



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



3rd National Conference on Water Services Regulation

Presentation by the President
Guido Bortoni

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The Italian Regulatory Authority for Electricity Gas and Water

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Respectable Authorities, Ladies and Gentlemen,

On the occasion of the 3rd National Conference on Water Services Regulation, I am honoured to address this audience on behalf of the Authority.

Last year, I opened my speech stressing that it was premature to do a detailed review of the activities carried out during 2012-2013 by the Authority in such a complex sector like that of water services. Soon after that (at the end of 2013), the Italian Parliament passed a law that established the new name of the Institution of which I am the President: The Italian Regulatory Authority for Electricity Gas and Water Services. Allow me to quote the Roman Emperor Justinian here, who said “*nomina consequentia rerum*” (names are the consequences of things) and such is the case indeed, with the change of our institutional name which led to the implementation of the two-year trial period of a new centrally regulated Italian water system. Hence, the taxonomy form followed the substance of things.

Today, I will illustrate an intervention *in medias res*, focusing in particular on the activity carried out up to now by the Authority and the guidelines that will shape its future actions. In general terms, while the current phase of the Authority’s activity is focused on the implementation of the tariff method during the first regulatory period and on the consolidation of information regarding the sector, the next phase will be aimed at completing the regulation through the progressive convergence of different regulatory frameworks, in order to gradually reduce any asymmetries and consolidate the conditions necessary to implement the investments. The latter has actually been the real objective of our action since the beginning. Likewise, our actions shall focus on the identification of regulatory *standards* for water services, with the aim of improving their quality, with a special care for end-users.

Governance

The expected evolution of the institutional and organisational structure of the sector, namely the governance of the water sector, as mandated by the recent Law No. 164 of 11 November 2014, which converted Law Decree No. 133/2014 (the so-called “Unblock Italy”), as well as originating from the 2015 draft Stability Bill, which is currently being examined by the Parliament, remains a fundamental piece for the development of the sector.

As already mentioned, the Authority shares the general principles supporting aggregation processes regarding both the service assignment –with respect to the structure of the competent institutional entities in their territorial areas of operation – as well as the SII (Integrated Water Service, hereinafter: SII) Operators, by establishing the timeline for the adhesion of the Government Bodies and providing for substitute powers in case of inactivity.

A process of aggregation and strengthening of the management of the public utility systems cannot be delayed any further, not just to boost investments, but also to eliminate that fragmentation which inevitably results in inefficiencies. Greater scale management systems can help to reduce costs and improve performances and service quality for end-users.

Regulatory framework

Within its area of competence, the Authority has started to lay out an innovative regulatory framework, which takes into account the variety of factors typical of the water sector. It is asymmetric, in order to take into consideration the great differences among territorial areas; and it is progressive, in its implementation of the general principles of transparency, consistency, convergence, efficiency and effectiveness.

The regulatory framework introduced by the Authority has recently received important endorsements from the first degree Regional (Lombardy) Administrative Court (TAR).

With over 20 judgments issued in 2014, in fact, the Administrative Court of the Lombardy Region rejected all the petitions against the new tariff method, presented by

some individuals and companies who claimed that the method violates the substance of the popular consultation (Referendum).

In particular, the Court confirmed the power of the Authority to regulate on-going service agreements, as well as the validity of the full cost recovery principle underlying the new regulatory framework, including operating and assets costs.

The Regional Administrative Court has also censored some specific tariff mechanisms, a decision which the Authority has appealed, pending the judgments of the State Council.

**Transparency
and
accountability**

The criteria of transparency – and *accountability* – have shaped from the beginning the Authority's definition of a transitional tariff regulatory system for years 2012 and 2013 (adopted with resolutions No. 585/2012/R/IDR and No. 88/2013/R/IDR), based on the identification of the costs necessary for the calculation of tariffs, as well as on the adoption of the "First Directive for the transparency of the billing documentation of the integrated water service" (resolution No. 586/2012/R/IDR), which – besides the obligation to publish the Service Charter– establishes the minimum information requirements that SII Operators must include in their bills starting January 1st, 2014.

