



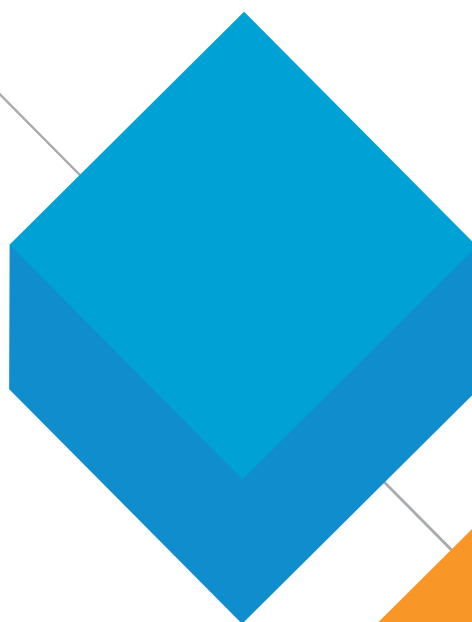
ARERA

Autorità di Regolazione
per Energia Reti e Ambiente



Annual Report on Regulatory Activities and the State of Services

PRESENTATION BY THE CHAIRMAN
Stefano Besseghini



ROMA, 9 JULY 2024

The Italian Regulatory Authority for Energy Networks and Environment

Stefano Besseghini *Chairman*

Gianni Castelli *Member*

Andrea Guerrini *Member*

Clara Poletti *Member*

Stefano Saglia *Member*

Ladies and Gentlemen,

I would like to thank the chair of the Chamber of Deputies for attending, for the hospitality shown and for the words of introduction.

I would like to greet and thank the representatives of Parliament and Government to whom the Annual Report is addressed and, in particular, those present here today to represent the country.

However, let me also extend a special greeting, to all the representatives present here today in various capacities, involved in the public services, to the women and men who make it possible for this country, every day, as they work silently, to make the energy, water and waste management and district heating systems work, allowing us all the quality of life we know.

In this year's annual report, I would like to try to draw your attention to some high-level aspects that I find relevant.

Each sector regulated by ARERA today poses fundamental questions to our country on the structures with which we would like to address the near future.

Although the narrative surrounding the energy crisis of the past two years has already been quite extensive, it may be beneficial to highlight some of the more recent aspects.

Having passed the most acute phase of the price crisis - which had (perhaps) the only positive effect of raising the level of customer awareness regarding energy and price issues - we have seen public attention shift and now we are witnessing the return of a debate focused on the opposition of individual solutions and which seems to have little capitalised on the main lessons of the crisis period.

Issues that the emergency had inevitably relegated into the background are returning to the forefront, not necessarily with new awareness.

It would be useful and important for the lessons we had to learn to accompany us in our debate.

If I had to attempt a summary I would mention:

Security of supply and redundancy of facilities.

LNG, liquefied natural gas, has now taken on a significant value in the diversification and security of our supplies, just as the south-north supply route for pipeline supplies has become stronger.

In this context, regasification facilities assume a new role and Italy has shown that it can provide itself with what is necessary.

The Piombino regasifier has been in operation for a year now, but the risk of a long period of non-operation due to its relocation must be averted.

The Ravenna regasifier would appear to be on schedule to become operational but with a notable increase in costs that, net of the evaluation of its efficiency, will require a further public effort to enable it to be located at competitive prices and allow it to perform the function of completing the diversification set-up for which it was created.

The upgrading of the 'Adriatic' line, essentially approved for the increased inflow of gas from the south, is scheduled for completion by 2026 in line with Next-Gen EU forecasts.

The acceleration in the development of renewables, from an installed capacity of 600MW in 2020 to around 5GW in 2023, provides the basis for a more credible move towards the targets recently confirmed in the PNIEC (the National Integrated Energy and Climate Plan) and underpins the significant investments in electricity transmission and distribution facilities.

The energy bonus mechanism has proven to be effective for economically weaker customers, also thanks to the automatism and flexibility enhanced by targeted quarterly interventions by the government.

Despite this, the difficulty of intercepting a segment of customers who cannot be classified as poor in the strictest sense but who, in the presence of extraordinary energy costs, may see their spending capacity significantly reduced and be led to make consumption choices that bring them close to the characteristics of energy poverty has become evident.

With regard to this class of customers, we do not currently have instruments capable of combining selectivity and effectiveness, objectives that could perhaps be more easily pursued if we took into account the indication repeatedly reiterated by ARERA: assessing a significant coverage of system charges through general taxation, more capable of intercepting the actual income levels of the subjects burdened by the charge.

The social acceptability of infrastructure development is a major issue, which we can hardly address fully here, but it is important to emphasise its systemic risk.

This is an issue that is often invoked as a cause of the slowing of the development of renewable energy but is much more generalised and not sufficiently considered in facilities development planning.

One wants energy (but water and waste would be no different) but not the plants and facilities that make the service possible.

This resistance can manifest itself as a clear and explicit opposition but also as a simple brake on authorisation processes, especially when they involve local authorities.

Recent events testify to a tendency to suspend proceedings to seek a balance between what is technically possible and what is acceptable to local communities.

The fact that this type of difficulty particularly characterises certain areas, such as energy or waste facilities, must make us question the public's perception of these sectors.

It is easy to become convinced that facilities equally impactful in terms of work, such as those for telecommunications, experience much less inertia, even though they present general characteristics that are not dissimilar.

The element with the clearest evidence is a recovered centrality of the Mediterranean area.

In the presence of abundant and cheap Russian supply, Europe's gaze towards the Mediterranean was inevitably a residual one and focused, at most, on the possibility of involving these countries in decarbonisation initiatives often of dubious sustainability concerning their development needs.

The change of axis in gas supply and the evolving role of LNG make it possible to relaunch a new leading role for the Mediterranean. As I tried to summarise during the Assembly of the Association of Mediterranean Energy Regulators, MEDREG, held a few weeks ago in Selinunte: certainly, the Mediterranean is not all in Europe but Europe cannot do without the whole Mediterranean.

It is easy to imagine how a greater presence of the European Union in the Mediterranean, not only aimed at energy supplies, could open up a logic of integrated industrial, social and economic development from which the whole of Europe could only benefit.

The legacies of the crisis include, we must mention, the intense process that led to a profound overhaul of the European regulatory framework, first about the natural gas market and most recently with the reform of the electricity market.

