



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



# ANNUAL REPORT ON THE STATE OF SERVICES AND REGULATORY ACTIVITIES

Presentation by the President  
Guido Bortoni

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Guido Bortoni, President

Alberto Biancardi, Commissioner

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«LET NOT YOUR HAND BE OPEN TO RECEIVE  
AND CLENCHED WHEN IT IS TIME TO GIVE»

[Sirach, IV, 36]

Authorities, Ladies and Gentlemen,

on behalf of the Board and the entire Authority, I wish to welcome the distinguished attendees that are with us here today and thank those who will devote their time to reading the *Annual Report* on the state of services and regulatory activities. The former will also be subject to European evaluation, as it has been for a couple of years now: this edition, however, acquires further significance in view of the upcoming Italian Presidency semester of the Council of the European Union, coinciding with the complete renewal of the European Parliament and Commission.

From its very first *Annual Report*, this Authority has organised its Presentation to the Parliament, the Government and to those interested, so as to represent a policy statement for future regulatory and enforcement actions, while not foregoing the analysis of the underlying principles and framework.

This year as well - which marks this Board's term of office exactly "half way down the road" - I will not linger over the results achieved, nor the deviations from what was planned. Rather, once again, I will focus on our envisioned future path.

We would have liked for the 2014 annual Presentation to be carried out in a new way: with more debates and a greater participation, including through observations and evaluations from the members of the Parliament interested in energy. As it is necessary to overcome the concept of «We've always done it this way», "the most dangerous phrase in the language", according to Grace Hopper's famous quotation.

Our hope is that next year it will be possible to give an innovative imprinting to this fundamental tool of our accountability, for which measures have already been identified to improve and to intercept opinions and requests from our stakeholders'.

Although the European economy, after six long years of double crisis, has started to show signs of a slow recovery, with an expected 1% growth in 2014, our Country continues to suffer from still unfavourable economic circumstances. Despite the reduction of the Italy/Germany bond yield spread, in the past few

months our interest rates have decreased less than those of Greece, Portugal and Spain. As far as the energy sector is concerned, in 2013 electric consumption further decreased by 3.4% compared to the already shrunken values of 2012, falling below the threshold of 300 TWh, with a contraction that was much higher than the one that was registered by the GDP in the same period (-1.9%). Likewise, there was a 6.5% decrease in gas demand compared to 2012, just slightly above 70 billion cubic meters.

Though a few timid signs of recovery are starting to show it certainly cannot be said that the crisis is over. We cannot afford to make mistakes in a time of crisis and it is necessary, in the interest of the country as a whole, both for current and future Italian generations, to identify actions to sustain the reversal of negative trends without stopping investments. As stated by several statesmen: «*never let a serious crisis go to waste*».

To this end, it is crucial to keep the relationship between energy policies and independent regulations in mind at all times. This is based on the fruitful dualism between policy makers who, legitimized by the people's sovereignty, have the responsibility to define general targets and policies with wide margins of action, and technical regulators who, on the basis of competences and independence granted by law, have the responsibility to define the most efficient and effective tools that enable to reach said targets. In modern energy systems, the prerogative of independence - necessarily balanced by appropriate accountability counterweights - safeguards the regulator against interferences from constituencies and public and private interests. While also enabling to manage the planned and chosen regulatory approach, (the *course*) in the rolling cycle (the *waves*) of general economic trends. In order to implement the aims indicated by public policies, even more while coming out of a crisis, it is necessary to proceed with great inter-Institutional sensitivity, so as to favour a deep-rooted and structured recovery.

In its 17 years of life, this Authority has had to address many criticalities in the sectors subject to regulation without the sustenance of a stable national energy policy. The experience acquired, which has built up to become a true vision, is a qualifying value for Italy within the European panorama. Today we place it in the hands of politics, as provided for by law.

One concern which we currently share with the Government and the European institutions consists of energy end-prices which are still high in Italy and on the rise throughout Europe. This is symptomatic of a system which is not yet able - as already highlighted in last year's *Annual Report* - to transmit the benefits of price which is indeed decreasing on the wholesale markets to the final

consumer.

In the natural gas sector, this Authority has implemented several reforms on the wholesale market in order to bring prices back to the level of other European markets as quickly as possible, while duly transferring benefits to the final customers. For industrial customers, as well as for thermoelectric ones, already in 2013 a significant reduction in prices took place against the background of a generalised increase registered in other Countries of the Eurozone (-5.2% before-tax for middle-large consumers compared to the +3.9% EU average, and - 7.2 % for large national consumers including for thermoelectric generation). As of autumn 2013, significant reductions have started to be evident also for the average domestic customer, owing to the Authority's reform on the regulated market, with a -7.2% decrease in price by the end of 2013 (which totals over 10% if the first two trimesters of 2014 are included, for a total of about -10 eurocent per cubic metre). In the electric sector, the persistent increases in the end-price - despite the relevant decrease of wholesale market prices - are linked first and foremost to increases in (para-fiscal) charges. The Government's current intent to reduce the bills for business, (-10%), in particular for small-medium enterprises, is in the right direction: or rather, actually reduce overall burdens, not just redistribute them among classes of end-customers, identifying the parties that will benefit from the para-fiscal reductions and guaranteeing, for the other consumers, an unvaried contribution. There is no doubt that it will be necessary to identify several simplified drivers, as it will be to suggest modern tools geared to the altered context and market conditions.