Consistency

Last year, as part of the preliminary investigation for the tariffs approval for the years 2012 and 2013, an analysis of the public choices adopted by the different competent bodies led to a specific focus on the assessment of the consistency of their decisions with regard to the objectives to be pursued in different territorial areas, to the selection of needed interventions and to the costs underlying the charged fees. It was on this basis that the Authority approved the tariffs of the transitional period - MTT.

**Water Tariff
Method**

This approach was then further developed in the Water Tariff Method – MTI (resolution No. 643/2013/R/IDR), when

the Authority introduced for the first time in Italy a regulatory system capable of including and absorbing the whole past regulation. In this regard, I would like to remind you that in 2012, when we started to operate in this sector, there were three different tariff methods (Standard Tariff Method - MTN, Method of the Regional Administration of Emilia-Romagna, CIPE Method), and a wide variety of conventional habits and business practices.

Regulatory schemes

The new Method is based on the possibility to choose, for the period 2014 and 2015, one of the four alternative regulatory schemes (corresponding to four Quadrants of the "matrix of schemes"). The scheme chosen by the Local Authorities (Enti d'Ambito or other subjects) to determine the tariffs is adopted according to:

- The ratio between the needed investments (duly identified for the period 2014-2017) and the value of the existing infrastructures, where Quadrants I and II are characterised by lower investment needs compared to the past, while Quadrants III and IV are suitable for relevant investments, which are identified according to unbiased and non-deferrable needs, that call for appropriate measures able to ensure their sustainability;
- The operating costs related to specific objectives, where:
 - Quadrants I and III are characterised by the invariance of the specific objectives and the range of operations of Service Providers, so that the planned costs do not require any modifications;
 - Quadrants II and IV are characterised by the presence of a systemic change in the operations of Service Providers, in terms of served territory or supplied services, requiring the identification of additional costs.

The Authority has thus introduced innovative and asymmetric regulatory instruments taking into account that, given the changes in the current macro-economic scenario, growing investment costs will be necessary to keep the water system efficient and they will be much higher compared to the decreasing contributions provided by public finances.

Additional instruments

However, regulation – as repeatedly underlined by the Authority – must be supported by additional tools for funding the costs of the necessary infrastructural works, in light of the considerable financial burden of the implementation of the investments. In this sense, the provisions introduced by Article 7, paragraph 6, of the Law converting the so-called “Unblock Italy” Decree, aimed at the creation of a specific fund to promote investments for water resources appear absolutely necessary. Yet, relevant criticalities remain with regard to the lack of provisions on the coordination of the fund with the regulatory powers of the Authority for the determination of criteria, methods and size of the financial resources. Such fund, in fact, cannot operate independently without appropriate correlations with the tariff system.

Convergence

The objective pursued by the Authority is the convergence of the different existing regulations toward a uniform regime, which can be then duly governed by one system, now represented by the Water Tariff Method as introduced by the First Quadrant. In such scheme, ‘ordinary’ regulatory measures are essentially aimed to maintain and ensure the safety of the existing infrastructural assets.

Efficiency and effectiveness

Upon determining the new tariff method, the Authority introduced also a number of specific regulations aimed to ensure the effectiveness and efficacy of water system management, through the provision of a system that acknowledges costs within the revenue limits according to

the initial situation. Given the reduced Regulatory Lag typical of initial situations, this system reduces to a minimum the amount of additional and incompressible charges. For the 2014 -2015 period, the Authority intends to pursue the objective of the operating costs efficiency through a *Rolling Cap* mechanism that keeps the level of the endogenous operating costs blocked, as acknowledged in the tariffs, up to the determination of operational efficiency thresholds. At the same time, the Authority has provided for the possibility – previously mentioned when describing the characteristics of Quadrants II and IV – that additional charges could be needed, in case of further specific objectives to those resulting from planning, and from changes in the range of the SII Operators activity. When reviewing the partition between reducible and pass-through costs, consistently with the new regulatory period, the Authority introduced inside the Water Tariff Method also a maximum threshold to the acknowledgeable value for the tariff calculation purpose, with regard to the operating costs of the Local Authorities, the wholesale costs and power supply costs, the last in accordance to the electricity sector average cost.