I would like to emphasise how certain central elements of this regulatory framework revisit arrangements previously tested in the Italian market, such as the regulation of access to natural gas storage capacity and, for electricity, the recognition of the market for production capacity as a structural element of the design or - finally - the use of contracts for differences for new renewable capacity.

I believe that our highly innovative regulatory approach can also become a model for the supply and management of electricity storage capacity, as well as for the regulation of energy communities.

The contribution of regulation to the identification and promotion of best practices will be essential to ensure maximum efficiency in the pursuit of security of supply and decarbonisation goals. And these are areas where it will be essential to preserve and protect the full integration of national markets in a single European market.

Since its inception, the Italian Authority has believed in this role of regulation, both within the EU market and in the broader international context, as demonstrated by the recent establishment of the Balkan Energy School, which we have promoted with conviction and which now represents a very valuable tool for the enlargement of the internal market to the countries of the Balkan area.

New gas supply arrangements, with a consolidated focus on security of supply within a European framework of solidarity, were accompanied by an upswing in the installation of renewable energies and a clear push towards a strengthening of European electricity market integration.

These factors, based on SNAM's most recent scenarios, foreshadow a consolidation of the gas-renewables mix that our country has long since undertaken.

It is a virtuous mix from an environmental point of view, but one not without risks and significant costs. Looking at the risks the answer lies mainly in the rapid evolution of renewables, for the costs the answer can only be systemic.

From the long path of reflection and experimentation of these years, a regulatory and normative framework emerges that finds us ready, with articulated tools to manage the development of the electricity and energy system.

I refer, amongst others, to two instruments that will take their first steps early next year, namely the Integrated Electricity Dispatch Text (TIDE) and the FERX incentive mechanism promoted by the MASE.

This is certainly not the place to review the technical aspects of the instruments, but it is certainly the place to emphasise their systemic relevance and innovative scope.

The TIDE substantiates the major change in the design of the electricity system, which can no longer do without the characteristics of distributed generation and its balanced contribution to grid services and active demand management.

The FERX takes the support mechanisms that are still needed for the development of renewables a step further, especially with an increasing share of near-zero marginal cost technologies.

Incentives originated as a supplement to technology remuneration, to cover development and investment costs in a weak and poorly receptive market. Those same technologies now account for a significant share of the market, leading to an environment where new investments struggle to find adequate coverage precisely because of the effect they have on prices.

On the other hand, even conventional technologies, which have always played and still play an inescapable role in supporting the adequacy of the system, see their scope for action and natural remuneration within the market itself compressed, having to resort to long-term schemes.

Thus, there has been a shift towards competitive market mechanisms, including capacity remuneration markets, which complement traditional short/medium-term energy and services markets, to achieve decarbonisation goals while maintaining system adequacy.

The consequent shift of evaluations of the composition of the production mix and the effectiveness and efficiency of the related costs to central decision-makers implies an assumption of responsibility in the allocation of resources among the various initiatives, hopefully according to efficiency criteria.

All this requires the coordination between the various players involved in the management of the energy sector to find more effective moments and instruments for implementation.

Regarding instruments, I must mention here the challenge posed by the development needs of the grids, which will have to effectively and efficiently support the development of renewable energy resources and the necessary flexibility instruments.

In this respect, the last year has seen the operational launch of the Regulation by Spending and Service Objectives (ROSS) with the ambitious goal of aligning the interests of regulated entities with those of service users and ensuring that policy choices are accompanied by development and implementation processes that guarantee the pursuit of objectives at minimum cost.

Maintaining the consistency of decisions over time by adapting them, only where necessary, to objective changes in the context appears to be the main challenge posed by this new configuration.

The energy cost structure is gradually becoming richer in its macro-blocks.

In addition to the traditional combination of supply and investment costs for grid facilities, the costs of developing and operating renewable energy resources have gradually been added to the costs of ensuring system adequacy and security of supply, also through incremental investments in flexibility instruments, including electricity storage.

These are all tools that find a compelling logic in their specific need but that must not and cannot escape a general optimisation, which finds its most direct synthesis in the final cost to the customer.

General system charges have been a major item over the last 13 years: we have paid around 162 billion, of which around 142 billion to cover the currently operating incentives for renewables. Although they will reduce significantly over the next 5 years with the measures in place, they will still result in a considerable cost.

The new cost elements referred to above will to some extent replace if not add to previous costs according to trajectories that are difficult to forecast even though, and this is worth remembering, there are instruments that tend to stabilise the expected cost of energy.

This, if done within a framework of competitiveness and efficiency, will have the effect of introducing an element of cost certainty in a virtuous alliance of predictability between producers and final customers.

The reference to billing costs brings us to the topic that has attracted a lot of attention over the past year and that is seeing its final acts in these days.

I am of course referring to the long process of overcoming price protection in the energy markets.

I believe it is well worth taking a brief look back over its main steps.

The end of the protection was decided in 2017 and, for various reasons, postponed until January 2024, a date also set under a constraint related to the PNRR (the National Recovery and Resilience Plan) reforms.

The customers concerned accounted for a little over one-third of the total for both electricity and gas.

The introduction of the category of the *vulnerable* customers, for whom the continuation of protection even after expiry was foreseen, reduced the perimeter of those affected.

For *vulnerable* customers, a *de facto* protection service continues in both electricity and gas services.

For *non-vulnerable* gas customers, the possibility was introduced to continue with their supplier under a special price regime, corresponding to a derogation PLACET offer. Let me remind you that the PLACET offer is an offer that replicates all the contractual conditions of protection, apart from the price, which is left to be freely defined by the supplier.

In this case, for the duration of 2024 only, in the derogation PLACET also the variable parts of the price were regulated, leaving the supplier only to define a fixed component (pFIX) to cover commercial costs.

The changeover to the new regime took place in January 2024 and saw offers which, for the typical domestic customer with a consumption of 1400 Scm/year, resulted in cost increases of between 3.7% and 12.5%.

For *non-vulnerable* electricity customers, the Gradual Standard Offer Service has been provided as a transitional service towards the free market.

It is a service with a largely regulated price structure formation mechanism, precisely to avoid (as provided for by law) unjustified price increases. Only one fixed component was left to the supplier for commercial costs, to be quantified through competitive auctions.

