Electricity Generation	47.0	46.1	42.7	-	-	-	45.6
FREE MARKET	62.5	47.6	41.4	34.9	34.0	32.0	39.0
Domestic Customers	64.2	50.0	45.3	47.8	-	-	63.8
Central Heating	54.9	52.3	50.3	44.3	34.2	-	51.4
Public Service Activities	52.6	45.7	42.6	37.9	33.4	35.3	41.2
Commercial and Services	57.4	47.2	41.1	35.8	33.2	26.0	44.0
Industry	57.4	44.2	39.4	34.4	34.6	36.9	36.0
Electricity Generation	51.2	47.5	40.7	34.9	31.2	29.7	30.0
TOTALS	58.8	46.9	41.4	35.0	34.0	32.0	42.3

(A) This also includes customers of the last resort supply service and customers supplied by the default supplier.

Source: Annual survey on regulated sectors.

Table 4.10 shows the cross-section of average prices for the consumer sector.
In the context of standard price market, the category that is most representative of smaller customers (0 to 5,000 m^3), the typically domestic household, who, in 2014, paid an average price of about 56.90 €c/m^3 that was closer to the average service price (55.30 €c/m^3), while in the free market the overall average price was closer to that paid by medium-range customers.
In comparing the two markets, the results depended upon the type and range of consumers' needs.
For domestic customers and central heating, the protection service appears to have been advantageous. However, for the public sector, private businesses and other services, the free market was more convenient. The same results were found regarding industry and power generation, with the exception of smaller customers.

Monitoring the level of transparency, the level and effectiveness of market opening and competition

The monitoring system of the retail market (already described in Chapter 3 and in the previous paragraph) is designed to allow the Authority to make regular and systematic observations of the operating conditions in the retail market, including the degree of openness, the competitiveness and transparency of the market, as well as the level of participation of consumers and their level of satisfaction.

In regards to domestic customers, the Authority has also introduced tools to:

- improve knowledge and understanding of the market and its rules. Among those initiatives the publication of the ***Atlante dei diritti del consumatore di energia*** (*Atlas of Energy Consumer Rights*) and the adoption of the resolution relative to the transparency of customer billing;
- facilitate the evaluation and selection of bids in the open market. Among those initiatives the provision of "**Trova Offerte**" (**Find Offers**) and imposing the requirement for the supplier to present customers with a "scheda di confrontabilità" (price comparability card) of the cost prior to concluding the contract.

Switching

Based on data provided by the natural gas transmission and distribution operators, the rate of *switching*, that is, the number of customers[211] who have switched suppliers in calendar year 2014[212], was a total of 6.5%, or 45.8% when measured according to the meters of customers who made the change (Table 4.11). As always, both percentages are higher than those observed in the previous year, although the data of 2014 for non-domestic customers, such as those of the previous year, were likely affected by the transition to the free market driven by aforementioned regulatory changes.

The change of providers by domestic consumers in 2014, which was certainly spontaneous, confirms, yet again, but not particularly high, a steady increase over several years, with the exception of 2012. Last year, the share of customers who made at least one change was, in fact, about 6.2%, corresponding to a portion of volumes by 7.2%. Roughly higher by one percentage point, was the small number of central heating, whose domestic households chose another supplier/provider, for volumes corresponding to 10% of its relative consumer sector. The 15.8% (equivalent to 23.5% in terms of volume) of the institutions managing public service activities have chosen a new supplier; although at a fairly high rate, this, however, is one of the categories that by law, must leave the protected market. Finally, the category of "other uses" that changed suppliers totalled 10.5% in terms of customers, and 55% in terms of volume.

[211] For convenience of writing, the generic text cites the customers. It should be noted, however, that this is the number of delivery points in the case of transport users and the number of measurement groups in the case of the distribution users.

[212] These questions were asked to reveal this phenomenon according to the definition provided by the European Commission. The questionnaire was then reproduced which had already been proposed in recent years, for the detection of switching, understood as the number of changes of supplier in a given period of time (year) that includes:

- The *re-switch*, when a customer changes twice or more during the selected time period;
- The *switch-back*, when a customer returns to the initial or the previous supplier;
- The *switch* to a competitor of the *incumbent* and vice versa.

If customers change their residential area, the *switch* is recorded only if they move to a different supplier from the *incumbent* in the new area. Furthermore, a change in economic conditions with the same supplier is not equivalent to a *switch*, even in cases where a new contractual formula is chosen or the change from a standard price to a free market tariff is offered by the same supplier or by a subsidiary thereof.

Table 4.11 Switching rates

CUSTOMERS BY SECTOR AND CATEGORY OF ANNUAL CONSUMTION	2013 CUSTOMERS	VOLUMES I	2014 CUSTOMERSI	VOLUMES
Domestic	5.5%	6.5%	6.2%	7.2%
Central Heating	6.6%	9.2%	7.4%	10.0%
Public service activities	15.3%	28.5%	15.8%	23.2%
Other Uses	10.0%	53.4%	10.5%	55.0%
of which:				
Up to 5,000 m³	7.9%	10.2%	8.9%	11.5%
5,000 to 50,000 m³	17.1%	18.3%	17.1%	18.3%
50,000 to 200,000 m³	23.9%	24.4%	23.2%	23.7%
200,000 to 2,000,000 m³	29.7%	32.2%	29.3%	32.2%
2,000,000-20,000,000 m³	60.2%	65.8%	60.0%	66.0%
above 20,000,000 m³	67.2%	56.0%	67.4%	58.3%
TOTAL	5.8%	44.2%	6.5%	45.8%

Source: Annual survey on regulated sectors.