**Sectorial
information**

Another relevant profile for the Authority's action is represented by the cross-processing of information and data collected from different sectors. By way of example, data available from the electricity supplied under safeguarded regime can be used to evaluate the efficiency of the water sector.

In this regard, I would like to point out that the water sector absorbs almost 10% of the total power supplied under safeguarded regime, with an impact of around 6% on the whole sector, that is two order of magnitude points higher compared to other sectors, and with a higher rate of consumption in Southern Italy. Although the safeguarded service is not intended as a firm supply over time, being instead a sort of last resort, in the water service sector the power supply under safeguarded regime has resulted in

relevant burdens for SII Operators, which often aren't able to support. In fact, according to data on arrears related to the safeguarded regime, as of September 2014, only 76% of the SII Operators had settled the bills for 2012.

**Efficiency
frontiers**

In accordance with the reference model that constitutes the current basis for the financing of those public activities related to the services for the population, the Authority, with its resolution No. 374/2014/R/IDR, has launched a procedure aimed to improve the identification of efficiency costs, thus completing the definition of appropriate efficiency frontiers or benchmarks to measure the operational efficiency. This, in particular by introducing additional threshold values of the acknowledgeable costs for the calculation of tariffs, and also through the continuation of technical and operational data collection, processing and evaluation activities already in place.

In this context, the Authority has already started an in-depth analysis of the current state and the potential criticalities related to metering service in the water sector, with the aim of improving the efficiency and the implementation of the water conservation principle. The outcome of such analysis will allow to elaborate regulations suitable for promoting an effective usage of water resources as well as a reduction of losses.

**Economic
distress**

As previously mentioned, upon developing the new tariff regulation, the Authority pursued the objective of a gradual convergence of different areas on the national territory, now characterised by different service levels, towards a uniform system, always with a focus on the social sustainability of end-users tariffs, with special reference to people in economic distress.

With this regard, I would like to point out that the Authority, with its resolution No. 644/2013/R/IDR, launched a survey on the current tariff-facilitation system and the criteria for the determination of different tariff frameworks in the water

sector. Also in light of the proposed laws currently examined by the Parliament, such an action is a prerequisite to the introduction of measures aimed at ensuring to low-income households the access to subsidized water supplies for their basic needs. At the same time, as part of the on-going process for the re-organisation of the end user tariffs, the Authority intends to identify the modifications needed to correct the current tariff system based on consumption levels or type of usage, also determining criteria and methods to grant subsidized tariffs to subjects in economic distress, all of that in compliance with the primary legislation.

**Tariffs
approved**

Following the aforementioned principles, the Authority proceeded to identify the basic criteria for water tariffs. Starting July 2013, the Authority launched the preliminary activities for the approval of the 2012-2013 transitional period tariffs, by identifying:

- Subjects who failed to comply with mandatory data notification (for which the Authority determined a tariff multiplier of 0,9);
- Subjects to be excluded from tariff modifications due to failure to adopt the Service Charter, billing of a minimum water consumption or failure to deliver plants to operators that were granted the concession (for which the Authority determined a tariff multiplier of 1);
- Subjects to be assessed according to the consistency between tariffs charged and their specific objectives.

The national population covered by the updated tariff approved so far is around 42 million inhabitants, living in over 5.000 Municipalities, with an average tariff variation of 2,5% compared to 2012. Specifically, the tariffs approved by the Authority concerned over 1.800 operators.

The tariffs for the 2014 - 2015 period approved by the Authority to this day concern, instead, over 1.600

operators, covering almost 40 million residents, for which the Authority approved an average tariff increase, compared to the previous year, of slightly less than 4% in 2014 and 5% in 2015.