In 2012, and further deteriorating in 2013, hardships due to the economic crisis became evident also on the so-called mass market, in the form of delays in payments on behalf of enterprises and families. This is true even after the exclusion, however difficult it may be, of opportunistic behaviour.

What policies can be implemented to address this issue? By now, as has become the Authority's distinctive trait, it is necessary to selectively tighten the chains of regulation on the one hand, so as to protect those customers suffering from real economic hardship, while avoiding the suppliers' "easy" interruptions of the service, and on the other hand to restrict opportunistic behaviour and "easy" overdue payments. It is important to keep into account that arrearage represents a criticality for suppliers as well, especially in a time of crisis. This is a complex task for the Regulator which nonetheless must be carried out identifying the proper measures: we are working on a consultation document on this issue also aimed at answering the need to readjust the

relationship between sales and distribution. In this field as well, the quote "everyone does his part" rings ever so true and this goes for distribution enterprises which must efficiently carry out the duties assigned to them and for which they are paid.

The problem of overdue payments produces an even more serious issue: that of poverty in the energy sector. For several years now a mechanism has been implemented for the distribution of social bonuses: in 2013 said bonuses, both in the electric and gas sectors, were distributed to more than one and a half million families. However, it is necessary to keep into account that only about 35% of those who are entitled to the bonus actually apply for it. Therefore, urgent interventions aimed at simplifying admission procedures and at informing the public are necessary. All parties and institutions involved must be made responsible. The relevance of the issue also calls for a review of the measures to increase discounts and to adjust the new ISEE mechanism (Indicator of the Equivalent Economic Situation). However, for all this to take place, the extension of the energy bonus to other public utility services – and the introduction of a social tariff for water - intervention from primary legislation is necessary.

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In order to illustrate the Authority's policy plan, I will hereby make reference to the perspective and the lines of intervention set out in our Strategic Plan for the three-year term 2012-2014, focusing however, on the changes imposed by the modified context or the careful consideration matured within the Authority. Concerning the many aspects for which the regulatory policy planning still appears stable, please refer to the volumes of the *Annual Report*.

## **SELECTIVE APPROACH TO THE DEVELOPMENT OF ENERGY INFRASTRUCTURES**

The regulation of energy infrastructures within the respective areas of responsibility of the Authority has always been developed in a scenario of steady increase in energy demand, mature technologies and markets yet to become fully European. Since 2009, these conditions have gradually started to fade away and regulation thus had to quickly adapt to the new background: it would be superficial and dangerous to think that optimal regulation mechanisms do exist, regardless of general conditions. The current setting requires, first of

all, to improve the tools used to select infrastructural developments, in particular those for which costs are borne by all consumers.

Since 2011, the regulation has made important steps forward in this direction, with new rules already in force and others in the final phase of implementation. Granting strong incentives, aimed at increasing the total volume of investments up to an exceeding availability of infrastructures, has been gradually abandoned in favour of an output-based approach aimed at creating set benefits for the system and consumers, committing at the same time operators to actually complete the works. This is a "silent but also broad revolution" that carries on without shocks. Verifying the market's availability to pay for infrastructural developments can help, in some cases, to select development priorities; whereas in others the selection can only be made on administrative grounds.

However, it is always necessary that operators comply with the commitments undertaken, in accordance with a modern tariff regulation model, based on contractual rather than trust agreements. To this end, the systems for the development and monitoring of investment plans and their efficient realization shall necessarily improve in particular in the gas sector.

Despite the attention towards incremental investments and related costs, the sharp drop in volumes has entailed an increase in unit tariffs. In recent years, the utilization rate of transport infrastructures drastically decreased due to several combined factors, among which the economic crisis and the rapid development of renewable energy sources. The latter have in particular affected both the electricity and natural gas sectors, and unlike the economic crisis or weather conditions, they are an irreversible phenomenon, neither cyclical nor seasonal. From 2010 to 2013, electricity withdrawn from the transmission grid decreased by 15%, while gas withdrawn from the national gas pipeline dropped by 16%.

The balance between the target infrastructure development and containment of costs - especially in a period of crisis - is a problem that encompasses national borders. Also for this reason, we will continue to contribute to the ACER working groups, for the implementation of the infrastructure regulation with a supranational approach. However, it is fundamental the project promoters themselves become proactive in participating to the opportunities offered both by the European contributions and the allocation of costs among the Countries involved in the infrastructural investment (the so-called Cost Benefit Cost Allocation). This could enable a correct burden sharing among the Countries that benefit most from these developments and not necessarily Italy. For