As always, within the "other uses" category, *switching* rates that increase the widening of the consumption volumes can be observed, because for these customers, the purchase price of natural gas gains substantial levels, and therefore, there is a greater propensity to search for better contract terms by switching suppliers hoping to find more favourable prices.

Given the territorial fragmentation of the natural gas market, the levels of *switching* at the local level, also detailing the type of customer, are shown in Table 4.12. As in past years, domestic customers located in Central Italy, also in 2014, exhibit a liveliness well above that of the rest of the country, with *switching* rates that are typically higher than the national average. In general, however, the territorial values maintain a discrete territorial correlation, especially in the Central North and in areas with a lower intensity of consumption. Conversely, Southern Italy and the Islands exhibit, overall, less of a desire to change suppliers.

In the case of households, the percentages in Central Italy are on average 8.1%, in terms of customers and 9.7% in terms of volume, compared to the national average of 6.2% (customers) and 7, 2% (volume). Similar data also emerged regarding the *switch* of central heating, also higher than the national average in Central Italy (9.5% against 7.4% in terms of customers and 12.6% against 10% in terms of volume).
In the public utility sector, the rates of Northern Italy are the highest in terms of customers, but not in the corresponding volumes. In the "other uses" category, both Northern and Central Italy show the same value relative to customers (10.8%) and percentages in volumes much larger than those in the South.

Table 4.12 *Switching* Rates by region and type of Customer in 2014

REGION	DOMESTIC USE		CENTRAL HEATINGS		OTHER USES		PUBLIC UTILITY SERVICES		TOTAL	
	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES
Piedmont	6.4	7.4	6.9	9.4	10.6	67.1	14.7	23.2	6.7	55.4
Valle d'Aosta	2.6	2.9	5.9	8.6	5.6	43.0	17.9	34.6	3.3	36.2
Lombardy	5.3	6.6	7.2	10.8	10.7	57.4	16.1	20.3	5.7	47.3
Trentino Alto Adige	3.2	3.7	3.4	4.2	9.6	59.0	7.9	14.8	3.9	49.4
Veneto	5.9	6.7	9.8	12.9	12.7	62.3	17.3	22.2	6.5	50.9
Friuli Venezia Giulia	6.2	7.4	13.6	17.7	15.3	46.1	27.9	38.1	7.0	40.0
Liguria	5.6	7.1	6.6	8.8	8.7	81.1	10.8	34.1	5.7	62.1
Emilia Romagna	5.2	5.9	3.6	3.9	9.2	47.8	23.5	15.4	5.6	40.4
Tuscany	13.2	13.9	13.2	16.7	16.1	61.5	32.5	58.7	13.4	53.4
Umbria	6.8	9.3	9.8	14.7	12.3	65.2	20.6	57.7	7.3	55.6
Marche	6.3	8.0	6.9	10.0	11.6	57.5	15.7	13.3	6.7	44.6
Lazio	6.2	7.5	8.6	12.0	7.5	81.0	6.3	19.7	6.3	60.6
Abruzzo	5.8	7.7	6.1	8.0	5.9	55.1	11.7	30.6	5.8	43.6
Molise	4.6	5.9	10.5	1.9	7.7	73.5	9.3	25.1	4.8	57.7
Campania	7.0	7.8	7.3	5.0	9.0	56.0	15.5	16.8	7.1	45.1
Puglia	3.5	3.9	3.2	3.2	6.0	30.9	8.2	22.1	3.6	27.0
Basilicata	5.5	6.2	6.4	19.1	12.2	58.2	27.8	20.5	6.0	43.0
Calabria	5.8	7.0	6.5	11.3	9.5	28.4	12.6	19.5	6.0	25.4
Sicily	5.9	6.7	5.6	2.8	7.4	17.3	8.1	14.0	5.9	16.2
ITALIA	6.2	7.2	7.4	10.0	10.3	21.2	15.8	23.2	6.5	13.6
NORTH	5.6	6.6	6.8	9.6	10.8	58.0	16.9	21.3	6.0	48.0
CENTRAL	8.1	9.7	9.5	12.6	10.8	66.4	15.8	31.2	8.3	53.8
SOUTH & THE ISLANDS	5.5	6.1	6.1	6.1	8.0	31.3	12.7	18.3	5.6	27.5

Source: Annual survey on regulated sectors.

Complaints and reports

In the period between 1 January 2014 and 31 December 2014, communications relating to the natural gas sector were up to 15,884 (about 34%). Therefore, compared to 2013, the number of communications was substantially the same. Still compared to the previous period, there were no significant differences in the relationship between the number of requests for information and number of complaints (Table 4.13).

The most frequent topics of the communications, regarding natural gas, received by the Help Desk in 2014, and capable of being classified, are as follows: the bonus, customer billing, the market and contracts (Table 4.14). Compared to 2013, in particular, it was also noted that a further — albeit slight — decrease of complaints on the gas bonus, increase (more than proportional to the

general growth of complaints), relating to contracts, both having to do with connections and repair jobs.

Table 4.13 Communications related to the gas sector received from the Energy Consumer Help Desk

	2013		2014	
	GAS	TOTAL(A)	GAS	TOTAL(A)
Complaints	15,114	41,779	15,291	42,448
Requests for information	534	2,210	593	3.875
TOTAL N. COMMUNICATIONS	15,648	43.989	15,884	46,323

(A) Total related to the electricity sector, gas and *dual fuel*.

Source: Energy Consumer Help Desk.