In the decree for the activation of the Gradual Standard Offer Service, the MASE confirmed the possibility for the supplier (already provided for in previous auctions for micro-businesses) to keep the customers' supply at the end of the three-year service period, with the only obligation being to switch them to their most inexpensive free market offer available at that time.

It is quite clear how this decision changed the approach of the tender from a service auction to a customer "acquisition" auction.

The auction process took place during January and the service was activated on 1 July.

The auctions were well-designed by consensus and led several suppliers to offer negative prices, even significantly, in order to have assigned the service (*rectius*: customers).

Technicalities aside, the result of the auctions resulted in an advantage for the customer who switched to the gradual standard offer service of around €113/year for all other costs being equal.

To sum up, the situation to date sees Italian electricity customers divided into four categories:

vulnerable customers served under protection (approximately 3.6M) or on the free market (around 8.4M), who can switch from service to market and vice versa at any time and will retain this prerogative indefinitely.

non-vulnerable customers, either automatically switched to the Gradual Standard Offer Service (about 3.6M) or served on the free market (about 14.7M), who will be able to make any choice to or within the free market but will not be able to choose to return to the protection services, unless (for whatever reason) they become *vulnerable* or remain without a supplier.

To date, the offers available on the free market look to be unattractive compared to the various regulated services, being characterised by normally higher prices.

The final overcoming of the protection service allows some reflection on what has happened and on the configuration of the retail market in our country.

The auction mechanism made it possible to reduce the rate of concentration in the market, because the main player, ENEL, saw its share reduced. However, this has not fundamentally changed the configuration of the market itself, as the second player is still a long way behind the main group.

It is clear that the relative strength of the group remains preponderant compared to other operators, with the ability to bring about a recovery of lost customers despite the convenience that, at least in the first three years, the Gradual Standard Offer Service is able to express.

The passing of the transition phase, between protection services and the free market, requires ARERA to strengthen control and guarantees in the free market and to focus its attention on the market's ability to express competitive prices or services with real added value, in order to assess the actual evolution of the opportunities offered to the customer.

The difficulty in communicating with the final customer, and in particular the small customer, emerges all too clearly.

The commercial strength of large groups, in constructing a narrative to value additional elements in the price over the supply of the energy commodity, determines choices that are not always economically rational.

Without prejudice to the obvious right of suppliers to value them, it is worth remembering that, at least for now, the main driver in the choice of energy supply remains price, both in absolute terms and in terms of stability, with a slight preference for the second aspect.

It must be borne in mind that an understanding of market dynamics is the heritage of only a small set of particularly discerning customers who are able to grasp the value of such elements in the commercial cacophony that characterises the subject matter and to which we all, intentionally or not, contribute.

It is therefore necessary that, having overcome the phase in which information has been mainly oriented towards reassuring the final customer on the continuity of the supply and the gratuitousness of the changeover, a stable information channel be built up to allow the customer to appreciate the key elements of the offer and the consistency between what was offered at the time of stipulating contract and what can actually be found at the time of contractual execution.

Aware of this asymmetry, ARERA has chosen to intervene with targeted information tools, designed to clearly guide the customer towards fundamental choices in full respect of everyone's freedom and with the intention of contributing to a basic literacy on issues that are so relevant to our daily lives.

These tools relied mainly on the telephone service of the Consumer Help Desk and the use of a website area specifically dedicated to customers, containing all the tools available to them.

This is where the process started at the beginning of the year to revise the electricity bill fits in. A process that we have subjected to a major regulatory impact analysis and that has seen two participatory consultations and will see the final ruling adopted by the summer to allow a start of the new bills in the second half of 2025.

Regardless of what the final choices of the ruling will be, it will contribute to providing definite reference elements to the customer and homogeneous among the different suppliers, meeting one of the main requests that have also emerged from recent surveys conducted with customers.

As repeatedly recalled, pending the realisation of the tenders for its allocation, the vulnerability service will be provided with the characteristics of the Standard Offer regime, albeit with the modification of some price characteristics (nominally the PCV).

Although it is to be expected that auctions will take some time before they take place, it is important to consider a few aspects.

The main benefit of auctions for the vulnerability protection service will be its allocation to market players, avoiding the replication in tenths of a protection service run by companies linked to distributors. This is consistent with the systemic vision that has led to the current situation, but less 'strong' with regard to the issue of customer benefit.

Having said that, the first element of attention concerns the possible expected outcome of the auctions with regard to price characteristics. Since the incentive that had characterised the auctions of the Gradual Standard Offer Service (the possibility of keeping the customer in the free market at the end of the service) is (as of today) almost entirely lacking, it is easy to foresee that the operators' evaluations in terms of service value will certainly be less rewarding for customers, at least in the short term.

The second, perhaps even more relevant, aspect concerns the particular complexity of the auction procedure that is envisaged in light of the current regulatory provisions.

With the (fully supportable) objective of minimising the stranded costs that could arise for protection operators, it is envisaged that participants may formulate their intention to take over part of the company structure suitable for the provision of the service from the outgoing company or to take over the service contracts, benefiting from this in terms of economic evaluation in the auction offer.

The difficulty in determining *ex ante* the value of a stranded cost, which, by definition, will only manifest itself after the end of the service, becomes apparent.

This could also have the effect of discouraging the outgoing operator from otherwise exploiting the resources freed up by the transfer of the service which, it should be remembered, will in the vast majority of cases consist of staff costs and digital facilities to support the service.

It would perhaps be better to reformulate the regulatory provision, allowing the auction mechanism to proceed without any particular constraints between the outgoing and the incoming bidder and, above all, without the need for an entirely abstract evaluation to qualify and quantify the nature of the residual costs to be borne by the outgoing bidder. Moreover, the issue of recovering any stranded costs would arise again at the end of the four-year service allocation period, at subsequent auctions.

If synergies were spontaneously generated, they would be natively exploited with a view to greater efficiency, naturally finding their way into the tender dynamics.

If these synergies do not occur, ARERA may intervene with appropriate post-auction investigations, aimed at minimising the cost to the system, and then recognise them upon appropriate notification in the light of state aid provisions.

ARERA's indication of the efficient price for the transfer of the wholesale price to the retail market, which was derived from the definition of the prices of the Standard Offer Service, also fulfilled the important task of providing a reference price.