example, this would be the case in the reverse flow of gas transport capacity investments in Italy aimed at bringing gas from the Mediterranean towards the North-European markets. Regarding the infrastructural developments, it is equally important not to neglect the distribution networks, currently experiencing a remarkable drive towards change not only in the electricity sector, but also in the one of natural gas, even if to a lesser extent. In particular in the electricity sector, the traditional role of planning and developing the distribution grids of the DSO is changing due to the shift in the focus of investments (more Information Technology, less copper/less steel and, especially, less use of the territory) and, at the same time, it is evolving towards a role of neutral facilitator of the retail market, a market, as we will further on see that is changing at an equal rate. This phase of great unrest demands the ability to innovate and the readiness to respond to the dynamics of an electric system changing quickly. In this context, the Authority is committed to the forefront of the debate in Ceer, holding the co-chair of a working group which is developing an innovative European regulatory framework for DSOs, based on selective and incentivizing mechanisms that aims at making them responsible for their performance. In this field, the Italian experience, thanks to the implementation of several pilot projects, represents a reference model for the future regulation. The upcoming launch of the call for tenders for the appointing of the natural gas distribution service – an event without precedence in the European context, with an annual business turnover of over 3 billion Euros and a capital stock invested of about 15 billion Euros – highlights we are heading towards a new business arrangement aimed at making the sector even more efficient. In this background, it is both important that resources, recognized to the outgoing operator on the basis of past agreements and not strictly connected to the value of the infrastructure, are not reflected on tariffs, and that clear and transparent rules to promote competition throughout the tenders are defined. Moreover, the Authority has also undertaken onerous initiatives in support of the local Authorities that have been entrusted with the tasks of steering, surveillance, programming and control of the distribution activities. Among these there is also the evaluation of the distribution assets, an area where there are still concerns regarding the possible conflict of interests involving the municipalities which either own them or are stockholders of the companies that manage the distribution service.

## **TOWARDS A NEW PARADIGM OF THE ELECTRICITY MARKET**

In the past three years the activity of AEEGSI, aimed at ensuring a prompt adjustment of the regulatory framework to duly take into account the turbulent increase in renewable energy sources, has been intense. The structure of our



generation park radically changed with a share of renewables that reached at the end of 2013 over 37% of total installed capacity. Currently, the revolution of the production mix is such that around 30% of national production – renewables with a null variable cost - supplies to the market a volume of energy equal to the national production fired by gas with a price set at zero (not including incentives). The change of the production mix and of its territorial distribution greatly affected not only the wholesale markets, but also the functioning of the dispatching/balancing service, as well as the development and management of the grids. All this at the risk of new inefficiencies and possible criticalities for the current security of the system. The transition towards the new market paradigm requires a total reform of the dispatching service, consistent with the intraday and balancing market designs, being defined at European level. To this end, an integrated approach was privileged, with one main modification only of the dispatching rules. The process is almost finished and the final resolution will be carried out by the end of the year.

The Authority worked intensely, with ACER and within CEER, with the other European regulators to the completion of the internal energy market. Therefore, the definition of a new framework of harmonized rules is in an advanced phase: seven new proposals of regulation have been transmitted to the European Commission and are waiting for the beginning of the laborious comitology process. In parallel, on the 4<sup>th</sup> of February 2014, the market coupling was launched, and several voluntary initiatives for the coupling of organized markets (day –ahead markets) with reference to the most important European wholesale markets emerged: Belgium, France, Germany, the Netherlands, the United Kingdom and Scandinavia. On the 13<sup>th</sup> of May, the project was extended to Spain, while the next long-awaited step will be the connection to the Italian border, one of the segments with the highest energy exchange in Europe.

The Authority is fully involved in this process, with a role as co-Chair together with colleagues belonging to the German Regulatory Authority. At the national level, the work is being carried out in order that the Italian electricity power exchange - that has a different architecture compared to Central European markets - may in any case fully join the market coupling initiative by the end of 2014, complying with the commitment during the Italian semester of Presidency of the EU. For Italy the main problem to be solved is to advance the payment terms of the subjects that sell energy in the Day-ahead Market.

This adjustment has to be carried out through a modification, promoted by the Authority, of the Electricity Market Regulation. For a full integration of the markets to take place, the current limits to the national prices will have to be adjusted to the European standards, enabling in particular to offer at negative

prices; in other words, inverting common sense, that is enabling producers to pay in order to keep the plant on and to produce.

The integration effort of 2014 will be successful for our system if, and only if, it will be carried out with conviction of all the actors operating in the national market: the Authority and the Ministry of economic development - that approves the necessary modifications of the Energy Market Regulation - in their respective institutional roles, the GME, as well as the operators of the market and of the transmission system. The year 2014 is quickly coming to an end and it is no longer possible to postpone the need to give certainty to the operators concerning the timeline and rules of market integration.

Concerning the integration of the intra-day markets, a pilot project has been launched with our support and with the participation of the GME, whose aim is to transfer the strengths of our national market in the European market design.

In the same field of electricity energy markets, the Authority welcomes the new capacity market, already proposed by the Authority one year ago after a two-year debate. This market segment gives a strong factual answer to the sector's paradigm change, in the interest of many subjects and, especially, it provides an essential drive towards integration with similar European markets. The capacity market is of interest to renewable sources, both those currently incentivized and the future ones without incentives because they will be able to find remuneration in accordance with the structure of costs of the plants, mainly fixed. It is of interest to consumers because the capacity market proposed by the Authority is aimed at stabilizing the future price of electricity. Moreover, the thermoelectric production has interest to find competitive opportunities in the capacity market, not having to look for more expensive speculations in the dispatching market. Finally, an integration of similar markets is in Europe's interest in order not to have distortions or unilateral penalties concerning energy exchanges among Countries.