Table 4.14 Subjects relating to the gas sector received by the Energy Consumer Help Desk

SUBJECTS	2013		2014	
	NUMBER	SHARE	NUMBER	SHARE
Customer Billing	5,754	37%	6,197	39%
Market	2,005	13%	2,212	14%
Bonuses	4.506	29%	3.243	20%
Contracts	1,854	12%	2,369	15%
Connections/Jobs	627	4%	928	6%
Technical Quality	166	0%	34	0%
Metering	32	2%	286	2%
Prices and Tariffs	286	1%	174	1%
Commercial Quality	198	1%	238	1%
Non-competence	220	1%	203	1%
TOTAL NO. CLASSIFIED	15,648	100%	15,884	100%

Source: Energy Consumer Help Desk .

As for billing, the main issues deal with consumption (on account invoices, adjustments, correction requests), with respect to the regular billing frequency and performance of meter readings or the use of self-readings given by the customer. Compared to the theme "market", most of the reports covered issues relating to the proper application of the Commercial Code of Conduct approved by the Authority, issues related to the change of supplier and the double billing.

In the theme "market" claims for unsolicited contracts and requests for information relating to the indemnity system, managed in accordance with the special procedure in paragraph 3.2.2.1 for the electricity sector are included. With reference to the "contracts", most of the reports concerned the non-payment, contract transfers, exercising the right of withdrawal and termination of supply. Finally, with reference to the "connections and work", the complaints have focused on issues related to activation, take over and the timeframe of such benefits.

4.2.2.2 Recommendations on supply prices, investigations and measures to promote effective competition

Retail prices

The activities in the field of analysis and recommendations on the retail prices achieved by the Authority are common to the sector of electricity and gas and have already been described in detail in paragraph 3.2.2.2 (which should be consulted).

With reference only to the gas sector, it should be noted that under the hearing of 22 April 2015[213], the Authority pointed out that, unlike in the electricity sector, in the gas, the situation of general charges is not active, at present, and is of particular concerns. The Authority however noted the existence of certain difficulties implementing the laws that favour businesses so-called "energy-gas", referred to in Article 1, paragraph 6-bis of the Legislative Decree n. 145, dated 23 December 2013, (so-called "DL Destination Italia"), in the absence of specific directives by the Minister of Economic Development.

Investigations and measures to promote effective competition

In reference to the activities implemented by the Italian regulator in 2014, please see paragraph 3.2.2.2.

[213] Memoria 21 April 2015, 174/2015/I/com.

4.3 Security of supply

Legislative Decree n. 93/11, for the implementation of the Third Energy Package, allocates functions and responsibilities related to this paragraph of the Annual Report to the EC (i.e. monitor the balance between demand and supply of energy, predict future demand and available supply, the capability and additional measures to cover peak demand and in supply shortages) exclusively to the Ministry of Economic Development.

5 CONSUMER PROTECTION AND DISPUTE SETTLEMENT IN ELECTRICITY AND GAS

5.1 Consumer protection

Compliance with Annex 1 of Directive 2009/72/EC

Article 37, paragraph 1, letter N, and Article 41, paragraph 1, letter O, of Directives 2009/72/EC and 2009/73/EC, require the regulator, also in collaboration with other Authorities, to ensure that measures to protect consumers, including those in Annex 1, are effective and enforced.

The status of implementation in our Country regarding the measures provided in said Annex, detailed in Table 5.1 of last year's Annual Report, which should be consulted, have not undergone any significant modifications.

The only innovative changes made were those affecting Comma 1, letter H and letter J.

In particular, Comma 1, letter H *requires that customers have at their disposal their consumption data, and that any registered supply enterprise be granted access, based on an explicit agreement and free of charge, to the data relative to metering by said enterprise*. Speaking on this topic, in April 2015, the Authority published a consultation document to illustrate its guidance on the different ways of making historical data of electricity consumption and withdrawal of power to consumers low voltage available (please see the following paragraph).

The Comma 1, letter J requires instead that consumers *receive a final closing settlement, following the change of a supplier, no later than six weeks after said change*. Also in this case, the regulation is being updated. In fact, at the time this report was being prepared, the publication of a consultation document was imminent, following the conclusion of a specific investigation regarding the issue of billing (please see Paragraph 3.2.2.2).

Guaranteed access of consumption data

Legislative Decree n. 93/11 requires the Authority, within 6 months of the publication of the decree (31 December 2011), to adopt new rules or modify existing ones in order to "... *allow consumers to have access to relevant consumption data and compel distribution companies to make the data consumer accessible to the suppliers ensuring quality and timeliness of the selfsame supply".*

The regulation on invoicing, completed in 2010 (please see Annual Report 2011 CE), allows the customer to be informed also regarding the actual consumption data. Also a means of lodging complaints and making inquiries, the customer can request data from the vendor, who will in turn, request said date from the distributor.

Considering the wide variety of *smart meters* to choose from, in the electricity sector, the consumer has at his disposal, the data for normal consumption, be it capacity and energy, as well as the consumption values subdivided into *on-peak/off-peak/mid level* hours used for the latest billing shown on the electronic display.

In addition, Italian legislation requires that the Integrated Information System (SII [214]) develops, via a withdrawal points central register and an operators accreditation system, centralized management procedures for communicating consumption data and the development of their respective services, of which the first phase of implementation has already started and ended in 2012.

Finally, with Consultation Document n. 186/2015/R/eel, dated 23 April 2015, the Authority presented its guidelines on the different ways of making historical data of energy consumption and power absorption available to consumers in the low voltage category, in implementation of the provisions of Legislative Decree n. 102/2014, converting European Directive 2012/27/EU regarding energy efficiency.