The analysis of the positioning of the protection value concerning the different prices in the free market shows how the former has almost always aligned with the best available offers, correctly fulfilling its function of intercepting the best possible behaviour of operators and not distorting the market.

While in the medium term, this role can be played by the pricing of the vulnerability protection service, it is important to develop tools to give customers relevant price signals against which they can make their own choice.

There is a need to better focus the use of these indicators, in cooperation with customer associations. The indicators fulfil two main functions: to provide reliable values on the average costs incurred by Italian customers over a given period and to provide useful indications when choosing one's supply.

In the first case we are interested in understanding the distribution among different customers of the different types of offers chosen over time (prevalence), while in the second we aim to capture which new offers are chosen over a certain period (incidence).

To date, the *prevalence* can be deduced from the fact-finding investigations carried out by ARERA, both for national and European statistical needs and for the annual compilation of the State of the Services report, which is the subject of our presentation today.

The second figure, the *incidence*, has recently been analysed by ARERA's offices, based on information made available by the Integrated Information System (IIS), at least limited to customers who decide to change offer.

We are re-emerging from the crisis period with a price dynamic that is tending to realign itself (albeit with some fluctuations as we have also seen very recently with the setting of prices for the current quarter) to values close to those of the pre-crisis period.

In the analysis, it is useful to take a sufficiently long period into account to ensure a reference for the last few years, which have been characterised, as is well known, by major fluctuations, downwards during the COVID phase due to the collapse in demand and upwards during 2022 due to tensions in the wholesale markets.

Considering the most significant consumption band, i.e. between 1,800 and 2,500 kWh/year, the average price of the energy component per semester fluctuated quite noticeably for the Standard Offer Service, completely reflecting the fluctuations of the wholesale market (from €171/MWh to €441/MWh), while the price of the free market, although on the rise, contained this fluctuation (from €228/MWh to €277/MWh), also thanks to the block on unilateral price changes imposed by law.

For the sake of clarity, it is worth remembering that the average price for customers in the Standard Offer market has always been lower than that of the free market, with the sole exception of the most acute phase of the price emergency.

A different issue is the evaluation of energy costs in terms of incidence, i.e. in relation to that subset of customers who choose during the year.

This choice is made in relation to an expectation of energy costs which is, of course, purely expected in the case of variable-price offers, whereas it is well-defined for fixed-price offers.

The evaluation of these dynamics also provides the most timely data on market trends, not only in terms of available offers but also in terms of actual contract subscriptions by customers. We can have access to this data thanks to the availability of the information contained in the Integrated Information System (IIS).

With this in mind, ARERA recently introduced an index - presented for the first time in Monitoring Report 59/2024, available on our website - constructed by considering in each month the offers actually chosen by households who changed supplier and simulating the relative annual expenditure for the following 12 months, as well as the relative expected average price.

The value of this index, updated to the last month, thus represents the best estimate of the unit expenditure that customers who switched suppliers will incur over the following 12 months.

The indicator refers to the total unit expenditure, including all items (energy, transport, system charges and taxes) in order to provide a concrete representation of the total cost incurred by the customer.

As recently recalled, as of March 2024, customers who opted for a protected supply incurred a gross unit cost of € 0.22/kWh, compared to € 0.33/kWh for those who chose a fixed offer from the free market and € 0.32/kWh for those who opted for a variable offer.

We have dwelt more than usual on these cost aspects in order to emphasise how, with the overcoming of the Standard Offer, market control and monitoring tools will have to be strengthened in order to have a correct assessment of market developments, but also to enrich the information elements that contribute to customer choice.

In this respect, the role of the "Portale Offerte" naturally remains central, which is constantly undergoing processes of growth and adaptation in the light also of user input.

In particular, it is worth announcing that we have implemented data portability, to allow for comparison of contractual status within the "Portale Offerte".

Thanks to the work of the directorates with the Acquirente Unico (Single Buyer), there is now the possibility of accessing the "Portale Offerte" using a digital identity (SPID or electronic ID card), thus also establishing a first link between the "Portale Offerte" and the lesser-known "Portale Consumi".

The main advantage of this connection is that it allows for a search to be conducted for offers on the market by acquiring consumption statistics and the technical elements of the supply owned directly from a digitally identified profile.

It is a step towards the realisation of what we could consider an “energy drawer” - comparable to those already existing and accessible through Spid such as tax and fiscal services, municipal services or health services - that would allow people to centralise in a single, secure and personal context all the information related to their energy commodity supply contracts.

We have so far, I believe rightly, devoted considerable time to energy retail issues. There is another sector that is of particular interest to the public, not only because of the relevance of the topic but also because of the obvious need to address, as soon as possible and concretely, the obvious effects of climate change: the water sector.

It is abundantly clear that the water issue can no longer be dealt with in a fragmented manner and according to strictly sectoral logic, and this is certainly the context in which the government has set up a special “control room” supported by the commissioner's management.

The regulation intervened through the introduction of a new indicator in the new tariff method to measure the technical quality of service, termed “M0”.

The technical quality which, let it be said at least in passing, is translating the stable investment growth, about which we will speak shortly, into a steady improvement in the performance of the water facilities.

It was precisely in the area of quality, moreover, that an initial opportunity was found for sharing with the Autonomous Province of Bolzano through a preliminary agreement capable of taking into account the specificities of this territory.

We will return to the innovations of MTI-4 and the M0 indicator shortly but let me first dwell on one aspect that I find relevant.

Beyond the recognised need for an integrated and consistent approach to the water sector, it is equally important that the methodologies with which we evaluate investments and project development are harmonised.

In this respect, regulation has now introduced a set of tools that can also be usefully employed in circumstances other than the assessment of tariff commitments.

We have already had an example of this with the evaluation of candidate projects to be financed by the PNRR and ReactEU where, by adopting evaluation criteria consistent with those used in the normal regulatory process, an ideal and positive continuity was created between the development plans consolidated by the operators and the new opportunities offered by the extraordinary funds.

A similar opportunity can be seen in the development of coherence also in the initiatives undertaken by the steering cabin and in particular by the PNIISSI, the National plan of facilities and safety interventions in the water sector.

Similar consistency could, with the necessary progressiveness, also positively impact the other sectors that insist on water resources and first and foremost, of course, agriculture.