## **TOWARDS A SCENARIO OF NATURAL GAS THAT COMBINES SECURITY AND MARKET**

While in the electricity energy market the past three years have been characterized by actions aimed at improving and making more efficient existing rules and mechanisms so as to adapt them to the new context, in the gas sector the Authority had to intervene more radically to manage the transition towards new, more market oriented, structures.

Since 2011, the introduction and implementation of the economic merit balancing, the advanced implementation of new allocation rules for the trans-

border capacity at the border of Austria, the adoption of market procedures for the allocation of storage capacity are all examples of the decisions we adopted in order to promote competition and guarantee the security of the system through market instruments.

In particular, in addition to storage for balancing the gas system, all the available resources - imports, national production and line pack - were put together in order to reduce the risk of having to rely on non-market instruments - as done before 2012 - in order to keep the system balanced particularly in critical situations. Unfortunately, to date there are still only few operators able of making such resources available in the necessary timescale and quantity and, in particular, who can vary import programs at short notice. At the same time, interventions to increase the flexibility of storage utilization have been carried out, according to safety restrictions defined by the Ministry of economic development. Although the adopted system in the past enabled a higher level of storage (at least since 2010!), it is nonetheless still to be refined. Moreover, the extent to which the value of storage rate is conditioned by a very concentrated market structure and by a low liquidity of the forward markets, is still an open question. However, the measures adopted are still affected by several technical restrictions, as for example those on the re-nomination of import programs, which did not allow to put into practice the optimal solution from the outset. The Authority is working to ensure that the steps undertaken towards a reform of the system growingly driven by market logics are to be completed efficiently.

Compatibly with technical restrictions, we started the operations of the balancing market and now we have to fine tune it. To this end, it will be necessary to intervene on three levels, in a coordinated manner and according to guidelines to be shared in a transparent way with all the subjects involved.

The first level concerns the "design." In fact, the organization of the market needs to be refined, for example through the integration of the sessions of the balancing markets in the spot market and through the review of reappointments.

The second level concerns the "role". For the market to be effective, it needs to be backed up by a more responsible role of the system operators - that is, the main transport stakeholders, as far the balancing market is concerned, but the same reasoning applies to storage companies as well - as managers of the market processes, for instance, with reference to the estimate of needs and the definition of purchases and sales for the balancing of the market at the lowest cost for the system. To this end, the Authority is studying, inter alia, the possibility to monitor the effectiveness of the actions and choices of the operators also through service users' surveys, in order to measure the level of

satisfaction, as well as to introduce bonus/penalty mechanisms with regard to the operators' performance.

The third level concerns "transparency." It is of paramount importance to improve the quality and quantity of information on major data and flows which are made available to the operators, and to increase the reliability of the gas market and its operations.

The reform of the wholesale market, introduced by the Authority, enabled to bring our wholesale prices in line with those of the Northern European Countries, net of the higher transportation costs connected to our geographic position. The structural consolidation of the obtained results, stable over time, is the aspect on which the Authority's and the Institutions' upcoming efforts will have to concentrate the most.

In so doing, it will be necessary to keep into account the different levels of competitiveness and liquidity of the markets. The Authority's action will concentrate on the introduction of measures for a pluralistic and market oriented access to the infrastructures from the North, in particular Transitgas connected with TENP. This would be functional to consolidate the coupling of our PSV with the more liquid Central-Northern European markets (for example, TTF) - in case the Transitgas pipeline could be used without being physically congested - and it would be beneficial to the liquidity of products. All this without neglecting the development of new routes of gas supplies from the Caspian Sea (as the TAP gas pipeline) and from all the Mediterranean shores, setting the conditions for the development of the Italian market's potentialities as a possible additional European hub.

I would like to take this opportunity to remind that we are continuously committed to strengthening the cooperation with the other Mediterranean Countries, through the association of the regulators of the area, MEDREG, as well as converging towards the harmonization of shared rules and structures at the European level with the association of the Balkan Countries of the Energy Community (ECRB), of which we reassert the relevance.

## **CONSUMER PROTECTION AND ENERGY EFFICIENCY**

Much space was given, also over the past year, to the debate on the advisability or, for some, the need to overcome the so-called price protection measures for families and small enterprises. What finally emerged from the discussion was the general consent that the protection systems in force and

regulated by the Authority are not tariffs but prices; they are not administrated prices, but market prices since they reflect a specific supplying basket on the wholesale markets.

In this context, it is important to highlight, once again, the final aim of such systems in the different segments of the market regulated and monitored by the Authority. Synthetically, we could say that indicating the energy commodity reference price is the typical purpose of "sema-fera" regulation, that is the regulation which gives a price signal, whenever this can help the consumer make an aware choice, as in the retail market.

It is worth reminding that, considering how protection services are organised, a price signal is not articulated so as to "compete" with the offers in the free market, but it aims at establishing itself as a useful and "light" benchmark, not at all demeaning the creativity and plurality of the portfolio of offers made available by the operators in the free market, which is even broader than just the energy sectors (*non-energy*).