The consultation plan distinctly examines two types of historical data of consumption:

- data for billing intervals;
- data corresponding to the time-frame profiles of consumption.

Public utility requirements

Public Utility requirements contained in Legislative Decree n. 93/11 (Article 35, paragraph 2 and Article 35, paragraph 3), beyond those further described and relative to vulnerable customers, refer to:

- the right to *switching* within 3 weeks of the request;
- access to transparent information relating to tariff and economic conditions as well as the minimum contractual conditions;
- measures to ensure the dissemination to consumers of consumer checklists developed by the European Commission, containing practical information regarding consumer rights;
- for the promotion of energy efficiency, the Regulatory Authority should define criteria that promote the optimization, on behalf of electricity companies, of the use of electricity, also provide efficient energy management services, developed innovative offer formulas and introduce metering systems and smart grids.

Since 2008, Single Buyer has set up an Energy Consumer Help Desk, disseminating information to consumer through *call-centres*.

Regarding domestic customers, the Authority has introduced tools to:

- improve knowledge and understanding of the market and its rules. Among those initiatives the publication of the *Atlante dei diritti del consumatore di energia* (*Atlas of Energy Consumer Rights*) and the adoption of the resolution relative to the transparency of customer billing;
- facilitate the evaluation and selection of bids in the open market. Among those initiatives the provision of “Trova Offerte” (Find Offers) and imposing the requirement for the supplier to present customers with a “scheda di confrontabilità” (price comparability card) of the cost prior to concluding the contract.

[214] Resolution No. ARG/com 201/10, dated 17 November 2010.

Memoranda of Understanding with consumer associations have also been set up to promote consumer information.

The "*Code of Commercial Conduct of the Sale of Electricity and Natural Gas to Consumers*"[215], regulates (widely implementing the provisions of the Third Energy Package) the right to have access to transparent information relating to tariff and economic conditions, as well as the minimum contractual conditions for consumers.

The *switching* procedures were strengthened by the Authority in 2011[216] in particular, regarding the information flows between the distributor and the supplier relative to releasing data and the timetable, so that the supplier can use them for determining certain billing deadlines, and has facilitated the same flows of standard communication. Also in 2011[217] Also in 2011, the term of three weeks for the *switching* procedures, set by Directive Nos. 72/2009/EC and 73/2009/EC were introduced.

With Legislative Decree n. 21, dated 21 February 2014, Directive 2011/83/EU regarding consumer rights, was converted into Italian law, which led to the amendment of certain provisions of the Code of Consumption with respect to the phase of concluding contracts

Due to the changes made to the consumption Code, the Authority updated[218] the regulation of contracts between the suppliers and consumers and made speeches, albeit minimal, on the right of withdrawal and reconsideration.

More specifically, the Authority introduced some changes to the Commercial Code of Conduct approved in 2010[219], relating to additional information to be transmitted to the domestic consumer prior to the conclusion of the contract, the support mechanism used to send this information to the domestic consumer and the amendment of the maximum time allowed to exercise the right to withdrawal (from ten working days to 14 calendar days).

Definition of vulnerable customers – Electricity Sector

In reference to the electricity sector, Legislative Decree n. 93/11 does not provide a specific definition of vulnerable customers (as in natural gas, see below). In each case the Article 35 regarding Public Utilities requirements and customer protection stipulates that all domestic consumers and small businesses (with fewer than 50 employees and a turnover of less than €190 million) that do not choose the free market system, will receive service as part of the protection scheme (Article 1, paragraph 2 of Decree Law n. 73, dated 18 June 2007, converted into Law n. 125, on 3 August 2007). It also establishes that in relation to the development of competitive conditions in the retail market, the Ministry of Economic Development, in response to the monitoring, conducted at least every two years, can adapt, particularly regarding industrial customers, the forms for providing the **protection service**. Each year, quarterly updates of the charges for the protection service will be carried out.

[215] Annex A of Resolution No. ARG/com 104/10.
[216] Resolution No. ARG/com 146/11, dated 27 October 2011.
[217] Resolution No. ARG/elt 210/11, dated 29 December 2011.
[218] With Resolution No. 266/2014/R/com, dated 6 June 2014.
[219] With Resolution No. ARG/com 104/10, dated 8 July 2010.

Since January of 2009, regarding the supply of electricity, is available a mechanism of protection specifically aimed at domestic customers in situations of economic hardship or serious health conditions who receive a **bonus** or discount on electricity supply. Starting from 31 December 2013, 2.1 million families took advantage of the offer, at least once. And there were 942,864 families with active bonus in 2012. There were 23,647 people who benefited from an electricity incentive, including those in a state of physical discomfort. The charges were covered by the proceeds of a specific component, paid by customers who are not eligible to receive these bonuses, for with the 2013 value was updated at the same rates.

In 2012, changes were introduced to the regulation regarding the electricity bonus for customers with serious health conditions (electricity bonus for physical discomfort)[220], described in detail in the *Annual Report* of 2013.

In August of last year [221], the process for the implementation of the provisions of Legislative Decree n. 102, dated 4 July 2014, which implements the European Directive on energy efficiency began. In particular, with Article 11, paragraph 3, of the Decree, the Authority must adapt the components of the electricity tariff, in order to overcome the progressive structure with respect to consumption by identifying tariff components adhering to the service charges and to encourage good behaviour, and finally foster the achievement of efficiency objectives. This decree also requires the Authority to issue proposals for the establishment of any new criteria for the determination of reimbursement of expenses to be recognized for economically disadvantaged members of the population (social bonus).