An example of a wide-ranging strategy for the multiple sectors in which the resource is used can be found in the regulatory provisions that led to the establishment, as of 1 January 2024, of a new

company - Acque del Sud SPA - to which the functions of the suppressed EIPLI (Entity for the development of irrigation and land transformation in Apulia and Lucania) were transferred.

The adopted choice may contribute, also in light of the criteria established in the MTI4, to the effective restructuring of the water supply chain and to the configuration of the necessary structural profiles of economic and environmental sustainability of upstream activities.

Strategic coordination, aimed at strengthening the security of water supplies, remains one of the priorities to be addressed.

This is a discussion that recurs as frequently as drought periods, and it would be time to address it in a resolute spirit, clearing the field of some prejudices and sharing certain factual elements.

Among these, certainly, is the fact that the Integrated Water Service represents the industrial sector of reference for managing such a complex system; the experience gained in the drinking water sector should be pooled for an overall improvement of all uses, including agricultural and industrial.

At the same time, the biases to be overcome concern the role and management of leakage, as well as the value of the measure.

With respect to the former, it is worth remembering that a leak is a loss.

This statement may appear tautological, but the fact that a leak may incidentally become a source of groundwater refill cannot be used as an argument to minimise the fact that, if an infrastructure is designed to bring a certain volume of water from point A to point B, any leak is nothing more than a decrease in the performance of that infrastructure and therefore an alteration of the relative cost-benefit analysis and thus, ultimately, of the value of that investment.

Finally, metering. It has been and still is a cornerstone of the development of the integrated water sector and there would still be room for improvement to be explored, for example in the *singularisation* of domestic meters.

Even in a context of lower unit value, but also less technological complexity, the development of metering methodologies that allow for simple *singularisation* would represent a major step forward in service management.

Last year's main innovation is without doubt the approval of the fourth tariff method, MTI4, in fact a method that brings the sector to a certain maturity, witnessed first and foremost by the very duration of the regulatory period, which is for the first time spread over a period of six years.

The MTI4 provides for an update of the Strategic Works Plan (SOP) until 2035, aiming at both fostering security of water supply and, at the same time, fostering cooperation in the different planning levels.

Of course, as was anticipated in the last annual report, there was room for action to respond to tight contingencies, such as the increase in energy costs, while not renouncing a forward-looking vision aimed at promoting increasingly efficient behaviour by operators and oriented towards decarbonisation.

It is a perspective that ARERA shares with other European water regulators, especially in the water treatment segment, in relation to the challenging goals of energy neutrality of the revised Wastewater Directive.

Energy efficiency, in fact, has become a priority for the European Commission, confirming what had already been undertaken by ARERA and other European regulators who had long since conformed their regulatory models to the energy costs recognised in the tariff.

Especially in view of the sector's relevance to sustainability, an initial use of resources from the innovation promotion fund for the reuse of purified wastewater and the reduction of electricity consumption was also planned.

At the same time as the tariff forecasts, the technical quality of the integrated water service (RQTI) was intervened upon with the introduction of a new macro-indicator, related to the assessment of the water resilience of the areas, called M0.

This indicator makes it possible to quantify the actions taken by managers to mitigate the effects of climate change.

The relevance of this regulatory innovation, aimed at increasing the responsibility of the players involved, has also been recognised at the European level in the context of the revision of the guidelines of the Water Framework Directive. Indeed, through the work of WAREG - the European association of 35 water regulators that ARERA helped found and chairs - the M0 indicator and the technical quality indicator system are cited as examples of better management of the resource under complex climatic conditions.

The extreme nature of climatic phenomena, with the succession of droughts and floods, requires a new approach and a different focus also on those aspects that until now were connected to but not directly affected by the regulation of the integrated water cycle, such as supply management and rain management.

Significant investment growth in the sector has been steadily accompanied by moderate tariff growth in a careful balancing act between the needs for service development and the sustainability, including economic sustainability, of the service.

Confirming what was illustrated in the last Report, the path of reduction of our country's facilities spending gap, compared to the threshold values of the most advanced countries, continues: the investments planned for the four-year period 2020-2023 are, in per capita terms, equal to €275/inhabitant at the national level (corresponding to an annual investment expenditure of €69/inhabitant).

This compares with an average change in user charges of 4.56% in 2023.

The annual changes in tariffs for the years 2022 and 2023 were, however, mostly contained below the price limit set by the regulation in force, being equal to (or close to) the limit itself, precisely in those operators affected by a significant need for investments compared to the value of the existing facilities.

The issue of tariff growth is of course the main focus of attention, in a country that sees a tendency for the costs of every public service to rise, without this necessarily being matched by a clear perception of service improvement.

In this synallagmatic pact, albeit mediated by the magnitude of the number of customers, lies one of the main challenges of the multilevel governance mechanism of the sector and the operators.

It is all too easy to fall into the logic of “passing the buck” between the different levels on responsibilities. The strongly asymmetrical and permanently accountability-oriented logic of the ranks closest to the citizen-user thus represents a considerable value of the regulatory activity.

It has been repeated many times, but this is certainly one of those contexts in which *repetita iuvant*, that regulation offers a pattern of tools at the disposal and in support of the local decision-makers, the only true and direct interpreter of the needs of their territory.

This concept is linked to punctual tariff components, which are equally closely linked to industrial choices on the service to be provided.

In this sense, regulation is functional to the development of services and intrinsically subsidiary in its approach, providing the tools with which to effectively translate the ambitions of individual territories into tariff assessments, respecting the needs of operators and having customer protection as a primary reference.

The results of the monitoring activities, carried out continuously by ARERA, show some positive signs of overcoming, in some contexts, the organisational limitations that had heavily conditioned the proper implementation of regulation in previous years. Despite this progress, there are still government structures in some territories that are not yet aligned with the reference framework.

When adopting the tariff method for the fourth regulatory period, ARERA consolidated a number of expedients aimed at favouring the completion of the management aggregation processes underway - in line with recent regulatory provisions - by updating the regulation of convergence.

The conditions for such regulation were expressly included in the guidelines of the state tariff methodology and could also be relevant in special statute regions that, if the conditions were met, would legislate on water service tariffs.

This latter is an opportunity seems to have been seized by the Valle D'Aosta Region, initiating a positive process to ensure that the regulatory framework of reference may also finds in this context the most favourable conditions to offer the interested population all the advantages it can provide.