Taking into account both the difficulty for families and small enterprises in having direct access to the wholesale market, and the need of a universal, service of last resort supply, it is advisable to keep a supply alternative for the time being; just as ten years ago, it was an alternative for large industrial customers to have direct access to electric energy importations in our Country with a transparent price.

In fact, a balanced development of the retail market calls for a strong action for consumers' empowerment. The Authority's action in this field has been primarily targeted to supplying domestic consumers with transparency tools and means of support for choosing offers (*TrovaOfferte*, price comparison files, *Atlante del Consumatore*).

During 2013, in addition to these tools - which need to be updated dynamically in order to increase their usability and to take into consideration the evolution of offers on the free market - the Authority reformed the billing documents with the project *Bolletta 2.0*. In February 2014, after a broad participating procedure, we published our position: in the future, there could be a bill "notice" made of a single sheet of paper or little more, which would continue to arrive by mail and contain personal data, consumption and expense data, that is the basic information in order to understand how much and what is to be paid. The bill, available only on the Internet (unless specific requests are made), would contain the detailed information which, if sent by mail, would be more a source of confusion than transparency, besides source of higher costs.

Empowering consumers is important not only as regards the choosing of offers,

but also when managing contracts on the free market and, especially, when renegotiating them. To this end, for example, it might be the case to consider the advisability for sellers to provide final customers with a pro forma bill (after at least a year of supply), containing the comparison between the current expenditure and that which would have been incurred under economic conditions of protection, calculated on the basis of the same historical consumption over the same period of time. Moreover, it might also be considered the advisability for sellers to provide final customers with different estimates concerning the new supply offers of their portfolio. In this way, customers of the free market will always be able to scrutinize their personal choices and, even more, be spurred to do so.

In order not to compromise domestic consumers' trust in the free market, in 2012 the Authority intervened also to contain beforehand the phenomenon of the so-called non-requested contracts.

The measures of legislative decree n. 21/14, implementing the European Directive 2011/83/CE, are compatible with the validity of the preventive regulation defined by the Authority and introduce a cooperative model with the Italian Competition Authority for the *ex post* ascertainment on behalf of the latter of unfair commercial practices. Said ascertainment will take place on the basis of a Memorandum of Understanding for the issuing of a mandatory opinion on behalf of this Authority on the single proceeding of the Italian Competition Authority.

We have just adjusted the Consumer Code, expressed by legislative decree n. 21/14, to the so-called preventive measures provided for by our regulation as regards the *Commercial Conduct Code*, with the integration of measures for the obligation of pre-contractual information, formal requisites for the conclusion of contracts negotiated outside commercial buildings and at distance, as well as the right to withdraw.

Sustainable development objectives in the energy sectors, from an environmental viewpoint, and the opportunities opened by new technologies – for example in the field of intelligent meters, domotics, smart grids and electro technologies – have led to the development of a new dimension for consumers, linked to the possibility to control, rationalize and increase efficient energy consumption and power peaks, and with these, to contain energy expenditure.

Access to clear and complete information on one's own personal way of consuming energy is, in fact, prerequisite, even if not at all sufficient, for activating behaviour/management changes and investments toward a more rational and efficient use of energy: increasing consumers' reactivity to energy price signals (that is the demand's elasticity toward prices, traditionally

considered very low) and, more in general, their answer to stimuli, whether they be prices or not, to the optimization of consumptions. Therefore, we intend to use the best international practices of behavioural analysis.

Information on energy consumptions is an important need-to-know basis also for the development of saving service offers and energy efficiency, services which we can call "*cata-energia*" (that is, "energy hidden below"). Energy efficiency is a strategic sector for Italy not only for achieving the goal of environmental sustainability, but also for energy expenditure restraint, our industries' competitiveness and employment growth.

The energy efficiency market involves the same final customers of the traditional energy supply market and it has important interactions, especially in the last mile. Alongside more traditional operators (energetic service suppliers, ESCO, financial intermediaries), which thrived thanks to mechanisms such as white certificates and fiscal deductions, electricity and gas retail companies have entered the picture, constantly looking to diversify themselves in search of new business opportunities, new margins and customer loyalty programs through the bundled supply of energy and energetic services. This trend toward a horizontal diversification potentially entails great innovation for these subjects as far as products, even the custom one, and role are concerned; however, at the moment, this is evident limitedly to several interventions of reduced complexity in the domestic sector. This is a sector in which transaction costs can be higher or it can be more complex for other subjects to operate as, in some cases, co-financing interventions can be relatively more difficult.

The regulation of energy retail sale - under certain aspects still immature - will have to evolve in order to take into account the above said developments. The Authority will consider whether to broaden the monitoring of the *cata-energetic* market, not to regulate it as it is a non-core service, but with regard to its contiguity and its strong interactions with the regulated energy segments, in which the consumer's *ex ante* protection is the core business of the Authority. Moreover, it is important to ensure that the development of the offer of energy services occurs in competition conditions and that, in case of bundled offers for energy supply in the retail market, it does not hinder supplier switching processes. Also to this end, it is necessary to guarantee the non-discriminatory access to energy consumption data and on power collection.