Such tariff increases were recommended by the Local Authorities – and approved by the Authority – as they were deemed necessary to promote the investments needed to achieve and maintain the objectives of environment and water resources quality.

Investments

The specific regulatory systems approved so far have had the result that, for the first time in Italy, water tariffs have been updated following univocal criteria for a significant segment of the population. This is a further confirmation of the guidelines underlying the Authority's activity for the development of new regulations for the water sector: the need for investments compared to the infrastructure stock built in the past and included in the *Regulatory Asset Base* of the sector. A significant number of Local Authorities, which cover a sheer majority of the interested population, proposed the adoption of systems that envisage an expenditure for investments amounting to 4,5 billion Euros for the 2014-2017 period:

- for 40 operators – most of them providing the service in Emilia Romagna (14), Veneto (8) and Piedmont (7) – the competent Local Authorities and government bodies identified reduced investment needs compared to the past, falling thus under the Quadrant I and II of the regulatory framework matrix. In accordance with the 6,5% maximum yearly increase threshold, the Authority approved for over 10 million inhabitants an average yearly tariff increase of 5,7% in 2014 and 4,6% in 2015, against investment needs, which were quantified in almost 1 billion and a half Euros for the 2014-2017 period;
- for 41 operators – almost half of them providing the service in Piedmont (8), Lombardy (6) and Tuscany (6) – the Local Authorities planned high investment

costs for the next four years compared to the value of the existing assets, falling thus under the Quadrant III and IV. In accordance with the 9% maximum yearly increase threshold, the Authority approved for around 23 million inhabitants an average tariff increase, compared to the past year, of 6,9% in 2014 and 6,6% in 2015, against a relevant expenditure for investments, which was quantified in 3 billion Euros for the 2014-2017 period.

A number of regulatory instruments were used to ensure efficient financial sustainability in case of high investment costs, corresponding to Quadrants III and IV: some operators (14) took advantage of the opportunity of accelerated depreciation tools, while others (26) resorted to the possibility of exploiting the tariff component dedicated to finance new priority investments.

I would also like to remind that, in order to facilitate the bankability of investments in this sector, which is in need of consistent infrastructural investments in the following years, the Authority, with the Water Tariff Method, identified the criteria for the calculation of the residual value of the investments in the event that, upon termination of the concessions, new SII Operators are assigned the management of the service (thus completing the procedure started with resolution No. 110/2013/R/IDR and deferring the definition of the taking-over clauses to subsequent specific agreements for the concession and management of the integrated water supply service).

Objectives and interventions

Analysing the main specific objectives identified by the competent subjects within the tariff calculation process for the 2014-2015 period, the most common are those related to the revamping of ageing plants and network, sewerage and water treatment plants, in accordance with the EU provisions on waste water, the reduction of the interruption rate and reinforcing the supply system, the containment of

system losses, leakages and flooding and the efficient implementation of the metering service. In view of the aforementioned specific objectives, the following investments have been planned for the 2014-2017 period:

- Replacement of obsolete or malfunctioning infrastructural elements, extraordinary maintenance works on plants and distribution networks, sewerage networks and electro-mechanical works;
- Revamping and upgrading of the existing wastewater treatment plants as well as construction of new treatment plants and collectors;
- Installation of monitoring and remote control stations, and for district metering and pressure check;
- Installation of new flow meters in the plants and replacement of obsolete and/or malfunctioning end-user meters.

One of the powers entrusted to the Authority is to perform an in-depth analysis of the interventions and measures to be carried out according to the detected criticalities. Regarding this, it is necessary to identify – also by activating pooling activities with the public entities already operating in the sector – some general criteria to detect the priority interventions as well as the performance indicators of the water service, in and give the Local Authorities the opportunity to properly plan such operations. For this purpose, the Authority started to collect a number of technical data.

System losses

A first example of the relationship between the technical information collected and the criticalities and necessary interventions within the local planning is the topic of system losses, whose reduction is one of the most frequently mentioned objectives.