Among the emerging critical issues, however, can be counted those that seem to manifest in contexts where safeguarded concessions that cannot be extended under current legislation must be overcome, even if endowed with appreciable operational and managerial characteristics or assigned to single scope operators nearing expiration.

These are realities that have largely contributed in the past years to the significant growth in investment expenditure and that, if they were to be affected by persistent critical issues related to the reallocation of the concession, could result in a slowdown in the progress towards the objectives we all wish to achieve.

If independent regulation has created favourable conditions for the consolidation of the water sector and the development of investments, it has done so on the basis of the effectiveness of public choices made at territorial level. In these, the role played by the Area Management Bodies (EGAs) has been essential, although some aspects of disambiguation still need to be resolved, such as, for example, that of their configuration in the context of the local PA or that of their homogenisation in terms of reference territory.

A strengthening of technical skills at the territorial level remains a key factor for an effective and stable growth of the sector.

As is well known, as a result of the debate a few years ago on investment support and following the publication of the Prime Ministerial Decree of 30 May 2019, a Guarantee Fund was established at the CSEA to support projects in the integrated water sector characterised by resources made available by a specific tariff component and characterised by a governance articulated to involve the various players in the planning of interventions.

During 2023, since no guarantees had yet been paid out, ARERA temporarily cancelled the equalisation component intended to feed the Fund itself. At this juncture, the wish can only be expressed to all the Administrations concerned to ensure that the instrument is operational within a clear framework and with the intention of promoting investment expenditure functional to improving the quality offered to service users.

In 2023, ARERA provided the country with a comprehensive reform package for the waste sector, completing a regulatory framework that had long been waiting to be updated and integrated.

These interventions are aimed at consolidating the degree of reliability of the sectoral discipline, also in order to implement the recent regulatory provisions for the reorganisation of local public services, for the protection of competition, to implement the provisions of the so-called 'Save the Sea' and to foster the circular economy, in compliance with EU provisions and the principle of Extended Producer Responsibility (EPR).

The inescapable goals dictated by the circular economy paradigm are thus reflected in measures focused on end-user protection through a progressive and stable increase in the efficiency of management activities, on the one hand, and in the quality of the material sent for recovery, on the other.

One action that is part of the path started in 2018 to support the growth and operation of the waste management system, favouring the creation of the necessary facilities for the circular economy, accompanying a transition that sees waste increasingly as an economic resource to be optimised through separate collection, recycling and recovery and to push the fraction of waste to be considered unusable waste to the margin.

The definition of the *Standard model of the service contract for the regulation of relations between entrusting bodies and municipal waste service managers* represents the completion of a path that the

sector had been requesting since well before ARERA assumed powers over the waste sector in 2018, dating back to the 2006 Consolidated Act.

Thus, the minimum essential contents of the service contract were changed, aimed at ensuring the absorption of public service obligations and the respect of the economic-financial balance of management according to efficiency criteria, for the entire duration of the concession.

Alongside this, monitoring of efficiency indicators for recovery and disposal activities was also introduced, in a step-by-step approach aimed at taking into account the different (sometimes significantly different) starting conditions and the heterogeneity of the available plant stock.

An action that seems relevant to recognise the right value of an industrial sector characterised by a high degree of specialisation in relation to the different supply chains.

An initial set of indicators will make it possible to monitor the quantitative and qualitative yields of separate collection, which are essential prerogatives for subsequent material recycling operations.

At the same time and in line with the other measures taken, an intra-period update of the second tariff method (2024-2025) was introduced and the Council of State's ruling 7196/23 was immediately complied in respect of the treatment of costs relating to the pre-cleaning, pre-sorting or pre-treatment of plastic packaging from separate collection.

And it is a precisely separate collection that has been the focus of the introduction of measures to monitor the degree to which its efficient costs are covered, providing for a reclassification of the many cognitive elements that can be deduced from the approximately 6200 EFPs approved for the second regulatory period, 2022-2025. The first concrete result of the possibility of access to an analysis of the sector based on definite, validated and concretely verified data in the daily management activities of the territorially competent bodies.

In light of the differences found at the territorial level, the approach followed introduces, with the launch of the new system for its monitoring, annual improvement and maintenance targets differentiated on the basis of the starting degree of coverage calculated in the individual EFP.

In terms of the effects on tariff dynamics, the regulation has configured a set-up in which the charges have, on average, variations in line with those of inflation (or even lower, if we think of the 2.3% increase in 2023), providing tools to mitigate the effect on users of certain turbulences in commodity prices.

This takes place within a framework of transparency (also in compliance with ad hoc directives), attention to management continuity and relative economic-financial equilibrium (standard service contract scheme), promotion of quality (TQRIF and indicators on differentiated performance and recovery), and stability and reliability for investors, as witnessed by investment projects in new treatment capacity.

The affair of the regulation of the conditions of *access to the gate* of treatment plants, also called, on the basis of a classification of facilities, the affair of 'minimum plants', represents one of the complexities of the sector that must necessarily be unravelled in the light of compliance with competitive criteria on the one hand and congruity with planning objectives on the other.

Neither profile is exquisitely regulatory, since sectoral regulation plays its role in respecting both, certainly not in conforming to its own priorities.

Moreover, not taking them into account would have generated an incomplete, if not contradictory, picture, while addressing the complexities has led to reflections and refinements that will be able to configure, within a short period, a stable set-up to the benefit of all stakeholders.

An important contribution to the necessary clarity of the overall picture may come from the institutional coordination for the upgrading of the sector's facilities, with the table set up at the MASE which, with ARERA and ISPRA, and after hearing the stakeholders, analyses the National Waste Management Plan, with reference precisely to the criteria for identifying the minimum plants essential for the closure of regional municipal waste management cycles.

As is well known, the waste sector has characteristics of absolute specificity compared to the other regulated sectors.

Like all regulatory initiatives, this one too has evolutionary characteristics and its effectiveness will tend to increase with the awareness on the part of the sector's stakeholders of the opportunities in terms of stability and homogeneity of relations that regulation is able to guarantee and that are necessary, though not sufficient, conditions for the sector's development.

Therefore, it is not surprising that there may be resistance from those who, at this stage, negatively assess the directly perceived effects with reference to their own activity and do not attribute positive value to those of the system.