The adoption and following implementation of the European Directive 2012/27/EC, as regards energy efficiency, will provide a framework for further

regulatory interventions aimed at promoting the demand and supply of energy products and services. Consistently with this regulatory framework, the Authority has already launched three important initiatives: to overcome the progressive structure of the domestic electricity network tariff and the general system charges; to put at domestic consumers' disposition direct and prompt information concerning their consumption profiles; to define the minimum functions of second generation intelligent electric meters.

## **ENFORCEMENT: ESSENTIAL ELEMENT FOR A BETTER REGULATION**

Empowering customers and sustaining their confidence in the correct functioning of the markets is facilitated when a certain frame of rules and enforcement that ensures their effective application is provided.

According to the Authority's strategic lines of action, adopted for the three-year period about to end, enforcement is to be carried out on the basis of two guidelines: the first, aimed at defining the most efficient and quickest procedures for settling complaints and disputes, the second based on surveillance and control, as well as imposing sanctions.

With regard to the first line of action, the *Consumer Helpdesk for electricity and gas*, with more than 338.000 calls during 2013, continues to be an important instrument to be close to final energy customers. During 2013, the customers' and prosumers' complaints unresolved in the first instance by energy sellers or distributors and therefore managed by the Helpdesk increased by 21% compared to the previous year. The analysis and classification of the cases enable the highlighting of the main criticalities in the sector: in 2013, complaints concerning invoicing from final customers served both on the free market and in standard offer regimes, and with reference both to the electric energy and natural gas sectors rose to prominence. As a result of such reports, an ongoing investigation was launched on billing times and conditions regarding small size customers, so as to review the regulation concerned.

The Authority's Conciliation Service for energy customers, currently still provided on a voluntary basis, offers the counterparts a free tool consisting in extrajudicial solutions to controversies in the presence of a third conciliatory party. It also anticipates the European Directive 2013/11/EU to be implemented by July 2015, through exclusively computerised procedures. The data collected from the first year of operation (April 2013 - April 2014) confirm the potential of the tool: more than 1,000 requests with a 158% increase in the last six months,



88% of the procedures closed successfully, and agreements concluded within 62 days.

The Service will naturally evolve into a compulsory tool, as laid down by law for many sectors other than energy. However, in order to reach this stage, the Service should be made symmetric, i.e. it is to be activated also upon the seller's request and always free of charge to the final customer. Moreover, it is necessary on the one hand, to strengthen the prosumers' participation, and on the other, the Service's transparency and accountability by publishing the data on the Authority's website.

Starting from the tools currently available to customers - be they those realized and managed by consumers' Associations, those established by the Authority with the support of the Acquirente Unico, (Single Buyer) those managed by the Authority directly or those ensured by enterprises - the intention is to develop a new model able to overcome the limits and criticalities still present. Criticalities, on the one hand, due to the quantity and complexity of interactions, as well as the non-uniformity of the service offered to final customers regarding the different tools, and on the other, due to the high costs operators face as a result of the existence of a plurality of procedures with differentiated systems for measuring the quality of the service provided.

The ambitious goal is to organize a single coordinated system for customer assistance, envisaging territorial facilities managed by consumers' Associations and by those of the SMEs, as well as the creation of a computerised network for the filing and circulation of information, defining shared and standardised procedures among the different subjects involved, so that they can operate in a coordinated way.

To this end, the project proposes to structure the assistance services provided to domestic customers and SMEs on different stages, with a front office at its first level appointed to settle the simplest litigations or instead to prepare the necessary documentation for a possible second step involving the Helpdesk and, if necessary, of the Authority in a third phase. The realization of this project, which is intended to characterize part of the enforcement activity in the following years, will be implemented gradually through pilot initiatives, experimenting and with the maximum participation of all the subjects involved.

However, as I mentioned last year, enforcement finds its completion through the surveillance and control of compliance with the rules. Therefore investigations continue to be of fundamental relevance - that are carried out with the indispensable support of the *Guardia di Finanza*, which we here thank wholeheartedly for their commitment and support regardless of the increasing

number of investigations planned. In the case of non-compliance or infringement of the law such interventions lead either to sanctions or to the formalization of commitments, which have been in force for two years now.

Regarding commitments, we registered a considerable increase in year 2013 compared to 2012, with a rate of commitment proposals submitted equal to more than twice those submitted in 2012. A positive result for a measure that, being based on a market test, enables a faster conclusion of sanction proceedings and allows a direct and immediate resolution for consumers who have suffered the consequences of the infringement notified.

Nonetheless, in 2013 the infliction of administrative sanctions saw an 18% increase compared to the previous year, besides the first implementation of the simplified procedure, which enabled the quick conclusion of several proceedings. It is precisely on the basis of these results and of the experience acquired, that the Authority is considering the possibility to use many innovative tools characterized by further dissuasive effects compared to the ones used up to now in the context of sanction procedures.

Alongside controls and inspections, the Authority intends to pursue a greater number of specific investigation activities in various context. In particular, among the investigations launched in 2013 it is important to mention - besides the one on invoicing - another on electric energy metering and investments carried out by enterprises (and charged in tariffs).