The 2012 data collected so far (on 170 operators covering around 2/3 of the national population) does not show a clear relationship between system losses and pipe replacement rate, neither between system losses and

system maintenance rate. Likewise, the age of pipelines does not seem to impact the level of system losses, according to data sent by operators. Although these elements are quite general – resulting from a statistical analysis referring only to 2012, instead of a multi-annual investigation – the Authority identifies the need to carry out an in-depth analysis to better understand the link between the identification of criticalities, as detected on given dates, and their magnitude and the consequent interventions to be carried out in a given period.

Planned investments

We can observe that the net investments planned for the next four years – as resulting from the documents underlying the tariffs calculation approved so far – are equal to the value of the net capital invested (Regulatory Asset Base) of the entire sector. The ratio between the investments planned up to 2017 and the value of the existing infrastructures, in fact, is slightly greater than a unit, probably also due to the downsizing of the RAB of the sector. To put in other terms, in the next four years the Competent Government Bodies and the SII Operators have undertaken to implement interventions whose value is corresponding to the entire existing infrastructure built as of 2013: this represents a “historical” push in order to boost long needed investments in the sector.

The Authority’s focus on new investments is not limited to planning. With this regard, the Authority is launching a number of necessary controls regarding the actual implementation of the planned investments, this also according to the availability of public contributions as resulting from the programme of interventions approved by the competent subject.

Complexity of governance

Regarding the cases still waiting for tariffs approval, we have to consider that methods and timing of data transmission from the Local Authorities often reflect the complexity of local governance, characterised by a plurality of articulated preliminary and decisional steps, which are

related, on one side, to the technical structure of the Local Authorities and their administrators, and on the other side, to the presence of political entities (for instances, the assemblies or meetings of Mayors, provincial council meetings). In this context, data transmission, as well as transmission of the documents and information for tariff calculation, is often slow and follows a lengthy multi-step process.

The operators whose tariffs have not yet been approved by the Authority are, therefore, those characterised by the most complex situations, either due to the nature of the interventions to be carried out or to the complexity of procedures. Several cases fall under this category:

- Cases in which the Local Authorities or other competent subjects passed resolutions that introduce tariff increases higher than the maximum threshold allowed by the legislation, remaining subject to the on-going preliminary investigation aimed at ascertaining the validity of supplied data and metering efficiency, without prejudice for the operators to bill up to the maximum tariff allowed increase, once their tariffs are approved by the competent subjects;
- Cases in which sanctioning procedures related to the calculation of the components of the revenue limits have already been initiated;
- Cases in which the providers adopted tariffs complying with the tariff multiplier limits, but where specific problems were detected and thus additional investigations are currently being carried out;
- Cases where the Local Authorities or other competent subjects sent tariff information and documents whose completeness is under evaluation;
- Cases in which the Local Authorities are under multi-annual rebalancing, and are thus excluded from the Authority's decisions;
- Cases where SII Operators are subject to bankruptcy proceedings.

**Census of SII)
Operators**

One of the main criticalities detected by the Authority during its institutional activity is the excessive fragmentation and diversity of the SII Operators, which include large companies that were granted the concessions for large territorial areas and a vast number of small Operators on a local/municipal scale. The Authority has counted and registered around 1700 SII Operators, to which must be added around 900 other ones whose tariffs were already established ex officio by the Authority due to their failure to send the requested data and information.

**Environmental
quality**

During the last few months, the Authority has reviewed its guidelines in order to fully implement internal, national and EU regulations – which call for the adoption of water price policies aimed at the achievement and support of the environmental quality objectives, in compliance with the full cost recovery principle for water services, including environmental and resource costs and, specifically, according to the "*pay as you pollute* principle".