In February of 2015, the Authority examined[222] the possible development scenarios of the current structure of domestic rates (cf. paragraph 3.1.3). With regard to the social bonus: the consultation proposed a range of possible corrective regulations, which complement the proposals already formulated by the Authority in a report issued to both the Italian Government and the Italian Parliament[223] , in June of last year.

These various hypotheses are aimed at increasing the range of beneficiaries, the savings percentage for owners (20% of the net expenditure of taxes at 30% or 40% for all beneficiaries), to articulate the bonus and the savings percentage depending on the consumption profile of the customer and the number of family members (ensuring that even in the presence of the reform is introduced at a higher expenditure level than the current), and to reduce the tax components (excise) or parafiscal (general charges) as a function of the increase in charges related to the reform of electricity tariffs.

Definition of vulnerable customers – Gas Sector

Legislative Decree n. 93/11 defined "vulnerable" for domestic customers, non-domestic customers consuming less than 50,000 S(m^3)/year and consumers who own utilities relating to public service activities (i.e. users who own public or private structures that operates recognized assistance service, including hospitals, private clinics and rest homes, prisons and schools. This legislative

[220] Changes introduced by Resolution No. 350/2012/R/eel, dated 2 August 2012, pursuant to the Decree issued by the Ministry of Health on 13 January 201. Identifying therapeutic medical equipment powered by electricity, necessary for maintaining the life a person who has a serious health condition, and in accordance with the provisions of the Inter-ministerial Decree of 28 December 2007.
[221] With Resolution No. 412/2014/R/efr, dated 7 August 2014.
[222] In Consultation Document No. 34/2015/R/eel, dated 5 February 2015.
[223] Notification No. 273/2014/I/com, dated 12 June 2014.

decree also provided that, for vulnerable customers, as part of the mandatory public service organizations, the Authority will, on a temporary basis, continue to set the reference prices that the company's sales include among their commercial offers.

This requirement was subsequently amended by Article 4, paragraph 1 of Decree Law n. 69, of 21 June 2013, which provides that "*only for domestic customers*," as part of public service requirements, the Authority will continue temporarily determine the reference prices that the companies' sales include among its commercial offers. As a result of this change, the Authority intervened[224] to clarify that the requirement to offer economic conditions of protection, defined by the *Integrated Text for gas sales* (TIVG), applies only to domestic customers and no longer to other vulnerable customers. In particular, they are still entitled to the **protection service**:

- the points of consumption by a company's domestic customer;
- the points of consumption related to central heating for domestic use, with consumption not exceeding 200,000 S(m^3)/year.

They are no longer entitled to the protection service, instead:

- the points of consumption in the ownership of utilities related to public service activities;
- the points of consumption for different uses, with consumption not exceeding 50,000 S(m^3)/year.

In addition, the Authority adopted regulations to ensure the effective implementation of the changes introduced by Decree Law n. 69/13, while at the same time ensuring that adequate information to non-domestic end users is not affected by these changes.

Decree Law n. 69/13 was converted into Law n. 98, on 9 August 2013, confirming the termination of the protection service for non-domestic consumers. The Authority has therefore taken action[225] to adjust the provisions of the *Integrated Text Gas Sales* (TIVG) with the provisions of the converted Decree Law.

In parallel to the last two years, the Authority has taken provisions aimed at reducing the dependence on the economic conditions of providing a protection service against long-term import contracts (so-called "reform gas"), while gradually introducing a balance between the contracts concerned and prices that are formed on the short-term gas markets (spot markets), long characterized by an oversupply status due to the availability of unconventional gas and falling demand. Specifically, the implementation of the measures contained in Decree Law n. 1, dated 24 January 2012 (the so-called "Cresci-Italia" Eng: Italian Growth). The Authority also predicted[226] that by the second quarter of 2012, the updating of the calculated raw material for an initial fee of 3%, based on prices that formulated on the European spot market, referring to the Dutch platform called the *Title Transfer Facility* (TTF). This share, increased to 5% during the year, has been fixed at 20% from the second quarter of 2013[227]. These interventions led to a gradually increasing concentration with the spot market prices, lower than those resulting from long-term contracts, permitting increases of raw materials in 2012, then achieve a slight reduction of this component in

[224] Resolution No. 280/2013/R/gas, dated 28 June 2013.
[225] Resolution No. 457/2013/R/gas, dated 17 October 2013.
[226] Resolution No. 116/2012/R/gas, dated 30 March 2012.
[227] Resolution No. 125/2013/R/gas, dated 28 March 2013.

the first quarter of 2013, a sharp decline in its second quarter (-7.2% for the average customer, corresponding to 2.70 €c/m^3) and a further decline in the third (-0.60 €c/m^3). This trend was reflected in the overall price, which after a maximum of 92.78 fell to 88.44 €c/m^3 in the third quarter 2013, a decrease of 4.7%.

In the fourth quarter of 2013, the reform process of the calculation methodology for the conditions of supplying the protection service has reached total completion. The reference to long-term contracts has been completely eliminated and replaced (100%) with the price formulated on the short-term market. In anticipation of it becoming fully operational on the Forward Italian Market, under Legislative Decree n. 93/11, it has been maintained based on prices that were formulated on the Dutch TTF market. However, in addition to changing the reference prices, the reform has also modified the structure of the calculation mechanism, changing their entries and their contents. In particular, the new raw material, in addition to the purchase cost found in the TTF square (represented by the $P_{FOR,t}$ element t), includes the following items:

- transportation charges from the square to the point of virtual trading Italian Trading Platform (PSV), managed by Snam Rete Gas (elements Q_{Tint}, QT_{PSV}, QT_{MCV});
- procurement charges and the risks connected to the same (CCR component), including, for example, the climate oscillations (with the consequent effects on prices) and the differences between the quantities purchased and those actually sold (volume risks).