There are not a few expedients that ARERA has adopted to mitigate the former: from the gradualness in the implementation of the tariff rules to the introduction of a mix of forecast and final cost elements, to the notion of a territorially competent entity or that of mere service provider, to distinguish it from the treasurer required to draw up the EFP.

Conscious misunderstandings remain, which some would like to pretentiously aim at simple, binary and only apparently decisive solutions, often harbingers of prolonged phases of great instability and destined to consign the sector once again to indeterminateness and confusion of roles, those harbingers of immobility or worse.

This does not, of course, detract from ARERA's firm intention to contribute to the shaping of an overall regulatory structure that guarantees the sector the best opportunities for development, within a framework of transparency that respects operators' demands and benefits end users.

Before the conclusions, I think it is important to recall some aspects that cut across the different sectors regulated by ARERA.

Enforcement and customer protection by ARERA also played an important role in 2023 in ensuring the protection of customers (citizens and companies) and guaranteeing the implementation of the regulation.

Controls and inspections, conducted on regulated entities have led to notifications of infractions amounting to approximately 11 million euros, in particular against water operators and gas distribution companies that irregularly applied tariffs and received incentives and rewards aimed at improving service quality.

Renewed attention was paid to compliance with the instruments introduced to protect the economically weaker strata of the population, through the launch of a significant control activity against energy sales companies, on the correct disbursement of the social bonus for electricity: the activity was completed in 2024 and will be further developed through new audits also of gas suppliers.

With the cooperation of the Tax Police, checks were also carried out on the subsidies for more than 3,000 energy-intensive companies, identifying possible irregularities on which further investigations are ongoing.

In addition to the results of the more than twenty years of cooperation with the Tax Police, it is worth mentioning that in 2023 the first fruits of the cooperation established the previous year with the Carabinieri police force were harvested: the first audits were carried out with the support of the Carabinieri. These activities concerned, in particular, environmental services regulated by ARERA.

With the General Command of the Carabinieri police force, the foundations were laid to fully exploit the potential inherent in the collaboration, through the creation, at the Milan headquarters of ARERA, of a specific Unit reporting to the Carabinieri Command for Environmental Protection and Energy Security.

Already during this year, members of the Carabinieri police force will be able to start working at ARERA's offices.

2023 was also the year of the revision of ARERA's Sanctions Regulation, at the outcome (as is usual for any action by ARERA of general scope) of a consultation process in which stakeholders participated.

With the revision of the Regulation, ARERA intended first of all to adopt a clearer regulation of the terms of the sanctioning procedure in order to ensure, in compliance with the principle of separation between investigative and decision-making functions, the most efficient and effective exercise of the sanctioning power, together with greater transparency and predictability of administrative action.

ARERA's efforts to punish the odious phenomena of suspending the supply of electricity and gas to final customers, who are not accused of non-payment of bills, but rather whose supply has been unlawfully interrupted due to disputes that have arisen between the various operators in the supply chain, continued.

Moreover, in 2023, with regard to the sanctioning power attributed to ARERA for cases of violation of EU Regulation No. 1227/2011 (the REMIT Regulation) - which lays down rules to prohibit abusive practices capable of influencing wholesale energy markets - the first sanctioning proceedings were initiated for breach of the obligation to disclose inside information to the public in an effective and timely manner, as well as for breach of the obligation to register market participants and to report transactions carried out on wholesale energy markets to ACER.

In this phase of major changes in the energy sectors and further regulatory developments for the environmental sectors, ARERA's activities to support and assist customers and end users continued, through information and protection tools for individual problems and disputes, managed by the Customer Help Desk.

There was a further increase in the number of calls received at the Help Desk's call centre to over 1.5 million for all sectors, an increase of 23% compared to 2022.

Without prejudice to the effectiveness and quality recorded to date, the ever-increasing demand for information and assistance from customers, in addition to stimulating a continuous check-up of regulation, also calls for the evaluation of further ways of improving the efficiency of services, which are already accessible to all segments of the population, including through the latest technological developments. The use of Artificial Intelligence in the access modalities will further facilitate and speed up the contact with a specialised Help Desk staff member and the availability of information.

In the course of 2023, the compulsory conciliation attempt as a condition for proceeding with legal action for end users and the obligation to participate before the Conciliation Service for all operators and managers of the same sectors was also stipulated for the water and district heating sectors. A procedure for the gradual extension of this protection system has also been initiated for waste, taking into account the specificities of this sector.

A popular tool for alternative dispute resolution, the Conciliation Service has seen an increase of more than 8,300 applications submitted since 2022, with a total of more than 32,000 applications received, a positive resolution rate of 70%, an average duration of the procedure of 56 days, more than € 25 million in refunds for customers and a user satisfaction rate of 95%.

In this scenario of novelties and changes, the Customer Associations have confirmed their role of providing qualified assistance to customers (in particular to the less digitised or penalised by information imbalances) but also of stimulating and recommending to ARERA, in particular in the technical tables dedicated to regulatory innovations and market evolution.

I would like to mention here the *end of the Standard Offer Consumer Table*, which has been repeatedly convened in recent months and will continue to be a dedicated forum for discussion and listening, on such an important and sensitive issue.

ARERA contributes directly to the development of information and communication activities for customers and users in the regulated sectors, focusing in the last year on energy services, where the changes have been most incisive.

The most recent months have been, in particular, dedicated to all stages of the standard offer service, first for gas and now for electricity, through targeted communications in bills, reorganisation of the tools available on the institutional website, re-proposal last autumn of the campaign inspired by *Alessandro Volta* to promote the "*Portale Offerte*", the "*Chiedi all'Arera*" campaign of these weeks, and the resumption of the "*Difenditi Così*" campaign (together with colleagues from the Antitrust Authority) providing citizens with tools to deal with the insistence of call centres as the 1 July deadline approaches.

Even with the return to less difficult conditions in the energy markets and energy prices, efforts continued to ensure the proper functioning of instruments for people in economic difficulty, in particular social bonuses for electricity, gas and water.

In all, around 4.6 million social electricity bonuses and around 3 million gas bonuses were granted in 2023; the full implementation of the social water bonus, an instrument that reached 2.3 million households, continued. The automation of the water bonus made it possible to quadruple the number of households reached, similar to the other sectors.