In fact, Consultation Document No. 299/2014/R/IDR – soon to be integrated by an additional document - illustrates the approach followed by the Authority to regulate the fees for the collection and treatment of industrial wastewater authorised to be discharged into public sewer, with the objective to overcome – through appropriate cost allocation in the fee structure – the current differences of treatment that can be observed on the national territory as well as to avoid cross-subsidies between different kinds of end-users. This initiative takes into account the criticalities connected to the proper identification of cost drivers pertaining to users with different characteristics (environmental impact), which are not easily detectable. It considers as a variable the cost acknowledged to the SII Operators for wastewater collection and treatment, including industrial wastewaters, thus assessing the fee incentive effects according to the behaviour induced in the service users.

A further consultation has been initiated with document No. 539/2014/R/IDR, regarding the identification and clarification of Environmental and Resource Costs (ERC). I would like to remind here that, by introducing the Water Tariff Method, the Authority paved the road to identify, measure and highlight – according to the principles of transparency and accountability – environmental and resource costs, which, in compliance with EU Directive No. 2000/60/CE, are already regarded as efficient financial costs covered by the tariffs. The adopted tariff method, in fact, has proposed to mark zero the ERC component for the year 2014, in order to avoid the double counting of the costs already acknowledged to the SII Operators for the tariffs calculation related to the period at issue (for instance, costs configured as water off-take/undersupply fees, contributions to Mountain Communities, water return fees).

In this context, the action carried out by the Authority has benefited from frequent collaborations with the Ministry of the Environment and with the European Commission. Such collaborations could lead to the definition of a new and long-awaited regulatory framework dedicated to the above and suitable to release additional financial resources.

By the end of this year, the Authority will adopt the criteria to unbundle the value of the ERC component, starting from 2015, waiting to implement EU Directives for accounting transparency and unbundling. The Authority deems sustainable a gradual application process, in accordance with the build-up of instruments provided by the regulatory action and the implementation of the unbundling for the water sector.

Adjustments

In concomitance with the above-mentioned actions, through which the Authority has implemented measures aimed at securing and developing the existing infrastructural assets as well as facilitating environmental and resource protection, additional measures have been put in place regarding transparency of the arrears

originated from years prior to 2012, before the Authority was assigned regulation powers on water sector. In general, such criticalities are due to a lack of transparency of the previous governance mechanisms of the water sector, which generated, on one hand, delays or contractions of expenditure for the investments needed to modernize and improve the efficiency of the infrastructures – as tariffs were not sufficient to cover costs higher than those planned – and, on the other side, an atmosphere of suspicion by the citizens, which led to the outcome of the 2011 Referendum.

In this context, in order to settle some of the issues inherited from the past, the Authority requested the competent subjects at local level to evaluate the amount and the subsequent approvals of any adjustments accrued in periods prior to the assignment of powers to the Authority. Then, it established that these costs – to be paid in instalments according to specific methods following criteria of social sustainability – must be duly highlighted on the bills, separately from the amounts due as payment for the service for the given billing periods and also that the subjects that calculated them and took the relevant approvals/resolutions must be clearly indicated, in order to ensure maximum transparency to end-users.

**Refund of the
return on
investment**

Moreover, in 2014 was terminated the process to refund to the end-users the tariff component related to the return on investment , as the latter had been abolished by the June 2011 Referendum. The refunded amount covers approximately 5 months, from the Referendum outcome to entry into effect, on January 1st 2012, of the transitional tariff method, with which the Authority excluded the return on investment from the calculation method of the tariffs, in accordance with the principle of full cost recovery.

The amounts calculated by the territorial Entities and verified by the Authority resulted in a total amount of 55 million Euros to be reimbursed to 14 million households

users, which corresponds to an average of 3,90 Euros/user (with a maximum of 41,41 Euros/user). Moreover, for the Local Authorities that did not notify the calculation requested or other useful information to the Authority – also following the request for follow-up sent by the latter – the Authority proceeded to calculate a flat amount that each local operator must refund to all the end-users involved, establishing it at 4,92 Euros/user.