In last year's Annual Report, with reference to market surveillance and control activities, we highlighted the fact that in 2014 the reporting system provided for under REMIT Regulation (Regulation on Wholesale energy Market Integrity and Transparency) would be operational. REMIT will be launched by the end of the year in all of Europe, and Italy will respect the deadline.

ACER and the national Regulatory Authorities are working to develop an articulated European coordination system ensuring the continuous monitoring needed as the internal energy market policy plan progresses, thus enhancing the competences of the various institutions involved and minimising the administrative charges for the operators. In this respect, the Italian Authority has committed itself on the front line, taking over the co-presidency of the ACER work group.

## **WATER SERVICES**

It is customary in this occasion, to devote only several brief considerations to

the water sector, as it is becoming standard procedure to refer you to the Milan's autumn *National Conference on the Regulation of Water Services (Conferenza Nazionale sulla Regolazione dei Servizi Idrici)* in order to pay the proper attention to the sector, which has finally been included in our institutional name: the Regulatory Authority for energy, gas and water. This recognition is complemented by the even more important and substantial legitimation in proceeding on the regulatory path set by this Authority we had, both on a formal-jurisdictional basis (having regard to the recent judgments of TAR, the Lombardy Regional Administrative Court), and on a more substantial basis, with the first signals of investments' recovery.

I refer *in primis* to the outcomes of the more than 20 appeals which, from different and often opposite perspectives, contested the regulation related to the transitory tariff method as regards years 2012-2013, with which the Authority has already approved the tariffs for over 34 million Italians served by 536 regulated operators present in 3,883 municipalities. In fact, the TAR entirely rejected the appeals lodged by several consumers' Associations and by the promoters of the 2011 referendum. Moreover, it also entirely dismissed, in their structural aspects, the actions lodged by the regulated operators, thus confirming on the one hand, the correctness of the regulation of the Authority's new tariff measure with regard to the referendum outcome, on the other the recognising the power of the Authority to affect the existing concession agreements, also with regard to the so-called former CIPE administrations and to the wholesale water services providers.

Secondly, a first analysis of the documentation submitted concerning the plan of interventions, the economic-financial plan and the concession agreement at the basis of the tariff determination for the years 2014-2015, confirms the infrastructural deficit that characterises the Italian water sector on the one hand, on the other the great expectation of an increase in investments in the water infrastructures after the approval of our new tariff method (MTI). The MTI stems from a regulatory method, started in 2013, based on an integrated approach to the regulation of the sector, that is, focused in clarifying the relationship among different targets, the plan of interventions and the consequences on tariff level and on operator's efficiency improvement.

Therefore, the Authority has defined its tariff-setting procedure, organizing it in different regulatory schemes, providing the concerned administrations both for the possibility to select the one best fitting the conditions of their territory - according to criteria of efficiency and effectiveness depending on the need of investments - in relation to the value of existing infrastructures - and for the faculty to adopt financial amortizations against very high need of investments.

The data transmitted as of today to the Authority highlight that for most of the regulated operators (57%), the concerned administrations planned a high need of investments in the next four years – estimated in three billion Euros – compared to the valorization of the existing assets.

In the light of the new regulatory framework, and therefore in the presence of definite rules acknowledged *ex ante*, an increasing interest is being shown by financing institutes - both national and foreign - in supporting investments in the sector. More broadly, the development of investments in infrastructures within the sectors regulated by the Authority, energy sectors included, is one of the factors that, with a driving force effect, can help to find ways out of the current economic crisis.

All this highlights that the lever effect of the regulation on investments is working. However, it is not reasonable to charge everything on tariff: therefore, we hope that the necessary resources will be found so as to constitute a guarantee fund for water works, as originally provided for in the *Collegato ambientale* in order to achieve the goals both of investments in the sector and of quality - of resources and environment - consistently with the Community guidelines. Moreover, the personal, ethical, I'd say, commitment of the investors located in the very areas where works will bring benefits would be a strong signal in terms of environmental sustainability to the territory.

Lastly, I would like to mention a small but innovative intervention in grounds still unexplored by energy sectorial regulators even at European level: horizontal synergies among several services of public utility. The Authority has promoted multiservice experimentations in order to share *smart metering gas* communication infrastructures. We received and are examining, in collaboration with the Regulatory Authority for Communications - which we hereby thank - 12 proposals from distributors all over Italy, regarding, besides gas service, water service – in great need of innovation, as far as metering is concerned – district heating, environmental services and mobility, in a “smart city” logic.

## **ORGANIZATION**

In 2011, this Authority started a reorganisation meant to favour specialization for a better strategic and transversal coordination of the activities, thus fostering a departmental choice and containing managerial offices. This reorganisation was finally completed May last year, when the new Regulation of Internal Organization became operational. The Regulations were approved on the basis of a participative process which benefitted from a constructive debate

with our trade unions and the managers in charge within the structure.

Moreover, during 2013, the output evaluation methodology was consolidated, perfected by the Evaluation and Strategic Control Unit with an extremely innovative approach so as to reach a more precise assessment of the efficiency and effectiveness of the Authority's administrative action and its progressive improvement during the years.