The old QE (energy component) entries and the QCI (share marketing wholesale) were eliminated, since having been replaced by the above items.

The new formulation of calculation has also made necessary changes in some of the components relating to facility charges. First of all, the transport component (QT) has been reformulated, taking into account what has already been included in the raw material. It also implicitly includes the storage charges, and in relation to seasonal swings (the difference of needs and prices between summer and winter) and for the coverage of exceptional events. Consequently the old component QS (share storage) has been eliminated.

In contrast, the transition to the new system has necessitated the introduction of adjustment mechanisms, which essentially consist of the following items:

- the gradual component (GRAD), whose goal is to cover the costs that companies incur restructuring their supply portfolio, in order to obtain an appropriate allocation between short and long term contracts;
- the Pro Renegotiations Component (CPR), intended to encourage the renegotiation of long-term contracts in order to adjust the terms to economic changes and regulatory interventions, as well as finance a partial protection mechanism for consumers, from the increased price volatility which characterize the short term markets.

In terms of impact on the average domestic customer, the budget, starting from the completion of the first phase of the reform[228], up until now records a decrease of about 14.3 €c/m^3 (over 15%) in the total price.

[228] Completion occurred 01 April 2013 with the elevation to 20% of the raw material updated based on the prices formulated on the Dutch *spot* market (TTF) (Resolution 125/2013/R/gas)

In 2014, the Authority intervened[229] to define the method of determining the economic conditions of the natural gas protection service for the thermal year of 2014 to 2015, with specific reference to the component covering the supply cost in the wholesale markets ($C_{MEM,t}$), related activities CCR) and the charges of gradualness (GRAD).

At the beginning of 2015, the Authority submitted a consultation of its own guidelines for defining the rules for calculating $C_{MEM,t}$ components and the CCR, since the thermal year of 2015 to 2016[230]. In particular, the Authority suggested, for the thermal year of 2015 to 2016, that the $C_{MEM,t}$ component retains its definition under the current update formula which has as its reference market the TTF *hub* and, as a benchmark contract, the quarterly product for the updated quarter. Additionally, in order to create conditions for the development of forward dealings in our country, the Authority proposed, for the subsequent thermal years of 2015 to 2016, a *roadmap* that allows changes to the reference market with the transition from Dutch to Italian prices. In this *roadmap* annual assessment was proposed for the degree of liquidity and concentration of the domestic market, considering both transactions on the *Over The Counter* market (OTC), and the negotiations conducted in the organized market, which in the meantime has developed, side by side, with the first one, in order to assess the conditions that will allow the transition to domestic prices.

The final decision has confirmed[231] the proposals during the consultation, for also maintaining thermal year 2015-2016, and the reference to natural gas prices on the TTF market for the relative component of wholesale supply.

As for the thermal years subsequent to 2015-2016, they have been postponed to a later resolution defining the punctual procedures for assessing the existence of conditions allowing the transition to national prices, considering the broader regulatory process and the current regulatory period, aimed at the progressive review of price safeguards.

Legislative Decree n. 93/11 establishes, also based on the provisions of Article 30, Paragraphs 5 and 8 of Law n. 99, of 23 July 2009, which criteria and procedures for the supply of natural gas under the **service of last resort** (FUI) are to be identified and updated for all vulnerable customers who remain without a supplier for reasons beyond their control.

Regarding the boundary of vulnerable customers, pursuant to Legislative Decree n. 93/11 (Article 7, paragraph 7) and the Ministerial Decree of 7 August 2013, they are entitled to the supplier of last resort service: the disconnected end users, or domestic customers, including central heating with a consumption of no more than 200,000 S(m^3) and other customers with an annual consumption of no more than 50,000 S(m^3) per year that, for reasons beyond their control, no longer have a supplier; the consumers cannot be disconnected (i.e., utilities related to public service activities that, for whatever reason, no longer have a supplier. The above estimates are confirmed by the provisions established by the Authority as part of the Integrated Gas Sales (TIVG), covered under the planned adjustment of the conditions for the supply of FUI.

The guidelines for conducting the selection of procedures under which companies operating the FUI service, are outlined in the Ministerial Decree of 7 August 2013. The Authority has implemented the provisions, regulating[232] the guidelines to Single Buyer for the selection of FUI companies. Single Buyer (AU), following the publication on its website regarding the Procedure

[229] With Resolution nos. 95/2014/R/gas, dated 6 March 2014, and 162/2014/R/gas, dated 3 April 2014.
[230] Consultation Document No. 38/2015/R/gas, dated 5 February 2015.
[231] With Resolution No. 133/2015/R/gas, dated 26 March 2015.
[232] Resolution No. 362/2013/R/gas, dated 7 August 2013.

Regulations, made a selection of subjects and published a notice disclosing the outcome of the FUI companies chosen for thermal year 2013-2014. In particular, for each macro zone, the lists were published, giving the names of the FUI operators and the annual quantity of gas they offered.