**Tariff Vacuum
2010-2011**

Always regarding previous situations (before entering into force of Authority powers), in the January of this year, upon implementation of the judgments of the fourth Section of the State Council, which pronounced itself on the “Transitory CIPE system”, the Authority filled the tariff vacuum for years 2010 and 2011 for the subjects falling under the preceding CIPE regime (resolution No. 268/2014/R/IDR), by providing criteria and methods to acknowledge the tariff adjustments of the above years, establishing, among the other things, that such adjustments were acknowledged in accordance with the tariff adjustments for years 2014 and 2015, through the indication of the corresponding specific objectives to be achieved at local level.

It should be noted indeed that for SII Operator falling under the previous “CIPE transitory system”, the tariff method applied prior to the assignment of the regulatory powers to the Authority, was the result of a number of measures adopted by the CIPE Committee on a yearly-basis, until 2001, then the CIPE went back to adopting the regulations on the tariff adjustments in 2008, applied until 2009. Bottom line is, in next two years 2010-2011, the tariffs applied by the SII Operators remained unchanged, thus slowing down the implementation of those interventions needed to modernize local water infrastructure and improve the quality of the service to end-users.

**Standard
agreement
forms**

Finally, I would like to remind you that within the process aiming to introduce a uniform regulation of the standard

agreements– regarded as an essential element to complete the new regulatory system, which is inevitably destined to change and evolve according to the development of the regulatory framework – the Authority presented its initial orientation guidelines in Consultation Document No. 171/2014/R/IDR, envisaging here too the introduction of a standard agreement forms framework matrix, designed to take into account the different types of water concessions provided by the existing legislation (concession by public tender, public-private partnership with tender only for the selection of the private partner and in-house providing) and the regulatory framework corresponding to the quadrant chosen by the subjects in charge of establishing the tariffs.

However, the reference regulatory framework on which the Authority started to design the above regulation was modified by the so-called Unblock Italy Decree, whose Article 7 introduces a number of provisions impacting on the content of the standard agreement forms, regarding in particular the legal regime chosen for the management of the service, the purpose and scope of the agreements, the obligations of the parties (including the obligation to achieve an operational economic-financial balance, which must be ensured according to a number of tools to be defined in the standard agreements), obligations and methods of delivery of goods and systems, taking-over procedures. The Authority, therefore, has deemed appropriate to postpone the conclusion of this procedure to the first quarter of 2015.

Service Charter As for the Service Charter and the quality of the service ensured to end-users, the Authority excluded from tariff revision those subjects who failed to adopt the Service Charter. At the same time, the Authority initiated a procedure aimed at defining the contractual regulation of the quality of the integrated water service, or any of the individual services that are part of it. The objective here is to provide the same quality of service to a plurality of end-

users located in different areas of the national territory, overcoming the current fragmentation due to the adoption of multiple service Charters. The Authority then started to collect data to obtain more information on the specific content of the Charters and the their actual state of implementation, as well as, more generally, on the technical and contractual quality of service as a whole and each of the services that are part of it. The data collection survey ended September the 30th 2014 and received data from 64 Local Authorities regarding a total of 227 operators, covering about 70% of the Italian population, ensuring thus a reasonable geographical coverage for the sample surveyed (data from the regions Trentino Alto Adige and Calabria were missing). An initial analysis of the data on the management of the contractual relationship shows that most SII Operators declare compliance with the standards indicated in the Service Charters: for household usage, only 18% of the SII Operators don't follow the independently set standards. The percentage drops to 14% for non-domestic usage and to around 13% for other usages. The on-going monitoring of the Service Charters will allow the Authority to detect potential areas for better standardization and efficiency of the current standards, in order to identify and facilitate the adoption of mandatory and homogeneous quality standards on the whole national territory.

Consumer protection

As evidence of its consumer-based approach, I would like to recall the agreement signed by this Authority with the Italian Competition and Regulatory Authority (AGCM) last year. This agreement, which integrated the previous 2012 Framework Protocol, aims to further strengthen the protection of water consumers, in particular curbing unfair commercial practices and violations of water supply laws and regulations, in addition to the legislation on power and gas.