The ongoing commitment to making the rules in force work is confirmed by the further development of complaints proceedings between operators and system operators: 2023 recorded the highest number (around 200) since the start of operation of ARERA's *justicial function*, confirming the stakeholders' choice of favouring this dispute resolution tool as an alternative to judicial protection, appreciating its gratuitousness, extreme ease of use and above all its rapid and certain duration.

It should also be noted how the Council of State, in the course of compliance, substantially recognised in 2023, the legitimacy of the redetermination of the prescriptive rulings adopted to recover the amounts unduly earned by the operators, as a result of the speculative imbalance strategies 2016.

Recently, also in the court of legitimacy, the Council of State definitively reaffirmed the legitimacy of ARERA's action with judgement No. 3274/2024.

As proof of ARERA's ability to modulate the exercise of the powers attributed by law in function of the protection of final customers, the recognition by the Court of Justice (judgement of 30 March 2023, Case C-5/22) and by the Council of State (judgement no. 11205/2023) of ARERA's prescriptive power to impose on the sales operator the restitution to final customers of charges provided for by an unlawful contractual clause deserves to be recalled.

This is the first recognition of the use of prescriptive power in favour of the end customer directly.

Also in 2023, the reorganisation of ARERA's internal structure went into full swing, with the aim of improving its performance in the face of constant changes in the context.

As of 31 December 2023, 232 tenured employees were in service, an increase of 8 due to recruitment through competitions, with an average age of around 50 years and a graduate rate of 90%. In 2023, the Equal Opportunities Commission was established, and a Gender Equality Working Party was set up to monitor the situation in ARERA, as is the case in some European regulators.

The system of transparent planning of ARERA's activities continued through a reporting process and a mid-term review of the 2022-25 Strategic Framework, also developed after public discussion with stakeholders. The programmes of activities are made public through specific documents, developed through internal operational plans, publicly reported with regard to the objectives achieved and periodically reviewed as the elements of the scenario change.

I would like to conclude with a few general comments.

Regulation has a well-established tradition in our country with various examples of how it has ensured flexibility and balance in the delicate equilibrium between customer protection and sector stability, particularly during times of crisis.

Regulation has reached such a level of maturity that it can be considered a stable value in the administrative structure of this country.

Despite this, the independence of regulators always requires specific attention, which cannot be entrusted solely to matters of principle or declarations about the importance and role of an independent regulator.

It is entirely evident that the regulator's action must be inscribed within the context of normative and legislative references, subject to the jurisdictional review of administrative justice, and respectful of other regulators. However, it is equally evident that the specificity of the sectoral regulator must find its own '*unicum*', a *unique approach* to operate within these constraints.

In a world where regulation is called upon to intervene with increasing profiles in the regulated sectors, with objectives synthesizing community demands and evident, objective needs for service improvement, it is clear that 'loyal institutional collaboration' must be the frame of reference within which to conduct common action.

The regulator should not receive special or different treatment in the management of administrative disputes. However, it would be important for the use of verifications to be part of a dialogue between the *judicial structure* and the regulatory and control authorities, respecting their respective roles and prerogatives. This should be a profound and substantial dialogue, fostering a special relationship between the involved parties.

In this regard, I can only appreciate the constant commitment of the Council of State and its President, in developing such dialogue through regular seminars. These provide reciprocal opportunities to deepen understanding of the context and purposes of regulation, as well as the fundamental principles and the reference framework within which administrative justice operates.

I have already had the opportunity to observe in previous reports how the authorities are certainly independent but also *interdependent*.

They are undoubtedly so in their mutual cooperation, which has never been lacking - and for this, I can only thank all my fellow Presidents and with them all the offices. Yet there is one level in the action of the Authorities that must be treated with particular care: the coherence of the overall action.

The intricacies that can arise in the regulatory framework when sectors are affected by multiple Authorities' actions authorities may represent potential footholds for instrumental use of regulation.

The antidote to this risk is an accurate definition of the areas of individual regulators' intervention areas and the simultaneous sharing of intervention methods and tools.

Ladies and Gentlemen, the usual thanks that are not an empty exercise in style but the genuine public acknowledgement of how much ARERA's activity finds in a dense network of relations and collaborations essential support, dutifully mark the conclusion of this report.

I would like to take this opportunity to extend the thanks of the entire Board and the Offices to the Council of State and the Lombardy Regional Administrative Court, the State Legal Advisory Service, the Court of Auditors, and the other independent Authorities for their continuous and effective cooperation.

Thanks also go to ACER, the National Council of Customers and Users, the GSE group, RSE, CSEA- the Cassa dei Servizi Energetici e Ambientali, ENEA, the Regions and local autonomies, Anci, and the governing bodies of the districts.

Finally, to all our employees, the Board of Auditors, the Evaluation and Strategic Control Unit, the Carabinieri police force with which valuable collaboration has begun and - with special thanks - to the Tax Police, which, as well know, this year celebrates the 250th anniversary of the foundation of the corps and that, through the Special Goods and Services Unit, provides daily support to our activities.

The regulatory considerations and the important challenges we see on the horizon cannot make us forget the general context in which we find ourselves, and I want to recall it only in conclusion, so that it may be a reminder to us all.

Perhaps I should have started from there because it is certainly not a secondary variable, and indeed, its evolution could render almost *naïve* the considerations made so far, all of which have been based on a reassuring “business as usual”.

We have a duty to think for the best but equally to prepare for the worst.

We must recognise that the real victim of our time is peace.

The war on our doorstep continues, and we begin to feel the fatigue of a long drawn-out, anachronistic war in form and reason, but one that is dramatic like all wars.

In other parts of the world, the force of democracy is caught up in a seemingly uncontrollable and unjustified spiral of violence and, in the face of so much horror, it becomes difficult to remember the reasons for one or the other and one only wishes one could start again, to rebuild a possible coexistence in respect of the reasons of all.

But in general we live in societies where coexistence is severely tested, where individualism contrasts with expectations of being able to respond 'together' to environmental, social and justice challenges. COVID has left us with physical, but above all psychological consequences, the extent of which we still do not understand. We know that there are no simple solutions to complex problems, and when there seem to be, they are usually wrong.

We are in charge, as regulators, of building the facilities to connect countries and define the right rules with which to exchange and distribute precious goods, such as energy, or water.

I conclude this report with the wish that - in our own small way, as far as we are able - we may be able to build 'immaterial' facilities that allows us to exchange the good we need most at this time: Peace.

Thank you.