In the natural gas sector, there is also a **default service** whose goal is to ensure the balancing of the distribution network and is also intended for those customers who are not entitled to the FUI service, given that they do not fall within the category of customers mentioned above[233]. In August 2014, criteria and specified guidelines were defined[234] for Single Buyer to conduct the selection of Default Suppliers (FDD) for the period beginning from 1 October 2014 to 30 September 2016. These criteria are consistent with the requirements for selecting the FUI. Single Buyer has made the selection of subjects and has published the list with the names of operators identified as FD_D.

Since 2009, for the supply of natural gas, there is also an active protection mechanism, specifically targeting domestic customers who find themselves in situations of economic hardship.

As of 31 December 2013, benefiting from the **gas bonus** for economic hardship 626,869 natural gas customers, whose applications, after meeting all the eligibility requirements of their municipalities, were admitted to the facilitation after the verification conducted by the gas distribution companies. The number of families who took advantage of, at least once after the entry into force of this mechanism, were 1.2 million. And 90% of the cases, these families have also benefited from the electricity bonus.

To cover the cost arising from the application of the gas bonus, the Authority has established, within the mandatory tariff for distribution services and measurement of natural gas, the GS component and the GST component, charged to customers who are not domestic customers. The value of the component is contextually defined during rate updates. The funds collected from customers will be matched by funds from the State Treasury's Budget.

Joint interventions in the electric and gas sectors

The phenomenon of **unsolicited contracts** refers to cases where end users are led to enter into contracts for the supply of electricity and/or natural gas, although they never really wanted to, as a result of unethical business practices on the part of the suppliers whose objective is to acquire these contracts, by the use of *switching* procedures to the detriment of the customer and the previous supplier, who would have been entitled to continue supplying said customer. Given the growing number of reports received in recent years from end users and their associations, the Authority has considered it necessary to take action to curb this phenomenon, especially due to its negative impact on the development of fair competition in the retail market. Downstream of a fact-finding activity and a complex process of consultation, regulation in this area was defined [235] in April 2012 and has been described in detail in the *Annual Report* of 2013. The Authority has also provided for the ad hoc monitoring of the phenomenon of unsolicited contracts that, besides permitting the assessment of its temporal evolution, allows the publication of a list of unsolicited suppliers (i.e. a list that provides information on the performance of these entities), based on the data collected through monitoring. The goal of this list is to offer end users complete and

[233] The activation of the *default* service is also provided for customers who are entitled to the FUI (*Last Resort Suppliers*) Service, but for whom the activation of this service is impossible (for example, because the FUI (*Fornitori di Ultima Istanza*) was not selected).
[234] With Resolution No. 418/2014/R/gas, dated 07 August 2014.
[235] Resolution No. 153/2012/R/com, dated 19 April 2012.

transparent information, so they can make informed decisions regarding suppliers of electricity and/or natural gas..

Due to the changes made[236] to the Code of consumption, the Authority has also updated[237] the regulation concerning unsolicited contracts. In particular, the preventive measures and complaints procedures have been changed, so that these measures are now in line with the new requirements, of a precontractual nature, imposed by the Code of consumption. In detail, it was expected that the 30 days for filing a complaint regarding the matter of unsolicited contracts, by the domestic end user, will have to be done:

- the tenth calendar day following the date on which the supplier sent the confirmation of the contract, even if the supplier decides voluntarily to send the confirmation of a contract not negotiated on its business premises after the conclusion of the contract;
- from the date of expiry of the first utility bill received by the customer in other cases.

Nothing changes, however, with regard to clients that are different from those who are domestic.

During 2014, the **draft revision of the bill** (draft Bill 2.0), initiated in 2013, was concluded. As a result of the feedback received from stakeholders during the hearings held on 9 and 10 October 2013, the Authority submitted a consultation [238] of which the primary guidelines were headed in the direction of simplification and greater flexibility and transparency.
With the new 2.0 Bill approved in October [239], the customer will then be sent (in electronic format) only the tabular overview, much more complete, direct and comprehensible than the present one. And at the customer's explicit request, a document with the detailed elements of the bill. The terminology used will correspond to the Glossary, which will be updated and posted on the Authority's website, as well as that of individual retailers.
The part of the bill containing the elements of the detailed report will disclose the analytical information for all items billed to the customer, while also providing the indication of unit prices and quantities which are applied, as well as the individual brackets and the amount of kWh/S(m^3) allocated to each of them.

Lastly, regarding the other documents related to transparency, the Authority has provided that:

- the glossary of key terms contained in the bill is prepared and published on the website of the Authority;
- each retailer publishes on its website a guide to meter reading and that, for the protection schemes, the above guide is prepared by the Authority;
- the unit of detailed fees that contributed to the determination of the individual amount is prepared and published on the website of the Authority, a bill summary module, identifying for each billed amount, to customers served under the protection scheme.

[236] With Resolution No. 266/2014/R/com, dated 6 June 2014.
[237] With Resolution No. 153/2012/R/com, dated 19 April 2012.
[238] Consultation Document No. 69/2014/R/com, dated 20 February 2014.
[239] With Resolution No. 501/2014/R/com, dated 16 October 2014.

5.2 Dispute settlement

For disputes settlement since 2012 is on the **Conciliation Service for Energy Customers** (***Servizio conciliazione clienti energia***), established[240] by the Authority pursuant to Article n. 44, paragraph 4 of Legislative Decree n. 93/11. The service is managed in pooling by Single Buyer (AU), and has been operating on an experimental basis since 1 April 2013, with full operation expected to begin on 1 January 2016.