Fact-finding investigation on arsenic levels

Moreover, in 2014 the Authority terminated the fact-finding investigation on the aqueduct service in the Municipalities

affected by limits to the usage of water for urban consumption. Upon conclusion (Resolution No. 199/2014/E/IDR), the investigation highlighted no criticalities in all Regions except Lazio, and in particular the “ATO Central Lazio-Rome” and the “ATO Northern Lazio-Viterbo”. In the latter, the current issues are likely to be solved soon. The investigation showed also a number of structural criticalities, often regarding aspects that do not fall under the Authority’s powers, therefore the Authority is currently assessing the opportunity to inform the Government and the Parliament.

Enforcement

It should be also noted that in 2014 the Authority has started a number of enforcement actions in the water sector, by carrying out a number of inspections and initiating the first procedures for the adoption of sanctions and corrective measures against specific violations. To this day, the Authority detected violations regarding tariff implementation procedures, data collection requirements, billing transparency and water treatment tariffs.

With this regard, it is particularly significant that the primary legislation, within Law No. 116/2014 converting Law Decree No. 91/2014 (the so-called Competition Decree), provided for the extension to the users of the integrated water supply service of the benefits originating from projects funded by sanctions imposed by the Authority in the event of breach of its provisions.

International context: WAREG

Last but not least, it must be pointed out that in 2014 the Authority, as anticipated in the Second National Conference on Water Services, has assumed a leading and active role in promoting the creation of the *network* of Water Regulators at European level named WAREG – *European Water Regulators*, which now includes 19 countries, 17 EU Member countries and 2 observing countries, which officially kicked off in April. By determining a set of common objectives, such as, for instance, the promotion of stable regulatory frameworks and the sharing

of best practices, WAREG can contribute to build the foundations to jointly deal with any regulatory issues that may arise at European level, with an ever-growing collaboration with the European Commission and all stakeholders – including at international level – of the water sector.

According to a traditional view, independent regulation is aimed at one or more entrepreneurs providing goods or services to a variety of end-users or consumers. In that case, the clarity of objectives and the interests at stake lead to regulatory measures aimed at harmonising the sector. The water sector is a different ball game though.

In addition to the complexity given by its fragmentation – to tackle which, as already mentioned, an aggregation process is highly desirable also to fund investments – the sector is characterised also by a number of peculiarities typical of the Italian water system, among the others, the relevant and widespread presence of the Public Administration, which plays several roles here at the same time: competent body for the implementation of public policies, service providers and consumers. In light of this – which represents a further element of complexity – and, in particular, of the strict interdependence of the choices adopted within the territorial plans and the operational results, the regulation introduced by the Authority has clarified the scope of the objectives and interventions to be carried out, providing for the accountability of the subjects involved (local government subjects in partnership with SII Operators).

In this regard, I would like to stress out that the set of actions, tariffs and data collected by the Authority represents a great effort carried out not only by our organisation, but also by all actors actively involved in the regulation of the water sector.

I reckon we can all convincingly assert that the results achieved so far within the sector are a tribute to those who believed in the consistency of the new role of the Authority compared to its initial regulatory powers, limited to the energy sector, as water is a commodity even more precious and necessary than electricity and gas. It's a service provided by a network, but – unlike energy – is part of a non-liberalised sector, in which the regulatory activity is therefore aimed not so much at promoting competition as it does in the energy sectors, but rather at improving the efficiency, cost-effectiveness and transparency, as well as protecting the end-users' rights and the environment.

The results achieved were made possible thanks to the independency of the Regulatory Authority, which, in its regulatory and supervisory activity of the sector, operates in full and loyal collaboration with the Ministry of the Environment, yet enjoying its own independent powers of assessment and evaluation, in full compliance with the will of the lawmakers.

This year too, I would like to wrap up my intervention with a wish: a wish for the coordination and collaboration, according to different roles and functions, between Government, Parliament and local government authorities, and all stakeholders, namely SII Operators and end-consumers, in order to overcome the complexities of this sector and develop it for the benefit of the whole country. As we have seen, the Authority is doing its part.

I would like to thank you, also on behalf of my colleagues, for your attention.