In order to face the new challenging tasks entrusted to the Authority in the water sector, staff recruitment were carried out through public selection procedures, as provided for in the very same law that assigned us the task of regulating this specific sector. During 2013, and in the first five months of 2014, open public examination were made so as to hire 19 personnel units.

The newly recruited resources enabled us both to maintain the characteristics of the composition of the personnel operating in the Authority - about 50% of female presence and an average age of 44 years old - and to acquire new professionals in the water sector. Yet the need for an increase in the number of current resources, so as to face the new tasks entrusted to the Regulator with the proper competences, remains. I am referring to tasks deriving from REMIT regulation, for instance, under which our supervising duties will have to be performed in co-operation with our regulatory colleagues in the complexity of the European market framework. To date, this is not only about developing procedures, but about having people dedicated to the task in order to face real cases of *fumus* of abuses that, if not treated properly, could entail relevant costs for all European citizens. As for REMIT, also the launching of the 177 calls for tenders for the distribution of gas will require, in the upcoming years, an extraordinary effort for this Authority, committed in verifying data concerning the 7,000 cities served by natural gas network.

The steady debate with the Trade Union Organisations has continued within the framework of shared values and a common attention toward our Institution and its personnel, women and men of the Authority that in this context I strongly want to thank for their crucial support in the good functioning of the Authority.

In order to fully implement the recent law on transparency, the Authority has adopted a specific Regulation and it has created, on its own institutional website, a specially devoted section called "Transparent Authority," where it publishes a series of information on its functioning.

Finally, I want to take the opportunity today, also on behalf of the Board, to express my personal gratitude, as well as that of my Colleagues, to the TAR of

Lombardy (Regional Administrative Court), to the Council of State, the State Legal Advisory Service, the Consiglio Nazionale Consumatori ed Utenti (National Council of Consumers and Service Users), RSE - Ricerca Sistema Energetico, Cassa conguaglio per il settore elettrico (Electric Sector Compensation Fund), Guardia di Finanza (Tax Police), our Board of Auditors and the Nucleo di Valutazione e Controllo Strategico, our Code of conduct Guarantor, as well as to all other Institutions with which this Authority has always been connected by a loyal and active cooperation.

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Authorities, Ladies and Gentlemen,

I want to conclude drawing attention on a central topic for the current nowadays time: the "undeniability" of a European way to energy choices.

The energy and productive future of every Country "geographically and socially" European will be decided only in small proportion by domestic choices, and in great part, by other energy-environmental national paths that have no borders to contain the effects, be they positive or negative.

Therefore, the choices which, *per se*, in their nature will not comply with national jurisdictions introduce a condition which cannot be overcome thus generating a sort of necessary cohabitation among nations.

Cohabitation has to be virtuous, that is, energy policies have to be supranational and committed to a common goal. The choice to liberalize energy markets to the advantage of prices and supplies; to follow environmentally and friendly paths not forgetting the unavoidable continent's safety of supply, are clearly European.

It also needs saying that, without driving effect of the above said goals, the Member States would have unlikely set such ambitious, thus so difficult, aims to reach.

Likewise, the "time" dimension - that is the need to give broader, middle-long term approach to several energy choices in order not to confine them to a short-term economic situation - must permeate the choices as regards the energy matter.

However, the "wide and long" horizon is also full of major uncertainties concerning the future of the energy sector. Unfortunately, there is no assurance. The only way to manage these uncertainties is to enter into relationships and establish relations of solidarity and cohesion with other Countries that share, even if with different views, advantages and disadvantages, our same uncertainties concerning the future. In other words, it is important to put everybody's diversities and resources as common basis for

all.

Hence, the integration of markets, infrastructures, systems, as well as the cooperation among institutions that deal with regulation and energy policy is an inestimable added value: this integration becomes the best insurance policy on the future of the energy sector from today on, whatever it might be, yet, it goes without saying that this entails a cost, as all forms of guarantee.

Perhaps, setting as a value the integration in the single energy market is not sufficient to rally European citizens on energy issues.

In fact, such mind-set does not belong to the single States as well, more used to see in the comfortable chains of subsidiarity the way out to keep wide spaces of national autonomy in the energy sector.

I would like to stress once again that the supranational management of Brussels's stammering energy policy did not distinguish itself in the past as it was too often characterised by bureaucratization instead of political choices.

This governance, bulimic of details and poor in vision, makes me think of an adage by Thomas Eliot which could be its paradoxical icon «*By dreaming of systems [rules, Author's note] so perfect that no one will need to be good*». Where “good” is he who, instead, is primarily concerned with matters of general interest, the overall welfare therefore, the first essence of politics!

We hereby ask the representatives of the Italian Government and the Italians that will soon be appointed to the European Institutions, to be spokesmen, pivot and promoters in order to anchor energy to the European dominion and to favour its renewal in every way possible, participating actively in setting a “new Europe” of governance in the energy sector, more ambitious and able to make common political choices.

The conditions for us Italians to try are all laid out on the table: let's do it!

Thank you for your kind attention, also on behalf of my Board Colleagues.