The Conciliation Service is a voluntary ADR alternative dispute resolution service, which is activated by end users of electricity and natural gas for any issues that might arise (which are extrajudicial in nature) against energy operators (the retailers and distributors) in cases of either an unsatisfactory reply or a failure to reply to complaints. This procedure is conducted entirely *on-line* and in the presence of a third-party arbitrator. The arbitrator is an impartial expert in mediation and, by virtue of his/her special training sessions, which are periodically updated and organized by the Authority, in collaboration with Single Buyer (AU) Any final agreement or settlement takes effect between the parties involved in accordance with Article 1965 of the Italian Civil Code.

Due to its characteristics, the Conciliation Service is already in line with the Community legislation on *Alternative Dispute Resolution* (ADR), the latest being Directive n. 2013/11/EU of the European Parliament and of the Council of 21 May 2013, concerning alternative dispute resolution of consumer disputes and amending Regulation n. (EC) 2006/2004 and Directive n. 2009/22/EC, which will be converted to law by Member States no later than 9 July 2015.

In the second year of trial phase, the Authority continued its preparation of specific interventions to improve the efficiency of the conciliation service, also on the basis of the feedback received from *stakeholders* regarding the operation of the procedure, and also taking into account the gradual spread of the tool among the consumers. In 2014, the Authority adopted[241], among other things, the following measures, which have been operational since 1 July 2015:

- Extending to *prosumers* (producers and consumers), on one side, the Conciliation Service for disputes with retailers, distributors and the GSE, and on the other side, cases of controversy, manufacturers vs. the managers of the network, the extrajudicial complaint procedure with the Authority[242];
- the introduction of a participatory requirement for enhanced protection for operators, distributors and the GSE, the latter only for regulated matters (metering and dedicated withdrawal II);
- the expansion of the hypotheses of the vendor calling the distributor as a technical expert;
- optimization of certain procedural steps prior to the first meeting of conciliation at the conciliation service, in order to allow more time for the parties to reach an agreement;
- the convening of special technical meetings with *stakeholders.*

[240] With Resolution No. 260/2012/E/com and subsequent amendments and additions, dated 21 June 2012.
[241] With Resolution No. 605/2014/E/com, preceded by Consultation Document No. 377/2014/E/com, dated 31 July 2014.
[242] Defined by resolution No. 188/2012/E/com and subsequent amendments and additions, dated 18 May 2012.

In the first two years of the trial phase (from 1 April 2012 thru 31 March 2015), the Conciliation Service received a total of 2,506 claims. Domestic consumer associations were the major access channels contacted (45%). Other substitute channels, different from the above mentioned associations, accounted for 33% of the claims. The consumer specifically requested the Conciliation Service in 22% of the cases.

Most of requests for the Conciliation Service involved domestic consumers and the electricity sector. From the aggregation of the data obtained, there was also a prevalence of domestic customers, both in the electric energy sector (69%) and in the gas sector (90%).

Regarding the matter of disputes, the mention of which is at the discretion of the consumer, it is revealed that 68% of the requests for the Conciliation Service was related to disputes concerning the matter of billing, which included, among other things, complaints relating to adjustments, meter readings, meter readings performed by the customer, consumption, frequency of billing, invoice corrections, measurement.

With reference to the estimated value of the dispute, it has been revealed that in 57% of the arbitration claims made: of these, 64% did not exceed €2,000 (the threshold of *small claims* in accordance with Regulation (EC) 861/2007 of 11 July 2007, establishing a European Procedure for Small Claims).

The percentage of request activations accepted by the Conciliation Service reached 76%; the cases of ineligibility (21%) were mainly due to unsuccessful transmission of the attached documentation for the proper request activation, and a failure to respect the procedural deadlines. Finally, the 1% of the total claims was waived by the claimant himself.

The adherence of the operator (sale or distribution operator) to the procedure initiated by his client, is strictly voluntary, unless the operator himself makes a commitment to the two-year participation in the Service through ADR registration in the list published on the website of the Authority. To date, the membership list, expressing a commitment to participate, consists of 23 operators, which even include even four major players. That said, out of 44% of the requests accepted, the operator has accepted the procedure (also confirming, the *best practice* to suspend, during the proceedings, any actions to recover the amounts due): these disputes were successfully resolved in a positive manner in 88% of the cases. A percentage that reaches 92%, taking into account the operators registered on the ADR list. The 56% of non-members, however, is mainly due to three major operators, one of whom is committed to two-year participation in the Conciliation Service within six months of being notified of the measure[243] in which it approved its commitment at the close of a specific enforcement proceeding.

In terms of information, the Internet web page of the Authority has been improved offering a specific *tutorial* (operational as of February of 2015) to accompany customer whenever they use the Conciliation Service's *on-line* platform along with a section with data concerning the 'semi-annual performance of the Service itself. Throughout 2014, around 50,000 pages were viewed relative to conciliation (and about 13,000 in the first quarter of 2015), with reference to the specific page of the Authority's website, including the ADR list, both of the Atlas of Electricity Consumer Rights (all'*Atlante dei diritti del consumatore di energia*); as for phone calls to the *call centre's* one-stop-shop, in 2014, there were 18,286 requests for information regarding conciliation (4,722 in the first quarter of 2015).

[243] Dealing with Resolution No. 492/2014/S/ gas, dated 16 October 2014.

Regarding other alternative dispute resolution procedures, specifically for the energy sectors, the Authority continues to support and monitor the joint conciliation, on one side, through the training of consumer organization personnel and the recognition of a contribution to such organizations whenever a case involving this procedure has a positive outcome; while on the other side, through the evaluation of specific reports submitted annually by the leading players who have signed memoranda of understanding with consumer associations.